

**COMPETITIVE SALE**—The Bonds will be sold pursuant to a competitive sale held at 9:30 a.m. (Pacific Time) on November 14, 2012, as further described in the Official Notice of Sale attached hereto.

**PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 7, 2012**

**\$12,000,000<sup>(1)</sup>**  
**City of Hillsboro**  
**Washington County, Oregon**  
**Full Faith and Credit Bonds, Series 2012B (Federally Taxable)**

**DATED:** November 29, 2012 (estimated "Date of Delivery")

**DUE:** June 1, as shown below

**PURPOSE**— The \$12,000,000<sup>(1)</sup> Full Faith and Credit Bonds, Series 2012B (the "Bonds") are being issued by the City of Hillsboro in Washington County, Oregon (the "City"). The Bonds are being issued to finance a baseball stadium and related facilities and to pay the costs of issuance of the Bonds. See "Purpose and Use of Proceeds" herein.

**MOODY'S RATING**—"Aa3." See "Rating" herein.

**BOOK-ENTRY ONLY SYSTEM**— The Bonds will be issued, executed and delivered in fully registered form under a book-entry only system and registered in the name of Cede & Co., as owner and nominee for The Depository Trust Company ("DTC"). DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased.

**PRINCIPAL AND INTEREST PAYMENTS**— Interest on the Bonds is payable on June 1, 2013 and semiannually thereafter on December 1 and June 1 of each year to the maturity or earlier redemption of the Bonds. Bond principal and interest will be payable by the City's paying agent, and registrar, initially U.S. Bank National Association (the "Paying Agent"), to DTC which, in turn, will remit such principal and interest components to the DTC participants for subsequent disbursement to the beneficial owners of the Bonds at the address appearing upon the registration books on the 15th day (the "Record Date") of the month preceding a payment date.

**MATURITY SCHEDULE**—

Due June 1	Amounts <sup>(1)</sup>	Interest Rates	Yields	CUSIP® 432092	Due June 1	Amounts <sup>(1)</sup>	Interest Rates	Yields	CUSIP® 432092
2013	\$ 650,000				2023	\$ 575,000			
2014	490,000				2024	590,000			
2015	495,000				2025	610,000			
2016	495,000				2026	630,000			
2017	505,000				2027	655,000			
2018	510,000				2028	675,000			
2019	520,000				2029	700,000			
2020	530,000				2030	730,000			
2021	545,000				2031	755,000			
2022	555,000				2032	785,000			

**REDEMPTION**—The Bonds are subject to redemption prior to maturity.

**SECURITY**— The Bonds are secured by and payable from all lawfully available funds of the City, including any property taxes levied by and for the City within the restrictions of Sections 11 and 11b, Article XI of the Oregon Constitution. The City has pledged its full faith and credit to pay the Bonds, and the obligation of the City to pay the Bonds is not subject to appropriation. The Bonds are not secured by a lien on any revenues or other property of the City. The Bonds do not constitute a debt or indebtedness of Washington County, the State of Oregon, or any political subdivision thereof other than the City.

**TAX MATTERS**— *In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City ("Bond Counsel"), under existing law interest on the Bonds (i) is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code") and (ii) is exempt from personal income taxes imposed by the State of Oregon. See "Tax Matters" herein.*

**DELIVERY**—The Bonds are offered for sale to the original purchaser subject to the final approving legal opinion of Bond Counsel. It is expected that the Bonds will be available for delivery to the Paying Agent for Fast Automated Securities Transfer on behalf of DTC, on or about the Date of Delivery.

(1) Preliminary, subject to change.

*This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

This is a Preliminary Official Statement, subject to correction and change. The City has authorized the distribution of the Preliminary Official Statement substantially in this form. Upon the sale of the Bonds, the City will complete and deliver a final Official Statement to prospective purchasers and others.

**City of Hillsboro**  
150 East Main Street  
Civic Center, Fifth Floor  
Hillsboro, Oregon 97123-4028  
(503) 681-6100

**City Council**

Jerry Willey	Mayor
Aron Carleson	Council President
Olga Acuña	Councilor
Nenice Andrews <sup>(1)</sup>	Councilor
Steve Callaway	Councilor
Mike Castillo <sup>(1)</sup>	Councilor
Darell Lumaco	Councilor

**Administrative Staff**

Michael Brown	City Manager
Rob Dixon	Assistant City Manager
Steve Greagor	Interim Assistant City Manager
Suzanne Linneen	Finance Director

**Bond Counsel**

Hawkins Delafield & Wood LLP  
Portland, Oregon  
(503) 402-1320

**Financial Advisor**

Seattle-Northwest Securities Corporation  
Portland, Oregon  
(503) 275-8300

**Paying Agent**

U.S. Bank National Association  
Portland, Oregon  
(503) 275-5659

- (1) Term expires in January 2013. Fred Nachtigal was elected to fill Mike Castillo's position. No one filed to run for Nenice Andrews position and the write-in results are not available at this time.

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*Certain statements contained in this Official Statement do not reflect historical facts, but are forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, words such as "estimated," "projected," "anticipate," "expect," "intend," "plan," "believe" and similar expressions are intended to identify forward-looking statements. All projections, assumptions and other forward-looking statements are expressly qualified in the entirety by the cautionary statements set forth in this Official Statement.*

*Certain information contained herein has been obtained from the City and other sources which are believed to be reliable, but the accuracy or completeness of such information is not guaranteed and such information is not to be construed to be a representation of the City or Seattle-Northwest Securities Corporation (the "Financial Advisor"). The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.*

*The CUSIP® numbers herein are provided by CUSIP Global Services (CGS), which is managed on behalf of the American Bankers Association by Standard and Poor's, a division of The McGraw-Hill Companies, Inc. CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. Neither the City nor the Purchaser take any responsibility for the accuracy of such CUSIP numbers.*

*Web addresses contained in this Official Statement are inactive textual references, not hyperlinks, and any websites, by such reference, are not incorporated herein.*

*No dealer, broker, salesman or other person has been authorized by the City or the Financial Advisor to give information or to make any representations with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.*

*The prices at which the Bonds are offered to the public by the Purchaser (and the yields resulting therefrom) may vary from the initial public offering prices appearing on this inside cover page hereof. In addition, the Purchaser may allow concessions or discounts from such initial public offering prices to dealers and others. In connection with the offering of the Bonds, the Purchaser may effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.*

*This Official Statement has been "deemed final" by the City, pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, except for information which is permitted to be excluded from this Official Statement under said Rule 15c2-12.*

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**Official Notice of Sale**  
**\$12,000,000 <sup>(1)</sup>**  
**City of Hillsboro**  
**Washington County, Oregon**  
**Full Faith and Credit Bonds, Series 2012B**  
**(Federally Taxable)**

Electronic bids for purchase of the City of Hillsboro, Washington County, Oregon, Full Faith and Credit Bonds, Series 2012B (the "Bonds"), will be received by the City of Hillsboro (the "City"), via Bidcomp/Parity's electronic bidding service ("Parity"), in the manner described below, on

**NOVEMBER 14, 2012, UNTIL 9:30 A.M., PACIFIC TIME,**

unless the sale is cancelled or the timing of the sale is changed as provided below.

**Bids must be submitted electronically via Parity in accordance with this Official Notice of Sale. For further information about Parity, potential bidders may contact Parity at 212-849-5021.**

No bid will be considered if it is received after the time for receiving bids specified above. All conforming bids received with respect to the Bonds are expected to be considered and acted on by the City no later than 1:00 p.m., Pacific Time on November 14, 2012.

**Right to Cancel, Change Timing and Terms of Sale**

The City reserves the right to change the date, timing or terms under which the Bonds are offered for sale, or to cancel the sale based on market conditions, by placing notice of the changes on i-Deal Prospectus not later than 2:00 p.m., Pacific Time, the afternoon prior to the sale date. Bidders should note that certain changes to maturity amounts may also be made after the bids are received. See "Adjustment of Principal Amounts After Bid Opening" below.

**The Bonds**

**Security**

The Bonds are secured by and payable from all lawfully available funds of the City, including any property taxes levied by and for the City within the restrictions of Sections 11 and 11b, Article XI of the Oregon Constitution. The City has pledged its full faith and credit to pay the Bonds, and the obligation of the City to pay the Bonds is not subject to appropriation. The Bonds are not secured by a lien on any revenues or other property of the City. The Bonds are not an obligation of Washington County, the State of Oregon, or any political subdivision thereof other than the City. See "SECURITY FOR THE BONDS" in the Preliminary Official Statement.

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY OR A DEBT OR OTHER OBLIGATION OF THE STATE OF OREGON OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE CITY.

**Interest Payments and Maturity Schedule**

Interest on the Bonds will be paid semiannually on each June 1 and December 1, beginning June 1, 2013 until maturity or prior redemption. The Bonds will be dated their date of delivery (expected to be November 29, 2012), will be issued in the principal amount of approximately \$12,000,000<sup>(1)</sup> and will

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(1) Preliminary, subject to change.

mature serially or come due through mandatory sinking fund payments on June 1 of the following years in the following principal amounts (subject to adjustment as further described below):

<b>Due June 1</b>	<b>Amount<sup>(1)</sup></b>	<b>Due June 1</b>	<b>Amount<sup>(1)</sup></b>
2013	\$ 650,000	2023	\$ 575,000
2014	490,000	2024	590,000
2015	495,000	2025	610,000
2016	495,000	2026	630,000
2017	505,000	2027	655,000
2018	510,000	2028	675,000
2019	520,000	2029	700,000
2020	530,000	2030	730,000
2021	545,000	2031	755,000
2022	555,000	2032	785,000

(1) Preliminary, subject to change.

The bidder for the Bonds may designate the Bonds as Term Bonds (see “Term Bonds” below).

#### **Adjustment of Principal Amounts After Bid Opening**

The Bonds will be awarded based on the maturity schedule above. However, the City reserves the right to increase or decrease the total principal amount of the Bonds by an amount not to exceed fifteen percent (15%) of the total following the opening of the bids. The City also reserves the right to increase or decrease the principal amount of any maturity by fifteen percent (15%) of the preliminary principal amount of that maturity in order to properly size the issue and adjust debt service. Notice of any adjustment will be given to the winning bidder after bid opening. The underwriter’s spread will be preserved at the same percentage as bid.

#### **Optional Redemption**

The Bonds maturing in years 2013 through 2022, inclusive, are not subject to optional redemption prior to maturity. The Bonds maturing on June 1, 2023 and on any date thereafter are subject to redemption at the option of the City prior to their stated maturity dates at any time on or after June 1, 2022, as a whole or in part, and if in part, with maturities to be selected by the City at a price of par, plus accrued interest, if any, to the date of redemption. Any Bonds subject to optional redemption shall be called in the manner set forth in the Declaration. See “DESCRIPTION OF THE BONDS – Redemption Provisions” in the Preliminary Official Statement for a summary of such terms.

#### **Term Bonds**

Bidders may designate two or more consecutive maturities of Bonds, with identical interest rates, as Term Bonds. Each Term Bond will mature on the final maturity date of its consecutive maturities, in an aggregate principal amount equal to the sum of the principal amounts of its consecutive maturities. Term Bonds will be subject to mandatory redemption at par and in accordance with the operational procedures then in effect for The Depository Trust Company (“DTC”), New York, New York, in the amounts and on the dates which would have been consecutive maturities. See “DESCRIPTION OF THE BONDS – Redemption Provisions” in the Preliminary Official Statement for a summary of such terms. If no Term Bonds are designated in the winning bid, the Bonds will mature serially as provided in this Official Notice of Sale.

#### **Registration and Book-Entry Only System**

The Bonds are issuable only in fully registered form and when issued will be registered in the name of Cede & Co. as registered owner and nominee for DTC. DTC will act as initial securities depository for

the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. The principal of and interest on the Bonds are payable by the City's paying agent and registrar, currently U.S. Bank National Association (the "Paying Agent"), to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to Beneficial Owners of the Bonds.

### **Purpose**

The Bonds are being issued pursuant to a Bond Declaration to be dated the date of delivery (the Declaration"), City Ordinance No. 6014 enacted by the City Council of the City on May 15, 2012 ("the Ordinance") and Resolution No. 2422 adopted by the City Council on October 16, 2012 to (i) finance a baseball stadium and related facilities and (ii) pay the costs of issuing the Bonds.

### **Rating**

Moody's Investors Service has assigned a rating of "Aa3" to the Bonds. An explanation of the significance of the rating may be obtained from the rating agency. There is no assurance that the rating will be retained for any given period of time or that the rating will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating will be likely to have an adverse effect on the market price of the Bonds.

### **Insurance**

The City will not qualify the Bonds for municipal bond insurance and will not accept a bid contingent upon obtaining bond insurance.

## **Bidding Information and Award**

Bidders are invited to submit bids for the purchase of the Bonds fixing the interest rate or rates that the Bonds will bear, under the terms and conditions described in this Official Notice of Sale.

### **Bid Constraints**

All bids will be subject to the terms and conditions of this Official Notice of Sale. All bids for the Bonds must comply with the following conditions: (1) the interest rate must be a multiple of 1/1000<sup>th</sup> of one percent; (2) the Bonds must bear interest from their date to their stated maturity date at the interest rate specified in the bid; (3) all Bonds maturing on the same date must bear the same rate of interest; (4) bids must be for a purchase price of not less than ninety-nine percent (99.00%) and not more than one hundred and three percent (103.00%) of the principal amount of the Bonds; and (5) no bid will be considered that does not offer to purchase all of the Bonds.

### **Bidding Process**

By submitting an electronic bid for the Bonds, the bidder agrees to the following additional terms and conditions:

- (i) If any provision in this Official Notice of Sale conflicts with information or terms provided to or required of the bidder by Parity, this Official Notice of Sale (including any amendments issued by the City through a wire service) shall control. Information provided by Parity to bidders shall form no part of any bid or of any contract between the successful bidder and the City unless that information is included in this Official Notice of Sale.
- (ii) The bidder is solely responsible for making necessary arrangements to access Parity for purposes of submitting a timely bid that is in compliance with this Official Notice of Sale (including any amendments issued by the City through a wire service).

- (iii) The City shall have no duty or obligation to provide or assure access to Parity, and shall not be responsible for the proper operation of Parity or have any liability for any delays or interruptions of, or any damages caused by, use or attempted use of Parity.
- (iv) Parity is not the City's agent, but rather is the bidder's agent in submitting its bid to the City.
- (v) The City will regard the electronic transmission of each bid it receives through Parity (including information regarding the purchase price of the Bonds and interest rates for any maturity of the Bonds) as being submitted and executed on behalf of the named bidder by a duly authorized signatory.
- (vi) If an electronic bid for the Bonds is accepted by the City, this Official Notice of Sale (including any amendments issued by the City through a wire service) and the information regarding the purchase price of the Bonds, any Term Bonds specified, and the interest rates for any maturity of the Bonds that is submitted electronically to the City through Parity shall form a contract between the bidder and the City, and the bidder shall be bound by the terms of such contract whether or not such bidder in fact attempted or intended to submit a bid on those terms.

### **Good Faith Deposit**

The winning bidder will be required to provide a good faith deposit in the amount of \$120,000 in immediately available funds wired to the City not later than 2:00 p.m. (Pacific Time) on November 14, 2012 (the day of the sale). The City or the City's Financial Advisor will provide wire information immediately upon the award of bid.

The good faith deposit will be held by the City to secure the City from any loss resulting from the failure of the bidder to comply with the terms of its bid, and will be forfeited to the City as liquidated damages if the bidder to whom the Bonds are awarded withdraws its bid or fails to complete its purchase of the Bonds in accordance with this Official Notice of Sale and its bid.

The good faith deposit shall be applied to the purchase price of the Bonds upon the delivery of the Bonds to the successful bidder. Pending delivery of the Bonds, the good faith deposit may be invested for the sole benefit of the City. Interest earnings on the good faith deposit will be the property of the City, and will not be credited against the purchase price of the Bonds. The successful bidder shall pay the balance of the purchase price of the Bonds at closing, in funds immediately available to the City on the date and at the time of closing.

### **Award**

The Bonds will be sold to the bidder making a bid conforming to the terms of this Official Notice of Sale and which, on the basis of the City's determination of the lowest true interest cost, is the best bid. The true interest cost to the City will be the rate that, when used to discount to November 29, 2012 (the expected date of the Bonds) all future payments of principal and interest (using semiannual compounding and a 30/360 day basis), produces an amount equal to the bid amount.

The City reserves the right to reject any or all bids submitted and to waive any formality or irregularity in the bid or bidding process. If all bids for the Bonds are rejected, then the Bonds may be sold in the manner the City may select. Any bid presented after the time specified for the receipt of bids will not be accepted.

### **Delivery**

The City will deliver the Bonds (consisting of one certificate for each maturity) to DTC, or to the Paying Agent on behalf of DTC by Fast Automated Securities Transfer, prior to the date of closing. The winning bidder must be willing to close on a date that is acceptable to the City and is within 30 days after the sale date (the closing date is expected to be November 29, 2012). Settlement shall be in immediately available federal funds in Portland, Oregon, on the date of delivery.



## **Legal Opinion**

The approving legal opinion of Bond Counsel will be provided to the purchaser of the Bonds in the form of a reliance letter at the time of the delivery of the Bonds. The City will provide a certificate at closing that includes a no-litigation certification with respect to the Bonds.

## **Tax Status**

In the opinion of Bond Counsel, under existing law: (i) interest on the Bonds is not excludable from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); and (ii) interest on the Bonds is exempt from State of Oregon personal income taxation.

## **CUSIP Numbers**

*The successful bidder for the Bonds is responsible for obtaining CUSIP numbers. The charge of the CUSIP Service Bureau will be paid by the successful bidder; however, all expenses for printing CUSIP numbers on the Bonds shall be paid by the City.*

CUSIP identification numbers will appear on the Bonds, but neither the failure to insert such numbers on the Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Sale.

## **Continuing Disclosure Undertaking**

To assist bidders in complying with paragraph (b)(5) of Securities and Exchange Commission Rule 15c2-12 (the "Rule"), the City will undertake to provide certain annual financial information and notices of the occurrence of certain events as provided in the Continuing Disclosure Certificate, which is attached as Appendix D to the Preliminary Official Statement.

## **Official Statement and Other Information**

### **Preliminary Official Statement**

The Preliminary Official Statement has been deemed final by the City for the purpose of paragraph (b)(1) of the Rule, but is subject to completion in the final Official Statement as permitted by the Rule.

The Preliminary Official Statement for the Bonds is available in electronic form from i-Deal Prospectus. For information on electronic delivery, please call i-Deal Prospectus at (212) 849-5024 or contact the Financial Advisor. Requests for additional information about this sale should also be directed to the Financial Advisor.

### **Official Statement**

The City will deliver the final Official Statement, at the City's expense, to the successful bidder through its designated representative not later than seven business days after the City's acceptance of the bid. The City will provide the successful bidder the final Official Statement in electronic form at the expense of the City to enable the successful bidder to satisfy its responsibilities under the SEC rules at the expense of the City.

By submitting the successful proposal, the purchaser's designated representative agrees to file the final Official Statement or cause it to be filed with the Municipal Securities Rulemaking Board designated by the Securities and Exchange Commission within one business day following its receipt from the City.

At closing, the City will furnish a certificate of an official or officials of the City, stating that, to the best knowledge of such official(s), as of the date of the final Official Statement and as of the date of delivery of the Bonds:

- (i) the Official Statement, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and
- (ii) between the date of the Official Statement and the date of delivery of the Bonds there has been no material adverse change in the affairs (financial or other), financial condition or results of operations of the City except as set forth in or contemplated by the Official Statement.

**- End of Official Notice of Sale -**

**OFFICIAL STATEMENT**  
**City of Hillsboro**  
**Washington County, Oregon**

**\$12,000,000<sup>(1)</sup>**

**Full Faith and Credit Bonds, Series 2012B**  
**(Federally Taxable)**

City of Hillsboro in Washington County, Oregon (the "City"), a political subdivision duly organized and existing under and by virtue of the laws of the State of Oregon (the "State") furnishes this Official Statement in connection with the offering of \$12,000,000<sup>(1)</sup> aggregate principal amount of Full Faith and Credit Bonds, Series 2012B (the "Bonds"), dated the Date of Delivery. This Official Statement, which includes the cover page, inside cover page, Official Notice of Sale, bid form and appendices, provides information concerning the City and the Bonds.

The information set forth herein has been obtained from the City and other sources that are believed to be reliable. Seattle-Northwest Securities Corporation, the "Financial Advisor" has relied on the City with respect to the accuracy and sufficiency of such information and such information is not to be construed as a representation, warranty or guarantee by the Financial Advisor. So far as any statement herein includes matters of opinion, or estimates of future expenses and income, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

Capitalized terms used and not defined herein shall have the meanings assigned to such terms in "Appendix E – Form of Bond Declaration," which is attached hereto and incorporated by reference herein.

**Description of the Bonds**

The Bonds will be issued in the aggregate principal amount and will mature on the dates and amounts posted on the cover of this Official Statement and will be dated and bear interest from the Date of Delivery. Bond interest is payable semiannually on June 1 and December 1 of each year, commencing June 1, 2013, until the maturity or earlier redemption of the Bonds and will be computed on the basis of a 360-day year consisting of twelve 30-day months.

**Paying Agent and Registration Features**

*Paying Agent.* The principal of and interest on the Bonds will be payable by U.S. Bank National Association (the "Paying Agent" and "Bond Registrar") to the Depository Trust Company ("DTC"), which, in turn, is obligated to remit such principal and interest to its participants ("DTC Participants") for subsequent disbursement to the persons in whose names such Bonds are registered (the "Beneficial Owners") of the Bonds, at the addresses appearing upon the registration books on the 15th day of the month preceding a payment date (the "Record Date"), as further described in Appendix C attached hereto.

*Book-Entry System.* The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co. as owner and as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry form only in minimum denominations of \$5,000 within a single maturity and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds. See "Appendix C - Book Entry Only System" for additional information.

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(1) Preliminary, subject to change.

*Procedure in the Event of Revisions of Book-Entry Transfer System.* If DTC ceases to act as depository for the Bonds, the provisions outlined in the Bond Declaration shall apply, including the ability to amend the Bond Declaration to provide for an alternative system of registration and payment for the Bonds that is of general acceptance in the municipal bond markets. If no better system is then available, the Paying Agent and the City shall amend the Declaration to provide that printed, registered Bonds shall be issued to Beneficial Owners of the Bonds, and shall give notice of those amendments to all owners.

### **Redemption Provisions**

*Optional Redemption.* Bonds maturing in years 2013 through 2022, inclusive, are not subject to optional redemption prior to maturity. The Bonds maturing on June 1, 2023 and on any date thereafter are subject to redemption at the option of the City prior to their stated maturity dates at any time on or after June 1, 2022, as a whole or in part, and if in part, with maturities to be selected by the City at a price of par, plus accrued interest, if any, to the date of redemption. [A Term Bond subject to optional redemption and redeemed in part will have the principal amount within the respective mandatory redemption dates selected by the City.]

For as long as the Bonds are in book-entry only form, if fewer than all of the Bonds of a maturity are called for redemption, the selection of Bonds within a maturity to be redeemed shall be made by DTC in accordance with its operational procedures then in effect. See Appendix C attached hereto. If the Bonds are no longer held in book-entry only form, then the Paying Agent would select Bonds for redemption by lot.

[*Mandatory Redemption.* If not previously redeemed under the provisions for optional redemption, the Term Bonds maturing on June 1 in the years \_\_\_\_ and \_\_\_\_ are subject to mandatory redemption (in such manner as the Bond Registrar and DTC will determine or by lot by the Paying Agent) on June 1 of the following years in the following principal amounts, at a price of par plus accrued interest to the date of redemption.]

[TO BE PROVIDED IN FINAL OFFICIAL STATEMENT]

*Notice of Redemption (Book-Entry).* So long as the Bonds are in book-entry only form, and unless DTC consents to a shorter period the Paying Agent shall notify DTC of an early redemption no fewer than 20 calendar days nor more than 60 calendar days prior to the date fixed for redemption, and shall provide such information as required by a letter of representation submitted to DTC in connection with the issuance of the Bonds. The City reserves the right to rescind any redemption notice as allowed in the Bond Declaration.

*Notice of Redemption (No Book-Entry).* During any period in which the Bonds are not in book-entry only form, unless waived by any Owner of the Bonds to be redeemed, official notice of any redemption of Bonds shall be given by the Paying Agent on behalf of the City by mailing a copy of an official redemption notice by first class mail, postage prepaid, no fewer than 30 calendar days nor more than 60 calendar days prior to the date fixed for redemption, to the Owners of the Bonds to be redeemed at the address shown on the bond register or at such other address as is furnished in writing by such Owner to the Paying Agent. The City reserves the right to rescind any redemption notice as allowed in the Bond Declaration.

*Conditional Notice.* Any notice of optional redemption to the Bond Registrar or to the Bondowners may state that the optional redemption is conditional upon receipt by the Bond Registrar of moneys sufficient to pay the redemption price of such Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission or of the failure of any such condition shall be given by the Bond Registrar to affected Bondowners of Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.

## **Default and Remedies**

The occurrence of one or more of the following shall constitute an Event of Default under the Bond Declaration:

- a. Failure by the City to pay Bond principal, interest or premium when due (whether at maturity, or upon redemption after a Bond has been properly called for redemption);
- b. Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed for the benefit of Owners of Bonds, for a period of sixty (60) days after written notice to the City by the Owners of fifty-one (51%) percent or more of the principal amount of Bonds then Outstanding specifying such failure and requesting that it be remedied; provided however, that if the failure stated in the notice cannot be corrected within such sixty (60) day period, it shall not constitute an Event of Default so long as corrective action is instituted by the City within the sixty (60) day period and diligently pursued, and the default is corrected as promptly as practicable after the written notice referred to in this paragraph; or,
- c. The City is adjudged insolvent by a court of competent jurisdiction, admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy, or consents to the appointment of a receiver for the payments.

The Owners of fifty-one (51%) percent or more of the principal amount of Bonds then Outstanding may waive any Event of Default and its consequences, except an Event of Default as described in (a) of this Section.

Upon the occurrence and continuance of any Event of Default the Owners of fifty-one (51%) percent or more of the principal amount of Bonds then Outstanding may take whatever action may appear necessary or desirable to enforce or to protect any of the rights of the Owners of Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in the Bond Declaration or the Bonds or in aid of the exercise of any power granted in the Bond Declaration or in the Bonds or for the enforcement of any other legal or equitable right vested in the Owners of Bonds by the Bond Declaration or the Bonds or by law. However, the Bonds shall not be subject to acceleration.

No remedy in the Bond Declaration conferred upon or reserved to Owners of Bonds is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Bond Declaration or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. To entitle the Owners of Bonds to exercise any remedy reserved to them, it shall not be necessary to give any notice other than such notice as may be required by the Bond Declaration or by law.

## **Authorization for Issuance**

The City is authorized pursuant to the Constitution and laws of the State, namely, Oregon Revised Statutes ("ORS") Section 287A.150 to issue bonds for a public purpose.

The Bonds are being issued pursuant to City Ordinance No. 6014 enacted by the City Council (the "City Council") on May 15, 2012 ("the Ordinance") and Resolution No. 2422 (the "Resolution") adopted by the Council on October 16, 2012, and a Bond Declaration dated the date of delivery. Such execution and delivery of the Bonds does not require a vote of the people.

## Purpose and Use of Proceeds

### Purpose

The proceeds from the sale of the Bonds will be used to finance a baseball stadium and related facilities and to pay the costs of issuance of the Bonds (the "Project").

The stadium is under construction at the Gordon Faber Recreation Complex and completion is expected for June of 2013. The stadium will be a City-owned, 4,500-capacity facility with retail space, offices, media rooms, team facilities and full-service concessions. The City has entered into a 20-year licensing agreement with the Hillsboro Hops (the "Team") which includes annual rent and capital expenditure cost-sharing. The City will have full access to the facility during the offseason for programs and events, while also gaining access during the baseball season when not in use by the Team.

The City expects to use all revenues generated by the baseball facility in excess of facility operating costs toward the debt service on the Bonds; however, these revenues are not pledged to the Bonds. Expected operating revenue sources include:

- ◇ Team facility rent starting at \$150,000 and increasing 3% each year
- ◇ \$1.00 ticket surcharge
- ◇ Parking fees
- ◇ Naming rights (70% to City, 30% to the Team)
- ◇ Rental revenue and program income from other uses the stadium

### Sources and Uses of Funds

The proceeds of the Bonds are estimated to be applied as follows:

#### Estimated Sources and Uses of Funds

<b>Sources of Funds<sup>(1)</sup></b>	
Par Amount of Bonds	\$ 12,000,000 <sup>(2)</sup>
Original Issue Premium/(Discount)	_____
Total Sources of Funds	<u>\$ _____</u>
<b>Uses of Funds<sup>(1)</sup></b>	
Available for Project	\$ _____
Underwriting and Issuance Costs	_____
Total Uses of Funds	<u>\$ _____</u>

(1) Amounts will be provided in the final Official Statement.

(2) Preliminary, subject to change.

## Security for the Bonds

### General

The Bonds are payable from the general non-restricted revenues of the City and other funds which may be lawfully available for that purpose, including any property taxes levied within the restrictions of Sections 11 and 11b, Article XI of the Constitution of the State of Oregon. The City is not authorized to levy additional taxes to the pay Bonds.

The City has pledged its full faith and credit to pay the Bonds.

The City expects to use net revenues generated by the baseball stadium and related facilities available after meeting operating expenses to pay a portion of the debt service due on the Bonds. However, these revenues

are not pledged to repay the Bonds. The City will use other legally available funds to pay the remaining debt service on the Bonds. The City expects to use Strategic Investment Program revenues, Parks System Development Charges and General Fund revenues to pay the remaining debt service on the Bonds.

The Bonds are not secured by a lien on any revenues or other property of the City. The Bonds do not constitute a debt or indebtedness of Washington County, the State of Oregon or any other political subdivision thereof other than the City.

**Rating**

As noted on the cover page of this Official Statement, Moody’s Investors Service has assigned its rating of “Aa3” to the Bonds. The rating reflects only the views of the rating agency and an explanation of the significance of the rating may be obtained from the rating agency. There is no assurance that the rating will be retained for any given period of time or that the rating will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating will be likely to have an adverse effect on the market price of the Bonds.

**Bonded Indebtedness**

**Debt Limitation**

*General Obligation Bonds.* ORS 287A.050 establishes a limit on bonded indebtedness for cities. Cities may issue an aggregate principal amount up to three percent of the Real Market Value of all taxable properties within the city. The statutory limitation does not apply to general obligation bonds issued for water, sanitary or storm sewers, sewage disposal plants, hospitals, infirmaries, gas power, or lighting purposes, or the acquisition, establishment, or reconstruction of any off-street motor vehicle parking facility nor to bonds issued pursuant to application to pay assessments for improvements in installments under statutory or charter authority which are completely self-supporting. **The Bonds are not general obligation bonds and are not subject to this debt limitation.**

**City of Hillsboro  
General Obligation Debt Capacity**

Real Market Value (Fiscal Year 2013) <sup>(1)</sup>	\$ 10,783,376,170
<b>Debt Capacity</b>	
General Obligation Debt Capacity (3.00% of Real Market Value)	\$ 323,501,285
Less: Outstanding Debt Subject to Limit	<u>0</u> <sup>(2)</sup>
Remaining General Obligation Debt Capacity	\$ 323,501,285
Percent of Capacity Issued	0.0%

(1) The City’s fiscal year commences July 1 and ends on June 30 of the following year (the “Fiscal Year”). *Source: Washington County Department of Assessment and Taxation.*

(2) Represents voter-approved, unlimited-tax general obligations of the City. The Bonds are not unlimited-tax general obligations of the City and are therefore not included in this calculation. *Source: City of Hillsboro staff.*

*Full Faith and Credit Obligations.* Cities may pledge their full faith and credit for “limited tax bonded indebtedness” or “full faith and credit obligations.” The Oregon Constitution and statutes do not limit the amount of limited tax bonded indebtedness that a city may issue. Full faith and credit obligations can take the form of bonds, certificates of participation, notes or capital leases. Collection of property taxes to pay principal and interest on such limited-tax debt is subject to the limitations of Article XI, Sections 11 and 11b. **The Bonds are full faith and credit obligations.**

*Pension Bonds.* ORS 238.694 authorizes local governments to issue full faith and credit obligations to pay pension liabilities without limitation as to principal amount. Pension bonds are not general obligations as

defined under State law and the City is not authorized to levy additional taxes to make pension bond payments. **The Bonds are not pension bonds.**

*Revenue Bonds.* ORS 287A.150 permits the City to issue revenue bonds for any public purpose, which are special obligations that are secured by specific revenues pursuant to ORS 287A.150. **The Bonds are not revenue bonds.**

**Outstanding Long-Term Debt**

<b>Governmental Activities</b>	<b>Date of Issue</b>	<b>Date of Maturity</b>	<b>Amount Issued</b>	<b>Amount Outstanding<sup>(1)</sup></b>
<i>Full Faith and Credit Obligations:</i>				
Series 2004 Bonds	06/15/04	06/01/14	\$ 26,415,000	\$ 2,045,000
Series 2010A Obligations	11/24/10	06/01/14	1,080,000	480,000
Series 2010B Obligations	11/24/10	06/01/22	3,650,000	3,650,000
Series 2010C Obligations	11/24/10	06/01/30	4,380,000	4,380,000
Series 2012 Bonds	07/26/12	06/01/32	28,715,000	28,715,000
Series 2012B Bonds <sup>(2)</sup>	11/29/12	06/01/32	12,000,000	12,000,000
Total Full Faith and Credit Obligations				<u>51,270,000</u>
<i>Notes Payable:</i>				
2005 Financing Agreement (Library)	12/15/05	06/01/27	4,075,000	<u>3,355,000</u>
Total Notes Payable				<u>3,355,000</u>
<b>Total Governmental Activities Debt</b>				<b><u>\$ 54,625,000</u></b>
<b>Business-type Activities</b>				
<i>Water Fund Obligations:</i>				
Series 2012 Bonds	07/10/12	12/01/23	13,945,000	<u>\$ 13,945,000</u>
<b>Total Business-Type Activites Debt</b>				<b><u>\$ 13,945,000</u></b>

(1) As of Date of Delivery.

(2) This issue. Preliminary, subject to change.

Source: City of Hillsboro staff.



**Full Faith and Credit Debt  
Projected Debt Service Requirements**

Fiscal Year	Outstanding Debt		The Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	
2013	\$ 2,055,000	\$ 1,493,079	\$ 650,000	\$ 166,688	\$ 4,364,766
2014	1,955,000	1,581,381	490,000	327,255	4,353,636
2015	1,890,000	1,500,596	495,000	324,912	4,210,508
2016	1,935,000	1,439,656	495,000	321,348	4,191,004
2017	2,025,000	1,363,651	505,000	315,884	4,209,535
2018	2,090,000	1,284,691	510,000	308,541	4,193,232
2019	2,165,000	1,220,441	520,000	299,713	4,205,154
2020	2,245,000	1,137,511	530,000	289,152	4,201,663
2021	2,320,000	1,066,189	545,000	275,923	4,207,111
2022	2,420,000	958,624	555,000	261,230	4,194,853
2023	2,525,000	854,866	575,000	245,712	4,200,578
2024	2,640,000	738,066	590,000	228,025	4,196,091
2025	2,740,000	625,374	610,000	208,578	4,183,952
2026	2,850,000	507,944	630,000	187,863	4,175,806
2027	2,945,000	401,699	655,000	165,838	4,167,537
2028	2,735,000	291,837	675,000	142,284	3,844,121
2029	2,825,000	191,633	700,000	117,336	3,833,969
2030	1,145,000	88,091	730,000	90,764	2,053,855
2031	550,000	34,313	755,000	62,323	1,401,636
2032	570,000	17,813	785,000	32,154	1,404,966
	<u>\$ 42,625,000</u>	<u>\$ 16,797,451</u>	<u>\$ 12,000,000</u>	<u>\$ 4,371,522</u>	<u>\$ 75,793,973</u>

(1) Principal and interest are provided for illustrative purposes only; amounts and structure are preliminary, subject to change.

**Summary of Overlapping Debt  
(As of September 24, 2012)**

Overlapping Issuer Name	Real Market Value	Percent Overlapping	Gross Direct Debt <sup>(1)</sup>	Net Direct Debt <sup>(2)</sup>
Washington Cty SD 1J (Hillsboro)	\$ 14,168,928,250	70.19%	\$ 221,632,294	\$ 221,632,294
Washington County	63,616,446,137	17.87%	20,113,268	2,511,142
Northwest Regional ESD	82,595,259,515	13.77%	803,940	0
Portland Community College	151,131,432,801	7.52%	27,310,707	14,156,217
Metro	188,213,817,015	5.83%	18,246,393	15,444,168
Port Of Portland	206,003,917,447	5.52%	3,825,197	0
Washington Cty SD 48J (Beaverton)	30,166,591,572	4.72%	23,671,513	23,671,513
Tualatin Hills Park & Rec District	25,378,840,802	0.74%	786,148	785,702
Tualatin Valley Fire & Rescue District	55,724,813,188	0.03%	19,553	14,858
			<u>\$ 316,409,013</u>	<u>\$ 278,215,894</u>

(1) Gross Direct Debt includes all unlimited (general obligation bonds) and limited (full faith and credit obligations) tax supported debt. Limited tax pension obligations are included.

(2) Net Debt is Gross Direct Debt less self-supporting limited and unlimited tax supported debt.

Source: Debt Management Division, The Office of the State Treasurer.

## Debt Ratios

The following table presents information regarding the City's Direct Debt, including the Bonds, and the estimated portion of the debt of overlapping taxing districts allocated to the City's property owners.

### Debt Ratios

Real Market Value	\$ 10,783,376,170	
Estimated Population	92,350	
Per Capita Real Market Value	\$ 116,766	
	<b>Gross Direct Debt<sup>(1)</sup></b>	<b>Net Direct Debt<sup>(2)</sup></b>
<b>Debt Information</b>		
City Direct Debt <sup>(3)</sup>	\$ 54,625,000	\$ 54,625,000
Overlapping Direct Debt	316,409,013	278,215,894
Total Direct Debt <sup>(3)</sup>	<u>\$ 371,034,013</u>	<u>\$ 332,840,894</u>
<b>Bonded Debt Ratios<sup>(3)</sup></b>		
City Direct Debt to Real Market Value	0.51%	0.51%
Total Direct Debt to Real Market Value	3.44%	3.09%
Per Capita City Direct Debt	\$ 591	\$ 591
Per Capita Total Direct Debt	\$ 4,018	\$ 3,604

(1) Gross Direct Debt includes all unlimited (general obligation bonds) and limited (full faith and credit obligations) tax supported debt.

(2) Net Debt is Gross Direct Debt less self-supporting limited and unlimited tax supported debt.

(3) Includes the Bonds. Preliminary and subject to change.

Sources: Debt Management Division, The Office of the State Treasurer and City of Hillsboro staff.

## Debt Payment Record

The City has promptly met principal and interest payments on outstanding bonds and other indebtedness in the past ten years when due. Additionally, no refunding bonds have been issued for the purpose of preventing an impending default.

## Future Financings

*Capital Projects.* The City does not anticipate issuing additional long-term debt within calendar year 2012 or 2013. The City's Ordinance No. 6014 authorized the City to issue up to \$30,000,000 of full faith and credit bonds. The City used \$8,425,000 of the authority to issue its Full Faith and Credit Project and Refunding Bonds, Series 2012 and after the issuance of the Bonds, \$9,575,000<sup>(1)</sup> of authorization will remain. Other than the remaining unused authority under the Ordinance, the City has no unused bond authorization.

*Short-term Notes.* The City does not anticipate issuing short-term debt within calendar year 2012 or 2013.

## Revenue Sources

The following section summarizes certain of the major revenue sources of the City.

### Property Taxes

Most local governments, school districts, education service districts and community college districts ("local governments") have permanent authority to levy property taxes for operations ("Permanent Rates") up to a

(1) Preliminary, subject to change.

maximum rate (the "Operating Tax Rate Limit"). Local governments that have never levied property taxes may request that the voters approve a new Operating Tax Rate Limit.

Local governments may not increase their Operating Tax Rate Limits; rather they may only request that voters approve limited term levies for operations or capital expenditures ("Local Option Levies") or levies to repay general obligation bonded indebtedness ("General Obligation Bond Levies").

Local Option Levies that fund operating expenses are limited to five years, and Local Option Levies that are dedicated to capital expenditures are limited to ten years.

The City currently has a Local Option Levy of \$1.7200/\$1,000 assessed value which was approved by City voters in November 2006 to enhance service levels for Police, Fire, and Parks & Recreation. The City previously had a Local Option Levy of \$1.1000/\$1,000 assessed value which was approved by City voters in 1998 and 2002. The 2006 levy passed by voters was approved for five years and expires after Fiscal Year 2013. The Local Option Levy was renewed for \$1.7200/\$1,000 assessed value at the May 15, 2012 election and will be effective Fiscal Years 2014 through 2018. In Fiscal Year 2012 \$15,119,034 was raised from the local option levy.

Local governments impose property taxes by certifying their levies to the county assessor of the county in which the local government is located. Property taxes ordinarily can only be levied once each Fiscal Year. The local government ordinarily must notify the county assessor of its levies by July 15.

*Valuation of Property – Real Market Value.* "Real Market Value" is the minimum amount in cash which could reasonably be expected by an informed seller acting without compulsion, from an informed buyer acting without compulsion, in an "arms-length" transaction during the period for which the property is taxed.

Property subject to taxation includes all privately owned real property (land, buildings and improvements) and personal property (machinery, office furniture and equipment) for non-residential taxpayers. There is no property tax on household furnishings (exempt since 1913), personal belongings, automobiles (exempt since 1920), crops, orchards, business inventories or intangible property such as stocks, bonds or bank accounts, except for centrally assessed utilities, for which intangible personal property is subject to taxation.

Property used for charitable, religious, fraternal and governmental purposes is exempt from taxation. Special assessments that provide a reduction in the taxable Real Market Value may be granted (upon application) for veterans' homesteads, farm and forest land, open space and historic buildings. The Real Market Value of specially assessed properties is often called the "Taxable Real Market Value" or "Measure 5 Real Market Value." The assessment roll, a listing of all taxable property, is prepared as of January 1 of each year.

*Valuation of Property – Assessed Value.* Property taxes are imposed on the assessed value of property. The assessed value of each parcel cannot exceed its Taxable Real Market Value, and ordinarily is less than its Taxable Real Market Value. The assessed value of property was initially established in 1997 as a result of a constitutional amendment. That amendment (now Article XI, Section 11, often called "Measure 50") assigned each property a value and limited increases in that assessed value to three percent per year, unless the property is improved, rezoned, subdivided, or ceases to qualify for exemption. When property is newly constructed or reassessed because it is improved, rezoned, subdivided, or ceases to qualify for exemption, it is assigned an assessed value that is comparable to the assessed value of similar property.

The Oregon Department of Revenue ("ODR") appraises and establishes values for utility property, forestland and most large industrial property for county tax rolls. It collects taxes on harvested timber for distribution to schools, county taxing districts, and State programs related to timber. Certain properties, such as utilities, are valued on the unitary valuation approach. Under the unitary valuation approach, the taxpaying entity's operating system is defined and a value is assigned for the operating unit using the market value approach (cost, market value and income appraisals). Values are then allocated to the entities' operations in Oregon, and then to each county the entity operates in and finally to site locations.

Generally speaking, industrial properties are valued using an income approach, but ODR may apply additions or retirements to the property value through a cost of materials approach. Under the income and cost of materials approaches, property values fluctuate from year-to-year.

*Tax Rate Limitation – Measure 5.* A tax rate limitation was established in 1990 as the result of a constitutional amendment. That amendment (now Article XI, Section 11b, often called “Measure 5”) separates property taxes into two categories: one to fund the public school system (kindergarten through grade twelve school districts, education service districts and community college districts, collectively, “Education Taxes”) and one to fund government operations other than the public school system (“General Government Taxes”). Education Taxes are limited to \$5 per \$1,000 and General Government taxes are limited to \$10 per \$1,000 of the Taxable Real Market Value of property (the “Measure 5 Limits”). If the taxes on a property exceed the Measure 5 Limit for Education or General Government, then tax rates are compressed to the Measure 5 Limit. Local Option Levy rates compress to zero before there is any compression of Permanent Rates. The City is not currently experiencing significant compression. In Fiscal Year 2013, compression reduced the City’s Permanent Rate collections by \$1.22 and the City’s Local Option Levy collections by \$2.70.

Taxes imposed to pay the principal and interest on the following bonded indebtedness are not subject to Measure 5 Limits: (1) bonded indebtedness authorized by a specific provision of the Oregon Constitution; and (2) general obligation bonded indebtedness incurred for capital costs approved by the electors of the issuer and bonds issued to refund such bonds. **The Bonds are not secured by taxes that may be levied outside Measure 5 limits.**

The Oregon Supreme Court determined that taxes levied by general purpose governments (such as cities and counties) may be subject to the \$5 per \$1,000 limit if those taxes are used for educational services provided by the public school system.

*Property Tax Collections.* Each county assessor is required to deliver the tax roll to the county tax collector in sufficient time to mail tax statements on or before October 25 each year. All tax levy revenues collected by a county for all taxing districts within the county are required to be placed in an unsegregated pool, and each taxing district shares in the pool in the same proportion as its levy bears to the total of all taxes levied by all taxing districts within the county. As a result, the tax collection record of each taxing district is a *pro-rata* share of the total tax collection record of all taxing districts within the county combined.

Under the partial payment schedule, taxes are payable in three equal installments on the 15th of November, February and May of the same Fiscal Year. The method of giving notice of taxes due, the county treasurer’s account for the money collected, the division of the taxes among the various taxing districts, notices of delinquency, and collection procedures are all specified by detailed statutes. The lien for property taxes is prior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, a county may not commence foreclosure of a tax lien on real property until three years have passed since the first delinquency.

A Senior Citizen Property Tax Deferral Program (1963) allows certain homeowners to defer taxes until death or sale of the home. A similar program is offered for Disability Tax Deferral (2001), which does not have an age limitation.

The following tables represent historical tax information for the City.

**Taxable Property Values**

<b>Fiscal Year</b>	<b>Total Real Market Value</b>	<b>Measure 5 Real Market Value<sup>(1)</sup></b>	<b>Total Assessed Valuation</b>	<b>Urban Renewal Excess<sup>(2)</sup></b>	<b>AV Used to Calculate Rates<sup>(3)</sup></b>
2013 <sup>(4)</sup>	\$ 14,973,519,350	\$ 10,783,376,170	\$ 9,118,111,334	\$ 12,530,111	\$ 9,105,581,223
2012	15,074,297,234	11,184,811,424	9,085,706,884	9,531,373	9,076,175,511
2011	15,624,272,823	11,440,718,573	8,705,811,279	0	8,705,811,279
2010	15,303,010,515	11,756,934,165	8,291,350,338	0	8,291,350,338
2009	15,334,815,742	12,275,781,472	7,963,202,164	0	7,963,202,164
2008	14,769,396,719	11,577,960,799	7,449,889,842	0	7,449,889,842
2007	13,796,232,055	10,379,447,175	7,009,038,595	0	7,009,038,595

- (1) Value represents the Real Market Value of taxable properties, including the reduction in Real Market Value of specially assessed properties such as farm and forestland. This value is also commonly referred to as the Measure 5 Real Market Value by county assessors. Includes adjustments for Strategic Investment Program properties. See "Strategic Investments Program" herein.
- (2) The City Council approved the Downtown Urban Renewal District in May 2010. Fiscal Year 2012 is the first year excess value was recorded and tax increment revenues were collected.
- (3) Assessed value of property in the City on which the permanent rate is applied to derive *ad valorem* property taxes, excluding urban renewal and any other offsets.
- (4) See discussion below regarding low assessed value growth in Fiscal Year 2013.

Source: Washington County Department of Assessment and Taxation.

The City's Fiscal Year 2013 low assessed value growth is largely due to a successful property value appeal by Genentech, a biopharmaceutical company. The appeal resulted in a \$162.6 million reduction of the company's assessed value from \$239,232,420 in Fiscal Year 2012 to \$76,602,180 in Fiscal Year 2013. In Oregon, manufacturing and industrial properties valued over \$1 million are assessed by the State. The State values approximately 900 sites and uses a mass valuation methodology which values like properties together. As a result of the appeal, the State reviewed Genentech individually and determined the valuation should be significantly lower.

Other major taxpayers in the City including Frontier Communications, Solar World, and Intel also experienced assessed value declines of a much lesser degree. While the City cannot predict future growth with any certainty, staff believes the lower growth in Fiscal Year 2013 is an isolated and unique event.

The following table presents the Fiscal Year 2013 tax rates for the City and other taxing jurisdictions within Washington County that overlap the City. The City's Operating Tax Rate Limit is \$3.6665 per \$1,000 of assessed property value. The Operating Tax Rate Limit was calculated in conjunction with the implementation of Measure 50 in 1997. The Permanent Rates shown in the following table are the rates that are actually applied to the assessed value of the taxing district. The Permanent Rates may be different from the Operating Tax Rate Limit of the taxing district due to the decision by the taxing district to levy less than its Operating Tax Rate Limit.

**Fiscal Year 2013 Representative Levy Rate  
(Rates Per \$1,000 of Assessed Value)**

<b>General Government</b>	<b>Billing Rate</b>	<b>Bond Levy Rate</b>	<b>Local Option Rate<sup>(1)</sup></b>	<b>Consolidated Rate</b>	<b>Urban Renewal Portion of the Consolidated Rate<sup>(2)</sup></b>
Washington County	\$ 2.2484	\$ 0.1317	\$ 0.5900	\$ 2.9701	\$ 0.0031
Port of Portland	0.0701	0.0000	0.0000	0.0701	0.0000
City of Hillsboro	3.6665	0.0000	1.7200	5.3865	0.0050
Metro	0.0966	0.3077	0.0000	0.4043	0.0003
Tri-Met	0.0000	0.0000	0.0000	0.0000	0.0000
<b>Total General Government</b>	<b>6.0816</b>	<b>0.4394</b>	<b>2.3100</b>	<b>8.8310</b>	<b>0.0084</b>
<b>Education</b>					
NW Regional ESD	0.1538	0.0000	0.0000	0.1538	0.0002
Portland Community College	0.2828	0.3823	0.0000	0.6651	0.0005
Hillsboro School District No. 1J	4.9749	2.5228	0.0000	7.4977	0.0096
<b>Total Education</b>	<b>5.4115</b>	<b>2.9051</b>	<b>0.0000</b>	<b>8.3166</b>	<b>0.0103</b>
<b>Total Tax Rate</b>	<b>\$ 11.4931</b>	<b>\$ 3.3445</b>	<b>\$ 2.3100</b>	<b>\$ 17.1476</b>	<b>\$ 0.0187</b>

NOTE: County assessors report levy rates by tax code. Levy rates apply to the assessed property value. Measure 5 Limits are based on the Taxable Real Market Value and are only reported in total dollar amount of compression, if any, for each taxing jurisdiction (see "Property Taxes - Tax Rate Limitation - Measure 5" herein).

- (1) Local Option Levies are voter-approved serial levies. They are limited by ORS 280.060 to five years for operations or ten years for capital construction. Local Option Levy rates compress to zero before there is any compression of district billing rates (see "Property Taxes - Tax Rate Limitation - Measure 5" herein).
- (2) A portion of the revenues raised by a taxing district's consolidated rate is contributed to the City of Hillsboro Urban Renewal Agency through tax increment financing.

Source: Washington County Department of Assessment and Taxation. Note that there are 23 tax codes in Washington County that overlap the City and Tax Code 7.01 (represented in the table above) has the highest property value of these tax codes. Total tax levies in the City range from \$16.4248 to \$18.8774 per \$1,000 of assessed property value.

**Washington County  
Tax Collection Record<sup>(1)</sup>**

<b>Fiscal Year</b>	<b>Percent Collected as of</b>	
	<b>Levy Year<sup>(2)</sup></b>	<b>6/30/2012<sup>(3)</sup></b>
2012	97.52%	97.52%
2011	97.63%	99.36%
2010	97.20%	99.12%
2009	96.94%	99.70%
2008	97.57%	99.67%

- (1) Percentage of total tax levy collection in Washington County. Pre-payment discounts are considered to be collected when outstanding taxes are calculated. The tax rates are before offsets.
- (2) The percentage of taxes collected in the "year of the levy" represents taxes collected in a single levy year, beginning July 1 and ending June 30.
- (3) The percentage of taxes shown in the column represents taxes collected cumulatively from July 1 of a given levy year through June 30, 2012.

Source: Washington County Department of Assessment and Taxation.

**Major Taxpayers (As of Fiscal Year 2013)**  
**City of Hillsboro**

<b>Taxpayer</b>	<b>Business/Service</b>	<b>Tax <sup>(1)</sup></b>	<b>Assessed Value <sup>(2)</sup></b>	<b>Percent of Value</b>
Intel Corporation <sup>(3)</sup>	Semiconductors	\$ 19,794,889	\$ 1,180,476,996	12.95%
Verizon Northwest Inc.	Telecommunications	1,567,882	93,625,300	1.03%
Pacific Realty Associates	Real Estate Investment	1,516,531	89,023,939	0.98%
Portland General Electric	Electrical Utility	1,477,887	87,932,910	0.96%
Genentech, Inc. <sup>(4)</sup>	Biopharmaceuticals	1,282,764	76,602,180	0.84%
Triquint Semiconductor Inc.	Semiconductors	1,067,085	63,123,330	0.69%
Amberglen, LLC	Office Park	1,045,221	63,995,490	0.70%
Streets of Tanasbourne LLC	Shopping Center	880,131	53,558,318	0.59%
Fred Meyer Inc.	Grocery, Retail	855,107	50,139,033	0.55%
Solarworld Properties Inc.	Solar Panels	801,763	47,796,150	0.52%
Subtotal - ten of District's largest taxpayers			1,806,273,646	19.81%
All other District's taxpayers			7,311,837,688	80.19%
Total District			<u>\$ 9,118,111,334</u>	<u>100.00%</u>

**Washington County**

<b>Taxpayer</b>	<b>Business/Service</b>	<b>Tax <sup>(2)</sup></b>	<b>Assessed Value <sup>(3)</sup></b>	<b>Percent of Value</b>
Intel Corporation <sup>(3)</sup>	Semiconductors	\$ 21,794,417	\$ 1,317,485,109	2.67%
Nike, Inc.	Athletic Shoes and Apparel	7,440,124	458,134,800	0.93%
Portland General Electric	Electrical Utility	6,829,088	430,132,692	0.87%
Pacific Realty Associates	Real Estate Investment	4,949,821	301,554,205	0.61%
Northwest Natural Gas Co.	Natural Gas Utility	4,698,617	303,517,250	0.61%
Comcast Corporation	Telecommunications	4,197,086	247,208,700	0.50%
Frontier Communications <sup>(5)</sup>	Telecommunications	4,159,162	250,268,000	0.51%
Fred Meyer Stores, Inc.	Retail, grocery	2,586,367	149,532,916	0.30%
Maxim Integrated Products	Electronics	2,312,951	142,776,738	0.29%
PS Business Parks LP	Real Estate Investment	2,111,660	131,116,871	0.27%
Subtotal - ten of County's largest taxpayers			3,731,727,281	7.56%
All other County's taxpayers			45,623,931,794	92.44%
Total County			<u>\$ 49,355,659,075</u>	<u>100.00%</u>

- (1) Tax amount is the total tax paid by the taxpayer within the boundaries of the City and County, respectively. This amount is distributed to individual local governments by the County. A breakdown of amounts paid to each individual local government is not available.
- (2) Assessed value does not exclude offsets such as urban renewal and farm tax credits.
- (3) The assessed value and taxes do not include abated taxes under Intel's SIP agreements. See "Revenue Source - Strategic Investments Program" herein. Intel is one of the State's largest employers with about 16,000 employees. It has 8 campuses in Oregon. Intel's Oregon administrative offices are in the City of Hillsboro. Intel is currently building a new \$3 billion research fab (D1X) at the Ronler Acres campus in Hillsboro which is expected to be complete in 2013. Intel recently announced a second \$3 billion phase to the expansion at Ronler Acres which is expected to be complete in 2015. *Source: www.intel.com.*
- (4) Genentech was recently successful in appealing its property value which resulted in a \$163 million assessed valuation decline from Fiscal Year 2012 to Fiscal Year 2013. See "Revenue Sources - Property Tax Collections" above for further detail. Genentech is a biopharmaceutical company using human genetic information to discover, develop, manufacture and commercialize medicines to treat patients with serious or life-threatening medical conditions. Genentech is among the world's leading biotech companies, with multiple products on the market and a promising development pipeline. The company, founded in 1976, operates a fill/finish facility, and warehouse and distribution center in the City of Hillsboro which employs approximately 210 people. *Source: www.gene.com.*
- (5) Frontier Communications' assessed value County-wide declined \$100.4 million from the Fiscal Year 2012 value due to a decline in real market value resulting from market conditions, not a value appeal.

*Source: Washington County Department of Assessment and Taxation.*

## **Strategic Investments Program**

The Strategic Investments Program (“SIP”) was authorized by the Legislative Assembly in 1993 to provide tax incentives for capital investments by “traded-sector” businesses, including manufacturing. SIP recipients receive a 15 year property tax exemption on new construction over \$25 million outside of urban areas, and over \$100 million in urban areas. The exemption value (\$25 million or \$100 million) then increases three percent per year. SIP recipients pay an annual Community Service Fee which is equal to 25 percent of the value of the tax break, which is allocated to local governments through local negotiations. The Community Service Fee is not considered a property tax and thus is outside of the Measure 5 Limit. The City received \$3,863,285 in SIP revenues in Fiscal Year 2012.

There are currently three SIP agreements in place within the City. One agreement is with Genentech, Inc. for a bio-tech project which was negotiated as a non-urban agreement. The City received the first year of tax distribution under this program in Fiscal Year 2011. The City has budgeted to receive \$250,000 in Fiscal Year 2013 under this agreement.

The remaining two agreements are with Intel. The first Intel agreement was negotiated in 1999 to cover a total investment of \$12.5 billion and will continue through Fiscal Year 2015. The City receives approximately one-third of the Community Service Fee and additional fees from this agreement. The second Intel agreement was negotiated in 2005 for a total investment of \$25 billion and began generating revenues for the City in Fiscal Year 2011. The City estimates it will collect close to \$57 million in total fees through Fiscal Year 2025 from the 2005 SIP agreement and an estimated \$34 million in total fees over the life of the 1999 SIP agreement. The City currently uses a majority of SIP revenues to make payments on existing debt obligations. The City has budgeted to receive \$3.8 million in Fiscal Year 2013 under the Intel agreements.

## **Other Taxes**

Oregon cities and counties generally have broad authority to impose taxes on activities within their boundaries. Certain Oregon cities and counties currently impose business license taxes, food and beverage taxes, motor vehicle fuel taxes, transient room taxes and other taxes. Generally these taxes must be either approved by the voters or may be subject to referral by the voters. The City imposes taxes on liquor and cigarettes, as well as hotel/motel tax.

The Legislative Assembly generally has the authority to limit or prohibit local governments from imposing taxes, and has limited a number of local government taxes, including transient room taxes and real estate transfer taxes. Each local government has its own mix of taxes, as well as fees and other revenue sources.

## **Local Government Fees**

Oregon cities and counties generally have broad authority to impose and collect fees for services. Many cities and counties collect sewer, water, electric and other enterprise fees, building permit fees, and surface water management fees. The City charges franchise, license and permit fees.

Other local governments, such as special purpose districts, generally require legislative authorization to impose fees for services. Local governments that are authorized to operate utility systems generally are authorized to impose fees for services that are sufficient to pay for their costs of operating and financing their utility systems.

The Legislative Assembly generally has the authority to limit or prohibit local governments from imposing fees for services. Cities are currently authorized to collect franchise fees from utilities, while other local governments are prohibited from doing so.

## **State of Oregon Funding**

Oregon cities and counties receive a share of the revenues the State receives from taxing motor vehicle fuels. The Oregon Constitution requires that these revenues be used only to pay for costs of public roads. Oregon



cities and counties also receive a share of the revenues the State of Oregon receives from tobacco taxes and liquor taxes.

The State of Oregon also appropriates money to Oregon counties to operate the justice system, and it provides a wide variety of funding for other purposes.

The State of Oregon is generally not obligated to continue to provide these revenues to local governments.

*Gain Share.* The 2007 legislature approved Gain Share to allow local governments to share annually in additional State income tax revenues from jobs created from SIP agreements. Local jurisdictions with SIP agreements sacrifice property tax revenue in order to attract initial large investments but the State immediately benefits with an increase in income taxes. Gain Share returns half of the income taxes generated by retained and new employees under the SIP agreement to the local jurisdiction over the life of the SIP agreement. The program has been more successful than anticipated. Under the current formula, the City could receive as much as \$4 million in Fiscal Year 2013. The City is cautious to not rely on these funds for on-going expenditures since funds could be reduced. It is anticipated that, in some form or another, this program will be discussed and may be modified during the 2013 legislative session.

### **Federal Funding**

Oregon local governments receive federal funding for a variety of purposes. That funding is generally restricted to specific purposes.

## **The City**

### **General Description**

The City encompasses approximately 23.7 square miles and is located in Washington County, Oregon. The City was incorporated as a municipal corporation in 1876 and provides a full range of municipal services including fire and police protection, library services, parks and recreation facilities/activities, streets, planning, zoning, general administrative services, in addition to operating water and sewer utility systems.

The City utilizes the council-manager form of government, which is overseen by a seven-member City Council (the "Council") under the constitution and the laws of the State of Oregon and the City's Home Rule Charter. The Council is composed of a Mayor and six Council members. The City is divided into three wards. The term of office for the Mayor and City Council is four years. Two Council members must reside in each of the wards, but they are elected by the voters of the entire City. The Mayor, who is elected City-wide, is the presiding officer of the Council. All Council members are part-time elected officials who exercise the legislative powers of the City and determine matters of policy.

The Council appoints a City Manager who is the chief administrative officer of the City. The City Manager appoints the heads of all City departments, including a Finance Director who supervises the financial affairs of the City. The Finance Director is responsible for operating a general accounting system for City government in conformity with generally accepted accounting principles and practices, and for receipt, custody and disbursement of all City funds and monies.

The current City councilors are:

### City Council

Name	Position	Occupation	Service Began	Term Expires
Jerry Willey	Mayor	Retired CPA	January 2009	January 2017
Aron Carleson	Council President	Exec. Director, Hillsboro Schools	August 2006	January 2015
Olga Acuña	Councilor	Assistant Principal	January 2008	January 2017
Nenice Andrews <sup>(1)</sup>	Councilor	Nurse practitioner	January 2005	January 2013
Steve Callaway	Councilor	Elementary school principal	January 2011	January 2015
Mike Castillo <sup>(1)</sup>	Councilor	Manager, Intel Consumer Electronics	January 2009	January 2013
Darell Lumaco	Councilor	Physician at Hillsboro Eye Clinic	January 2011	January 2015

(1) Did not run for re-election in the November 6, 2012 election. Fred Nachtigal was elected to fill Mike Castillo's position. No one filed to run for Nenice Andrews position and the write-in results are not available at this time.

Source: *City of Hillsboro and Washington County Elections Department.*

### Staff

As of October 2012, the City had 664 full-time employees and 455 part-time employees.

### Bargaining Units

Bargaining Unit	No. of Employees	Contract Expires
Hillsboro Police Officers Association	138 (classified)	June 30, 2014
International Association of Firefighters	83 (licensed)	June 30, 2012 <sup>(1)</sup>

(1) The City is currently in negotiations with the International Association of Firefighters and expects them to conclude over the next several months. The City postponed negotiations with the union to prevent any interference with the May 2012 election for the Local Option Levy that partially funds Police, Fire and Parks Maintenance.

Source: *City of Hillsboro.*

### Key Administrative Officials

The day-to-day affairs of the City are managed by a professional administrative staff which includes the following principal officials:

*Michael Brown, City Manager.* Michael Brown became the City Manager in August 2011. Prior to accepting the City Manager position, he worked in Douglas County, Nevada for 14 years serving in several capacities including County Manager. In addition to working in Douglas County, Mr. Brown worked for several local governments including Corvallis, Oregon; Lexington, Massachusetts; Olathe, Kansas and Colchester, Vermont. He has a Bachelor of Science degree in Business Administration from the University of Oregon (Finance/Management double major) and a Masters in Public Administration from the University of Kansas. Mr. Brown is a 22-year member of International City Managers Association and served as the president of the Local Government Manager's Association of Nevada in 2010.

*Mr. Rob Dixon, Assistant City Manager.* Mr. Dixon became the Assistant City Manager over the Community Development Departments in July 2007. He previously served as the Community Development Director for the City of Sherwood, Oregon for three years and the Public Works Director/City Engineer for the City of Cornelius, Oregon for 10 years. In addition to his government service, Mr. Dixon worked for 10 years for two international private consulting engineering companies. He has a Bachelor of Science degree in Civil Engineering from Loyola Marymount University, and a Bachelor of Science degree in Biochemistry and a Master of Science degree in Biology from California Polytechnic University. Mr. Dixon is member of the International City Managers Association and a licensed Professional Engineer in Oregon.

*Mr. Steve Greagor, Interim Assistant City Manager.* Mr. Greagor was appointed as Interim Assistant City Manager in August 2012 from his position as the Parks and Recreation Director, which he has held for 11 years. Mr. Greagor has 24 years of government service in Oregon, which includes the City of Forest Grove and the Washington County Consolidated Communications Agency, in addition to his experience with the City of Hillsboro. He has served in various capacities and has experience in emergency communications, law enforcement, and administration. He holds a Bachelor of Science in Administration of Justice from Portland State University and is a member of the Oregon City/County Managers Association.

*Ms. Suzanne Linneen, Finance Director.* Ms. Linneen is the City's Finance Director. She has worked at the City since 1995. She is a graduate of the University of California, Santa Barbara with a degree in Business Economics. She worked for Deloitte & Touche in Century City, California where she received her CPA certification. She relocated to Oregon in 1994 and began shortly thereafter with the City as a financial analyst. Ms. Linneen is a member of both the Oregon Municipal Finance Officers Association and the Government Finance Officers Association.

## **Financial Factors**

### **Financial Reporting and Accounting Policies**

The City's basic financial statements were prepared in conformity with generally accepted accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards City Council ("GASB").

Additional information on the City's accounting methods is available in the City's audited financial statements. A copy of the City's audited financial report for Fiscal Year 2011 is attached hereto as Appendix B.

### **Auditing**

Each Oregon municipal corporation must obtain an audit and examination of its funds and account groups at least once each year pursuant to the Oregon Municipal Audit Law, ORS 297.405-297.555. Municipalities having annual expenditures of less than \$500,000, with the exception of counties and school districts, are exempt from this requirement. All Oregon counties and school districts, regardless of amount of annual expenditures, must obtain an audit annually. The required audit may be performed by the State Division of Audits or by independent public accountants certified by the State as capable of auditing municipal corporations.

The City audits for the Fiscal Years 2007 through 2011 ("City Audited Financial Statements") were performed by Talbot, Korvola & Warwick, LLP, CPAs, Portland, Oregon (the "Auditor"). The audit report for Fiscal Year 2011 indicates the financial statements, in all material respects, fairly present the City's financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information and the respective changes in financial position and the cash flows, where applicable, in conformance with accounting principles generally accepted in the United States of America. The City has contracted with the Auditor to audit its financial statements for Fiscal Year 2012. The audit review began on October 15, 2012. The Auditor was not requested to review this Official Statement.

Future financial statements may be obtained from the Electronic Municipal Market Access system, a free, centralized repository located at: [www.emma.msrb.org](http://www.emma.msrb.org).

Summaries of the City's Net Assets and Changes in Net Assets follow:

**Statement of Net Assets - Governmental Activities**  
(Fiscal Years - In Thousands)

<b>Assets</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Unaudited 2012</b>
Cash and investments	\$ 86,874	\$ 73,377	\$ 62,506	\$ 62,000	\$ 70,061	\$ 76,187
Current and other assets	1,896	2,605	3,645	3,582	3,610	4,235
Net capital assets	<u>489,608</u>	<u>492,605</u>	<u>487,320</u>	<u>487,440</u>	<u>466,958</u>	<u>462,861</u>
Total Assets	<u>578,378</u>	<u>568,587</u>	<u>553,471</u>	<u>553,022</u>	<u>540,629</u>	<u>543,283</u>
<b>Liabilities</b>						
Accounts payable	1,817	2,973	3,422	4,480	2,386	2,442
Other liabilities	4,220	4,532	5,806	6,545	7,625	10,609
Notes payable	4,198	4,034	3,857	3,685	3,519	3,355
Bonds payable	<u>25,570</u>	<u>25,165</u>	<u>24,650</u>	<u>24,005</u>	<u>32,100</u>	<u>30,870</u>
Total Liabilities	<u>35,805</u>	<u>36,704</u>	<u>37,735</u>	<u>38,715</u>	<u>45,630</u>	<u>47,276</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	459,841	463,406	458,813	459,749	431,339	428,636
Restricted	40,688	41,133	39,080	41,718	43,651	47,922
Unrestricted	<u>42,044</u>	<u>27,344</u>	<u>17,843</u>	<u>12,840</u>	<u>20,009</u>	<u>19,449</u>
<b>Total Net Assets</b>	<u>\$ 542,573</u>	<u>\$ 531,883</u>	<u>\$ 515,736</u>	<u>\$ 514,307</u>	<u>\$ 494,999</u>	<u>\$ 496,007</u>

NOTE: The Net Assets presents information on all the City's assets and liabilities with the difference between the two reported as net assets.

Source: City Audited Financial Statements and City staff.

**Statement of Revenues, Expenses and Changes in Net Assets - Governmental Activities**  
**(Fiscal Years - In Thousands)**

	2007	2008	2009	2010	2011	Unaudited 2012
<b>Revenues:</b>						
Program Revenues:						
Fees, fines and charges for services	\$ 26,942	\$ 21,446	\$ 19,060	\$ 14,405	\$ 20,101	\$ 25,241
Operating grants and contributions	5,851	5,448	4,910	4,869	5,603	6,743
Capital grants and contributions	8,959	6,686	3,903	12,719	7,595	5,863
General Revenues:						
Interest earnings	4,726	3,982	1,888	1,275	708	612
Property taxes	35,245	38,225	45,568	47,541	49,585	52,073
Franchise fees				7,502	8,947	9,120
Other	5,228	5,627	5,554	5,348	6,426	6,715
Total Revenues	<u>86,951</u>	<u>81,414</u>	<u>80,883</u>	<u>93,659</u>	<u>98,965</u>	<u>106,367</u>
<b>Expenses:</b>						
General government	8,171	11,043	12,260	13,094	12,565	16,150
Public safety and judicial	33,946	36,044	38,845	39,209	41,656	43,204
Community services	5,617	6,846	7,401	7,385	7,348	7,809
Culture and recreation	15,223	14,602	15,360	15,721	15,928	17,245
Roads and bridges	22,977	22,624	22,809	20,319	22,438	22,364
Interest on long-term debt	1,117	967	855	713	1,573	1,659
Total Expenses	<u>87,051</u>	<u>92,126</u>	<u>97,530</u>	<u>96,441</u>	<u>101,508</u>	<u>108,431</u>
Increase (decrease) in net assets	(100)	(10,712)	(16,647)	(2,782)	(2,543)	(2,064)
Transfers in (out)	33	22	500	1,353	(16,765)	3,072
Net assets - July 1	<u>542,640</u>	<u>542,573</u>	<u>531,883</u>	<u>515,736</u>	<u>514,307</u>	<u>494,999</u>
<b>Total Net Assets</b>	<b><u>\$ 542,573</u></b>	<b><u>\$ 531,883</u></b>	<b><u>\$ 515,736</u></b>	<b><u>\$ 514,307</u></b>	<b><u>\$ 494,999</u></b>	<b><u>\$ 496,007</u></b>

NOTE: The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the City's net assets changed during a given 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 the related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows in future periods, such as uncollected taxes and earned, but unused, vacation leave.

Source: City Audited Financial Statements and City staff.

A five-year summary of the City's General Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance follows.

**General Fund Balance Sheet**  
(Fiscal Years)

<b>Assets</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Unaudited 2012</b>
Cash and cash equivalents	\$ 8,432,985	\$ 4,681,102	\$ 3,203,016	\$ 5,145,576	\$ 4,585,866	\$ 4,399,083
Collections held by county treasurer	102,841	137,675	183,272	188,819	182,870	196,131
Investments	25,736,922	18,313,048	11,762,056	8,980,689	12,761,394	14,982,405
Receivables, net	1,142,884	1,717,591	2,137,321	2,322,431	2,424,806	3,140,603
Due from other funds	181,072	133,006	0	0	0	0
Other assets	7,485	7,485	7,485	7,485	7,485	0
<b>Total Assets</b>	<u>35,604,189</u>	<u>24,989,907</u>	<u>17,293,150</u>	<u>16,645,000</u>	<u>19,962,421</u>	<u>22,718,222</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 452,737	\$ 887,878	\$ 657,634	\$ 793,042	\$ 568,168	\$ 658,580
Due to other funds	60,497	60,497	60,497	0	0	0
Customer advances	0	0	1,350	1,350	1,350	1,350
Deferred revenue	889,441	1,330,272	1,834,820	1,923,530	2,008,311	2,504,112
<b>Total Liabilities:</b>	<u>1,402,674</u>	<u>2,278,647</u>	<u>2,554,301</u>	<u>2,717,922</u>	<u>2,577,829</u>	<u>3,164,042</u>
Fund Balances:						
Restricted	0	0	0	0	4,101,923	6,029,427
Assigned	0	0	0	0	624,582	179,751
Unassigned	34,201,515	22,711,260	14,738,849	13,927,078	12,658,087	13,345,002
<b>Total Fund Balances</b>	<u>34,201,515</u>	<u>22,711,260</u>	<u>14,738,849</u>	<u>13,927,078</u>	<u>17,384,592</u>	<u>19,554,180</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$ 35,604,189</u>	<u>\$ 24,989,907</u>	<u>\$ 17,293,150</u>	<u>\$ 16,645,000</u>	<u>\$ 19,962,421</u>	<u>\$ 22,718,222</u>

Source: City Audited Financial Statements and City staff.

**General Fund Statement of Revenues, Expenditures and  
Changes in Fund Balance  
(Fiscal Years)**

Revenues	2007	2008 <sup>(1)</sup>	2009 <sup>(1)</sup>	2010	2011	Unaudited 2012
Property and other taxes	\$ 36,880,725	\$ 39,847,323	\$ 46,925,346 <sup>(2)</sup>	\$ 49,028,313	\$ 51,391,136	\$ 53,402,888
Intergovernmental	641,643	727,305	751,959	775,503	766,806	859,770
Franchise fees	7,244,811	6,249,083	6,532,526	7,502,174	8,946,848	9,120,161
Licenses and permits	5,550,109	4,047,732	361,896	479,902	463,859	495,345
Fines, forfeitures and penalties	979,245	996,960	909,563	954,965	1,060,002	949,227
Charges for services	6,181,817	6,145,964	3,637,843	3,455,837	4,488,927	7,333,526
Interest	1,957,083	1,651,392	541,381	340,572	176,825	175,245
Miscellaneous	412,932	494,706	537,908	1,457,163	2,701,048	1,660,496
Grants, donations and other	974,683	602,815	478,420	300,083	474,589	481,617
<b>Total Revenues</b>	<u>60,823,048</u>	<u>60,763,280</u>	<u>60,676,842</u>	<u>64,294,512</u>	<u>70,470,040</u>	<u>74,478,275</u>
<b>Expenditures</b>						
Current						
General government	5,801,262	5,586,760	4,375,281	5,032,621	5,653,475	5,999,424
Public safety and judicial	32,536,351	34,954,546	37,132,737	37,707,753	40,001,734	41,762,859
Community services	5,558,021	6,415,722	6,889,148	6,907,614	6,841,005	7,313,460
Culture and recreation	9,807,914	11,192,150	12,397,595	12,002,755	13,045,854	14,514,117
Capital outlay	4,920,699	5,327,887	2,443,431	1,140,902	1,145,292	453,338
Roads and bridges	780,801	828,588	856,094	857,393	924,234	957,589
<b>Total Expenditures</b>	<u>59,405,048</u>	<u>64,305,653</u>	<u>64,094,286</u>	<u>63,649,038</u>	<u>67,611,594</u>	<u>71,000,787</u>
Excess (deficiency) of revenues over expenditures	<u>1,418,000</u>	<u>(3,542,373)</u>	<u>(3,417,444)</u>	<u>645,474</u>	<u>2,858,446</u>	<u>3,477,488</u>
<b>Other Financing Sources (Uses)</b>						
Proceeds from sale of capital assets	0	0	0	0	91,565	17,700
Transfers in	432,500	482,000	1,712,419	1,775,755	1,204,503	1,605,000
Transfers out	(176,178)	(8,429,882)	(6,267,386)	(3,233,000)	(697,000)	(2,930,600)
<b>Total Other Financing Sources (Uses)</b>	<u>256,322</u>	<u>(7,947,882)</u>	<u>(4,554,967)</u>	<u>(1,457,245)</u>	<u>599,068</u>	<u>(1,307,900)</u>
<b>Net Change in Fund Balances</b>	<u>1,674,322</u>	<u>(11,490,255)</u>	<u>(7,972,411)</u>	<u>(811,771)</u>	<u>3,457,514</u>	<u>2,169,588</u>
Fund balance at beginning of year	<u>32,527,193</u>	<u>34,201,515</u>	<u>22,711,260</u>	<u>14,738,849</u>	<u>13,927,078</u>	<u>17,384,592</u>
<b>Ending fund balance</b>	<u>\$ 34,201,515</u>	<u>\$ 22,711,260</u>	<u>\$ 14,738,849</u>	<u>\$ 13,927,078</u>	<u>\$ 17,384,592</u>	<u>\$ 19,554,180</u>

- (1) Declines in ending fund balance were predominately due to parks system operations and a reclassification of funds. The City made a one-time \$8 million transfer out to the Parks Capital Projects Fund in Fiscal Year 2008 and experienced a significant decrease in Parks System Development Charges (reflected in charges for services) in Fiscal Year 2009. The Building Fund was reclassified as a Special Revenue Fund in April of 2008 which resulted in a reduction in licenses and permit revenues and a \$4.5 million transfer of reserves to the Building Fund in Fiscal Year 2009.
- (2) Reflects an increase in the local option levy from \$1.10 to \$1.72.

Source: City Audited Financial Statements and City staff.

### Budgetary Process

The City prepares an annual budget in accordance with Oregon Local Budget Law (ORS Chapter 294) which establishes standard procedures for all budget functions for Oregon local governments. Under the applicable provisions, there must be public participation in the budget process and the adopted budget must be balanced.

The City's administrative staff evaluates the budget requests of the various departments of the City to determine the funding levels of the operating programs. The budget is presented to the public through public hearings held by a budget committee consisting of City Council members and lay members. After giving due consideration to the input received from the citizens, the City Council adopts the budget, authorizes the levying of taxes and sets appropriations. The budget must be adopted no later than June 30 of each Fiscal Year. The budget may be amended during the applicable Fiscal Year through the adoption of a supplemental budget. Supplemental budgets may be adopted by the City Council pursuant to ORS 294.480.

**General Fund Adopted Budget**  
(Fiscal Years)

Resources	2012	2013 <sup>(1)</sup>
Beginning Working Capital	\$ 11,837,661	\$ 13,922,030
Taxes	52,014,455	54,400,740
Licenses and Permits	480,300	565,300
Fines and Forfeiture	1,090,000	1,006,000
Charges for Services	2,931,000	3,287,600
Interest	175,000	175,000
Franchise Fees	9,500,000	10,475,000
Grants and Donations	1,253,793	694,965
Intergovernmental	2,087,000	2,180,000
Other Financing Src	1,476,000	1,035,000
Miscellaneous	817,193	813,500
<b>Total Resources</b>	<b><u>\$ 83,662,402</u></b>	<b><u>\$ 88,555,135</u></b>
<b>Expenditures</b>		
Personal Services	\$ 50,553,796	\$ 51,470,166
Materials and Services	9,373,933	8,809,352
Capital Outlay	417,794	274,030
Special Payments	14,744,650	15,257,648
Transfers	1,120,600	2,559,750
Contingency	3,500,000	3,500,000
Unapprop Fund Bal	3,951,629	6,684,189
<b>Total Expenditures</b>	<b><u>\$ 83,662,402</u></b>	<b><u>\$ 88,555,135</u></b>

(1) The City had projected four percent growth in assessed value when preparing the Fiscal Year 2013 budget. Actual assessed value growth for Fiscal Year 2013 was 0.3% and the City estimates property tax collections will be approximately \$1.5 million lower than budgeted. City staff is currently considering a combination of adjusting expenditures and drawing down reserves to reduce the shortfall for Fiscal Year 2013.

Source: City Adopted Fiscal Year 2013 Budget.

**Investments**

ORS 294.035 authorizes Oregon municipalities to invest in obligations, ranging from U.S. Treasury obligations and Agency securities to municipal obligations, bankers' acceptances, commercial paper, certificates of deposit, corporate debt and guaranteed investment contracts, all subject to certain size and maturity limitations. No municipality may have investments with maturities in excess of 18 months without adopting a written investment policy which has been reviewed and approved by the Oregon Short Term Fund City Council. ORS 294.052 authorizes Oregon municipalities to invest proceeds of bonds or certificates of participation and amounts held in a fund or account for such bonds or certificates of participation under investment agreements if the agreements: (i) produce a guaranteed rate of return; (ii) are fully collateralized by direct obligations of, or obligations guaranteed by, the United States; and (iii) require that the collateral be held by the municipality, an agent of the municipality or a third-party safekeeping agent.

Municipalities are also authorized to invest approximately \$44.9 million (adjusted for inflation) in the Local Government Investment Pool of the Oregon Short-Term Fund, which is managed by the State Treasurer's office. Such investments are managed in accordance with the "prudent person rule" (ORS 293.726) and administrative regulations of the State Treasurer which may change from time to time. Eligible investments presently include all of those listed above, as well as repurchase agreements and reverse repurchase agreements. A listing of investments held by the Oregon Short-Term Fund is available on the Oregon State Treasury website under "Other OSTF Reports - OSTF Detailed Monthly Reports" at [www.ost.state.or.us/about/boards/OSTF/About.htm](http://www.ost.state.or.us/about/boards/OSTF/About.htm).



## Pension System

*General.* The City participates in a retirement pension benefit program under the State of Oregon Public Employees Retirement System (“PERS” or the “System”). After six full months of employment, all City employees are required to participate in PERS.

*T1/T2 Pension Programs.* Employees hired before August 29, 2003 participate in the “Tier 1” and “Tier 2” pension programs (the “T1/T2 Pension Programs”). The benefits provided through the T1/T2 Pension Programs are based primarily on a defined benefit model and provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Different benefit structures apply to participants depending on their date of hire. Effective January 1, 2004, T1/T2 Pension Program participant contributions fund individual retirement accounts under the separate defined contribution program described below. Participant contributions may be paid by the employee or the employer, depending on the individual contract negotiated between the two. See “Employer Contribution Rates” herein.

*OPSRP.* Employees hired on or after August 29, 2003 participate in the Oregon Public Service Retirement Plan (“OPSRP”) unless membership was previously established in the T1/T2 Pension Programs. OPSRP is a hybrid defined contribution/defined benefit pension plan with two components. Employer contributions fund the defined benefit program and employee contributions fund individual retirement accounts under the separate defined contribution program.

*Actuarial Valuation.* Oregon statutes require an actuarial valuation of the System at least once every two years. Based on the biennial actuarial valuation as of December 31 of odd-numbered years the Public Employees Retirement Board (“PERB”) establishes the contribution rates that employers will pay to fund the T1/T2 Pension Programs, OPSRP and the PERS-sponsored Retirement Health Insurance Account program (“RHIA”) described herein. Actuarial valuations are performed annually as of December 31 of each year, with the valuations as of December 31 of even-numbered years (such as 2010) used for advisory purposes only and valuations as of December 31 of odd-number years (such as 2009) used to set payroll contribution rates. Actuarial valuations are performed for the entire System (the “System Valuation”), and for each participating employer, including the City (the “City Valuation”). Valuations are released nine to eleven months after the valuation date. PERS’ current actuary is Milliman, Inc. (“Milliman”) which replaced the prior actuary, Mercer (US), Inc. in January 2012.

Valuation Date	Release Date	Rates Effective
December 31, 2009	October 2010	July 1, 2011 – June 30, 2013
December 31, 2010	November 2011	Advisory only
December 31, 2011	October 2012	July 1, 2013 – June 30, 2015

The System Valuation indicated that the System-wide funded status decreased from approximately 87 percent at December 31, 2010 to 82 percent at December 31, 2011 due to lower than assumed investment returns, taking into account offsets for deposits made by individual employers from bond proceeds or cash on hand into Side Accounts (see “Pension Bonds and Side Accounts” herein).

*Employer Assets, Liabilities, and Unfunded Actuarial Liabilities.* An employer’s unfunded actuarial liability (“UAL”) is the excess of the actuarially determined present value of the employer’s benefit obligations to employees over the existing actuarially determined assets available to pay those benefits.

*City UAL.* The City’s T1/T2 Pension Programs assets and liabilities are based on an actuarial analysis performed on the City’s employee base.

OPSRP’s assets and liabilities are pooled on a program-wide basis. These assets and liabilities are not tracked or calculated on an employer basis. The City’s allocated share of OPSRP’s assets and liabilities is based on the City’s proportionate share of OPSRP’s pooled payroll (the “City Allocated OPSRP UAL”). Changes in the City’s relative growth in payroll will cause the City Allocated OPSRP UAL to shift.

The City's net unfunded pension UAL is the total of the City T1/T2 UAL, City Allocated OPSRP UAL. The City's net unfunded pension UAL as of the 2009 Valuation and 2011 Valuation is shown in the following table.

**City of Hillsboro Net Unfunded Pension UAL**

	2009 Valuation	2011 Valuation
T1/T2 UAL	\$ 22,830,137	\$ 32,133,939
Allocated pooled OPSRP UAL	470,554	845,712
City Side Account	<u>0</u>	<u>0</u>
Net unfunded pension actuarial accrued liability	<u>\$ 23,300,691</u>	<u>\$ 32,979,651</u>

Source: 2009 City Valuation and 2011 City Valuation.

The funded status of PERS and of the City as reported by Milliman, will change over time depending on a variety of factors, including the market performance of the securities in which the OPERF is invested, future changes in compensation and benefits of covered employees, demographic characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS.

Significant actuarial assumptions and methods used in the valuations included: (a) Projected Unit Credit actuarial cost method, (b) asset valuation method based on market value, (c) rate of return on the investment of present and future assets of 8%, (d) payroll growth rate of 3.75%, (e) consumer price inflation of 2.75% per year, and (f) UAL amortization method of a level percentage of payroll over 21 years (fixed) for the T1/T2 Pension Programs and 16 years (fixed) for OPSRP.

*Employer Contribution Rates.* Employer contribution rates are calculated as a percent of covered payroll. The rates are based on the current and projected cost of benefits and the anticipated level of funding available from the OPERF, including anticipated investment performance of the fund. Contribution rates are subject to future adjustment based on factors such as the result of subsequent actuarial valuations, litigation, decisions by the PERS Board and changes in benefits resulting from legislative modifications. Pursuant to ORS 238.225 all employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board. Employees are required to contribute 6 percent of their annual salary to the respective programs. Employers are allowed to pay the employees' contribution in addition to the required employers' contribution. The City has not elected to make the employee contribution but the City does provide a 6 percent salary increase when an employee becomes PERS eligible.

*Contribution Rate Collar.* In January 2010 the PERS Board adopted a revised implementation of the rate collar limiting increases in employer contribution rates from biennium to biennium (the "Rate Collar"). Under normal conditions, the Rate Collar is the greater of three percent of payroll or 20 percent of the current base rate. If the funded status of independent employers is below 80 percent, the Rate Collar increases by 0.3 percent for every percentage point under the 80 percent funded level until it reaches six percent at the 70 percent funded level (if under the three percent parameter), or by two percent for every percentage point under the 80 percent funded level (if under the 20 percent of current base rate parameter). The 2011 City Valuation found that the City was 80 percent funded, resulting in a rate collar of three percent. The Rate Collar limits increases in employer contribution rates before rate reductions from side accounts are deducted, and does not cover charges associated with RHIA and RHIPA.

*City Contribution Rates.* The City's current contribution rates are based on the 2009 Valuation. The following table shows the City's contribution rates effective July 1, 2011 to June 30, 2013 (2009 Valuation) and the rates effective July 1, 2013 through June 30, 2015 (2011 Valuation).

### City of Hillsboro Pension Contribution Rates

	<u>2009 Valuation</u>			<u>2011 Valuation</u>		
	T1/T2	OPSRP General	OPSRP P&F	T1/T2	OPSRP General	OPSRP P&F
Normal cost rate	10.30%	6.13%	8.84%	10.96%	6.27%	9.00%
T1/T2 UAL rate	1.57	1.57	1.57	3.91	3.91	3.91
OPSRP UAL rate	0.08	0.08	0.08	0.15	0.15	0.15
Side account rate relief	0.00	0.00	0.00	0.00	0.00	0.00
Retiree Healthcare rate (RHIA) <sup>(1)</sup>	0.59	0.50	0.50	0.59	0.49	0.49
<b>Total net contribution rate</b>	<b><u>12.54%</u></b>	<b><u>8.28%</u></b>	<b><u>10.99%</u></b>	<b><u>15.61%</u></b>	<b><u>10.82%</u></b>	<b><u>13.55%</u></b>

(1) Contribution rates to fund RHIA benefits are included in the total City employer contribution rate, but are not a pension cost. See "Other Postemployment Benefits - Retirement Health Insurance Account" below.

Source: 2009 City Valuation and 2011 City Valuation.

#### Other Postemployment Benefits

*Retirement Health Insurance Account.* PERS retirees who receive benefits through the Tier 1 and Tier 2 plans and are enrolled in certain PERS administered health insurance programs, may receive a subsidy towards the payment of health insurance premiums. Under ORS 238.420, retirees may receive a subsidy for Medicare supplemental health insurance of up to \$60 per month towards the cost of their health insurance premium under the RHIA plan. The RHIA program's assets and liabilities are pooled on a system-wide basis and are not tracked or calculated on an employer basis. According to the 2011 System Valuation, this program had a UAL of approximately \$221.5 million. The City's allocated share of the RHIA program's assets and liabilities is based on the City's proportionate share of the program's pooled payroll. According to the 2011 City Valuation, the City's allocated share of the RHIA program's UAL was \$1,284,029.

*GASB 45.* GASB 45 requires the City to determine the extent of its liabilities for post employment benefits and record the liability in its financial statements on an actuarial basis. The City implemented this pronouncement for the fiscal year ended June 30, 2009. Under ORS 243.303 the City is required to offer the same healthcare benefits for current City employees to all retirees and their dependents until such time as the retirees are eligible for Medicare. GASB 45 refers to this as an "implicit subsidy" and requires that the corresponding liability be determined and reported. The City also has an explicit subsidy where the employer pays benefits on behalf of the retiree; this benefit program is described below. The actuarial valuation considers both the implicit and explicit subsidy for purposes of determining the annual required contribution (the "ARC").

Pursuant to a union agreement, the City established a post-employment employee benefit program covering all eligible employees retiring from a position in the bargaining unit. The program is designed to assist retiring employees to continue their medical insurance coverage through the City until the employee reaches the age of eligibility for Medicare coverage, usually age 65. In order to participate in the program, the retiring employee must be eligible for retirement benefits under PERS, which requires attaining age 50 and completing at least 25 years of service. Under the contract in place during the actuarial evaluation period, the City pays between \$75 and \$100 for single coverage, \$150 and \$175 for two-party coverage and \$175 and \$200 for family coverage. For the year ended June 30, 2012, 17 retirees met the above eligibility requirements and received approximately \$33,000 in postretirement health care.

The City's annual other post employment benefit cost is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 years with an assumed four percent rate of return. The following tables detail the City's ARC and Net OPEB Obligation.

### Annual Required Contribution

	2011	2012
Annual required contribution	\$ 1,590,141	\$ 1,658,526
Interest on prior net OPEB obligation	96,681	128,689
Adjustment to annual required contribution	<u>(151,654)</u>	<u>(218,640)</u>
Annual OPEB cost	1,535,168	1,568,575
Expected benefit payments	(29,972)	(24,239)
Implicit benefit payments	<u>(436,436)</u>	<u>(505,837)</u>
Increase in net obligation	1,068,760	1,038,499
Net OPEB obligation - beginning of Fiscal Year	<u>2,148,475</u>	<u>3,217,235</u>
Net OPEB obligation - end of Fiscal Year <sup>(1)</sup>	\$ 3,217,235	\$ 4,255,734

(1) The City's obligation is \$3,123,060 in Fiscal Year 2011 and \$4,109,501 in Fiscal Year 2012 with the remainder allocated to the City's joint ventures with the Joint Water Commission and Barney Reservoir Joint Ownership Commission.

Source: Milliman GASB 45 Valuation of Postemployment Benefits as of August 1, 2010.

### Cumulative Net OPEB Obligation

Fiscal Year	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Cumulative Net OPEB Obligation
2012	\$ 1,568,575	34%	\$ 4,255,734
2011	1,535,168	30%	3,217,235
2010	1,461,641	26%	2,148,475
2009	1,405,145	24%	1,073,358

Source: Milliman GASB 45 Valuation of Postemployment Benefits as of August 1, 2010.

The City obtains an updated actuarial valuation of the plan every two years. The actuarial valuation as of August 1, 2012 is not yet available. The following table presents the UAAL from the two actuarial valuations completed since the adoption of GASB 45.

### Unfunded Actuarial Accrued Liability

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
8/1/2010	\$ -	\$ 11,050,000	\$ 11,050,000	0%	\$ 48,620,000	23%
8/1/2008	-	9,454,000	9,454,000	0%	N/A	N/A

Source: City Audited Financial Statements.

See Note 11 "Other Post Employment Benefits" of the City's audited financial statements for Fiscal Year 2011 for more information on the City's liability under GASB 45.

### Risk Management

The City is exposed to various risks of loss. A description of the risks is provided in the City's audited financial statements. The audited financial statement for Fiscal Year 2011 is attached hereto as Appendix B.

## Demographic Information

### General

The City is located in northwestern Oregon, approximately 17 miles southwest of Portland, in Washington County (the “County”). The City is part of the Portland - Vancouver-Hillsboro Primary Metropolitan Statistical Area (the “Portland PMSA”) which is the 24<sup>th</sup> largest U.S. metro area.



Historical data has been collected from generally accepted standard sources, usually from public bodies. This section bases information on the Portland PMSA, the County and the City.

### Population

The following table shows the historical population for the State, the County and the City:

#### Population

	State of Oregon	Washington County	City of Hillsboro
<b>July 1<sup>(1)</sup></b>			
2011	3,857,625	536,370	92,350
2010	3,837,300	531,070	91,970
2009	3,823,465	527,140	90,380
2008	3,791,075	519,925	89,285
2007	3,745,455	511,075	88,300
2006	3,690,505	500,585	84,445
2005	3,631,440	489,785	82,025
2004	3,582,600	480,200	79,940
2003	3,541,500	472,600	79,340
<b>April 1<sup>(2)</sup></b>			
2010	3,831,074	529,710	91,611
2000	3,421,399	445,342	70,186
1990	2,842,321	311,554	37,598

(1) Source: Center for Population Research and Census, Portland State University.

(2) Source: U.S. Census Count on April 1.

### Economic Overview

The County’s primary economic base is agriculture and technology manufacturing. Major employers include Intel Corporation, Wells Fargo, Epson, and SolarWorld. Major agricultural commodities produced in the region include nursery crops, greenhouse crops, blueberries, tall fescue, wheat and wine grapes.

The number of acres harvested and gross farm sales in the County are as follows:

**Washington County  
Harvested Acreage and Gross Farm Sales**

Year	Harvested Acreage	Gross Farm Sales (\$ in thousands)		
		Crop Sales	Animal Products Sales	Total Gross Farm Sales
2011	84,817	\$ 265,249	\$ 19,529	\$ 284,778
2010	83,733	212,009	16,830	228,839
2009	82,924	224,697	14,248	238,945
2008	90,403	282,407	19,650	302,057
2007	79,614	330,470	20,837	351,307

**Top Commodities in  
Washington County (2011)**

Rank	Commodity	Sales
1	Nursery Crops	\$ 110,623,000
2	Greenhouse Crops	29,131,000
3	Blueberries	18,450,000
4	Wheat	14,626,563
5	Tall Fescue	13,246,272

Source: Oregon State University Extension Service's Oregon Agriculture Information Network, Harvested Acreage Summary Report, Gross Farm Sales Reports, Commodity Report.

*Income.* Historical personal income and per capita income levels for the County and the State are shown below:

**Washington County and State of Oregon  
Total Personal and Per Capita Income**

Year	Washington County				State of Oregon			
	Personal Income (\$000 Omitted)	Dividends, Interest, Rent (\$000 Omitted)	Per Capita Income	Per Capita Dividends, Interest, Rent	Personal Income (\$000 Omitted)	Dividends, Interest, Rent (\$000 Omitted)	Per Capita Income	Per Capita Dividends, Interest, Rent
2011	N/A	N/A	N/A	N/A	\$ 146,778,178	\$ 27,671,779	\$ 37,909	\$ 7,147
2010	\$ 21,586,715	\$ 3,460,143	\$ 40,606	\$ 6,509	139,395,112	26,031,153	36,317	6,782
2009	20,787,356	3,327,509	39,618	6,342	138,453,340	28,181,017	36,191	7,366
2008	21,624,353	3,992,477	41,923	7,740	139,306,268	29,341,456	36,824	7,756
2007	20,598,236	3,602,531	40,481	7,080	133,821,268	27,217,289	35,849	7,291
2006	19,358,528	3,281,688	38,545	6,534	127,403,090	25,405,934	34,644	6,908

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment. Non-farm employment within the County is described in the following tables:

**Washington County  
Labor Force Summary <sup>(1)</sup>  
(by place of residence)**

	2007	2008	2009	2010	2011	2012 <sup>(2)</sup>	<u>2011 Change from</u>			
							2007	2008	2009	2010
Civilian Labor Force	284,401	290,281	288,884	289,061	295,931	295,287	11,530	5,650	7,047	6,870
Unemployment	12,220	14,920	26,884	25,617	22,865	21,233	10,645	7,945	-4,019	-2,752
Percent of Labor Force	4.3%	5.1%	9.3%	8.9%	7.7%	7.2%	xx	xx	xx	xx
Total Employment	272,181	275,361	262,000	263,444	273,066	274,054	885	-2,295	11,066	9,622

**Non-Agricultural Wage & Salary Employment <sup>(2)</sup>**

	2007	2008	2009	2010	2011	2012 <sup>(2)</sup>	<u>2011 Change from</u>			
							2007	2008	2009	2010
TOTAL NONFARM PAYROLL EMPLOYMENT	251,700	249,200	232,600	228,200	238,600	247,700	-13,100	-10,600	6,000	10,400
TOTAL PRIVATE	229,900	226,500	209,500	205,100	216,200	227,500	-13,700	-10,300	6,700	11,100
Natural resources and mining	400	400	400	400	300	400	-100	-100	-100	-100
Construction	15,600	14,600	11,400	10,100	11,300	12,600	-4,300	-3,300	-100	1,200
Manufacturing	47,600	44,800	40,800	39,900	42,300	44,800	-5,300	-2,500	1,500	2,400
Trade, transportation, and utilities	51,400	50,800	47,300	46,400	47,100	49,300	-4,300	-3,700	-200	700
Information	8,000	8,000	7,900	7,600	7,800	7,800	-200	-200	-100	200
Financial activities	17,200	16,400	15,300	14,800	15,300	15,400	-1,900	-1,100	0	500
Professional and business services	35,100	35,400	32,000	32,300	35,500	39,100	400	100	3,500	3,200
Educational and health services	26,600	27,600	27,900	27,800	29,800	29,700	3,200	2,200	1,900	2,000
Leisure and hospitality	20,300	21,100	19,400	18,900	19,900	21,200	-400	-1,200	500	1,000
Other services	7,600	7,500	7,100	6,900	7,000	7,200	-600	-500	-100	100
GOVERNMENT	21,800	22,700	23,100	23,000	22,400	20,200	600	-300	-700	-600

- (1) Civilian labor force includes employed and unemployed individuals 16 years and older by place of residence. Employed includes nonfarm payroll employment, self-employed, unpaid family workers, domestics, agriculture and labor disputants. Data are adjusted for multiple job-holding and commuting.
- (2) Data as of August 2012, preliminary and subject to change.
- (3) Nonfarm payroll data are based on the 1987 Standard Industrial Classification manual. The data are by place of work. Persons working multiple jobs are counted more than once. The data excludes the self-employed, volunteers, unpaid family workers, and domestics.

Source: State of Oregon Employment Department.

**Major Employers in the City  
(2012)**

<b>Company</b>	<b>Service</b>	<b>No. Employees</b>
Intel <sup>(1)</sup>	Research development/electrical equipment	16,250
Hillsboro School District	Education	1,903
Washington County	Government	1,800
Wells Fargo	Customer service center	1,275
SolarWorld	Solar ingot, wafers, cells & modules	1,000
TriQuint Semiconductor Inc.	Semiconductors & related devices	970
City of Hillsboro	Government	664
Epson Portland	Manufactures ink cartridges	516
FEI Company	Scanning & transmission electron microscopes	509
Maxim Integrated Products	Semiconductor design	431
Yahoo!	Customer service center	400
Oracle America, Inc.	Produces computer electronics & support systems	391
Acumed LLC	Orthopedic Implant Manufacturers	386
Oregon National Primate Research Center	Research emphasis on primate colonies	380
Applied Materials	Semiconductors & related devices	370
Genentech	Develops, manufactures & commercializes medicines	342
Affiliated Computer Services (ACS)	Software & technical services	332
Jireh Semiconductor	Manufactures semiconductor devices	330
Synopsys	Electronic design automation software and services	300
Tokyo Electron America	Services semiconductor production equipment	295
RadiSys Corporation	Provides advanced embedded technology solutions	281
Standard Insurance	Customer service center	266
Lattice Semiconductor Corporation	Semiconductors & related devices	264
Farmers Insurance	Insurance carrier, customer service center	252
Fiserv	Software systems for the financial services industry	250

(1) Intel is currently building a new multi-billion dollar research facility, D1X, on the Ronler Acres campus. Construction began in February 2011 and the first phase of the factory is slated to open in 2013. A second phase was announced on October 24, 2012 which will essentially double the size of the initial project and is slated to open in 2015. The company estimates that approximately 8,000 people will be employed in construction of the facility and once complete, D1X is projected to employ an additional 800-1,000 people.

Source: City of Hillsboro, Department of Economic Development and local government agencies.

**Building Permits.** Residential building permits are an indicator of growth within a region. The number and valuation of new single-family and multi-family residential building permits in the City are listed below:

**City of Hillsboro  
Residential Building Permits**

<b>Year</b>	<b>New Single Family</b>		<b>New Multi Family</b>			<b>Total Construction Cost</b>
	<b>Number</b>	<b>Construction Cost</b>	<b>Number</b>	<b>Units</b>	<b>Construction Cost</b>	
2012 <sup>(1)</sup>	127	\$ 28,760,483	20	163	\$ 20,304,274	\$ 49,064,757
2011	126	28,307,937	19	419	47,176,925	75,484,862
2010	141	32,334,795	12	91	10,041,070	42,375,865
2009	132	28,472,368	8	48	5,557,134	34,029,502
2008	186	37,943,668	13	306	28,614,340	66,558,008
2007	538	103,205,457	36	249	27,823,541	131,028,998

(1) As of September 1, 2012.

Source: U.S. Census Bureau.



*Higher Education.* Institutions of higher education in the City and surrounding area include Portland Community College – Rock Creek Campus, and Pacific University. City residents also maintain access to educational resources throughout the PMSA.

*Healthcare.* Healthcare services are available through Tuality Healthcare facilities located throughout the City. Tuality offers a range of services including health education, birthing care, physical rehabilitation, mental health, cancer treatment, diagnostic imaging, laboratory, out-patient, home health, nutrition, and addiction counseling.

*Transportation:* The City is located off of Highway 26. Community air transportation is available at the Hillsboro Airport, operated by the Port of Portland. Commercial air transportation is available at Portland International Airport (“PDX”). PDX is served by 18 scheduled passenger air carriers and three charter services. Thirteen cargo carriers service PDX.

BNSF Railway Company (Burlington Northern Santa Fe) and Union Pacific railroads provide rail freight service to the area and Amtrak provides rail passenger service. Interstate bus transportation is available through Greyhound and local bus service is provided by the Tri-County Metropolitan Transportation District (Tri-Met).

## **The Initiative Process**

Article IV, Section 1 of the Oregon Constitution reserves to the people of the State the initiative power to amend the State Constitution or to enact legislation by placing measures on the statewide general election ballot for consideration by the voters. Oregon law therefore permits any registered Oregon voter to file a proposed initiative with the Oregon Secretary of State’s office without payment of fees or other burdensome requirements. Consequently, a large number of initiative measures are submitted to the Oregon Secretary of State’s office, and a much smaller number of petitions obtain sufficient signatures to be placed on the ballot.

Because many proposed statewide initiative measures are submitted to the Oregon Secretary of State’s office that do not qualify for the ballot, the City does not formally or systematically monitor the impact of those measures or estimate their financial effect prior to the time the measures qualify for the ballot. The City also does not formally or systematically monitor efforts to qualify measures for the ballot that would initiate new provisions for, or amend, the City’s charter and ordinances. Consequently, the City does not ordinarily disclose information about proposed initiative measures that have not qualified for the ballot.

Pursuant to ORS 250.125, a five-member Committee composed of the Secretary of State, the State Treasurer, the Director of the Department of Revenue, the Director of the Department of Administrative Services, and a local government representative must prepare an estimate of the direct financial impact of each measure (“Financial Estimate Statements”) to be printed in the voters’ pamphlet and on the ballot.

### **Initiative Process**

To place a proposed statewide initiative on a general election ballot, the proponents must submit to the Secretary of State initiative petitions signed by the number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2012 general election, the requirement is eight percent (116,284 signatures) for a constitutional amendment measure and six percent (87,213 signatures) for a statutory initiative. The last day for submitting signed initiative petitions for the 2012 general election was July 6, 2012. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote. Statewide initiatives may only be filed for general elections in even-numbered years. The next general election for which statewide initiative petitions may be filed will be in November 2014.

A statewide initiative petition must be submitted to the Secretary of State not less than four months prior to the general election at which the proposed measure is to be voted upon. As a practical matter, proponents of an initiative have approximately two years in which to gather the necessary number of signatures. State law permits persons circulating initiative petitions to pay money to persons obtaining signatures for the petition. Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure’s financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact.

*Historical Initiative Petitions.* Historically, a larger number of initiative measures have qualified for the ballot than have been approved by the electors. According to the Elections Division of the Secretary of State, the total number of initiative petitions that qualified for the ballot and the numbers that passed in recent general elections are as follows:

**Historical Initiative Petitions**

Number of Year of General Election	Number of Initiatives that Qualified	Initiatives that were Approved
2004	6	2
2006	10	3
2008	8	0
2010	4	2
2012	7	2

NOTE: The Secretary of State posts a listing of initiatives on its web site: [www.sos.state.or.us](http://www.sos.state.or.us).

Source: *Elections Division, Oregon Secretary of State, Initiative, Referendum and Referral Log, Elections Division.*

*Recent Initiative Petitions.* Two initiative measures were approved at the November 6, 2012 election (Measure 79 and Measure 85). These measures may have a fiscal impact on the State’s General Fund which could have an impact on the City. The City cannot estimate at this time what such impact would be, if any.

Measure 79 amends the Constitution, prohibiting real estate transfer taxes, fees, other assessments, except those operative on December 31, 2009. The measure prohibits the State from imposing taxes, fees, or assessments on the transfer of any interest in real property. Local governments are already prohibited from imposing fees of this type. The City does not collect a real estate transfer tax so the measure is not expected to have a material, financial effect on the City.

Measure 85 amends the Constitution, allocating corporate income/excise tax “kicker” refund to additionally fund K through 12 public education. The financial impact of this measure is indeterminate because it is affected by unknown future events. The “corporate kicker” would be retained in the General Fund instead of being returned to corporate income and excise taxpayers. The Legislature has full discretion over how it allocates General Fund moneys, including the total amount allocated to K through 12 public education. Measure 85 is not likely to have a material, adverse effect on the City.

**City Charter**

In addition to statutory and constitutional changes by the Legislative Assembly and the initiative and referendum process, the independent basis of legislative authority has been granted to cities in Oregon by municipal charters. A copy of the City Charter is available upon request from the City.

**Legal Matters and Litigation**

**Legal Matters**

Legal matters incident to the authorization, issuance and sale of Bonds are subject to the approving legal opinion of Bond Counsel, substantially in the form attached hereto as Appendix A. Bond Counsel has

reviewed this document only to confirm that the portions of it describing the Bonds and the authority to issue them conform to the Bonds and the applicable laws under which they are issued.

## **Litigation**

There is no litigation pending questioning the validity of the Bonds nor the power and authority of the City to issue the Bonds. There is no litigation pending which would materially affect the finances of the City or affect the City's ability to meet debt service requirements on the Bonds.

## **Tax Matters**

### **Opinion of Bond Counsel**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City ("Bond Counsel"), interest on the Bonds (i) is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code") and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of Oregon.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Bonds by original purchasers of the Bonds who are "U.S. Holders", as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Bonds will be held as "capital assets"; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Bonds as a position in a "hedge" or "straddle", holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

### **Original Issue Discount**

In general, if Original Issue Discount ("OID") is greater than a statutorily defined *de minimis* amount, a holder of a Bond having a maturity of more than one year from its date of issue must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder's method of accounting. "OID" is the excess of (i) the "stated redemption price at maturity" over (ii) the "issue price". For purposes of the foregoing: "issue price" means the first price at which a substantial amount of the Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); "stated redemption price at maturity" means the sum of all payments, other than "qualified stated interest", provided by such Bond; "qualified stated interest" is stated interest that is unconditionally payable in cash or property (other than debt instruments of the City) at least annually at a single fixed rate; and "*de minimis* amount" is an amount equal to 0.25 percent of the Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Bond using the constant-yield method, subject to certain modifications.

### **Acquisition Discount on Short-Term Taxable Bonds**

Each holder of a Bond with a maturity not longer than one year (a "Short-Term Taxable Bond") is subject to rules of Sections 1281 through 1283 of the Code, if such holder is an accrual method taxpayer, bank, regulated investment company, common trust fund or among certain types of pass-through entities, or if the Short-Term

Taxable Bond is held primarily for sale to customers, is identified under Section 1256(e)(2) of the Code as part of a hedging transaction, or is a stripped bond or coupon held by the person responsible for the underlying stripping transaction. In any such instance, interest on, and “acquisition discount” with respect to, the Short-Term Taxable Bond accrue on a ratable (straight-line) basis, subject to an election to accrue such interest and acquisition discount on a constant interest rate basis using daily compounding. “Acquisition discount” means the excess of the stated redemption price of a Short-Term Taxable Bond at maturity over the holder’s tax basis therefor.

A holder of a Short-Term Taxable Bond not described in the preceding paragraph, including a cash-method taxpayer, must report interest income in accordance with the holder’s regular method of tax accounting, unless such holder irrevocably elects to accrue acquisition discount currently.

### **Bond Premium**

In general, if a Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder's original acquisition cost.

### **Disposition and Defeasance**

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Bond.

The City may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Bonds to be deemed to be no longer outstanding under the Bond Declaration (a “defeasance”). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Bonds subsequent to any such defeasance could also be affected.

### **Information Reporting and Backup Withholding**

In general, information reporting requirements will apply to non-corporate holders of the Bonds with respect to payments of principal, payments of interest, and the accrual of OID on a Bond and the proceeds of the sale of a Bond before maturity within the United States. Backup withholding may apply to holders of Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

### **U.S. Holders**

The term “U.S. Holder” means a beneficial owner of a Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or

of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

### **IRS Circular 230 Disclosure**

The advice under the caption, "TAX MATTERS", concerning certain income tax consequences of the acquisition, ownership and disposition of the Bonds, was written to support the marketing of the Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each prospective purchaser of the Bonds is advised that (i) any Federal tax advice contained in this official statement (including any attachments) or in writings furnished by Bond Counsel to the City is not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Code, and (ii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

### **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest of the Bonds under state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## **Continuing Disclosure**

The Securities and Exchange Commission Rule 15c2-12 (the "Rule") requires at least annual disclosure of current financial information and timely disclosure of certain events with respect to the Bonds. Pursuant to the Rule, the City has agreed to provide audited financial information and certain financial information or operating data at least annually, and timely notice of certain events (collectively, "Continuing Disclosure") to the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access system (so long as such method of disclosure continues to be approved by the Securities and Exchange Commission for such purposes).

*Prior Undertakings.* The City has entered into prior undertakings to provide Continuing Disclosure filings for its Full Faith and Credit Bonds, Series 2004, Full Faith and Credit Obligations, Series 2010, and Water Revenue Bonds, Series 2003. All of the City's undertakings require its annual Continuing Disclosure filing within nine months of the end of the Fiscal Year (March 31). Prior to July 1, 2009, Continuing Disclosure filings were required to be made with four nationally recognized municipal securities information repositories ("NRMSIRs"). Beginning July 1, 2009, Continuing Disclosure is required to be filed with the MSRB's Electronic Municipal Market Access system.

*Compliance with Prior Undertakings – Full Faith and Credit Bonds, Series 2004.* The City failed to make its Fiscal Year 2008 and 2009 filings prior to the deadline. The City subsequently filed its Fiscal Year 2008 financial statements on April 7, 2009 and Fiscal Year 2009 financial statements on September 22, 2010. The City has otherwise been in compliance with its undertaking.

*Compliance with Prior Undertakings – Full Faith and Credit Obligations, Series 2010.* The City is in compliance with its undertaking.

*Compliance with Prior Undertakings – Water Revenue Bonds, Series 2003.* The City failed to make its Fiscal Year 2008 filing prior to the deadline. The City subsequently filed its Fiscal Year 2008 financial statements on April 7, 2009. The City has otherwise been in compliance with its undertaking.

A copy of the form of the City's Continuing Disclosure Certificate for the Bonds is attached hereto as Appendix D.

### **Financial Advisor**

In connection with the authorization and issuance of the Bonds, the City has retained Seattle-Northwest Securities Corporation, Portland, Oregon, as its financial advisor (the "Financial Advisor"). The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement.

### **Purchaser of the Bonds**

The Bonds are being purchased by \_\_\_\_\_ at a price of \$\_\_\_\_\_ and will be reoffered at a price of \$\_\_\_\_\_. The purchaser of the Bonds may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial offering prices corresponding to the yields set forth on page i of this Official Statement, and such initial offering prices may be changed from time to time by such purchaser. After the initial public offering, the public offering prices may be varied from time to time.

In connection with the offering of the Bonds, the purchaser of the Bonds may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time.

### **Official Statement**

The City has executed a "deemed final" letter that deems final the Official Statement as of its date pursuant to Securities and Exchange Commission Rule 15c2-12 (except for the omission of the following information: offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, credit enhancement, if any, ratings, insurance, and other terms of the securities depending on such matters). The City has also confirmed that the information in this Official Statement, except for matters relating to DTC, the Paying Agent, and the statement regarding the Financial Advisor in the italicized paragraph on the page immediately preceding the table of contents does not contain any untrue statement of a material fact or omit any statement or information which is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

### **Certificate with Respect to Official Statement**

At the time of the original delivery of and payment for the Bonds, the City will deliver a certificate of its authorized representative addressed to the Underwriter to the effect that the City Official has examined this Official Statement and the financial and other data concerning the City contained herein and that to the best of the City Official's knowledge and belief, (i) the Official Statement, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and (ii) between the date of the Official Statement and the date of delivery of the Bonds there has been no material adverse change in the affairs (financial or other), financial condition or results of operations of the City except as set forth in or contemplated by the Official Statement.

# Appendix A

**Form of Bond Counsel Opinion**

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*On the date of issuance of the Bonds, Hawkins Delafield & Wood LLP, Bond Counsel, proposes to issue its approving opinion in substantially the following form:*

\_\_\_\_\_, 2012

City of Hillsboro  
150 East Main Street  
Hillsboro, Oregon 97123

Subject: \$\_\_\_\_\_ City of Hillsboro, Washington County, Oregon  
Full Faith and Credit Bonds, Series 2012B (Federally Taxable)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Hillsboro, Washington County, Oregon (the "City") of its Full Faith and Credit Bonds, Series 2012B (Federally Taxable) (the "Bonds"), which are dated as of the date of their delivery and are in the aggregate principal amount of \$\_\_\_\_\_. The Bonds are authorized by various provisions of Oregon Revised Statutes Chapter 287A, City Ordinance No. 6014 enacted May 15, 2012, and City Resolution No. 2422 adopted October 16, 2012 (collectively, the "Resolution"), and a Bond Declaration for the Bonds dated as of the date of issuance of the Bonds.

We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering materials which has been or may be supplied to the purchasers of the Bonds, and we express no opinion relating thereto, excepting only the matters set forth as our opinion in the official statement.

Regarding questions of fact material to our opinion, we have relied on representations of the City in the Resolution and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon, the Resolution and the Declaration. The Bonds constitute valid and legally binding obligations of the City that are enforceable in accordance with their terms.
2. The Bonds are payable from any and all of the City's legally available funds. The City has pledged its full faith and credit and taxing power within the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution to pay the amounts due on the Bonds.
3. Interest on the Bonds is not excludable from gross income for federal income tax purposes.
4. Interest on the Bonds is exempt from Oregon personal income tax.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which

may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

The portion of this opinion that is set forth in paragraph 1, above, is qualified only to the extent that enforceability of the Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; and (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

This opinion is given as of the date hereof and is based on existing law, and we assume no obligation to update, revise, or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention or any changes in law or interpretations thereof that may hereafter arise or occur, or for any other reason.

This opinion is limited to matters of Oregon law and applicable Federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein. No opinions may be inferred or implied beyond the matters expressly stated herein. No qualification, limitation or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations and exceptions. For purposes of this opinion, the terms "law" and "laws" do not include unpublished judicial decisions, and we disclaim the effect of any such decision on this opinion.

We have served as bond counsel only to the City in connection with the Bonds and have not represented and are not representing any other party in connection with the Bonds. This opinion is given solely for the benefit of the City in connection with the Bonds and may not be relied on in any manner or for any purpose by any person or entity other than the City, the owners of the Bonds, and any person to whom we may send a formal reliance letter indicating that the recipient is entitled to rely on this opinion.

Very truly yours,

# **Appendix B**

## **Financial Statements**

The City's Auditor has not performed any further review of the City's financial statements since the date of the audit contained herein.

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**CITY OF HILLSBORO, OREGON**

Comprehensive Annual Financial Report

Year Ended June 30, 2011

Prepared by:  
City Finance Department

**CITY OF HILLSBORO, OREGON**

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**INTRODUCTORY SECTION**

# CITY OF HILLSBORO



December 16, 2011

Honorable Mayor Jerry Willey,  
Members of the City Council, and Citizens of the  
City of Hillsboro, Oregon

The Comprehensive Annual Financial Report of the City of Hillsboro, Oregon, (the City) for the fiscal year ended June 30, 2011 is hereby submitted.

The report presents the financial position of the City as of, and for the year ended June 30, 2011. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position, results of operations and cash flows of the various funds and component unit of the City. All disclosures necessary to enable the reader to gain an understanding of the City's activities have been included.

For financial reporting purposes the City is the primary government. Its governing Council is elected by the citizens in a general election. The City operates under the council-manager form of government. Policy making and legislative authority are vested in the governing Council, which consists of a mayor and six-member Council. This report includes all organizations and activities for which the elected officials exercise financial control. The financial statements of the City's one component unit, the Hillsboro Economic Development Council Urban Renewal Agency, are included in this report. The City may interact or contract with various other governmental entities but is not financially accountable for those entities and therefore such entities' financial statements are not included in this report.

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. In addition, the City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget adopted by the City Council. Activities of all funds are included in the annual adopted budget.

This Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical, and Compliance. The Introductory section, which is unaudited, includes this letter of transmittal, an organizational chart, GFOA Certificate of Achievement for Excellence in Financial Reporting and a list of the City's principal elected officials. The letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The City's MD&A can be found in the Financial Section along with independent auditor's opinion, basic financial statements, including entity-wide, fund financial statements, notes to the basic financial statements, and supplemental combining and individual statements and schedules for the City's funds. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis. The Compliance Section contains financially related comments and disclosures required by the Single Audit Act, OMB Circular A133 and the *Minimum Standards for Audits of Oregon Municipal Corporations*.

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## ECONOMIC CONDITION

The City is located approximately 17 miles west of downtown Portland, Oregon, in western Washington County. The City, incorporated in 1876, has transitioned from a low-key, rural center to a high-tech regional hub attracting such companies as Intel Corporation, IDT, Sumitomo Electric Semiconductor Materials, TriQuint Semiconductors, RadiSys, Credence Systems, FEI, Synopsys, Yahoo!, Netflix, Solar World and Genentech. The estimated population to be certified by the Population Research Center at Portland State University for the City as of June 30, 2011 is 91,970. With the new population figures, Hillsboro remains the fifth largest city in the State of Oregon. Hillsboro has experienced significant growth in population from the mid 1990's and has almost doubled in size. The following chart demonstrates the growth of the City since 1995 as compared to Washington County and the State of Oregon, within which the City is located.

Year	City of Hillsboro	% Change	Washington County	% Change	State of Oregon	% Change
1995	46,160		385,410		3,182,690	
1996	52,105	12.88%	399,590	3.68%	3,245,100	1.96%
1997	58,365	12.01%	412,650	3.27%	3,302,140	1.76%
1998	65,110	11.56%	425,580	3.13%	3,350,080	1.45%
1999	69,670	7.00%	437,790	2.87%	3,393,410	1.29%
2000	72,630	4.25%	445,342	1.73%	3,421,399	0.82%
2001	73,200	0.78%	455,800	2.35%	3,471,700	1.47%
2002	74,840	2.24%	463,050	1.59%	3,504,700	0.95%
2003	79,340	6.01%	472,600	2.06%	3,541,500	1.05%
2004	79,940	0.76%	480,200	1.61%	3,582,600	1.16%
2005	82,023	2.61%	489,785	2.00%	3,628,700	1.29%
2006	84,445	2.95%	500,585	2.21%	3,690,160	1.69%
2007	88,300	4.57%	511,075	2.10%	3,745,455	1.50%
2008	89,285	1.12%	519,925	1.73%	3,791,075	1.22%
2009	90,380	1.23%	527,140	1.39%	3,823,465	0.85%
2010	90,612	0.26%	532,620	1.04%	3,844,195	0.54%
2011	91,970	1.50%	536,375	0.71%	3,856,815	0.33%
<b>Total Population Growth</b>		<b>99.24%</b>		<b>39.17%</b>		<b>21.18%</b>

Source: Population Research Center at Portland State University (<http://www.pdx.edu/prc/>)

Although a suburb of Portland, Hillsboro has made a name for itself by attracting international companies to the City's high tech corridor. The City's employee base extends far beyond its territorial boundaries.



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The table below represents the top ten employers in the City. The chart excludes government tax exempt agencies including but not limited to the City of Hillsboro, Washington County and the Hillsboro School District all of which are large employers.

**Ten Largest Employers**

<b><u>Employer</u></b>	<b><u>Product or service</u></b>	<b><u>Employment</u></b>
Intel Corporation	Research/development/electrical equipment	6,961
Wells Fargo	Customer service call center	1,275
Epson	Computer peripheral equipment	1,000
Tuality Health Care	Hospitals	756
Convergys Corporation	Telephone call center	600
Solar World	Solar panel manufacturing	529
Radisys Corporation	Computer manufacturing	500
Yahoo Inc	Web based search engine provider	500
FEI Company	Laboratory analytical instruments	440
Triquint Semiconductor Inc	Semiconductors & related devices	414
		12,975

Source: City of Hillsboro, Business Licenses, Chamber of Commerce and Business Community

The City currently has 3,561 active business licenses with approximately 40,009 employees. This is a slight decrease from the prior year in licenses. Even with the slight decrease in licenses combined with the slow economy, companies, mostly small businesses, are continuing to invest in new and/or expanded locations in Hillsboro, and the City continues to be an economic leader in the State of Oregon.

The City's General Fund operating budget relies on property taxes for approximately 61.4% of its total budget. Measure 50 created a State property tax system which moved local governments from a dollar-based tax system to a rate-based tax system. The City currently has a permanent tax rate of \$3.6665 per \$1,000 of assessed value. Additionally, the City has a local option tax of \$1.72 per \$1,000 specifically for Police, Fire, and Parks & Recreation maintenance services. Local option levies are five year levies. The \$1.10 five year levy was first approved in 1998, renewed in 2002, and in November 2006 voters elected to increase the amount to \$1.72. The increased rate took effect in fiscal year 2008-2009 and will end in 2012-13. Fiscal year 2010-11 is the third year of the five year levy. See section "Local Option Tax Levies" for additional information.

The City has consistently outpaced Washington County's overall growth rate. The chart on the following page compares the growth in real market values for the last eleven years to those of Washington County as a whole. For fiscal year 2010-11, the City's assessed value was 55.8% of market value while the County's as a whole was 65%. 2010-11 County wide real market values decreased by 5% while the City of Hillsboro's actually increased by 2%. Assessed values compared to market values can vary significantly among governmental agencies depending on the makeup of each agencies assessed value between residential, commercial and industrial as well as the state of each agencies local economy.

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The City's assessed value increased 5% from fiscal year 2009-10, which is more than the 3% appreciation rate under Oregon law. The additional value is due to new construction coming onto the tax rolls. In the five years prior to 2010-11, the City has seen percentage increases in assessed values of 4.43%, 4.9%, 6.29%, 6.89% and 4.12% respectively. This is lower than increases seen prior to 2003-04 which for several years was in the double digits with the construction boom in Hillsboro of the last decade, however above other local jurisdictions in Washington County and the State of Oregon. In 2010-11, the industrial sector accounted for 18.96% of the total assessed value of the City of Hillsboro, up from 2009-10 which was 17.18%. However, these numbers are down from a height of close to 21% of assessed value in 2003-2004. The City is more reliant than neighboring jurisdictions on the industrial sector as evidenced by Washington County's total industrial sector valuation which also increased from 7.54% in 2009-10 to 7.93% in 2010-11, but remains as a percentage of total assessed value significantly lower than the City.

Year	City of Hillsboro		Washington County	
	Real Market Value	% Change	Real Market Value	% Change
2000	\$ 6,081,475,299		\$ 35,483,599,692	
2001	6,766,180,634	11.26%	38,375,451,789	8.15%
2002	8,818,812,701	30.34%	42,641,802,858	11.12%
2003	9,415,958,544	6.77%	45,004,178,031	5.54%
2004	12,512,906,694	32.89%	50,523,742,051	12.26%
2005	12,539,523,617	0.21%	52,646,588,947	4.20%
2006	12,646,381,954	0.85%	58,389,426,646	10.91%
2007	13,796,232,055	9.09%	69,903,003,208	19.72%
2008	14,769,396,719	7.05%	76,919,204,726	10.04%
2009	15,334,815,742	3.83%	79,498,936,760	3.35%
2010	15,303,010,515	-0.21%	75,512,292,273	-5.01%
2011	15,624,272,823	2.10%	71,983,750,402	-4.67%
<b>Total Value Growth</b>		<b>156.92%</b>		<b>102.86%</b>

Historically, the City's General Fund has been very healthy as a result of a strategy adopted by Executive Management years ago to maintain a 15% working capital in reserves. In 2008-09, the City dipped below the goal of 15% for various reasons, the most significant being the decoupling of the Building Fund from the General Fund which in turn resulted in building reserves being transferred from the General Fund to a Special Revenue Fund. Management limited the growth in expenditures to the extent possible while maintaining high levels of service in an attempt to realign the ending working capital with the goal of 15%. The working capital balance at June 30, 2011 was 19.1% of expenditures. Management continues to work directly with the State and County assessors to maintain a good understanding of the valuation of the industrial sector for forecasting purposes.

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#### Local Option Tax Levies

In November, 2006, voters approved two local option levies having a significant impact on the City of Hillsboro: a \$1.72 local option tax levy to support enhanced police, fire and parks maintenance services and a \$0.17 county-wide levy to maintain library services provided by Washington County Consolidated Library Services (WCCLS). The \$1.72 levy, approved in November, 2006, replaced the last year of the prior levy.

Voters passed the WCCLS levy in November, 2006 after two failed attempts in November, 2002 and May, 2004. The \$0.17 per \$1,000 of assessed value five-year levy will support WCCLS member libraries, including Hillsboro, and central services that link the twelve libraries together. The levy was renewed in the November 2010 election at the same rate.

In the November 2008 election, the voters of Oregon approved Measure 56 which retracted the "double majority" requirement for all elections of tax measures except for November general elections in an even numbered year. The State had been under this "double majority" requirement which mandated a minimum of 50% of the electorate casting a ballot plus majority approval for a tax measure to become law. With its passage, Measure 56 allows for approval of tax measures by a simple majority approval of electors voting in May and November elections of any year. The measure provides the City with some improved flexibility when planning for future tax measures. The City is reliant on the Local Option Tax to maintain the current level of police, fire, parks and recreation service levels.

#### Hillsboro 2020 Vision and City of Hillsboro Strategic Plan

The *Hillsboro 2020 Vision and Action Plan*, Hillsboro's community plan, was developed through an extensive public involvement process engaging thousands of citizens citywide to create a 20-year community vision and an action plan to bring the vision to life. The plan was adopted by City Council in 2000 and updated in 2005 and 2011.

In the ten-plus years since vision implementation began, the City has completed many of its action items such as the construction of the public plaza at the Civic Center, the Glenn & Viola Walters Cultural Arts Center, development of the Historic Landmarks Advisory Committee, education programs at the Jackson Bottom Wetlands Preserve and many other activities. The City, along with more than twenty-five community partners, continues to advance projects in fulfillment of the vision.

The first organization-wide City of Hillsboro Strategic Plan was adopted by City Council in January 2010. Incorporating input from citizens, employees, stakeholders, and elected officials, the five-year plan was created by the hard work and dedication of staff representing each City department. The strategic plan established an organizational mission and set of core values for Hillsboro City Government and helps guide overall City operations.

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The Strategic Plan includes the following Mission and Core Values statements for the City of Hillsboro:

#### MISSION STATEMENT

*"The City of Hillsboro is dedicated to providing visionary leadership, delivering responsive municipal services, and fostering collaborative partnerships that enhance Hillsboro's hometown livability."*

#### CORE VALUES

**Excellence in Public Service:** Striving for excellence in public service is the objective for all of our work.

**Respect for Diverse Voices and Ideas:** Incorporating the voices, ideas, and cultures that reflect Hillsboro's rich personality.

**Responsiveness in Customer Service:** Offering fast, friendly, flexible, and fair service.

**Tradition of Reliability:** Valuing the stability and successes of our history.

**Stewardship of the Public Trust:** Sound, responsible, honest and transparent resource management.

**Leadership with Ethics and Integrity:** Ethical conduct and integrity as fundamentals of strong leadership.

**Culture of Teamwork and Communication:** Valuing our colleagues and working in collaboration.

**Emphasis on Innovation:** Creative and practical solutions.



The Strategic Plan also contains eight goals for Hillsboro City Government:

- Foster an effective workforce that reflects Hillsboro's diverse community.
- Anticipate and prepare for change, its potential opportunities and challenges.
- Maximize operational efficiency and effectiveness across all departments.
- Nurture a culture of trust and engagement with all Hillsboro residents and community partners.
- Ensure that City services are responsive, equitable and accessible.
- Sustain the City's financial health and stability.
- Demonstrate collaborative leadership.
- Promote environmentally sustainable practices.

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#### Franchise Fees

The City of Hillsboro receives approximately \$9,000,000 in telecommunications, cable, utilities, and solid waste franchise fees annually, which represents a significant portion of the City's General Fund revenues. The City is proactive in ensuring collection of this revenue stream. In the past, the City has partnered with other Oregon municipalities to audit telecommunications franchise fees to ensure proper payment and the accuracy of data used by the utilities in calculating franchise fees owed.

The City also monitors Federal and state legislation which may impact the future of franchise fees and the City's ability to manage its rights-of-way. At the state level, unsuccessful legislation was proposed in the 2009 legislative session to limit cities' franchise authority. Similar legislative efforts could have a negative effect upon city franchise revenues as well as rights-of-way authority.

#### Joint Ventures

The City of Hillsboro is the managing partner for two joint ventures:

- The Joint Water Commission (JWC) is made up of the cities of Hillsboro, Forest Grove, Beaverton and the Tualatin Valley Water District. JWC provides for the joint ownership of the water system and operates the intake, treatment, and storage facilities components of the system as well as the related transmission system.
- The Barney Reservoir Joint Ownership Commission (BRJOC) includes the cities of Hillsboro, Forest Grove and Beaverton, and the Tualatin Valley Water District and Clean Water Services. The BRJOC provides for the ownership and operation of the Barney reservoir, which has the capacity to impound over 6.5 billion gallons of raw water.

#### Utilities Commission

The City owns and operates a municipal water system that serves approximately 70,000 residential customers and an estimated 24,000 connections in Washington County. The City's retail service territory is comprised of two main parts - one serving the majority of the City's own municipal territory and another serving more than 600 direct service connections in rural Washington County. The City also provides wholesale water service to the cities of Gaston and Cornelius and the L.A. Water Cooperative.

#### Hillsboro Economic Development Council

From 1989 to 2002, the City successfully implemented and concluded the Ronler Acres Urban Renewal Area. The urban renewal area provided infrastructure to a large area of the City that was blighted, and constructed public improvements such as a fire station, the Gordon Faber Recreation Complex and Stadium, and a number of streets. The improvements to the area initiated the growth of the city's high-tech industrial area.

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In May 2010, the City created a new Downtown Hillsboro Urban Renewal Area, encompassing the downtown commercial district as well as some of the surrounding neighborhoods. The new URA has a maximum indebtedness of \$95M. The City will begin to collect tax increment from the new URA in 2011-12. The adopted Urban Renewal Plan sets forth goals and objectives, and also identifies eligible expenditures, including streets, parks, land acquisition, housing assistance, small business assistance, and public-private partnerships. There is no termination date for the URA nor does the district currently have any outstanding debt obligations.

#### Strategic Investment Program

In a special joint session on June 15, 1999, the Washington County Board of Commissioners joined the Hillsboro City Council in approving Intel Corporation's Strategic Investment Program (SIP) application. Intel sought an alternate property tax structure as part of a plan to invest \$12.5 billion in its Washington County facilities over the next 15 years. Under the agreement, the Company's annual property tax bill was projected to increase by 60 percent (\$12 million to \$19.35 million).

The Strategic Investment Program was authorized by the 1993 Legislature to increase Oregon's ability to attract capital-intensive industry, particularly high-technology firms. Projects approved for the SIP must pay full property tax on the first \$100 million of their investment. Intel must also pay an annual Community Service Fee equal to 25% of abated taxes, up to \$2 million. In addition to the Community Service Fee, the County and City negotiated two additional fees. The first is a fixed fee for each of the 15 years of the Strategic Investment Program. The second fee is calculated by applying a reduced tax rate to the remaining assessed value of investment exceeding the first \$100 million of investment that was included, in full, on the tax roles. However, in no case will the calculation of the second fee be lower than what would have been paid in property tax if the full tax rate were applied to the "Real Property" portion of their investment. The City receives 32% of these fees. As of June 30, 2011, the City has received \$27.4 million in fees.

Intel, the City, and Washington County negotiated a third Strategic Investment Program in the summer of 2005. The third SIP was initiated in tax year 2010.

In the summer of 2006, the City and Washington County negotiated a Strategic Investment Program (SIP) agreement with Genentech, one of the world's leading companies in biopharmaceuticals. This agreement was negotiated under the rules of the "rural" SIP; the rules are modified from the original program to make full property tax payable on the first \$10 million of investment, with a commensurate minimum community service fee. Due to the successes of the City's business partnerships, this SIP agreement was initiated and began producing revenue for the City in tax year 2010.

#### Enterprise Zones

The Hillsboro Enterprise Zone was designated by the State of Oregon on July 12, 2006. The program allows 100% property tax abatement for eligible businesses on any new development (land and existing improvements do not qualify) within the enterprise zone for a three to five year period. The Hillsboro Enterprise Zone is made up of three separate geographical areas within the City.

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Eligible businesses are primarily firms that provide goods, products, or services to businesses or other organizations through, but not limited to, manufacturing, processing, shipping, assembly, and fabrication.

Since the Hillsboro Enterprise Zone is considered an urban enterprise zone, the City has imposed local program requirements in addition to the state requirements. Key state and local requirements are as follows:

State Requirements

- Increase full time, permanent employment of the firm within the enterprise zone by the greater of one new job or 10%;
- No concurrent job losses more than 30 miles from the zone;
- Maintain employment levels during exemption period;
- Enter into a First Source Agreement with the local job training provider, Worksource Oregon Employment Department; and
- Meet local requirements.

Local Requirements

- Minimum investment of \$1 million in the North Industrial Area and \$250,000 minimum investment in the South Industrial Area and the Central Business District;
- Application fee paid to the City of Hillsboro in the amount equal to 0.1% of the estimated total exempt investment; capped at \$25,000;
- Community Service Fee of 25% of the abated taxes for years 4 and 5; only applies to businesses seeking the 4<sup>th</sup> and 5<sup>th</sup> year exemption;
- Average of all hourly wages must be at least 150% of Oregon minimum wage for a 3 year abatement and at least 75% of hourly wages must exceed 200% of Oregon minimum wage for a 4-5 year exemption;
- Benefits must be provided at an hourly value of 20.2% or greater of the average hourly salary; and
- Training and advancement opportunities will be offered to all employees.

To date, TriQuint Semiconductor, SolarWorld, Genentech (distribution facility), Clio Technologies, TOK America, AGC Electronics, Acme Construction Supply, and E-Tech Recycling are receiving enterprise zone exemptions for their Hillsboro facilities.

Electronic Commerce

In April of 2011, the City of Hillsboro applied for and received from the State of Oregon an electronic commerce designation within the Hillsboro Enterprise Zone. In order to qualify for electronic commerce benefits, a company must first meet the Enterprise Zone program requirements. Electronic commerce generally means engaging in commercial or retail transactions predominantly (more than 50%) over the Internet or a computer network, utilizing the Internet as a platform for transacting business.

In addition to the enterprise zone benefits, a company may also qualify for e-commerce benefits:

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- A business qualifying for the property tax abatement in an e-commerce zone can earn a tax credit on its State corporate income/excise tax return equaling the lesser of \$2 million or 25 percent of the total annual investment in e-commerce operations in the enterprise zone.
- Unused portions of this credit may be carried forward up to 5 additional years for offsetting future corporate income/excise tax liability in Oregon.
- The program allows up to 5 consecutive annual investments in e-commerce.
- Eligible e-commerce investments include most physical investments in hardware, software, office equipment of \$1,000 or greater in value per item.

CASH MANAGEMENT

Cash not required for current operations was invested in investments permitted by Oregon Revised Statutes including the Local Government Investment Pool (LGIP) and certain types of securities. Deferred compensation including the Public Employee Retirement System assets trust funds are invested by the agents with which investment funds have been deposited and are not reported as assets of the City. All investments are made in accordance with the City's investment policy which is re-adopted annually by the City Council. In 2007, the City contracted for professional investment advisor services, which served the City well in the face of upheaval in the financial markets in 2009. The company was hired to manage the portfolio, excluding Local Government Investment Pool (LGIP) balances, with City staff's continued oversight and required approvals.

RISK MANAGEMENT

The role of Risk Management is to effectively manage the City's various liability exposures through the purchasing of cost effective insurance, coupled with the development and implementation of effective and proven loss control programs. Risk Management partners with individual departments in identifying exposures including tort liability, applicable crime coverage, damage and destruction of assets, errors and omissions, natural disasters, and employee safety.

Recommendations are made to Executive Management regarding appropriate insurance levels, deductibles and coverage. Centralizing the risk management function allows for compilation of information that details the City's activities, exposures as a result of these activities, and ensures the information being used is thorough, complete and the best representation of the City's business. Recommendations are based on an understanding of City business, historical loss information, actuarial studies, and proven best practices.

The City currently participates in the following insurance programs:

Workers' Compensation

July 1, 2008, the City became a Self Insured Employer for its workers compensation exposure as allowed under ORS 656.430. An actuarial study is performed every two years and this exposure is budgeted accordingly and recognized in the Risk Management Fund.

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Public Entity Liability, Property and Earthquake/Flood

The City has been a member of City County Insurance Services (CIS) since 1985 beginning with Employee Benefits Coverage. CIS is a membership pool providing insurance coverage to City and County entities within the State of Oregon. The City currently purchases first dollar public entity liability including excess crime coverage, property insurance (with a \$10,000 deductible), earthquake and flood (with a deductible of 2% of the combined value of units damaged subject to a \$5,000 minimum and \$50,000 maximum per occurrence) and equipment breakdown insurance (with a \$1,000 deductible).

Insurance premiums paid by the City are budgeted and recognized in the Risk Management fund. These costs are then allocated to the various funds.

**CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hillsboro for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**INDEPENDENT AUDIT**

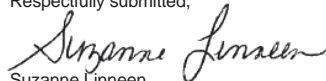
State Statutes require an annual audit by independent certified public accountants. The City selected the firm of Talbot, Korvola, & Warwick, LLP, Certified Public Accountants to perform its annual audit. The auditors conducted the engagement using auditing standards generally accepted in the United States of America. Their audit opinions are located in the Financial Section of this report.

**ACKNOWLEDGEMENTS**

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire Finance Department and other City staff. We express our appreciation to all members of the City staff who assisted and contributed to the preparation of this report.

We express our gratitude to the Mayor and City Council who have led this City with careful planning, attentiveness to the citizenry, and responsible, progressive management of this local government.

Respectfully submitted,



Suzanne Linneen  
Finance Director

**CITY OF HILLSBORO, OREGON**

**OFFICIALS OF THE CITY**

**JUNE 30, 2011**

**BOARD OF COUNCILORS**

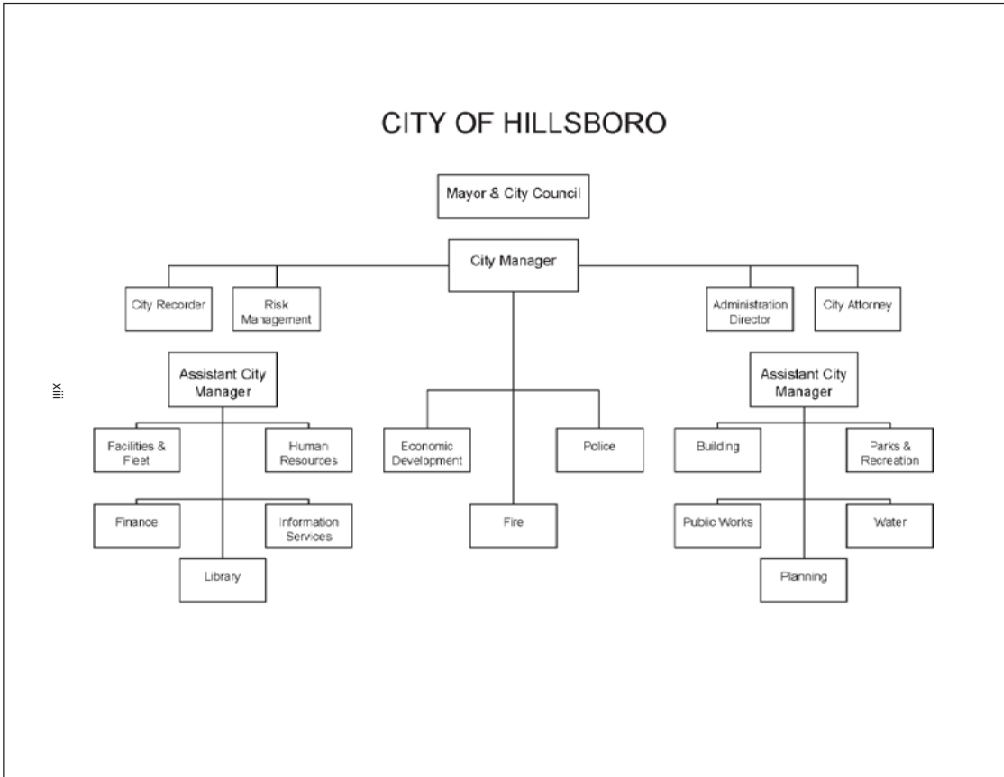
		<u>Term Expires</u>
Jerry Willey, Chairperson 3416 NE Dunbar Ct. Hillsboro, Oregon 97124		January 2013
<b>Councilors:</b>		
Aron Carleson, Council President 1377 SE 74 <sup>th</sup> Avenue Hillsboro, Oregon 97123	Ward 2, Position A	January 2015
Darell Lumaco 2878 NE Jackson School Road Hillsboro, Oregon 97124	Ward 1, Position A	January 2015
Nenice Andrews 3150 NE Jackson Road Loop Hillsboro, Oregon 97124	Ward 1, Position B	January 2013
Olga Acuña 1861 SE 61 <sup>st</sup> Court Hillsboro, OR 97123	Ward 2, Position B	January 2013
Steve Callaway 649 NE Goldie Drive Hillsboro, Oregon 97124	Ward 3, Position A	January 2015
Mike Castillo 118 NW Camp Ireland Street Hillsboro, OR 97124	Ward 3, Position B	January 2013

**PRINCIPAL OFFICIALS**

Bruce Warner, Interim City Manager  
Ellen Conley, Assistant City Manager  
Robert Dixon, Assistant City Manager

**CITY ADDRESS**

City of Hillsboro  
City Hall  
150 East Main Street  
Hillsboro, Oregon 97123



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## City of Hillsboro Oregon

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Dawson*

President

*Jeffrey R. Enos*

Executive Director

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT





Talbot, Korvola  
& Warwick, LLP

Certified Public Accountants  
& Consultants

4800 SW Macadam Ave., Suite 400  
Portland, Oregon 97239-3913

P 503.274.2849  
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## INDEPENDENT AUDITOR'S REPORT

December 16, 2011

Honorable Mayor and Board of Councilors  
City of Hillsboro  
Hillsboro, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Oregon (the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2011, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

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The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

## INDEPENDENT AUDITOR'S REPORT (Continued)

Honorable Mayor and Board of Councilors  
City of Hillsboro  
December 16, 2011  
Page 2

reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Required Supplementary Information (budgetary comparison information for the General Fund and Transportation Fund, Oregon Public Employees Retirement System and the Other Post Employment Benefits Schedules of Funding Progress), as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The statements and schedules, as listed in the Table of Contents as Other Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Other Supplementary Information and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying Introductory and Statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

TALBOT, KORVOLA & WARWICK, LLP  
Certified Public Accountants

By   
Robert G. Moody, Jr., Partner

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

Management of the City of Hillsboro, Oregon, (the City) offers readers of the Comprehensive Annual Financial Report, this narrative overview and analysis of the financial activities of the City of Hillsboro for the fiscal year ended June 30, 2011. The analysis focuses on significant financial issues, major financial activities, and resulting changes in financial position, budget variances and specific issues related to funds and the economic factors affecting the City. Readers are encouraged to consider the information presented here in conjunction with additional information provided in the transmittal letter.

**Financial Highlights**

- Assets totaled approximately \$859.8 million at June 30, 2011, and consisted of approximately \$141.6 million in cash and investments; approximately \$11.3 million in accounts, interest receivable, and other assets; approximately \$58.4 million in investments in joint ventures and approximately \$648.5 million in capital assets.
- Net assets (assets minus liabilities) were approximately \$794.3 million at June 30, 2011.
- As of June 30, 2011, the City had approximately \$51.1 million in outstanding bonds and notes payable. The City has no general obligation bonds as of June 30, 2011.
- The City's total net assets increased by approximately \$2.1 million from the June 30, 2011, net assets. Governmental Activities net assets decreased by approximately \$19.3 million from 2010 primarily due to a contribution of capital assets made to Business-Type Activities in the amount of approximately \$17.4 million. Additionally, the annual increase in other post employment benefits payable of approximately \$0.9 million contributed to the decrease from 2010. Business-Type Activities increased by approximately \$21.4 million primarily due to a contribution of capital assets from the Governmental Activities in the amount of approximately \$17.4 million and capital contributions from external parties of approximately \$2.3 million.

**Report Format**

This Management's Discussion and Analysis (MD&A) section provides users of the basic financial statements with a narrative introduction, overview, and analysis of the statements. The report also includes the government-wide financial statements, fund financial statements, notes to the financial statements, required supplementary information, other supplementary information including combining schedules of non-major funds, and the statistical section.

The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities.

Governmental activities include basic services such as public safety, transportation, culture and recreation, community development and general government administration. The City's component unit, the Hillsboro Economic Development Agency, an urban renewal agency, is included within the governmental activities. Business-type activities are water, sewer, surface

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**JUNE 30, 2011**

**Report Format (Continued)**

water management and intermodal transit facility operations. Taken together the sections provide a comprehensive financial look at the City. The individual components of the report include the following:

- **Management's Discussion and Analysis.** This section of the report provides financial highlights, overview and economic factors affecting the City.
- **Basic Financial Statements.** Includes the Statement of Net Assets, Statement of Activities, fund financial statements and the notes to the basic financial statements. Statements of Net Assets and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate like in that all activities are consolidated into a total for the City.
  - The Statement of Net Assets focuses on resources available for future operations. This statement presents a snap-shot view of the assets the City owns, the liabilities it owes and its equity. The equity is further separated into amounts invested in capital assets, restricted for specific purposes, and unrestricted amounts.
  - The Statement of Activities focuses on gross and net expenses of City programs and the extent to which such programs rely upon general tax and other revenues.
  - Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of governmental financial statements. The City's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Non-major Funds." Budgetary comparison schedules are presented for the General Fund and the Transportation Fund as Required Supplementary Information. Statements for the City's proprietary funds follow the governmental funds and include net assets, revenues, expenses and change in net assets, and cash flows.
  - The notes to the basic financial statements provide additional disclosures to assist the reader in understanding the City's financial condition.

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**JUNE 30, 2011**

**Report Format, (Continued)**

- **Required Supplementary Information.** Includes the Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual for the General and Transportation Funds.
- **Other Supplementary Information.** Readers desiring additional information on non-major funds can find it in the combining statements of non-major funds and the budgetary comparison sections of this report. Components within this section include:
  - *Combining Statements.* Major funds are included within the basic financial statements, whereas non-major funds are presented here. These statements include balance sheets and statements of revenues, expenditures, and changes in fund balances.
  - *Budgetary Comparisons.* Includes budgetary information for all non-major funds and business type activities.
  - The other Schedule of Property Tax Transactions completes the Financial Section of the report.
- **Statistical Section.** Trend information and demographics.
- **Compliance Section.** Reports and schedules required by *Government Auditing Standards* and the Single Audit Act for the City's federal financial assistance programs. Also, financially related comments and disclosures required by Oregon Revised Statutes.

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**JUNE 30, 2011**

**Statement of Net Assets**

The following is a comparison between the June 30, 2011 and 2010 Statements of Net Assets (all amounts are in thousands):

	Governmental Activities		Business-Type Activities	
	2011	2010	2011	2010
Cash and investments	\$ 70,061	\$ 62,000	\$ 71,549	\$ 72,762
Current and other assets	3,610	3,582	7,706	5,940
Investments in joint ventures	-	-	58,407	59,498
Capital assets, net	466,958	487,440	181,524	160,576
<b>TOTAL ASSETS</b>	<b>540,629</b>	<b>553,022</b>	<b>319,186</b>	<b>298,776</b>
Accounts payable	2,386	4,480	3,672	2,846
Other liabilities	7,625	6,545	810	883
Notes payable	3,519	3,685	19	38
Bonds payable	32,100	24,005	15,420	17,120
<b>TOTAL LIABILITIES</b>	<b>45,630</b>	<b>38,715</b>	<b>19,921</b>	<b>20,887</b>
Invested in capital assets, net of related debt	431,339	459,749	166,085	143,418
Restricted	43,651	41,718	-	-
Unrestricted	20,009	12,840	133,181	134,471
<b>TOTAL NET ASSETS</b>	<b>\$ 494,999</b>	<b>\$ 514,307</b>	<b>\$ 299,266</b>	<b>\$ 277,889</b>

The following explains the significant fluctuations in the Statement of Net Assets from fiscal year 2010.

The decrease in Governmental Activities assets is primarily due to a contribution of capital assets made to the Business-Type activities for approximately \$17.4 million. An increase in cash of approximately \$8.1 million is seen due to bond issuances during the fiscal year to reimburse the City for expenditures made during the previous fiscal year. As cash increased as a result of bond issuance, the increase in liabilities includes an increase in bonds payable of approximately \$8.1 million. Additionally, liabilities increased by approximately \$0.9 million increase in the other post employment benefit liability.

The increase in Business-Type Activities assets is primarily due to a contribution of capital assets made from the Governmental Activities of approximately \$17.4 million and approximately \$2.3 million from external parties. Liabilities decreased by approximately \$1.0 million primarily due to the repayment of bonds payable which totaled approximately \$1.7 million.

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**JUNE 30, 2011**

**Statement of Activities**

The following is a comparison between the June 30, 2011 and 2010 Statement of Activities (all amounts are in thousands):

	Governmental Activities		Business-Type Activities	
	2011	2010 (as reclassified)	2011	2010 (as reclassified)
<b>REVENUES:</b>				
Program revenues:				
Fees, fines and charges for services	\$ 20,101	\$ 14,405	\$ 23,417	\$ 25,467
Operating grants and contributions	5,603	4,869	566	-
Capital grants and contributions	7,595	12,719	2,278	7,208
General revenues:				
Interest earnings	708	1,275	741	1,441
Property taxes	49,585	47,541	-	-
Franchise fees	8,947	7,502	-	-
Other	6,426	5,348	-	-
<b>TOTAL REVENUES</b>	<b>98,965</b>	<b>93,659</b>	<b>27,002</b>	<b>34,116</b>
<b>EXPENSES:</b>				
General government	12,565	13,094	-	-
Public safety and judicial	41,656	39,209	-	-
Community service	7,348	7,385	-	-
Culture and recreation	15,928	15,721	-	-
Roads and bridges	22,438	20,319	-	-
Interest on long term debt	1,573	713	-	-
Business-type activities	-	-	22,390	21,069
<b>TOTAL EXPENSES</b>	<b>101,508</b>	<b>96,441</b>	<b>22,390</b>	<b>21,069</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE TRANSFERS</b>	<b>(2,543)</b>	<b>(2,782)</b>	<b>4,612</b>	<b>13,047</b>
Transfers in (out)	(16,765)	1,353	16,765	(1,353)
<b>CHANGE IN NET ASSETS</b>	<b>(19,308)</b>	<b>(1,429)</b>	<b>21,377</b>	<b>11,694</b>
<b>NET ASSETS, July 1</b>	<b>514,307</b>	<b>515,736</b>	<b>277,889</b>	<b>266,195</b>
<b>NET ASSETS, June 30</b>	<b>\$ 494,999</b>	<b>\$ 514,307</b>	<b>\$ 299,266</b>	<b>\$ 277,889</b>

The Governmental Funds consist of two Major Funds: the General Fund and Transportation Fund. Governmental Funds also include several non-major funds. Governmental activities overall total revenues increased from 2010 by approximately \$5.3 million. The increase is primarily due mainly to increases in franchise fees of approximately \$1.4 million, licenses and permits of approximately \$2.7 million due to two major commercial construction projects, Kaiser Permanente Hospital and Intel D1X facility, and property tax revenues increased by approximately \$2.5 million from 2010 due to an increase of 5% in the City's assessed value. Finally, earnings rates on the pool and other invested funds were very low compared to previous years due to the economy.

Governmental Activities' expenses increased by approximately \$5.1 million from fiscal year 2010. This is primarily due to increases in public safety and judicial expense of approximately \$2.4 million due to the opening of the new Cherry Lane Fire Station and in roads and bridges expense of approximately \$2.1 million due to major improvements to Cornelius Pass Road.

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**JUNE 30, 2011**

**Statement of Activities, (Continued)**

Additionally, interest on long-term debt and fiscal charges increased by approximately \$0.8 million as a result of new bonds issued.

Overall Business-Type activity revenues decreased by approximately \$7.1 million from 2010. Capital grants and contributions decreased by approximately \$4.9 million due mainly to intangible water rights, which were certificated in a one-time process during 2009-10. Fees, fines and charges decreased by approximately \$1.6 million due to a large system development fee collected in 2010, which did not occur in 2011.

Business-Type activity expenses increased by approximately \$1.3 million due to increases in depreciation expense and the addition of the Intermodal Transit Facility Fund to the business-type activity group.

Both Governmental activities and Business-Type activity change from 2010 transfers in and out were the result of the Intermodal Transit Facility and related capital assets moving from a governmental fund type to a business-type activity.

**Changes in Fund Balance**

Governmental funds' fund balance increased by approximately \$3.5 million from 2010. With respect to revenues, property taxes increased by approximately \$2.5 million due to the increase in the City's assessed value, and franchise fees and license and permits by approximately \$4.1 million primarily due to two major commercial construction projects, Kaiser Permanente Hospital and Intel D1X facility. Interest revenues decreased by approximately \$0.5 million from 2010 due to low investment rates. Expenditures across the Governmental Funds increased by approximately \$5.1 million primarily due to the opening of the new Cherry Lane Fire Station, construction improvements to Cornelius Pass Road, and PERS increases.

In regards to the General Fund, total revenues increased approximately \$4.9 million. This is due primarily to increased property tax, franchise fee revenues and charges for services. General Fund expenditures have increased by approximately \$4 million due to opening of the new Cherry Lane Fire Station, PERS increases, and implementation of a new cost allocation model that allocates support service and facility expenses to direct service departments. Overall, the General Fund's fund balance increased by approximately \$3.5 million due to the aforementioned changes in revenues and expenditures. Additionally, the General Fund received a payment of approximately \$1.3 million from HEDC Fund (a component unit of the City) for economic development which had not been received in the preceding year. The Transportation Fund's fund balance decreased by approximately \$0.7 million due to the Cornelius Pass Road improvements project.

**Changes in Business-type Net Assets**

Enterprise funds' net assets increased in total by \$21.4 million from 2010. The Utilities Commission Fund's net assets increased by \$2.5 million from 2010. The increase in net assets is attributable to contributed assets and revenues exceeding expenditures.

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**JUNE 30, 2011**

**Changes in Business-type Net Assets, (Continued)**

The Sewer Fund's net assets increased by \$1.6 million due to revenues exceeding operating costs in 2010. The increase is due partially to reinvestment in capital assets in 2011 exceeding depreciation expense and the booking of permanent easements, which are shown as capital assets.

The Surface Water Management Fund's net assets increased by \$.05 million in 2010 primarily due to booking of contributed assets from development and permanent easements, which are shown in capital assets.

The Intermodal Transit Facility (ITF) fund's net assets increased by \$17.2 million from 2010. This fund was established in 2011 to track the costs associated with this facility. The ITF's capital assets of \$17.4 million were transferred from a governmental type activity.

**Budgetary Highlights**

The General Fund resources exceeded budgeted levels by approximately \$1.6 million dollars. General Fund actual expenditures were \$11.7 million under appropriated levels. The reasons for this difference are due to contingency of \$3.55 million not being allocated for expenditures, budget for park land purchase not being expended, and several budgeted positions in the Police Department being held vacant.

**Capital Assets**

At June 30, 2011, the City had approximately \$648 million invested in a broad range of capital assets, including land, buildings and improvements, equipment, roads, bridges, and water, sewer and storm water lines.

The following is a comparison of capital assets as of June 30, 2011 and 2010 (all amounts are in thousands):

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Deferred water and pumping station rights	\$ -	\$ -	\$ 1,207	\$ 1,207	\$ 1,207
Land and easements	224,214	218,717	5,230	2,301	229,444
Water rights	-	-	6,175	6,175	6,175
Buildings and structures	138,444	133,724	19,030	3,258	157,474
Temporary easements	249	-	-	-	249
Machinery, equipment, and transmission	23,485	22,268	104,569	91,136	128,054
Dams, reservoirs, treatment facilities	-	-	642	642	642
Infrastructure	427,957	425,897	99,318	98,369	527,275
Construction in progress	6,962	17,193	11,715	19,198	18,677
Accumulated depreciation	(354,353)	(330,359)	(66,362)	(61,710)	(420,715)
	<u>\$ 466,958</u>	<u>\$ 487,440</u>	<u>\$ 181,524</u>	<u>\$ 160,576</u>	<u>\$ 648,482</u>

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**JUNE 30, 2011**

**Capital Assets, (Continued)**

The Governmental Activities capital assets decreased by \$20.5 million due to transfer of \$17.4 million in assets being transferred to the Business-Type Activities for the Intermodal Transit Facility. Business-Type Activities increased \$20.9 million due to transfer of the Intermodal Transit Facility assets and due to large sewer projects being constructed in 2011.

Further information may be found in Note 6 of the Notes to Basic Financial Statements.

**Debt**

As of year-end, the City had \$51.06 million in bonds and notes payable compared to \$44.9 million in fiscal year 2009. Approximately \$3.2 million of the debt at June 30, 2011, is due within one year. As of June 30, 2011, the City has no general obligation debt outstanding.

Debt was incurred for the following:

	<u>Totals</u>	
	<u>2011</u>	<u>2010</u>
<b>Governmental:</b>		
Land and building acquisitions	\$ 9	\$ 89
Construction	35,610	27,665
	35,619	27,754
<b>Business-Type:</b>		
Water	15,439	17,158
<b>Total</b>	<u>\$ 51,058</u>	<u>\$ 44,912</u>

In November 2010, the City issued \$9,110,000 in Full Faith and Credit bonds to fund the construction of two new fire stations, Cherry Lane and Jones Farm. Also, proceeds were used to replace the artificial turf and scoreboards at the Gordon Faber Recreation Complex. The Cherry Lane fire station and turf and scoreboard replacement projects have been completed. The Jones Farm fire station is currently under construction.

A portion, \$4,380,000, of the Series 2010 bonds was issued as Taxable Recovery Zone Development bonds (RZEDB). RZEDB bonds are part of a federal program that allows municipalities to issue debt at a lower cost than a traditional tax exempt financing. The goal of this federal program was to help the economy rebound by allowing for lower cost borrowing which in turn would allow for money to go farther in creating construction and other jobs.

The City previously issued Full Faith and Credit obligations and notes in 2006 and 2004. The 2006 notes payable issue was used to help fund the building improvements for the new Library facility on Brookwood Avenue. The 2004 bond issue of \$26.4 million funded the construction of the new Civic Center and Aquatic Center improvements. The obligations are backed by the full faith and credit of the City; however, the City intends to use Strategic Investment Program revenues to meet the debt obligations.

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**JUNE 30, 2011**

**Debt, (Continued)**

In 2004, the City's water utility also issued \$26.2 million in water revenue bonds. This bond issue involved refunding the 1999 and 2000 series totaling \$12.5 million. These bonds were originally issued to finance a new treated water reservoir, to repair and improve an existing treated water reservoir, and to pay for water system improvements. The bonds are payable solely from the revenues of the City's water system and the bond reserve account.

The State of Oregon mandates a general obligation debt limit of 3 percent of true market value of taxable property within the City boundaries. The limit totaled \$469 million at June 30, 2011. The City did not have any net debt subject to this limit as of June 30, 2011; therefore \$469 million is available for future indebtedness.

Further information may be found in Notes 7 of the Notes to Basic Financial Statements.

**Economic Factors**

The governmental funds' largest revenue sources are property taxes, franchise fees, fees for charges and services, and state shared revenues. The State of Oregon does not have a sales tax, resulting in local government's heavy reliance on property taxes and other self-generated revenues including franchise fees, business licenses, etc. The State of Oregon moved from a tax base system to a tax rate system in the mid 1990's.

In 2011, the City's assessed value increased 5%; well above the 3% allowed under Oregon statute, as a result of new growth. Fiscal year 2004 was the first year that the City saw a decline in the increase in assessed value since Measure 50 was approved in 1997-98. The City continues to communicate with State and County staff regarding any indications that Hillsboro's assessed value will once again be negatively impacted by changes in any particular taxing sector. Fiscal year 2004 revealed how the City is significantly more reliant on the high tech industry than neighboring cities with approximately 18.96% of its total assessed value within the industrial property class. The industrial property class represents just over 7.9% of the total assessed value for Washington County. Unlike other local municipalities, the City of Hillsboro saw growth in new construction. This growth is due mainly to large commercial construction projects including a new Kaiser Permanente Hospital and Intel's D1X facility.

In all funds, personnel costs continue to rise due to cost of living expenses including continually escalating medical and retirement costs. The City's medical premiums continued to increase substantially in 2011 by 9% over 2010. In 2011, the City required that non-union employees contribute \$35 or \$100 per month to their medical premiums depending upon plan choice. Union employees were required to contribute \$75 per month to their medical premiums. Non-represented and Fire Union employees received a 2.5% and Police Union employees received a 3.3% cost of living adjustment in 2011.

After several years of investment losses in the State-run pension fund, the City, along with local governments across the State, are assuming a larger share of employee retirement costs. Due to concerns about the rapidly increasing Unfunded Actuarial Liability (UAL) for the State-wide pension system, the Oregon Legislative Assembly approved significant modifications to the State pension system during their 2003 session. House Bill 2001 addressed crediting of earnings to Tier One regular accounts. Some of the legislative changes have been challenged

**CITY OF HILLSBORO, OREGON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**JUNE 30, 2011**

**Economic Factors, (Continued)**

in court. Because of the changes in the Public Employees Retirement System (PERS), the City saw a decrease in its rates in fiscal year 2010 from 11.38% of payroll down to 9.08% for Tier I employees and additional decreases in the OPSRP rates. These rates continued in 2010-11. However, due to the continued investment losses occurring through the last actuarial evaluation, PERS rates will increase to 12.54% for Tier 1 in 2011-2012 and increase as significantly for OPSRP. The City is currently attempting to understand the financial ramifications and the likelihood of continued rate increases.

Business-Type Activities are funded through water, sewer, and surface water management rates and system development charges. The City has the ability to increase rates to keep pace with growing costs as well as increasing demands on the systems. The City generally increases water rates annually.

The City is feeling the impact of the financial crisis in some very distinct ways including the volatility of fuel prices as well as the impact on the City's ability to count on investment earnings having any real significant positive impact. The City has been able to weather the economic crisis without major reductions because of its diverse property tax base, economic development activities, and conservative financial practices.

The City is in a good position to quickly respond to changes in the economy. The City's goal is to maintain a fund balance of 15% of budgeted expenditures in the General Fund. The General Fund ended 2011 with more than the targeted amount at 19.1%. Management recognizes the need to react responsibly to changes in economic factors.

**Financial Contact**

The City's financial statements are designed to present users, including taxpayers, citizens, customers, investors and creditors with a general overview of the City's finances and overall accountability. If you have questions about the contents of this report or need additional financial information, please contact the City's Finance Director at 150 East Main St., Hillsboro, OR 97123.

**BASIC FINANCIAL STATEMENTS**

**CITY OF HILLSBORO, OREGON**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 18,483,917	\$ 18,865,151	\$ 37,349,068
Collections held by county treasurer	182,870	-	182,870
Investments	51,576,810	52,684,519	104,261,329
Receivables, net	3,420,360	7,486,476	10,906,836
Other assets	7,485	219,317	226,802
Investment in joint ventures	-	58,406,534	58,406,534
Capital assets not being depreciated	231,175,947	23,119,233	254,295,180
Capital assets, net	235,781,831	158,404,639	394,186,470
<b>TOTAL ASSETS</b>	<b>540,629,220</b>	<b>319,185,869</b>	<b>859,815,089</b>
<b>LIABILITIES:</b>			
Accounts and claims payable	2,385,666	3,671,624	6,057,290
Customer advances	1,350	29,430	30,780
Unearned revenue	608,281	-	608,281
Accrued interest payable	95,104	24,837	119,941
Worker's compensation claims payable	233,943	-	233,943
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	3,960,660	358,237	4,318,897
Bonds payable	1,230,000	1,765,000	2,995,000
Notes payable	163,870	19,239	183,109
Portion due or payable after one year:			
Other post employment benefit payable	2,726,360	396,700	3,123,060
Bonds payable	30,870,000	13,655,000	44,525,000
Notes payable	3,355,000	-	3,355,000
<b>TOTAL LIABILITIES</b>	<b>45,630,234</b>	<b>19,920,067</b>	<b>65,550,301</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	431,338,908	166,084,633	597,423,541
Restricted	43,681,867	-	43,681,867
Unrestricted	19,978,211	133,181,169	153,159,380
<b>TOTAL NET ASSETS</b>	<b>\$ 494,998,986</b>	<b>\$ 299,265,802</b>	<b>\$ 794,264,788</b>

See notes to basic financial statements.

**CITY OF HILLSBORO, OREGON**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2011**

FUNCTION / PROGRAM	Program Revenues				Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>GOVERNMENTAL ACTIVITIES:</b>							
General government	\$ 12,565,021	\$ 9,586,646	\$ 59,003	\$ -	\$ (2,919,372)	\$ -	\$ (2,919,372)
Public safety and judicial	41,656,043	815,393	292,173	-	(40,548,477)	-	(40,548,477)
Community service	7,347,849	194,138	11,419	-	(7,142,292)	-	(7,142,292)
Culture and recreation	15,928,024	4,334,467	123,413	-	(11,470,144)	-	(11,470,144)
Roads and bridges	22,438,172	5,170,929	5,116,998	7,595,521	(4,554,724)	-	(4,554,724)
Interest on long-term debt and fiscal charges	1,572,827	-	-	-	(1,572,827)	-	(1,572,827)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>101,507,936</b>	<b>20,101,573</b>	<b>5,603,006</b>	<b>7,595,521</b>	<b>(68,207,836)</b>	<b>-</b>	<b>(68,207,836)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Water	14,228,067	14,896,461	558,811	1,020,220	-	2,247,425	2,247,425
Sewer	4,331,980	5,343,208	-	844,165	-	1,855,393	1,855,393
Surface water management	3,459,957	3,081,350	7,004	413,445	-	41,842	41,842
Transit facility management	338,669	50,000	-	-	-	(288,669)	(288,669)
Property management	31,845	46,132	-	-	-	14,287	14,287
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>22,390,518</b>	<b>23,417,151</b>	<b>565,815</b>	<b>2,277,830</b>	<b>-</b>	<b>3,870,278</b>	<b>3,870,278</b>
<b>TOTAL</b>	<b>\$ 123,898,454</b>	<b>\$ 43,518,724</b>	<b>\$ 6,168,821</b>	<b>\$ 9,873,351</b>	<b>(68,207,836)</b>	<b>3,870,278</b>	<b>(64,337,558)</b>
<b>GENERAL REVENUES:</b>							
Property taxes levied for:							
General purposes					30,972,286	-	30,972,286
Public safety					14,554,374	-	14,554,374
Library (levied by County)					4,058,289	-	4,058,289
Franchise fees					8,946,848	-	8,946,848
Other taxes/payments in lieu of property taxes					6,425,524	-	6,425,524
Earnings on investments					707,861	741,029	1,448,890
<b>TRANSFERS</b>					(16,764,977)	16,764,977	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>48,900,005</b>	<b>17,506,006</b>	<b>66,406,011</b>
<b>CHANGE IN NET ASSETS</b>					<b>(19,307,831)</b>	<b>21,376,284</b>	<b>2,068,453</b>
<b>NET ASSETS, July 1, 2010</b>					<b>514,306,817</b>	<b>277,889,518</b>	<b>792,196,335</b>
<b>NET ASSETS, June 30, 2011</b>					<b>\$ 494,998,986</b>	<b>\$ 299,265,802</b>	<b>\$ 794,264,788</b>

See notes to basic financial statements.  
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**CITY OF HILLSBORO, OREGON**

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

**JUNE 30, 2011**

	General Fund	Transportation Fund	Non-Major Funds	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 4,585,866	\$ 8,987,043	\$ 1,974,487	\$ 15,547,396
Collections held by county treasurer	182,870	-	-	182,870
Investments	12,761,394	25,099,621	5,514,482	43,375,497
Receivables, net	2,424,806	893,068	30,946	3,348,820
Note receivable	-	-	100,000	100,000
Other assets	7,485	-	-	7,485
<b>TOTAL ASSETS</b>	<b>\$ 19,962,421</b>	<b>\$ 34,979,732</b>	<b>\$ 7,619,915</b>	<b>\$ 62,562,068</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 568,168	\$ 286,792	\$ 130,679	\$ 985,639
Customer advances	1,350	-	-	1,350
Deferred revenue	2,008,311	179,538	106,041	2,293,890
<b>TOTAL LIABILITIES</b>	<b>2,577,829</b>	<b>466,330</b>	<b>236,720</b>	<b>3,280,879</b>
<b>FUND BALANCES:</b>				
Restricted	4,101,923	32,196,749	7,383,195	43,681,867
Committed	-	1,944,926	-	1,944,926
Assigned	624,582	371,727	-	996,309
Unassigned	12,658,087	-	-	12,658,087
<b>TOTAL FUND BALANCES</b>	<b>17,384,592</b>	<b>34,513,402</b>	<b>7,383,195</b>	<b>59,281,189</b>
	<b>\$ 19,962,421</b>	<b>\$ 34,979,732</b>	<b>\$ 7,619,915</b>	<b>\$ 62,562,068</b>

See notes to basic financial statements.

**CITY OF HILLSBORO, OREGON**

**RECONCILIATION OF GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

<b>TOTAL FUND BALANCE</b>	\$ 59,281,189
Total net assets in the Statement of Net Assets is different because:	
Capital assets are not financial resources and therefore are not reported in the governmental funds.	383,600,087
A portion of the City's property taxes are collected after year-end, but are not available soon enough to pay for the current year's operations, and therefore are not reported as revenue in the governmental funds.	1,585,609
Compensated absences not payable in the current year are not recorded as governmental fund liabilities.	(3,388,052)
Other post employment benefit not payable in the current year are not recorded as governmental fund liabilities.	(2,270,953)
Internal service funds are used by management to charge the costs of insurance, risk management, facilities management, dispatch and other services to individual funds. Their assets, liabilities and net assets are included in the Statement of Net Assets.	56,191,106
<b>TOTAL NET ASSETS</b>	<b>\$ 494,998,986</b>

See notes to basic financial statements.



**CITY OF HILLSBORO, OREGON**

**GOVERNMENTAL FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES**

**YEAR ENDED JUNE 30, 2011**

	General Fund	Transportation Fund	Non-Major Funds	Total
<b>REVENUES:</b>				
Property and other taxes	\$ 51,391,136	\$ -	\$ 664,870	\$ 52,056,006
Intergovernmental	766,806	4,809,644	100,000	5,676,450
Franchise fees	8,946,848	-	-	8,946,848
Licenses and permits	463,859	306,756	5,644,216	6,414,831
Fines, forfeitures, and penalties	1,060,002	-	-	1,060,002
Charges for services	4,488,927	2,804,633	-	7,293,560
Interest	176,825	374,558	76,048	627,431
Miscellaneous	2,701,048	1,793,771	-	4,494,819
Grants, donations and other	474,589	307,354	482,647	1,264,590
<b>TOTAL REVENUES</b>	<b>70,470,040</b>	<b>10,396,716</b>	<b>6,967,781</b>	<b>87,834,537</b>
<b>EXPENDITURES:</b>				
Current:				
General government	5,653,475	-	4,151,946	9,805,421
Public safety and judicial	40,001,734	-	-	40,001,734
Community service	6,841,005	-	-	6,841,005
Culture and recreation	13,045,854	-	-	13,045,854
Capital outlay	1,145,292	-	1,149,137	2,294,429
Roads and bridges	924,234	10,589,572	-	11,513,806
Other Payments	-	-	1,274,814	1,274,814
<b>TOTAL EXPENDITURES</b>	<b>67,611,594</b>	<b>10,589,572</b>	<b>6,575,897</b>	<b>84,777,063</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>2,858,446</b>	<b>(192,856)</b>	<b>391,884</b>	<b>3,057,474</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets	91,565	265,769	-	357,334
Transfers in	1,204,503	38,000	700,000	1,942,503
Transfers out	(697,000)	(795,003)	(400,000)	(1,892,003)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>599,068</b>	<b>(491,234)</b>	<b>300,000</b>	<b>407,834</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>3,457,514</b>	<b>(684,090)</b>	<b>691,884</b>	<b>3,465,308</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>13,927,078</b>	<b>35,197,492</b>	<b>6,691,311</b>	<b>55,815,881</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ 17,384,592</b>	<b>\$ 34,513,402</b>	<b>\$ 7,383,195</b>	<b>\$ 59,281,189</b>

See notes to basic financial statements.

**CITY OF HILLSBORO, OREGON**

**RECONCILIATION OF STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL  
FUNDS TO STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2011**

**NET CHANGE IN FUND BALANCES** \$ 3,465,308

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

Capital asset additions	\$ 16,062,663	
Depreciation	<u>(20,457,005)</u>	(4,394,342)

Property taxes that do not meet the measurable and available criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities property taxes are recognized as revenue when levied.

(49,088)

Compensated absences are recognized as an expenditure in the governmental funds when they are paid. In the Statement of Activities compensated absences are recognized as an expenditure when earned.

(154,103)

Other post employment benefit absences are recognized as an expenditure in the governmental funds when they are paid. In the Statement of Activities other post employment benefits are recognized as an expense when earned.

(752,769)

Internal service funds are used by management to charge the costs of insurance, risk management, facilities management, dispatch and other services to individual funds. The change in net assets of internal service funds is reported as a governmental activity.

(17,422,837)

**CHANGE IN NET ASSETS**

\$ (19,307,831)

See notes to basic financial statements.

**CITY OF HILLSBORO, OREGON**

**PROPRIETARY FUNDS**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

Governmental

	Business-Type Activities - Enterprise Funds					Total	Governmental Type Activity Internal Service Funds
	Utilities Commission Fund	Sewer Fund	Surface Water Management Fund	Intermodal Transit Facility Fund	Non-major Fund		
<b>ASSETS:</b>							
Current assets:							
Cash and cash equivalents	\$ 11,661,799	\$ 4,710,024	\$ 2,451,304	\$ 37,009	\$ 5,015	\$ 18,865,151	\$ 2,936,521
Investments	32,568,744	13,153,078	6,845,331	103,361	14,005	52,684,519	8,201,313
Accounts receivable	2,557,387	4,443,347	483,159	426	2,157	7,486,476	71,540
Other assets	219,317	-	-	-	-	219,317	-
<b>TOTAL CURRENT ASSETS</b>	<b>47,007,247</b>	<b>22,306,449</b>	<b>9,779,794</b>	<b>140,796</b>	<b>21,177</b>	<b>79,255,463</b>	<b>11,209,374</b>
Noncurrent assets:							
Investment in joint ventures	58,406,534	-	-	-	-	58,406,534	-
Deferred water and pumping station rights	-	-	-	-	-	-	-
Capital assets not being depreciated	14,435,811	4,335,834	1,563,600	1,600,000	1,183,988	23,119,233	14,773,180
Capital assets, net	84,422,969	34,533,108	23,939,491	15,509,071	-	158,404,639	68,584,511
<b>TOTAL NONCURRENT ASSETS</b>	<b>157,265,314</b>	<b>38,868,942</b>	<b>25,503,091</b>	<b>17,109,071</b>	<b>1,183,988</b>	<b>239,930,406</b>	<b>83,357,691</b>
<b>TOTAL ASSETS</b>	<b>204,272,561</b>	<b>61,175,391</b>	<b>35,282,885</b>	<b>17,249,867</b>	<b>1,205,165</b>	<b>319,185,869</b>	<b>94,567,065</b>
<b>LIABILITIES:</b>							
Current liabilities:							
Accounts payable	658,622	2,836,563	170,011	6,359	69	3,671,624	1,400,027
Compensated absences payable	176,501	103,820	77,916	-	-	358,237	572,608
Worker's compensation claims payable	-	-	-	-	-	-	233,943
Interest payable	24,837	-	-	-	-	24,837	95,104
Customer advances	919	2,452	26,059	-	-	29,430	-
Bonds payable	1,765,000	-	-	-	-	1,765,000	1,230,000
Notes payable	19,239	-	-	-	-	19,239	163,870
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,645,118</b>	<b>2,942,835</b>	<b>273,986</b>	<b>6,359</b>	<b>69</b>	<b>5,868,367</b>	<b>3,695,552</b>
Long-term liabilities:							
Other post employment benefits payable	199,638	112,575	84,487	-	-	396,700	455,407
Bonds payable	13,655,000	-	-	-	-	13,655,000	30,870,000
Notes payable	-	-	-	-	-	-	3,355,000
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>13,854,638</b>	<b>112,575</b>	<b>84,487</b>	<b>-</b>	<b>-</b>	<b>14,051,700</b>	<b>34,680,407</b>
<b>TOTAL LIABILITIES</b>	<b>16,499,756</b>	<b>3,055,410</b>	<b>358,473</b>	<b>6,359</b>	<b>69</b>	<b>19,920,067</b>	<b>38,375,959</b>
<b>NET ASSETS:</b>							
Invested in capital assets, net of related debt	83,419,541	38,868,942	25,503,091	17,109,071	1,183,988	166,084,633	44,400,282
Unrestricted	104,353,264	19,251,039	9,421,321	134,437	21,108	133,181,169	11,790,824
<b>TOTAL NET ASSETS</b>	<b>\$ 187,772,805</b>	<b>\$ 58,119,981</b>	<b>\$ 34,924,412</b>	<b>\$ 17,243,508</b>	<b>\$ 1,205,096</b>	<b>\$ 299,265,802</b>	<b>\$ 56,191,106</b>

See notes to basic financial statements.

**CITY OF HILLSBORO, OREGON**

**PROPRIETARY FUNDS**

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS**

**YEAR ENDED JUNE 30, 2011**

Governmental

	Business-Type Activities - Enterprise Funds					Total	Governmental Type Activity Internal Service Funds
	Utilities Commission Fund	Sewer Fund	Surface Water Management Fund	Intermodal Transit Facility Fund	Non-major Fund		
<b>OPERATING REVENUES:</b>							
Charges for services, net of allowance for doubtful accounts	\$ 13,782,101	\$ 1,210,416	\$ 2,705,275	\$ -	\$ 22,325	\$ 17,720,117	\$ 17,266,001
Installation and connection fees	888,163	2,405,726	374,115	-	-	3,668,004	-
Leasehold revenues	-	-	-	50,000	-	50,000	-
Other	226,197	1,727,066	1,960	-	23,807	1,979,030	1,611,116
<b>TOTAL OPERATING REVENUES</b>	<b>14,896,461</b>	<b>5,343,208</b>	<b>3,081,350</b>	<b>50,000</b>	<b>46,132</b>	<b>23,417,151</b>	<b>18,877,117</b>
<b>OPERATING EXPENSES:</b>							
Salaries and fringe benefits	3,382,932	1,459,722	1,673,599	-	-	6,516,253	9,555,140
Operating supplies	1,051,351	37,695	18,123	25,856	-	1,133,025	1,350,019
Repairs and maintenance	259,605	398,064	228,222	4,436	-	890,327	1,727,988
Rental expense	-	-	-	-	-	-	250,474
Water purchases	2,417,804	-	-	-	-	2,417,804	-
Utilities	130,206	4,863	5,676	35,097	9,578	185,420	1,399,903
Insurance	136,494	85,000	30,000	-	-	251,494	662,979
Claims expense	-	-	-	-	-	-	814,812
Payment in lieu of property taxes	426,734	599,014	123,130	-	-	1,148,878	-
Fees and assessments	129,561	9,859	5,461	-	-	143,881	247,038
Contractual services	108,318	88,320	11,231	10,374	382	218,625	1,902,143
Depreciation and amortization	2,717,228	912,149	776,249	262,906	-	4,668,532	3,536,325
Support services	1,176,698	730,743	585,314	-	20,494	2,513,249	89,393
Other	12,424	6,551	2,952	-	1,391	23,318	166,204
<b>TOTAL OPERATING EXPENSES</b>	<b>11,948,355</b>	<b>4,331,980</b>	<b>3,459,957</b>	<b>338,669</b>	<b>31,845</b>	<b>20,110,806</b>	<b>21,702,418</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,948,106</b>	<b>1,011,228</b>	<b>(378,607)</b>	<b>(288,669)</b>	<b>14,287</b>	<b>3,306,345</b>	<b>(2,825,301)</b>
<b>NONOPERATING INCOME (EXPENSE):</b>							
Interest income	456,638	187,783	95,735	700	173	741,029	80,230
Gain on disposal of capital assets	-	-	-	-	-	-	5,759
Grants and donations	558,811	-	7,004	-	-	565,815	-
Equity in net loss of joint ventures	(1,646,065)	-	-	-	-	(1,646,065)	-
Interest expense	(633,647)	-	-	-	-	(633,647)	(1,572,827)
Strategic investment program	-	-	-	-	-	-	3,704,779
<b>TOTAL NONOPERATING INCOME (EXPENSE)</b>	<b>(1,264,263)</b>	<b>187,783</b>	<b>102,739</b>	<b>700</b>	<b>173</b>	<b>(972,868)</b>	<b>2,217,941</b>
<b>NET INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	<b>1,683,843</b>	<b>1,199,011</b>	<b>(275,868)</b>	<b>(287,969)</b>	<b>14,460</b>	<b>2,333,477</b>	<b>(607,360)</b>
<b>TRANSFERS IN</b>	<b>-</b>	<b>70,000</b>	<b>-</b>	<b>159,500</b>	<b>-</b>	<b>229,500</b>	<b>716,000</b>
<b>TRANSFERS OUT</b>	<b>(193,000)</b>	<b>(558,000)</b>	<b>(85,500)</b>	<b>-</b>	<b>-</b>	<b>(836,500)</b>	<b>(159,500)</b>
<b>TRANSFERS, NET</b>	<b>(193,000)</b>	<b>(488,000)</b>	<b>(85,500)</b>	<b>159,500</b>	<b>-</b>	<b>(607,000)</b>	<b>556,500</b>
<b>CONTRIBUTION OF CAPITAL ASSETS</b>	<b>1,020,220</b>	<b>844,165</b>	<b>413,445</b>	<b>17,371,977</b>	<b>-</b>	<b>19,649,807</b>	<b>(17,371,977)</b>
<b>CHANGE IN NET ASSETS</b>	<b>2,511,063</b>	<b>1,555,176</b>	<b>52,077</b>	<b>17,243,508</b>	<b>14,460</b>	<b>21,376,284</b>	<b>(17,422,837)</b>
<b>NET ASSETS, July 1, 2010</b>	<b>185,261,742</b>	<b>56,564,805</b>	<b>34,872,335</b>	<b>-</b>	<b>1,190,636</b>	<b>277,889,518</b>	<b>73,613,943</b>
<b>NET ASSETS, June 30, 2011</b>	<b>\$ 187,772,805</b>	<b>\$ 58,119,981</b>	<b>\$ 34,924,412</b>	<b>\$ 17,243,508</b>	<b>\$ 1,205,096</b>	<b>\$ 299,265,802</b>	<b>\$ 56,191,106</b>

See notes to basic financial statements.

**CITY OF HILLSBORO, OREGON**

**PROPRIETARY FUNDS**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2011**

	Business-Type Activities - Enterprise Funds					Governmental	
	Utilities Commission Fund	Sewer Fund	Surface Water Management Fund	Intermodal Transit Facility Fund	Non-major Fund	Total	Type
							Activity
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Cash received for services	\$ 14,469,431	\$ 3,759,310	\$ 3,309,694	\$ 49,574	\$ 46,099	\$ 21,634,108	\$ 19,042,574
Cash paid to suppliers for goods and services	(5,091,255)	(846,003)	(912,851)	(69,404)	(32,097)	(6,951,610)	(10,363,368)
Cash paid to employees for services	(3,385,566)	(1,419,896)	(1,638,057)	-	-	(6,443,519)	(9,415,213)
Payment in lieu of property taxes	(426,734)	(599,014)	(123,130)	-	-	(1,148,878)	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>5,565,876</b>	<b>894,397</b>	<b>635,656</b>	<b>(19,830)</b>	<b>14,002</b>	<b>7,090,101</b>	<b>(736,007)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>							
Grants and donations	558,811	-	7,004	-	-	565,815	-
Transfers from other funds	-	70,000	-	159,500	-	229,500	716,000
Transfers to other funds	(193,000)	(558,000)	(85,500)	-	-	(836,500)	(159,500)
Contributions to joint ventures	(554,522)	-	-	-	-	(554,522)	-
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES</b>	<b>(188,711)</b>	<b>(488,000)</b>	<b>(78,496)</b>	<b>159,500</b>	<b>-</b>	<b>(595,707)</b>	<b>556,500</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
Acquisition of capital assets	(2,062,038)	(3,349,754)	(537,620)	-	-	(5,949,412)	(4,820,324)
Customer advances	-	(57,134)	(85,178)	-	-	(142,312)	-
Proceeds from sale of capital assets	-	-	-	-	-	-	5,759
Proceeds from issuance of bonds	-	-	-	-	-	-	9,110,000
Principal payments on bonds	(1,700,000)	-	-	-	-	(1,700,000)	(1,015,000)
Principal payments on notes	(18,588)	-	-	-	-	(18,588)	(166,850)
Payments on line of credit	-	-	-	-	-	-	(63,100)
Interest expense	(637,639)	-	-	-	-	(637,639)	(1,547,559)
Strategic investment program	-	-	-	-	-	-	3,704,779
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(4,418,265)</b>	<b>(3,406,888)</b>	<b>(622,798)</b>	<b>-</b>	<b>-</b>	<b>(8,447,951)</b>	<b>5,207,705</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Interest received on investments	456,638	187,783	95,735	700	173	741,029	73,861
<b>NET CHANGE IN CASH, CASH EQUIVALENTS AND INVESTMENTS</b>	<b>1,415,538</b>	<b>(2,812,708)</b>	<b>30,097</b>	<b>140,370</b>	<b>14,175</b>	<b>(1,212,528)</b>	<b>5,102,059</b>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, July 1, 2010</b>	<b>42,815,005</b>	<b>20,675,810</b>	<b>9,266,538</b>	<b>-</b>	<b>4,845</b>	<b>72,762,198</b>	<b>6,035,775</b>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, June 30, 2011</b>	<b>\$ 44,230,543</b>	<b>\$ 17,863,102</b>	<b>\$ 9,296,635</b>	<b>\$ 140,370</b>	<b>\$ 19,020</b>	<b>\$ 71,549,670</b>	<b>\$ 11,137,834</b>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS</b>							
Cash and cash equivalents	\$ 11,661,799	\$ 4,710,024	\$ 2,451,304	\$ 37,009	\$ 5,015	\$ 18,865,151	\$ 2,936,521
Investments	32,568,744	13,153,078	6,845,331	103,361	14,005	52,684,519	8,201,313
	<b>\$ 44,230,543</b>	<b>\$ 17,863,102</b>	<b>\$ 9,296,635</b>	<b>\$ 140,370</b>	<b>\$ 19,020</b>	<b>\$ 71,549,670</b>	<b>\$ 11,137,834</b>

See notes to basic financial statements.

**CITY OF HILLSBORO, OREGON**

**PROPRIETARY FUNDS**

**STATEMENT OF CASH FLOWS (Continued)**

**YEAR ENDED JUNE 30, 2011**

	Business-Type Activities - Enterprise Funds					Governmental	
	Utilities Commission Fund	Sewer Fund	Surface Water Management Fund	Intermodal Transit Facility Fund	Non-major Fund	Total	Type
							Activity
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED FROM OPERATING ACTIVITIES</b>							
Operating income (loss)	\$ 2,948,106	\$ 1,011,228	\$ (378,607)	\$ (288,669)	\$ 14,287	\$ 3,306,345	\$ (2,825,301)
Adjustments to reconcile operating income to net cash from operating activities:							
Depreciation and amortization	2,717,228	912,149	776,249	262,906	-	4,668,532	3,536,325
Collections received for Clean Water Services	-	(17,376,185)	(932,336)	-	-	(18,308,521)	-
Remittances of collections to Clean Water Services	-	17,376,185	932,336	-	-	18,308,521	-
Change in assets and liabilities:							
Receivables	(427,030)	(1,583,898)	228,344	(426)	(33)	(1,783,043)	165,457
Accounts payable	330,206	515,092	(25,899)	6,359	(252)	825,506	(1,986,365)
Worker's compensation claims payable	-	-	-	-	-	-	233,943
Compensated absences payable	(48,018)	551	3,735	-	-	(43,732)	(9,511)
Other post employment benefits payable	45,384	39,275	31,834	-	-	116,493	149,445
Total adjustments	2,617,770	(116,831)	1,014,263	268,839	(285)	3,783,756	2,089,294
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 5,565,876</b>	<b>\$ 894,397</b>	<b>\$ 635,656</b>	<b>\$ (19,830)</b>	<b>\$ 14,002</b>	<b>\$ 7,090,101</b>	<b>\$ (736,007)</b>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
Contribution of capital assets	\$ 1,020,220	\$ 844,165	\$ 413,445	\$ 17,371,977	\$ -	\$ 19,649,807	\$ (17,371,977)
Equity in net loss of joint ventures	(1,646,065)	-	-	-	-	(1,646,065)	-

See notes to basic financial statements.

**CITY OF HILLSBORO, OREGON**

**FIDUCIARY FUNDS**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,283	\$ 117,623
Investments	6,378	328,504
Accounts receivable	-	120,812
Interest receivable	26	1,352
<b>TOTAL ASSETS</b>	<u>8,687</u>	<u>568,291</u>
<b>LIABILITIES</b>		
Accounts payable	-	132,315
Amounts held in trust	-	435,976
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>568,291</u>
<b>NET ASSETS HELD IN TRUST</b>	<u>\$ 8,687</u>	<u>\$ -</u>

See notes to basic financial statements.

**CITY OF HILLSBORO, OREGON**

**PRIVATE PURPOSE TRUST FUND**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

**YEAR ENDED JUNE 30, 2011**

<b>ADDITIONS:</b>	
Interest income	\$ 87
Perpetual maintenance donations	<u>50</u>
<b>CHANGE IN NET ASSETS</b>	137
<b>NET ASSETS HELD IN TRUST - July 1, 2010</b>	<u>8,550</u>
<b>NET ASSETS HELD IN TRUST - June 30, 2011</b>	<u>\$ 8,687</u>

See notes to basic financial statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The City of Hillsboro, Oregon (the City) operates under an amended charter adopted by the voters in 1976. The Board of Councilors, composed of the Mayor and six council members, comprises the legislative branch of the government. Individual departments are under the direction of the City Manager who is appointed by the Councilors.

The City provides a full range of municipal services to the community, which include police and fire protection, traffic control and improvement, street maintenance and improvement, water, sewer and storm drain services, planning and zoning regulation, building inspection and regulation, parks and recreation services, and community library services.

As required by accounting principles generally accepted in the United States of America (GAAP), these basic financial statements present the City and Hillsboro Economic Development Council (HEDC), a blended component unit, an entity for which the City is considered to be financially accountable.

HEDC was organized to assist in the redevelopment of a targeted area of the City through tax increment financing. The Board of Councilors is the Board of Directors of HEDC. HEDC's Chair is elected by its Board. Complete financial statements for HEDC may be obtained at the City's administrative offices, City Hall, 150 East Main Street, Hillsboro, Oregon 97123.

**Basis of Presentation**

**Government-wide Financial Statements**

The Statement of Net Assets and the Statement of Activities display information about the City and its blended component unit. These statements include the financial activities of the overall City, except fiduciary activities. Eliminations have been made to minimize the double counting of internal activities; however, in the government-wide statement of activities, interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the governmental and business-type activities of the City. Governmental activities are financed through charges for services, property taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each activity of its governmental and business programs, including its blended component unit. Direct expenses are those that are specifically associated with an activity and, therefore, are clearly identifiable to that activity. Indirect expense allocations are included as part of program expenses in the Statement of Activities. Program revenues include fees, fines, and charges paid by the recipients of goods or services and grants and contributions that are restricted to meeting operational or capital requirements. Revenues that are not classified as program revenues, including property taxes and interest earnings, are presented as general

**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

**Government-wide Financial Statements (Continued)**

revenues. Generally, the effect of interfund activity such as transfers is eliminated. Net assets are reported as restricted when constraints placed on net asset's use are either externally restricted, imposed by creditors (such as through grantors, contributors or laws), or through constitutional provisions or enabling resolutions.

**Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category - governmental and proprietary are presented. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds.

The City reports the following major funds:

**Governmental**

General Fund - This is the City's primary operating fund. It accounts for all revenues and expenditures, except those required to be accounted for in another fund.

Transportation Fund - This fund accounts for the expenditures of gasoline tax revenue received under the provisions of Article IX, Section 3 of the Constitution of the State of Oregon, traffic impact fees, and system development charges. These resources are restricted for use in the construction and maintenance of the City's streets, roads and related infrastructure.

**Proprietary (Enterprise)**

Utilities Commission Fund - This fund accounts for the operation and maintenance of water service and distribution facilities.

Sewer Fund - This fund accounts for the operation and maintenance of the sewer service and collection system.

Surface Water Management Fund – This fund accounts for the operation and maintenance of the City's surface water system.

Intermodal Transit Facility Fund – This fund accounts for revenues and expenses related to the maintenance of the intermodal transit facility.

**Nonmajor**

The City also reports the following nonmajor fund types:

Special Revenue Fund - This fund accounts for revenues and expenditures related to providing building permit and inspection services.

**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

**Fund Financial Statements (Continued)**

**Nonmajor (Continued)**

Capital Projects Funds – These funds account for the acquisition and construction of capital facilities other than those financed by Proprietary Funds.

Enterprise Fund – This fund accounts for revenues and operating costs for off-street parking facilities and other properties.

Internal Service Funds – These funds account for fleet maintenance and motor vehicle use of the City, workers' compensation, maintenance and improvement of City facilities, and certain administrative services provided to various City departments.

Private Purpose Trust Fund - This fund is used to account for endowments and related interest income. The income of the trust is used to maintain the Pioneer Cemetery.

Agency Funds – These funds are used to account for assets held by the City as an agent for the following: 911 Dispatch fees received from the State of Oregon on behalf of the Washington County Consolidated Communications Agency; the Jackson Bottom Preserve, a 501 (c) (3) entity; library reserve funds; the Broadband User Group; and the Portland Users Group.

**Measurement Focus and Basis of Accounting**

Government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under terms of grant agreements, the City funds certain programs with a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus and Basis of Accounting (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from general-long term debt and acquisitions under capital leases are reported as other financing sources.

For purposes of the proprietary fund financial statements the City follows private-sector standards of accounting and financial reporting issued on or before November 30, 1989, unless that guidance conflicts or contradicts the guidance of Governmental Accounting Standards Board pronouncements. The City has elected not to follow subsequent private-sector guidance.

The proprietary fund types 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 the funds' ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Use of Estimates**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

**Cash, Cash Equivalents, and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of investments in the Oregon State Treasurer's Local Government Investment Pool (LGIP), U.S. Government obligations and corporate bonds. Investments in the LGIP are stated at cost, which approximates fair value and its share value. All other investments are stated at fair value. The individual funds' and blended component units' portion of the pool's fair value are presented as "Cash and Cash Equivalents" in the basic financial statements.

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash, Cash Equivalents, and Investments (Continued)**

The LGIP is administered by the Oregon State Treasury. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State who by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board which is not registered with the U.S. Securities and Exchange Commission as an investment company. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

**Receivables**

Real and personal property taxes are levied and assessed and become a lien against the property as of July 1 each year. Property taxes are payable in three installments, following the lien date, on November 15, February 15 and May 15. Discounts are allowed if the amount is paid by November 15 or February 15. Taxes unpaid and outstanding on May 15 are considered delinquent.

All accounts, property taxes, assessments, grants and contracts receivable are shown net of an allowance for uncollectible accounts.

**Investments in Joint Ventures**

Investments in joint ventures with other governments are reported at cost plus or minus the City's share of operating income or loss (equity method).

**Capital Assets**

Purchased or constructed capital assets are recorded at actual or estimated historical cost with subsequent additions at cost. Donated capital assets are recorded at their estimated fair value at the time of donation. Infrastructure (bridges, roads, and drainage systems) acquired during the year have been recorded at cost or fair value if donated by developers. The City defines capital assets as assets with an initial cost of more than \$15,000 and an estimated life of more than one year. Land, rights of way, and easements with an initial cost of less than \$15,000 are also included as capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Easements are recorded as capital assets at either the purchase price of the easement or by multiplying a set value by the area of the easement (square footage), if the easement was donated. Water rights are recorded at estimated market value determined by a third-party consultant. Water rights were converted from a cubic feet per second to acre feet per day and then multiplied by a per acre foot value. The consultants did a preliminary analysis of market values for water rights in northwest Oregon. The consultants determined that the average value is \$400 per acre foot.

**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets (Continued)**

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and structures	10 to 33
Machinery, equipment, and transmission	4 to 33
Treatment facilities	75
Dams and reservoirs	50
Infrastructure	20 to 50

**Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Because all accrued vacation may be used at any time, the City has classified compensated absences as a current liability. There is no liability reported for unpaid accumulated sick leave since the City by policy does not pay out sick leave banks when employees separate from service with the City. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Other Postemployment Benefits Obligations**

The City's net OPEB obligation is recognized as a long-term liability in the government-wide financial statements and in the proprietary fund statements, the amount of which is actuarially determined.

**Long-term Debt**

In the government-wide financial statements, long-term debt is reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. In the governmental fund financial statements bond premiums and discounts are recognized when incurred and not deferred. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether netted against proceeds or paid directly, are recorded as debt service expenditures.

**Pension Plan**

Substantially all of the City's employees are participants in the Oregon Public Employees Retirement System (OPERS), a statewide agent multi-employer defined benefit pension plan. Contributions to OPERS are made on a current basis as required by the plan and are charged to expenditures/expenses as funded.

**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Equity**

The City implemented GASB Statement No. 54 for the year ending June 30, 2011. GASB Statement No. 54 requires analysis and presentation of fund balance in five categories. The new fund balance categories are:

- Non-spendable – Includes items not in spendable form, such as prepaid items and inventory, and items legally or contractually required to be maintained intact, such as endowments.
- Restricted – Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.
- Committed – Includes items committed by the City's Board of Councilors, by resolution of the Council. Commitments may be changed or rescinded by Council resolution.
- Assigned – Includes items assigned by specific uses, authorized by the City of Hillsboro's City Manager and/or Finance Director.
- Unassigned – This is the residual classification used for those balances not assigned to another category in the General Fund, and for deficits of other governmental funds.

GASB Statement No. 54 implementation required Council approved action to authorize commitments of fund balance (required to be made prior to fiscal year end). Also, Council authorized the City of Hillsboro City Manager and/or Finance Director to make assignments of ending fund balance (which can be made at any time, including after the fiscal year end date). These actions were approved by the Council on June 21, 2011.

Finally, GASB Statement No. 54 requires a spending policy, as it relates to ending fund balance. The spending policy states in what order fund balance categories are spent. On June 21, 2011, the Council approved the following fund balance order of spending policy:

1. Restricted Fund Balance
2. Committed Fund Balance
3. Assigned Fund Balance
4. Unassigned Fund Balance

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The City maintains a common cash and investment pool for all city funds. The types of investments in which the City may invest are restricted by State of Oregon statutes and a Council adopted investment policy. Authorized investments include U.S. Treasury obligations including treasury notes, bonds and strips; Federal instrumentality securities from specific Federal Agencies; commercial paper rated at least A-1 or an equivalent rating; corporate bonds rated at least Aa or an equivalent rating; bankers acceptances rated at least Aa or an equivalent rating; the Oregon State Treasurer's Local Government Investment Pool (an unrated pool) limited by state statute; certificates of deposits; repurchase agreements and obligations of the states of Oregon, California, Idaho and Washington rated AA or better.



**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

At June 30, 2011, the City's cash, cash equivalents and investments were comprised of the following:

Cash on hand	\$ 17,785
Deposits with financial institutions	635,176
Investments:	
Oregon State Treasurer's Local Government Investment Pool	36,016,392
Certificates of Deposit	289,863
U.S. and U.S. agency obligations	104,306,348
Commercial Paper	799,621
Total pooled cash and investments	<u>\$ 142,065,185</u>

Cash, cash equivalents and investments are reflected on the basic financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 18,483,917	\$ 18,865,151	\$ 119,906	\$ 37,468,974
Investments	51,576,810	52,684,519	334,882	104,596,211
Totals	<u>\$ 70,060,727</u>	<u>\$ 71,549,670</u>	<u>\$ 454,788</u>	<u>\$ 142,065,185</u>

**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). To provide additional security required and authorized by Oregon Revised Statutes, Chapter 295, deposits above insurance limits are covered by collateral held in a multiple financial institution collateral pool administered by the State of Oregon. At June 30, 2011, bank balances of \$2,666,547 were insured by the FDIC or collateralized.

**Interest Rate Risk**

As a means to limit exposure to fair value loss arising from changes in interest rates and to allow investment maturities to coincide with projected cash needs, the City's investment policy does not allow investment maturities greater than five years. Investment maturity guidelines and actual maturities for the City's investments are as follows:

<u>Maturity</u>	<u>Maturity Guidelines</u>	<u>Actual at June 30, 2011</u>
Less than 30 days	10%	31%
Less than 1 year	25	54
Less than 5 years	100	100

**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**Credit Risk**

The City's investment policy limits ownership in commercial paper and corporate indebtedness to 20% of the portfolio at any one time. The City's policy allows 100% US Treasury or Agency securities.

The Oregon State Treasurer's Local Investment Pool is unrated. Other investments held at June 30, 2011, are categorized as follows:

<u>Rating by Standard &amp; Poor's</u>	<u>U.S. and U.S. Agency Obligations</u>	<u>Commercial Paper</u>	<u>Total</u>
AAA	\$ 104,306,348	\$ 799,621	\$ 105,105,969

**Custodial Credit Risk**

At June 30, 2011, the City had no investments exposed to custodial credit risk.

**3. ACCOUNTS RECEIVABLE**

As of June 30, 2011, accounts receivable consisted of the following:

Property taxes	\$ 1,874,474
Accounts, contracts and grants	9,488,374
Assessments	85,901
Interest	<u>431,724</u>
Total	11,880,473
Allowance for uncollectible accounts	<u>(851,447)</u>
	<u>\$ 11,029,026</u>

The allowance for uncollectible accounts pertains to utility billing collections and impacts only the business-type activities.

Accounts receivable are reflected in the basic financial statements as follows:

Accounts receivable - governmental activities	\$ 3,420,360
Accounts receivable - business-type activities	7,486,476
Statement of Fiduciary Net Assets	<u>122,190</u>
Total	<u>\$ 11,029,026</u>

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**3. ACCOUNTS RECEIVABLE (Continued)**

Assessments receivable represent uncollected amounts levied against benefited properties for the cost of local improvements and are considered to be a lien on the property until paid. Substantially all assessments are collectible over a period of ten to twenty years and bear interest from 4.23% to 10.00%.

**4. PUMPING STATION RIGHTS**

The City has an agreement with the U.S. Department of Interior, Bureau of Reclamation, for pumping rights at Scoggins Dam. These rights are included within capital assets and amortized over 40 years.

**5. JOINT VENTURES**

The Hillsboro-Forest Grove-Beaverton-Tualatin Valley Water District Joint Water Commission operates a joint water utility serving area residents. Revenues earned by the Commission are expended for the continued operation and maintenance of the facilities. The joint venture is comprised of the cities of Hillsboro (45%), Forest Grove (13 1/3%), Beaverton (25%), and the Tualatin Valley Water District (16 2/3%). The Commission is governed by three members from each venturer. The City's year-end equity investment in the Commission was \$49,504,150.

The Barney Reservoir Joint Ownership Commission was formed to own, operate, and expand the J.W. Barney Reservoir. Ownership of the joint venture is comprised of the cities of Hillsboro (31%), Forest Grove (2-1/2%), and Beaverton (21-1/2%), Tualatin Valley Water District (35%), and Clean Water Services (10%). The Commission is governed by one member from each venturer. The City's year-end equity investment in the Commission was \$8,902,384.

Complete financial statements for the Commissions may be obtained at the City's administrative offices, City Hall, 150 East Main Street, Hillsboro, Oregon, 97123.

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**6. CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Transfers/ Decreases	Balance June 30, 2011
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land and easements	\$ 218,717,168	\$ 7,096,960	\$ (1,600,000)	\$ 224,214,128
Construction in progress	17,192,606	9,227,423	(19,458,210)	6,961,819
Total capital assets not being depreciated	<u>235,909,774</u>	<u>16,324,383</u>	<u>(21,058,210)</u>	<u>231,175,947</u>
Capital assets being depreciated:				
Buildings and structures	133,723,767	1,013,087	3,706,678	138,443,532
Temporary Easements	-	248,522	-	248,522
Machinery and equipment	22,268,704	1,216,315	-	23,485,019
Infrastructure	425,896,912	2,060,235	-	427,957,147
Total capital assets being depreciated	<u>581,889,383</u>	<u>4,538,159</u>	<u>3,706,678</u>	<u>590,134,220</u>
Less accumulated depreciation for:				
Buildings and structures	(29,549,958)	(4,290,363)	-	(33,840,321)
Temporary Easements	-	(24,852)	-	(24,852)
Machinery and equipment	(16,248,872)	(1,892,796)	-	(18,141,668)
Infrastructure	(284,560,229)	(17,785,319)	-	(302,345,548)
Total accumulated depreciation	<u>(330,359,059)</u>	<u>(23,993,330)</u>	<u>-</u>	<u>(354,352,389)</u>
Total capital assets being depreciated, net	<u>251,530,324</u>	<u>(19,455,171)</u>	<u>3,706,678</u>	<u>235,781,831</u>
Total capital assets, net	<u>\$ 487,440,098</u>	<u>\$ (3,130,788)</u>	<u>\$ (17,351,532)</u>	<u>\$ 466,957,778</u>

Governmental activities depreciation expense was charged to programs as follows:

General government	\$ 2,163,413
Public safety and judicial	1,041,649
Community Service	413,588
Culture and recreation	2,589,361
Roads and bridges	17,785,319
Total	<u>\$ 23,993,330</u>

Transfers and decreases above primarily includes a capital contribution made to the Business-type activities in the amount of \$17,371,977.

**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**6. CAPITAL ASSETS (Continued)**

	Balance July 1, 2010	Increases	Transfers/ Decreases	Balance June 30, 2011
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land and easements	\$ 2,300,847	\$ 1,328,963	\$ 1,600,000	\$ 5,229,810
Water Rights	6,174,800	-	-	6,174,800
Construction in progress	19,198,078	5,418,417	(12,901,872)	11,714,623
Total capital assets not being depreciated	<u>27,673,725</u>	<u>6,747,380</u>	<u>(11,301,872)</u>	<u>23,119,233</u>
Capital assets being depreciated:				
Deferred water and pumping station rights	1,207,153	-	-	1,207,153
Buildings and structures	3,258,092	-	15,771,977	19,030,069
Machinery, equipment, and transmission	91,136,253	530,996	12,901,872	104,569,121
Treatment facilities	447,301	-	-	447,301
Dams and reservoirs	194,570	-	-	194,570
Infrastructure	98,369,070	948,867	-	99,317,937
Total capital assets being depreciated	<u>194,612,439</u>	<u>1,479,863</u>	<u>28,673,849</u>	<u>224,766,151</u>
Less accumulated depreciation for:				
Deferred water and pumping station rights	(757,643)	(48,977)	-	(806,620)
Buildings and structures	(599,421)	(366,861)	-	(966,282)
Machinery, equipment, and transmission	(31,500,057)	(2,191,118)	-	(33,691,175)
Treatment facilities	(314,352)	(13,926)	-	(328,278)
Dams and reservoirs	(71,881)	(3,647)	-	(75,528)
Infrastructure	(28,466,859)	(2,026,770)	-	(30,493,629)
Total accumulated depreciation	<u>(61,710,213)</u>	<u>(4,651,299)</u>	<u>-</u>	<u>(66,361,512)</u>
Total capital assets being depreciated, net	<u>132,902,226</u>	<u>(3,171,436)</u>	<u>28,673,849</u>	<u>158,404,639</u>
Total capital assets, net	<u>\$ 160,575,951</u>	<u>\$ 3,575,944</u>	<u>\$ 17,371,977</u>	<u>\$ 181,523,872</u>

Business-type activities depreciation expense was charged to the water, sewer, surface water management and intermodal transit facility functions as follows:

Water	\$ 2,699,995
Sewer	912,149
Surface water management	776,249
Intermodal transit facility	<u>262,906</u>
Total	<u>\$ 4,651,299</u>

Transfers and decreases above primarily includes a capital contribution made from the Governmental activities in the amount of \$17,371,977.

**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**7. LONG-TERM DEBT**

**Bonds Payable**

Bonds payable transactions for the year are as follows:

	Original Amount	Outstanding July 1, 2010	Issued	Redeemed	Outstanding June 30, 2011
<b>Governmental activities:</b>					
Full Faith and Credit Obligations:					
Series 2004 Civic Center and Aquatic Center facilities, interest 3.0% - 5.25%, due 2029	\$ 26,415,000	\$ 24,005,000	\$ -	\$ 775,000	\$ 23,230,000
Series 2010A Gordon-Faber Recreation Complex Improvements, interest 1.034% - 2.0%, due 2014	1,080,000	-	1,080,000	240,000	840,000
Series 2010B Cherry Lane Fire Station interest 2.0% - 3.5%, due 2022	3,650,000	-	3,650,000	-	3,650,000
Series 2010C Jones Farm Fire Station interest 5.25% - 6.185%, due 2030	4,380,000	-	4,380,000	-	4,380,000
Total Governmental activities	<u>\$ 35,525,000</u>	<u>\$ 24,005,000</u>	<u>\$ 9,110,000</u>	<u>\$ 1,015,000</u>	<u>32,100,000</u>
Current portion					<u>(1,230,000)</u>
Long-term portion					<u>\$ 30,870,000</u>
<b>Business-type activities:</b>					
2003 Water Revenue and Refunding					
Bonds; interest 2.0%-4.6%	\$ 26,195,000	\$ 17,120,000	\$ -	\$ 1,700,000	\$ 15,420,000
Current portion					<u>(1,765,000)</u>
Long-term portion					<u>\$ 13,655,000</u>

As part of the Water System bond covenants the City is required to maintain net revenue equal to 1.25 times the annual debt service of the bonds and net revenues less system development charges equal to 1.15 times the annual debt service of the bonds. The City was in compliance with these covenants for the year ended June 30, 2011.

The City issued full faith and credit obligations for the construction of a civic center and aquatic facilities in 2004. Full faith and credit obligations were issued in 2010 for replacement of artificial turf and scoreboards at the Gordon-Faber Recreation Complex, and the construction of the Cherry Lane and Jones Farm firestations. Series 2010A is a taxable bond. Series 2010B is tax exempt bond. Series 2010C was issued as Taxable Recovery Zone Development Bond (RZEDB). RZEDB bonds are part of a federal program that allows municipalities to issue debt at a lower cost than a traditional tax exempt financing.

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**7. LONG-TERM DEBT (Continued)**

**Bonds Payable (Continued)**

Water revenue bonds were issued in 2003 for the construction of water projects and to refund previously issued water revenue bonds. The full faith and credit obligations are payable from the general revenues of the City and the water revenue and refunding bonds from water revenues.

Future maturities of bond principal and interest at June 30, 2011, are as follows:

Governmental Activities			Business-Type Activities		
Full Faith and Credit Obligations			2003 Water Revenue and Refunding Bonds		
Fiscal Year	Principal	Interest	Fiscal Year	Principal	Interest
2012	\$ 1,230,000	\$ 1,511,135	2012	\$ 1,765,000	\$ 577,700
2013	1,360,000	1,471,593	2013	1,830,000	516,553
2014	1,420,000	1,425,749	2014	1,905,000	450,238
2015	1,340,000	1,363,224	2015	1,985,000	378,233
2016	1,380,000	1,309,124	2016	730,000	326,283
2017-2021	7,870,000	5,611,332	2017-2021	4,180,000	1,146,275
2022-2026	9,815,000	3,613,931	2022-2024	3,025,000	211,518
2027-2030	7,685,000	910,473			
	<u>\$ 32,100,000</u>	<u>\$ 17,216,561</u>		<u>\$ 15,420,000</u>	<u>\$ 3,606,800</u>

**Notes Payable**

	Original Amount	Outstanding July 1, 2010	Decrease	Outstanding June 30, 2011
<b>Governmental Activities:</b>				
Music Village; interest at 7%, monthly payments of principal and interest of \$1,509, due 2012	\$ 115,789	\$ 25,720	\$ 16,850	\$ 8,870
Library note; interest at 4.3%, due semi-annually on June 1 and December 1; principal is payable June 1 of each year, due 2027	4,075,000	3,660,000	150,000	3,510,000
	<u>\$4,190,789</u>	<u>\$3,685,720</u>	<u>\$ 166,850</u>	3,518,870
Current portion				(163,870)
Long-term portion				<u>\$3,355,000</u>

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**7. LONG-TERM DEBT (Continued)**

**Notes Payable (Continued)**

	Original Amount	Outstanding July 1, 2010	Decrease	Outstanding June 30, 2011
<b>Business - Type Activities:</b>				
US. Department of the Interior, Bureau of Reclamation; interest at 3.5%, annual payments of principal and interest of \$19,913, due 2012	\$ 283,000	\$ 37,827	\$ 18,588	\$ 19,239
Current portion				(19,239)
Long-term portion				<u>\$ -</u>

Future maturities are as follows:

Governmental Activities		
Fiscal Year	Principal	Interest
2012	\$ 163,870	\$ 151,116
2013	165,000	144,265
2014	170,000	137,170
2015	180,000	129,860
2016	185,000	122,120
2017-2021	1,055,000	483,965
2022-2026	1,305,000	236,500
2027	295,000	12,685
	<u>\$ 3,518,870</u>	<u>\$ 1,417,681</u>

**Compensated Absences**

On an entity-wide basis for Governmental Activities, the City accrues the outstanding vacation and compensatory time earned but not paid to employees. The General and Transportation Funds are primarily responsible for payment of this liability for the Governmental Activities. The Business-Type Activities are on an accrual basis and all accruals related to compensated absences are recorded in the respective funds. The following represents the City's liability for compensated absences at June 30, 2011:

	Governmental Activities	Business-Type Activities
Balance, July 1, 2010	\$ 3,816,068	\$ 401,969
Additions	181,315	4,285
Deletions	(36,723)	(48,017)
Balance, June 30, 2011	<u>\$ 3,960,660</u>	<u>\$ 358,237</u>

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**8. OPERATING LEASES**

The City leases buildings under noncancellable operating leases. Total cost for these leases amounted to approximately \$280,000 for the year ended June 30, 2011. Future payments are due as follows:

Fiscal Year	Amount
2012	\$ 323,000
2013	308,000
2014	310,000
2015	274,000
2016	263,000
2017-2018	247,000
	<u>\$ 1,725,000</u>

**9. TRANSFERS TO/FROM OTHER FUNDS**

Transfers to/from other funds consisted of the following:

Amount	Description
\$ 38,000	General Fund to Transportation Fund for City engineering
475,000	General Fund to the Non-major Governmental Funds for park capital costs
184,000	General Fund to the Internal Services Funds for permitting and asset management software
634,503	Transportation Fund to General Fund for street lighting, economic development, and planning
62,500	Transportation Fund to the Non-major Governmental Funds for operations
28,000	Transportation Fund to Internal Services Funds for permitting software
70,000	Transportation Fund to Sewer Fund for overlay repayment
70,000	Utilities Commission Fund to General Fund for economic development and operations
75,000	Utilities Commission Fund to the Non-major Governmental Funds for operations
48,000	Utilities Commission Fund to Internal Services Fund for permitting software
455,000	Sewer Fund to General Fund for Jackson Bottom operations, economic development and planning
75,000	Sewer Fund to the Non-major Governmental Fund for operations
28,000	Sewer Fund to the Internal Services Funds for permitting software
45,000	Surface Water Management Fund to General Fund for economic development and planning
12,500	Surface Water Management Fund to the Non-major Governmental Funds for operations
28,000	Surface Water Management Fund to the Internal Services Funds for permitting software
159,500	Internal Services Fund to Intermodal Transit Facility for operations
400,000	Non-Major Governmental Funds to Internal Services Fund for permitting software
<u>\$ 2,888,003</u>	

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**9. TRANSFERS TO/FROM OTHER FUNDS (Continued)**

	Governmental Activities	Business-Type Activities	Internal Service	Total
Transfers in	\$ 1,942,503	\$ 229,500	\$ 716,000	\$ 2,888,003
Transfers out	(1,892,003)	(836,500)	(159,500)	(2,888,003)
Capital contributions in/(out)	-	17,371,977	(17,371,977)	-
Totals	<u>\$ 50,500</u>	<u>\$ 16,764,977</u>	<u>\$ (16,815,477)</u>	<u>\$ -</u>

**10. PENSION PLAN**

**Pension Plan Description**

Substantially all City employees, after six months of employment, are participants in the State of Oregon OPERS. The City's policy is to fund pension costs as determined by actuarial valuations.

The City contributes to the Oregon Public Employees Retirement System (PERS) and to the Oregon Public Service Retirement Plan (OPSRP). PERS is an agent multi-employer defined benefit public employee retirement system. OPSRP is a hybrid retirement plan with two components: the Pension Program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan) and the Individual Account Program (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan). A defined benefit plan is benefit-based and uses predictable criteria such as a pension determined by salary multiplied by length of service multiplied by a factor. A defined contribution plan has no guarantee. OPSRP is administered by PERS. PERS acts as a common investment and administrative agent for political subdivisions in the State of Oregon.

The 2003 Oregon Legislature established OPSRP. Public employees hired on or after August 29, 2003, become part of OPSRP, unless membership was previously established in PERS. The 1995 Oregon Legislature established a different level of benefits for employees who began their six-month waiting period on or after January 1, 1996. This level is called Tier Two.

Benefits generally vest after five years of continuous service. Retirement is allowed at age fifty-eight with unreduced benefits, but retirement is generally available after age fifty-five with reduced benefits. Retirement benefits based on salary and length of service are calculated using a formula and are payable in a lump sum or monthly using several payment options. OPERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statutes.

The OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700 or by calling 1(888) 320-7377.

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**10. PENSION PLAN (Continued)**

**Funding Policy**

Members of PERS are required to contribute 6% of their salary covered under the plan. The City is required by ORS 238.225 to contribute at an actuarially determined rate. The current rate is 8.79% for PERS, 6.29% for OPSRP, and 9.00% OPSRP for police and fire personnel of salary covered under the plan. The contribution requirements for plan members and the City are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

**Annual Pension Cost**

For the years ended June 30, 2011, 2010, and 2009, the City's annual pension costs were approximately \$4,804,000, \$4,406,000 and \$5,525,000 respectively, and were equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007, actuarial valuation, using the entry age actuarial cost method, performed as of that date. This method does not amortize unfunded actuarial accrued liabilities. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75% per year, and (c) 2.75% per year cost-of-living increases. The actuarial value of PERS assets is valued on the Expected Value Method. The City's unfunded actuarial liability is being amortized as a level percentage of payrolls over 30 years on an open basis.

The following table presents a schedule of funding progress for the City:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (Assets)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability (Asset) as a Percent of Covered Payroll
12/31/2009	\$ 122,679,000	\$ 145,509,000	\$ 22,830,000	84 %	\$ 45,164,000	51 %

**11. OTHER POST EMPLOYMENT BENEFITS**

**Plan Description**

The City is required by Oregon Revised Statutes 243.303 to provide retirees with group health and dental insurance from the date of retirement to age 65 at the same rate provided to current employees. Government Accounting Standards Board Statement No. 45 (GASB 45) is applicable to the City due to the resulting implicit rate subsidy. In addition to the implicit subsidy defined under GASB 45, the City of Hillsboro also has an explicit subsidy where the employer pays benefits on behalf of the retiree. The actuarial valuation considers the both the implicit and explicit subsidy for purposes of determining the annual required contribution (ARC). This is not a stand-alone plan and there are no separately issued financial statements.

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**11. OTHER POST EMPLOYMENT BENEFITS (Continued)**

**Funding Policy**

The City collects insurance premiums from all participating retirees each month. The City then pays health and dental insurance premiums for all retirees at the blended rate for each family classification to the insurance company. The required contributions to the plan include the employer's pay-as-you-go amount, an amount paid by retirees and an additional amount calculated to prefund future benefits as determined by the actuary.

The required monthly contributions of the plan members were as follows for the year ended June 30, 2011. The rates are established through negotiation with the City's insurance carrier each year and approved by the City Council.

	Health		Dental	
	Blue Cross	Kaiser	ODS	Willamette Dental
Employee	\$ 536	\$ 452	\$ 52	\$ 51
Employee + 1	1,119	936	90	87
Full Family	1,510	1,271	156	151

**Explicit Subsidy**

Pursuant to a union agreement, the City established a post-employment employee benefit program covering all eligible employees retiring from a position in the bargaining unit. The program is designed to assist retiring employees to continue their medical insurance coverage through the City until the employee reaches the age of eligibility for Medicare coverage, usually age 65. In order to participate in the program, the retiring employee must be eligible for retirement benefits under OPERS, which requires attaining age 50 and completing at least 25 years of service.

Under the contract in place during the actuarial evaluation period, the City pays between \$75 and \$100 for single coverage, \$150 and \$175 for two-party coverage and \$175 and \$200 for family coverage.

For the year ended June 30, 2011, 16 retirees met the above eligibility requirements and received approximately \$27,000 in postretirement health care benefits. The City's contributions for these benefits are funded on a "pay-as-you-go" basis.

**Annual OPEB Cost and Net OPEB Obligation**

The City's annual other post employment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 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 changes in the City's OPEB obligation to the plan:

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**11. OTHER POST EMPLOYMENT BENEFITS (Continued)**

**Annual OPEB Cost and Net OPEB Obligation (Continued)**

Annual required contribution	\$ 1,590,000
Interest on prior year net OPEB obligation	97,000
Adjustment to annual required contribution	<u>(152,000)</u>
Annual OPEB cost	1,535,000
Expected benefit payments	(30,000)
Implicit benefits payments	<u>(436,000)</u>
Increase in net OPEB obligation	1,069,000
Net OPEB obligation, beginning of year	2,148,000
Net OPEB obligation, end of year	<u>\$ 3,217,000</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2010-11 is as follows.

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 1,535,000	30%	\$ 3,217,000
2010	1,462,000	26%	2,148,000
2009	1,405,000	40%	1,073,000

The above information ties directly to the actuarial study administered through CIS. The City participates in two joint ventures: the Joint Water Commission, and the Barney Reservoir Joint Ownership Commission. All employees are employees of the City of Hillsboro; however, some of the other post employment liability was allocated to the joint venturers in order to allocate expenses appropriately. The City represents \$3,123,060 of the total Net OPEB obligation with the remainder allocated to both Joint Venturers.

**Funding Status and Funding Progress**

As of August 1, 2010 the most recent actuarial valuation date, the plan was funded on a pay-as-you-go basis and therefore had no assets. The actuarial accrued liability for benefits was \$11,050,000 and also equaled the unfunded actuarial accrued liability (UAAL).

The actuarial valuation of this plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence 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 annual required contributions are subject to periodic revision as actual results for each period are compared with past expectations and new estimates are made about the future.

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**11. OTHER POST EMPLOYMENT BENEFITS (Continued)**

**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 between the employer and plan members to that point. 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 August 1, 2010 valuation, the projected unit credit cost method was used. The investment return for the City was assumed to be 4.0% to reflect the rate of return on the City's investment portfolio and other comparable investment vehicles. Health care cost trends were assumed to increase 8.5% in the first year, 7.5% in the second year, 6.5% in the third year, 6.0% for the 4<sup>th</sup> through 23<sup>rd</sup> year, 5.5% for the 24<sup>th</sup> through 47<sup>th</sup> year and 5.0% thereafter. The UAAL is being amortized over a closed period of 30 years.

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability	Unfunded liability (UAAL)	Funded ratio	Covered payroll	UAAL percent payroll
8/1/2010	\$ -	\$ 11,050,000	\$ 11,050,000	0 %	\$ 48,620,000	23 %

**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 other postemployment defined benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statue (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700.

**Funding Policy**

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 costs of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**11. OTHER POST EMPLOYMENT BENEFITS (Continued)**

**Retirement Health Insurance Account (RHIA) (Continued)**

**Funding Policy (Continued)**

the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in the ORS 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 creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a 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 cities are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.29% for Tier 1 and 2, 0.19% for OPSRP, and 0.19% for OPSRP for police and fire personnel, of annual covered payroll. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the 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 costs 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 year ended June 30, 2011 are included in the PERS annual pension amount.

**12. OTHER INFORMATION**

**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance. The City has established a self insured program for workers' compensation. The City also purchases excess insurance to cover worker comp claims that incur costs in excess of \$500,000 per claim. Settlements have not exceeded commercial insurance coverage, or self insured workers compensation limits for the past three years.

**Deferred Compensation Plan**

The City has a deferred compensation plan created in accordance with the Internal Revenue Code Section 457(g). The Plan is administered by independent plan administrators through administrative service agreements. The Plan is available to all employees of the City.

**CITY OF HILLSBORO, OREGON**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**12. OTHER INFORMATION (Continued)**

**Deferred Compensation Plan (Continued)**

Employees may defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Plan's assets are held in a custodial account for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of the City's creditors, nor can they be used by the City for any purpose other than the payment of benefits to the Plan participants. Accordingly, these Plan assets and related liability are not recorded in the City's basic financial statements.

**13. COMMITMENTS AND CONTINGENCIES**

The City has used its bonding authority to issue \$15,000,000 in refunding bonds on behalf of The Hospital Facilities Authority of Hillsboro. The bonds are to be paid solely from the revenues and assets of The Hospital Facilities Authority of Hillsboro, and are not an obligation of the City. As of June 30, 2011, the principal outstanding on these bonds totaled \$15,000,000.

Under an agreement with Clean Water Services, the City is required to collect and remit the following:

- 83.69% of sewer service fees
- 25.00% of surface water management fees
- 96.018% of sanitary sewer connection charges

For the year ended June 30, 2011, the City remitted approximately \$18,669,000 to Clean Water Services.

As of June 30, 2011, the City has outstanding construction and services commitments amounting to approximately \$13,319,000.



**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**14. FUND BALANCE CLASSIFICATION**

Below is a schedule of ending fund balances as of June 30, 2011, based on GASB Statement No. 54 implementation:

	General Fund	Transportation Fund	Non-Major Funds	Total
<b>Fund balances:</b>				
<b>Restricted:</b>				
Cadet program	\$ 1,413,787	\$ -	\$ -	\$ 1,413,787
Law enforcement	84,612	-	-	84,612
Roads and paths maintenance	-	32,196,749	-	32,196,749
Building inspection	-	-	7,352,131	7,352,131
System development	2,603,524	-	-	2,603,524
Capital projects	-	-	31,064	31,064
<b>Total Restricted</b>	<u>4,101,923</u>	<u>32,196,749</u>	<u>7,383,195</u>	<u>43,681,867</u>
<b>Committed:</b>				
Roads maintenance	-	1,944,926	-	1,944,926
<b>Total Committed</b>	<u>-</u>	<u>1,944,926</u>	<u>-</u>	<u>1,944,926</u>
<b>Assigned:</b>				
Economic development	624,582	-	-	624,582
Roads maintenance	-	371,727	-	371,727
<b>Total Assigned</b>	<u>624,582</u>	<u>371,727</u>	<u>-</u>	<u>996,309</u>
<b>Unassigned</b>	<u>12,658,087</u>	<u>-</u>	<u>-</u>	<u>12,658,087</u>
<b>Total fund balances</b>	<u>\$ 17,384,592</u>	<u>\$ 34,513,402</u>	<u>\$ 7,383,195</u>	<u>\$ 59,281,189</u>

Below are schedules of the restatement of fund balances as of July 1, 2010, based on GASB Statement No. 54 implementation.

Fund balances at July 1, 2010 as previously stated:

	General Fund	Transportation Fund	Non-Major Funds	Total
<b>Fund balances:</b>				
Reserved for building improvements	\$ -	\$ -	\$ 5,357,396	\$ 5,357,396
Reserved for construction	-	35,197,492	1,162,899	36,360,391
Unreserved	13,927,078	-	-	13,927,078
Unreserved reported in non-major fund:				
Capital projects funds	-	-	171,016	171,016
<b>Total fund balances</b>	<u>\$ 13,927,078</u>	<u>\$ 35,197,492</u>	<u>\$ 6,691,311</u>	<u>\$ 55,815,881</u>

**CITY OF HILLSBORO, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**14. FUND BALANCE CLASSIFICATION (Continued)**

Fund balances at July 1, 2010 as restated in conformity with GASB Statement No. 54:

	General Fund	Transportation Fund	Non-Major Funds	Total
<b>Fund balances:</b>				
<b>Nonspendable:</b>				
Long-term portion of note receivable	\$ -	\$ -	\$ 100,000	\$ 100,000
<b>Total Nonspendable</b>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
<b>Restricted:</b>				
Cadet program	1,473,625	-	-	1,473,625
Law enforcement	70,782	-	-	70,782
Roads and paths maintenance	-	34,160,816	-	34,160,816
Building inspection	-	-	5,357,396	5,357,396
System development	2,015,270	-	-	2,015,270
<b>Total Restricted</b>	<u>3,559,677</u>	<u>34,160,816</u>	<u>5,357,396</u>	<u>43,077,889</u>
<b>Committed:</b>				
Roads maintenance	-	743,953	-	743,953
Urban renewal	-	-	1,062,899	1,062,899
<b>Total Committed</b>	<u>-</u>	<u>743,953</u>	<u>1,062,899</u>	<u>1,806,852</u>
<b>Assigned:</b>				
Economic development	166,110	-	-	166,110
Roads maintenance	-	292,723	-	292,723
Capital projects	-	-	171,016	171,016
<b>Total Assigned</b>	<u>166,110</u>	<u>292,723</u>	<u>171,016</u>	<u>629,849</u>
<b>Unassigned</b>	<u>10,201,291</u>	<u>-</u>	<u>-</u>	<u>10,201,291</u>
<b>Total fund balances</b>	<u>\$ 13,927,078</u>	<u>\$ 35,197,492</u>	<u>\$ 6,691,311</u>	<u>\$ 55,815,881</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

Generally Accepted Accounting Principles  
(Modified Accrual)

**CITY OF HILLSBORO, OREGON**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property - current	\$43,700,000	\$43,700,000	\$44,343,384	\$ 643,384
- prior years	800,000	800,000	1,232,365	432,365
Library serial levy	4,058,289	4,058,289	4,058,289	-
Liquor and cigarette	1,250,000	1,250,000	1,209,576	(40,424)
Hotel/motel	500,000	500,000	547,522	47,522
Intergovernmental	836,000	836,000	766,806	(69,194)
Franchise fees	8,900,000	8,900,000	8,946,848	46,848
Licenses and permits	500,300	500,300	463,859	(36,441)
Fines and forfeitures	967,000	967,000	1,060,002	93,002
Charges for services	4,426,400	4,637,260	4,488,927	(148,333)
Interest	378,900	378,900	176,825	(202,075)
Grants and donations	838,132	956,597	474,589	(482,008)
Other	1,097,000	1,417,000	2,701,048	1,284,048
<b>TOTAL REVENUES</b>	<b>68,252,021</b>	<b>68,901,346</b>	<b>70,470,040</b>	<b>1,568,694</b>
<b>EXPENDITURES:</b>				
General Government:				
Planning:				
Personal services	2,085,932	2,085,932	1,925,833	160,099
Materials and services	986,786	986,786	402,575	584,211
Special expenditures	847,867	847,867	870,199	(22,332)
	<u>3,920,585</u>	<u>3,920,585</u>	<u>3,198,607</u>	<u>721,978</u>
Special Expenditures:				
Special expenditures	1,361,024	1,361,024	1,035,909	325,115
Economic development:				
Personal services	672,653	672,653	624,340	48,313
Materials and services	954,500	954,500	660,347	294,153
Capital outlay	684,433	684,433	-	684,433
Special expenditures	150,414	150,414	134,272	16,142
	<u>2,462,000</u>	<u>2,462,000</u>	<u>1,418,959</u>	<u>1,043,041</u>
Total general government	<u>7,743,609</u>	<u>7,743,609</u>	<u>5,653,475</u>	<u>2,090,134</u>
Public safety and judicial:				
Municipal court:				
Personal services	295,465	295,465	249,941	45,524
Materials and services	52,000	52,000	32,629	19,371
Special expenditures	117,830	117,830	97,043	20,787
	<u>465,295</u>	<u>465,295</u>	<u>379,613</u>	<u>85,682</u>
	50			(Continued)

**CITY OF HILLSBORO, OREGON**

**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (Continued)**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES (Continued):</b>				
Public safety and judicial:				
Police:				
Personal services	\$19,244,651	\$19,244,651	\$17,920,128	\$ 1,324,523
Materials and services	2,523,168	2,523,168	2,521,575	1,593
Capital outlay	434,000	434,000	272,909	161,091
Special expenditures	3,552,148	3,552,148	3,296,302	255,846
	<u>25,753,967</u>	<u>25,753,967</u>	<u>24,010,914</u>	<u>1,743,053</u>
Fire:				
Personal services	12,558,379	12,612,004	12,375,136	236,868
Materials and services	1,340,195	1,613,895	1,406,615	207,280
Capital outlay	339,334	341,334	312,290	29,044
Special expenditures	2,198,254	2,198,254	2,015,907	182,347
	<u>16,436,162</u>	<u>16,765,487</u>	<u>16,109,948</u>	<u>655,539</u>
Public safety volunteer:				
Materials and services	118,900	118,900	12,392	106,508
	<u>118,900</u>	<u>118,900</u>	<u>12,392</u>	<u>106,508</u>
Cadet program:				
Personal Services	43,362	43,362	28,181	15,181
Materials and services	48,000	48,000	45,885	2,115
	<u>91,362</u>	<u>91,362</u>	<u>74,066</u>	<u>17,296</u>
Total public safety and judicial	<u>42,865,686</u>	<u>43,195,011</u>	<u>40,586,933</u>	<u>2,608,078</u>
Community service:				
Library:				
Personal services	4,809,845	4,809,845	4,601,773	208,072
Materials and services	950,469	950,469	909,943	40,526
Capital outlay	15,000	15,000	-	15,000
Special expenditures	1,525,384	1,525,384	1,329,289	196,095
	<u>7,300,698</u>	<u>7,300,698</u>	<u>6,841,005</u>	<u>459,693</u>
Culture and recreation:				
Parks and recreation:				
Personal services	8,419,769	8,399,769	8,254,228	145,541
Materials and services	1,936,900	1,956,900	1,930,646	26,254
Capital outlay	271,600	591,600	452,065	139,535
Special expenditures	2,989,835	2,989,835	2,860,980	128,855
	<u>13,618,104</u>	<u>13,938,104</u>	<u>13,497,919</u>	<u>440,185</u>

(Continued)

**CITY OF HILLSBORO, OREGON**

**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (Continued)**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES (Continued):</b>				
Park SDG:				
Capital outlay	\$ 3,098,000	\$ 2,598,000	\$ 100,000	\$ 2,498,000
	<u>3,098,000</u>	<u>2,598,000</u>	<u>100,000</u>	<u>2,498,000</u>
Total culture and recreation	<u>16,716,104</u>	<u>16,536,104</u>	<u>13,597,919</u>	<u>2,938,185</u>
Roads and bridges:				
Street Lights:				
Materials and services	892,500	942,500	924,234	18,266
Capital outlay	10,000	10,000	8,028	1,972
	<u>902,500</u>	<u>952,500</u>	<u>932,262</u>	<u>20,238</u>
Total roads and bridges	<u>902,500</u>	<u>952,500</u>	<u>932,262</u>	<u>20,238</u>
Contingency	3,600,000	3,550,000	-	3,550,000
	<u>79,128,597</u>	<u>79,277,922</u>	<u>67,611,594</u>	<u>11,666,328</u>
<b>TOTAL EXPENDITURES</b>	<u>79,128,597</u>	<u>79,277,922</u>	<u>67,611,594</u>	<u>11,666,328</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(10,876,576)</u>	<u>(10,376,576)</u>	<u>2,858,446</u>	<u>13,235,022</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets	45,000	45,000	91,565	46,565
Transfers in	2,657,500	2,657,500	1,294,503	(1,362,997)
Transfers out	(1,312,000)	(1,812,000)	(787,000)	1,025,000
	<u>1,390,500</u>	<u>890,500</u>	<u>599,068</u>	<u>(337,997)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>1,390,500</u>	<u>890,500</u>	<u>599,068</u>	<u>(337,997)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(9,486,076)</u>	<u>(9,486,076)</u>	<u>3,457,514</u>	<u>12,897,025</u>
<b>FUND BALANCE, July 1, 2010</b>	<u>14,333,500</u>	<u>14,333,500</u>	<u>13,927,078</u>	<u>(406,422)</u>
<b>FUND BALANCE, June 30, 2011</b>	<u>\$ 4,847,424</u>	<u>\$ 4,847,424</u>	<u>\$17,384,592</u>	<u>\$12,490,603</u>

**CITY OF HILLSBORO, OREGON**

**TRANSPORTATION FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 4,736,000	\$ 4,736,000	\$ 4,809,644	\$ 73,644
Licenses and permits	10,000	10,000	306,756	296,756
Charges for services	2,150,000	2,150,000	2,804,633	654,633
Interest	658,500	658,500	374,558	(283,942)
Grants and donations	442,940	442,940	307,354	(135,586)
Other	77,000	77,000	1,793,771	1,716,771
<b>TOTAL REVENUES</b>	<b>8,074,440</b>	<b>8,074,440</b>	<b>10,396,716</b>	<b>2,322,276</b>
<b>EXPENDITURES:</b>				
Personal services	2,361,304	2,361,304	2,081,381	279,923
Materials and services	2,749,394	3,449,394	2,380,618	1,068,776
Capital outlay	33,956,690	33,256,690	5,446,597	27,810,093
Special expenditures	801,002	801,002	680,976	120,026
<b>TOTAL EXPENDITURES</b>	<b>39,868,390</b>	<b>39,868,390</b>	<b>10,589,572</b>	<b>29,278,818</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<b>(31,793,950)</b>	<b>(31,793,950)</b>	<b>(192,856)</b>	<b>31,601,094</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets	-	-	265,769	265,769
Transfers in	1,488,000	1,488,000	1,488,000	-
Transfers out	(2,330,500)	(2,330,500)	(2,245,003)	85,497
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(842,500)</b>	<b>(842,500)</b>	<b>(491,234)</b>	<b>351,266</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(32,636,450)</b>	<b>(32,636,450)</b>	<b>(684,090)</b>	<b>31,952,360</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>32,636,450</b>	<b>32,636,450</b>	<b>35,197,492</b>	<b>2,561,042</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 34,513,402</b>	<b>\$ 34,513,402</b>

**CITY OF HILLSBORO, OREGON**

**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2011**

**Oregon Public Employees Retirement System - Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (Assets)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability (Asset) as a Percent of Covered Payroll
12/31/2009	\$ 122,679,000	\$ 145,509,000	\$ 22,830,000	84 %	\$ 45,164,000	51 %
12/31/2007	138,901,000	129,008,000	(9,893,000)	108	39,253,000	(25)
12/31/2005	110,567,000	114,276,000	3,709,000	97	33,881,000	11

**Other Postemployment Benefits Plan - Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (Assets)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability (Asset) as a Percent of Covered Payroll
8/1/2010	\$ -	\$ 11,050,000	\$ 11,050,000	- %	\$ 48,620,000	23 %
8/1/2008	-	9,454,000	9,454,000	-	42,693,000	22
8/1/2006	-	8,512,000	8,512,000	-	36,285,000	23

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HILLSBORO, OREGON**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2011**

**Budget**

The City is required by state law to budget substantially all funds. Budgets for all funds are prepared on the modified accrual basis of accounting. The ordinance authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. The ordinance established the level of budgetary control at the category level by department for the General Fund and Support Services Fund. All remaining funds of the City establish the levels of budgetary control at the category level (personal services, materials and services, capital outlay, special expenditures, operating contingencies, debt service, and all other requirements levels). All annual appropriations lapse at fiscal year end.

The detail budget document, however, is required to contain more specific, detailed information for the aforementioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations ordinance. Supplemental budgets less than 10% of the fund's original budget may be adopted by the Board of Councilors at a regular meeting. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publication in newspapers and approval by the Board of Councilors. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the Board of Councilors for the City and Board of Directors for HEDC, respectively. The City adopted one supplemental budget and made several appropriation transfers during the year ended June 30, 2011.

OTHER SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

**CITY OF HILLSBORO, OREGON**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2011**

	Special Revenue Fund	Capital Projects Funds	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,961,770	\$ 12,717	\$ 1,974,487
Investments	5,478,964	35,518	5,514,482
Interest receivable	22,547	146	22,693
Accounts receivable	8,253	-	8,253
Note receivable	-	100,000	100,000
<b>TOTAL ASSETS</b>	<b>\$ 7,471,534</b>	<b>\$ 148,381</b>	<b>\$ 7,619,915</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 113,362	\$ 17,317	\$ 130,679
Deferred revenue	6,041	100,000	106,041
<b>TOTAL LIABILITIES</b>	<b>119,403</b>	<b>117,317</b>	<b>236,720</b>
<b>FUND BALANCES:</b>			
Restricted	7,352,131	31,064	7,383,195
<b>TOTAL FUND BALANCES</b>	<b>7,352,131</b>	<b>31,064</b>	<b>7,383,195</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 7,471,534</b>	<b>\$ 148,381</b>	<b>\$ 7,619,915</b>

**CITY OF HILLSBORO, OREGON**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2011**

	Special Revenue Fund	Capital Projects Funds	Total
<b>REVENUES:</b>			
Licenses and permits	\$ 5,644,216	\$ -	\$ 5,644,216
Taxes	664,870	-	664,870
Interest	64,017	12,031	76,048
Intergovernmental revenue	-	100,000	100,000
Grants and other	51,261	431,386	482,647
<b>TOTAL REVENUES</b>	<b>6,424,364</b>	<b>543,417</b>	<b>6,967,781</b>
<b>EXPENDITURES:</b>			
Personal services	2,293,692	-	2,293,692
Materials and services	536,950	-	536,950
Capital outlay	102,683	1,046,454	1,149,137
Special expenditures	1,321,304	-	1,321,304
Other payments	-	1,274,814	1,274,814
<b>TOTAL EXPENDITURES</b>	<b>4,254,629</b>	<b>2,321,268</b>	<b>6,575,897</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,169,735</b>	<b>(1,777,851)</b>	<b>391,884</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	225,000	475,000	700,000
Transfers out	(400,000)	-	(400,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(175,000)</b>	<b>475,000</b>	<b>300,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,994,735</b>	<b>(1,302,851)</b>	<b>691,884</b>
<b>FUND BALANCES, July 1, 2010</b>	<b>5,357,396</b>	<b>1,333,915</b>	<b>6,691,311</b>
<b>FUND BALANCES, June 30, 2011</b>	<b>\$ 7,352,131</b>	<b>\$ 31,064</b>	<b>\$ 7,383,195</b>

**NON-MAJOR SPECIAL REVENUE FUND**

Building Fund: This fund accounts for the revenues and operating costs for providing building inspection and permit services.

**CITY OF HILLSBORO, OREGON**

**BUILDING FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses and permits	\$ 2,511,600	\$ 2,636,600	\$ 5,644,216	\$ 3,007,616
Taxes	352,500	1,102,500	664,870	(437,630)
Interest	40,000	40,000	64,017	24,017
Grants and donations	-	-	17,828	17,828
Other	90,000	90,000	33,433	(56,567)
<b>TOTAL REVENUES</b>	<b>2,994,100</b>	<b>3,869,100</b>	<b>6,424,364</b>	<b>2,555,264</b>
<b>EXPENDITURES:</b>				
Personal services	2,504,905	2,504,905	2,293,692	211,213
Materials and services	510,200	510,200	536,950	(26,750)
Capital outlay	90,000	110,000	102,683	7,317
Special expenditures	1,137,569	2,012,569	1,321,304	691,265
Contingency	100,000	80,000	-	80,000
<b>TOTAL EXPENDITURES</b>	<b>4,342,674</b>	<b>5,217,674</b>	<b>4,254,629</b>	<b>963,045</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,348,574)</b>	<b>(1,348,574)</b>	<b>2,169,735</b>	<b>3,518,309</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	450,000	450,000	225,000	(225,000)
Transfers out	(400,000)	(400,000)	(400,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<b>50,000</b>	<b>50,000</b>	<b>(175,000)</b>	<b>(225,000)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,298,574)</b>	<b>(1,298,574)</b>	<b>1,994,735</b>	<b>3,293,309</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>4,300,000</b>	<b>4,300,000</b>	<b>5,357,396</b>	<b>1,057,396</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ 3,001,426</b>	<b>\$ 3,001,426</b>	<b>\$ 7,352,131</b>	<b>\$ 4,350,705</b>



**NON-MAJOR CAPITAL PROJECTS FUNDS**

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Hillsboro Economic Development Council Fund: This fund accounts for the purchase and sale of land and the construction of infrastructure and other assets in a designated area of the City. The major financing sources are the sale of property and interest earnings.

Parks Capital Fund: This fund is used to account for park development. Resources are provided by federal and state grants and parks system development charges.

**CITY OF HILLSBORO, OREGON**

**NON-MAJOR CAPITAL PROJECTS FUNDS**

**COMBINING BALANCE SHEET**

**YEAR ENDED JUNE 30, 2011**

	Hillsboro Economic Development Council	Parks Capital	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 12,717	\$ 12,717
Investments	-	35,518	35,518
Interest receivable	-	146	146
Note receivable	100,000	-	100,000
	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 100,000</b>	<b>\$ 48,381</b>	<b>\$ 148,381</b>
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ 17,317	\$ 17,317
Deferred revenue	100,000	-	100,000
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>100,000</b>	<b>17,317</b>	<b>117,317</b>
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES:</b>			
Restricted	-	31,064	31,064
	<hr/>	<hr/>	<hr/>
<b>TOTAL FUND BALANCES</b>	<b>-</b>	<b>31,064</b>	<b>31,064</b>
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 100,000</b>	<b>\$ 48,381</b>	<b>\$ 148,381</b>
	<hr/>	<hr/>	<hr/>

**CITY OF HILLSBORO, OREGON**  
**NON-MAJOR CAPITAL PROJECTS FUNDS**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2011**

	Hillsboro Economic Development Council	Parks Capital	Total
<b>REVENUES:</b>			
Interest	\$ 11,915	\$ 116	\$ 12,031
Intergovernmental revenue	100,000	-	100,000
Grants and other	-	431,386	431,386
<b>TOTAL REVENUES</b>	<b>111,915</b>	<b>431,502</b>	<b>543,417</b>
<b>EXPENDITURES:</b>			
Capital outlay	-	1,046,454	1,046,454
Other payments	1,274,814	-	1,274,814
<b>TOTAL EXPENDITURES</b>	<b>1,274,814</b>	<b>1,046,454</b>	<b>2,321,268</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<b>(1,162,899)</b>	<b>(614,952)</b>	<b>(1,777,851)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	-	475,000	475,000
<b>TOTAL OTHER FINANCING SOURCES:</b>	<b>-</b>	<b>475,000</b>	<b>475,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,162,899)</b>	<b>(139,952)</b>	<b>(1,302,851)</b>
<b>FUND BALANCES, July 1, 2010</b>	<b>1,162,899</b>	<b>171,016</b>	<b>1,333,915</b>
<b>FUND BALANCES, June 30, 2011</b>	<b>\$ -</b>	<b>\$ 31,064</b>	<b>\$ 31,064</b>

**CITY OF HILLSBORO, OREGON**  
**HILLSBORO ECONOMIC DEVELOPMENT COUNCIL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ 40,000	\$ 40,000	\$ 11,915	\$ (28,085)
Intergovernmental revenue	100,000	100,000	100,000	-
<b>TOTAL REVENUES</b>	<b>140,000</b>	<b>140,000</b>	<b>111,915</b>	<b>(28,085)</b>
<b>EXPENDITURES:</b>				
Other payments	1,340,000	1,340,000	1,274,814	65,186
<b>TOTAL EXPENDITURES</b>	<b>1,340,000</b>	<b>1,340,000</b>	<b>1,274,814</b>	<b>65,186</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,200,000)</b>	<b>(1,200,000)</b>	<b>(1,162,899)</b>	<b>37,101</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>1,200,000</b>	<b>1,200,000</b>	<b>1,162,899</b>	<b>(37,101)</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CITY OF HILLSBORO, OREGON**

**PARKS CAPITAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ -	\$ -	\$ 116	\$ 116
Grants and other	1,200,000	1,200,000	431,386	(768,614)
<b>TOTAL REVENUES</b>	<u>1,200,000</u>	<u>1,200,000</u>	<u>431,502</u>	<u>(768,498)</u>
<b>EXPENDITURES:</b>				
Materials and services	117,500	117,500	1,262	116,238
Capital outlay	2,138,500	2,638,500	1,045,192	1,593,308
<b>TOTAL EXPENDITURES</b>	<u>2,256,000</u>	<u>2,756,000</u>	<u>1,046,454</u>	<u>1,709,546</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	(1,056,000)	(1,556,000)	(614,952)	(941,048)
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	1,000,000	1,500,000	475,000	(1,025,000)
<b>NET CHANGE IN FUND BALANCE</b>	<u>(56,000)</u>	<u>(56,000)</u>	<u>(139,952)</u>	<u>(83,952)</u>
<b>FUND BALANCE, July 1, 2010</b>	<u>56,000</u>	<u>56,000</u>	<u>171,016</u>	<u>115,016</u>
<b>FUND BALANCE, June 30, 2011</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,064</u>	<u>\$ 31,064</u>

**ENTERPRISE FUNDS**

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the Board of Councilors is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the Board of Councilors has decided that periodic determination of net income is appropriate for accountability purposes.

Utilities Commission Fund: This fund accounts for the operation and maintenance of water service and distribution facilities.

Sewer Fund: This fund accounts for the operation and maintenance of the sewer service and collection system.

Surface Water Management Fund: This fund accounts for the operation and maintenance of the City's surface water system.

Intermodal Transit Facility Fund: This fund accounts for expenses related to the Intermodal Transit Facility (ITF). The City partnered with Tuality Healthcare and Pacific University to build the ITF and the partners share in cost of maintaining the facility.

Property Management Fund: This fund accounts for revenues and operating costs for off-street parking facilities and other properties.

**CITY OF HILLSBORO, OREGON**

**UTILITIES COMMISSION FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 13,279,470	\$ 13,279,470	\$ 13,782,101	\$ 502,631
Installation and connection fees	187,500	187,500	145,920	(41,580)
Licenses and Permits	85,000	85,000	16,388	(68,612)
System development fees	950,000	950,000	742,243	(207,757)
Grants and donations	-	-	558,811	558,811
Interest	899,000	899,000	456,638	(442,362)
Miscellaneous	170,000	170,000	209,809	39,809
<b>TOTAL REVENUES</b>	<b>15,570,970</b>	<b>15,570,970</b>	<b>15,911,910</b>	<b>340,940</b>
<b>EXPENDITURES:</b>				
Personal services	3,800,963	3,800,963	3,576,535	224,428
Materials and services	1,852,425	1,852,425	1,588,264	264,161
Capital outlay	41,843,025	41,843,025	2,400,985	39,442,040
Special expenditures	4,665,861	4,665,861	4,260,402	405,459
Debt service	2,332,323	2,332,323	2,328,352	3,971
Contingency	725,000	725,000	-	725,000
<b>TOTAL EXPENDITURES</b>	<b>55,219,597</b>	<b>55,219,597</b>	<b>14,154,538</b>	<b>41,065,059</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(39,648,627)</b>	<b>(39,648,627)</b>	<b>1,757,372</b>	<b>41,405,999</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	2,982,323	2,982,323	2,982,323	-
Transfers out	(3,250,323)	(3,250,323)	(3,175,323)	75,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(268,000)</b>	<b>(268,000)</b>	<b>(193,000)</b>	<b>75,000</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(39,916,627)</b>	<b>(39,916,627)</b>	<b>1,564,372</b>	<b>41,480,999</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>42,235,403</b>	<b>42,235,403</b>	<b>43,841,517</b>	<b>1,606,114</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ 2,318,776</b>	<b>\$ 2,318,776</b>	<b>\$ 45,405,889</b>	<b>\$ 43,087,113</b>
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS</b>				
<b>NET CHANGE IN FUND BALANCE</b>			\$ 1,564,372	
Amortization			(66,210)	
Depreciation			(2,651,018)	
Capital asset additions			2,062,038	
Contributions of capital assets			1,020,220	
City's share of net loss of joint ventures			(1,646,065)	
Contributions to joint ventures			554,522	
Other post employment benefit			(45,384)	
Principal payment on bonds and notes			1,718,588	
<b>CHANGE IN NET ASSETS</b>			<b>\$ 2,511,063</b>	

**CITY OF HILLSBORO, OREGON**

**SEWER FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 18,707,500	\$ 18,707,500	\$ 18,586,601	\$ (120,899)
Licenses and Permits	5,000	5,000	65,533	60,533
System development charges	1,100,000	4,100,000	2,340,193	(1,759,807)
Interest	450,000	450,000	187,783	(262,217)
Miscellaneous	2,008,300	2,008,300	1,727,066	(281,234)
<b>TOTAL REVENUES</b>	<b>22,270,800</b>	<b>25,270,800</b>	<b>22,907,176</b>	<b>(2,363,624)</b>
<b>EXPENDITURES:</b>				
Personal services	2,065,963	2,065,963	1,564,646	501,317
Materials and services	526,553	526,553	332,205	194,348
Capital outlay	16,183,125	16,183,125	3,415,832	12,767,293
Special expenditures	16,960,591	19,960,591	18,793,812	1,166,779
<b>TOTAL EXPENDITURES</b>	<b>35,736,232</b>	<b>38,736,232</b>	<b>24,106,495</b>	<b>14,629,737</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<b>(13,465,432)</b>	<b>(13,465,432)</b>	<b>(1,199,319)</b>	<b>12,266,113</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	70,000	70,000	70,000	-
Transfers out	(6,633,000)	(6,633,000)	(558,000)	6,075,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(6,563,000)</b>	<b>(6,563,000)</b>	<b>(488,000)</b>	<b>6,075,000</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(20,028,432)</b>	<b>(20,028,432)</b>	<b>(1,687,319)</b>	<b>18,341,113</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>20,028,432</b>	<b>20,028,432</b>	<b>21,084,197</b>	<b>1,055,765</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,396,878</b>	<b>\$ 19,396,878</b>
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS</b>				
<b>NET CHANGE IN FUND BALANCE</b>			\$ (1,687,319)	
Depreciation			(912,149)	
Capital asset additions			3,349,754	
Contributions of capital assets			844,165	
Other post employment benefit			(39,275)	
Charges for services and system development fees collected for Clean Water Services			17,376,185	
Charges for services and system development fees paid to Clean Water Services			(17,376,185)	
<b>CHANGE IN NET ASSETS</b>			<b>\$ 1,555,176</b>	

**CITY OF HILLSBORO, OREGON**

**SURFACE WATER MANAGEMENT FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 3,663,000	\$ 3,663,000	\$ 3,637,611	\$ (25,389)
System development fees	188,000	188,000	151,663	(36,337)
Licenses and permits	102,000	102,000	222,452	120,452
Grants and Donations	-	-	7,004	7,004
Interest	195,000	195,000	95,735	(99,265)
Miscellaneous	6,000	6,000	1,960	(4,040)
<b>TOTAL REVENUES</b>	<b>4,154,000</b>	<b>4,154,000</b>	<b>4,116,425</b>	<b>(37,575)</b>
<b>EXPENDITURES:</b>				
Personal services	1,901,938	1,901,938	1,695,754	206,184
Materials and services	743,293	743,293	228,300	514,993
Capital outlay	9,110,903	8,935,903	526,996	8,408,907
Special expenditures	1,589,766	1,764,766	1,670,780	93,986
<b>TOTAL EXPENDITURES</b>	<b>13,345,900</b>	<b>13,345,900</b>	<b>4,121,830</b>	<b>9,224,070</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<b>(9,191,900)</b>	<b>(9,191,900)</b>	<b>(5,405)</b>	<b>9,186,495</b>
<b>OTHER FINANCING USES:</b>				
Transfers out	(98,000)	(98,000)	(85,500)	12,500
<b>NET CHANGE IN FUND BALANCE</b>	<b>(9,289,900)</b>	<b>(9,289,900)</b>	<b>(90,905)</b>	<b>9,198,995</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>9,289,900</b>	<b>9,289,900</b>	<b>9,614,756</b>	<b>324,856</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,523,851</b>	<b>\$ 9,523,851</b>
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS</b>				
<b>NET CHANGE IN FUND BALANCE</b>			\$ (90,905)	
Depreciation			(776,249)	
Capital asset additions			537,620	
Contributions of capital assets			413,445	
Other post employment benefit			(31,834)	
Charges for services and system development fees collected for Clean Water Services			932,336	
Charges for services and system development fees paid to Clean Water Services			(932,336)	
<b>CHANGE IN NET ASSETS</b>			<b>\$ 52,077</b>	

**CITY OF HILLSBORO, OREGON**

**INTERMODAL TRANSIT FACILITY**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Miscellaneous income	\$ 60,000	\$ 60,000	\$ -	\$ (60,000)
Leasehold revenues	50,000	50,000	50,000	-
Interest	-	-	700	700
<b>TOTAL REVENUES</b>	<b>110,000</b>	<b>110,000</b>	<b>50,700</b>	<b>(59,300)</b>
<b>EXPENDITURES:</b>				
Materials and services	169,500	169,500	75,763	93,737
Capital outlay	100,000	100,000	-	100,000
<b>TOTAL EXPENDITURES</b>	<b>269,500</b>	<b>269,500</b>	<b>75,763</b>	<b>193,737</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<b>(159,500)</b>	<b>(159,500)</b>	<b>(25,063)</b>	<b>134,437</b>
<b>OTHER FINANCING SOURCES:</b>				
Transfers from other funds	159,500	159,500	159,500	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>134,437</b>	<b>134,437</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 134,437</b>	<b>\$ 134,437</b>
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS</b>				
<b>NET CHANGE IN FUND BALANCE</b>			\$ 134,437	
Depreciation			(262,906)	
Contributions of capital assets			17,371,977	
<b>CHANGE IN NET ASSETS</b>			<b>\$17,243,508</b>	

**CITY OF HILLSBORO, OREGON**

**PROPERTY MANAGEMENT FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 24,500	\$ 24,500	\$ 22,325	\$ (2,175)
Interest	275	275	173	(102)
Other	31,000	31,000	23,807	(7,193)
<b>TOTAL REVENUES</b>	<b>55,775</b>	<b>55,775</b>	<b>46,305</b>	<b>(9,470)</b>
<b>EXPENDITURES:</b>				
Materials and services	42,428	42,428	9,960	32,468
Special expenditures	27,022	27,022	21,885	5,137
<b>TOTAL EXPENDITURES</b>	<b>69,450</b>	<b>69,450</b>	<b>31,845</b>	<b>37,605</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCE</b>	<b>(13,675)</b>	<b>(13,675)</b>	<b>14,460</b>	<b>28,135</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>13,675</b>	<b>13,675</b>	<b>6,650</b>	<b>(7,025)</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,110</b>	<b>\$ 21,110</b>

**INTERNAL SERVICE FUNDS**

Internal Service Funds are used to account for the financing of goods or services provided by one department of the City to other departments or to other government units, generally on a cost reimbursement basis.

Fleet Management Fund: This fund accounts for expenses related to the fleet maintenance of the City's motor vehicle pool. Resources are provided through charges to other City departments, agencies or other users of the services.

Copier Program Fund: This fund accounts for expenses related to copiers. Resources are provided through charges to other City departments, agencies or other users of the services.

Risk Management Fund: This fund accounts for the cost of workers' compensation, property and liability insurance. Funding is provided by charges to various City departments.

Loss Reserve Fund: This fund accounts for the reserve for potential workers compensation claims. The City is self-insured for workers compensation and the State of Oregon requires that the City maintain a reserve fund.

Facilities Management Fund: This fund accounts for operating expenses related to the maintenance and improvement of City facilities. Funding is provided by charges to various City departments and donations.

Support Services Fund: This fund accounts for administrative services provided to other City departments. Funding is provided by charges to various City departments.

**CITY OF HILLSBORO, OREGON**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF NET ASSETS (DEFICIT)**

**JUNE 30, 2011**

	Fleet Management	Copier Program	Risk Management	Loss Reserve
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 5,783	\$ 67,328	\$ 309,071	\$ 210,922
Investments	16,149	188,037	863,196	589,078
Accounts receivable	-	11	-	-
Interest receivable	62	774	5,977	-
<b>TOTAL CURRENT ASSETS</b>	<b>21,994</b>	<b>256,150</b>	<b>1,178,244</b>	<b>800,000</b>
<b>NONCURRENT ASSETS:</b>				
Capital assets not being depreciated	-	-	-	-
Other capital assets, net	10,733	150,730	-	-
<b>TOTAL NONCURRENT ASSETS</b>	<b>10,733</b>	<b>150,730</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>32,727</b>	<b>406,880</b>	<b>1,178,244</b>	<b>800,000</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable	1,542	6,808	58,298	-
Compensated absences payable	24,626	-	13,765	-
Worker's compensation claims payable	-	-	233,943	-
Interest payable	-	-	-	-
Notes payable	-	-	-	-
Bonds payable	-	-	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>26,168</b>	<b>6,808</b>	<b>306,006</b>	<b>-</b>
<b>LONG-TERM LIABILITIES:</b>				
Other post employment benefits payable	14,689	-	14,691	-
Notes payable	-	-	-	-
Bonds payable	-	-	-	-
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>14,689</b>	<b>-</b>	<b>14,691</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>40,857</b>	<b>6,808</b>	<b>320,697</b>	<b>-</b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	10,733	150,730	-	-
Unrestricted (Deficit)	(18,863)	249,342	857,547	800,000
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ (8,130)</b>	<b>\$ 400,072</b>	<b>\$ 857,547</b>	<b>\$ 800,000</b>

	Facilities Management	Support Services	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 1,663,272	\$ 680,145	\$ 2,936,521
Investments	4,645,298	1,899,555	8,201,313
Accounts receivable	18,782	19,029	37,822
Interest receivable	19,086	7,819	33,718
<b>TOTAL CURRENT ASSETS</b>	<b>6,346,438</b>	<b>2,606,548</b>	<b>11,209,374</b>
<b>NONCURRENT ASSETS:</b>			
Capital assets not being depreciated	14,314,379	458,801	14,773,180
Other capital assets, net	66,835,001	1,588,047	68,584,511
<b>TOTAL NONCURRENT ASSETS</b>	<b>81,149,380</b>	<b>2,046,848</b>	<b>83,357,691</b>
<b>TOTAL ASSETS</b>	<b>87,495,818</b>	<b>4,653,396</b>	<b>94,567,065</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	1,123,590	209,789	1,400,027
Compensated absences payable	-	534,217	572,608
Worker's compensation claims payable	-	-	233,943
Interest payable	95,104	-	95,104
Notes payable	163,870	-	163,870
Bonds payable	1,230,000	-	1,230,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,612,564</b>	<b>744,006</b>	<b>3,695,552</b>
<b>LONG-TERM LIABILITIES:</b>			
Other post employment benefits payable	-	426,027	455,407
Notes payable	3,355,000	-	3,355,000
Bonds payable	30,870,000	-	30,870,000
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>34,225,000</b>	<b>426,027</b>	<b>34,680,407</b>
<b>TOTAL LIABILITIES</b>	<b>36,837,564</b>	<b>1,170,033</b>	<b>38,375,959</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	42,191,971	2,046,848	44,400,282
Unrestricted (Deficit)	8,466,283	1,436,515	11,790,824
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ 50,658,254</b>	<b>\$ 3,483,363</b>	<b>\$ 56,191,106</b>

**CITY OF HILLSBORO, OREGON**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS (DEFICIT)**

**YEAR ENDED JUNE 30, 2011**

	Fleet Management	Copier Program	Risk Management	Loss Reserve
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 365,161	\$ 203,670	\$ 1,729,346	\$ -
Other	-	15	7,212	-
<b>TOTAL OPERATING REVENUES</b>	<b>365,161</b>	<b>203,685</b>	<b>1,736,558</b>	<b>-</b>
<b>OPERATING EXPENSES:</b>				
Salaries and fringe benefits	317,784	-	354,127	-
Operating supplies, office expenses	13,611	21,539	10,678	-
Repairs and maintenance	36,346	80,670	-	-
Rental expense	-	-	-	-
Utilities	981	-	677	-
Dues, fees, training and assessments	2,747	-	8,603	-
Claims expense	-	-	699,377	-
Insurance premiums	-	-	662,979	-
Contractual services	2,898	-	79,230	-
Depreciation	3,067	29,840	-	-
Support services	1,820	-	87,573	-
Other	-	-	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>379,254</b>	<b>132,049</b>	<b>1,903,244</b>	<b>-</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(14,093)</b>	<b>71,636</b>	<b>(166,686)</b>	<b>-</b>
<b>NONOPERATING INCOME (EXPENSE):</b>				
Interest income	204	2,467	11,882	-
Gain on disposal of capital assets	5,759	-	-	-
Interest expense	-	-	-	-
Strategic investment program	-	-	-	-
<b>TOTAL NONOPERATING INCOME (EXPENSE)</b>	<b>5,963</b>	<b>2,467</b>	<b>11,882</b>	<b>-</b>
<b>NET INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	<b>(8,130)</b>	<b>74,103</b>	<b>(154,804)</b>	<b>-</b>
Transfers in	-	-	-	800,000
Transfers out	-	-	(800,000)	-
<b>TRANSFERS, NET</b>	<b>-</b>	<b>-</b>	<b>(800,000)</b>	<b>800,000</b>
<b>CONTRIBUTION OF CAPITAL ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>(8,130)</b>	<b>74,103</b>	<b>(954,804)</b>	<b>800,000</b>
<b>NET ASSETS, July 1, 2010</b>	<b>-</b>	<b>325,969</b>	<b>1,812,351</b>	<b>-</b>
<b>NET ASSETS (DEFICIT), June 30, 2011</b>	<b>\$ (8,130)</b>	<b>\$ 400,072</b>	<b>\$ 857,547</b>	<b>\$ 800,000</b>

Facilities Management	Support Services	Total
\$ 3,782,824	\$ 11,185,000	\$ 17,266,001
1,531,650	72,239	1,611,116
<b>5,314,474</b>	<b>11,257,239</b>	<b>18,877,117</b>
-	8,883,229	9,555,140
806,166	498,025	1,350,019
735,536	875,436	1,727,988
250,474	-	250,474
1,285,213	113,032	1,399,903
-	235,688	247,038
-	115,435	814,812
-	-	662,979
403,743	1,416,272	1,902,143
2,758,800	744,618	3,536,325
-	-	89,393
-	166,204	166,204
<b>6,239,932</b>	<b>13,047,939</b>	<b>21,702,418</b>
<b>(925,458)</b>	<b>(1,790,700)</b>	<b>(2,825,301)</b>
47,049	18,628	80,230
-	-	5,759
(1,572,827)	-	(1,572,827)
3,704,779	-	3,704,779
<b>2,179,001</b>	<b>18,628</b>	<b>2,217,941</b>
<b>1,253,543</b>	<b>(1,772,072)</b>	<b>(607,360)</b>
-	716,000	1,516,000
(159,500)	-	(959,500)
<b>(159,500)</b>	<b>716,000</b>	<b>556,500</b>
<b>(17,371,977)</b>	<b>-</b>	<b>(17,371,977)</b>
(16,277,934)	(1,056,072)	(17,422,837)
<b>66,936,188</b>	<b>4,539,435</b>	<b>73,613,943</b>
<b>\$ 50,658,254</b>	<b>\$ 3,483,363</b>	<b>\$ 56,191,106</b>



**CITY OF HILLSBORO, OREGON**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2011**

	Fleet Management	Copier Program	Risk Management	Loss Reserve
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received for services	\$ 365,161	\$ 203,674	\$ 1,755,479	\$ -
Cash paid to suppliers for goods and services	(59,219)	(97,073)	(1,316,108)	-
Cash paid to employees for services	(305,421)	-	(349,530)	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>521</b>	<b>106,601</b>	<b>89,841</b>	<b>-</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers (to)/from other funds	-	-	(800,000)	800,000
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>(800,000)</b>	<b>800,000</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of capital assets	-	-	-	-
Proceeds from sale of capital assets	5,759	-	-	-
Proceeds from issuance of bonds	-	-	-	-
Payments on bonds	-	-	-	-
Payments on note payable	-	-	-	-
Payments on line of credit	-	-	-	-
Interest expense	-	-	-	-
Strategic investment program proceeds	-	-	-	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>5,759</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest received on investments	211	2,396	14,395	-
<b>NET CHANGE IN CASH, CASH EQUIVALENTS AND INVESTMENTS</b>	<b>6,491</b>	<b>108,997</b>	<b>(695,764)</b>	<b>800,000</b>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, July 1, 2010</b>	<b>15,441</b>	<b>146,368</b>	<b>1,868,031</b>	<b>-</b>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, June 30, 2011</b>	<b>\$ 21,932</b>	<b>\$ 255,365</b>	<b>\$ 1,172,267</b>	<b>\$ 800,000</b>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS</b>				
Cash and cash equivalents	\$ 5,783	\$ 67,328	\$ 309,071	\$ 210,922
Investments	16,149	188,037	863,196	589,078
	<b>\$ 21,932</b>	<b>\$ 255,365</b>	<b>\$ 1,172,267</b>	<b>\$ 800,000</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>				
Operating Income (loss)	\$ (14,093)	\$ 71,636	\$ (166,686)	\$ -
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	3,067	29,840	-	-
Changes in assets and liabilities:				
Accounts receivable	-	(11)	18,921	-
Accounts payable	(815)	5,136	(934)	-
Worker's compensation claims payable	-	-	233,943	-
Compensated absences payable	4,395	-	(7)	-
Other post employment benefits payable	7,967	-	4,604	-
Total adjustments	14,614	34,965	256,527	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 521</b>	<b>\$ 106,601</b>	<b>\$ 89,841</b>	<b>\$ -</b>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Contribution of capital assets to other fund	\$ -	\$ -	\$ -	\$ -

	Facilities Management	Support Services	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received for services	\$ 5,475,123	\$ 11,243,137	\$ 19,042,574
Cash paid to suppliers for goods and services	(5,415,140)	(3,475,828)	(10,363,368)
Cash paid to employees for services	-	(8,760,262)	(9,415,213)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>59,983</b>	<b>(992,953)</b>	<b>(736,007)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers (to)/from other funds	(159,500)	716,000	556,500
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES</b>	<b>(159,500)</b>	<b>716,000</b>	<b>556,500</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	(4,453,180)	(367,144)	(4,820,324)
Proceeds from sale of capital assets	-	-	5,759
Proceeds from issuance of bonds	9,110,000	-	9,110,000
Payments on bonds	(1,015,000)	-	(1,015,000)
Payments on note payable	(166,850)	-	(166,850)
Payments on line of credit	(63,100)	-	(63,100)
Interest expense	(1,547,559)	-	(1,547,559)
Strategic investment program proceeds	3,704,779	-	3,704,779
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>5,569,090</b>	<b>(367,144)</b>	<b>5,207,705</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received on investments	31,712	25,147	73,861
<b>NET CHANGE IN CASH, CASH EQUIVALENTS AND INVESTMENTS</b>	<b>5,501,285</b>	<b>(618,950)</b>	<b>5,102,059</b>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, July 1, 2010</b>	<b>807,285</b>	<b>3,198,650</b>	<b>6,035,775</b>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, June 30, 2011</b>	<b>\$ 6,308,570</b>	<b>\$ 2,579,700</b>	<b>\$ 11,137,834</b>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS</b>			
Cash and cash equivalents	\$ 1,663,272	\$ 680,145	\$ 2,936,521
Investments	4,645,298	1,899,555	8,201,313
	<b>\$ 6,308,570</b>	<b>\$ 2,579,700</b>	<b>\$ 11,137,834</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>			
Operating Income (loss)	\$ (925,458)	\$ (1,790,700)	\$ (2,825,301)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	2,758,800	744,618	3,536,325
Changes in assets and liabilities:			
Accounts receivable	160,649	(14,102)	165,457
Accounts payable	(1,934,008)	(55,744)	(1,986,365)
Worker's compensation claims payable	-	-	233,943
Compensated absences payable	-	-	(9,511)
Other post employment benefits payable	-	(13,899)	(13,899)
Total adjustments	985,441	797,747	2,089,294
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 59,983</b>	<b>\$ (992,953)</b>	<b>\$ (736,007)</b>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Contribution of capital assets to other fund	\$ (17,371,977)	\$ -	\$ (17,371,977)

**CITY OF HILLSBORO, OREGON**

**INTERNAL SERVICE FUNDS**

**COMBINING SCHEDULE OF RECONCILIATION OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) TO CHANGES IN NET ASSETS (DEFICIT)**

**YEAR ENDED JUNE 30, 2011**

	<u>Fleet Management</u>	<u>Copier Program</u>	<u>Risk Management</u>	<u>Loss Reserve</u>
<b>NET CHANGES IN FUND BALANCE (DEFICIT)</b>	\$ 2,904	\$ 103,943	\$ (950,200)	\$ 800,000
Adjustments:				
Proceeds on issuance of bonds	-	-	-	-
Principal payments on bonds and notes	-	-	-	-
Depreciation	(3,067)	(29,840)	-	-
Other post employment benefits	(7,967)	-	(4,604)	-
Contribution of capital assets to other fund	-	-	-	-
Capital asset additions	-	-	-	-
<b>CHANGES IN NET ASSETS</b>	<u>\$ (8,130)</u>	<u>\$ 74,103</u>	<u>\$ (954,804)</u>	<u>\$ 800,000</u>

	<u>Facilities Management</u>	<u>Support Services</u>	<u>Total</u>
	\$ 7,264,713	\$ (541,724)	\$ 6,679,636
	(9,110,000)	-	(9,110,000)
	1,244,950	-	1,244,950
	(2,758,800)	(744,618)	(3,536,325)
	-	(136,874)	(149,445)
	(17,371,977)	-	(17,371,977)
	4,453,180	367,144	4,820,324
	<u>\$ (16,277,934)</u>	<u>\$ (1,056,072)</u>	<u>\$ (17,422,837)</u>

**CITY OF HILLSBORO, OREGON**

**FLEET MANAGEMENT FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE (DEFICIT) -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 378,606	\$ 378,606	\$ 365,161	\$ (13,445)
Interest	1,500	1,500	204	(1,296)
Miscellaneous	20,000	20,000	-	(20,000)
<b>TOTAL REVENUES</b>	<b>400,106</b>	<b>400,106</b>	<b>365,365</b>	<b>(34,741)</b>
<b>EXPENDITURES:</b>				
Personal services	314,686	314,686	309,817	4,869
Materials and services	62,100	62,100	56,583	5,517
Special expenditures	1,820	1,820	1,820	-
<b>TOTAL EXPENDITURES</b>	<b>378,606</b>	<b>378,606</b>	<b>368,220</b>	<b>10,386</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>21,500</b>	<b>21,500</b>	<b>(2,855)</b>	<b>(24,355)</b>
<b>OTHER FINANCING SOURCE:</b>				
Proceeds from sale of capital assets	-	-	5,759	5,759
<b>NET CHANGE IN FUND BALANCE</b>	<b>21,500</b>	<b>21,500</b>	<b>2,904</b>	<b>(18,596)</b>
<b>FUND BALANCE (DEFICIT), July 1, 2010</b>	<b>8,500</b>	<b>8,500</b>	<b>(2,590)</b>	<b>(11,090)</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ 30,000</b>	<b>\$ 30,000</b>	<b>\$ 314</b>	<b>\$ (29,686)</b>

**CITY OF HILLSBORO, OREGON**

**COPIER PROGRAM FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 205,000	\$ 205,000	\$ 203,670	\$ (1,330)
Interest	1,000	1,000	2,467	1,467
Other	150	150	15	(135)
<b>TOTAL REVENUES</b>	<b>206,150</b>	<b>206,150</b>	<b>206,152</b>	<b>2</b>
<b>EXPENDITURES:</b>				
Materials and services	167,000	167,000	71,369	95,631
Capital outlay	75,000	75,000	30,840	44,160
Contingency	4,150	4,150	-	4,150
<b>TOTAL EXPENDITURES</b>	<b>246,150</b>	<b>246,150</b>	<b>102,209</b>	<b>143,941</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCE</b>	<b>(40,000)</b>	<b>(40,000)</b>	<b>103,943</b>	<b>143,943</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>40,000</b>	<b>40,000</b>	<b>145,401</b>	<b>105,401</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 249,344</b>	<b>\$ 249,344</b>

**CITY OF HILLSBORO, OREGON**

**RISK MANAGEMENT FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 1,729,246	\$ 1,729,246	\$ 1,729,346	\$ 100
Interest	18,000	18,000	11,882	(6,118)
Refunds and miscellaneous	4,000	4,000	7,212	3,212
<b>TOTAL REVENUES</b>	<u>1,751,246</u>	<u>1,751,246</u>	<u>1,748,440</u>	<u>(2,806)</u>
<b>EXPENDITURES:</b>				
Personal services	351,111	351,111	349,523	1,588
Materials and services	115,700	115,700	99,188	16,512
Special expenditures	1,324,897	1,324,897	1,449,929	(125,032)
Contingency	851,863	851,863	-	851,863
<b>TOTAL EXPENDITURES</b>	<u>2,643,571</u>	<u>2,643,571</u>	<u>1,898,640</u>	<u>744,931</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(892,325)</u>	<u>(892,325)</u>	<u>(150,200)</u>	<u>742,125</u>
<b>OTHER FINANCING USE:</b>				
Transfers to other funds	<u>(800,000)</u>	<u>(800,000)</u>	<u>(800,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(1,692,325)</u>	<u>(1,692,325)</u>	<u>(950,200)</u>	<u>742,125</u>
<b>FUND BALANCE, July 1, 2010</b>	<u>1,692,325</u>	<u>1,692,325</u>	<u>1,822,437</u>	<u>130,112</u>
<b>FUND BALANCE, June 30, 2011</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 872,237</u>	<u>\$ 872,237</u>

**CITY OF HILLSBORO, OREGON**

**LOSS RESERVE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ 12,000	\$ 12,000	\$ -	\$ (12,000)
<b>OTHER FINANCING SOURCES:</b>				
Transfers from other funds	800,000	800,000	800,000	-
<b>NET CHANGE IN FUND BALANCE</b>	812,000	812,000	800,000	(12,000)
<b>FUND BALANCE, July 1, 2010</b>	-	-	-	-
<b>FUND BALANCE, June 30, 2011</b>	<u>\$ 812,000</u>	<u>\$ 812,000</u>	<u>\$ 800,000</u>	<u>\$ (12,000)</u>

**CITY OF HILLSBORO, OREGON**

**FACILITIES MANAGEMENT FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE (DEFICIT) -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
	<b>REVENUES:</b>			
Charges for services	\$ 4,338,170	\$ 4,338,170	\$ 3,782,824	\$ (555,346)
Grants and donations	2,052,000	2,052,000	330,390	(1,721,610)
Miscellaneous income	1,079,946	1,079,946	916,419	(163,527)
Strategic investment program revenues	2,900,000	2,900,000	3,704,779	804,779
Leasehold revenues	105,720	105,720	114,321	8,601
Interest	20,000	20,000	47,049	27,049
<b>TOTAL REVENUES</b>	<b>10,495,836</b>	<b>10,495,836</b>	<b>8,895,782</b>	<b>(1,600,054)</b>
<b>EXPENDITURES:</b>				
Materials and services	3,783,575	3,783,575	3,139,455	644,120
Capital outlay	16,769,241	16,769,241	4,794,857	11,974,384
Debt Service	3,055,425	3,055,425	2,817,777	237,648
<b>TOTAL EXPENDITURES</b>	<b>23,608,241</b>	<b>23,608,241</b>	<b>10,752,089</b>	<b>12,856,152</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<b>(13,112,405)</b>	<b>(13,112,405)</b>	<b>(1,856,307)</b>	<b>11,256,098</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bond proceeds	4,500,000	4,500,000	9,110,000	4,610,000
Premium on bonds issued	-	-	170,520	170,520
Transfers from other funds	6,100,000	6,100,000	-	(6,100,000)
Transfer to other funds	(159,500)	(159,500)	(159,500)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>10,440,500</b>	<b>10,440,500</b>	<b>9,121,020</b>	<b>(1,319,480)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(2,671,905)</b>	<b>(2,671,905)</b>	<b>7,264,713</b>	<b>9,936,618</b>
<b>FUND BALANCE (DEFICIT), July 1, 2010</b>	<b>2,671,905</b>	<b>2,671,905</b>	<b>(2,192,447)</b>	<b>(4,864,352)</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,072,266</b>	<b>\$ 5,072,266</b>

**CITY OF HILLSBORO, OREGON**

**SUPPORT SERVICES FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
	<b>REVENUES:</b>			
Charges for services	\$ 12,017,927	\$ 12,017,927	\$ 11,185,000	\$ (832,927)
Interest	75,000	75,000	18,628	(56,372)
Grants and donations	52,102	66,977	71,154	4,177
Miscellaneous	20,000	20,000	1,085	(18,915)
<b>TOTAL REVENUES</b>	<b>12,165,029</b>	<b>12,179,904</b>	<b>11,275,867</b>	<b>(904,037)</b>
<b>EXPENDITURES:</b>				
Administration:				
Personal services	1,833,026	1,868,026	1,806,063	61,963
Materials and services	1,358,345	1,358,345	1,189,652	168,693
	3,191,371	3,226,371	2,995,715	230,656
Human Resources:				
Personal services	784,397	784,397	776,941	7,456
Materials and services	605,750	605,750	390,941	214,809
	1,390,147	1,390,147	1,167,882	222,265
Information Services:				
Personal services	2,977,424	2,977,424	2,845,285	132,139
Materials and services	1,098,783	1,098,783	990,045	108,738
Capital outlay	2,118,500	2,118,500	550,902	1,567,598
	6,194,707	6,194,707	4,386,232	1,808,475
Finance:				
Personal services	2,029,631	2,029,631	1,810,450	219,181
Materials and services	367,004	367,004	306,677	60,327
Capital outlay	8,500	8,500	-	8,500
	2,405,135	2,405,135	2,117,127	288,008
Emergency Operation Services:				
Personal services	224,408	225,693	215,294	10,399
Materials and services	120,472	134,062	104,013	30,049
Capital outlay	18,700	18,700	5,244	13,456
	363,580	378,455	324,551	53,904
Facilities Management:				
Personal services	1,312,894	1,327,894	1,292,322	35,572
Materials and services	232,400	232,400	217,807	14,593
Capital outlay	97,000	97,000	31,955	65,045
	1,642,294	1,657,294	1,542,084	115,210

**CITY OF HILLSBORO, OREGON**

**SUPPORT SERVICES FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS (Continued)**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES (Continued):</b>				
Contingency	\$ 58,678	\$ 8,678	\$ -	\$ 8,678
<b>TOTAL EXPENDITURES</b>	15,245,912	15,260,787	12,533,591	2,727,196
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	(3,080,883)	(3,080,883)	(1,257,724)	1,823,159
<b>OTHER FINANCING SOURCES:</b>				
Transfers from other funds	716,000	716,000	716,000	-
<b>NET CHANGE IN FUND BALANCE</b>	(2,364,883)	(2,364,883)	(541,724)	1,823,159
<b>FUND BALANCE, July 1, 2010</b>	2,364,883	2,364,883	2,404,264	39,381
<b>FUND BALANCE, June 30, 2011</b>	\$ -	\$ -	\$ 1,862,540	\$ 1,862,540

**TRUST AND AGENCY FUNDS**

Trust Funds are used to account for assets held by the City in a trustee capacity. Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments.

**Private Purpose Trust Fund:**

Cemetery Endowment Trust Fund: This fund is used to account for endowments and related interest income. The income of the trust is used to maintain the Pioneer Cemetery.

**Agency Funds:**

Public Safety Fund: This fund primarily accounts for 911 emergency excise taxes received from the State of Oregon and their disbursements to the Washington County Consolidated Communications Agency.

Jackson Bottom Preserve Fund: The Jackson Bottom Preserve is a not-for-profit organization. This fund accounts for charges for services, donations, and operational expenditures related to the Jackson Bottom Interpretive Center.

Library Reserve Fund: This fund accounts for fund-raising activities of the Library Trustees Board.

Broadband Users Group Fund: This fund accounts for the collection of partner payments from agencies within the Portland Metropolitan area who have combined resources used for network infrastructure and disbursement to vendors providing services to the Group.

Portland Users Group Fund: This fund accounts for the collection of partner payments from agencies within Portland who have combined resources used for network infrastructure and disbursements to vendors providing services to the Group.

**CITY OF HILLSBORO, OREGON**

**TRUST AND AGENCY FUNDS**

**COMBINING BALANCE SHEET**

**JUNE 30, 2011**

	Agency Funds			
	Private Purpose Trust Fund	Public Safety	Jackson Bottom Preserve	Library Reserve
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 2,283	\$ 15,972	\$ 31,614	\$ 17,341
Investments	6,378	44,609	88,293	48,430
Accounts receivable	-	116,013	-	-
Interest receivable	26	184	363	199
<b>TOTAL ASSETS</b>	<b>\$ 8,687</b>	<b>\$ 176,778</b>	<b>\$ 120,270</b>	<b>\$ 65,970</b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Accounts payable	\$ -	\$ 116,013	\$ -	\$ 8,133
Amounts held in trust	-	60,765	120,270	57,837
Fund balance:				
Reserved for perpetual care	8,687	-	-	-
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 8,687</b>	<b>\$ 176,778</b>	<b>\$ 120,270</b>	<b>\$ 65,970</b>

Agency Funds		
Broadband Users Group	Portland Users Group	Total
\$ 50,888	\$ 1,808	\$ 117,623
142,124	5,048	328,504
4,799	-	120,812
585	21	1,352
<b>\$ 198,396</b>	<b>\$ 6,877</b>	<b>\$ 568,291</b>
\$ 7,482	\$ 687	\$ 132,315
190,914	6,190	435,976
-	-	-
<b>\$ 198,396</b>	<b>\$ 6,877</b>	<b>\$ 568,291</b>

**CITY OF HILLSBORO, OREGON**

**AGENCY FUNDS**

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**

**YEAR ENDED JUNE 30, 2011**

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>PUBLIC SAFETY</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 21,706	\$ -	\$ 5,734	\$ 15,972
Investments	37,972	6,637	-	44,609
Accounts receivable	105,100	10,913	-	116,013
Interest receivable	271	-	87	184
	<u>\$ 165,049</u>	<u>\$ 17,550</u>	<u>\$ 5,821</u>	<u>\$ 176,778</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 105,100	\$ 10,913	\$ -	\$ 116,013
Amounts held in trust	59,949	816	-	60,765
	<u>\$ 165,049</u>	<u>\$ 11,729</u>	<u>\$ -</u>	<u>\$ 176,778</u>
<b>JACKSON BOTTOM RESERVE</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 31,513	\$ 101	\$ -	\$ 31,614
Investments	55,127	33,166	-	88,293
Interest receivable	394	-	31	363
	<u>\$ 87,034</u>	<u>\$ 33,267</u>	<u>\$ 31</u>	<u>\$ 120,270</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,629	\$ -	\$ 1,629	\$ -
Amounts held in trust	85,405	34,865	-	120,270
	<u>\$ 87,034</u>	<u>\$ 34,865</u>	<u>\$ 1,629</u>	<u>\$ 120,270</u>
<b>LIBRARY RESERVE</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 30,886	\$ -	\$ 13,545	\$ 17,341
Investments	54,030	-	5,600	48,430
Interest receivable	386	-	187	199
	<u>\$ 85,302</u>	<u>\$ -</u>	<u>\$ 19,332</u>	<u>\$ 65,970</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 4,031	\$ 4,102	\$ -	\$ 8,133
Amounts held in trust	81,271	-	23,434	57,837
	<u>\$ 85,302</u>	<u>\$ 4,102</u>	<u>\$ 23,434</u>	<u>\$ 65,970</u>

**CITY OF HILLSBORO, OREGON**

**AGENCY FUNDS**

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES (Continued)**

**YEAR ENDED JUNE 30, 2011**

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>BROADBAND USERS GROUP</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 88,796	\$ -	\$ 37,908	\$ 50,888
Investments	155,333	-	13,209	142,124
Accounts receivable	67	4,732	-	4,799
Interest receivable	1,272	-	687	585
	<u>\$ 245,468</u>	<u>\$ 4,732</u>	<u>\$ 51,804</u>	<u>\$ 198,396</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 9,870	\$ -	\$ 2,388	\$ 7,482
Amounts held in trust	235,598	-	44,684	190,914
	<u>\$ 245,468</u>	<u>\$ -</u>	<u>\$ 47,072</u>	<u>\$ 198,396</u>
<b>PORTLAND USERS GROUP</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,705	\$ -	\$ 897	\$ 1,808
Investments	4,731	317	-	5,048
Interest receivable	34	-	13	21
	<u>\$ 7,470</u>	<u>\$ 317</u>	<u>\$ 910</u>	<u>\$ 6,877</u>
<b>LIABILITY</b>				
Accounts payable	\$ -	\$ 687	\$ -	\$ 687
Amounts held in trust	7,470	-	1,280	6,190
	<u>\$ 7,470</u>	<u>\$ 687</u>	<u>\$ 1,280</u>	<u>\$ 6,877</u>



CITY OF HILLSBORO, OREGON

CEMETERY ENDOWMENT TRUST - PRIVATE PURPOSE TRUST FUND

SCHEDULE OF REVENUES  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS

YEAR ENDED JUNE 30, 2011

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Interest income	\$ 300	\$ 300	\$ 87	\$ (213)
Perpetual maintenance donations	200	200	50	(150)
<b>TOTAL REVENUES AND CHANGE IN FUND BALANCE</b>	500	500	137	(363)
<b>FUND BALANCE, July 1, 2010</b>	8,500	8,500	8,550	50
<b>FUND BALANCE, June 30, 2011</b>	<u>\$ 9,000</u>	<u>\$ 9,000</u>	<u>\$ 8,687</u>	<u>\$ (313)</u>

CITY OF HILLSBORO, OREGON

PUBLIC SAFETY FUND

SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGETARY BASIS

YEAR ENDED JUNE 30, 2011

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Excise taxes	\$ 530,000	\$ 530,000	\$ 457,213	\$ (72,787)
Fines and forfeitures	20,000	20,000	-	(20,000)
Miscellaneous	10,500	10,500	-	(10,500)
Interest	1,500	1,500	816	(684)
<b>TOTAL REVENUES</b>	562,000	562,000	458,029	(103,971)
<b>EXPENDITURES:</b>				
Materials and services	621,850	621,850	457,213	164,637
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCE</b>	(59,850)	(59,850)	816	60,666
<b>FUND BALANCE, July 1, 2010</b>	59,850	59,850	59,949	99
<b>FUND BALANCE, June 30, 2011</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,765</u>	<u>\$ 60,765</u>

CITY OF HILLSBORO, OREGON

JACKSON BOTTOM PRESERVE FUND

SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS

YEAR ENDED JUNE 30, 2011

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 14,000	\$ 14,000	\$ 27,168	\$ 13,168
Donations	65,000	65,000	62,284	(2,716)
Interest	2,000	2,000	1,124	(876)
<b>TOTAL REVENUES</b>	<u>81,000</u>	<u>81,000</u>	<u>90,576</u>	<u>9,576</u>
<b>EXPENDITURES:</b>				
Materials and services	40,000	65,000	55,711	9,289
Contingency	141,000	116,000	-	116,000
<b>TOTAL EXPENDITURES</b>	<u>181,000</u>	<u>181,000</u>	<u>55,711</u>	<u>125,289</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCE</b>	(100,000)	(100,000)	34,865	134,865
<b>FUND BALANCE, July 1, 2010</b>	<u>100,000</u>	<u>100,000</u>	<u>85,405</u>	<u>(14,595)</u>
<b>FUND BALANCE, June 30, 2011</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,270</u>	<u>\$ 120,270</u>

CITY OF HILLSBORO, OREGON

LIBRARY RESERVE FUND

SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGETARY BASIS

YEAR ENDED JUNE 30, 2011

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Memorials and grants	\$ 38,100	\$ 38,100	\$ 83,095	\$ 44,995
Interest	1,900	1,900	771	(1,129)
<b>TOTAL REVENUES</b>	<u>40,000</u>	<u>40,000</u>	<u>83,866</u>	<u>43,866</u>
<b>EXPENDITURES:</b>				
Materials and services	125,000	125,000	107,300	17,700
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES AND NET CHANGE IN FUND BALANCE</b>	(85,000)	(85,000)	(23,434)	61,566
<b>FUND BALANCE, July 1, 2010</b>	<u>85,000</u>	<u>85,000</u>	<u>81,271</u>	<u>(3,729)</u>
<b>FUND BALANCE, June 30, 2011</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,837</u>	<u>\$ 57,837</u>

**CITY OF HILLSBORO, OREGON**

**BROADBAND USERS GROUP FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Partner payments	\$ 305,245	\$ 305,245	\$ 310,277	\$ 5,032
Interest	9,000	9,000	3,302	(5,698)
<b>TOTAL REVENUES</b>	<b>314,245</b>	<b>314,245</b>	<b>313,579</b>	<b>(666)</b>
<b>EXPENDITURES:</b>				
Materials and services	322,000	322,000	335,114	(13,114)
Capital outlay	11,000	11,000	23,149	(12,149)
Contingency	166,245	166,245	-	166,245
<b>TOTAL EXPENDITURES</b>	<b>499,245</b>	<b>499,245</b>	<b>358,263</b>	<b>140,982</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES AND NET CHANGE IN FUND BALANCE</b>	<b>(185,000)</b>	<b>(185,000)</b>	<b>(44,684)</b>	<b>140,316</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>185,000</b>	<b>185,000</b>	<b>235,598</b>	<b>50,598</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 190,914</b>	<b>\$ 190,914</b>

**CITY OF HILLSBORO, OREGON**

**PORTLAND USERS GROUP FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Partner payments	\$ 20,000	\$ 20,000	\$ 12,932	\$ (7,068)
Interest	300	300	89	(211)
<b>TOTAL REVENUES</b>	<b>20,300</b>	<b>20,300</b>	<b>13,021</b>	<b>(7,279)</b>
<b>EXPENDITURES:</b>				
Materials and services	20,000	20,000	14,301	5,699
Contingency	16,300	16,300	-	16,300
<b>TOTAL EXPENDITURES</b>	<b>36,300</b>	<b>36,300</b>	<b>14,301</b>	<b>21,999</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES AND NET CHANGE IN FUND BALANCE</b>	<b>(16,000)</b>	<b>(16,000)</b>	<b>(1,280)</b>	<b>14,720</b>
<b>FUND BALANCE, July 1, 2010</b>	<b>16,000</b>	<b>16,000</b>	<b>7,470</b>	<b>(8,530)</b>
<b>FUND BALANCE, June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,190</b>	<b>\$ 6,190</b>

**OTHER SCHEDULE**

**CITY OF HILLSBORO, OREGON**  
**SCHEDULE OF PROPERTY TAX TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2011**

Tax Year	Uncollected July 1, 2010	Levy as Extended by Assessor	Discounts Allowed	Interest	Adjustments	Collections	Uncollected June 30, 2011
<b>Current Year</b>							
2010-2011	\$ -	\$ 46,840,003	\$ (1,192,646)	\$ 16,293	\$ (213,138)	\$ (44,343,384)	\$ 1,107,128
<b>Prior years</b>							
2009-2010	1,249,766	-	253	53,235	(24,406)	(825,267)	453,581
2008-2009	473,422	-	296	43,669	(21,867)	(270,183)	225,337
2007-2008	147,343	-	43	27,730	(6,201)	(118,536)	50,379
2006-2007	37,053	-	1	8,480	(1,568)	(30,443)	13,523
2005-2006	8,539	-	-	1,166	(3,601)	-	6,104
2004-2005 and prior	22,177	-	3	2,618	(3,703)	(2,673)	18,422
<b>Total prior years</b>	<b>1,938,300</b>	<b>-</b>	<b>596</b>	<b>136,898</b>	<b>(61,346)</b>	<b>(1,247,102)</b>	<b>767,346</b>
<b>Total</b>	<b>\$ 1,938,300</b>	<b>\$ 46,840,003</b>	<b>\$ (1,192,050)</b>	<b>\$ 153,191</b>	<b>\$ (274,484)</b>	<b>\$ (45,590,486)</b>	<b>\$ 1,874,474</b>

<b>RECONCILIATION OF TAX COLLECTIONS TO TAX REVENUES:</b>	Tax Collections Above	Change in Taxes Subject to Accrual	Property Tax Revenues
	General Fund	\$ 45,590,486	\$ (14,737)

**STATISTICAL SECTION**

**Statistical Section**

This part of the City of Hillsboro's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and supplementary information says about the City's overall financial health.

**Contents**

***Financial Trends***

These schedules contain trend information to help the reader understand how the City's financial performance has changed over time.

***Revenue Capacity***

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

***Debt Capacity***

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

***Demographic and Economic Information***

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

***Operating Information***

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

**Sources:** Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in fiscal year 2003; schedules presenting government-wide information include information beginning in that year. The City implemented GASB Statement 54 in fiscal year 2011 and fund balance classification begin that year.

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**FINANCIAL TRENDS**

**CITY OF HILLSBORO, OREGON**

**NET ASSETS BY COMPONENT**

**LAST NINE FISCAL YEARS\***

	2011	2010 (as reclassified)	2009	2008
<b>Governmental activities:</b>				
Invested in capital assets, net of related debt	\$ 431,338,908	\$ 459,749,378	\$ 458,813,125	\$ 463,406,341
Restricted	43,650,803	41,717,787	39,079,935	41,132,492
Unrestricted	20,009,275	12,839,652	17,843,057	27,344,415
<b>Total governmental activities net assets</b>	<b>494,998,986</b>	<b>514,306,817</b>	<b>515,736,117</b>	<b>531,883,248</b>
<b>Business-type activities:</b>				
Invested in capital assets, net of related debt	166,084,633	142,968,515	129,970,199	119,710,827
Unrestricted	133,181,169	134,920,903	136,225,134	138,458,862
<b>Total business-type activities net assets</b>	<b>299,265,802</b>	<b>277,889,418</b>	<b>266,195,333</b>	<b>258,169,689</b>
<b>Primary government</b>				
Invested in capital assets, net of related debt	597,423,541	602,717,893	588,783,324	583,117,168
Restricted	43,650,803	41,717,787	39,079,935	41,132,492
Unrestricted	153,190,444	147,760,555	154,068,191	165,803,277
<b>Total primary government net assets</b>	<b>\$ 794,264,788</b>	<b>\$ 792,196,235</b>	<b>\$ 781,931,450</b>	<b>\$ 790,052,937</b>

\*Required to show ten fiscal years of data, but show only nine due to implementation of GASB 34 in FY 02-03.

	2007	2006	2005	2004	2003
	\$ 459,840,997	\$ 459,863,960	\$ 452,279,653	\$ 450,663,022	\$ 453,645,827
	40,688,422	37,799,606	37,048,201	34,950,044	27,654,332
	42,043,913	44,976,344	45,962,639	48,190,531	55,626,798
	<u>542,573,332</u>	<u>542,639,910</u>	<u>535,290,493</u>	<u>533,803,597</u>	<u>536,926,957</u>
	109,682,557	103,631,845	93,595,429	41,475,118	35,316,969
	137,898,129	131,490,161	122,392,096	103,974,367	100,909,051
	<u>247,580,686</u>	<u>235,122,006</u>	<u>215,987,525</u>	<u>145,449,485</u>	<u>136,226,020</u>
	569,523,554	563,495,805	545,875,082	492,138,140	488,962,796
	40,688,422	37,799,606	37,048,201	34,950,044	27,654,332
	179,942,042	176,466,505	168,354,735	152,164,898	156,535,849
	<u>\$ 790,154,018</u>	<u>\$ 777,761,916</u>	<u>\$ 751,278,018</u>	<u>\$ 679,253,082</u>	<u>\$ 673,152,977</u>

**CITY OF HILLSBORO, OREGON**

**CHANGES IN NET ASSETS**

**GOVERNMENTAL ACTIVITIES**

**LAST NINE FISCAL YEARS\***

	2011	2010	2009	2008
<b>NET REVENUE (EXPENSE):</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
General government **	\$ (2,919,372)	\$ 5,526,608	\$ (3,466,121)	\$ (4,234,500)
Public safety and judicial	(40,548,477)	(38,815,587)	(38,535,867)	(34,392,446)
Community service	(7,142,292)	(7,189,567)	(7,158,542)	(6,633,765)
Culture and recreation	(11,470,144)	(12,422,834)	(11,447,757)	(8,129,725)
Roads and bridges	(4,554,724)	(10,833,526)	(14,726,307)	(10,437,398)
Interest on long-term debt and fiscal charges	(1,572,827)	(713,229)	(854,999)	(967,424)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>(68,207,836)</b>	<b>(64,448,135)</b>	<b>(76,189,593)</b>	<b>(64,795,252)</b>
<b>GENERAL REVENUES:</b>				
Property taxes levied for:				
General purposes	30,972,286	29,704,172	28,726,100	26,681,694
Public safety	14,554,374	13,857,826	13,171,768	7,945,460
Library	4,058,289	3,978,715	3,669,653	3,597,699
Franchise fees **	8,946,848	7,502,174	6,532,526	6,249,083
Other taxes	6,425,524	5,348,200	5,553,971	5,627,021
Earnings on investments	707,661	1,275,172	1,888,244	3,981,802
Miscellaneous	-	-	-	-
Transfers	(16,764,977)	1,352,577	500,199	22,415
<b>TOTAL GENERAL REVENUES</b>	<b>48,900,005</b>	<b>63,018,836</b>	<b>60,042,461</b>	<b>54,105,174</b>
<b>CHANGE IN NET ASSETS</b>	<b>(19,307,831)</b>	<b>(1,429,299)</b>	<b>(16,147,132)</b>	<b>(10,690,084)</b>
<b>NET ASSETS, July 1,</b>	<b>514,306,817</b>	<b>515,736,116</b>	<b>531,883,248</b>	<b>542,573,332</b>
<b>RESTATEMENT</b>	-	-	-	-
<b>NET ASSETS, July 1, as restated</b>	<b>514,306,817</b>	<b>515,736,116</b>	<b>531,883,248</b>	<b>542,573,332</b>
<b>NET ASSETS, June 30,</b>	<b>\$ 494,998,986</b>	<b>\$ 514,306,817</b>	<b>\$ 515,736,116</b>	<b>\$ 531,883,248</b>

**CHANGES IN NET ASSETS  
BUSINESS TYPE - ACTIVITIES  
LAST NINE FISCAL YEARS\***

	2011	2010	2009	2008
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Water	\$ 2,247,425	\$ 11,490,068	\$ 8,286,176	\$ 4,709,594
Sewer and surface water management	1,897,235	1,836,235	770,926	2,685,975
Transit facility management	(288,669)	-	-	-
Property management	14,287	(15,436)	(50,130)	(97,256)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>3,870,278</b>	<b>13,310,867</b>	<b>9,006,972</b>	<b>7,298,313</b>
Earnings on investments	741,029	1,440,872	2,257,096	3,646,832
Miscellaneous	-	(1,704,977)	(1,863,725)	(1,208,227)
Transfers	16,764,977	(1,352,577)	(500,199)	(22,415)
<b>TOTAL GENERAL REVENUES</b>	<b>17,506,006</b>	<b>(1,616,682)</b>	<b>(106,828)</b>	<b>2,416,190</b>
<b>CHANGE IN NET ASSETS</b>	<b>21,376,284</b>	<b>11,694,185</b>	<b>8,900,144</b>	<b>9,714,503</b>
<b>NET ASSETS, July 1,</b>	<b>277,889,518</b>	<b>266,195,333</b>	<b>257,295,189</b>	<b>247,580,686</b>
<b>RESTATEMENT</b>	-	-	-	-
<b>NET ASSETS, July 1, as restated</b>	<b>277,889,518</b>	<b>266,195,333</b>	<b>257,295,189</b>	<b>247,580,686</b>
<b>NET ASSETS, June 30,</b>	<b>\$ 299,265,802</b>	<b>\$ 277,889,518</b>	<b>\$ 266,195,333</b>	<b>\$ 257,295,189</b>

\*Required to show ten fiscal years of data, but show only nine due to implementation of GASB 34 in FY 02-03.  
\*\* Franchise fees has been reclassified from general government program revenues to general revenue for the years 2003 - 2010.

	2007	2006	2005	2004	2003
<b>NET REVENUE (EXPENSE):</b>					
<b>GOVERNMENTAL ACTIVITIES:</b>					
General government **	\$ (550,694)	\$ 321,209	\$ 2,224,329	\$ (4,560,466)	\$ 467,302
Public safety and judicial	(31,785,938)	(30,808,729)	(28,163,119)	(26,231,072)	(24,057,807)
Community service	(5,432,556)	(5,225,529)	(4,885,755)	(4,767,820)	(4,935,764)
Culture and recreation	(6,390,879)	(2,985,000)	(4,515,636)	(1,891,132)	(4,270,899)
Roads and bridges	(7,266,413)	(2,841,093)	(2,350,800)	(10,578,433)	(12,683,401)
Interest on long-term debt and fiscal charges	(1,117,385)	(1,309,011)	(1,258,978)	(49,741)	(67,770)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>(52,543,865)</b>	<b>(42,848,153)</b>	<b>(38,949,959)</b>	<b>(48,078,664)</b>	<b>(45,548,339)</b>
<b>GENERAL REVENUES:</b>					
Property taxes levied for:					
General purposes	25,108,564	23,981,407	22,874,372	22,143,355	18,317,628
Public safety	7,506,195	7,202,623	6,918,325	6,471,783	6,818,521
Library	2,630,307	2,578,732	2,528,169	2,558,955	2,890,058
Franchise fees **	7,244,811	6,771,872	5,961,230	5,760,304	5,932,701
Other taxes	5,228,092	5,123,511	1,763,228	1,175,922	1,144,638
Earnings on investments	4,726,068	3,204,976	1,264,558	2,761,454	2,453,788
Miscellaneous	-	1,319,449	142,120	2,338,531	2,617,815
Transfers	33,250	15,000	45,000	1,745,000	2,088,802
<b>TOTAL GENERAL REVENUES</b>	<b>52,477,287</b>	<b>50,197,570</b>	<b>41,497,002</b>	<b>44,955,304</b>	<b>42,263,951</b>
<b>CHANGE IN NET ASSETS</b>	<b>(66,578)</b>	<b>7,349,417</b>	<b>2,547,043</b>	<b>(3,123,360)</b>	<b>(3,284,388)</b>
<b>NET ASSETS, July 1,</b>	<b>542,639,910</b>	<b>535,290,493</b>	<b>533,803,597</b>	<b>536,926,957</b>	<b>540,211,345</b>
<b>RESTATEMENT</b>	-	-	(1,060,147)	-	-
<b>NET ASSETS, July 1, as restated</b>	<b>542,639,910</b>	<b>535,290,493</b>	<b>532,743,450</b>	<b>536,926,957</b>	<b>540,211,345</b>
<b>NET ASSETS, June 30,</b>	<b>\$ 542,573,332</b>	<b>\$ 542,639,910</b>	<b>\$ 535,290,493</b>	<b>\$ 533,803,597</b>	<b>\$ 536,926,957</b>

	2007	2006	2005	2004	2003
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Water	\$ 6,293,468	\$ 11,505,557	\$ 9,485,145	\$ 7,845,006	\$ 6,510,042
Sewer and surface water management	3,715,935	4,171,574	3,360,587	(10,523)	769,176
Transit facility management	-	-	-	-	-
Property management	(48,084)	(41,221)	(66,864)	(37,669)	3,250
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>9,961,319</b>	<b>15,635,910</b>	<b>12,778,868</b>	<b>7,796,814</b>	<b>7,282,468</b>
Earnings on investments	2,530,611	1,687,759	970,218	1,996,986	1,544,697
Miscellaneous	-	-	(106,799)	1,174,665	411,858
Transfers	(33,250)	(15,000)	(45,000)	(1,745,000)	(2,088,802)
<b>TOTAL GENERAL REVENUES</b>	<b>2,497,361</b>	<b>1,672,759</b>	<b>818,419</b>	<b>1,426,651</b>	<b>(132,247)</b>
<b>CHANGE IN NET ASSETS</b>	<b>12,458,680</b>	<b>17,308,669</b>	<b>13,597,287</b>	<b>9,223,465</b>	<b>7,150,221</b>
<b>NET ASSETS, July 1,</b>	<b>235,122,006</b>	<b>215,987,525</b>	<b>145,449,485</b>	<b>136,226,020</b>	<b>129,075,799</b>
<b>RESTATEMENT</b>	-	1,825,812	56,940,753	-	-
<b>NET ASSETS, July 1, as restated</b>	<b>235,122,006</b>	<b>217,813,337</b>	<b>202,390,238</b>	<b>136,226,020</b>	<b>129,075,799</b>
<b>NET ASSETS, June 30,</b>	<b>\$ 247,580,686</b>	<b>\$ 235,122,006</b>	<b>\$ 215,987,525</b>	<b>\$ 145,449,485</b>	<b>\$ 136,226,020</b>



**CITY OF HILLSBORO, OREGON**

**FUND BALANCES, GOVERNMENTAL FUNDS**

**LAST NINE FISCAL YEARS\***

	2011	2010	2009	2008
<b>General Fund</b>				
Unreserved	\$ -	\$ 13,927,078	\$ 14,738,849	\$ 22,711,260
Restricted	4,101,923	-	-	-
Assigned	624,582	-	-	-
Unassigned	12,658,087	-	-	-
<b>Total General Fund</b>	<b>17,384,592</b>	<b>13,927,078</b>	<b>14,738,849</b>	<b>22,711,260</b>
<b>All Other Governmental Funds</b>				
Reserved				
Special Revenue Funds (construction and building improvements)	-	40,554,888	36,949,739	38,339,356
Capital Projects Funds (construction)	-	1,162,899	1,987,220	2,608,428
Debt Service Funds	-	-	142,975	184,708
Unreserved, reported in				
Capital Projects Funds	-	171,016	24,311	219,200
Special Revenue Funds	-	-	91,478	351,975
Restricted	39,579,944	-	-	-
Committed	1,944,926	-	-	-
Assigned	371,727	-	-	-
<b>Total all Other Governmental Funds</b>	<b>41,896,597</b>	<b>41,888,803</b>	<b>39,195,723</b>	<b>41,703,667</b>
<b>Total Fund Balance Governmental Funds</b>	<b>\$ 59,281,189</b>	<b>\$ 55,815,881</b>	<b>\$ 53,934,572</b>	<b>\$ 64,414,927</b>

	2007	2006	2005	2004	2003
<b>General Fund</b>					
Unreserved	\$ 34,201,515	\$ 32,527,193	\$ 29,407,069	\$ 27,892,345	\$ 30,372,538
Restricted	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>Total General Fund</b>	<b>34,201,515</b>	<b>32,527,193</b>	<b>29,407,069</b>	<b>27,892,345</b>	<b>30,372,538</b>
<b>All Other Governmental Funds</b>					
Reserved					
Special Revenue Funds (construction and building improvements)	37,005,133	34,218,068	32,684,591	30,041,181	27,654,332
Capital Projects Funds (construction)	3,461,704	1,578,371	4,183,463	5,403,506	5,893,284
Debt Service Funds	221,585	173,549	180,147	175,703	174,346
Unreserved, reported in					
Capital Projects Funds	(436,651)	-	-	-	-
Special Revenue Funds	84,694	80,508	77,568	77,340	75,010
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
<b>Total all Other Governmental Funds</b>	<b>40,336,465</b>	<b>36,050,496</b>	<b>37,125,769</b>	<b>35,697,730</b>	<b>33,796,972</b>
<b>Total Fund Balance Governmental Funds</b>	<b>\$ 74,537,980</b>	<b>\$ 68,577,689</b>	<b>\$ 66,532,838</b>	<b>\$ 63,590,075</b>	<b>\$ 64,169,510</b>

\*Required to show ten fiscal years of data, but show only nine due to implementation of GASB 34 in FY 02-03. Additionally, fiscal year 10-11 is the first year of GASB 54 implementation which requires a different presentation of fund balance. GASB 54 will be prospectively applied.

**CITY OF HILLSBORO, OREGON**

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**

**LAST NINE FISCAL YEARS\***

	2011	2010	2009
<b>REVENUES:</b>			
Property and other taxes	\$ 52,056,006	\$ 49,571,729	\$ 46,925,346
Intergovernmental	5,676,450	4,969,029	4,516,500
Franchise fees	8,946,848	7,502,174	6,532,526
Licenses and permits	6,414,831	3,701,440	4,039,454
Fines, forfeitures, and penalties	1,060,002	954,965	909,563
Charges for services	7,293,560	7,385,957	5,302,565
Interest	627,431	1,142,050	1,795,818
Miscellaneous	4,494,819	2,023,627	660,559
Grants, donations and other	1,264,590	1,472,928	1,679,588
<b>TOTAL REVENUES</b>	<b>87,834,537</b>	<b>78,723,899</b>	<b>72,361,919</b>
<b>EXPENDITURES:</b>			
Current:			
General government	9,805,421	8,784,742	8,682,011
Public safety and judicial	40,001,734	37,707,753	37,132,737
Community service	6,841,005	6,907,614	6,889,148
Culture and recreation	13,045,854	12,002,755	12,397,595
Capital outlay	2,294,429	4,678,455	5,562,743
Roads and bridges	11,513,806	5,986,323	12,377,154
Debt service:			
Principal payments	-	-	-
Interest and fiscal charges	-	-	-
Other Payments	1,274,814	1,377,525	97,500
<b>TOTAL EXPENDITURES</b>	<b>84,777,063</b>	<b>77,445,167</b>	<b>83,138,888</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,057,474</b>	<b>1,278,732</b>	<b>(10,776,969)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from sale of assets	357,334	-	100,000
Transfers in	1,942,503	5,908,755	7,900,420
Transfers out	(1,892,003)	(5,306,178)	(7,703,806)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>407,834</b>	<b>602,577</b>	<b>296,614</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>3,465,308</b>	<b>1,881,309</b>	<b>(10,480,355)</b>
<b>FUND BALANCE, July 1,</b>	<b>55,815,881</b>	<b>53,934,572</b>	<b>64,414,927</b>
<b>FUND BALANCE, June 30,</b>	<b>\$ 59,281,189</b>	<b>\$ 55,815,881</b>	<b>\$ 53,934,572</b>
Debt service as a percentage of noncapital expenditures	0.00%	0.00%	0.00%

\*Required to show ten fiscal years of data, but show only nine due to implementation of GASB 34 in FY 02-03.

\*\* Includes restatement of (\$679,867)

	2008	2007	2006	2005	2004	2003
<b>REVENUES:</b>						
Property and other taxes	\$ 39,847,323	\$ 36,880,725	\$ 35,275,053	\$ 33,725,882	\$ 32,338,104	\$ 32,072,514
Intergovernmental	4,850,604	4,876,695	4,898,739	4,755,139	4,320,730	3,775,525
Franchise fees	6,249,083	7,244,811	6,771,872	5,961,230	5,760,304	5,932,701
Licenses and permits	5,585,176	5,841,414	6,089,947	5,085,802	2,970,799	4,000,239
Fines, forfeitures, and penalties	996,960	979,245	850,673	727,223	808,613	666,109
Charges for services	7,478,322	9,173,949	9,560,533	7,472,063	7,762,787	8,842,556
Interest	3,614,532	4,053,975	2,523,998	944,030	2,152,503	2,014,742
Miscellaneous	597,552	1,229,640	380,189	1,566,941	303,038	340,550
Grants, donations and other	1,163,702	3,911,723	653,200	403,859	1,154,206	4,500,233
<b>TOTAL REVENUES</b>	<b>70,383,254</b>	<b>74,192,177</b>	<b>67,004,204</b>	<b>60,642,169</b>	<b>57,571,084</b>	<b>62,145,169</b>
<b>EXPENDITURES:</b>						
Current:						
General government	7,889,581	5,801,262	4,696,829	4,169,067	4,348,715	4,951,488
Public safety and judicial	34,954,546	32,536,351	30,646,452	28,432,569	26,966,083	24,840,687
Community service	6,415,722	5,558,021	5,136,270	4,855,629	4,737,332	4,920,082
Culture and recreation	11,192,150	9,807,914	8,361,430	7,724,698	8,110,284	11,061,406
Capital outlay	12,761,266	7,134,053	6,783,639	6,042,971	5,786,536	9,702,891
Roads and bridges	7,946,344	8,198,951	8,379,335	3,922,772	6,558,301	6,089,680
Debt service:						
Principal payments	-	19,376	225,000	365,166	86,311	276,047
Interest and fiscal charges	-	-	-	1,263,320	51,957	68,466
Other Payments	97,500	75,000	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>81,257,109</b>	<b>69,130,928</b>	<b>64,228,955</b>	<b>56,776,192</b>	<b>56,645,519</b>	<b>61,910,747</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(10,873,855)</b>	<b>5,061,249</b>	<b>2,775,249</b>	<b>3,865,977</b>	<b>925,565</b>	<b>234,422</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Proceeds from sale of assets	100,000	-	-	-	-	-
Transfers in	9,613,300	1,468,800	1,433,587	2,130,533	496,665	588,676
Transfers out	(8,962,498)	(569,757)	(2,163,985)	(2,373,880)	(2,001,665)	(6,075,739)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>750,802</b>	<b>899,043</b>	<b>(730,398)</b>	<b>(243,347)</b>	<b>(1,505,000)</b>	<b>(5,487,063)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(10,123,053)</b>	<b>5,960,292</b>	<b>2,044,851</b>	<b>3,622,630</b>	<b>(579,435)</b>	<b>(5,252,641)</b>
<b>FUND BALANCE, July 1,</b>	<b>74,537,980</b>	<b>68,577,688</b>	<b>66,532,838</b>	<b>62,910,208</b>	<b>** 64,169,510</b>	<b>69,422,151</b>
<b>FUND BALANCE, June 30,</b>	<b>\$ 64,414,927</b>	<b>\$ 74,537,980</b>	<b>\$ 68,577,689</b>	<b>\$ 66,532,838</b>	<b>\$ 63,590,075</b>	<b>\$ 64,169,510</b>
Debt service as a percentage of noncapital expenditures	0.00%	0.03%	0.39%	3.21%	0.27%	0.66%

**CITY OF HILLSBORO, OREGON**

**GOVERNMENT- WIDE EXPENSES BY FUNCTION**

**LAST NINE FISCAL YEARS\***

	2011	2010	2009
<b>Governmental activities:</b>			
General government	\$ 12,565,021	\$ 13,093,796	\$ 12,259,574
Public safety and judicial	41,656,043	39,208,892	38,845,401
Community service	7,347,849	7,384,638	7,401,067
Culture and recreation	15,928,024	15,721,484	15,360,389
Roads and bridges	22,438,172	20,318,913	22,808,864
Interest on long-term debt	1,572,827	713,228	854,999
<b>Total governmental activities</b>	<b>101,507,936</b>	<b>96,440,951</b>	<b>97,530,294</b>
<b>Business-type activities:</b>			
Water	14,228,067	12,379,971	11,990,838
Sewer and surface water management	7,791,937	6,918,360	7,260,539
Transit facility management	338,669	-	-
Property management	31,845	65,949	97,404
<b>Total business-type activities</b>	<b>22,390,518</b>	<b>19,364,280</b>	<b>19,348,781</b>
<b>Total</b>	<b>\$ 123,898,454</b>	<b>\$ 115,805,231</b>	<b>\$ 116,879,075</b>

\*Required to show ten fiscal years of data, but show only nine due to implementation of GASB 34 in FY 02-03.

	2008	2007	2006	2005	2004	2003
	\$ 11,043,117	\$ 8,170,758	\$ 6,533,249	\$ 3,911,576	\$ 5,504,261	\$ 4,742,619
	36,044,036	33,946,509	32,444,183	29,540,551	27,601,368	25,439,645
	6,846,251	5,616,586	5,420,618	5,075,116	4,767,820	4,935,764
	14,601,826	15,223,057	8,595,208	8,083,858	8,552,709	16,582,229
	22,623,767	22,976,971	25,371,279	16,650,890	18,438,352	19,677,826
	967,424	1,117,385	1,309,011	1,258,978	49,741	67,770
	<b>92,126,421</b>	<b>87,051,266</b>	<b>79,673,548</b>	<b>64,520,969</b>	<b>64,914,251</b>	<b>71,445,853</b>
	11,077,441	9,849,287	8,279,320	8,389,887	9,108,195	8,892,703
	7,659,894	6,481,890	6,111,061	6,716,662	3,620,960	3,532,022
	-	-	-	-	-	-
	143,604	87,832	90,893	85,318	68,230	61,314
	<b>18,880,939</b>	<b>16,419,009</b>	<b>14,481,274</b>	<b>15,191,867</b>	<b>12,797,385</b>	<b>12,486,039</b>
	<b>\$ 111,007,360</b>	<b>\$ 103,470,275</b>	<b>\$ 94,154,822</b>	<b>\$ 79,712,836</b>	<b>\$ 77,711,636</b>	<b>\$ 83,931,892</b>

**CITY OF HILLSBORO, OREGON**

**GOVERNMENT-WIDE REVENUE BY PROGRAM**

**LAST NINE FISCAL YEARS\***

	2011			2010		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<b>Program revenues:</b>						
Fees, fines and charges for services						
General Government **	\$ 9,586,646	\$ -	\$ 9,586,646	\$ 6,217,126	\$ -	\$ 6,217,126
Culture and Recreation	4,334,467	-	4,334,467	3,298,650	-	3,298,650
Roads and Bridges	5,170,929	-	5,170,929	4,300,954	-	4,300,954
Water	-	14,896,461	14,896,461	-	17,261,408	17,261,408
Sewer and Swm	-	8,424,558	8,424,558	-	8,154,970	8,154,970
Other	1,009,531	96,132	1,105,663	588,375	50,513	638,888
Operating grants and contributions						
Roads and Bridges	5,116,998	-	5,116,998	4,093,526	-	4,093,526
Other	486,008	565,815	1,051,823	775,503	-	775,503
Capital grants and contributions						
Roads and Bridges	7,595,521	-	7,595,521	1,090,907	-	1,090,907
Water	-	1,020,220	1,020,220	-	6,608,631	6,608,631
Sewer and Swm	-	844,165	844,165	-	599,625	599,625
Other	-	413,445	413,445	11,627,775	-	11,627,775
<b>General revenues:</b>						
Taxes	56,010,473	-	56,010,473	52,888,915	-	52,888,915
Franchise fees **	8,946,848	-	8,946,848	7,502,174	-	7,502,174
Earnings on investments	707,661	741,029	1,448,690	1,275,172	1,440,872	2,716,044
Miscellaneous	-	-	-	-	(1,704,977)	(1,704,977)
Transfers	(16,764,977)	16,764,977	-	1,352,577	(1,352,577)	-
<b>Total</b>	<b>\$ 82,200,105</b>	<b>\$ 43,766,802</b>	<b>\$ 125,966,907</b>	<b>\$ 95,011,654</b>	<b>\$ 31,058,465</b>	<b>\$ 126,070,119</b>
	2006			2005		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<b>Program revenues:</b>						
Fees, fines and charges for services						
General Government **	\$ 5,767,338	\$ -	\$ 5,767,338	\$ 5,061,820	\$ -	\$ 5,061,820
Culture and Recreation	5,610,208	-	5,610,208	3,568,222	-	3,568,222
Roads and Bridges	3,906,760	-	3,906,760	7,623,794	-	7,623,794
Water	-	16,438,937	16,438,937	-	15,840,592	15,840,592
Sewer and Swm	-	7,124,136	7,124,136	-	5,421,134	5,421,134
Other	1,359,033	49,672	1,408,705	1,566,793	18,454	1,585,247
Operating grants and contributions						
Roads and Bridges	4,276,330	-	4,276,330	4,201,384	-	4,201,384
Other	1,093,919	-	1,093,919	716,935	-	716,935
Capital grants and contributions						
Roads and Bridges	14,347,096	-	14,347,096	2,474,912	-	2,474,912
Water	-	3,345,940	3,345,940	-	2,034,440	2,034,440
Sewer and Swm	-	3,158,499	3,158,499	-	4,656,115	4,656,115
Other	464,711	-	464,711	357,150	-	357,150
<b>General revenues:</b>						
Taxes	38,886,273	-	38,886,273	34,084,094	-	34,084,094
Franchise fees **	6,771,872	-	6,771,872	5,961,230	-	5,961,230
Earnings on investments	3,204,976	1,687,759	4,892,735	1,264,558	970,218	2,234,776
Miscellaneous	1,319,449	-	1,319,449	142,120	(106,799)	35,321
Transfers	15,000	(15,000)	-	45,000	(45,000)	-
<b>Total</b>	<b>\$ 87,022,965</b>	<b>\$ 31,789,943</b>	<b>\$ 118,812,908</b>	<b>\$ 67,068,012</b>	<b>\$ 28,789,154</b>	<b>\$ 95,857,166</b>

\*Required to show ten fiscal years of data, but show only nine due to implementation of GASB 34 in FY 02-03.

\*\* Franchise fees has been reclassified from general government program revenues to general revenue for the years 2003 - 2010 for consistency with the current fiscal year.

	2009			2008			2007		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
	\$ 6,005,093	\$ -	\$ 6,005,093	\$ 5,495,671	\$ -	\$ 5,495,671	\$ 6,016,830	\$ -	\$ 6,016,830
	3,685,753	-	3,685,753	6,313,260	-	6,313,260	8,668,616	-	8,668,616
	2,493,432	-	2,493,432	1,980,245	-	1,980,245	3,490,857	-	3,490,857
	-	20,277,014	20,277,014	-	14,356,415	14,356,415	-	14,670,085	14,670,085
	-	7,659,198	7,659,198	-	7,985,963	7,985,963	-	7,069,884	7,069,884
	343,070	47,274	390,344	1,407,829	46,348	1,454,177	1,520,790	39,748	1,560,538
	3,764,541	-	3,764,541	4,123,299	-	4,123,299	4,235,052	-	4,235,052
	1,145,808	-	1,145,808	1,325,219	-	1,325,219	1,615,924	-	1,615,924
	1,824,584	-	1,824,584	6,082,825	-	6,082,825	7,984,649	-	7,984,649
	-	-	-	-	1,430,620	1,430,620	-	1,472,670	1,472,670
	-	372,267	372,267	-	2,359,906	2,359,906	-	3,127,941	3,127,941
	2,078,420	-	2,078,420	602,815	-	602,815	974,683	-	974,683
	51,121,492	-	51,121,492	43,851,874	-	43,851,874	40,473,158	-	40,473,158
	6,532,526	-	6,532,526	6,249,083	-	6,249,083	7,244,811	-	7,244,811
	1,888,244	2,257,096	4,145,340	3,981,802	3,646,832	7,628,634	4,726,068	2,530,611	7,256,679
	-	(1,863,725)	(1,863,725)	-	(1,208,227)	(1,208,227)	-	-	-
	500,199	(500,199)	-	22,415	(22,415)	-	33,250	(33,250)	-
	\$ 81,383,162	\$ 28,248,925	\$ 109,632,087	\$ 81,436,337	\$ 28,595,442	\$ 110,031,779	\$ 86,984,688	\$ 28,877,689	\$ 115,862,377
	2004			2003					
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total			
	\$ (231,159)	\$ -	\$ (231,159)	\$ 4,626,215	\$ -	\$ 4,626,215			
	3,590,389	-	3,590,389	5,227,810	-	5,227,810			
	4,054,580	-	4,054,580	3,690,207	-	3,690,207			
	-	16,953,201	16,953,201	-	15,402,745	15,402,745			
	-	3,534,962	3,534,962	-	4,202,482	4,202,482			
	1,136,459	30,561	1,167,020	1,064,493	64,564	1,129,057			
	3,805,338	-	3,805,338	3,304,218	-	3,304,218			
	3,820,417	75,475	3,895,892	3,767,991	98,716	3,866,707			
	-	-	-	-	-	-			
	-	-	-	-	-	-			
	-	-	-	-	-	-			
	659,563	-	659,563	4,216,580	-	4,216,580			
	32,350,015	-	32,350,015	29,170,845	-	29,170,845			
	5,760,304	-	5,760,304	5,932,701	-	5,932,701			
	2,761,454	1,996,985	4,758,439	2,453,788	1,544,697	3,998,485			
	2,338,531	1,174,666	3,513,197	2,617,815	411,858	3,029,673			
	1,745,000	(1,745,000)	-	2,088,802	(2,088,802)	-			
	\$ 61,790,891	\$ 22,020,850	\$ 83,811,741	\$ 68,161,465	\$ 19,636,260	\$ 87,797,725			

**CITY OF HILLSBORO, OREGON**

**GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (1)**

**LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	General Government	Public Safety and Judicial	Community Service	Culture and Recreation	Roads and Bridges
2002	\$ 4,350,797	\$ 21,907,857	\$ 4,597,136	\$ 7,540,990	\$ 3,220,096
2003	4,951,488	24,840,687	4,920,082	11,061,406	6,089,680
2004	4,348,715	26,966,083	4,737,332	8,110,284	6,558,301
2005	4,169,067	28,432,569	4,855,629	7,724,698	6,042,971
2006	4,696,829	30,646,452	5,136,270	8,361,430	8,379,335
2007	5,801,262	32,536,351	5,558,021	9,807,914	7,134,053
2008	7,889,581	34,954,546	6,415,722	11,192,150	7,946,344
2009	8,682,011	37,132,737	6,889,148	12,397,595	12,377,154
2010	8,784,742	37,707,753	6,907,614	12,002,755	5,986,323
2011	9,805,421	40,001,734	6,841,005	13,045,854	11,513,806

Note:  
(1) Includes General, Special Revenue, Debt Service, and Capital Projects Funds.

**GENERAL GOVERNMENT REVENUES BY SOURCE (2)**

**LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Property, Liquor Cigarette & Other Taxes (as reclassified)	Library Serial Levy (as reclassified)	Special Assessments	Intergovernmental	Franchise Fees
2002	\$ 27,182,680	\$ 2,759,927	\$ 149,583	\$ 3,956,069	\$ 5,291,910
2003	29,182,456	2,890,058	151,932	3,775,525	5,932,701
2004	29,779,149	2,558,955	129,517	4,320,730	5,760,304
2005	31,197,713	2,528,169	109,400	4,755,139	5,961,230
2006	32,595,919	2,578,732	100,402	4,898,739	6,771,872
2007	34,250,418	2,630,307	204,014	4,876,695	7,244,811
2008	36,249,624	3,597,699	89,657	4,850,604	6,249,083
2009	43,255,693	3,669,653	74,807	4,516,500	6,532,526
2010	45,593,014	3,978,715	36,094	4,969,029	7,502,174
2011	47,997,717	4,058,289	7,326	5,676,450	8,946,848

Note:  
(2) Includes General, Special Revenue, Debt Service, and Capital Projects Funds.

Source: Current and prior City Comprehensive Annual Financial Reports.

Capital Outlay	Debt Service	Other	Total
\$ 7,432,114	\$ 337,319	\$ -	\$ 49,386,309
9,702,891	344,513	-	61,910,747
5,786,536	138,268	-	56,645,519
3,922,772	1,628,486	-	56,776,192
6,783,639	225,000	-	64,228,955
8,198,951	19,376	75,000	69,130,928
12,761,266	-	97,500	81,257,109
5,562,743	-	97,500	83,138,888
4,678,455	-	1,377,525	77,445,167
2,294,429	-	1,274,814	84,777,063

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**REVENUE CAPACITY**

**CITY OF HILLSBORO, OREGON**

**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY (1)**

**LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Real Property		Personal Property		Public Utilities	
	Market Value	Assessed Value	Market Value	Assessed Value	Market Value	Assessed Value
2002	\$ 8,128,507,169	\$ 4,865,441,320	\$ 426,522,818	\$ 425,169,944	\$ 263,782,714	\$ 261,945,374
2003	8,636,893,185	5,268,440,390	548,796,456	548,250,906	230,268,903	230,232,821
2004	11,738,727,746	5,402,375,510	553,575,108	553,007,934	220,603,840	220,590,200
2005	11,809,532,148	5,668,387,080	530,056,166	529,742,806	199,935,303	199,785,427
2006	11,644,334,619	5,975,956,300	632,442,587	517,852,472	187,604,748	187,631,050
2007	12,984,158,275	6,284,741,268	613,208,237	526,832,157	198,865,543	197,465,170
2008	13,903,128,820	6,655,479,760	633,208,652	564,091,492	233,059,247	230,318,590
2009	14,388,302,096	7,080,113,090	695,065,354	632,271,554	251,448,292	250,817,520
2010	14,295,973,990	7,351,754,200	688,586,422	621,210,668	318,450,103	318,385,470
2011	14,594,063,270	7,750,790,140	684,512,519	610,550,339	345,697,034	344,470,800

Source: Washington County Department of Assessment and Taxation.

Notes:  
(1) Total Assessed Value including Urban Renewal incremental assessed value.

Total	Ratio of Total Assessed to Total Market Value	Hillsboro Economic Development Council	Net Value Used to Calculate Property Tax Rates	Total Direct Tax Rate	
					Market Value
\$ 8,818,812,701	\$ 5,552,556,638	62.96	\$ -	\$ 5,552,556,638	4.77
9,415,958,544	6,046,924,117	64.22	-	6,046,924,117	4.77
12,512,906,694	6,175,973,644	49.36	-	6,175,973,644	4.77
12,539,523,617	6,397,915,313	51.02	-	6,397,915,313	4.77
12,464,381,954	6,681,339,822	53.60	-	6,681,339,822	4.77
13,796,232,055	7,009,038,595	50.80	-	7,009,038,595	4.77
14,769,396,719	7,449,889,842	50.44	-	7,449,889,842	4.77
15,334,815,742	7,963,202,164	51.93	-	7,963,202,164	5.39
15,303,010,515	8,291,350,338	54.18	-	8,291,350,338	5.39
15,624,272,823	8,705,811,279	55.72	-	8,705,811,279	5.39

**CITY OF HILLSBORO, OREGON**

**PROPERTY TAX RATES -  
DIRECT AND OVERLAPPING GOVERNMENTS PROPERTY TAX RATES**

**LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	City of Hillsboro Direct Rates					Overlapping Rates	
	General Fund	Local Option Levy	Debt Service Fund	Urban Renewal Rate	Total Direct Levy	Washington County	Schools
2002	\$ 3.67	\$ 1.10	\$ -	\$ -	\$ 4.77	\$ 2.96	\$ 7.62
2003	3.67	1.10	-	-	4.77	2.91	7.16
2004	3.67	1.10	-	-	4.77	2.90	7.05
2005	3.67	1.10	-	-	4.77	2.87	7.06
2006	3.67	1.10	-	-	4.77	2.84	6.88
2007	3.67	1.10	-	-	4.77	2.45	6.81
2008	3.67	1.10	-	-	4.77	3.03	6.50
2009	3.67	1.72	-	-	5.39	2.98	7.84
2010	3.67	1.72	-	-	5.39	2.98	8.24
2011	3.67	1.72	-	-	5.39	2.84	7.58

The information provided above represents tax code 7.01 in the City.  
 The City is spread across 34 tax codes with various variations in tax authority.  
 The above is the best representation of what the average City taxpayer will pay in any given year.

Source: Washington County Department of Assessment and Taxation.

Note: To raise additional tax authority above the permanent rate, it must be approved by a simple majority of the voters in an election.

**Overlapping Rates (Continued)**

Port of Portland	Metro Service District	Tri-Met Service District	Total
\$ 0.07	\$ 0.32	\$ 0.14	\$ 15.88
0.07	0.28	0.12	15.32
0.07	0.29	0.11	15.18
0.07	0.28	0.11	15.17
0.07	0.28	0.12	14.96
0.07	0.28	0.10	14.47
0.07	0.43	0.09	14.89
0.07	0.40	0.08	16.76
0.07	0.44	0.09	17.21
0.07	0.41	0.09	16.38



**CITY OF HILLSBORO, OREGON**

**CONSOLIDATED TAX RATES**

**LAST TEN FISCAL YEARS**

<u>Fiscal Year Ended June 30,</u>	<u>Total</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Local Option Levy</u>
2002	\$ 4.77	\$ 3.67	\$ -	\$ 1.10
2003	4.77	3.67	-	1.10
2004	4.77	3.67	-	1.10
2005	4.77	3.67	-	1.10
2006	4.77	3.67	-	1.10
2007	4.77	3.67	-	1.10
2008	4.77	3.67	-	1.10
2009	5.39	3.67	-	1.72
2010	5.39	3.67	-	1.72
2011	5.39	3.67	-	1.72

These tax rates exclude Hillsboro Urban Renewal District because the rates vary by overlapping districts.

Sources: Washington County Department of Assessment and Taxation.

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**CITY OF HILLSBORO, OREGON**

**PRINCIPAL TAXPAYERS**

**CURRENT YEAR AND NINE YEARS AGO**

**JUNE 30, 2011**

Taxpayer	Type of Business	Rank	2011	
			Assessed Valuation	Percentage of Total Assessed Valuation
Intel Corporation	Computer Industry	1	\$ 964,535,205	11.08 %
Genentech Inc	Biotechnology Industry	2	231,546,750	2.66
Pacific Realty Associates	Real Estate	3	90,280,191	1.04
Portland General Electric	Utilities	4	78,858,336	0.91
Verizon Northwest	Utilities	5	73,251,600	0.84
Amberglen, LLC	Real Estate	6	70,084,670	0.81
Frontier Communications	Telecommunications	7	65,302,100	0.75
Streets of Tanasbourne	Shopping	8	50,592,640	0.58
Solarworld Properties Inc	Technology	9	46,863,110	0.54
EQR-Fresca 2009 Limited Partnership	Shopping	10	42,005,850	0.48
Integrated Device Technology	Technology			
Komatsu Silicon America, Inc	Computer Industry			
Amberjack LTD	Industrial and Office Park			
Quatama Crossing LLC	Real Estate			
Selco Service Corp	Real Estate			
Triquent Semiconductor	Computer Industry			
			1,713,320,452	19.68
All other taxpayers			6,992,490,827	80.32
<b>TOTAL</b>			<b>\$ 8,705,811,279</b>	<b>100.00 %</b>

Source: Washington County Assessor

Rank	2002	
	Assessed Valuation	Percentage of Total Assessed Valuation
1	\$ 823,456,338	15.35 %
5	66,597,040	1.24
7	49,672,860	0.93
6	55,428,544	1.03
3	92,787,090	1.73
8	46,497,390	0.87
2	98,803,060	1.84
10	34,262,600	0.64
9	45,208,250	0.84
4	87,656,740	1.63
	1,400,369,912	26.11
	3,963,624,368	73.89
	<b>\$ 5,363,994,280</b>	<b>100.00 %</b>

**CITY OF HILLSBORO, OREGON**

**PROPERTY TAX LEVIES AND COLLECTIONS**

**LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Taxes Levied by Assessor	Current Tax Collections	Current Tax Collections as % of Current levy	Delinquent Taxes Collected (1)	Total Tax Collected
2002	\$ 26,831,068	\$ 25,376,909	94.58 %	\$ 629,769	\$ 26,006,678
2003	28,912,819	27,320,795	94.49	729,274	28,050,069
2004	29,521,911	27,901,348	94.51	696,697	28,598,045
2005	30,662,404	29,106,965	94.93	850,379	29,957,344
2006	32,079,038	30,508,956	95.11	731,650	31,240,606
2007	33,521,252	31,919,529	95.22	606,581	32,526,110
2008	35,548,877	33,752,655	94.95	652,194	34,404,849
2009	43,052,306	40,593,916	94.29	786,738	41,380,654
2010	44,831,126	42,328,603	94.42	1,066,910	43,395,513
2011	46,840,003	44,343,384	94.67	1,247,102	45,590,486

Source: Washington County Department of Assessment and Taxation.

Notes:

(1) Amounts shown as collected are the total delinquent taxes collected during the fiscal year, not necessarily related to the fiscal year itself.

Total Collections as % of Current Levy	Uncollected Delinquent Taxes	Uncollected Taxes as % of Current Levy
96.93 %	\$ 1,077,629	4.02 %
97.01	1,100,995	3.81
96.87	1,118,088	3.78
97.70	953,441	3.11
97.39	896,883	2.80
97.03	1,286,339	3.84
96.78	1,207,801	3.40
96.11	1,771,812	4.12
96.79	1,938,300	4.32
97.33	1,874,474	4.00

**CITY OF HILLSBORO, OREGON**

**CONSOLIDATED TAX LEVIES**

**LAST TEN FISCAL YEARS**

<u>Fiscal Year Ended June 30,</u>	<u>Total Taxes to be Received</u>	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Hillsboro Economic Development Council</u>	<u>Adjustments and Miscel- laneous Offsets</u>
2002	\$ 26,831,068	\$ 26,466,248	\$ -	\$ -	\$ 364,820
2003	28,912,819	28,822,646	-	-	90,173
2004	29,521,911	29,266,619	-	-	255,292
2005	30,662,404	30,466,789	-	-	195,615
2006	32,079,038	31,846,553	-	-	232,485
2007	33,521,252	33,408,186	-	-	113,066
2008	35,548,877	35,509,288	-	-	39,589
2009	43,052,306	41,380,654	-	-	159,882
2010	44,831,126	43,395,513	-	-	177,376
2011	46,840,003	45,590,486	-	-	67,021

Source: Washington County Department of Assessment and Taxation.

Note: The Adjustments and Miscellaneous Offsets column is the result of taxes related to forest and farm land and reduction of taxes due to property tax limitation, County offsets, truncation, and other miscellaneous adjustments.

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**CITY OF HILLSBORO, OREGON**

**RATIOS OF OUTSTANDING DEBT BY TYPE**

**LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	<b>Governmental Activities</b>				<b>Business</b>
	General Obligation Bonds	Special Assessment Bonds	Full Faith & Credit (1)	Tax Increment Bonds	Water Revenue Bonds
2002	\$ -	\$ 1,007,200	\$ -	\$ -	13,225,000
2003	-	920,600	-	-	12,455,000
2004	-	834,700	26,415,000	-	26,195,000
2005	-	-	26,100,000	-	24,960,000
2006	-	-	25,875,000	-	23,455,000
2007	-	-	25,570,000	-	21,925,000
2008	-	-	25,165,000	-	20,365,000
2009	-	-	24,650,000	-	18,765,000
2010	-	-	24,005,000	-	17,120,000
2011	-	-	32,100,000	-	15,420,000

Sources:

(1) Represents bonds payable for the Civic Center and Aquatic Center facilities, two fire stations, and new stadium turf and backed by the full faith and credit of the city

Total	Percentage of Personal Income	Per Capita
\$ 14,232,200	0.60 %	\$ 190
13,375,600	0.50	169
53,444,700	2.02	669
51,060,000	1.79	623
49,330,000	1.59	584
47,495,000	1.40	538
45,530,000	2.15	510
43,415,000	N/A	480
41,125,000	N/A	454
47,520,000	N/A	517

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**CITY OF HILLSBORO, OREGON**

**COMPUTATION OF DIRECT AND OVERLAPPING GENERAL OBLIGATION DEBT**

**JUNE 30, 2011**

<u>Jurisdiction</u>	<u>Net Direct Debt Outstanding (1)</u>	<u>Percent Applicable to City of Hillsboro</u>	<u>Amount Applicable to City of Hillsboro</u>
Beaverton School District 48J	\$ 539,485,000	4.2700 %	\$ 23,036,010
Hillsboro 1J (Hillsboro Bond)	341,403,096	68.6700	234,441,506
Metropolitan Service District	158,020,000	5.6900	8,991,338
Portland Community College	199,390,000	7.1900	14,336,141
Tri-Metropolitan Transportation District	9,800,000	5.8000	568,400
Tualatin Hills Parks and Recreation District	70,790,000	0.8800	622,952
Tualatin Valley Fire & Rescue	49,865,000	0.0300	14,960
Washington County	<u>20,030,000</u>	17.1200	<u>3,429,136</u>
Total Overlapping Debt	1,388,783,096		285,440,442
City of Hillsboro <sup>(1)</sup>	<u>-</u>		<u>-</u>
Total Direct and Overlapping Debt	<u>\$ 1,388,783,096</u>		<u>\$ 285,440,442</u>

Source: Oregon Municipal Debt Advisory Commission.

Note:

- (1) Net direct debt includes general obligation bonds minus any fully self-supporting bonds.
- (2) The percentage applicable to the City is determined on the assessed value of the overlapping districts. The numerator is the City's assessed value and the denominator is the assessed value of the overlapping district.

**CITY OF HILLSBORO, OREGON**  
**LEGAL DEBT MARGIN INFORMATION AND COMPUTATION**  
**LAST TEN FISCAL YEARS**

True market value (1)	\$ 15,624,272,823
General obligation debt limit (2)	x 3%
	468,728,185
Gross bonded debt subject to limitation	-
Legal debt margin available for future indebtedness	\$ 468,728,185
Total net debt applicable to the limit as a percentage of debt limit	0%

Fiscal Year	Debt Limit	Total net debt applicable to limit	Legal debt margin	Total net debt applicable to the limit as a percentage of debt limit
2002	\$ 264,564,381	\$ -	\$ 264,564,381	0.00 %
2003	282,478,756	-	282,478,756	0.00
2004	375,387,201	-	375,387,201	0.00
2005	376,185,709	-	376,185,709	0.00
2006	373,931,459	-	373,931,459	0.00
2007	413,886,962	-	413,886,962	0.00
2008	443,081,902	-	443,081,902	0.00
2009	460,044,472	-	460,044,472	0.00
2010	459,090,315	-	459,090,315	0.00
2011	468,728,185	-	468,728,185	0.00

Notes:

- (1) From Washington County Department of Assessment and Taxation.
- (2) ORS 257.004 provides a debt limit of 3% of the true market value of all taxable property within the City boundaries.

**CITY OF HILLSBORO, OREGON**  
**PLEGDED REVENUE COVERAGE**  
**LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Gross Operating Revenue	Less Operating Expenses	Water Revenue Bonds		Debt Service	Coverage
			Net Available Revenue	-		
2002	\$ 10,363,334	\$ 4,628,652	\$ 5,734,682	\$ 1,500,290	3.82	
2003	12,890,846	4,640,555	8,250,291	-	-	
2004	16,075,173	5,661,985	10,413,188	2,900,000	3.59	
2005	15,945,436	5,203,569	10,741,867	2,094,422	5.13	
2006	16,438,937	5,594,313	10,844,624	2,358,023	4.60	
2007	14,670,085	7,139,370	7,530,715	2,331,673	3.23	
2008	14,356,415	8,072,055	6,284,360	2,328,294	2.70	
2009	20,277,015	8,670,617	11,606,398	2,328,630	4.98	
2010	17,261,408	9,054,485	8,206,923	2,326,153	3.53	
2011	14,670,264	9,231,127	5,439,137	2,328,352	2.34	

Notes:

- (1) The City has water revenue bonds pledged with revenues generated within the Utilities Commission Fund of the City. Debt covenants require a ratio of 1.25 times the annual debt service when including system development charges as shown above and 1.15 times the annual debt service without system development revenues.
- (2) Gross revenues and operating expenses are defined in the Master Declaration as operating expenses less depreciation.

**DEMOGRAPHIC AND ECONOMIC**

**CITY OF HILLSBORO, OREGON**

**DEMOGRAPHIC AND ECONOMIC STATISTICS**

**LAST TEN FISCAL YEARS**

<u>Fiscal Year Ended June 30,</u>	<u>Population (1)</u>	<u>Median Age (2)</u>	<u>School Enrollment (3)</u>	<u>Unemployment Rate (Portland) Metropolitan Area (4)</u>	<u>Washington County per Capita Income (4)</u>
2002	74,840	N/A	17,702	7.1	31,740
2003	79,340	N/A	17,758	7.5	32,214
2004	79,940	N/A	18,079	6.8	33,168
2005	82,023	29.5	18,440	6.3	34,784
2006	84,445	29.7	18,565	5.0	36,731
2007	88,300	N/A	18,942	4.9	38,371
2008	89,285	N/A	19,198	5.3	40,523
2009	90,380	N/A	19,530	11.7	39,465
2010	90,612	N/A	19,348	10.2	N/A
2011	91,970	30.8	20,087	9.4	N/A

Sources:

- (1) Portland State University Center for Population Statistics.
- (2) United States Census Bureau, American Community Survey
- (3) Average daily membership for the Hillsboro School District.
- (4) Oregon State Employment Division, Department of Human Resources.

N/A - Not available.



**CITY OF HILLSBORO, OREGON**

**PROPERTY VALUE AND NEW CONSTRUCTION**

**LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Commercial Construction (1)		Residential Construction (1)		Total Property Value (2)
	Number of New Units	Value	Number of New Units	Value	
2002	37	\$ 63,948,406	554	\$ 95,665,794	\$ 8,818,812,701
2003	34	140,178,477	794	139,019,509	9,415,958,544
2004	73	64,023,112	783	132,459,701	12,512,906,694
2005	54	33,897,255	950	146,883,792	12,539,523,617
2006	24	28,842,619	1542	234,268,258	12,464,381,954
2007	46	54,151,965	916	161,148,056	13,796,232,055
2008	30	111,723,249	760	102,025,560	14,769,396,719
2009	0	40,003,765	198	36,634,598	15,334,815,742
2010	19	98,806,733	195	36,936,181	15,303,010,515
2011	31	54,455,438	208	38,128,898	15,624,272,823

Sources:

(1) City Building Department.

(2) Washington County Department of Assessment and Taxation.

**CITY OF HILLSBORO, OREGON**

**TEN LARGEST COMMERCIAL EMPLOYERS**

**YEAR ENDED JUNE 30, 2011**

<u>Employer</u>	<u>Product or services</u>	<u>2011 Employment</u>	<u>Percentage of Total City Employment*</u>
Intel Corporation	Research/Development/Electrical Equipment	6,961	17.40%
Well Fargo Bank	Bank	1,275	3.19%
Epson	Computer Peripheral Equipment	1,000	2.50%
Tuality Health Care	Hospitals	756	1.89%
Convergys Corporation	Relationship Management	600	1.50%
SolarWorld	Solar ingot, wafers, cells, and modules	529	1.32%
RadisyS	Telecommunication	500	1.25%
Yahoo Inc	Web-based Search Engine Provider	500	1.25%
FEI Company	Laboratory Analytical Instruments	440	1.10%
Triquint Semiconductor Inc	Semiconductors and Related Devices	414	1.03%
		<u>12,975</u>	<u>32.43%</u>

\* Total city employment for 2010-11 was 40,009

Sources: City of Hillsboro - Business Licenses, Chamber of Commerce, Business Community, Washington County and Hillsboro School District

**OPERATING INFORMATION**

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**CITY OF HILLSBORO, OREGON**

**FULL TIME EQUIVALENT GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM**

**LAST TEN FISCAL YEARS**

<b><u>Function/Program</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
General Government					
Administration	14	14	14	14	14
Municipal Court	3	3	3	4	4
Finance	13	13	13	13	13
Human Resources	7	7	7	7	7
Information Services	16	18	18	20	20
Capital Planning & Facilities	9	9	9	10	10
Risk Management	-	-	-	-	-
Police	155	161	161	161	161
Fire	74	74	79	79	79
Parks & Recreation	54	57	60	61	61
Library	59	59	55	55	57
Water/Utility Billing	6	55	56	56	57
Public Works	107	60	60	60	60
Building	28	28	28	23	23
Planning	14	16	16	16	16
Economic Development/Council	4	4	4	4	4
<b>Total</b>	<b><u>563</u></b>	<b><u>578</u></b>	<b><u>583</u></b>	<b><u>583</u></b>	<b><u>586</u></b>

Source: City of Hillsboro Annual Budget

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>
17	17	17	16	16
4	4	4	4	3
15	21	24	22	23
7	7	7	7.5	7.5
19	26	27	29	29
12	12	13	16	17
3	3	3.5	3.5	3.5
168	167	179	181	181
96	104	104	104	104
67	73	73	73	73
57	52	52	52	52
63	57	62	62	63
63	68	70	67	67
25	26	26	23	23
18	20	20	20	21
4	4.5	5.5	5	6
<b><u>638</u></b>	<b><u>662</u></b>	<b><u>687</u></b>	<b><u>685</u></b>	<b><u>689</u></b>

**CITY OF HILLSBORO, OREGON**

**OPERATING INDICATORS BY FUNCTION/PROGRAM**

**LAST SIX FISCAL YEARS**

<b>Function /Program</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Police</b>						
Total Arrests	5,050	4,343	3,563	4,273	4,244	4,350
Parking Citations	4,474	4,662	4,547	5,388	4,962	4,112
Traffic Citations	9,544	9,672	9,244	7,914	7,363	6,906
Ordinance Citations	N/A	246	263	291	230	186
<b>Fire</b>						
Fire Responses	184	247	271	276	236	234
EMS Responses	2,467	3,580	3,721	3,986	4,280	4,798
Inspections	1,590	2,768	3,088	2,364	2,568	1,877
<b>Parks and Recreation</b>						
Adults Served	901	1,001	1,946	1,895	2,542	3,258
Youths Served	6,603	8,026	8,735	8,437	8,551	8,115
<b>Library</b>						
Volumes in Collection	280,905	278,505	291,561	289,369	312,393	334,776
Total Circulation	1,805,630	1,753,660	1,869,467	2,170,664	2,513,764	2,780,359
Library Cardholders	57,232	53,800	59,275	70,910	61,532	64,164
<b>Water</b>						
Number of Consumers - Residential	21,506	22,191	22,092	22,299	22,420	22,533
Number of Consumers - Commercial	1,048	1,074	1,055	1,018	1,021	1,028
Average Daily Consumption - Residential	2,791,635	5,932,488	5,597,412	5,402,015	5,556,431	5,127,892
Average Daily Consumption - Commercial	2,918,908	6,244,118	6,050,226	6,230,880	7,036,319	6,824,068
<b>Building</b>						
Permits Issued	1,906	1,904	1,767	1,131	1,060	1,190

Source: City of Hillsboro Departments

**CITY OF HILLSBORO, OREGON**

**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

**LAST SIX FISCAL YEARS**

<b>Function</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Police</b>						
Stations	2	2	2	2	2	2
Community Relations office	1	1	1	2	2	2
<b>Fire</b>						
Stations	4	4	4	4	4	5
<b>Parks &amp; Recreation</b>						
Activity and Community Centers	3	4	4	2	2	2
Cultural and Arts Center	1	1	1	1	1	1
Aquatic Center	1	1	1	1	1	1
Administrative Office & Maintenance Facilities	2	2	2	2	2	2
Number of Developed Parks	24	25	26	27	27	28
Number of Undeveloped Parks	8	8	9	9	6	6
Total Developed Park Acreage	332.83	337.65	376.78	385.52	411.99	420.73
Total Undeveloped Park Acreage (1)	71.67	102.73	71.32	71.32	71.32	62.58
Open Space Sites	66	24	91	30	30	30
Open Space Acreage	232.24	150.00	251.14	342.00	324.20	324.20
<b>Library</b>						
Libraries	2	2	2	2	2	2
<b>Transportation</b>						
Miles of Streets	211.90	217.74	218.74	219.72	220.70	222.11
Number of Street Lights	5,752	6,581	6,599	6,623	6,781	6,770
Area in Sq. Miles	22.90	23.14	23.18	23.32	23.70	23.70
<b>Water</b>						
Miles of Water Mains	266.64	269.79	272.76	268.00	268.00	299.20
<b>Sewers</b>						
Miles of Sanitary Sewers	233.60	253.30	259.01	257.92	258.85	258.24
Miles of Storm Sewers	165.60	202.33	209.58	251.16	253.71	251.51

Source: City Departments

Note:

(1) Years 2006 - 2010 have been restated to properly reflect ownership of undeveloped park acreage.

COMPLIANCE SECTION



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

December 16, 2011

Honorable Mayor and Board of Councilors  
City of Hillsboro  
Hillsboro, Oregon

We have audited the financial statements of the City of Hillsboro, Oregon (the City), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-01 to be a material weakness.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)**

Page 2

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 16, 2011.

\* \* \* \* \*

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



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 16, 2011

Honorable Mayor and Board of Councilors  
City of Hillsboro  
Hillsboro, Oregon

**COMPLIANCE**

We have audited the compliance of the City of Hillsboro, Oregon (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2011-03.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (Continued)**

Page 2

**INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-02 and 2011-03, to be significant deficiencies.

\* \* \* \* \*

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



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**CITY OF HILLSBORO, OREGON**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR / PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH NUMBER	EXPENDITURES
<b>U.S. DEPARTMENT OF ENERGY:</b>			
DIRECT:			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128		\$ 431,717
<b>TOTAL U.S. DEPARTMENT OF ENERGY</b>			<u>431,717</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
PASSED THROUGH THE OREGON DEPARTMENT OF HOMELAND SECURITY:			
Non-Profit Security Program	97.008	07-071	39
	97.008	08-170	33,563
			<u>33,602</u>
Homeland Security Cluster			
Citizen Corps	97.053	07-106	6,636
Total Homeland Security Cluster			<u>6,636</u>
		EMW-2009- FO-07849	
Assistance to Firefighters Grant	97.044		104,869
State Homeland Security Program	97.073	09-235	13,249
	97.073	07-218	17,465
	97.073	08-224	33,390
	97.073	09-233	27,428
	97.073	09-234	34,400
	97.073	09-305	3,998
	97.073	09-110	12,672
			<u>142,602</u>
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u>287,709</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
PASSED THROUGH WASHINGTON COUNTY:			
CDBG - Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants	14.218	0228	227,005
Total CDBG - Entitlement Grants Cluster:			<u>227,005</u>
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<u>227,005</u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
DIRECT:			
Bulletproof Vest Partnership Program	16.607		33,910
JAG Program Cluster			
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.804		50,314
Total JAG Program Cluster:			<u>50,314</u>
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<u>84,224</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>\$ 1,030,655</u>

**Notes to Schedule of Expenditures of Federal Awards:**

The schedule above is prepared on the accrual basis of accounting. Grant revenues are recorded when the City has met the qualifications for the respective grants. Expenditures are recorded when the liability is incurred.

**CITY OF HILLSBORO, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2011**

**SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

**Financial Statements:**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

**Federal Awards:**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of <i>Circular A-133</i> ?	Yes

Identification of major programs:

<u>CFDA NUMBER(S)</u>	<u>NAME OF PROGRAM OR CLUSTER</u>
81.128 (ARRA) 97.044	Energy Efficiency and Conservation Block Grant Assistance to Firefighters Grant

Dollar threshold to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**CITY OF HILLSBORO, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2011-01**

Criteria:	All utility billing amounts for services provided as of year-end should be properly accrued as revenue and accounts receivable.
Condition:	One utility billing cycle out of 46 that should have been accrued as revenue and accounts receivable as of the end of fiscal year 2011 was not, thus understating both revenue and accounts receivable.
Context:	The volume and dollar value of this billing cycle was material to the financial statements, resulting in an adjustment to the financial statements.
Effect:	Accounts receivable was initially materially misstated. Revenues were misstated, however, a portion of these revenues were required to be remitted to Clean Water Services, therefore, net assets were not materially misstated.
Cause:	The City overlooked the last billing cycle when closing the accounting records at year end.
Recommendation:	Management should consider reconciling the utility billing subsidiary records to the general ledger at year end to verify that accruals have been properly recognized and recorded.
View of responsible official:	Management of the City understands and concurs with the finding and recommendation.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2011-02**

Federal Program:	Energy Efficiency and Conservation Block Grant (CFDA 81.128 -ARRA)
Federal Agency:	U.S. Department of Energy
Award Year:	2010-11
Criteria:	In accordance with OMB Circular A-133, the City is required to maintain a structure of internal control to ensure compliance with cash management and reporting requirements. The authoritative requirements for maintaining internal control are in OMB Circular A-133 §__300(b).



**CITY OF HILLSBORO, OREGON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 2011-02 (Continued)**

Condition: For the first half of the 2010-11 fiscal year, reports were submitted without a separate person reviewing and/or approving the reports. After the finding related to reporting was communicated in regards to the 2009-10 fiscal year, the City implemented a control that displays evidence of review.

Questioned Costs: None reported as there were no errors found in the tested reports.

Context: For those reports submitted during the first half of the year under audit, there was no formal review or approval procedure in place prior to submission to the Department of Energy.

Cause: Established internal control procedures over reimbursement requests and program reports were not performed.

Effect: Failure to review reimbursement requests and program reports may result in a failure to detect unauthorized expenses on the reimbursement request and inaccurate or untimely program reporting to the Department of Energy.

Recommendation: We recommend the City continue to follow the controls put in place by the City over reimbursement requests and program reporting.

View of responsible official: City management understands and concurs with the finding and recommendation.

**Finding 2011-03**

Federal Program: Energy Efficiency and Conservation Block Grant (CFDA 81.128 - ARRA)

Federal Agency: U.S. Department of Energy

Award Year: 2010-11

Criteria: In accordance with 29 CFR 5.5 and 5.6, the City's construction contracts are subject to the Davis-Bacon Act.

Condition: For the first half of the year the City's procedures did not adequately address compliance with the Davis-Bacon Act. The City relied on its prime contractor to assure that subcontractors submitted weekly payroll

**CITY OF HILLSBORO, OREGON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**YEAR ENDED JUNE 30, 2011**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 2011-03 (Continued)**

Condition (cont.) reports to be reviewed for compliance with the Davis-Bacon Act. After the finding was reported in the 2009-10 fiscal year, the City implemented a control that ensures certified payroll reports are received weekly.

Questioned Costs: No questioned costs identified at this time.

Context: The impact of the finding was not deemed material to the program and has been corrected subsequent to being reported in the 2009-10 fiscal year.

Cause: City grant staff was initially unaware of the requirement to assure that the prime contractor was monitoring subcontractors for compliance with Davis-Bacon Act requirements.

Effect: Failure to properly monitor compliance with requirements under the Davis-Bacon Act may lead to federal funds being expended improperly on projects under the City's control.

Recommendation: We recommend the City continue following controls the City put in place to ensure the prime contractor and its subcontractors comply with Davis-Bacon Act requirements.

View of responsible official: City management understands and concurs with the finding and recommendation.

**CITY OF HILLSBORO, OREGON**  
**SUMMARY OF PRIOR AUDIT FINDINGS**  
**YEAR END JUNE 30, 2011**

**Finding 10-01:**

Audit Finding: The City submitted 3 reimbursement requests and 8 program reports relating to the Energy Efficiency and Conservation Block Grant (CFDA 81.128 – ARRA) during the fiscal year. There was no formal review or approval procedure in place prior to submission to the Department of Energy.

Corrective Action Plan: The City has implemented new internal controls regarding submission of reimbursement requests and program reports for the Energy Efficiency and Conservation Block Grant. The Project Manager prepares the reimbursement requests and program reports and then submits to the Accounting Manager, Assistant Finance Director or Finance Director to review and verify for accuracy. The request and reports are also reviewed by the Management Analyst in the Administration Department. Both reviewers sign off on a review sheet that is kept with a hard copy of the reimbursement request and program report.

**Finding 10-02:**

Audit Finding: The City did not maintain appropriate documentation to evidence verification of suspension and debarment for one out of two contracts selected for testing in the Energy Efficiency and Conservation Block Grant (CFDA 81.128 – ARRA). Subsequent review indicated that the contractor was not suspended or debarred.

Corrective Action Plan: The City understands that the debarment and suspension list must be checked prior to issuance of contract. The City is in the process of finalizing a grant policy and procedure manual that requires the debarment and suspension list be checked prior to the issuance of any contract that involves a federal grant, regardless of the contract amount. It is also required that proper documentation be retained in the grant file that shows compliance including the date the debarment list was checked and by whom. All City staff managing federal grants have been informed of this requirement.

**CITY OF HILLSBORO, OREGON**  
**SUMMARY OF PRIOR AUDIT FINDINGS (Continued)**  
**YEAR END JUNE 30, 2011**

**Finding 10-03:**

Audit Finding: The City's procedures did not adequately address compliance with the Davis-Bacon Act for the Energy Efficiency and Conservation Block Grant (CFDA 81.128 – ARRA). The City relied on its prime contractor to assure that their subcontractors submitted weekly payroll reports to be reviewed by them for compliance with the Davis-Bacon Act.

Corrective Action Plan: The City implemented a requirement for specific language to be included in all contracts that require compliance with the Davis-Bacon Act. The new contract language states that the prime contractor will be responsible for collecting, reviewing, and maintaining weekly certified payrolls for themselves and any sub-contractors. The City staff responsible for the project is required to verify and ensure that the prime contractor is following these requirements by making random selections to prove compliance.

**INDEPENDENT AUDITOR'S REPORT  
REQUIRED BY OREGON STATE REGULATIONS**



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**INDEPENDENT AUDITOR'S REPORT  
REQUIRED BY OREGON STATE REGULATIONS**

December 16, 2011

Honorable Mayor and Board of Councilors  
City of Hillsboro  
Hillsboro, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hillsboro, Oregon (the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**COMPLIANCE**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed the procedures to the extent we considered necessary to address the required comments and disclosures, which included, but were not limited to the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

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**INDEPENDENT AUDITOR'S REPORT  
REQUIRED BY OREGON STATE REGULATIONS (Continued)**

Page 2

**COMPLIANCE (Continued)**

In connection with our testing, nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, except for over expenditures of appropriations as noted below:

<b>Building Fund:</b>		
Materials and services	\$	26,750
<b>Risk Management Fund:</b>		
Special payments	\$	125,032

**OAR 162-10-230 INTERNAL CONTROL**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our report on internal control over financial reporting is included on pages 112 through 113 of this report.

We noted certain matters that we reported to management of the City in a separate letter dated December 16, 2011.

\* \* \* \* \*

This report is intended solely for the information and use of the Board of Councilors, the Oregon Secretary of State Audits Division, and management and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

**CORRECTIVE ACTION PLAN –  
RESPONSE TO AUDIT FINDINGS**



**CORRECTIVE ACTION PLAN –  
RESPONSE TO AUDIT FINDINGS**

December 16, 2011

The following is the City of Hillsboro, Oregon's corrective action plan in response to audit findings as of and for the year ended June 30, 2011.

**Finding 2011-01**

**Audit Finding:** One utility billing cycle out of 46 should have been accrued as revenue and accounts receivable in fiscal year 2011, but was not resulting in understatement of revenue and accounts receivable.

**Corrective Action Plan:** The City has implemented internal controls regarding the review of year end accounting adjustments. Revenue analytics will be applied by the Accounting Manager to ensure reasonability of ending balances. These analytics will be reviewed by the Assistant Finance Director or Finance Director.

**Finding 2011-02**

**Federal Program:** Energy Efficiency and Conservation Block Grant (CFDA 81.128 – ARRA)

**Audit Finding:** For reports submitted during the beginning of the fiscal year, there was no formal review or approval procedure in place prior to submission to the Department of Energy.

**Corrective Action Plan:** The City was made aware of this finding during the course of the audit for 09/10. By that time, the 10/11 fiscal year was underway and at least one quarterly report had been issued without review. Upon becoming aware of this, corrective action was taken immediately. The City implemented new internal controls regarding the submission of reimbursement requests and program reports for this grant. The Project Manager prepares the reports and then submits to the Accounting Manager, Assistant Finance Director or Finance Director to review and verify for accuracy prior to submitting the reports to the Department of Energy.

**Finding 2011-03**

**Federal Program:** Energy Efficiency and Conservation Block Grant (CFDA 81.128 – ARRA)

**Audit Finding:** For the first half of the year, the City's procedures did not adequately address compliance with the Davis-Bacon Act. The City relied on its prime contractor to assure that their subcontractors submitted weekly payroll reports to be reviewed by them for compliance with the Davis-Bacon Act.

**Corrective Action Plan:** The City was made aware of this finding during the course of the audit for 09/10. By that time, the 10/11 fiscal year was underway. After becoming aware of this, corrective actions were taken immediately. The City implemented a new requirement for specific language to be included in all contracts that require compliance with the Davis-Bacon Act. The new contract language states that the prime contractor is responsible for collecting, reviewing and maintaining weekly certified payrolls for themselves and any subcontractors. The City staff responsible for the project is required to verify and ensure that the prime contractor is following these requirements by making random selections to prove compliance.

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# Appendix C

**Book Entry Only System**

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**SAMPLE OFFERING DOCUMENT LANGUAGE  
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE**

(Prepared by DTC--bracketed material may apply only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

# Appendix D

Form of Continuing Disclosure Certificate

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## CONTINUING DISCLOSURE CERTIFICATE

\$ \_\_\_\_\_  
**City of Hillsboro**  
**Washington County, Oregon**  
**Full Faith and Credit Bonds, Series 2012B (Federally Taxable)**

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the City of Hillsboro, Washington County, Oregon (the “Issuer”) in connection with the issuance of the Issuer’s Full Faith and Credit Bonds, Series 2012B (Federally Taxable) (the “Securities”).

Section 1. Purpose of Certificate. This Certificate constitutes the Issuer’s written undertaking for the benefit of the holders of the Securities and to assist the underwriters of the Securities in complying with paragraph (b)(5) of the United States Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) as amended (the “Rule”).

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for purposes of this Certificate, have the meanings herein specified.

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Securities, including persons holding Securities through nominees or depositories.

“Commission” means the United States Securities and Exchange Commission.

“MSRB” means the United States Municipal Securities Rulemaking Board or any successor to its functions.

“Official Statement” means the final official statement for the Securities dated \_\_\_\_\_, 2012.

“Rule” means the Commission’s Rule 15c2-12 under the Securities Exchange Act of 1934, as it has been and may be amended.

Section 3. Financial Information. The Issuer agrees to provide or cause to be provided to the MSRB, the Issuer’s latest publicly available annual financial statements prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors) and generally of the type included in the Official Statement under the heading “Appendix B: Financial Statements.”

To the extent not included in its annual financial statements, the Issuer shall also provide information, of the type set forth in the Official Statement, containing: (1) the total real market value and total assessed value of property within the Issuer (as indicated in the records of the county assessor); (2) the amount or rate of property taxes levied by the Issuer for the fiscal year, and the amount of property taxes the Issuer received during the fiscal year; (3) the aggregate tax rate for all ad valorem property taxes levied within the boundaries of the Issuer; and, (4) the total

principal amount of general obligation bonds and other tax-supported obligations of the Issuer which are outstanding at the end of the fiscal year.

Section 4. Timing. The information described in the preceding paragraph shall be provided on or before nine months after the end of the Issuer's fiscal year, commencing with information for fiscal year 2011-2012. The information described in the preceding paragraph will be provided in the form of audited financial statements if they are then available, and otherwise will be provided in the form of unaudited financial statements. The Issuer's current fiscal year ends June 30. The Issuer may adjust this fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing this annual financial information separately, the Issuer may cross-reference to other documents provided to the MSRB.

The Issuer agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information described in Section 3 on or prior to the date set forth in the preceding paragraph.

If not provided as part of the annual financial information discussed above, the Issuer shall provide the Issuer's audited annual financial statement prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors) when and if available to the MSRB.

Section 5. Material Events. The Issuer agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Securities:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the Security;
7. Modifications to the rights of Security holders, if material;
8. Bond calls, if material, and tender offers;

9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person; (Note: For the purposes of the event identified in this paragraph 12, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.);
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Section 6. Termination. The Issuer's obligation to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Securities. This Certificate, or any provision hereof, shall be null and void if the Issuer (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any provision of this Certificate, are invalid, have been repealed retroactively or otherwise do not apply to the Securities; and (b) notifies the MSRB of such opinion and the termination of its obligations under this Certificate.

Section 7. Amendment. Notwithstanding any other provision of this Certificate, the Issuer may amend this Certificate, provided that the following conditions are satisfied:

A. If the amendment relates to the provisions of Sections 3 or 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer with respect to the Securities, or the type of business conducted; and,

B. If this Certificate, as amended, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original

issuance of the Securities, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The amendment either (i) is approved by the owners of the Securities pursuant to the terms of the Bond Declaration as it is in effect at the time of the amendment or (ii) does not materially impair the interests of the owners or Beneficial Owners of the Securities as determined by a party unaffiliated with the Obligated Person.

In the event of any amendment of a provision of this Certificate, the Issuer shall describe such amendment in its next annual filing pursuant to Section 3 of this Certificate, and shall include, as applicable, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of the amendment shall be given in the same manner as for a material event under Section 5 hereof, and (ii) the annual filing pursuant to Section 3 of this Certificate for the first fiscal year that is affected by the change in accounting principles should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Securities Owner's Remedies Under This Certificate. The right of any holder of Securities or Beneficial Owner of Securities to enforce the provisions of this Certificate shall be limited to a right to obtain specific enforcement of the Issuer's obligations hereunder, and any failure by the Issuer to comply with the provisions of this undertaking shall not be an event of default with respect to the obligations hereunder.

Section 9. Form of Information. All information required to be provided under this certificate will be provided in an electronic format as prescribed by the MSRB and with the identifying information prescribed by the MSRB.

Section 10. Submitting Information Through EMMA. So long as the MSRB continues to approve the use of the Electronic Municipal Market Access ("EMMA") continuing disclosure service, any information required to be provided to the MSRB under this Certificate may be provided through EMMA. As of the date of this Certificate, the web portal for EMMA is [emma.msrb.org](http://emma.msrb.org).

Section 11. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.



Dated as of the \_\_\_\_ day of \_\_\_\_\_, 2012.

**City of Hillsboro  
Washington County, Oregon**

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City Official

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# Appendix E

Form of Bond Declaration

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# **BOND DECLARATION**

**City of Hillsboro  
Washington County, Oregon**

**\$ \_\_\_\_\_  
Full Faith and Credit Bonds,  
Series 2012B (Federally Taxable)**

**Executed on behalf of City of Hillsboro**

**as of \_\_\_\_\_, 2012**

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## **BOND DECLARATION**

THIS BOND DECLARATION is executed as of \_\_\_\_\_, 2012, on behalf of the City of Hillsboro, Oregon (the “City”) by its \_\_\_\_\_, acting as the “City Official” pursuant to the Resolution, as defined below. The Resolution authorizes the City Official to execute a bond declaration which contains the terms of the Bonds, and the covenants of the City relating to those Bonds.

### **Section 1. Definitions.**

Unless the context clearly requires otherwise, the following terms shall have the following meanings:

“BEO” means “book-entry-only” and refers to a system for clearance and settlement of securities transactions through electronic book-entry changes, which eliminates the need for physical movement of securities.

“Bond Declaration” means this Bond Declaration, including any amendments made in accordance with Section 7 of this Bond Declaration.

“Bonds” means the Full Faith and Credit Bonds issued by the City that are described in Section 2 of this Bond Declaration and that are authorized by the Resolution.

“Business Day” means any day except a Saturday, a Sunday, a legal holiday, a day on which the Paying Agent or offices of banks in Oregon or New York are authorized or required by law or executive order to remain closed, or a day on which the New York Stock Exchange is closed.

“City Official” means the City Manager, the Assistant City Manager, the Finance Director or the person designated by the City Council to act on behalf of the City under the Resolution.

“DTC” means The Depository Trust Company, New York, New York (“DTC”), acting as securities depository for the Bonds.

“Event of Default” refers to an Event of Default listed in Section 8(1) of this Bond Declaration.

“Government Obligations” means direct noncallable obligations of the United States, or obligations the principal of and interest on which are fully and unconditionally guaranteed by the United States.

“Outstanding” refers to all Bonds authorized and delivered pursuant to this Bond Declaration except Bonds which have been paid, canceled, or defeased pursuant to Section 9 of this Bond Declaration, and Bonds which have matured but have not been presented for payment for the payment of which adequate money has been transferred to the Paying Agent.

“Owner” means the person shown on the Bond register maintained by the Paying Agent as the registered owner of a Bond.

“Paying Agent” means the registrar and paying agent for the Bonds, which, at the time of execution of this Bond Declaration, is U.S. Bank National Association.

“Resolution” means collectively, City Ordinance No. 6014 enacted May 15, 2012, and City Resolution No. 2422 adopted October 16, 2012, and which authorizes the execution of this Bond Declaration and the issuance and sale of the Bonds.

**Section 2. Bonds Authorized.**

- (1) Pursuant to the Resolution, the City hereby authorizes the issuance, sale and delivery of its Full Faith and Credit Bonds, Series 2012B (Federally Taxable), in accordance with this Bond Declaration and in a principal amount of \$\_\_\_\_\_. The Bonds shall be dated \_\_\_\_\_, 2012, shall bear interest which is payable on June 1 and December 1 of each year commencing June 1, 2013, and shall mature as follows:

<u>Due</u> <u>June 1</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>	<u>CUSIP No.</u> <u>(Base 432092)</u>
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			

- (2) Bond proceeds shall be used to finance a baseball stadium and related facilities and to pay costs related to the Bonds.

**Section 3. Security for Bonds.**

- (1) The Bonds are unconditional obligations of the City, which are payable from all legally available funds of the City. The City hereby pledges its full faith and credit and taxing power within the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution to pay amounts due under the Bonds.



- (2) This Bond Declaration shall constitute a contract with the Owners and shall be enforceable by the Owners.

#### **Section 4. Book Entry System**

The Bonds shall be initially issued in BEO form and shall be governed by this Section 4. While Bonds are in BEO form no physical Bonds shall be provided to the Owners. A representative of the City has executed and delivered a Blanket Issuer Letter of Representations to DTC (the "Letter of Representations"). While the Bonds are in BEO form, registration and transfer of beneficial interests in the Bonds shall be governed by the Letter of Representations and the Operational Arrangements of DTC, as they may be amended from time to time. So long as Bonds are in BEO form:

- (1) DTC shall be treated as the Owner for all purposes, including payment and the giving of notices to Owners of Bonds. Bond payments shall be made, and notices shall be given, to DTC in accordance with the Letter of Representations. Any failure of DTC to advise any of its participants, or of any participant to notify the beneficial owner, of any such notice and its content or effect will not affect the validity of the redemption of Bonds or of any other action premised on such notice.
- (2) The City may discontinue maintaining the Bonds in the BEO form at any time. The City shall discontinue maintaining the Bonds in BEO form if DTC determines not to continue to act as securities depository for the Bonds, or fails to perform satisfactorily as depository, and a satisfactory substitute depository cannot reasonably be found.
- (3) If the City discontinues maintaining the Bonds in book-entry form, the City shall cause the Paying Agent to authenticate and deliver replacement Bonds in fully registered form in authorized denominations in the names of the beneficial owners or their nominees; thereafter the provisions set forth in Section 6 below, regarding registration, transfer and exchange of Bonds may apply. Alternatively, the City will request the Paying Agent to, and the Paying Agent and the City shall, amend this Declaration to provide for an alternative system of registration and payment for the Bonds that is of general acceptance in the municipal bond markets. If no better system is then available, the Paying Agent and the City shall amend this Declaration to provide that printed, registered Bonds shall be issued to Beneficial Owners of the Bonds, and shall give notice of those amendments to all owners.
- (4) The City and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of DTC or to any beneficial owner on behalf of which such participants or correspondents act as agent for the beneficial owner with respect to:
  - (A) the accuracy of the records of DTC, the nominee or any participant or correspondent with respect to any beneficial owner's interest in the Bonds;
  - (B) the delivery to any participant or correspondent or any other person of any notice with respect to the Bonds, including any notice of prepayment;

- (C) the selection by DTC of the beneficial interest in Bonds to be redeemed prior to maturity; or
- (D) the payment to any participant, correspondent, or any other person other than the registered owner of the Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal, any premium or interest on the Bonds.
- (E) The provisions of this Section 4 may be modified without the consent of the beneficial owners in order to conform this Section to the standard practices of DTC or any successor depository for bonds issued in book-entry-only form.

### **Section 5. Redemption of Bonds.**

- (1) The City reserves the right to redeem all or any portion of the Bonds maturing on or after June 1, 2023 at the option of the City on June 1, 2022 and on any date thereafter in whole or in part, in any order of maturity and by lot within a maturity (with maturities selected by the City), at a price of par plus accrued interest to the date of redemption.
- (2) The City reserves the right to purchase Bonds in the open market.
- (3) Any notice of optional redemption given for the Bonds pursuant to this Section 5 may state that the optional redemption is conditional upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission or of the failure of any such condition shall be given by the Paying Agent to affected owners of the Bonds as promptly as practicable.
- (4) So long as Bonds are in book-entry-only form, and unless DTC consents to a shorter period the Paying Agent shall notify DTC of any early redemption not less than 20 days nor more than 60 days prior to the date fixed for redemption, and shall provide such information in connection therewith as required by the Letter of Representations.
- (5) During any period in which the Bonds are not in book-entry-only form, unless waived by any Owner of the Bonds to be redeemed, official notice of any redemption of Bonds shall be given by the Paying Agent on behalf of the City by mailing a copy of an official redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond register or at such other address as is furnished in writing by such Owner to the Paying Agent. All such official notices of redemption shall be dated and shall state:
  - (A) the redemption date,

- (B) the redemption price,
- (C) if less than all outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (D) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
- (E) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Paying Agent.

**Section 6. Authentication, Registration and Transfer.**

- (1) No Bond shall be entitled to any right or benefit under this Bond Declaration unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all Bonds to be delivered at closing of the Bonds, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Bond Declaration.
- (2) The ownership of all Bonds shall be entered in the Bond register maintained by the Paying Agent, and the City and the Paying Agent may treat the person listed as owner in the Bond register as the owner of the Bond for all purposes.
- (3) While the Bonds are in book-entry-only form, the Paying Agent shall transfer Bond principal and interest payments in the manner required by DTC.
- (4) If the Bonds cease to be in book-entry-only form, the Paying Agent shall mail each interest payment on the interest payment date (or the next Business Day if the payment date is not a Business Day) to the name and address of the Owners as they appear on the Bond register as of the record date for the Bonds. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.
- (5) Bonds may be exchanged for an equal principal amount of Bonds of the same maturity which are in different denominations, and Bonds may be transferred to other Owners if the Owner submits the following to the Paying Agent:
  - (A) written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the Owner or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent and
  - (B) the Bonds to be exchanged or transferred.
- (6) The Paying Agent shall not be required to exchange or transfer any Bonds submitted to it during any period beginning with a record date and ending on the next following payment date; however, such Bonds shall be exchanged or transferred promptly following that payment date.

- (7) The Paying Agent shall note the date of authentication on each Bond. The date of authentication shall be the date on which the Owner's name is listed on the Bond register.
- (8) For purposes of this Section 6, Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 6(5), above.
- (9) The City may alter any administrative provisions related to registration, transfer or notices by providing notification of the altered provisions to all Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

### **Section 7. Amendment of Bond Declaration.**

- (1) The City may amend this Bond Declaration without the consent of any Owner for any one or more of the following purposes:
  - (A) To cure any ambiguity or formal defect or omission in this Bond Declaration;
  - (B) To add to the covenants and agreements of the City in this Bond Declaration other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Bond Declaration as theretofore in effect;
  - (C) To confirm, as further assurance, any security interest or pledge created under this Bond Declaration;
  - (D) To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the Owners.
- (2) This Bond Declaration may be amended for any other purpose only upon consent of Owners representing not less than fifty-one percent (51%) in aggregate principal amount of the adversely affected Bonds then Outstanding. However, no amendment shall be valid which:
  - (A) Extends the maturity of any Bonds, reduces the rate of interest upon any Bonds, extends the time of payment of interest on any Bonds, reduces the amount of principal payable on any Bonds, or reduces any premium payable on any Bonds, without the consent of the affected Owner; or
  - (B) Reduces the percent of Owners required to approve amendments to this Bond Declaration.

### **Section 8. Default and Remedies.**

- (1) The occurrence of one or more of the following shall constitute an Event of Default under this Bond Declaration:

- (A) Failure by the City to pay Bond principal, interest or premium when due (whether at maturity, or upon redemption after a Bond has been properly called for redemption); or
  - (B) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed for the benefit of Owners of Bonds, for a period of 60 days after written notice to the City by the Owners of fifty-one percent or more of the principal amount of Bonds then Outstanding specifying such failure and requesting that it be remedied; provided however, that if the failure stated in the notice cannot be corrected within such 60 day period, it shall not constitute an Event of Default so long as corrective action is instituted by the City within the 60 day period and diligently pursued, and the default is corrected as promptly as practicable after the written notice referred to in this Section 8(1)(B); or
  - (C) The City is adjudged insolvent by a court of competent jurisdiction, admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy, or consents to the appointment of a receiver for the payments.
- (2) The Owners of fifty-one percent or more of the principal amount of Bonds then Outstanding may waive any Event of Default and its consequences, except a Event of Default described in Section 8(1)(A).
  - (3) Upon the occurrence and continuance of any Event of Default hereunder the Owners of fifty-one percent or more of the principal amount of Bonds then Outstanding may take whatever action may appear necessary or desirable to enforce or to protect any of the rights of the Owners of Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Bond Declaration or in aid of the exercise of any power granted in this Bond Declaration or for the enforcement of any other legal or equitable right vested in the Owners of Bonds by this Bond Declaration or by law. However, the Bonds shall not be subject to acceleration.
  - (4) No remedy in this Bond Declaration conferred upon or reserved to Owners of Bonds is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Bond Declaration or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. To entitle the Owners of Bonds to exercise any remedy reserved to them, it shall not be necessary to give any notice other than such notice as may be required by this Bond Declaration or by law.

### **Section 9. Defeasance.**

The City shall be obligated to pay Bonds which are defeased pursuant to this Section solely from the money and Government Obligations deposited with an independent trustee or escrow agent,

and the City shall have no further obligation to pay the defeased Bonds from any source except the amounts deposited in the escrow. Bonds shall be deemed defeased if the City:

- (1) irrevocably deposits money or noncallable Government Obligations in escrow with an independent trustee or escrow agent which are calculated to be sufficient without reinvestment for the payment of Bonds which are to be defeased; and
- (2) files with the escrow agent or trustee an opinion from an independent, certified public accountant to the effect that the money and the principal and interest to be received from the Government Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased Bonds when due; and
- (3) files with the escrow agent or trustee an opinion of nationally recognized bond counsel that the proposed defeasance will not cause the interest component of the Bonds to be includable in gross income under the Code.

**Section 10. Form.**

The Bonds shall be issued in substantially the form attached to this Bond Declaration as Exhibit A, with any changes that are approved by a City Official. The Bonds shall be executed on behalf of the City with the manual or facsimile signatures of the Mayor and a City Official.

**Section 11. Rules of Construction.**

In determining the meaning of provisions of this Bond Declaration, the following rules shall apply unless the context clearly requires application of a different meaning:

- (1) References to section numbers shall be construed as references to sections of this Bond Declaration unless otherwise indicated.
- (2) References to one gender shall include all genders.
- (3) References to the singular shall include the plural, and references to the plural shall include the singular.

*[The remainder of this page is left blank intentionally.]*

Dated as of the \_\_\_\_ day of \_\_\_\_\_, 2012.

**City of Hillsboro, Washington County, Oregon**

By: \_\_\_\_\_  
City Official

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Exhibit A

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America  
State of Oregon  
Washington County  
**City of Hillsboro**  
Full Faith and Credit Bond  
Series 2012B (Federally Taxable)

**Dated Date:** \_\_\_\_\_, 2012

**Interest Rate Per Annum:** «CouponRate»%

**Maturity Date:** June 1, «MaturityYear»

**CUSIP Number:** 432092«CUSIPNumbr»

**Registered Owner:** -----Cede & Co.-----

**Principal Amount:** -----«PrincipalAmtSpelled» Dollars-----

City of Hillsboro, in Washington County, Oregon (the "City"), a municipal corporation of the State of Oregon, for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, the Principal Amount indicated above on the Maturity Date indicated above together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above, computed on the basis of a 360-day year of twelve 30-day months. Interest is payable semiannually on the first days of June and December in each year until maturity or prior redemption, commencing June 1, 2013. Payment of each installment of principal or interest shall be made to the Registered Owner hereof whose name appears on the registration books of the City maintained by the City's paying agent and registrar, which is currently U.S. Bank National Association (the "Paying Agent") as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date. For so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be payable in same-day funds on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance of this Bond, the securities depository for the Bonds is The Depository Trust Company, New York, New York ("DTC"), and Cede & Co. is the nominee of DTC. Such payments shall be made payable to the order of "Cede & Co."

This Bond is one of a duly authorized series of bonds of the City aggregating \$\_\_\_\_\_ in principal amount and designated as Full Faith and Credit Bonds, Series 2012B (Federally Taxable) (the "Bonds"). The Bonds are issued pursuant to: City Ordinance No. 6014 enacted May 15, 2012; City Resolution No. 2422 adopted October 16, 2012, and a Bond Declaration dated as of \_\_\_\_\_, 2012 (collectively, the "Resolution"); and under the authority of and in full compliance with the Constitution and Statutes of the State of Oregon. Capitalized terms used but not defined herein shall have the meanings assigned them in the Resolution.

This Bond is an unconditional obligation of the City, which is payable from all legally available funds of the City. The City hereby pledges its full faith and credit and taxing power within the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution to pay amounts due under this Bond. The Bonds do not constitute a debt or indebtedness of Washington County, the State of Oregon, or any political subdivision thereof other than the City.

The Bonds are initially issued as a book-entry-only security issue with no certificates provided to the beneficial owners. Records of ownership of beneficial interests in the Bonds will be maintained by DTC and its participants. Should the book-entry-only security system be discontinued, the City shall cause the Paying Agent to authenticate and deliver replacement Bonds in fully registered form in authorized denominations in the names of the beneficial owners or their nominees, as provided in the Resolution.

The Bonds shall mature and be subject to redemption as described in the final Official Statement for the Bonds that is dated \_\_\_\_\_, 2012.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Blanket Issuer Letter of Representations to DTC, as referenced in the Resolution. Unless

conditional notice was given, interest on any Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the date fixed for redemption to the Registered Owner of each Bond to be redeemed at the address shown on the Bond register; however, any failure to give notice shall not invalidate the redemption of the Bonds. The Resolution authorizes the City to give conditional notices of redemption.

Any exchange or transfer of this Bond must be registered, as provided in the Resolution, upon the Bond register kept for that purpose by the Paying Agent. The exchange or transfer of this Bond may be registered only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Paying Agent and which is executed by the registered owner or duly authorized attorney. Upon registration, a new registered Bond, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Resolution. The City and the Paying Agent may treat the person in whose name this Bond is registered on the Bond register as its absolute owner for all purposes, as provided in the Resolution.

Administrative provisions related to the Bond may be amended as permitted by the Resolution.

Unless this Bond is presented by an authorized representative of DTC to the City or the Paying Agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entry as is requested by an authorized representative of DTC), **ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL** inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This Bond shall remain in the Paying Agent's custody subject to the provisions of the FAST Balance Certificate Agreement currently in effect between the Paying Agent and DTC.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and Statutes of the State of Oregon to exist, to have happened and to have been performed precedent to and in the issuance of this Bond to exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this Bond, together with all other obligations or indebtedness of the City, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, City of Hillsboro, Washington County, Oregon, by its City Council has caused this Bond to be executed in its name with the facsimile signatures of the Mayor and a City Official, all as of the date indicated above.

City of Hillsboro, Oregon

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
City Official

THIS BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE PAYING AGENT IN THE SPACE INDICATED BELOW.

**CERTIFICATE OF AUTHENTICATION**

This Bond is one of the \$\_\_\_\_\_ aggregate principal amount of City of Hillsboro, Washington County, Oregon, Full Faith and Credit Bonds, Series 2012B (Federally Taxable), and is authorized to be issued under the terms of the Resolution described herein.

Date of authentication: \_\_\_\_\_, 2012.

**U.S. Bank National Association**, as Paying Agent

\_\_\_\_\_  
Authorized Officer

**ASSIGNMENT**

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto \_\_\_\_\_

(Please insert social security or other identifying number of assignee)

this Bond and does hereby irrevocably constitute and appoint \_\_\_\_\_ as attorney to transfer this Bond on the books kept for registration thereof with the full power of substitution in the premises.

Dated: \_\_\_\_\_

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NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatever.

NOTICE: Signature(s) must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company

Signature Guaranteed  
\_\_\_\_\_  
(Bank, Trust Company or Brokerage Firm)

\_\_\_\_\_  
Authorized Officer

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

- TEN COM -- tenants in common
- TEN ENT -- as tenants by the entireties
- JT TEN -- as joint tenants with right of survivorship  
and not as tenants in common
- OREGON CUSTODIANS use the following  
\_\_\_\_\_ CUST UL OREG \_\_\_\_\_ MIN  
as custodian for (name of minor)
- OR UNIF TRANS MIN ACT  
under the Oregon Uniform Transfer to Minors Act

Additional abbreviations may also be used though not in the list above.