

OFFICIAL NOTICE OF SALE

\$75,870,000*

**City of Lake Oswego, Oregon
Full Faith and Credit Obligations, Series 2013**

NOTICE IS HEREBY GIVEN that the City of Lake Oswego, Oregon (the “City”) is soliciting bids to purchase its Full Faith and Credit Obligations, Series 2013 (the “Obligations”) until 9:30 a.m. (prevailing Pacific Time) on:

August 27, 2013

Bids must be submitted electronically via **PARITY** in accordance with this Notice in the manner described below. Bids will be reviewed and announced by the City at the time of the sale. The City will act on the bids within four hours.

SECURITY: The Obligations evidence and represent undivided proportionate ownership interests in Financing Payments (the “Financing Payments”) that the City will be obligated to make under a Financing Agreement. The obligation of the City to make the Financing Payments is unconditional, and the City has agreed to pay the Financing Payments from any and all of its legally available funds. The City has pledged its full faith and credit and taxing power within the limitations of Sections 11 and 11b, Article XI of the Constitution of the State of Oregon to pay the Financing Payments. The payment obligations of the City under the Financing Agreement are additionally secured by a subordinate pledge of Net Revenues of the Water System, as provided in Resolution No. 99-22 of the City.

RATINGS: The City has applied for and received ratings of Aa1 and AAA on the Obligations from Moody’s Investors Service and Standard & Poor’s Ratings Group, respectively.

NOT BANK QUALIFIED. The City will *not* designate the Obligations as “qualified tax-exempt obligations” for purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended, relating to the deductibility of interest expense by certain financial institutions.

DATED DATE AND DELIVERY DATE: The Obligations will be dated as of their date of delivery. The expected delivery date of the Obligations is September 11, 2013. Bidders should use September 11, 2013 for purposes of computing their bids.

INTEREST PAYMENTS AND MATURITIES: Interest on the Obligations is payable semiannually on June 1 and December 1 of each year until maturity or prior redemption, commencing December 1, 2013. The Obligations will be issued in the principal amount of \$75,870,000*, and will mature on the following dates in the following principal amounts (subject to adjustment as noted below).

* Preliminary, subject to change

<u>Due June 1</u>	<u>Principal Amount (\$)*</u>	<u>Due June 1</u>	<u>Principal Amount (\$)*</u>
2017	\$2,225,000	2028	3,365,000
2018	2,270,000	2029	3,510,000
2019	2,360,000	2030	3,660,000
2020	2,455,000	2031	3,815,000
2021	2,555,000	2032	3,990,000
2022	2,655,000	2033	4,170,000
2023	2,765,000	2034	4,355,000
2024	2,875,000	2035	4,550,000
2025	2,990,000	2036	4,765,000
2026	3,110,000	2037	4,985,000
2027	3,230,000	2038	5,215,000

* Principal amounts may be adjusted after the sale as described under the heading “ADJUSTMENT OF MATURITIES.”

ADJUSTMENT OF MATURITIES: The City reserves the right to adjust the principal amount specified in the bidding maturity schedule within 4 hours following receipt of bids to properly size the issue and meet cash flow requirements. Any adjustment will preserve the underwriter’s spread as a percentage of each adjusted maturity. The successful bidder for the Obligations will promptly be given notice of any adjustment.

TERM OBLIGATIONS: Bidders may designate one or more term Obligations, which consist of two or more consecutive maturities with identical interest rates, which mature on the maturity date of the last of the consecutive maturities in an amount equal to the sum of the consecutive maturities, and which are subject to mandatory prepayment at par and by lot in amounts equal to the consecutive maturities which were combined into term Obligations. Each bidder should specify in its bid whether term Obligations are desired.

OPTIONAL PREPAYMENT: The Obligations maturing on and after June 1, 2024 are subject to prepayment prior to maturity at the option of the City, in whole or in part, on and after June 1, 2023 (with maturities selected by the City and DTC or by lot within a maturity) at a price of par, plus accrued interest, if any, to the date of prepayment.

RIGHT TO CANCEL, CHANGE TIMING AND TERMS OF SALE: The City reserves the right to change the sale date, maturity schedule, amount, timing, and other terms of the Obligations and terms under which the Obligations are offered for sale, to postpone the sale to a later date, to cancel the sale based upon market conditions, or to otherwise amend this Notice by posting changes to this Notice on i-Deal Prospectus

BIDDING CONSTRAINTS: Bidders must specify the interest rate or rates which the Obligations shall bear. The bids shall comply with the following conditions: (1) each interest rate specified in any bid must be a multiple of one-

* Preliminary, subject to change

thousandth of one percent (0.001%); 2) each Obligation that matures on the same date shall bear interest from its date to its stated maturity date at a single, fixed interest rate; (3) bids must be for a purchase price of not less than ninety-eight percent (98%) of the principal amount of the Obligations; and, (4) each bid must offer to purchase all of the Obligations.

BASIS OF AWARD: Unless all bids are rejected, the Obligations will be awarded to the responsible bidder whose bid produces the lowest overall true interest cost for the City. The true interest cost for the Obligations will be determined by doubling the semi-annual interest rate necessary to discount the debt service on the Obligations to the expected delivery date of the Obligations, as described in “DATED DATE AND DELIVERY DATE” above, and to the aggregate purchase price bid for the Obligations. Each bidder is requested to supply the total interest cost and the true interest cost that the City will pay on the Obligations if the bid is accepted. The purchaser must pay accrued interest, computed on a 360-day basis, from the date of the Obligations to their date of delivery.

BIDS MUST BE SUBMITTED ON “PARITY”: Bids must be submitted electronically via PARITY. Bids must be received by the PARITY system not later than the date and time indicated in the first paragraph of this Notice. No bid will be received after the time for receiving bids specified above. For further information about submitting a bid using PARITY, potential bidders may contact PARITY at (212) 849-5021. To the extent any instructions or directions set forth in PARITY conflict with this Notice, the terms of this Notice shall control. Bidders electing to submit bids through PARITY must obtain access to the PARITY system and bear all risks associated with using that system, including errors and delays in receipt of bids. In the event there are any technical problems associated with PARITY, PARITY may fax bids that it receives prior to 9:30 a.m. (Prevailing Pacific Time), as soon as practicable to (503) 943-4801 to the attention of City’s Special Counsel, Greg Blonde of Orrick, Herrington & Sutcliffe LLP, for consideration by the City. Bids received by PARITY prior to 9:30 a.m. (Prevailing Pacific Time), but faxed after 9:30 a.m. (Prevailing Pacific Time) as provided in the preceding sentence, shall be considered conforming to the time requirements of this Notice.

GOOD FAITH DEPOSIT: The successful bidder will be required to provide a good faith deposit in the amount of \$500,000 in immediately available funds wired to the City not later than 1:00 p.m. (Pacific Time) on August 27, 2013 (the day of the sale). The City or the City’s Financial Advisor will provide the wire information immediately upon the award of bids. If the good faith deposit is not provided in the manner and by the time indicated in this Notice, the City may award the sale to the next most favorable bidder or may cancel the sale. 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 Obligations are awarded withdraws its bid or fails to complete its purchase of the Obligations in accordance with this Notice and its bid.

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 Obligations. The successful bidder shall pay the balance of the purchase price of the Obligations at closing, in funds immediately available to the City on the date and at the time of closing.

RIGHT OF REJECTION: The City reserves the right to reject any or all bids and to waive any irregularities.

BOOK-ENTRY-ONLY: The Obligations will be issued in registered, book-entry-only form through DTC. Unless the book-entry-only system is discontinued, Obligation principal and interest payments will be made by the City to DTC through the City's paying agent and registrar, which is currently Wells Fargo Bank, National Association.

STANDARD FILINGS AND CHARGES: The successful bidder will be required to make the standard filings and maintain the appropriate records routinely required pursuant to Municipal Securities Rulemaking Board ("MSRB") Rules G-8, G-11, and G-36. The successful bidder will be required to pay the standard MSRB charge for the Obligations purchased. In addition, if the successful bidder is a member of the Securities Industry and Financial Markets Association ("SIFMA") it will be required to pay SIFMA's standard charges.

PURPOSE: The proceeds of the Obligations will be used to pay costs of, or to reimburse the City for the payment of costs of, capital improvements to the City's water system, and to pay costs of issuance.

REOFFERING PRICE, CERTIFICATE OF ISSUE PRICE: The successful bidder must provide the reoffering yields or prices which will be printed on the inside cover of the final official statement for the Obligations to the City's Financial Advisor within one hour after bids are opened. In addition, the successful bidder must execute, not less than three business days prior to closing, a certificate provided by Special Counsel, substantially in the form attached to this Notice as "Exhibit A – Certificate of the Underwriter," containing information reasonably requested by the City and Special Counsel as shall be necessary to enable the City to determine the "issue price" (within the meaning of Treasury Regulations Section 1.148-1) for each maturity of the Obligations. Failure to provide this information or the certificate may result in cancellation of the sale and forfeiture of the successful bidder's good faith deposit.

LEGAL OPINION: The approving opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel, of Portland, Oregon, will be provided at no cost to the purchasers.

TAX-EXEMPT STATUS: In the opinion of Special Counsel, under existing law and conditioned on the City complying with certain covenants relating to the tax-exempt status of the Obligations, the interest component of the Financing Payments that is paid to owners of the Obligations ("Interest") is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal

alternative minimum tax imposed on individuals or corporations, as provided in greater detail in the preliminary official statement for the Obligations. Interest is also exempt from Oregon personal income taxation.

DELIVERY AND PAYMENT: The successful bidder must pay for the Obligations in funds immediately available to the City on the date and at the time of closing. Delivery of the Obligations will be made within thirty days after the sale and is expected to occur on September 11, 2013. The City will deliver the Obligations through the facilities of DTC.

ADDITIONAL INFORMATION AND PRELIMINARY OFFICIAL STATEMENT: The preliminary official statement for the Obligations is available only in electronic form. Prospective bidders may obtain preliminary official statements from i-Deal Prospectus at www.i-dealprospectus.com. For more information on electronic delivery, please call i-Deal Prospectus at 212-849-5024. Any questions concerning **PARITY** should be directed to (212) 849-5021. Requests for additional information about this sale should be directed to Western Financial Group, the City's Financial Advisor: Kieu-Oanh Nguyen, 503-249-1412, email ko@westernfinancialgroup.com; or Chip Pierce 503-719-6113, email pierce@westernfinancialgroup.com.

FINAL OFFICIAL STATEMENT; COMPLIANCE WITH SEC RULES: The City will provide the successful bidder with a sufficient number of copies of the official statement in a form "deemed final" by the City to enable the successful bidder to satisfy its responsibilities under the Securities and Exchange Commission ("SEC") rules, at the expense of the City, and such additional copies as the successful bidder may request at the expense of the bidder, not later than the seventh business day following the date on which bids are due. Bidders should expect that the official statements will not be available prior to the seventh business day following the date on which bids are due, and should not issue confirmations which request payment prior to that date. This paragraph will constitute a contract with the successful bidder upon acceptance of their bid by the City, in compliance with Section 240.15c2-12(b)(3) in Chapter II of Title 17 of the Code of Federal Regulations (the "Rule").

CONTINUING DISCLOSURE: The City will enter into an undertaking to provide ongoing disclosure for the benefit of the owners of the Obligations as required by the Rule, in substantially the form shown in the preliminary official statement.

CUSIP: The successful bidder is to apply for CUSIP numbers and pay the cost thereof.

CLOSING CERTIFICATES: At the time of payment for the delivery of the Obligations, the City will certify that to its knowledge there is no litigation pending affecting the validity of the Obligations, and that the portion of the official statement that describes the City does not contain any material misstatements or omissions.

By order of the City of Lake Oswego, Oregon

EXHIBIT A

CERTIFICATE OF THE UNDERWRITER

_____ (the “Underwriter”), has acted as the Underwriter to the City of Lake Oswego, Oregon (the “Issuer”) in connection with the execution and delivery by the Issuer of its Full Faith and Credit Obligations, Series 2013 (the “Bonds”). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Tax Certificate relating to the Bonds dated the date hereof, to which this certificate is attached as an exhibit. On behalf of the Underwriter, the undersigned hereby certifies and represents as follows:

1. On _____, 2013 (the “Sale Date”), all of the Bonds were the subject of a bona fide offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (the “Public”) pursuant to the Bond Purchase Agreement, and on the Sale Date we reasonably expected that the prices set forth in the Official Statement for the Bonds would be the market clearing price for the respective maturity.

2. [Except for the Bonds scheduled to mature on _____, 20__, the] [The] first price at which at least 10% of the principal amount of each maturity initially was sold to the Public was the respective price for that maturity shown on the Official Statement for the Bonds, dated August __, 2013 (the “Official Statement”). For purposes of this certificate, we have assumed that the phrase “bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers” refers only to persons who, to our actual knowledge, are acting in such capacity.

3. [For the Bonds scheduled to mature on _____, 20__, 10% or more of such Bonds were not sold to the Public at any single price on the Sale Date, and none of such Bonds were sold on the Sale Date to any person at a price higher than (or a yield lower than) the price for such Bonds shown on the attached schedule.]

The undersigned understands and acknowledges that the Issuer may rely on this certificate in making certain of the representations contained in a certificate the Issuer executes in connection with the issuance of the Bonds, and further understands that Orrick, Herrington & Sutcliffe LLP as Special Counsel may rely upon this certificate, among other things, in rendering certain opinions relating the Bonds. The undersigned makes no representations as to the legal sufficiency of the information set forth in this certificate for purposes of complying with the Code or for any other purpose.

The undersigned is authorized to execute this certificate on behalf of _____, which certifications are based on personal knowledge or inquiry deemed adequate by the undersigned regarding the matters set forth herein.

Dated: _____, 2013

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 15, 2013

**NEW ISSUE -- COMPETITIVE
Book-Entry-Only**

**RATINGS: Moody's: Aa1
S&P: AAA
See "RATINGS" herein.**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the City ("Special Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, that portion of the payments received by holders of the Obligations with respect to the obligations of the City under the Financing Agreement (the "Financing Obligations") designated as and constituting interest on the Financing Obligations is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Special Counsel, interest on the Financing Obligations is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In the further opinion of Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, that portion of the payments received by holders of the Financing Obligations that are designated as and constituting interest is exempt from personal income taxation imposed by the State of Oregon. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of the Obligations or the Financing Obligations, or the accrual or receipt of interest represented on, the Financing Obligations. See "TAX MATTERS" herein.



**CITY OF LAKE OSWEGO
CLACKAMAS, MULTNOMAH AND WASHINGTON COUNTIES, OREGON
\$75,870,000* Full Faith and Credit Obligations, Series 2013**

DATED: Date of Delivery

DUE: June 1, as shown inside cover

The Full Faith and Credit Obligations, Series 2013 (the "Obligations"), will be issued by the City of Lake Oswego, Oregon (the "City"), in book-entry-only form in denominations of \$5,000 or integral multiples thereof. The Obligations are registered obligations issued in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. (See "APPENDIX E - BOOK-ENTRY-ONLY SYSTEM" herein.) So long as the Obligations remain in the book-entry-only system, principal and interest payments will be remitted by the registrar and paying agent of the City, currently Wells Fargo Bank, National Association, Portland, Oregon, to DTC, who in turn will be required to distribute such payments to DTC Participants for ultimate distribution to Beneficial Owners.

The proceeds of the sale of the Obligations will be used to pay costs of, or to reimburse the City for the payment of costs of, capital improvements to the City's water system, and to pay costs of issuance (collectively, the "Project").

Pursuant to the terms of a financing agreement (the "Financing Agreement") the payment obligations of the City under the Financing Agreement (the "Financing Payments") are secured by and payable from the City's general non-restricted revenues and other funds that are lawfully available, including the proceeds of the Financing Agreement and revenues from an ad valorem tax authorized to be levied under the City's permanent tax rate limit under Sections 11 and 11b, Article XI of the Oregon Constitution and revenues derived from other taxes, if any, levied by the City in accordance with and subject to limitations and restrictions imposed under applicable law or contract, that are not dedicated, restricted or obligated by law or contract to an inconsistent expenditure or use. The obligation of the City to make payments is a full faith and credit obligation of the City and is not subject to appropriation. The payment obligations of the City under the Financing Agreement are additionally secured by a subordinate pledge of Net Revenues of the Water System, as provided in Resolution No. 99-22 of the City (the "Master Water Resolution"). Such pledge of Net Revenues is subordinate to the lien on, and pledge of, the Net Revenues for the senior bonds outstanding from time to time under the Master Water Resolution. The registered Owners (as defined herein) of the Obligations do not have a lien or security interest on the Project financed with the proceeds of the Obligations. The Financing Agreement does not constitute a debt or indebtedness of the State of Oregon, or any political subdivision thereof other than the City.

The Obligations evidence and represent undivided proportionate interests of the Owners thereof in Financing Payments (defined herein) to be made by the City pursuant to a Financing Agreement. The interest component of the Financing Payments evidenced and represented by the Obligations will be payable on December 1, 2013 and semiannually thereafter on June 1 and December 1 of each year. The principal component will be payable on June 1 as shown in the maturity schedule on the inside cover hereto. The principal and interest components of the Financing Payments evidenced and represented by the Obligations will be payable to the persons in whose names such Obligations are registered (the "Owners"), at their addresses appearing upon the registration books on the 15th day of the month preceding a payment date.

The Obligations are subject to prepayment. See "DESCRIPTION OF THE OBLIGATIONS – Prepayment Provisions" herein.

Maturity Schedule Appears Inside Cover

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

The Obligations are offered for sale to the original purchaser subject to the final approving opinion of Orrick, Herrington & Sutcliffe, LLP, Special Counsel to the City. It is expected that the Obligations will be available for delivery to the Registrar for Fast Automated Securities Transfer on behalf of DTC, on or about September 11, 2013 ("Date of Delivery").

* Preliminary; subject to change.



**Western Financial Group, LLC
3300 NW 185th Ave., #270
Portland, Oregon 97229**

This is a Preliminary Official Statement and the information contained herein is subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Maturity Schedule

\$75,870,000*

Full Faith and Credit Obligations, Series 2013

<u>Due June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP # †</u>
2017	\$ 2,225,000			
2018	2,270,000			
2019	2,360,000			
2020	2,455,000			
2021	2,555,000			
2022	2,655,000			
2023	2,765,000			
2024	2,875,000			
2025	2,990,000			
2026	3,110,000			
2027	3,230,000			
2028	3,365,000			
2029	3,510,000			
2030	3,660,000			
2031	3,815,000			
2032	3,990,000			
2033	4,170,000			
2034	4,355,000			
2035	4,550,000			
2036	4,765,000			
2037	4,985,000			
2038	5,215,000			

* Preliminary; subject to change.

† CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers are provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers are included above for convenience of the holders and potential holders of the Obligations. No assurance can be given that the CUSIP numbers for the Obligations will remain the same after the date of issuance and delivery of the Obligations.

No dealer, broker, salesperson or any other person has been authorized by the City to give any information or to make any representations other than those contained in this Official Statement in connection with the offering contained herein, and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer or solicitation of an offer to buy nor shall there be any sale of the Obligations by any person in any jurisdiction in which it is unlawful for such offer, solicitation or sale.

This Preliminary 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 Preliminary Official Statement under said Rule 15c2-12.

The information set forth herein has been obtained from the City, DTC, and other sources that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date hereof.

This Official Statement contains "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements include, among others, statements concerning expectations, beliefs, opinions, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**OFFICIAL STATEMENT
OF
CITY OF LAKE OSWEGO, OREGON
CLACKAMAS, MULTNOMAH AND WASHINGTON COUNTIES, OREGON
\$75,870,000* Full Faith and Credit Obligations, Series 2013**

**380 A Avenue
P.O. Box 369
Lake Oswego, Oregon 97034
Website: www.ci.oswego.or.us¹**

CITY COUNCIL

Kent Studebaker, Mayor
Karen Bowerman
Jeff Gudman
Jon Gustafson
Donna Jordan
Mike Kehoe
Skip O'Neill

ADMINISTRATIVE STAFF

Scott Lazenby, City Manager
David Donaldson, Assistant City Manager
Ursula Euler, Finance Director

SPECIAL COUNSEL

Orrick, Herrington & Sutcliffe LLP, Portland, Oregon

FINANCIAL ADVISOR

Western Financial Group, LLC, Portland, Oregon

PAYING AGENT, REGISTRAR AND ESCROW AGENT

Wells Fargo Bank, National Association, Portland, Oregon

* Preliminary; subject to change.

¹ The City's website is not part of this official statement, and investors should not rely on information which is presented in the City's website in determining whether to purchase the Obligations. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website, by reference.

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APPENDIX A: FORM OF FINANCING AGREEMENT AND FORM OF ESCROW AGREEMENT

APPENDIX B: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012

APPENDIX C: FORM OF LEGAL OPINION

APPENDIX D: FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX E: BOOK-ENTRY-ONLY SYSTEM

APPENDIX F: MASTER WATER RESOLUTION AND RECENT AMENDMENTS

**OFFICIAL STATEMENT FOR THE
CITY OF LAKE OSWEGO, OREGON**

\$75,870,000* Full Faith and Credit Obligations, Series 2013

The City of Lake Oswego (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 \$75,870,000* aggregate principal amount of Full Faith and Credit Obligations, Series 2013 (the "Obligations"), dated the Date of Delivery. This Official Statement, which includes the cover page and appendices, provides information concerning the City and the Obligations.

Capitalized terms used and not defined herein shall have the meanings assigned to such terms in "**APPENDIX A – FORM OF FINANCING AGREEMENT AND FORM OF ESCROW AGREEMENT**," which is attached hereto and incorporated by reference herein.

DESCRIPTION OF THE OBLIGATIONS

The Obligations will be issued in the aggregate principal amount of \$75,870,000*. The Obligations evidence and represent undivided proportionate interests of the Owners thereof in payments (the "Financing Payments") to be made by the City pursuant to a financing agreement (the "Financing Agreement") dated the Date of Delivery, between the City and Wells Fargo Bank, National Association, as paying agent, registrar and escrow agent (the "Registrar" or "Escrow Agent"). The Obligations are executed and delivered pursuant to an escrow agreement (the "Escrow Agreement") dated the Date of Delivery, between the City and the Escrow Agent.

PRINCIPAL AMOUNT, DATE, INTEREST RATE AND MATURITIES

The sum of the principal components of the Financing Payments (the "Financing Amounts") evidenced and represented by the Obligations equals \$75,870,000*. The interest components of the Financing Payments evidenced and represented by the Obligations are payable on the scheduled Payment Dates (each June 1 and December 1, commencing December 1, 2013) and in the amounts, with interest payable at the rates, all as set forth on the inside cover of this Official Statement. Interest on the principal of the Financing Payments evidenced and represented by the Obligations will be computed on the basis of a 360-day year consisting of twelve 30-day months. The principal component of the Financing Payments will be due on June 1 as set forth on the inside cover of this Official Statement.

The Obligations will be issued only as fully registered obligations without coupons in principal denominations of \$5,000 or any integral multiple thereof. Interest on the Obligations is remitted by the Escrow Agent to Depository Trust Company ("DTC"), who in turn will be required to distribute such payments to its participants (the "DTC Participants") for ultimate distribution to Beneficial Owners (as defined herein).

AUTHORIZATION AND PURPOSE OF ISSUANCE

The City is authorized pursuant to Oregon Revised Statutes ("ORS") Section 271.390, and the laws of the State to enter into financing agreements, lease purchase agreements or other contracts of purchase to finance real or personal property that the Mayor and City Council (collectively, the "City Council") determines is needed and to authorize obligations of participation in the payment obligations of the City under such financing agreements, lease-purchase agreements or other contracts of purchase.

The Obligations are being issued to pay costs of, or to reimburse the City for the payment of costs of, capital improvements to the City's water system, and to pay costs of issuance (collectively, the "Project" or "LO-Tigard Project").

The City is pledging its full faith and credit to the payment of the principal components of the Financing Agreement as security for the Project. Under and in accordance with State law and pursuant to Resolution No. 13-17 adopted by the City Council on July 16, 2013 (the "Obligation Resolution"), the City is authorized to enter into the Financing Agreement and the Escrow Agreement for the Obligations; to provide the terms of execution, delivery and sale of the Obligations; and to authorize certain officials and employees of the City to take action on the City's behalf. Together, the Financing Agreement and Escrow Agreement are referred to herein as the "Agreements." Under the Agreements, the Escrow Agent will provide to the City an amount equal to the Financing Amount to finance the Project, but only from the proceeds of the sale of the Obligations as provided in the Agreements. The City agrees in the Agreements to borrow the Financing Amount from the Escrow Agent, and to repay that principal amount in installments, with interest, by making the Financing Payments and paying the Additional Charges as provided in the Financing Agreement.

* Preliminary; subject to change.

DISBURSEMENT FEATURES

Financing Payments. The Financing Payments will be payable by the Escrow Agent to DTC, which, in turn, is obligated to remit such principal and interest components to DTC Participants for subsequent disbursement to the owners of beneficial interests in the Obligations (the “Beneficial Owners”), as further described in **APPENDIX E** attached hereto.

Book-Entry System. The Obligations will be executed and delivered as fully registered obligations and, when executed and delivered, will be registered in the name of Cede & Co. as Owner and as nominee for DTC. DTC will act as securities depository for the Obligations. Individual purchases and sales of the Obligations may be made in book-entry form only in minimum denominations of \$5,000 within a single maturity and integral multiples thereof. Beneficial Owners will not receive certificates representing their interest in the Obligations. See **APPENDIX E** attached hereto for additional information.

Procedure in the Event of Revisions of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC, or the City has determined that it is in the best interest of the City not to continue the book-entry system of transfer or that interests of the Beneficial Owners of the Obligations might be adversely affected if the book-entry system of transfer is continued, there will be executed, authenticated and delivered at no cost to the Beneficial Owners or their nominees, Obligations in fully registered form, in the denomination of \$5,000 or any integral multiple thereof. Thereafter, the principal components of the Financing Payments evidenced and represented by the Obligations will be payable upon due presentment and surrender of such Obligations at the principal office of the Registrar. The interest components of the Financing Payments evidenced and represented by the Obligations will be mailed or caused to be delivered to the Owners, at the addresses appearing upon the registration books on the 15th day of the month preceding a Payment Date. The Obligations will be transferable as provided in the Escrow Agreement.

PREPAYMENT PROVISIONS

Optional Prepayment.

The Obligations maturing on and after June 1, 2024 are subject to prepayment at the option of the City, in whole or in part on any date on and after June 1, 2023 at a price of par, plus accrued interest, if any, to the date of prepayment.

Mandatory Prepayment.

The Obligations stated to mature on June 1, 20__ through June 1, 20__ are subject to mandatory sinking fund prepayment at par in the principal component amounts and on the dates shown in the following schedule:

<u>Year</u> <u>(June 1)</u>	<u>Amount</u>
20__	
20__	
20__*	

* *Final maturity.*

Notice of Prepayment (DTC). So long as the Obligations are in book-entry form, the Escrow Agent shall notify DTC of an early prepayment not less than 20 days prior to the date fixed for prepayment, and shall provide such information as required by a letter of representation submitted to DTC in connection with the issuance of the Obligations.

Notice of Prepayment (No DTC). During any period in which the Obligations are not in book-entry only form, unless waived by any Owner of the 2013 Obligations to be redeemed, official notice of any prepayment of Obligations shall be given by the Escrow Agent on behalf of the City by mailing a copy of an official prepayment notice by first class mail, postage prepaid, at least 20 days and not more than 60 days prior to the date fixed for prepayment, to the Owners of the Obligations to be prepaid at the address shown on the bond register or at such other address as is furnished in writing by such Owner to the Escrow Agent.

Conditional Prepayment. Any notice of optional prepayment to the Registrar or to the Obligation owners may state that the optional prepayment is conditional upon receipt by the Registrar of moneys sufficient to pay the prepayment price of such Obligations 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 prepayment 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 Registrar to affected Obligation owners as promptly as practicable upon the failure of such condition or the occurrence of such other event.

USE OF OBLIGATION PROCEEDS

The proceeds from the Obligations are expected to pay costs of, or to reimburse the City for the payment of costs of, capital improvements to City’s water system (the “Water System”) which includes the City’s Lake Oswego Tigard Water Partnership Project (“LO-Tigard Project”) and to pay the cost of issuing the Obligations. See “**Water System - Lake Oswego Tigard Water Partnership Project**” herein.

SOURCES AND USES OF FUNDS

The proceeds from the Obligations are estimated to be applied as shown in Table 1.

Table 1 – Sources and Uses of Funds

Sources of Funds:	
Par Amount	\$75,870,000.00*
Net Original Issue Premium/(Discount)	
Total Sources of Funds	
Uses of Funds:	
Pay-off Line of Credit	
Project Fund	
Underwriter’s Discount	
Cost of Issuance	
Total Uses of Funds	

* Preliminary; subject to change.

Source: City of Lake Oswego.

EXPECTED PLAN OF REPAYMENT

The City expects to repay the Obligations from the net revenues of the City’s Water System. The City has covenanted to set, charge and collect rates, fees and other charges in connection with the operation of the Water System which, when combined with other revenues, are adequate to meet debt service requirements of the Obligations and of outstanding water revenue bonds. If planned rate increases are not implemented sufficient to pay Obligation debt service, the City would use other legally available funds to pay the debt service of the Obligations. See “**Security for the Obligations**” herein.

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FULL FAITH AND CREDIT DEBT SERVICE REQUIREMENTS

The following table presents the debt service requirements of obligations with a claim on the general fund of the City, including the Obligations. However it does not include debt service requirements of the City’s general obligation bonds which are payable from ad valorem taxes, and does not include debt service requirements of the City’s short-term borrowings (see “**CITY DEBT INFORMATION - SHORT TERM BORROWING**” herein).

The City expects to pay debt service on the Obligations from the City’s water system revenues.

Table 2 – Full Faith and Credit Obligations Debt Service Requirements*

FY Ending June 30	Outstanding Obligations ¹	The Obligations ^{2*}		Total*
		Principal*	Interest*	
2014	\$ 7,193,357		\$ 2,303,379	\$ 9,496,736
2015	7,193,432		3,239,126	10,432,558
2016	7,190,932		3,239,126	10,430,058
2017	7,181,157	\$ 2,225,000	3,239,126	12,645,283
2018	7,184,307	2,270,000	3,194,626	12,648,933
2019	7,178,382	2,360,000	3,103,826	12,642,208
2020	7,178,532	2,455,000	3,009,426	12,642,958
2021	7,173,432	2,555,000	2,911,226	12,639,658
2022	7,170,994	2,655,000	2,809,026	12,635,020
2023	7,167,907	2,765,000	2,702,826	12,635,733
2024	7,158,332	2,875,000	2,592,226	12,625,558
2025	7,154,107	2,990,000	2,477,226	12,621,333
2026	7,151,482	3,110,000	2,357,626	12,619,108
2027	7,160,507	3,230,000	2,233,226	12,623,733
2028	7,157,907	3,365,000	2,099,989	12,622,896
2029	7,160,482	3,510,000	1,956,976	12,627,458
2030	7,148,272	3,660,000	1,807,801	12,616,073
2031	7,132,125	3,815,000	1,647,676	12,594,801
2032	6,307,100	3,990,000	1,476,001	11,773,101
2033	6,313,644	4,170,000	1,296,451	11,780,095
2034	6,305,781	4,355,000	1,108,801	11,769,582
2035	6,305,200	4,550,000	912,826	11,768,026
2036	-	4,765,000	702,389	5,467,389
2037	-	4,985,000	482,008	5,467,008
2038	-	5,215,000	247,713	5,462,713
Totals	\$154,267,371	\$75,870,000	\$53,150,651	\$283,288,022

¹ Repayment sources for the outstanding obligations are sewer system revenue and tax increment revenue of the Lake Oswego Renewal Agency.

² Repayment source for these Obligations is water system revenue.

* Preliminary; subject to change.

Columns may not foot due to rounding.

Source: City of Lake Oswego.

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SECURITY FOR THE OBLIGATIONS

The Obligations represent undivided ownership interests in the installment payments of principal and interest due from the City under the Financing Agreement. Under the Financing Agreement, the Financing Payments are payable from the City's general non-restricted revenues and other funds which may be available for that purpose. The obligation to pay the Financing Payments is a full faith and credit obligation of the City. The Obligations are not general obligations of the State or any other political subdivision or municipal corporation of the State.

In the Financing Agreement, the City has covenanted to use all taxing power available to it under the law that is necessary to generate funds sufficient to permit the City to make all Financing Payments, subject only to the limitations of Article XI, Sections 11 and 11b of the Oregon Constitution, and any limitations that are imposed by law.

The payment obligations of the City under the Financing Agreement are additionally secured by a subordinate pledge of Net Revenues of the Water System, as provided in Resolution No. 99-22 of the City (the "Master Water Resolution"). Such pledge of Net Revenues is subordinate to the lien on, and pledge of, the Net Revenues for the senior bonds outstanding from time to time under the Master Water Resolution (the "Senior Bonds"). The obligation of the City to pay Financing Payments is a Subordinate Obligation of the City payable from amounts in the Subordinate Obligations Account (as such terms are defined in the Master Water Resolution). See **APPENDIX F - MASTER WATER RESOLUTION AND RECENT AMENDMENTS**.

Pursuant to the Master Water Resolution, the City has covenanted and agreed for the benefit of the owners of Senior Bonds and the owners of all Subordinate Obligations that it will comply with all requirements of the Master Water Resolution. Owners of Subordinate Obligations are not entitled to declare an Event of Default or exercise remedies under the Master Water Resolution without the consent of one hundred percent (100%) of the owners of Senior Bonds. Currently, the only Senior Bonds outstanding are the \$7,265,000 outstanding principal amount of the City's Water Revenue and Refunding Bonds, Series 2007.

In addition, under the Master Water Resolution, the City covenanted and agreed for the benefit of owners of all Senior Bonds and owners of all Subordinate Obligations that it will set, charge and collect rates, fees and other charges in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred percent (100%) of Annual Debt Service due with respect to Senior Bonds in that Fiscal Year plus one hundred percent (100%) of annual debt service due with respect to Subordinate Obligations in that Fiscal Year. Annual debt service with respect to Subordinate Obligations shall be calculated in the manner set forth in the definition of "Annual Debt Service" as if such definition referred to "Subordinate Obligations" rather than "Bonds."

The Master Water Resolution allows for the issuance by the City of additional Senior Bonds and Subordinate Obligations upon satisfaction of certain conditions. See **APPENDIX F - MASTER WATER RESOLUTION AND RECENT AMENDMENTS**.

THE OBLIGATION OF THE CITY TO MAKE THE FINANCING PAYMENTS IS ABSOLUTE AND UNCONDITIONAL AND IS NOT SUBJECT TO ANNUAL APPROPRIATION. THE REGISTERED OWNERS OF THE OBLIGATIONS DO NOT HAVE A LIEN OR SECURITY INTEREST IN THE PROJECT FINANCED WITH THE PROCEEDS OF THE OBLIGATIONS.

The City's obligation to make Financing Payments is not subject to any of the following:

1. any setoff, counterclaim, recoupment, defense or other right which the City may have against the Escrow Agent, any contractor or anyone else for any reason whatsoever;
2. any insolvency, bankruptcy, reorganization or similar proceedings by the City;
3. abatement through damage, destruction or non-availability of the Project, or
4. any other event or circumstance whatsoever, whether or not similar to any of the foregoing.

The City's obligation to make Financing Payments is binding for the term of the Financing Agreement.

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THE CITY

GENERAL DESCRIPTION

The City of Lake Oswego, located eight miles southwest of Portland on the Willamette River, covers an area of approximately ten square miles, including the 405-acre Oswego Lake. The City, with an estimated 2012 population of 36,770 is located in three counties, the largest portion in Clackamas County, with small areas in Multnomah and Washington counties.

GOVERNMENT

The City of Lake Oswego was incorporated in 1910 and operates as a home rule city with a council-manager form of government. The Mayor and six councilors are elected at large on a non-partisan basis for overlapping four-year terms. The City provides a broad range of urban services to its residents, including police and fire, land use planning and zoning, streets, water, wastewater and surface water collection and treatment, recreation and library services.

CITY COUNCIL

Current members of the Council are shown in the following table.

Table 3 – City Council

Board Member	Occupation	Term Expires
Kent Studebaker, Mayor	Retired, Lawyer and manufacturer's representative	12/31/16
Karen Bowerman	Business advisor and consultant	12/31/16
Jeff Gudman	Businessman and investor	12/31/14
Jon Gustafson	Remodeler and real estate broker	12/31/16
Donna Jordan	Retired, Public relations and advertising management	12/31/14
Mike Kehoe	Business owner	12/31/14
Skip O'Neill	Business owner	12/31/16

Source: City of Lake Oswego.

KEY CITY ADMINISTRATION AND MANAGEMENT

Scott Lazenby City Manager, was appointed to the position on June 26, 2013. Mr. Lazenby is the former City Manager for the City of Sandy, Oregon where he served in that capacity for 21 years. Before becoming city manager in Sandy, Oregon, Mr. Lazenby worked as the management and budget director for Glendale, Arizona, and as assistant to the city manager in Vancouver, Washington.

He has a bachelor's degree in physics from Reed College, a master's in public management and policy from Carnegie-Mellon University and a doctorate in public administration and policy from Portland State University. Mr. Lazenby also serves as an adjunct professor in the Mark O. Hatfield School of Government at Portland State University.

David Donaldson, Assistant City Manager, joined the City of Lake Oswego in December 2006 and serves as the Assistant City Manager overseeing many of the City's operating departments. Prior to that he served as the Deputy City Manager in Wilsonville, OR for 8 years. Prior to that he worked in the private sector for 12 years including four years with Korn/Ferry International in Los Angeles. He has a BS from Ohio University and an MS in Public Administration from the University of Oregon.

Ursula Euler, Finance Director, joined the City in November 2009. Ms. Euler comes from an auditing and private accounting background, and previously worked as Public Works financial manager for the City of Olympia, Washington. She is a Certified Public Accountant and received her Bachelor of Science degree in Accounting from the University of Nevada- Reno summa cum laude and a Masters in Business Administration with an emphasis in finance from the University of Washington-Seattle, in 1999.

CITY STAFF AND BARGAINING UNITS

As of June 30, 2013, the City had 302 full-time employees, approximately 33 part-time employees (occupying the equivalent of 22 full-time positions) and approximately 70 temporary/seasonal employees throughout the year. The majority of City employees who are eligible under State law to be represented by a labor organization are employed under provisions of negotiated contracts with the three labor organizations. The City enters into written bargaining agreements with each of the bargaining organizations. The agreements contain provisions on such matters as salaries, vacation, sick leave, medical and dental insurance, working conditions, and grievance procedures.

Table 4 – Bargaining Units

BARGAINING UNIT	Number of Employees	Termination Date of Current Contract
Lake Oswego Police Officers Association	49	6/30/14
International Association of Firefighters	43	6/30/14
Lake Oswego Municipal Employees Association ¹	161	6/30/15 ²

1. Affiliated with AFSME
 2. Contract negotiations included a salary reopener in 2014.
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Source: City of Lake Oswego

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CITY FINANCIAL INFORMATION

FISCAL YEAR

The fiscal year for the City commences on July 1 and ends on June 30 of the following year.

SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

BASIS OF ACCOUNTING

The government-wide financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus, as are the proprietary funds financial statements. An economic resource focus concentrates on an entity or fund’s net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurements focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows. The City's accounting practices conform to GAAP.

The City has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (“GFOA”) for the Comprehensive Annual Financial Report every year since its fiscal year ending 1992 audit report.

INDEPENDENT AUDIT REQUIREMENT

In accordance with the Oregon Municipal Audit Law (ORS 297.405 to 297.555) and ORS 297.990 an audit is conducted at the end of each fiscal year by independent certified public accountants. This requirement has been complied with and the financial statements have received an “unqualified opinion” from the auditors. Such an opinion indicates there was no limitation on the scope of the auditor's examination and the financial statements were prepared in accordance with GAAP.

The City's audits for the Fiscal Years ended June 30, 2007 through 2012 were performed by Talbot, Korvola & Warwick LLP, Portland, Oregon. The City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012 is included in **APPENDIX B**.

TALBOT, KORVOLA & WARWICK, LLP, THE CITY’S INDEPENDENT AUDITOR, HAS NOT BEEN ENGAGED TO PERFORM, AND HAS NOT PERFORMED, SINCE THE DATE OF ITS REPORT INCLUDED HEREIN, ANY PROCEDURES ON THE FINANCIAL STATEMENTS ADDRESSED IN THAT REPORT. TALBOT, KORVOLA & WARWICK, LLP ALSO HAS NOT PERFORMED ANY PROCEDURES RELATING TO THIS OFFICIAL STATEMENT.

BUDGETING PROCESS

The City prepares an annual budget in accordance with provisions of the Oregon Local Budget Law (ORS 294.305 to ORS 294.565, inclusive), which provides standard procedures for the preparation, presentation, administration and appraisal of budgets. The law mandates public involvement in budget preparation and public exposure of its proposed programs. The law also requires that the budget be balanced.

Prior to adoption, the proposed budget must be approved by a budget committee consisting of the Mayor and six City Councilors and an equal number of laypersons. In one or more advertised public meetings, the budget committee reviews the budget and the “budget message,” which explains the budget and significant changes in the local government's financial position. All budget committee meetings are open to the public.

Following budget approval by the budget committee, another public hearing is held by the City Council. A budget summary and notice of hearing are published prior to the hearing. Publication is governed by strict requirements as to time and mode.

The City Council has adopted an ending fund balance and contingency policy for all major funds. In accordance with the policy for the General Fund contingency, the General Fund contingency and required ending fund balance is 14% and 16%, respectively, of General Fund’s operating budget. The City has received the GFOA Distinguished Budget Presentation Award every year from the fiscal years ended June 30, 1999-00 through 2012-13, except for the fiscal year ended June 30, 2009-10, when the City did not apply for or receive the award.

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GENERAL FUND BUDGETS

Table 5 shows the adopted General Fund Budgets for the two most recent and current fiscal years, and estimated Resources and Requirements for FY 2012-2013. The FY 2012-13 Estimated amounts shown were developed in January 2013 and are stated as disclosed in the City's FY 2012-13 Adopted Budget. A recent estimate places the ending fund balance (including contingency) as of June 30, 2014 at \$24.5 million, including \$9.3 million reserved in separate funds for the Building Fund, two Endowment funds, and a capital reserve.

Table 5 – General Fund Budgets

	2012-13 Adopted Budget ²	2012-13 Estimated	2013-14 Adopted Budget
Resources			
Beginning Fund Balances	\$23,628,739	\$24,681,968	\$25,066,968
Property Taxes	27,712,000	27,838,000	28,502,000
Franchise Fees	2,125,000	2,158,000	2,003,000
Intergovernmental	4,307,000	4,364,000	4,234,000
Fines & Forfeitures	1,053,000	1,042,000	1,052,000
Licenses	214,000	205,000	215,000
Fees	2,491,000	2,620,000	1,113,000
Sales & Services	3,739,000	3,908,000	3,767,000
Investment Income	466,000	466,000	55,000
Reimbursements	49,000	147,000	35,000
Gifts & Donations	285,000	214,000	207,000
-Charges for Services ¹	-	-	2,777,000
Other Revenues	61,000	91,000	61,000
Transfers ¹	2,993,000	2,993,000	131,000
Other Financing Sources	<u>-</u>	<u>3,000</u>	<u>-</u>
TOTAL RESOURCES	\$69,123,739	\$70,730,968	\$69,218,968
Requirements			
Personal Services	\$32,505,000	\$31,956,000	\$33,028,000
Materials & Services	9,458,000	9,263,000	9,039,000
Debt Service	1,236,000	1,030,000	1,050,000
Transfers to Other Funds	1,789,000	1,757,000	966,000
Capital Outlay	1,768,000	1,658,000	631,000
-Transfers to Establish New Funds	-	-	9,315,000
Contingency	5,912,000	-	6,720,000
Unappropriated Ending Fund Balance	<u>16,455,739</u>	<u>25,066,968</u>	<u>8,469,968</u>
TOTAL REQUIREMENTS	\$69,123,739	\$70,730,968	\$69,218,968

Source: City of Lake Oswego.

1. Beginning 2013-14, internal transfers are budgeted as charges for services. .
2. Adopted Budget includes budget adjustments

Table 6 – General Fund Balance Sheets

As of June 30	2008	2009 ¹	2010	2011	2012
Assets and other debits					
Cash & investments ¹	\$3,568,655	\$14,177,790	\$9,074,051	\$13,552,607	\$17,279,502
Receivables					
Property taxes	206,678	1,785,581	1,714,415	1,670,484	1,957,473
Accounts	337,676	725,427	552,849	894,306	744,431
Notes	-	-	1,576,267	1,659,871	1,771,974
Due from other funds	-	226,023	5,798,511	3,663,478	-
Restricted cash and investments	-	2,666,967	2,455,684	2,436,870	2,351,593
Restricted beneficial interest in trust	-	3,295,233	3,622,106	4,347,332	4,129,883
Total assets & other debits	\$4,113,009	\$22,877,021	\$24,793,883	\$28,224,948	\$28,234,856
Liabilities & Fund Balances					
Liabilities					
Accounts payable	\$ 132,954	\$ 756,321	\$ 632,879	\$ 825,558	\$ 1,220,726
Salaries and benefits payable	190,587	260,043	238,330	218,594	279,887
Refundable deposits	-	204,083	112,208	81,872	87,900
Deferred revenue	185,522	1,653,596	1,373,953	1,524,186	1,964,375
Total liabilities	509,063	2,874,043	2,357,370	2,650,210	3,552,888
Fund balances ²					
Non-spendable in form	-	-	-	1,500,000	1,500,000
Restricted for:					
Senior center programs and capital	-	-	-	1,788,368	1,661,251
Reserved for library & community center	-	3,295,233	3,622,106	2,558,964	1,925,798 ³
Energy conservation	-	-	-	118,926	15,151
Building fees and permits	-	2,653,658	2,455,684	2,436,870	2,351,593
Comprehensive plan review	-	-	-	17,402	-
Public safety programs	-	-	-	541	-
Tourism	-	-	-	5,000	-
Capital projects	-	-	-	29,475	-
Assigned to:					
Library improvements	-	-	-	514,000	914,000
Fire truck purchase	-	-	-	500,000	600,000
Equipment replacement	-	-	-	-	144,000
Unreserved – undesignated ¹ / Unassigned	3,603,946	14,054,087	16,358,723	16,105,192	15,570,175 ³
Total fund balances	3,603,946	20,002,978	22,436,513	25,574,738	24,681,968
Total liabilities & fund balances²	\$4,113,009	\$22,877,021	\$24,793,883	\$28,224,948	\$28,234,856

1. Beginning with FY 2008-09, Parks and Recreation, Community Development, Public Safety, Community Services (including Library Services) were combined into one General Fund consolidating all assets, liabilities and fund balances.
2. With the implementation of GASB 54 in 2011, the City has reclassified fund balances as Non-Spendable, Restricted, Assigned and Unassigned. These designations better reflect the availability of these funds for specific versus general purposes.
3. One of the Library endowments in the amount of \$542,834 will be combined with the funds Reserved for library & community center going forward, as it had been in the past. In 2012-13 it was included with Unassigned fund balance.

Source: Derived from annual audited financial statements of the City.

The following table reflects the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance for the last five years.

Table 7 – General Fund Statement of Revenues, Expenditures and Changes in Fund Balance

As of June 30	2008	2009	2010 ¹	2011	2012
Property taxes	\$ 2,152,467	\$1,951,218	\$25,484,337	\$26,391,091	\$27,112,807
Franchise fees	243,053	171,146	2,126,633	2,273,246	2,835,014
Intergovernmental	1,213,379	1,202,299	4,087,668	4,265,926	4,269,557
Licenses & fees	1,207,169	1,134,382	2,042,439	2,562,721	2,761,563
Fines and forfeitures	-	-	1,129,228	1,113,043	981,500
Sales and services	977	736	3,280,961	3,341,373	3,356,966
Charges for service	2,985,230	3,009,855	4,014,897	2,560,131	2,550,453
Miscellaneous	242,379	138,288	1,228,561	1,043,510	256,400
Total revenues	8,044,654	7,607,924	43,394,724	43,551,041	44,124,260
Expenditures					
General government	6,355,214	6,614,380	12,532,848	13,142,348	13,669,034
Public safety	-	-	17,782,141	16,702,302	17,996,794
Culture and recreation	-	-	9,018,294	9,144,087	9,654,943
Debt service ²					
Principal	-	-	-	-	21,006,913
Interest	-	-	-	353,283	155,758
Intergovernmental expenditures	-	-	38,499	150,000	2,000,000
Capital outlay ³	166,256	614,645	1,194,907	479,436	1,003,416
Total expenditures	6,521,470	7,229,025	40,566,689	39,971,456	65,486,858
Revenues over (under) expenditures	1,523,184	378,899	2,828,035	3,579,585	(21,362,598)
Other financing sources (uses)					
Proceeds from bonds issued	-	-	-	-	41,531
Operating transfers in ⁴	318,504	17,052,724	35,000	300,000	517,178
Transfers out ⁵	(1,494,500)	(1,032,591)	(432,000)	(744,000)	(249,000)
Proceeds from sale of capital assets	-	-	2,500	2,640	3,206
Proceeds from Line of Credit ³	-	-	-	-	20,156,913
Total other financing sources (uses)	(1,175,996)	16,020,133	(394,500)	(441,360)	20,469,828
Net change in fund balances	347,188	16,399,032	2,433,535	3,138,225	(892,770)
Fund balance -- beginning of year	3,256,758	3,603,946	20,002,978	22,436,513	25,574,738
Fund balance -- end of year	\$3,603,946	\$20,002,978	\$22,436,513	\$25,574,738	\$24,681,968

1. Prior to FY 2010, the City allocated property taxes to five separate funds. Beginning with FY 2010, they were combined into the General Fund.
2. Debt service on an interim financing, pending future conversion to long-term debt.
3. Capital outlay and Line of Credit proceeds used to acquire 14-acre Safeco property, the "West End" property.
4. Until FY 2009 the General Fund represented exclusively the indirect cost of managing and administering general government services, such as Parks and Recreation, Community Development, Public Safety, Community Services (including Library Services) while the latter were presented in separate funds. As of FY2009 these services were combined into the General Fund via a year-end transfer of ending fund balances.
5. Transfers out in the amounts of \$1,494,500 and \$732,591 were made in FY 2007-08 and FY 2008-09 respectively, to the Community Center Development Fund. The purpose of the Fund was fulfilled by the end of FY 2008-09 and it was closed. Another \$300,000 was transferred in FY 2008-09 for Street Infrastructure improvements.

Source: Derived from annual audited financial statements of the City.

INVESTMENT POLICY

Oregon Revised Statutes and the City's investment policy authorize the City to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade corporate indebtedness, and the State of Oregon Local Government Investment Pool. As of June 30, 2013, the City had approximately \$44 million in the State of Oregon Local Government Investment Pool.

PENSION PLAN

General. The City participates in a retirement pension benefit program under the State of Oregon Public Employees Retirement System ("PERS" or the "System"). Substantially all full time employees are participants in PERS. At June 30, 2013, the City had 390 employees 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 pension 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 employee contributions fund individual retirement accounts under the separate defined contribution program known as the Individual Account Program (the "IAP").

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. Effective January 1, 2004, T1/T2 Pension Program participant contributions also fund individual retirement accounts under the IAP.

Actuarial Valuation. Oregon statutes require an actuarial valuation of the System at least once every two years. Based on the biennial actuarial valuations as of December 31 of odd-numbered years, such as 2009 and 2011, 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. 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 approximately one year after the valuation date. PER'S' current actuary is Milliman ("Milliman").

Valuation Date	Release Date	Rates Effective
December 31, 2009	September 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 most recent System Valuation as of December 31, 2011 (the "2011 System Valuation") was released by Milliman in November 2012. The 2011 System Valuation reports that as of December 31, 2011 the System-wide unfunded actuarial valuation was approximately \$11,030.2 million with a funded ratio of approximately 82.0%

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. For the T1/T2 Pension Programs, the City is pooled with the State of Oregon and other local government and community college district public employers (the "State and Local Government Rate Pool" or "SLGRP"). The City's allocated share of the SLGRP's assets and liabilities is based on the City's proportionate share of the SLGRP's pooled payroll ("City Allocated T1/T2 UAL").

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 and other pool participants' failure to pay their full employer contributions may cause City Allocated T1/T2 UAL and City Allocated OPSRP UAL to shift.

The City's net unfunded pension UAL is the total of City's Allocated T1/T2 UAL, the Allocated OPSRP UAL and other allocated liabilities and assets from previous rate pools. The City's net unfunded pension UAL as of the valuation as of December 31, 2009 (the "2009 City Valuation") and the valuation as of December 31, 2011 (the "2011 City Valuation") is shown in the following table:

	Actuarial Valuation as of	
	December 31, 2011	December 31, 2009
Allocated pooled SLGRP T1/T2 UAL	\$38,981,575	\$29,852,953
Transition liability/(surplus) ⁽¹⁾	(2,812,540)	(2,873,878)
Allocated pooled OPSRP UAL	417,224	233,862
Net unfunded pension actuarial accrued liability/(surplus)	36,586,259	27,212,826

(1) The transition surplus represents the surplus that was created when the City joined the Local Government Rate Pool (the predecessor to the SLGRP).

Source: 2011 City Valuation and 2009 City Valuation

The funded status of the PERS and of the City's net unfunded pension UAL will change over time depending on the market performance of the securities that the Oregon Public Employees' Retirement Fund 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 2009 and 2011 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% (the "Assumed Earnings Rate"), (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 20 years (fixed) from the date of the first rate-setting valuation at which the UAL is recognized for the T1/T2 Pension Programs and 16 years (fixed) from the date of the first rate-setting valuation at which the UAL is recognized for OPSRP. The PERB recently announced that it expects to change from the Projected Unit Credit actuarial cost method to the Entry Age Normal Method and lower the Assumed Earnings Rate on the investment of present and future assets to 7.75%. These changes are expected to delay the full repayment of the UAL for six years beyond current policies. These changes are also projected to increase the UAL; however, at this time, the amount of this increase is unknown. These changes are expected to be adopted at the September 27, 2013 PERB meeting.

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 Oregon Public Employees Retirement Fund (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 and changes in benefits resulting from legislative modifications. 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 elected to make the employee contribution. Employer contribution rate changes from one period to the next are limited by a contribution rate collar.

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 the SLGRP is below 80 percent, the Rate Collar increases by an additional 0.3 percent for every percentage point under the 80 percent funded level until the aggregate Rate Collar reaches six percent at the 70 percent funded level. 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. The effects of the Rate Collar were first implemented in connection with employer contribution rate increases associated with 2008 investment losses by limiting the average System-wide employer contribution rate increases for the 2011-2013 biennium to approximately 3.9% of covered payroll. Under the Rate Collar, a second increase averaging 5.1% of covered payroll was scheduled to go into effect in July 2013 for the employer contribution rates effective for the 2013-15 biennium, and the third increase of approximately 2.2% of covered payroll was projected to go into effect in July 2015 for employer contribution rates for the 2015-17 biennium.

City Contribution Rates. The City's current contribution rates are based on the 2011 City Valuation and are effective July 1, 2013 to June 30, 2015. The 2011 City Valuation was released in September 2012 and contained the City's previously adopted employer contribution rates for the 2013-2015 biennium and such rates are: 20.96% for T1/T2 payroll, 16.28% for OPSRP General Service payroll and 19.01% for OPSRP Police and Fire payroll. Included in these rates are contribution rates for the PERS Retirement Health Insurance Account program for T1/T2 participants described below.

However, Oregon Senate Bill 822 (2013) legislation has been signed by the Governor which is estimated to reduce 2013-15 biennium employer contribution rates by an average of 4.4% of payroll; such legislation includes changes in compensation and benefits of PERS covered employees and a direction to the PERS Board to defer 1.9% of payroll into future biennia. The anticipated cost to the System of the 1.9% contribution rate deferral is approximately \$350 million, which will result in an increase in payroll rates of 0.3% of payroll over a 20 year amortization period beginning in 2015-17. Based on this legislation, at its May 31, 2013 meeting, the PERB adopted a methodology by which all jurisdictions will receive the reduction of 4.4% of payroll in their employer contribution rates; however, no jurisdiction may pay less than the rate at which it paid in 2011-2013. The PERB notified the City in late June 2013 that the City's revised employer contribution rates for the 2013-15 biennium are: 16.56% for T1/T2 payroll, 11.88% for OPSRP general service employees, and 14.61% for OPSRP police and fire employees.

Changes to PERS, and related PERB actions, may be subject to legal challenge.

Currently, the City's payroll for the three pension benefit programs is approximately \$18.4 million for T1/T2 Pension Programs, \$6.0 million for OPSRP general services and \$1.6 million for OPSRP police and fire.

OTHER POST-EMPLOYMENT BENEFIT PROGRAMS

GASB 45 requires the City to determine the extent of its liability for other post-employment benefits ("OPEB") and record the liability in its financial statements on an actuarial basis. This includes the requirement under ORS 243.303 of offering 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.

According to an actuarial report prepared by Milliman, Inc. (the "2013 Non-PERS OPEB Valuation"), as of August 1, 2012, the most recent actuarial valuation date, based on the implicit subsidy, the City's UAL for its non-PERS OPEB is approximately \$3.8 million. The City currently pays on a "pay-as-you-go" basis and currently plans to continue to pay its non-PERS OPEB on a "pay-as-you-go" basis. In the fiscal year ending 2013, the City contributed \$271,435, which is 47% of the assumed \$579,216 annual OPEB cost.

Retirement Health Insurance Account. PERS retirees who receive benefits through the T1/T2 Pension Programs 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. According to the 2011 System Valuation, this program had a UAL of approximately \$221.5 million with a funded ratio of approximately 52%. The RHIA program's assets and liabilities are pooled on a system-wide basis and are not tracked or calculated on an employer basis. 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 2009 City Valuation, the City's allocated share of the RHIA program's UAL is \$771,053. According to the 2011 City Valuation, the City's allocated share of the RHIA program's UAL is \$633,464.

Based on the 2011 City Valuation, the City's current employer contribution rates to fund RHIA benefits for the 2013-2015 biennium are 0.59% for the T1/T2 Pension Programs and 0.49% for the OPSRP Program. These rates are included in the employer contribution rates described above under "*City Contribution Rates*".

RISK MANAGEMENT

The City is exposed to various risks of loss related to theft of, damage to and destruction of assets, as a consequence of certain perils and natural disasters. The City's real and personal properties are protected against loss by Industry-standard "all-risks" perils, including Earthquake and Flood. This protection is through the City County Insurance Services Trust ("CIS"), a municipal insurance pool. The CIS property insurance carries a \$10,000 deductible each loss, except \$5,000 deductible on mobile equipment.

The City is also exposed to general liability including risks related to torts and errors & omissions. The City is insured for occurrences of up to \$10,000,000 / \$30,000,000 annually in the aggregate through the CIS Trust. A \$75,000 annual aggregate deductible applies.

The City has purchased Worker Compensation and Employers Liability insurance to protect against the exposures of job-related injuries to employees, through the CIS Trust, on a guaranteed-cost basis.

The City pays an annual premium to CIS. Liabilities of CIS are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. CIS is to be self-sustaining through member premium contributions. CIS reinsures through commercial companies for claims in excess of \$500,000 each claim and \$5,000,000 aggregate. Settled claims have not exceeded limits in any of the last three fiscal years.

Tort Claims Against Oregon Governments

In response to a decision by the Oregon Supreme Court in *Clarke v. Oregon Health Sciences University* (“OHSU”), related to the constitutionality of portions of the Oregon Tort Claims Act (“OTCA”), the 2009 Legislative Assembly enacted Oregon Laws 2009, chapter 67 (“OR Laws 2009, Ch 67”). This law increased the liability limits for Oregon public bodies under the OTCA, as described below. The State is subject to different limits.

Personal Injury and Death Claim. Under Oregon law, the liability of a local public body and its officers, employees and agents acting within the scope of their employment or duties, to any single claimant for covered personal injury or death claims (and not property claims) arising out of a single accident or occurrence may not exceed \$500,000, for causes of action arising on or after July 1, 2009, and before July 1, 2010. From July 1, 2010, through June 30, 2015, this cap increases incrementally to \$666,700. The liability limits to all claimants for covered personal injury or death claims (and not property claims) arising from a single accident or occurrence increase from \$1 million, for causes of action arising on or after July 1, 2009, and before July 1, 2010, incrementally to \$1,333,300, for causes of action arising on or after July 1, 2014, and before July 1, 2015.

For causes of action arising on or after July 1, 2015, the liability limits for both a single claimant and all claimants will be adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in Oregon law. The adjustment may not exceed 3 percent for any year.

Property Damage or Destruction Claim. Under Oregon law, the liability of a public body and its officers, employees and agents acting within the scope of their employment or duties, for covered claims for damage and destruction of property that arise from causes of action arising on or after July 1, 2009, are as follows: (a) \$100,000, adjusted as described below, to any single claimant, and (b) \$500,000, adjusted as described below, to all claimants.

Beginning in 2010, these liability limits shall be adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in Oregon law. The adjustment may not exceed 3 percent for any year.

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THE WATER SYSTEM

GENERAL

The City currently owns, operates and maintains a municipal water system which provides potable public water supply to a majority of residents and commercial and non-commercial enterprises within the City's territorial boundaries. The water system encompasses approximately 10 square miles within its urban growth boundary.

ADMINISTRATION

The City's Engineering Division of the Public Works Department is responsible for the design, construction, operation and maintenance of the City's Transportation and Utility Systems. The Public Works Director/City Engineer supervises the Assistant City Engineer and four managers within the Engineering, Operations Services and Motor Pool, Facilities Management Divisions, and the Water Treatment Plant. The Engineering Planning & Information services and Construction Services Sections are responsible for the planning, design and construction administration of the City's water, wastewater, surface water and transportation infrastructure. The Division also provides engineering support to the City's Water Treatment Plant and Operations. The large multi-million and multi-year Lake Oswego Tigard Water Partnership project (see below), is managed by an Engineering and Public Affairs team solely dedicated to that project. The dedicated management team includes three professional engineers, a communications director, two administrative assistants and a consulting planner. This team is aided by an engineering consulting firm providing program management and construction management services. This program manager is directed by and acts as an extension of City staff. Total program staff size varies depending upon program implementation activities from fifteen to twenty-five professional engineers, scientists, technicians and administrative support staff.

FINANCIAL OPERATIONS

The City operates the Water Fund as an enterprise fund. The primary sources of revenue for the Water Fund are from fees for services to residential and non-residential customers and other charges including bulk water sales, connection fees, investment income and other miscellaneous revenues.

FACILITIES

The City's system currently treats and distributes water to retail customers and sells water wholesale to Lake Grove Water District, Skylands Water Company, Glenmorrie Water Cooperative, and Alto Park Water District. The City also has two emergency water supply connections to River Grove Water District's system but has not sold any surplus wholesale water to this district for at least the last 20 years.

The City's water supply system consists of a river intake pump station ("RIPS"), water treatment plant ("WTP"), raw (untreated) and finished (treated) water transmission pipes ("RWP" and "FWP") respectively, water storage facilities ("Supply Facilities") and distribution facilities and water rights. The City currently withdraws water from the Clackamas River in Gladstone as it has since 1968. This water travels through a 27-inch diameter RWP under the Willamette River to the WTP in West Linn where the untreated water is treated to safe drinking water standards. The treatment plant currently has the ability to deliver 16.1 million gallons per day ("mgd") of finished water to the City's distribution system. The treated water is then pumped through a 24-inch diameter FWP to terminal reservoirs – one each located on the south and north sides of Oswego Lake. From these two reservoirs, water is pumped into the distribution system.

The water distribution network consists of approximately 210 miles of transmission and distribution mains. Changes in topography and Oswego Lake, which divides the City into two parts, require ten distinct pressure zones (water service zones). Within these zones, there are sixteen storage reservoirs with a total storage capacity of 27 million gallons ("MG"). The water distribution system also includes eleven pump stations. The terminal reservoir north of Oswego Lake – the 4 MG Waluga Reservoir, is located adjacent to Tigard's eastern boundary. Pipelines connecting the Waluga Reservoir to Tigard's Bonita Road pump station allow water from Lake Oswego's system to be supplied to Tigard customers. Lake Oswego has been supplying Tigard with surplus water through this infrastructure since 1973.

Water Sources of Supply - The City has two water right permits for Clackamas River water with priority dates of March 14, 1967 and July 5, 1973. The earlier, more senior permit, is for 50 cubic feet per second ("cfs") or 32 mgd. The 1973 permit is for nine cfs or 5.8 mgd. The maximum rate of diversion from the Clackamas as authorized by the City's permits is 38.1 mgd. A third permit exists for 6 cfs (3.9 mgd) from the Willamette River with a priority date of March 24, 1977. Utilization of the Willamette River source would require construction of a new water intake facility.

Water Treatment Plant - The City of Lake Oswego's existing WTP treats water to safe drinking water standards using a direct filtration process. Raw (untreated) water enters the plant where chemicals are added to aid in removing undesirable

contaminants and odor producing compounds from the water before reaching each of the six, dual-media filters. The filtration process removes all remaining organic and inorganic compounds and then a final dose of chemicals is added to the water prior to being distributed for consumption. This final dose of chemicals retards bacteriological growth within the distribution system, corrosion of pipe materials, and homeowner plumbing systems..

Water Quality Testing and Regulation - The United States Environmental Protection Agency (EPA) and the State of Oregon have set more than 120 water quality standards for drinking water. Compliance with these regulations requires drinking water test results to be at or below the specified standards. Water quality testing for 2012 shows that for every regulated substance, levels were either not detectable or were detected at levels well below standards set by the EPA and State of Oregon for safe drinking water.

LAKE OSWEGO TIGARD WATER PARTNERSHIP PROJECT

In August 2008, the City and the City of Tigard (“Tigard”) entered into an Intergovernmental Agreement (the "IGA") to expand and renew the City water supply system and to allow Tigard to gain an ownership share in a local, high quality drinking water source. The relationship of the City and Tigard, as the rights and obligations are addressed in the IGA, is commonly referred to as the “Partnership.” The IGA, and its amendments, is a contractual arrangement that addresses management, system ownership, property (including creation of tenancy in common ownership), design and construction of expanded water supply facilities to supply up to 38 mgd, operation and management of the facilities, leasing, sales to others, preparation of an operations manual, and withdrawal, termination of membership, sale of assets and dissolution.

When completed, the expanded and modernized water supply system will have a reliable treatment and delivery capacity of 38 mgd. Of this amount, the IGA allocates up to 14 mgd to Tigard and 24 mgd to Lake Oswego. The IGA establishes the City as the Managing Agency for the project and as such, the City is responsible to secure all necessary permits, land use approvals and property, retain professional engineering services for design of all the facilities, manage construction of the facilities, and commission the facilities no later than June 30, 2016. The City and Tigard have set a goal to complete the project and begin delivering water from the new system to the City and Tigard by December 2015.

Through the Partnership, the City will replace, upsize, and modernize six existing facilities:

1. RIPS – Replace and upsize capacity from 16 mgd to 38 mgd;
2. RWP – Replace and upsize from 27-inch diameter to 42-inch diameter;
3. WTP – Replace and upsize from 16 mgd to 38 mgd;
4. FWP – Replace and upsize from 24-inch diameter to 48-inch diameter down to 24-inch diameter;
5. Waluga Reservoir No 2 (WR2) – Construct a new 3.5 MG concrete water storage reservoir to complement the existing 4 MG WR1; and
6. Bonita Pump Station (BPS) in Tigard - Replace and upsize to 20 mgd with dual pressure pumping capability.

Engineering design of WR2 and BPS facilities are nearing completion and all other engineering design is complete. Construction of the RIPS and WTP is underway. Bidding for construction contracts on the remaining facilities will be complete within the next six months. All federal, state, and local land use approvals and permits necessary for construction to proceed, have been secured.

Total cost of the projects for the Partnership is estimated at \$252 million; under the terms of the IGA, \$119 million of which is allocable to Lake Oswego, and \$133 million is allocable to Tigard. Tigard is funding its share of costs from revenue bonds. Its first issue of \$101 million was sold in April 2013.

WATER TREATMENT UNDER PARTNERSHIP

The expansion and modernization of Lake Oswego’s water treatment plant will improve reliability and resiliency to catastrophic events and enhance the treatment processes for improved ability to treat variable incoming water quality conditions and proactively treat for taste and odor causing compounds and potential new contaminants of concern (e.g., pharmaceuticals, and personal care products that are now being detected in rivers and streams across the country). High rate clarification (ballasted flocculation), followed by intermediate ozonation and biological filtration using granular activated carbon media provides multiple barriers to organic, inorganic and pathogenic contaminants typically found in surface water sources throughout the western United States.

RESILIENT DESIGN OF FACILITIES

Seismic experts predict that within the next 50-years there is a 37 percent chance the Pacific Northwest could experience a large subduction zone earthquake event off the coast of Oregon. The Partnership has established a goal of designing these

critical water supply facilities to remain operable when subjected to such an event. Modern building codes combined with site specific geotechnical investigations and analysis, use of increased safety factors in structural design, and a robust and rigorous construction quality assurance program are expected to facilitate the achievement of this performance standard.

WATER RIGHTS UNDER PARTNERSHIP

The Partnership will provide municipal drinking water from the lower portion of the Clackamas River in the northern Willamette Valley pursuant to permits granting the use issued by the Oregon Water Resources Department (“WRD”).

In 2007, Oregon laws relating to municipal use of “waters of the state” were amended. These amendments required the City to seek approval from WRD for an extension of time to fully develop all the water authorized for development under its two Clackamas River permits. The applications requesting these extensions were filed in 2003. In 2009, the WRD issued a Proposed Final Order (“PFO”) granting the City's requested extensions. As required by statute, the PFO includes specific conditions to protect threatened and endangered fish species that inhabit the lower Clackamas River.

The PFO was challenged by WaterWatch, a water conservation group, on the assertion that the City’s development and use of the remaining undeveloped portion of the City’s water rights would be inconsistent with the State's obligations under the fish persistence law and on various other grounds. A full administrative trial was held before a State Administrative Law Judge in March 2010. Both the State Attorney General and legal counsel for the City defended WRD’s approval of the extension request. Evidence was taken and extensive briefing was supplied to the Administrative Law Judge who subsequently issued a decision upholding WRD’s decision to extend the City's water right permits.

After the decision from the Administrative Law Judge, WRD issued a Final Order (“FO”) consistent with the Administrative Judge's written opinion extending the permits and that Final Order was appealed by WaterWatch to the Oregon Court of Appeals. The State and the City will defend the decision. The briefing was completed in late October 2012 and the parties are awaiting the Court’s scheduling of oral argument. It is anticipated oral argument will occur in late 2013 or early 2014. Both the State and the City expect to prevail in the appeal which will be based on the record developed in the administrative trial.

If WaterWatch does not prevail at the Court of Appeals, it could appeal further to the Oregon Supreme Court. The Oregon Supreme Court is not obligated to take the appeal. Further, the appellate courts generally must defer to findings of the Administrative Law Judge so long as there is substantial evidence to support the findings of the Administrative Law Judge. The City and the State of Oregon believe that there is substantial evidence to support the Administrative Law Judge's findings.

The City's water rights as used under the terms of the IGA, will remain with the City during the term of the IGA and if the IGA is dissolved. Under the IGA, the City pledges to using those rights for the benefit of the City and Tigard under the Partnership.

REGULATORY ISSUES UNDER PARTNERSHIP

The Water System is currently in compliance with all applicable regulatory requirements.

The Partnership has secured all required federal, state, and local permits and land use approvals necessary to implement the expansion and upgrade to the City’s water supply facilities.

The Partnership is currently working with the cities of West Linn, Gladstone, Lake Oswego, and Tigard to ensure that requirements of land use approvals are met. In addition, most easements from public and private landowners will be sought and the City has formally authorized, by resolution of the City Council, the use of its eminent domain powers to secure all necessary easements to allow construction to be completed.

In February 2013, the West Linn City Council approved development permit applications for remodeling and expansion of the existing water treatment plant and the installation of raw water and finished water pipelines necessary to convey water to and from that plant. Some neighboring residential property owners, a limited liability company formed by neighbors, and one business owner have challenged these approvals in two different proceedings, one being an appeal before the Oregon Land Use Board of Appeals (“LUBA”), where the challengers seek reversal or remand of the permit approvals, and the other a suit in Clackamas County Circuit Court against the City of West Linn and its councilors individually, seeking a judgment nullifying the permit approvals based upon alleged violations of public meeting law requirements. The LUBA case has been briefed, is pending oral argument and is likely to be resolved in the fall of 2013. The Circuit Court case will likely be resolved any time between now and the fall of 2014. Each of these cases could then be appealed to the Oregon Court of Appeals. Given scope of the project, additional challenges could arise in the course of project completion. The City does not expect these project challenges to adversely affect the ability of the City to make Financing Payments with respect to the Obligations.

SERVICE AREA AND CUSTOMERS

The water collection service area encompasses about 10 square miles. The City provides water collection and conveyance services for approximately 12,500 service connections in 2013. Future population growth is forecast to increase customers served at buildout to approximately 54,098.

Water System Service Connections

The following table presents the average number of Water System service connections in each of the past five fiscal years:

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
12,296	12,315	12,186	12,139	12,322

The City contracts with Clean Water Services (“CWS”) and the City of Tualatin to provide collection, conveyance and treatment services limited to certain small areas within the City’s Urban Service Boundary due to topographical constraints. The City of Portland provides treatment of wastewater for the majority of the City’s service area through an Intergovernmental Agreement arrangement.

Average Daily Water System Consumption

The following table presents the average daily Water System service consumption in each of the past five fiscal years:

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
5,750	5,460	4,900	4,811	5,233

BILLING AND COLLECTION PRACTICES

The City bills its residential customers on a bi-monthly basis (every two months), with charges for water, wastewater, surface water management (storm drain), and street maintenance included in one bill. Bills are considered delinquent after 30 days, at which time a delinquency notice is sent out. A late charge of \$5 is assessed for any portion of a utility bill not paid within 30 days and if the utility bill is \$200 or more, the late charge is 2.5% of the total amount due. In the event a customer payment is not sufficient to satisfy in full all water, wastewater, surface water and street fees, credit is given in the following order: street fee; surface water, wastewater and then water.

WATER RATES AND CHARGES

The City reviews its water rates and charges periodically to determine if they are sufficient to cover expenses of operations and maintenance as well as debt service coverage.

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The following table shows historical and current rates, by meter size, within the City.

Table 8 – Historical and Current Approved Water Rates¹

Type & Meter Size	2010	2011 ²	2012 ³	2013	2014 ⁴
Residential					
3/4" meter - fixed rate	\$13.48	\$15.96	\$20.03	\$20.03	\$22.53
1" meter - fixed rate	13.48	15.96	20.03	20.03	22.53
1 1/2" meter - fixed rate	13.48	15.96	20.03	20.03	22.53
2" meter - fixed rate	13.48	15.96	20.03	20.03	22.53
Non-residential					
3/4" meter - fixed rate	\$13.21	\$15.96	\$21.86	\$21.86	\$24.59
1" meter - fixed rate	16.74	20.23	27.71	27.71	31.17
1 1/2" meter - fixed rate	19.91	24.07	32.97	32.97	37.09
2" meter - fixed rate	30.13	36.42	49.89	49.89	56.13
Additional Volume Charge					
\$ per 100 cubic foot of usage	N/A	N/A	N/A	N/A	N/A

1. Rates shown are the minimum fixed rates per month plus the volume charge per 100 cubic feet of water usage.
2. The 2009-10 rates introduce a tiered volumetric rate structure and are intended to raise rate revenue by 3 percent..
3. The water rate increased on 7/11/2010 and again on 3/1/2011.
4. The water rate has not changed since 3/1/2012, but is scheduled to increase in 2014.

Source: City of Lake Oswego.

SYSTEM DEVELOPMENT CHARGES

System development charges (“SDCs”) collected by the City for streets, water, sanitary and storm sewer systems, and parks are imposed at the time of development or when another permit is granted by the City for connection to a public utility or for increased use of such systems. SDCs collected by the City are imposed due to property development and change of use; therefore they are exempt from tax rate limits. Water SDCs is not a significant source of revenue for the water system; generating approximately \$200,000 in annual revenue.

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Table 9 – Largest Water System Accounts

Consumer (Largest Accounts)	# of Accts or Meters	2011-12 Annual Revenue	2012-13 Annual Revenue	% Total Gross 2012-13 System Revenue¹
Oswego Pointe - PMG	58	\$ 156,425	\$ 185,505	1.85%
Kruse Way Commons/GSL Properties	31	115,459	153,068	1.52
One Jefferson Pkwy (formerly FPA/Azure	18	117,736	150,775	1.50
Marys Woods	10	111,182	129,400	1.29
Parkridge Apartments	15	85,028	91,933	0.92
L.O. School Dist #7 (HS & JrH on C. Club)	2	48,469	81,323	0.81
Oswego Summit Assoc	10	84,668	74,834	0.75
Alderwood Associates LLC	25	57,784	68,129	0.68
Tanglewood Hills Condominiums	21	53,516	64,121	0.64
Westlake Meadows	18	52,698	63,484	0.63
The Gables	6	38,623	53,796	0.54
Oswego Pointe Village	17	39,474	47,842	0.48
Ridge at Mountain Park	5	37,733	44,026	0.44
The Terraces at Lake Oswego	2	34,758	42,374	0.42
Greenridge Prop Owners	24	32,947	39,150	0.39
Kingsgate Park	15	29,400	38,522	0.38
The Stafford	1	21,827	38,340	0.38
FAOF Canberra Heights (formerly Finegan	10	20,922	38,057	0.38
Marylhurst Univ & The Christie School	20	34,148	37,737	0.38
The Forest Condos	8	30,146	36,720	0.37
Ridgecrest Condos	1	12,360	34,542	0.34
Oswego Ridge Condo	11	25,920	32,739	0.33
Eagle Crest Condos	1	24,975	29,610	0.29
Jefferson Park Condo	14	23,260	27,390	0.27
Kruse Woods Corporate Park (4000 Kruse Way)	1	4,839	26,131	0.26
The Reef Funds (3-11 Monroe Pkwy)	5	19,581	25,278	0.25
The Springs Living (formerly Carman Oaks	2	18,047	24,966	0.25
Oswego Place Assisted Living	2	19,551	24,740	0.25
Portland Oregon Temple	3	16,659	24,269	0.24
Oswego Cove	6	19,838	23,911	0.24
Total		1,387,973	1,752,712	17.47%
Bulk Water Sales				
Lake Grove Water District		74,461	173,941	1.73%
City of Tigard		25,098	108,347	1.08
Alto Park Water District		2,343	7,732	0.08
Hidalgo & Arrowood		1,701	0	0.00
Skylands Water District		2,084	16,812	0.17
Other		6,593	1,889	0.02
Total Bulk Water Sales		112,280	308,721	3.08%
Total Largest Customers & Bulk Water Accounts		1,500,253	2,061,433	20.55%
Gross Water System Sales Revenue		\$ 8,954,615	\$10,038,721	100.00%

1. Estimated, unaudited.

Source: City of Lake Oswego.

Table 10 – Five-Year Water Fund - Statement of Net Assets

As of June 30	2008	2009	2010	2011	2012
Current Assets					
Cash & investments	\$4,952,799	\$5,010,602	\$6,546,334	\$4,691,791	\$ 622,695
Receivables (net of allowance)	750,831	894,592	2,250,412	1,239,782	4,582,886
Inventories	94,533	102,894	93,025	101,044	99,372
Restricted cash and investments	3,266,466	5,721,285	2,913,059	2,940,956	-
Total Current Assets	9,064,629	11,729,373	11,802,830	8,973,573	5,304,953
Noncurrent Assets					
Capital assets:					
Land	1,575,735	1,575,735	1,575,735	1,575,735	1,575,735
Buildings and improvements	57,605,337	58,565,560	59,042,360	59,077,703	59,361,725
Machinery and equipment	5,006,217	5,033,208	5,006,496	4,973,229	5,190,850
Construction in progress	466,252	226,436	3,890,744	11,326,291	26,877,484
	64,653,541	65,400,939	69,515,335	76,952,958	93,005,794
Less Accumulated depreciation	(27,197,455)	(28,699,441)	(30,059,752)	(31,439,754)	(32,860,310)
Total capital assets (net)	37,456,086	36,701,498	39,455,583	45,513,204	60,145,484
Total noncurrent assets	37,456,086	36,701,498	39,455,583	45,513,204	60,145,484
Total assets	46,520,715	48,430,871	51,258,413	54,486,777	65,450,437
Liabilities & fund equity					
Current liabilities					
Accounts payable	332,065	209,427	1,287,898	1,407,324	2,774,502
Salaries and benefits payable	1,436	1,937	3,779	2,086	2,487
interest payable	45,370	38,484	30,212	28,195	27,170
Deposit	-	2,840,668	-	-	-
Bonds payable	-	555,000	595,000	615,000	645,000
Bond anticipation note payable, due within one year	530,000	-	-	-	-
Compensated absences payable	110,701	129,083	137,932	143,264	163,691
Total current liabilities	1,019,572	3,774,599	2,054,821	2,195,869	3,612,850
Noncurrent liabilities:					
Bonds payable	9,675,000	9,120,000	8,525,000	7,910,000	7,265,000
Deposits	-	-	4,848,759	8,078,430	15,997,917
Accrued benefits obligation	32,243	64,050	83,150	-	126,350
Total noncurrent liabilities	9,707,243	9,184,050	13,456,909	107,650	23,389,267
Total liabilities	10,726,815	12,958,649	15,511,730	18,291,949	27,002,117
Net Assets					
Invested in capital assets, net	30,517,552	29,907,115	33,248,642	36,988,204	52,235,484
Unrestricted	5,276,348	5,565,107	2,498,041	(793,376)	(13,787,164)
Total net assets	\$35,793,900	\$35,472,222	\$35,746,683	\$36,194,828	\$38,448,320

Source: Derived from audited annual financial statements.

Table 11 – Five-Year Water Fund - Statement of Revenues, Expenses, and Changes in Fund Net Assets

As of June 30	2008	2009	2010	2011	2012
Operating revenues					
Licenses & fees	-	-	\$ 488,296	\$ 694,829	\$ 994,002
Charges for sales and services	\$4,534,050	\$4,765,038	5,462,557	6,201,304	8,013,393
Miscellaneous	47,950	33,178	20,590	12,820	11,224
Total operating revenues	4,582,000	4,798,216	5,971,443	6,908,953	9,018,619
Operating expenses					
Salaries and benefits	1,342,368	1,360,169	1,633,120	1,841,000	2,264,380
Operating supplies and services	1,654,132	1,610,143	1,583,766	1,713,222	1,754,801
Depreciation	1,396,133	1,501,986	1,442,136	1,445,969	1,344,771
Services performed by other funds	1,159,314	730,298	1,055,068	1,314,571	1,286,762
Total operating expenses	5,551,947	5,202,596	5,714,090	6,314,762	6,650,714
Operating income (loss)	(969,947)	(404,380)	257,353	594,191	2,367,905
Nonoperating revenues (expenses)					
Operating grants					
Interest on investments	281,182	89,327	80,580	58,107	17,000
Interest expense	(326,123)	(258,790)	(186,237)	(176,573)	(165,644)
Bond issuance costs	(252,524)	-	-	-	-
Loss on sale of capital assets	(89,632)	-	-	(60,280)	-
Total nonoperating revenues (expenses)	(387,097)	(169,463)	(105,657)	(178,746)	(148,644)
Net income before contributions	(1,357,044)	(573,843)	151,696	415,445	2,219,261
Capital contributions	162,198	327,338	122,765	32,700	327,409
Transfers out	-	(75,173)	-	-	(293,178)
Change in net assets	(1,194,846)	(321,678)	274,461	448,145	2,253,492
Total net assets – beginning	36,988,746	35,793,900	35,472,222	35,746,683	36,194,828
Total net assets – ending	\$35,793,900	\$35,472,222	\$35,746,683	\$36,194,828	\$38,448,320

Source: Derived from audited annual financial statements.

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Table 12 – Historical and Projected Average Bi-Monthly Residential Water Bill

Fiscal Year	Average Bi-Monthly Water Bill ^{1, 2}	Applicable Rate Structure	
		Base	Per 100 ccf
2005-06	42.02	12.71	0.83
2006-07	42.02	12.71	0.83
2007-08	43.18	13.09	0.85
2008-09	44.56	13.48	0.88
2009-10	46.76	13.48	0.90-2.74 ³
2010-11	53.08	15.96	1.15-3.51
2011-12	67.56	20.03	1.64-4.41
2012-13	84.79	20.03	2.11-5.67
2013-14	95.38	22.53	2.37-6.38

1. Based on average water use at 800 ccf per month.
2. The City bills for utilities services including wastewater every two months.
3. In 2009 the City introduced a tiered consumption rate for single-family residential customers, where prices differ by usage in three categories. Regular use usually stays at the lowest price point, whereas summer watering often reaches the highest price point for three to four months out of the year.

Source: City of Lake Oswego.

Table 13 – Average Bi-Monthly Residential Water Bill Comparison, as of July 01, 2013

City/District	Water Bill ¹
Tigard	103.78
Portland	\$96.54
Lake Oswego	95.38
Wilsonville	91.80
Tualatin	59.60
Beaverton	73.40
Milwaukie	58.34
Hillsboro	53.96

1. Equal to the monthly base charge and eight CCF for single family residential customers only. Base charges calculated from 2012 quarterly, bi-monthly, and monthly charges for each district or city agency - converted into monthly base charge. CCF = 100 cubic feet volume = 748 gallons. All information compiled using website water rate information for base charges and commodity usage rates.

Sources: City of Lake Oswego.

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Table 14 – Summary of FY 2012-13 and FY 2013-14 - Water Fund Adopted Budget

Major Revenue Sources	FY 2012-13 Amount	Percent of Fund	FY 2013-14 Amount	Percent of Fund
Beginning fund balance	\$ 3,420,163	3.56%	\$ 8,781,963	4.59%
Intergovernmental	16,542,000	17.20	60,719,000	31.72
Fees/Charges for services	910,000	0.95	906,000	0.47
Sales & services	9,771,000	10.16	10,890,000	5.69
Investment income	20,000	0.02	70,000	0.04
Other revenues	24,000	0.02	27,000	0.01
Other financing sources ¹	65,500,000	68.09	110,000,000	57.48
	<u>\$96,187,163</u>	<u>100.00%</u>	<u>\$191,393,963</u>	<u>100.00%</u>

1. The adopted budgets include \$65 million and 110 million in proceeds from debt (Line of Credit and Bond) in FY2012-13 and FY2013-14, respectively.

Source: City of Lake Oswego Budget.

WATER SYSTEM FIXED ASSETS

As of June 30, 2012, the City listed the following Water Fund assets:

Buildings and Improvements	\$ 59,361,725
Machinery and Equipment	5,190,850
Land	1,575,735
Construction in Progress	<u>26,877,484</u>
Total Assets	93,005,794
Less accumulated depreciation)	<u>(32,860,310)</u>
Total Capital Assets (Net of accumulated depreciation)	\$ 60,145,484

WATER SYSTEM DEBT

Consistent with City's policy that utility funds be self-supporting, the City intends to pay the Obligations from net revenues of the Water System.

The City's share of the LO-Tigard project is estimated to cost \$119 million. The Obligations are expected to provide funds to complete the LO-Tigard project. The City has conducted a rate study and consistent with the findings of the study has and will continue to raise water rates to generate sufficient revenues to pay the debt service on currently outstanding water revenue bonds, the Obligations and future water revenue bonds, if any. The Water System's only debt consists of the Water Revenue and Refunding Bonds, Series 2007, outstanding in the amount of \$7,265,000.

See "**Water Rates and Charges**" above.

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DEBT INFORMATION

Table 15 – Debt Ratios

	Values	Per Capita	Percent of RMV
2013 Estimated Population	36,770		
2012-13 Real Market Value (RMV)	\$7,423,694,430	\$201,895	
Total Direct Net Debt ¹	31,726,913	863	0.43%
Overlapping Debt (as of 7/17/2013)	129,040,731	3,509	1.74
Total Direct Net Debt and Overlapping Debt	\$160,767,644	\$4,372	2.17%

1. Total Direct Net Debt includes all voter approved General Obligation bonds, Limited Tax bonds and any other obligations, Certificates of Participation or leases backed by the full faith and credit of the City less self-supporting obligations. Debt whose term is less than one year is not included.

Note: Outstanding debt information is calculated as of September 11, 2013 except for the overlapping debt calculation. The overlapping debt calculation was performed by Debt Management Division, Oregon State Treasury as of July 17, 2013.

Source: Municipal Debt Advisory Commission, Oregon State Treasury; City of Lake Oswego.

DEBT LIMITATION

General Obligation Bonds. ORS Chapter 287A limits the amount of certain general obligation bonds that an Oregon city may have outstanding at any time to three percent of the real market value of the taxable property 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 that are completely self-supporting. The Obligations are not general obligation bonds and are not subject to the debt limitation.

2012-13 RMV	\$7,423,694,430
Debt limitation (3% of RMV)	\$222,710,833
Less applicable bonded debt	13,270,000
Remaining legal debt capacity	209,440,833
Percent of limit issued	6.0%

Limited-Tax Obligations. The Oregon Constitution and statutes do not limit the amount of debt an Oregon city may incur for payment of financing agreements, lease-purchase agreements or other contracts of purchase for any real or personal property, so long as such city has sufficient resources available to it within the limitations of Article XI, Section 11 and 11B. The Obligations are limited-tax obligations.

DEBT MANAGEMENT

The City has never defaulted on a debt obligation.

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OUTSTANDING OBLIGATIONS

Table 16 – Outstanding Obligations as of September 11, 2013 (the estimated Date of Delivery)

	Dated Date	Maturity Date	Amount Issued	Amount Outstanding ¹
GENERAL OBLIGATION BONDS				
General Obligation Refunding, Series 2006	10/18/06	6/1/19	\$6,540,000	\$3,850,000
Open Space/Park Renovation/Refunding, Series 2003	2/1/03	6/1/22	14,735,000	6,620,000
General Obligation Refunding, Series 2011	9/20/11	6/1/20	3,540,000	2,800,000
Total General Obligation Bonds			\$24,815,000	\$13,270,000
DEBT SECURED BY THE GENERAL FUND				
Line of Credit, Series 2009 ²	7/1/11	10/1/14	\$20,156,913	\$18,456,913
Full Faith and Credit Obligations, Series 2009A	6/3/09	12/1/34	60,000,000	58,310,000
Full Faith and Credit Obligations, Series 2010A	9/29/10	6/1/35	35,000,000	33,850,000
Full Faith and Credit Obligations, Series 2011A	9/20/11	6/1/31	11,500,000	10,690,000
Full Faith and Credit Obligations, Series 2013* (this issue)	9/11/13	6/1/38	75,870,000	75,870,000
Total Debt Secured by the General Fund			\$202,526,913	\$197,176,913
REVENUE BONDS				
Water Revenue and Refunding Bonds, Series 2007	10/18/07	12/1/27	9,560,000	\$7,265,000
Surface Water Revenue Bonds, Series 2005	4/6/05	12/1/23	3,000,000	2,015,000
Total Revenue Bonds			\$12,560,000	\$9,280,000

1. Amount outstanding as of the date of delivery plus the Obligations.
2. See comments below- SHORT-TERM BORROWING.

* Preliminary; subject to change.

Source: City of Lake Oswego.

SHORT-TERM BORROWING

Short-term Loan, West End Building. The City currently has a short-term loan/credit facility with Bank of America, NA. The balance owed on this credit facility is \$18,456,913 as of June 30, 2013. This borrowing refinanced the initial credit facility that funded the purchase cost, development costs and other expenses related to the Safeco Property, a 14-acre site on Kruse Way that is being considered for some public purpose or sale still to be determined by the City Council. The credit facility matures on October 1, 2014. Repayment of the credit facility is currently made from the City's General Fund with annual \$850,000 principal payments and variable interest.

Line of Credit, LORA. The City currently has a line of credit with Wells Fargo Bank, National Association with a non-revolving limit of \$10,000,000. The balance owed on this line of credit is \$2,500,000 as of June 30, 2013. The City entered into this line of credit for the benefit of the Lake Oswego Redevelopment Agency ("LORA"). This borrowing is for interim financing of upcoming urban renewal projects. LORA has entered into an Intergovernmental Agreement ("IGA") with the City in which it promises to pay the City the amount due on the line of credit from tax increment revenues. The line matures on December 15, 2014.

Line of Credit, Water. The City currently has a line of credit with Wells Fargo Bank, National Association with a non-revolving limit of \$30,000,000. The balance owed on this line of credit is \$13,000,000 as of June 30, 2013. This borrowing is for interim financing for the LO-Tigard Project. This line of credit matures on December 31, 2013; and will be retired from net proceeds of the Obligations.

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Table 17 – Overlapping Debt (as of 7/17/2013)

Overlapping District	Real Market Valuation	Percent Overlapping	Gross Property-tax Backed Debt ¹	Net Property-tax Backed Debt ²
Governmental unit				
Clackamas Community College	\$ 32,758,218,777	0.24%	\$ 179,589	\$65,649
Clackamas County	45,255,621,135	15.41	17,471,270	16,592,004
Clackamas County ESD	42,890,152,354	16.33	4,342,022	276,021
Clackamas County SD #3J (West Linn-Wilsonville)	6,924,456,093	0.00	398	398
Clackamas County SD #7J (Lake Oswego)	8,088,851,271	86.60	89,181,247	89,181,247
Metro	184,584,369,182	4.01	11,355,661	9,967,745
Multnomah County	94,492,460,809	0.45	1,640,020	904,731
Multnomah County SD 1J (Portland)	70,607,795,585	0.57	3,378,048	3,378,048
Multnomah ESD	95,867,106,973	0.42	142,957	0
Port of Portland	201,509,268,013	3.68	2,503,611	0
Portland Community College	148,235,007,021	4.95	25,470,725	8,670,122
Washington County	61,761,169,999	0.02	18,464	4,766
Total Overlapping Debt			\$155,684,012	\$129,040,731

1. Gross Property-Tax Backed Debt includes all General Obligation (G.O.) bonds and Full Faith and Credit bonds.
2. Net Property-Tax Backed Debt is Gross Property-Tax Backed Debt less Self-supporting Unlimited-tax G.O. and less Self-supporting Full Faith and Credit debt.

Source: Municipal Debt Advisory Commission, Oregon State Treasury.

FUTURE FINANCING PLAN

In November 2012, voters approved a General Obligation bond in the amount of \$5 million for the design and engineering of a streetscape project for a major arterial road through a newly formed Lake Oswego Urban Renewal District. Total project cost is estimated at \$27 million. The construction phase is anticipated to be funded through a \$4 million grant and a \$18 million full faith and credit bond, serviced from revenues in the General or Street fund, and future tax increment revenues from the new district.

The short-term loan for the West End building matures on October 1, 2014. The future of this building is under review. The City might determine that the property is best used for City functions, and anticipates selling either General Obligations bonds or a combination of Full Faith and Credit and General Obligation bonds to develop and possibly expand the use of the West End property. The cost is estimated at \$25 million. In case of a sale, the City might obtain another short-term financing, to be paid off with sales proceeds. The City has positioned itself so that the General Fund has the capacity for continued \$1.05 million in annual debt service payments.

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Table 18 – City Levy Election History

Date	Purpose	Amount Requested	Votes			Percent Passed (Failed)
			Yes	No	Margin	
11/6/12	G.O. Public Library Bond	\$14,000,000	9,138	12,572	(3,434)	(57.90)%
11/6/12	G.O. Boones Ferry Road Improvement Bond	5,000,000	11,053	10,402	651	51.51
5/20/08	West End Building/Recreational Facility	20,000,000	5,579	7,486	(-1,907)	(-57.30)
11/5/02	Parks, Open Space, Pathways	9,750,000	9,248	6,805	2,443	57.61
11/3/98	Sports Field Renovation Open space acquisition	13,000,000	8,706	5,678	3,028	60.52
11/5/96	City/School Partnership (3-year Serial Levy)	1,157,222	9,968	6,612	3,356	60.12
5/21/96	G.O. Road Improvement Bonds	6,970,000	5,323	2,919	2,404	64.58

Source: City of Lake Oswego.

PROPERTY TAXES

The City’s major revenue sources include property taxes; licenses and fees; sales and services; and charges for services. Property taxes account for 42% of the City’s on-going revenues (and not including fees for internal services) in the City’s 2013-14 annual budget.

Most local governments, school districts, education services districts and community college districts (“local governments”) have permanent authority to levy property taxes for operations (“Permanent Rates”) up to a maximum rate (the “Operating Tax Rate Limit”). Local governments that have never levied property taxes may request that voters approve a new Operating Tax Rate Limit.

Local governments with operating tax rates may not increase the Operating Tax Rate Limits; rather they may request only 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”). The City’s Operating Tax Rate Limit is \$5.0353 per \$1,000 of assessed property value. The City is currently levying \$4.9703 which is below the maximum permanent rate.

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.

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, which is July 1 through June 30. The local government ordinarily must notify the county assessor of its levies by July 15.

Valuation of Property – Assessment. 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. Forestland is subject to special assessment that provides a reduction in property tax that would be paid if based on the real market value. Property used for charitable, religious, fraternal and governmental purposes is exempt and reductions in assessments may be granted (upon application) for veterans’ homesteads, farm and forest land, open space and historic buildings. The assessment roll, a listing of all taxable property, is prepared as of January 1 of each year.

Property taxes are imposed on the assessed value of property. The assessed value of each parcel cannot exceed its fair market value, and ordinarily is less than its fair market value. The assessed value of property was initially established as a result of the enactment of a constitutional amendment. That amendment (now Article XI, Section 11 of the Oregon Constitution and often called “Measure 50”) assigned each property a value that was in most cases less than its fair market value in fiscal year 1997-1998, 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.

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.

Tax Rate Limitation – Real Market Value. Article XI, Section 11b of the State Constitution 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) and one to fund government operations other than the public school system. Public school system taxes are limited to \$5 per \$1,000 of the Real Market Value of property. Other government operations taxes are limited to \$10 per \$1,000 of the Real Market Value of property. “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 taxes imposed to pay the Financing Payments are subject to the “other government operations” limitations of Article XI, Section 11b.** Taxes imposed to pay the principal and interest on the following bonded indebtedness are not subject to the foregoing limitations: (1) bonded indebtedness authorized by a specific provision of the State Constitution; and (2) general obligation bonded indebtedness incurred for capital construction or improvements approved by the electors of the issuer.

Property Tax Collections. The 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 the County for all taxing units within the County are required to be placed in an unsegregated pool, and each taxing unit shares in the pool in the same proportion as its levy bears to the total of all taxes levied by all taxing units within the County. As a result, the tax collection record of each taxing unit is a pro-rata share of the total tax collection record of all taxing units within the County combined.

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, the 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 taxable property tax values for the City.

Table 19 – Assessed Value and Estimated Real Market Value¹

Fiscal Year	AV Total ²	Total Direct Tax Rate	Estimated RMV ³	AV as a % of RMV
2003-04	\$4,163,400,360	6.0573	\$5,652,069,391	73.7%
2004-05	4,342,601,515	6.2115	6,038,917,753	71.9
2005-06	4,513,623,589	6.1658	6,847,588,629	65.9
2006-07	4,738,215,630	6.0739	7,909,898,318	59.9
2007-08	4,995,291,340	6.0581	9,444,930,784	52.9
2008-09	5,235,940,044	6.0565	9,910,531,110	52.8
2009-10	5,472,635,813	6.0453	9,159,770,829	59.7
2010-11	5,654,433,342	5.9945	8,094,242,425	69.9
2011-12	5,849,359,428	6.0056	7,690,906,645	76.1
2012-13	6,009,796,980	5.9835	7,423,694,430	81.0

1. The City of Lake Oswego is located within three counties: Clackamas, Multnomah, and Washington.
2. Due to Measure 50, the growth in assessed values is limited to 3% plus any new construction and annexations. Also, the taxable assessed values and total levy figures used in the above table do not include urban renewal increment values.
3. Real market values include urban renewal values located within Clackamas County.

Sources: Clackamas, Multnomah and Washington County Assessor’s Offices.

Table 20 – Property Tax Levies and Collections

Fiscal Year	Taxes levied for the fiscal year	Amount Collected w/in fiscal year of levy	Percent of Levy	Collections in subsequent years	Total Collections	Total Collections Percent of Levy
2004	\$25,095,597	\$23,680,518	94%	\$860,394	\$24,540,912	98%
2005	26,794,938	25,368,373	95	665,984	26,034,357	97
2006	27,658,109	26,338,108	95	659,393	26,997,501	98
2007	28,610,074	27,182,459	95	627,898	27,810,357	97
2008	30,078,019	28,329,781	94	743,762	29,073,543	97
2009	31,529,026	29,507,399	94	719,498	30,226,897	96
2010	32,864,149	30,946,450	94	1,010,812	31,957,262	97
2011	33,669,684	31,650,218	94	1,104,553	32,754,771	97
2012	34,934,532	32,917,116	94	935,655	33,852,771	97
2013 ¹	35,681,647	33,575,000	94	976,000	34,551,000	97

1. Estimated, unaudited.

Source: Annual financial statements and internal accounting reports of the City of Lake Oswego.

Table 21 – Top 10 Property Taxpayers

Name	2013 Assessed Value	Percent of Total Value
Shorenstein Properties LLC	\$252,362,261	4.20%
Oswego Lender LLC	39,934,366	0.66
Property Reserve Inc.	33,929,655	0.56
Comcast Corporation	33,454,000	0.56
Gramor Development	27,119,378	0.45
Phoenix Commercial Investments LLC	26,843,739	0.45
Portland General Electric Co.	22,002,000	0.37
One Jefferson	20,621,543	0.34
Nationwide Health Properties Inc.	20,426,890	0.34
5 CP LLC	19,419,099	0.32
Total	\$496,112,931	8.26%

Note: The City is located primarily in Clackamas County and the table presents major taxpayers in Clackamas County. The City's 2013 AV is \$6,009,796,980.

Source: Clackamas County Assessor's Office.

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Table 22 – Property Tax Rates – Direct and Overlapping Governments – Rate per \$1,000 of Assessed Value

Fiscal Year	Basic Rate¹	GO Debt Service	Urban Renewal	Total direct	Clackamas County	Education Service District	Portland Comm. College	Lake Oswego Sch. Dist.	Metro	Other²	Total Direct and Overlapping
2002-03	4.6636	0.7397	0.4260	5.8293	2.49	0.35	0.48	6.72	0.27	0.24	16.38
2003-04	4.7480	0.8668	0.4425	6.0573	2.49	0.35	0.50	6.71	0.27	0.22	16.60
2004-05	4.8116	0.8689	0.5310	6.2115	2.48	0.35	0.49	6.88	0.27	0.22	16.90
2005-06	4.8076	0.8084	0.5498	6.1658	2.48	0.35	0.48	7.08	0.27	0.24	17.07
2006-07	4.8066	0.7274	0.5399	6.0734	2.44	0.35	0.47	6.79	0.26	0.23	16.63
2007-08	4.8035	0.6964	0.5582	6.0581	2.70	0.35	0.48	6.62	0.41	0.22	16.84
2008-09	4.8055	0.6908	0.5602	6.0565	2.70	0.35	0.49	6.91	0.38	0.22	17.11
2009-10	4.7915	0.6247	0.6291	6.0453	3.17	0.35	0.61	6.91	0.41	0.22	17.72
2010-11	4.7924	0.5883	0.6138	5.9945	3.17	0.35	0.61	6.65	0.39	0.22	17.38
2011-12	4.7855	0.5898	0.6303	6.0056	3.14	0.35	0.58	6.60	0.30	0.19	17.17
2012-13	4.7918	0.5796	0.6121	5.9835	3.16	0.35	0.64	6.60	0.39	0.14	17.26

1. The City's basic rates are applied against AV. Starting in 2003, urban renewal rates are separately stated, so the City's basic rate is discounted back for the effect of the separately stated urban renewal rates.
2. Includes Port of Portland, Tri-Met, Lake Grove Park, and Vector Control taxing districts.

Source: City of Lake Oswego.

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ECONOMIC AND DEMOGRAPHIC INFORMATION

The City of Lake Oswego is located south of the Portland metropolitan area, in northwestern Oregon. It is located in Clackamas, Multnomah and Washington counties, with the majority of the City located in Clackamas County. These counties are a part of seven counties that comprise the Portland-Vancouver Metropolitan Statistical Area (the “MSA”). The City’s economy is linked with that of the metropolitan area, which is based on manufacturing, national and international trade, and the service industries.

The City of Lake Oswego is located on the west side of Clackamas County. It is adjacent to the southern boundary of the City of Portland and abuts the western shore of the Willamette River. The downtown area is adjacent to the river, about eight miles south of downtown Portland. Access to downtown Portland is by Oregon Highway 43, which parallels the river, and I-5 for commuters on the west end.

The City is primarily a residential community with a low ratio of heavy industry and retail-based commercial activity, and a growing office corridor along Kruse Way. The City is the largest city in Clackamas County.

POPULATION

The City’s 2012 population was 36,725. During the ten-year period from 2003 to 2012, the population in the City increased from 35,750 to 36,725, a compounded annual growth rate of 0.3 percent. Clackamas County currently ranks third largest in population among all counties in the state behind its neighbors, Multnomah County to the north and Washington County to the west.

Table 23 – Population Estimates and Economic Statistics

Fiscal Year	Lake Oswego Population	Clackamas County Personal income (in 000’s)	Clackamas County Per capita Personal Income	Clackamas County Unemployment rate
2003	35,750	\$13,132,736	\$37,306	7.5%
2004	35,860	13,876,687	39,006	6.7
2005	35,930	14,601,351	40,637	5.5
2006	36,075	15,872,775	43,666	4.8
2007	36,350	16,678,152	45,468	4.6
2008	36,345	17,482,238	47,109	5.7
2009	36,590	16,315,504	43,614	10.2
2010	36,755	16,537,551	43,871	10.1
2011	36,620	17,457,115	45,915	8.9
2012	36,725	NA ¹	NA ¹	7.9

The Federal Census figures, as of April 1 of the stated year, are as follows:

	1990	2000	2010
City of Lake Oswego	30,576	35,278	36,619
Clackamas County	278,850	338,391	375,992
State of Oregon	2,842,321	3,421,399	3,831,074

1. Not available at this time.

Source: Under State law, the State Board of Higher Education must estimate annually the population of Oregon cities and counties so that shared revenues may be properly apportioned. The Center for Population Research and Census at Portland State University performs this statutory duty. The population estimates are calculated as of July 1 of each year but are not certified until the following January. Federal Census figures are published by the U.S. Bureau of Census. 2000 Census figures are based on the 2000 Census Redistricting Data. Clackamas County personal income and per capita income figures are calculated by the U.S. Bureau of Economic Analysis and are updated to April 2012.

Table 24 – Major Employers in the City 2012

Employer	Product or Service	2012 Estimated Employment
Lake Oswego School District	Education	568
City of Lake Oswego	Government	354
Waggener Edstrom, Inc.	Telecommunications & public relations	312
Stanford's Restaurant	Food service - restaurant	281
Micro Systems Engineering, Inc.	Microelectronics manf.–medical equipment	246
Mary's Woods at Marylhurst	Retirement and senior living	200
Jacobs Engineering Group Inc.	Engineering	200
New Seasons Market, Inc.	Grocery	173
PacifiCare of Oregon	Insurance coverage & wellness plans	165
Autodesk, Inc.	Software development	150

Source: City of Lake Oswego and NW Resources.

Table 25 – Major Employers in the Portland-Vancouver MSA (Oregon Portion) 2012

Employer	Product or Service	2012 Estimated Employment¹
State of Oregon	Government	18,400
Intel Corporation	Semiconductor integrated circuits	15,636
Providence Health System	Health care & health insurance	14,089
U.S. Government	Government	13,900
Oregon Health & Science University	Health care & education	12,000
Fred Meyer Stores	Grocery & retail variety chain	9,858
Legacy Health System	Nonprofit health care	9,732
Kaiser Foundation Health Plan of the NW	Healthcare	9,039
City of Portland	Government	8,876
NIKE Inc.	Sports shoes and apparel	7,000
Portland Public School District	Education	6,855
Multnomah County	Government	5,797
Wells Fargo	Bank	4,748
Portland Community College	Education	4,390
Beaverton School District	Education	4,247
Portland State University	Education	4,066
U.S. Bank	Bank	3,899

1. Totals may include part-time, seasonal and temporary employees.

Source: State of Oregon Employment Department and Top Regional Employers – Portland Business Journal Book of Lists 2012.

TRANSPORTATION

Interstate Highway 5, the principal north-south highway on the West Coast, passes west of the City. Major passenger and cargo airlines operate out of the Portland International Airport, approximately sixteen miles from the City. A general aviation airport located in Hillsboro provides private and chartered air service approximately 25 miles from the City. The City is home to the Willamette Shore Trolley that runs seven miles from the City's downtown to Riverplace in downtown Portland. The Willamette Pacific Railroad line also runs through the City.

Transportation is facilitated by a highway system that includes Interstate 5, the primary north-south highway artery of the West Coast, and by-pass routes I-205 and I-405 within and around the Portland metropolitan area. The primary east-west highway system is Interstate 84, which begins at Portland and heads east along the Columbia River to Idaho and beyond. The Portland metropolitan area is also served by U.S. highways 26 and 30, Oregon highways 43, 213, 217, 224, 99E, 99W, the Tualatin Valley Highway, the historic Columbia River Highway, nine bridges across the Willamette River and two bridges across the Columbia River.

The Tri-County Metropolitan Transportation District of Oregon (“Tri-Met”), the regional public transit agency, provides bus service throughout the region and light rail service (“MAX”) between downtown Portland and Gresham to the east, out to the west to the cities of Beaverton and Hillsboro and now have the WES service from Beaverton to Wilsonville.

UTILITIES

NW Natural supplies natural gas to the area; electricity is provided by Portland General Electric Company. Frontier, and CenturyLink provide telephone service. Rossman Sanitary Service provides garbage collection services.

The City owns and operates its own water system, drawing its water from the Clackamas River at an intake in Gladstone, and treating it at a treatment plant located in West Linn. The City contracts to supply water to the City of Tigard, and to supply either emergency, or emergency and domestic water, to six other cities and water districts.

The City owns, operates and maintains its own sewage collection system within the urban service boundary, except for a trunk interceptor facility owned and operated by CWS. Sewage treatment is provided by the Tryon Creek Wastewater Treatment Plant, owned and operated by the City of Portland. The City contracts to provide wastewater service to some areas of Tualatin.

EDUCATION

The Lake Oswego School District serves the City’s education needs. City residents also have access to a variety of private educational institutions in the Portland-Vancouver PMSA, including Our Lady of the Lake for grades K-8, within the City.

Marylhurst University, a four-year private liberal arts college with graduate and undergraduate students, is located within the City. The college provides lifelong learning for students of all ages and offers 23 bachelors’ degrees, 11 masters’ degrees, and 13 professional certificates.

Clackamas Community College, located on the east side of the Willamette River, and Portland Community College, with a campus close to the northern boundary of the City, offers associate degrees in a variety of disciplines. Other institutions of higher education servicing the City’s citizens include Pacific University in Forest Grove, and Portland State University, Reed College, Lewis and Clark College, the University of Portland, and the Oregon Health and Science University in Portland, as well as other public and private colleges located throughout the metropolitan area.

HEALTH CARE

Legacy Meridian Park Hospital, located southwest of the City, serves the health care needs of the vicinity and southwest of the City and Kaiser Permanente operates a medical office complex. Other major health care facilities available to residents of the City include St. Vincent Medical Center near Beaverton and Tuality Community Hospital in Tualatin.

TOURISM AND RECREATION

The City's Parks and Recreation Department manages City park property at 35 different sites. The City also owns and maintains a water sports center, a community amphitheater on the Willamette River, an adult community center, the Lake Oswego Swim Park, and an indoor tennis center; as well as a 39.2-acre municipal golf course. The City offers recreation programs, including aquatics, adult and youth fitness activities and classes, softball, basketball, golf and tennis programs.

The 405-acre privately managed Oswego Lake and the Willamette River offer fishing, boating and water skiing opportunities. There is also a private golf course, the Oswego Lake Country Club. Ocean beaches lie about 90 minutes to the west of the City, and Mount Hood is about 90 minutes east.

The City is home to the Lakewood Center for the Arts which provides gallery space, classes, drama productions and is the home of the annual Festival of the Arts.

INFORMATION SOURCES

Historical data have been collected from generally accepted standard sources, usually from public bodies. In Oregon, data is frequently available for counties, and to a somewhat lesser degree, for cities. Because the City of Lake Oswego is located within Clackamas County and the Portland MSA, this statement bases information on those areas as well as the City itself.

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THE INITIATIVE PROCESS

INITIATIVES

The Oregon Constitution, Article IV, Section 1, reserves to the people of the State the initiative power to amend the State constitution or to enact State 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 initiative measures are submitted which 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. Consequently, the City does not ordinarily disclose information about proposed initiative measures that have not qualified for the ballot. No initiative measures have qualified for the 2014 election, as of July 15, 2013.

PROPOSED INITIATIVES THAT QUALIFY TO BE PLACED ON THE BALLOT

To be placed on a general election ballot, the proponents of a proposed initiative must submit to the Secretary of State initiative petitions signed by a 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 requirements were eight percent (116,284 signatures) for a constitutional amendment measure and six percent (87,213 signatures) for a statutory initiative. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote.

The 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 only.

Historically, a larger number of initiative measures have qualified to be placed on the ballot than have been approved by the electors. According to the Elections Division of the Oregon 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.

INITIATIVE HISTORY

Table 26 – Initiative Petitions that Qualified and Passed (2002-2012)

<u>Year of General Election</u>	<u>Number of Initiatives that Qualified</u>	<u>Number of Initiatives that Passed</u>
2002	7	3
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.

Source: Elections Division, Oregon Secretary of State.

LOCAL INITIATIVE AND REFERENDUM PROCESS

The City's Charter, Sec. 49, references the initiative and referendum power that is reserved to the qualified voters of municipalities, and provides that the local initiative and referendum power shall be exercised pursuant to the term of the "Oregon Constitution, the general laws of the State and the terms of this Charter, or as the City Council may establish by ordinance." The Oregon Constitution, Art. IV, Sec. 1(5) reserves the initiative and referendum power to the voters of a municipality as to all local, special, and municipal legislation, except that the referendum power is limited to legislation that does not become effective within 30 days of its enactment (non-emergency). The constitutional provision requires not less than 15 percent of the qualified voters for an initiative measure, and not less than 10% of the qualified voters for a referendum measure, to place a measure on the ballot. Per state law, a prospective petition must be filed with the City Recorder, and after approval of the prospective petition title, the petition must be filed with the City Recorder not less than 90 days before the election at which the proposed law is to be voted on local initiative measures must be filed with the City Recorder. By City Code, LOC 11.04.360, referendum of ordinances is limited to non-emergency ordinance, and the petition to refer must be filed for signature verification with the City Recorder no later than the 30th day after enactment of the ordinance that is sought to be referred.

As of July 17, 2013, no initiative or referendum measures have been filed for signature verification with the City Recorder.

LITIGATION

There is no pending litigation questioning the validity of the Financing Agreement, the Escrow Agreement or the Obligations or the authority of the City to make the Financing Payments, undivided proportionate interests in the principal and interest components of which are represented by the Obligations. There is no litigation pending that would materially affect the finances of the City or affect the City's ability to meet debt service requirements on the Obligations. See also "**CITY FINANCIAL INFORMATION – Tort Claims Against Oregon Governments**" for information about litigation.

LEGALITY

The validity of the Financing Agreement, the Obligations and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Special Counsel for the City ("Special Counsel"). A complete copy of the proposed form of Special Counsel Opinion is included as **APPENDIX C** of this Official Statement. Special Counsel undertakes no responsibility for the accuracy, completeness, or fairness of this Official Statement.

TAX MATTERS

In the opinion of Special Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, that portion of the payments under the Financing Agreement designated as and constituting interest received by holders of the Financing Obligations is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Special Counsel such interest on the Financing Obligations is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In the further opinion of Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, that portion of the payments under the Financing Agreement that are designated as and constituting interest on the Financing Obligations is exempt from personal income taxation imposed by the State of Oregon. A complete copy of the proposed form of opinion of Special Counsel is set forth in **APPENDIX C** hereto.

The amount (if any) by which the issue price of the Financing Obligations due on any given principal payment date is less than the amount to be paid on such date (excluding amounts designated as and constituting interest and payable at least annually over the term of such Financing Obligations) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest represented by the 2010 Obligations which is excluded from gross income for federal income tax purposes and for Oregon personal income tax purposes. For this purpose, the issue price of Financing Obligations coming due on any particular principal payment date is the first price at which a substantial amount of such Financing Obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to Financing Obligations coming due on any particular principal payment date accrues daily over the term to such principal payment date on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Financing Obligations to determine taxable gain or loss upon disposition (including sale, redemption, or payment on the principal payment date) of such Financing Obligations. Beneficial Owners of the 2010 Obligations should consult their own tax advisors with respect to the tax consequences of ownership of Financing Obligations with original issue discount, including

the treatment of Beneficial Owners who do not purchase such Obligations in the original offering to the public at the first price at which a substantial amount of such Obligations is sold to the public.

Obligations purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at the respective principal payment date (or, in some cases, at their earlier call date) (“Premium Obligations”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Obligations, the interest represented by which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner’s basis in a Premium Obligation, and under Treasury Regulations, the amount of tax-exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Beneficial Owners of Premium Obligations should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest represented by obligations such as the Obligations. The City has covenanted to comply with certain restrictions designed to ensure that interest represented by the Obligations will not be included in federal gross income. Failure to comply with these covenants may result in interest represented by the Obligations being included in gross income for federal income tax purposes, possibly from the date of original delivery of the Obligations. The opinion of Special Counsel assumes compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of delivery of the Obligations may adversely affect the value of, or the tax status of interest represented by, the Obligations. Accordingly, the Opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest represented by the Obligations is excluded from gross income for federal income tax purposes and is exempt from State of Oregon personal income taxes, the ownership or disposition of, or the accrual or receipt of interest represented by, the Obligations may otherwise affect a Beneficial Owner’s federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest represented by the Obligations to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners of the Obligations from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration’s proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the Obligations to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Obligations. Prospective purchasers of the Obligations should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel’s judgment as to the proper treatment of the Financing Obligations for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Special Counsel’s engagement with respect to the Financing Obligations ends with the issuance of the Financing Obligations, and, unless separately engaged, Special Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Financing Obligations in the event of an audit examination by the IRS. Under current procedures, parties other than the City, and their appointed counsel, including the Beneficial Owners, will have little if any right to participate in the examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Financing Obligations for audit, or the course or result of such audit, or an audit of the Financing Obligations presenting similar tax issues may affect the market price for, or the marketability of, the Financing Obligations, and may cause the City or the Beneficial Owners to incur significant expense.

RATINGS

Moody’s Investors Service and Standard & Poor’s Ratings Group, a Division of the McGraw-Hill Companies have assigned ratings of Aa1 and AAA, respectively, to the Obligations. An explanation of the significance of the ratings can be obtained

from the rating agencies. There are no assurances that the ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may adversely affect the market price of the Obligations.

FINANCIAL ADVISOR

The City has retained Western Financial Group, LLC, Portland, Oregon, as Financial Advisor in connection with the authorization and issuance of the Obligations.

OFFICIAL STATEMENT

At the time of the original delivery of and payment for the Obligations, the City will deliver a certificate of the Authorized Representative, addressed to the Obligation purchaser to the effect that the Authorized Representative has examined the Official Statement and the financial and other data concerning the City contained herein and that, to the best of his knowledge and belief, (i) the Official Statement, both as of its date and as of the date of delivery of the Obligations, 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 the delivery of the Obligations 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 the Official Statement or an amendment thereto.

CONTINUING DISCLOSURE

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the “Rule”), the City, as the “obligated person” within the meaning of the Rule, has agreed to execute and deliver a Continuing Disclosure Certificate substantially in the form attached hereto as **APPENDIX D** for the benefit of the holders of the Obligations. The City previously has executed and delivered Continuing Disclosure Certificates with respect to debt issues for which the City is the “obligated person” as defined in the Rule. On September 7, 2011, the City retroactively submitted financial information for the fiscal year 2008 after it could not verify the filing of that year’s Comprehensive Annual Financial Report. Otherwise, to the best knowledge of the City, during the last five years, it has complied with all prior Continuing Disclosure Certificates.

MISCELLANEOUS

All quotations from and summaries and explanations of provisions of law herein do not purport to be complete and reference is made to said laws for full and complete statements of their provisions.

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Obligations. Any statements made in this Official Statement involving matters of opinion herein are subject to change without notice and 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 City, since the date hereof.

CITY OF LAKE OSWEGO

By: _____

Authorized Representative

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APPENDIX A
FORM OF FINANCING AGREEMENT AND FORM OF ESCROW AGREEMENT

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FINANCING AGREEMENT

between

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Escrow Agent

and the

CITY OF LAKE OSWEGO, OREGON
as City

Relating to

City of Lake Oswego
Clackamas, Multnomah and Washington Counties, Oregon
\$_____ Full Faith and Credit Obligations
Series 2013

Dated as of [_____] 1, 2013

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EXHIBITS

- Exhibit A — Financing Payment Schedule
- Exhibit B — Prepayment Provisions

FINANCING AGREEMENT

This Financing Agreement is dated as of [_____] 1, 2013, and is entered into by and between **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association (the “Escrow Agent”), and the **CITY OF LAKE OSWEGO**, Oregon (the “City”). The parties hereby agree as follows:

ARTICLE I RECITALS, DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.1 Recitals.

(a) The City recites:

The City is authorized to finance real and personal property by a financing agreement pursuant to ORS 271.390, and execute and deliver this Financing Agreement to finance the Project (as defined in Section 1.2) pursuant to that statute.

(b) The City and the Escrow Agent recite:

(i) The Escrow Agent desires to provide to the City the Financing Amount to finance the Project, but only from the proceeds of the City’s Full Faith and Credit Obligations, Series 2013 (the “Obligations”); and

(ii) The City desires to borrow the Financing Amount from the Escrow Agent to finance the Project, subject to the terms and conditions of and for the purposes set forth herein.

Section 1.2 Definitions. All capitalized terms not defined in this Financing Agreement shall have the meanings defined for those terms in the Escrow Agreement. Unless the context clearly requires use of a different definition, the following capitalized terms shall have the meanings defined for those terms in this section:

“**Escrow Agreement**” means the Escrow Agreement between the City and the Escrow Agent, of even date herewith, as it may be amended or supplemented relating to the Obligations.

“**Financing Agreement**” means this Financing Agreement, including the exhibits attached to this Financing Agreement and any amendments to this Financing Agreement and its exhibits.

“**Financing Amount**” means the sum of the principal components of the Financing Payments, as shown in the attached Exhibit A.

“**First Deposit Date**” means the date on which the first deposit under Section 3.2 below is due, as shown in Exhibit A attached hereto.

“**Master Water Resolution**” means Resolution No. 99-22 adopted by the City to provide for the issuance of bonds and other obligations secured by Net Revenues of the Water System (as

such terms are defined in the Master Water Resolution) and to set forth covenants and other agreements of the City for the benefit of the owners of such bonds and obligations, as amended and supplemented, including as amended and supplemented by Resolution 13-17 of the City.

“**Principal Office**” means the Corporate Trust office of the Escrow Agent located in Portland, Oregon.

“**Project**” means the cost of financing or refinancing:

(a) the costs of design, acquisition, construction, improvement and equipping of, and additions, replacements, expansions and/or improvements to, the City’s water system and the acquisition of all real and personal property necessary, useful or convenient thereto; and

(b) related financing and issuance costs.

“**Project Account**” means the account established by the City to hold the proceeds of the Obligations.

Section 1.3 Rules of Construction. References to section numbers in documents which do not specify the document in which the section is located shall be construed as references to section numbers in this Financing Agreement.

ARTICLE II REPRESENTATIONS AND COVENANTS OF CITY AND ESCROW AGENT

Section 2.1 Representations and Covenants of City. The City represents and covenants for the benefit of the Escrow Agent and its assignees as follows:

(a) The City is the City of Lake Oswego, Oregon, a municipality of the State of Oregon.

(b) The City is authorized under Oregon Revised Statutes (ORS) 271.390 to enter into this Financing Agreement and to perform all of its obligations under this Financing Agreement.

(c) All required action has been taken to ensure the enforceability of this Financing Agreement (except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally).

(d) All Financing Payments and deposits required by Section 3.2(b) below and the Additional Charges required by Sections 3.2(c)(ii), 3.2(c)(iii) and 3.2(c)(iv) below shall be paid to the Escrow Agent at its Principal Office.

Section 2.2 Representations and Covenants of Escrow Agent. The Escrow Agent represents and covenants for the benefit of the City as follows:

(a) The Escrow Agent is a national banking association organized and existing under the laws of the United States of America and duly qualified to transact business of the type contemplated by this Financing Agreement and the Escrow Agreement in the State of Oregon, and has all necessary power to own its properties and assets and to carry on its business as now conducted.

(b) The consummation of the transactions contemplated by this Financing Agreement will not violate the provisions of, or constitute a breach or default under, the articles of association of the Escrow Agent or any material agreement to which the Escrow Agent is a party.

(c) The execution, delivery and performance by the Escrow Agent of this Financing Agreement and all related agreements, instruments and documents to which the Escrow Agent is a party have been duly authorized and constitute legal, valid and binding obligations of the Escrow Agent, enforceable against the Escrow Agent in accordance with their terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

Section 2.3 Tax Covenants. The City shall comply with the instructions and requirements of the Tax Certificate or Tax Certificate relating to the Obligations. This covenant shall survive payment in full or defeasance of the Obligations.

ARTICLE III THE FINANCING AND THE PAYMENTS

Section 3.1 The Financing. The Escrow Agent agrees to provide to the City an amount equal to the Financing Amount, but solely from the proceeds of the sale of the Obligations as provided in this Financing Agreement and the Escrow Agreement. The City agrees to borrow the Financing Amount from the Escrow Agent, and to repay that principal amount in installments, with interest, by making the Financing Payments and paying the Additional Charges as provided in this Financing Agreement. This financing for the City will be deemed to have been made when the transfers to the City which are specified in Section 3.5 of the Escrow Agreement have occurred. This Financing Agreement shall commence on the Closing Date and shall end on the date all Financing Payments and Additional Charges that the City is required to pay under this Financing Agreement have been paid or defeased in accordance with Section 11.1 of the Escrow Agreement. The Escrow Agent is not selling, arranging for sale or establishing the terms of the Obligations.

Section 3.2 The Payments and Additional Charges.

(a) The City agrees to pay the Escrow Agent, its successors or assigns, without deduction or offset of any kind, as payment for the financing made under this Financing Agreement, the Financing Payments and the Additional Charges.

(b) The City shall pay the Financing Amount to the Escrow Agent in installments, with interest, on or before 1:00 p.m., prevailing Lake Oswego, Oregon time, on the Business Day preceding the scheduled Payment Dates shown in Exhibit A, as those amounts may be reduced by any prepayment of the Financing Payments.

(i) To secure the performance of its obligation to pay Financing Payments, the City shall deposit an amount equal to each scheduled Financing Payment with the Escrow Agent on the Business Day preceding the scheduled Payment Date into the Payment Account. Each deposit made under this Section 3.2(b) shall be applied toward Financing Payments due from the City as provided in the Escrow Agreement.

(ii) In making deposits under this Section 3.2(b), the City shall be credited on each deposit date for any amounts then on hand in the Payment Account and available to pay the Financing Payment for which such deposit is being made and the City shall only be required to pay the difference, if any, between the amount of the deposit then due and the amounts then on hand in the Payment Account.

(c) In addition to the Financing Payments, the City covenants to pay the following Additional Charges, as and when the same become due and payable:

(i) all applicable rebates due in connection with this Financing Agreement and the Obligations that are required to be paid under Section 148(f) of the Code consistent with the City's representations and covenants contained in any of the certificates or other documents executed by the City as provided under Section 2.3 hereof; and

(ii) to the extent permitted by law, all costs and expenses that the Escrow Agent may incur because of any default by the City under this Financing Agreement, including reasonable attorneys' fees and costs of suit or action at law to enforce the terms and conditions of this Financing Agreement; and

(iii) the fees, costs and expenses of the Escrow Agent as provided in the Escrow Agreement and the reasonable fees, costs and expenses of any successor Escrow Agent; and

(iv) Additional Charges shall be paid by the City when due, unless such payment may be delayed without penalty or interest, or within 30 days after notice in writing from the Escrow Agent to the City stating the amount of Additional Charges then due and payable and the purpose thereof. Additional Charges described in Sections 3.2(c)(i) shall be paid to the United States Treasury. Additional Charges described in Sections 3.2(c)(ii) and 3.2(c)(iii) above shall be paid to the Escrow Agent.

Section 3.3 Prepayment. The Financing Payments are subject to prepayment as provided in Exhibit B.

(a) Except as provided in Exhibit B, the Financing Payments are not otherwise subject to prepayment. The City may prepay the deposits required by Section 3.2(c)(i) above at any time.

(b) The City shall give notice of optional prepayment of Financing Payments to the Escrow Agent not later than forty-five (45) days before the prepayment date. The notice shall state the date of the prepayment, the maturities and the amounts of the principal components to be prepaid. The Escrow Agent will select the Obligations to be prepaid thereby pursuant to Section 2.10 of the Escrow Agreement. If the prepayment date is other than a Payment Date, the accrued portion of the interest component of Financing Payments due on the prepayment date shall be equal to the interest owed on the prepayment date with respect to the Obligations selected by the Escrow Agent for prepayment pursuant to Section 2.10 of the Escrow Agreement.

(c) If the principal component of a Financing Payment is prepaid, the schedule of Financing Payments in the attached Exhibit A shall be revised to reflect the prepayment, and the City shall provide the Escrow Agent such revised Exhibit A.

Section 3.4 Conditional Notice of Optional Prepayment. Any notice of optional prepayment to the Registrar or to the Obligation Owners may state that the optional prepayment is conditional upon receipt by the Registrar of moneys sufficient to pay the prepayment price of such Obligations 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 prepayment 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 Registrar to the affected Obligation Owners as promptly as practicable upon the failure of such condition or the occurrence of such other event. Any notice of such rescission or of the failure of any such condition or occurrence of such other event shall not constitute an event of default under the Escrow Agreement or this Financing Agreement.

Section 3.5 Nature of City's Obligations. The payment of the principal and interest components on this Financing Agreement shall be secured by and payable from the City's general non-restricted revenues and other funds that are lawfully available for that purpose, including, the proceeds of the Financing Agreement and revenues from an ad valorem tax authorized to be levied under the City's permanent rate limit under sections 11 and 11b, Article XI of the Oregon Constitution, and revenues derived from other taxes, if any, levied by the City in accordance with and subject to limitations and restrictions imposed under applicable law or contract, that are not dedicated, restricted or obligated by law or contract to an inconsistent expenditure or use. The obligation to pay the principal and interest components of this Financing Agreement is a full faith and credit obligation of the City.

(a) The City hereby covenants to use all taxing power available to the City under the law which is necessary to generate funds sufficient to permit the City to make

Financing Payments, subject only to the limitations provided in Sections 11 and 11b, Article XI of the Oregon Constitution and any limitations that are imposed by law.

(b) The City hereby agrees that its obligation to pay all Financing Payments and Additional Charges is absolute and unconditional, and shall not be subject to annual appropriation or any of the following:

(i) any setoff, counterclaim, recoupment, defense or other right which the City may have against the Escrow Agent, any contractor or anyone else for any reason whatsoever;

(ii) any insolvency, bankruptcy, reorganization or similar proceedings by the City;

(iii) abatement through damage, destruction or non-availability of the Project; or

(iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing.

(c) The payment obligations of the City under this Financing Agreement are additionally secured by a subordinate pledge of Net Revenues of the Water System, as provided in the Master Water Resolution. Such pledge of Net Revenues is subordinate to the lien on, and pledge of, the Net Revenues for the senior bonds outstanding from time to time under the Master Water Resolution. The obligation of the City to pay Financing Payments is a Subordinate Obligation of the City payable from amounts in the Subordinate Obligations Account (as such terms are defined in the Master Water Resolution).

Section 3.6 Estoppel. The City hereby certifies, recites and declares that all things, conditions and acts required by the Constitution and Statutes of the State of Oregon and by this Financing Agreement and the Escrow Agreement to exist, to have happened and to have been performed precedent to and in the execution and the delivery of this Financing Agreement, do exist, have happened and have been performed in due time, form and manner, as required by law, and that this Financing Agreement is a valid and binding obligation of the City which is enforceable against the City in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other laws or judicial decisions or principles of equity relating to or affecting the enforcement of creditors' rights or contractual obligations generally.

ARTICLE IV ASSIGNMENT

Section 4.1 By the Escrow Agent. The Escrow Agent may assign its rights under this Financing Agreement only as specifically permitted by Article V of the Escrow Agreement.

Section 4.2 By the City. The rights and obligations of City under this Financing Agreement may be assigned or transferred to any entity which succeeds or replaces the City, or any entity into which the City may be merged, but only if the assignee or transferee assumes all

of the City's obligations under this Financing Agreement. The rights and obligations of the City under this Financing Agreement shall not otherwise be assigned or transferred.

ARTICLE V TITLE; FUTURE ENCUMBRANCES AND PARITY OBLIGATIONS

Section 5.1 Title. The Escrow Agent agrees that the City shall be entitled to exclusive possession and enjoyment of the Project while this Financing Agreement is in effect, without interference from the Escrow Agent or the Owners. The Escrow Agent shall have no mortgage, security interest or other right to the Project.

Section 5.2 Future Encumbrances and Parity Obligations. The Obligations are not secured by any interest in the Project, and the City reserves the right to sell, lease or grant other interests in the Project. The City reserves the right to commit its full faith and credit and available general funds for other purposes without limitation.

Section 5.3 Maintenance; Modification; Taxes; Insurance and Other Matters. The Escrow Agent shall have no obligation to maintain or modify the Project, or to pay any taxes, fees or charges associated with the Project, or to take any action related to the Project except actions specifically required by this Financing Agreement or the Escrow Agreement.

ARTICLE VI EVENTS OF DEFAULT AND REMEDIES

Section 6.1 Events of Default Defined.

(a) The following shall be events of default under this Financing Agreement and the terms "events of default" and "default" shall mean, whenever they are used in this Financing Agreement, any one or more of the following events:

(i) Failure by the City to pay any Financing Payment required to be paid hereunder in the amount and at the time specified herein.

(ii) Except as provided in Section 6.1(a)(v) below, failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed for a period of sixty (60) days after written notice to the City by the Escrow Agent, specifying such failure and requesting that it be remedied, unless the Escrow Agent shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice cannot be corrected within the applicable period, the Escrow Agent will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected;

(iii) The occurrence and continuance of any event of default under the Escrow Agreement; or

(iv) The commencement by the City of a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect or an assignment by the City for the benefit of its creditors, or the entry by the

City into an agreement of composition with creditors, or the taking of any action by the City in furtherance of any of the foregoing.

(v) If by reason of force majeure, the City is unable in whole or in part to carry out its agreement herein contained, other than the obligations on the part of the City contained in Article 3 hereof, the City shall not be deemed in default during the continuance of such inability. The term “force majeure” as used herein shall mean, without limitation, any of the following: acts of God; strikes, lockouts or other industrial disturbances; acts of the public enemy; orders or restraints of any kind of the government of the United States of America or of the City wherein the City is located or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accident to machinery, transmission pipes or canals; or any similar or different cause or event not reasonably within the control of the City.

Section 6.2 Remedies on Default.

(a) Whenever any event of default referred to in Section 6.1 above shall have happened and be continuing, the Escrow Agent shall have the right, at its sole option without any further demand or notice, to exercise any remedy described in Section 9.2 of the Escrow Agreement.

(b) The Escrow Agent shall exercise its rights hereunder only in accordance with the Escrow Agreement. No remedy referred to in this Section 6.2 is exclusive, but each shall be cumulative and in addition to any other remedy referred to herein or otherwise available to the Escrow Agent at law or in equity. In the event that the Escrow Agent exercises or begins to exercise any one or more of such remedies, such action shall not preclude the simultaneous or later exercise by the Escrow Agent of any other remedies. No express or implied waiver by the Escrow Agent of an event of default shall constitute a waiver of any other or subsequent event of default.

ARTICLE VII MISCELLANEOUS

Section 7.1 Notices.

(a) Except as otherwise provided in Section 7.1(b) below, all notices, obligations or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by first class mail, postage prepaid and facsimile, to:

To the Escrow Agent at:

Wells Fargo Bank, National Association
Attn: Corporate Trust Department
MAC P6101-114
1300 SW 5th Avenue
Portland, OR 97201
Facsimile: (503) 886-3300

To the City at:

City of Lake Oswego, Oregon
380 A Avenue
P.O. Box 369
Lake Oswego, OR 97034
Attn: Finance Director
Facsimile: (503) 675-3746

With Copy to Special Counsel at:

Orrick, Herrington & Sutcliffe LLP
1120 N.W. Couch Street, Suite 200
Portland, OR 97209
Facsimile: (503) 943-4801
Attn: Gregory Blonde, Esq.

(b) **Facsimile Instructions.** The Escrow Agent agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to this Section 7.1 provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Escrow Agent shall forthwith receive the originally executed instructions and/or directions; (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions; and (c) the Escrow Agent shall have received a current incumbency certificate containing the specimen signature of such designated person.

Section 7.2 Binding Effect. This Financing Agreement shall inure to the benefit of and shall be binding upon the Escrow Agent and the City and their respective successors and assigns.

Section 7.3 Severability. In the event any provisions of this Financing Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provisions hereof.

Section 7.4 Amendments. This Financing Agreement may be amended only as provided in the Escrow Agreement.

Section 7.5 Execution in Counterparts. This Financing Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 7.6 Applicable Law. This Financing Agreement shall be governed by and construed in accordance with the laws of the State of Oregon. Any action regarding this Financing Agreement or the transactions contemplated hereby shall be brought in the circuit court of Clackamas County, Oregon.

Section 7.7 Headings. The headings, titles and table of contents in this Financing Agreement are provided for convenience and shall not affect the meaning, construction or effect of this Financing Agreement. All references herein to Sections, and other subdivisions which do not specify the document in which the subdivision is located shall be construed as references to this Financing Agreement.

[Signatures follow next page]

IN WITNESS WHEREOF, the Escrow Agent has executed this Financing Agreement in its corporate name by its duly authorized officer and the City has caused this Financing Agreement to be executed in its name by its duly authorized officer, all as of the date first above written.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Escrow Agent

By: _____

Name: _____

Title: _____

**CITY OF LAKE OSWEGO, OREGON,
as City**

By: _____

Ursula Euler

Finance Director

EXHIBIT A
FINANCING PAYMENT SCHEDULE

(TO FOLLOW)

EXHIBIT B
PREPAYMENT PROVISIONS
(TO FOLLOW)

Optional Prepayment:

Mandatory Prepayment:

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ESCROW AGREEMENT

between

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Escrow Agent

and the

CITY OF LAKE OSWEGO, OREGON
as City

Relating to

City of Lake Oswego
Clackamas, Multnomah and Washington Counties, Oregon
\$_____ Full Faith and Credit Obligations
Series 2013

Dated as of [[_____]] 1, 2013

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ESCROW AGREEMENT

THIS ESCROW AGREEMENT is dated as of [[_____]] 1, 2013, and is entered into by and between **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association (the “Escrow Agent”), and the **CITY OF LAKE OSWEGO, OREGON**, (the “City”). The parties hereby agree as follows:

ARTICLE I DEFINITIONS; RECITALS; AND TRANSFER OF RIGHTS

Section 1.1 Definitions. Unless the context clearly requires otherwise, capitalized terms not defined in this Section 1.1 shall have the meanings defined for such terms in the Financing Agreement. Capitalized terms used in this Escrow Agreement which are defined in this Section 1.1 shall have the following meanings, unless the context clearly requires otherwise:

“**Additional Charges**” means the amounts specified as such pursuant to Section 3.2 of the Financing Agreement.

“**Business Day**” means any day other than a Saturday, Sunday or a day on which the Escrow Agent is authorized by law to remain closed.

“**City**” means the City of Lake Oswego, Oregon, or its successors.

“**City’s Authorized Representative**” means the City Manager, Finance Director or the person designated in writing by the City Manager or Finance Director to act under this Escrow Agreement or the Financing Agreement.

“**Closing Date**” means the day on which the Obligations are delivered to the Purchaser in exchange for payment.

“**Code**” means the Internal Revenue Code of 1986, as amended, including regulations, rulings and judicial decisions promulgated thereunder.

“**Costs of Issuance Account**” means the Costs of Issuance Account created pursuant to Section 3.3 herein to pay costs of issuance of the Obligations.

“**Defeasance Obligations**” means: (1) Cash (insured at all times by the Federal Deposit Insurance Corporation); (2) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series (“SLGS”)); (3) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS and TGRS and similar securities; (4) Resolution Funding Corp. (REFCORP) (only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable); (5) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s Rating Group; provided, however, if the pre-refunded bonds are only rated by Standard & Poor’s, then the pre-refunded bonds must have been refunded with cash, direct U.S. or U.S. guaranteed obligations, or “AAA” rated pre-refunded municipals; (6) Obligations issued by the following agencies which are backed by the full faith and credit of the United States: (a) U.S. Export-Import Bank (Eximbank), direct obligations or fully guaranteed certificates of beneficial ownership; (b) Farmers Home Administration (FmHA), certificates of beneficial ownership;

(c) Federal Financing Bank; (d) General Services Administration participation certificates; (e) U.S. Maritime Administration, guaranteed Title XI financing; and (f) U.S. Department of Housing and Urban Development (HUD) project notes, local authority bonds, new communities debentures – U.S. Government guaranteed debentures and U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds.

“**EMMA**” means the MSRB’s Electronic Municipal Market Access system.

“**Escrow Agent**” means the entity serving as escrow agent under this Escrow Agreement, which as of the date of this Escrow Agreement, is Wells Fargo Bank, National Association, Portland, Oregon.

“**Escrow Agreement**” means this Escrow Agreement, as it may be amended and supplemented.

“**Event of Default**” has the meaning defined for that term in Section 9.1 of this Escrow Agreement.

“**Financing Agreement**” means the Financing Agreement for the Project, of even date herewith, and signed by the Escrow Agent and the City, as it may be amended and supplemented.

“**Financing Payments**” mean the installment payments of principal and interest which the City is required to make under the Financing Agreement to repay the Financing Amount. “Financing Payments” includes both the scheduled payments shown in Exhibit A to the Financing Agreement and any permitted prepayments of those scheduled payments shown in Exhibit B to the Financing Agreement.

“**Fiscal Year**” means each year beginning on July 1, and ending on the following June 30.

“**Master Water Resolution**” means Resolution No. 99-22 adopted by the City to provide for the issuance of bonds and other obligations secured by Net Revenues of the Water System (as such terms are defined in the Master Water Resolution) and to set forth covenants and other agreements of the City for the benefit of the owners of such bonds and obligations, as amended and supplemented, including as amended and supplemented by Resolution 13-17 of the City.

“**MSRB**” means the Municipal Securities Rule Making Board.

“**Obligation Register**” means the records kept for the registration of Obligations by the Escrow Agent pursuant to Section 2.9 below.

“**Obligations**” means the Full Faith and Credit Obligations, Series 2013 authorized by Section 2.1 below evidencing undivided proportionate interests in the Financing Payments.

“**Outstanding**” means, when used as of any particular time with respect to Obligations, all Obligations theretofore executed by the Escrow Agent and registered and delivered by the Escrow Agent under this Escrow Agreement except:

(a) Obligations previously canceled by the Escrow Agent or surrendered to the Escrow Agent for cancellation;

(b) Obligations for the payment or prepayment of the Financing Payments evidenced thereby of which funds or Defeasance Obligations in the necessary amount have previously been deposited with the Escrow Agent (whether upon or prior to the payment or prepayment date of such Obligations); and

(c) Obligations in lieu of or in exchange for which other Obligations have previously been executed and delivered by the Escrow Agent pursuant to Section 2.7 below.

“Owner” means the person in whose name an Outstanding Obligation is registered.

“Payment Account” means the Payment Account established pursuant to Section 3.1 hereof to pay principal and interest on the Obligations.

“Payment Date” means each June 1 and December 1, as provided in Exhibit A to the Financing Agreement, or the date on which any Financing Payment will be prepaid in accordance with this Escrow Agreement and the Financing Agreement.

“Principal Office” means the Corporate Trust office of the Escrow Agent located in Portland, Oregon.

“Project” means the cost of financing or refinancing:

(a) the costs of design, acquisition, construction, improvement and equipping of, and additions, replacements, expansions and/or improvements to, the City’s water system and the acquisition of all real and personal property necessary, useful or convenient thereto; and

(b) related financing and issuance costs.

“Project Account” means the Project Account created pursuant to Section 3.2 hereof to pay costs of the Project.

“Purchaser” means _____ as purchaser of the Obligations.

“Qualified Investments” means the investments in which the City may invest surplus funds under the laws of the State of Oregon.

“Record Date” means the fifteenth day of a month immediately preceding a month in which a Payment Date occurs, whether or not such date is a Business Day.

“Registered Owner” means the Registered Owner as described in Section 2.12 below.

“Registrar” means the Escrow Agent, serving as Escrow Agent and Paying Agent hereunder.

“**Rule**” means Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12).

“**SEC**” means the Securities and Exchange Commission.

“**Series 2013 Obligations**” means the \$_____ Full Faith and Credit Obligations, Series 2013, dated _____, 2013.

“**Rule**” means Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12).

“**Special Counsel**” means Orrick, Herrington & Sutcliffe LLP, or other nationally recognized special counsel appointed by the City.

Section 1.2 Recitals.

(a) City’s Recitals.

(i) The City is authorized by ORS 271.390 to enter into financing agreements to finance or refinance any real or personal property that its City Council determines is needed.

(ii) The City Council has determined in Resolution No. 13-17 adopted on July 16, 2013 (the “Resolution”), that the Project is needed, and the Escrow Agent and the City have entered into the Financing Agreement in which the Escrow Agent has agreed to provide to the City an amount equal to the Financing Amount, but solely from the sale of the Obligations as provided in the Financing Agreement and this Escrow Agreement, and the City has agreed to borrow the Financing Amount from the Escrow Agent to finance the Project.

(iii) The City enters into this Escrow Agreement to provide for the execution and delivery of the Obligations that will be paid from Financing Payments the City makes under the Financing Agreement.

(b) The Escrow Agent recites that it has placed its rights under the Financing Agreement, including the right to receive Financing Payments, in trust for the benefit of the Owners of the Obligations, that it accepts its obligations under this Escrow Agreement and the Financing Agreement and has agreed to execute and deliver the Obligations evidencing undivided proportionate interests in the Financing Payments.

(c) Rights Under Financing Agreement Held for Benefit of Owners. The City and the Escrow Agent hereby agree that the following rights shall be held in trust exclusively for the undivided proportionate benefit of the Owners as provided in this Escrow Agreement:

(i) all rights of the Escrow Agent under the Financing Agreement (except for the Escrow Agent’s right to payment from Additional Charges); and,

(ii) all rights of the Escrow Agent and the City to amounts in the Payment Account.

ARTICLE II THE SERIES 2013 FULL FAITH AND CREDIT OBLIGATIONS

Section 2.1 Authorization, Delivery and Terms of Obligations.

(a) The Obligations shall be dated, shall evidence principal components of the Financing Payments coming due on the dates and shall evidence interest components of the Financing Payments that shall be computed at the rates, as shown in Exhibit A to the Financing Agreement. Interest shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

(b) The Escrow Agent is hereby authorized to register, execute, authenticate and deliver the Obligations in substantially the form shown in Exhibit A hereto, to DTC on behalf of the Purchaser or hold the Obligations in the Fast Automated Securities Transfer (FAST) for credit to the account of the Purchaser. The Obligations shall be numbered serially and shall be signed by manual or facsimile signature of an authorized officer of the Escrow Agent. The Escrow Agent agrees to apply the Financing Payments as provided in this Escrow Agreement.

Section 2.2 Payment of Obligations.

(a) Each Obligation represents an undivided ownership interest in and a right to receive:

(i) a proportionate share of the principal component of the Financing Payments due on the payment date of that Obligation, plus

(ii) a proportionate share of the interest components of the Financing Payments that are allocable to that principal component.

(b) The City shall pay the Financing Payments to the Escrow Agent in immediately available funds as provided in the Financing Agreement.

(c) Interest represented by the Obligations shall be payable by the Escrow Agent to the Owners by check or draft mailed to the Owners at their addresses as they appear on the Obligation Register on the Record Date; provided, that interest represented by Obligations of any Owner representing principal of \$1,000,000 or more shall be payable, upon the written request of such Owner in form and substance satisfactory to the Escrow Agent, by wire transfer of immediately available funds to an account within the United States designated by such Owner on or before the Record Date. Principal represented by the Obligations shall be payable upon due presentment and surrender of such obligations at the principal office of the Registrar. Notwithstanding the foregoing provisions, for so long as the Obligations are registered in the name of The Depository Trust Company (the "Depository") or its nominee, principal and interest represented by the Obligations shall be payable in accordance with the blanket letter of representations the City has filed with the Depository.

Section 2.3 Book-Entry Only System.

(a) The Obligations shall be initially executed and delivered as a book-entry only security issue with no Obligation certificates being made available to the Owners in accordance with the blanket letter of representations the City has filed with the Depository. While the Obligations are in book-entry form, the Obligations shall be subject to the rules and procedures of the Depository.

(b) If the Depository determines not to continue to act as securities depository for the Obligations, or the City determines that the Depository shall no longer so act, then the City will discontinue the book-entry only system with the Depository. If the City fails to designate another qualified securities depository to replace the Depository or elects to discontinue use of a book-entry only system, the Obligations shall no longer be a book-entry only issue but shall be registered in the registration books maintained by the Escrow Agent in the name of the Owner as appearing on the Obligation Register and thereafter in the name or names of the Owners of the Obligations transferring or exchanging Obligations in accordance with the provisions of this Section 2.3. The Escrow Agent shall authenticate and deliver printed Obligations to such Owners at the City's expense.

(c) While the Obligations are in book-entry form, the City and the Escrow Agent shall have no responsibility or obligation to any participant or correspondent of the depository or to any owner of a beneficial interest in the obligations (a "Beneficial Owner") for:

(i) the accuracy of the records of the Depository, its nominee or any participant, correspondent or Beneficial Owner with respect to any ownership interest in the Obligations;

(ii) the delivery to any participant, correspondent, Beneficial Owner or any other person, other than an Owner as shown in the registration books maintained by the Escrow Agent, of any notice with respect to the Obligations, including any notice of prepayment;

(iii) the selection by the Depository of the beneficial interest in Obligations to be prepaid if the City prepaays the Obligations in part; or

(iv) the payment to any participant, correspondent, or any other person other than the Owner of the Obligations as shown in the registration books maintained by the Escrow Agent, of any amount with respect to principal, premium, if any, or interest with respect to the Obligations.

(d) Notwithstanding the book-entry only system, the City may treat and consider the person in whose name each Obligation is registered in the registration books maintained by the Escrow Agent as the absolute owner of such Obligation for the purpose of payment of principal, premium, if any, and interest with respect to such Obligation, or for the purpose of giving notices of prepayment and other matters with respect to such Obligation, or for the purpose of registering transfers with respect to such Obligation, or

for all other purposes whatsoever. The City shall pay or cause to be paid all principal, premium, if any, and interest with respect to the Obligations only to or upon the order of the Owners, as shown in the registration books maintained by the Escrow Agent and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation with respect to payment thereof to the extent of the sum or sums so paid.

Section 2.4 Form of Obligations. The Obligations shall be executed and delivered in fully registered form in denominations of \$5,000 or any integral multiple thereof within a single payment date. The Series 2013 Obligations and the form of assignment shall be substantially in the form set forth in Exhibit A hereto and shall be numbered beginning with No. R-1.

Section 2.5 Execution. The Obligations shall be executed by and in the name of the Escrow Agent by the manual or facsimile signature of an authorized officer of the Escrow Agent and shall be authenticated by manual signature of an authorized officer of the Escrow Agent. Only Obligations that are substantially in the form set forth in Exhibit A hereto and that have been manually authenticated by the Escrow Agent shall be valid for any purpose or entitled to the benefits of this Escrow Agreement.

Section 2.6 Registration of Transfer and Exchange. The provisions of this Section 2.6 apply only if the Obligations cease to be a book-entry only issue. The registration of any Obligation may, in accordance with its terms, be transferred upon the Obligation Register by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Obligation for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Escrow Agent and duly executed by the Owner or his or her authorized attorney. Obligations may be exchanged at the office of the Escrow Agent for Obligations evidencing a like aggregate principal amount or other authorized denominations of the same payment date. The Escrow Agent may require the Obligation Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Whenever any Obligation or Obligations shall be surrendered for registration of transfer or exchange, the Escrow Agent shall execute and deliver a new Obligation or Obligations of the same payment date, for like aggregate principal amount; provided that the Escrow Agent shall not be required to register transfers or make exchanges of:

- (a) Obligations for a period of fifteen (15) days next preceding any selection of the Obligations to be prepaid;
- (b) any Obligations chosen for prepayment; or
- (c) Obligations for a period of fifteen (15) days prior to any Payment Date.

Section 2.7 Mutilated, Lost, Destroyed or Stolen Obligations.

(a) If any Obligation becomes mutilated, the Escrow Agent, at the expense of the Owner of such Obligation, shall execute and deliver a new Obligation of like tenor and payment date but bearing a different number in exchange and substitution for the Obligation so mutilated, but only upon surrender to the Escrow Agent of the Obligation so mutilated. Every mutilated Obligation so surrendered to the Escrow Agent shall be canceled by it.

(b) If any Obligation is lost, destroyed or stolen, evidence of such loss, destruction or theft shall be submitted to the Escrow Agent and, if such evidence is satisfactory to the Escrow Agent and, if an indemnity satisfactory to the Escrow Agent shall be given, the Escrow Agent, at the expense of the Owner of the Obligation in question, shall execute and deliver a new Obligation of like tenor and payment date and numbered as the Escrow Agent shall determine in lieu of and in substitution for the Obligation so lost, destroyed or stolen.

(c) The Escrow Agent may require payment of an appropriate fee for each new Obligation delivered under this Section 2.7 and of the expenses that may be incurred by the Escrow Agent in carrying out the duties under this Section 2.7.

Section 2.8 Execution of Documents. The Escrow Agent may accept any evidence of execution of documents by Owners which the Escrow Agent reasonably deems sufficient. Any request or consent of the Owner of any Obligation shall bind every future Owner of the same Obligation.

Section 2.9 Obligation Register. The Escrow Agent will maintain the Obligation Register and shall record the registration and transfer of all Obligations in the Obligation Register. The Obligation Register shall be open to inspection by the City during regular business hours upon reasonable notice.

Section 2.10 Prepayment.

(a) Terms of Prepayment. The Obligations shall be subject to optional and mandatory prepayment as provided in Exhibit B of the Financing Agreement.

(b) Selection of Obligations for Optional Prepayment. If less than all of the Financing Payments shall be prepaid, the City shall notify the Escrow Agent of the maturities and the amounts of the principal components selected for prepayment. The City shall provide such notice to the Escrow Agent in writing of the Obligations so selected for prepayment. If the Obligations are in book-entry form at the time of prepayment, and less than all of the Financing Payments are being prepaid, the Escrow Agent, at the request of the City, shall direct DTC to instruct the DTC participants to select such Obligations for prepayment by lot within a maturity. Neither the City nor the Escrow Agent shall have responsibility to insure that DTC or its participants properly select such Obligations for prepayment.

(c) Notice of Prepayment (No Depository).

(i) The provisions of this Section 2.10(c) shall apply only if the Obligations cease to be a book-entry-only issue. If the principal component of Financing Payments is to be prepaid, the City shall give notice of such prepayment to the Escrow Agent not less than forty-five (45) days before the prepayment date pursuant to Section 3.3(b) of the Financing Agreement and, not later than the date of prepayment, shall deposit with the Escrow Agent the amount required to effect the prepayment. The Escrow Agent shall give to the Obligation Owners notice of prepayment (“Notice of Prepayment”) of the Obligations at the

expense of the City. Each Notice of Prepayment shall state (a) the prepayment date, (b) the place or places of prepayment (including the name and address of any prepayment agent), (c) if only a portion of the Obligations are being prepaid, the distinctive number of the Obligations to be prepaid, (d) the Obligations or designated portions thereof (in the case of prepayment of the Obligations in part but not in whole), (e) the prepayment price, (f) the CUSIP numbers (if any) assigned to the Obligations to be prepaid and (g) the dated date of the Obligations, the interest rate and stated payment date with respect to each Obligation to be prepaid in whole or in part. Each such Notice of Prepayment shall also state that on said date there shall become due and payable on each of said Obligations the principal amount with respect thereto (or a portion thereof in the case of an Obligation to be redeemed in part only), together with interest accrued with respect thereto to the prepayment date, and that from and after such prepayment the interest thereon shall cease to accrue, and shall require that such Obligations be then surrendered.

(ii) The Escrow Agent shall take the following actions with respect to such Notice of Prepayment.

(1) At least twenty (20) days before the prepayment date, such Notice of Prepayment shall be given either by (a) registered or certified mail, postage prepaid, (b) confirmed facsimile transmission or (c) overnight delivery service, to the following securities depository:

The Depository Trust Company
711 Stewart Avenue
Garden City, New York 11530
Facsimile transmission:
(516) 227-4039
(516) 227-4190

(2) At least twenty (20) days before the prepayment date, such Notice of Prepayment shall be given either by (a) registered or certified mail, postage prepaid, (b) overnight delivery service, or (c) in electronic format as prescribed by the MSRB, to the MSRB, or any electronic municipal access system established by the MSRB for purposes of the Rule.

(iii) Notice of Prepayment shall be given by mailing, first class, postage prepaid, not more than sixty (60) days nor less than twenty (20) days prior to said prepayment date, copies thereof to the City and the Owners of the Obligations whose Obligations or a portion thereof are to be prepaid.

(iv) Any defect in notices given under Sections (i), (ii), or (iii) above shall not affect the validity of the proceedings for the prepayment of the Obligations or portions thereof.

(d) Notice of Prepayment (Depository). If the principal component of Financing Payments is to be prepaid, the City shall give notice of such prepayment to the Escrow Agent at the addresses in Section 11.2, not less than forty-five (45) days before the prepayment date pursuant to Section 3.3(b) of the Financing Agreement and, not later than the date of prepayment, shall deposit with the Escrow Agent the amount required to effect the prepayment. The Escrow Agent shall notify the Depository at the address above of any prepayment not less than twenty (20) days prior to the prepayment and shall provide such information in connection therewith as required by the blanket letter of representations the City has filed with the Depository Trust Company.

(e) Notice of Prepayment Required by Continuing Disclosure Certificate. In addition to the other notices of prepayment required by this Escrow Agreement, the Escrow Agent shall give to the MSRB or such other central repository established by the MSRB, including EMMA, any notices of prepayment which are required to be provided by the City in the Continuing Disclosure Certificate for the Obligations.

(f) Partial Prepayment of Obligations. Upon surrender of any Obligation that is not in book entry form and is prepaid in part only, the Escrow Agent shall execute and deliver to the Owner thereof, at the expense of that Owner, a new Obligation or Obligations of authorized denominations equal in aggregate principal amount to the portion of the surrendered Obligation which is not prepaid and with the same stated interest rate and the same payment date. Such partial prepayment shall be valid upon payment of the amount thereby required to be paid to such Owner, and the City and the Escrow Agent shall be released and discharged from all liability to the extent of such payment.

(g) Effect of Prepayment. If notice of prepayment has been given as provided in this Section 2.10, and the moneys for the prepayment (including the interest to the applicable date of prepayment) have been set aside in the Payment Account, the Obligations shall become due and payable on the date of prepayment upon presentation and surrender thereof at the office or offices specified in said notice, and interest with respect to the Obligations shall cease to accrue after the date fixed for prepayment. All moneys held by or on behalf of the Escrow Agent for the prepayment of Obligations shall be held in trust for the account of the Owners of the Obligations so to be prepaid. All Obligations paid at their payment date or prepaid prior to their payment date pursuant to the provisions of this Section 2.10, if any, shall be canceled upon surrender thereof.

(h) Conditional Notice of Prepayment. Any notice of optional prepayment to the Escrow Agent or to the Obligation Owners may state that the optional prepayment is conditional upon receipt by the Escrow Agent of moneys sufficient to pay the prepayment price of such Obligations 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 prepayment 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 Escrow Agent to the affected Obligation Owners as promptly as practicable upon the failure of such condition or the occurrence of such other event. Any notice of

such rescission or of the failure of any such condition or occurrence of such other event shall not constitute an event of default under the Financing Agreement or this Escrow Agreement.

Section 2.11 Reserved.

Section 2.12 Provisions for Printed Obligations. If the City discontinues use of the book-entry only system or termination thereof occurs without designation of a new qualified securities depository, then the provisions of this Section 2.12 shall apply to the Obligations. Upon receipt of a printed Obligation, the Beneficial Owner shall become the Registered Owner. The principal with respect to such Obligations shall be payable upon presentation at the office of the Escrow Agent.

ARTICLE III ACCOUNTS

Section 3.1 Payment Account. The Escrow Agent shall establish and maintain a special fund designated as the “Full Faith and Credit Obligations, Series 2013 Payment Account,” which is defined in this Escrow Agreement as the “Payment Account.” The Escrow Agent shall keep the Payment Account separate and apart from all other funds and moneys held by it and shall administer and maintain the Payment Account as provided in this Escrow Agreement:

(a) To secure the payment of Financing Payments, on the Business Day preceding each Payment Date, the City shall transfer the deposits described in Section 3.2(b)(i) of the Financing Agreement to the Escrow Agent. The Escrow Agent shall credit these deposits in the Payment Account.

(b) On each Payment Date the Escrow Agent shall withdraw from the Payment Account and transfer to Owners an amount equal to the principal and interest components of the Financing Payment due and payable on such Payment Date, but solely from moneys on deposit in the Payment Account.

(c) If on any Payment Date, the amount of the Financing Payment then due and payable exceeds the amounts deposited with the Escrow Agent and available therefor, the Escrow Agent shall pay to the Owners the moneys on hand, and the Escrow Agent shall apply such money first to the payment of the interest component, which shall be distributed by the Escrow Agent pro rata among the Owners if necessary, and second, to the payment of the principal component, which shall be distributed by the Escrow Agent pro rata among the Owners if necessary.

(d) Any amounts in the Payment Account in excess of the amount necessary to pay the principal and interest components of the Financing Payments and any earnings thereon shall be remitted to the City or, retained in the Payment Account and applied as a credit to the next deposit. The Escrow Agent shall provide the City, not less than thirty (30) days before each date a deposit is required under Section 3.2(b) of the Financing Agreement, an invoice which sets forth the amount of the next deposit.

(e) Any surplus remaining in the Payment Account after payment of all Financing Payments and all Obligations Outstanding and payment of any applicable fees and expenses of the Escrow Agent, or provision for such prepayment or payment of all Financing Payments having been made to the satisfaction of the Escrow Agent in accordance with Section 11.1 below hereof, shall be remitted to the City.

Section 3.2 Project Account. The City shall establish and maintain an account designated as the “Full Faith and Credit Obligations, Series 2013 Project Account,” which is defined in this Escrow Agreement as the “Project Account.” The City shall keep the Project Account separate and apart from all other funds and moneys held by it and shall administer and maintain the Project Account as provided in this Escrow Agreement:

(a) To pay costs of the Project, the City is authorized to make payments from the Project Account.

(b) Any amounts remaining in the Project Account after completion of the Project may be deposited in the Payment Account or such amounts remaining may be used by the City for uses related to the Project.

Section 3.3 Costs of Issuance Account. The City shall establish an account designated as the “Full Faith and Credit Obligations, Series 2013 Costs of Issuance Account” for payment of costs of execution and delivery of the Obligations, which is defined in this Escrow Agreement as the “Costs of Issuance Account.” The City shall keep the Costs of Issuance Account separate and apart from all other funds and moneys held by it and shall administer and maintain the Costs of Issuance Account as provided in this Escrow Agreement:

(a) The City is authorized to make payments from the Costs of Issuance Account only for paying the costs of legal, accounting, organization, marketing or other special services and other fees and expenses, incurred or to be incurred by or on behalf of the City in connection with the issuance of the Obligations. The City acknowledges that the moneys in the Costs of Issuance Account available for payment of the foregoing costs may not be sufficient to pay such costs in full, and agrees therein to pay that portion of such costs in excess of the amount in the Costs of Issuance Account from any moneys legally available for such purpose.

(b) Any amounts remaining in the Costs of Issuance Account after payment of the costs of issuance for the Project may be deposited in the Payment Account or such amounts remaining may be used by the City for uses related to the Project.

Section 3.4 Additional Charges. If the Escrow Agent receives Additional Charges pursuant to the Financing Agreement, such Additional Charges shall be applied by the Escrow Agent solely to the payment of any costs in respect of which such Additional Charges was received and shall not be commingled in any way with any other funds received by the Escrow Agent pursuant to the Financing Agreement or this Escrow Agreement, except as provided above.

Section 3.5 Deposits at Closing. The proceeds of the Obligations shall be transferred directly to the City for expenditure on costs of the Project.

ARTICLE IV MONEYS IN FUNDS; INVESTMENT

Section 4.1 Moneys and Investments Held Under Escrow Agreement. The City shall hold all moneys under this Escrow Agreement and shall invest and reinvest such moneys in Qualified Investments. Notwithstanding the foregoing, the Escrow Agent shall hold all moneys transferred by the City to the Escrow Agent for deposit to the Payment Account as provided in Section 3.1 of this Escrow Agreement and shall, at the written direction of the City, invest and reinvest such moneys in Qualified Investments only until such time as the moneys are required for the payment of the Financing Payments. Such moneys and any other income or interest earned thereon shall be applied only as provided in this Escrow Agreement and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the City, the Escrow Agent or any Owner.

Section 4.2 Deposit and Investment of Moneys in Accounts. The City may commingle any of the funds held by it pursuant to this Escrow Agreement in a separate fund or funds for investment purposes; provided, however, that all funds or accounts held by the City hereunder shall be accounted for separately notwithstanding such commingling by the City.

ARTICLE V THE ESCROW AGENT

Section 5.1 Compensation of the Escrow Agent. The City shall from time to time pay to the Escrow Agent reasonable compensation for its services and will pay or reimburse the Escrow Agent upon its request for all reasonable expenses, disbursements and advances made by the Escrow Agent in accordance with the provisions of this Escrow Agreement (including the reasonable expenses and disbursements of its counsel), except any such expense, disbursement or advance as may arise from its negligence or bad faith. Fees for the Escrow Agent's services shall be those specified in the contract between the City and the Escrow Agent.

Section 5.2 Removal of Escrow Agent.

(a) The Escrow Agent may be removed and a successor Escrow Agent appointed:

(i) by the City at any time if, in the good faith opinion of the City, expressed in writing and delivered to the Escrow Agent and the successor Escrow Agent, it would not be materially adverse to the interests of the Owners of the Obligations that the Escrow Agent be removed and a successor Escrow Agent appointed;

(ii) for any breach of obligations of the Escrow Agent set forth herein;
or

(iii) at any time by written demand thereof filed with the Escrow Agent and the successor Escrow Agent by the Owners of a majority in aggregate principal amount evidenced by all Obligations Outstanding. Such removal shall become effective upon acceptance of appointment by the successor Escrow Agent.

(b) Any successor Escrow Agent appointed pursuant to the provisions of this section shall:

(i) be a trust company or bank in good standing, duly authorized to exercise trust powers and subject to examination by federal or state authority;

(ii) have substantial prior experience as a Escrow Agent for the benefit of the owners of municipal debt securities; and

(iii) be a bank or trust company having (either singly or together with its parent holding company) a combined capital (exclusive of borrowed capital) and surplus of at least Seventy-Five Million Dollars (\$75,000,000) and subject to supervision or examination by federal or state authority.

Section 5.3 Resignation of Escrow Agent.

(a) The Escrow Agent or any successor may at any time resign by giving written notice to the City and by giving notice by first class mail to the Owners as of the date such notice is mailed of its intention to resign and of the proposed date of resignation, which shall be a date not less than thirty (30) days after the mailing of such notice, unless an earlier resignation date and the appointment of a successor Escrow Agent shall have been or are approved by the Owners of a majority in aggregate principal amount evidenced by all of the Obligations Outstanding.

(b) Upon receiving such notice of resignation, the City shall promptly appoint a successor Escrow Agent by an instrument in writing; provided, however, that if the City fails to appoint a successor Escrow Agent within thirty (30) days following receipt of such written notice of resignation, the Owners of a majority in aggregate principal amount evidenced by all Obligations Outstanding may appoint a successor Escrow Agent and if the Owners fail to appoint a successor Escrow Agent, within thirty (30) days following the expiration of such initial 30-day period, the resigning Escrow Agent may petition the appropriate court having jurisdiction to appoint a successor Escrow Agent.

(c) Notwithstanding any other provision of this Escrow Agreement, no removal, resignation or termination of the Escrow Agent shall take effect until a successor shall be appointed.

Section 5.4 Merger or Consolidation. A merger or consolidation of the Escrow Agent with another entity shall not be treated as the appointment of a successor, and the entity into which the Escrow Agent is merged or consolidated shall become the successor Escrow Agent without any notice or filing, but only if: the merged or consolidated entity notifies the City that it has assumed the obligations of the Escrow Agent under this Escrow Agreement and the Financing Agreement, and the merged or consolidated entity meets the requirements of Section 5.2(b) above.

Section 5.5 Acceptance of Appointment by Successor Escrow Agent.

(a) Any successor Escrow Agent appointed as provided in Section 5.3 or Section 5.4 above shall execute, acknowledge and deliver to the City and to its predecessor Escrow Agent an instrument accepting its appointment, and the appointment shall take effect on execution of that acceptance. Upon request of any successor Escrow Agent, the City and the prior Escrow Agent shall execute any documents the successor Escrow Agent may reasonably require to confirm its rights and powers under this Escrow Agreement and the Financing Agreement.

(b) Upon acceptance of appointment by a successor Escrow Agent as provided in this Section 5.5, the successor Escrow Agent shall mail, first class, postage prepaid, notice of its appointment to the Owners.

Section 5.6 Duties and Responsibilities of the Escrow Agent Prior to and During Default.

(a) The Escrow Agent undertakes, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, to perform such duties and only such duties as are specifically set forth in this Escrow Agreement. In case any Event of Default has occurred (which has not been cured or waived) the Escrow Agent shall exercise such of the rights and powers vested in it by this Escrow Agreement and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(b) No provision of this Escrow Agreement shall be construed to relieve the Escrow Agent from liability for its own negligent action, its negligent failure to act or its own willful misconduct, except that:

(i) Prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, the duties and obligations of the Escrow Agent shall be determined solely by the express provisions of this Escrow Agreement, and the Escrow Agent shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Escrow Agreement, and no covenants or obligations shall be implied into this Escrow Agreement adverse to the Escrow Agent;

(ii) The Escrow Agent shall not be liable for any error of judgment made in good faith by a responsible officer of the Escrow Agent, unless it shall be proved that the Escrow Agent was negligent in ascertaining the pertinent facts;

(iii) The Escrow Agent shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in aggregate principal amount evidenced by the Obligations at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Escrow Agent, or

exercising any trust or power conferred upon the Escrow Agent, under this Escrow Agreement; and

(iv) No provision contained in this Escrow Agreement shall require the Escrow Agent to expend or risk its own funds or otherwise incur liability in the performance of any of its duties or the exercise of any of its rights or powers, if there is reasonable ground for the Escrow Agent's believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 5.7 Protection and Rights of the Escrow Agent.

(a) The Escrow Agent shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of this Escrow Agreement, and the Escrow Agent shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Escrow Agent shall not be bound to recognize any person as an Owner of any Obligation or to take any action at his request unless such Obligation shall be deposited with the Escrow Agent or satisfactory evidence of the ownership of such Obligation shall be furnished to the Escrow Agent. The Escrow Agent may consult with counsel, who may be counsel to the City, with regard to legal questions and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith in accordance therewith.

(b) Whenever in the administration of its duties under this Escrow Agreement, the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) shall be deemed to be conclusively proved and established by the certificate of the Escrow Agent's representative or the City's Representative and such certificate shall be full warranty to the Escrow Agent for any action taken or suffered under the provisions of this Escrow Agreement upon the faith thereof, but in its discretion the Escrow Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

(c) The Escrow Agent may become the Owner of Obligations with the same rights it would have if it were not the Escrow Agent; may acquire and dispose of other certificates or evidences of indebtedness of the City with the same rights it would have if it were not the Escrow Agent; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall

represent the Owners of the majority in aggregate principal amount evidenced by the Obligations then Outstanding.

(d) The recitals, statements and representations by the City contained in this Escrow Agreement or in the Obligations shall be taken and construed as made by and on the part of the City, as the case may be, and not by the Escrow Agent, and the Escrow Agent does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof.

(e) The Escrow Agent may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder, and the Escrow Agent shall not be answerable for the default or misconduct of any such attorney, agent, or receiver selected by it with reasonable care.

Section 5.8 Indemnification. To the extent permitted by law, the City covenants and agrees to indemnify and save the Escrow Agent harmless against any loss, expense or liability which it may incur arising out of or in the exercise or performance of its duties and powers hereunder, including the costs and expenses of defending against any claim or liability, or enforcing any of the rights or remedies granted to it under the terms of this Escrow Agreement, excluding any losses or expenses which are due to the Escrow Agent's breach of fiduciary duties, negligence or willful misconduct. The obligations of the City under this Section 5.8 shall survive the resignation or removal of the Escrow Agent under this Escrow Agreement and the payment of the Obligations and discharge under this Escrow Agreement. The damages claimed against the City shall not exceed the damages which may be allowed under the Oregon Tort Claims Act, ORS 30.260, *et seq.*, unless the provisions and limitations of such act are preempted by federal law, including, but not limited to the federal securities laws.

ARTICLE VI CONCERNING THE OBLIGATION OWNERS

Section 6.1 Evidence of Action Taken by Owners. Whenever in this Escrow Agreement it is provided that the Owners of a specified percentage in aggregate principal amount evidenced by the Outstanding Obligations may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action the Owners of such specified percentage have joined therein may be evidenced:

(a) by any instrument or any number of instruments of similar tenor executed by Owners in person or by agent or proxy appointed in writing, or

(b) by the record of the Owners voting in favor thereof at any meeting of Owners, or

(c) by a combination of such instrument or instruments and any such record of such a meeting of Owners.

Section 6.2 Action Taken by Owners Irrevocable. Any consent to the taking of any action by any Owner of an Outstanding Obligation shall be irrevocable and shall be conclusive

and binding upon such Owner and upon all future Owners of such Obligation and of any Obligation executed and delivered in exchange or substitution therefor, irrespective of whether or not any notation and regard thereto is made upon such Obligation. Any action taken by the Owners of the percentage in aggregate principal amount evidenced by the Outstanding Obligations specified in this Escrow Agreement in connection with such action shall be conclusive and binding upon the City, the Escrow Agent and the Owners of all the Obligations.

Section 6.3 Certain Obligations Disregarded. In determining whether the Owners of the requisite aggregate principal amount evidenced by the Obligations have concurred in any direction or consent under this Escrow Agreement, Obligations which are owned by the Escrow Agent or the City or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Escrow Agent or the City shall be disregarded and treated as though they were not Outstanding for the purpose of any such determination; provided that for the purposes of determining whether the Escrow Agent shall be protected in relying on any such direction or consent only Obligations which the Escrow Agent knows are so owned shall be so disregarded. Obligations so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this section, if the pledgee shall establish to the satisfaction of the Escrow Agent the pledgee's right to vote such Obligations and that the pledgee is not a person directly or indirectly controlling or controlled by or under direct or indirect common control with the Escrow Agent or the City. In case of a dispute as to such right, any decision by the Escrow Agent taken upon the advice of counsel shall be full protection to the Escrow Agent.

ARTICLE VII MODIFICATION OF ESCROW AGREEMENT AND FINANCING AGREEMENT

Section 7.1 Limitations. This Escrow Agreement may be modified or amended only in accordance with this Article VII.

Section 7.2 Supplemental Escrow Agreement Without Consent of Owners. The City and the Escrow Agent may at any time enter into supplemental Escrow Agreements without the consent of or notice to the Owners, for the following purposes:

(a) To cure any formal defect, omission, inconsistency or ambiguity in this Escrow Agreement; provided that such action shall not, in the reasonable judgment of the City, materially and adversely affect the interests of the Owners;

(b) To grant to or confer or impose upon the Escrow Agent for the benefit of the Owners any additional rights, remedies, or powers or to amend this Escrow Agreement in any other way for the benefit of the Owners; provided that no such amendment may have, in the reasonable judgment of the City, a material and adverse effect on any Owner which has not consented to the Supplemental Escrow Agreement; or

(c) To modify, alter, amend or supplement this Escrow Agreement in any other respect which is not materially adverse to the Owners and which does not involve a change described in Sections 7.3(a)(i), 7.3(a)(ii), 7.3(a)(iii), or 7.3(a)(iv) below and which, in the judgment of the Escrow Agent, is not to the prejudice of the Escrow Agent.

Before the Escrow Agent and the City shall enter into any Supplemental Escrow Agreement pursuant to this Section, the City shall deliver to the Escrow Agent an opinion of Special Counsel stating that the supplemental Escrow Agreement is authorized or permitted by this Escrow Agreement, complies with its terms, will, upon the execution and delivery thereof, be valid and binding upon the City in accordance with its terms, and will not adversely affect the exclusion from gross income for federal income tax purposes of interest payable on the Obligations.

Section 7.3 Supplemental Escrow Agreement with Consent of the Owners.

(a) Any amendment to this Escrow Agreement which is not described in Section 7.2 above requires the consent of the City, the Escrow Agent and the Owners of not less than sixty percent (60%) in aggregate principal amount evidenced by the Obligations then Outstanding. However, the consent of all affected Owners of all the Obligations then Outstanding is required for:

(i) a change in the terms of the payment or prepayment of any portion of the Financing Payments, or

(ii) the creation of a claim or lien upon, or a pledge of the security ranking prior to or (except as expressly permitted by this Escrow Agreement) on a parity with the claim, lien or pledge created by this Escrow Agreement, or

(iii) the creation of a preference or priority of any Obligation or Obligations over any other Obligation or Obligations, or

(iv) a reduction in the aggregate principal amount evidenced by the Obligations the consent of the Owners of which is required for any supplemental Escrow Agreement or which is required, under Section 7.6 below, for any modification, alteration, amendment or supplement to the Financing Agreement.

(b) If at any time the City shall request the Escrow Agent to enter into any supplemental Escrow Agreement for any of the purposes of this Section 7.3 which require Owners' consent, the Escrow Agent shall cause notice of the proposed supplemental Escrow Agreement to be given by first class mail, postage prepaid, to all affected Owners at their addresses as they appear in the Obligation Register. Such notice shall briefly set forth the nature of the proposed supplemental Escrow Agreement and shall state that a copy thereof is on file at the office of the Escrow Agent for inspection by all Owners. Within two years after the date of the first mailing, the Escrow Agent and the City may enter into such supplemental Escrow Agreement in substantially the form described in such notice, but only if there shall have first been delivered to the Escrow Agent (i) the required consents, in writing, of Owners of Obligations then Outstanding, and (ii) an opinion of Special Counsel stating that such supplemental Escrow Agreement is authorized or permitted by this Escrow Agreement, complies with its terms, will, upon the execution and delivery thereof, be valid and binding upon the Escrow Agent and the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest with respect to the Obligations.

(c) If the Owners of not less than the percentage of Obligations then Outstanding required by this Section 7.3 shall have consented to and approved the execution and delivery thereof as herein provided, no Owner shall have any right to object to the execution and delivery of such supplemental Escrow Agreement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain the Escrow Agent or the City from executing and delivering the same or from taking any action pursuant to the provisions thereof.

Section 7.4 Effect of Supplemental Escrow Agreement. Upon the execution and delivery of any supplemental Escrow Agreement pursuant to the provisions of this Section 7.4, this Escrow Agreement shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Escrow Agreement of the Escrow Agent, the City and all Owners of Obligations then Outstanding shall thereafter be determined, exercised and enforced under this Escrow Agreement subject in all respects to such modifications and amendments.

Section 7.5 Amendments to Financing Agreement Not Requiring Consent of Owners.

(a) The City, with the consent of the Escrow Agent but without the consent of or notice to the Owners, may amend, change or modify the Financing Agreement as may be required:

(i) By the provisions of the Financing Agreement and this Escrow Agreement, or

(ii) To cure any ambiguity, formal defect or omission in the Financing Agreement, or

(iii) To make any other change to the Financing Agreement which, in the reasonable judgment of the City, does not materially and adversely affect the Owners.

(b) Before the City shall enter into, and the Escrow Agent shall consent to, any amendment, change or modification pursuant to this Section 7.5 or Section 7.6 below, there shall have been delivered to the Escrow Agent and the City an opinion of Special Counsel stating that such amendment, change or modification is authorized or permitted by this Escrow Agreement and the Financing Agreement, complies with their terms, will, upon the execution and delivery thereof, be valid and binding upon Escrow Agent and the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest with respect to the Obligations.

Section 7.6 Amendments to Financing Agreement Requiring Consent of the Owners.

(a) Any amendment to the Financing Agreement which is not described in Section 7.5 above requires the consent of the City, the Escrow Agent and the Owners of not less than sixty percent (60%) in aggregate principal amount evidenced by the Obligations Outstanding given as provided in this Section 7.6. However, the consent of the Owners of all affected Obligations then Outstanding is required for any amendment, change or modification of the Financing Agreement that would permit the termination or cancellation of the Financing Agreement or a reduction in or postponement of the payments under the said agreement or any change in the provisions relating to the payments thereunder.

(b) If at any time the City shall request the consent of the Escrow Agent to an amendment to the Financing Agreement which is not described in Section 7.5 above, the Escrow Agent shall cause notice to be given of such proposed amendment, change or modification in the same manner as provided by Section 7.3 above with respect to supplemental Escrow Agreements. Such notice shall briefly set forth the nature of such proposed amendment, change or modification, and shall state that copies of the instrument embodying the same are on file at the principal office of the Escrow Agent for inspection by all Owners at any time during reasonable business hours and upon reasonable prior notice. The City may enter into, and the Escrow Agent may consent to, any such proposed amendment, change or modification subject to the same conditions and with the same effect as provided in Section 7.3 above hereof with respect to supplemental Escrow Agreements, provided the City has obtained the opinion of Special Counsel which is described in Section 7.5 above.

ARTICLE VIII COVENANTS; NOTICES

Section 8.1 Compliance With and Enforcement of Financing Agreement.

(a) The City covenants and agrees with the Owners of the Obligations to perform all obligations and duties imposed on it under the Financing Agreement and to enforce such agreement against the Escrow Agent in accordance with its terms.

(b) The Escrow Agent covenants and agrees with the Owners of the Obligations to perform all obligations and duties imposed on it under the Financing Agreement and to enforce such Agreement against the City in accordance with its terms, subject to the rights of the City therein as provided in this Escrow Agreement and the Financing Agreement.

Section 8.2 Notice in Event of Late Financing Payment. If the Escrow Agent does not receive any Financing Payment deposit within one Business Day after the date on which it is due in accordance with the Financing Agreement, the Escrow Agent shall give prompt written notice of such fact to the City.

Section 8.3 Notice of Default. If an Event of Default occurs, the Escrow Agent shall give written notice of such default to the Owners of the Obligations then Outstanding. Such

notice shall specify that an Event of Default has occurred, and shall contain a brief description of the Event of Default. Any failure to give this notice shall not affect any rights of Owners. This shall be mailed by first class mail, postage prepaid, to each Owner within thirty (30) days of the Escrow Agent's actual knowledge of default. However, except for an Event of Default described in Section 9.1(a) below, the Escrow Agent may withhold such notice if and so long as the Escrow Agent in good faith determines that the withholding of such notice is in the interests of the Owners of Obligations.

Section 8.4 Tax Covenants. The City shall comply with the instructions and requirements of the Tax Certificate or Tax Certificates relating to the Obligations. This covenant shall survive payment in full or defeasance of the Obligations.

Section 8.5 Prosecution and Defense of Suits. The City shall promptly take such action as may be necessary to cure any defect in the title to the Project or any part thereof, or the perfection of security interests in the Project, whether now existing or hereafter developing, and shall prosecute and defend all such suits, actions and all other proceedings as may be appropriate for such purpose.

Section 8.6 Further Assurances. The Escrow Agent and the City will make, execute and deliver any and all such further resolutions, instruments and assurances as the Escrow Agent may deem reasonably necessary or proper to carry out the intention or to facilitate the performance of this Escrow Agreement, and for the better assuring and confirming to the Owners of the Obligations the rights and benefits provided herein.

ARTICLE IX EVENTS OF DEFAULT

Section 9.1 Events of Default. The occurrence of one or more of the following shall constitute Events of Default:

(a) The City shall fail to pay any Financing Payment when due; or

(b) The City shall fail to observe and perform any other covenant, condition or agreement on its part to be observed or performed for a period of sixty (60) days after written notice to the City by the Escrow Agent, specifying such failure and requesting that it be remedied, unless the Escrow Agent shall agree in writing to an extension of such time prior to its expiration; provided however, that if the failure stated in the notice cannot be corrected within the applicable period, the Escrow Agent will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected; or

(c) An "event of default" described in Section 6.1(a) of the Financing Agreement occurs and is continuing.

Section 9.2 Remedies on Default. Upon the occurrence and continuance of any Event of Default, the Escrow Agent may proceed, and upon written request of the Owners of not less than a majority in aggregate principal amount evidenced by the Obligations then Outstanding and upon being indemnified to its satisfaction, shall proceed to take whatever action at law or in equity may appear necessary or desirable to enforce the Financing Agreement or to

protect any of the rights vested in the Escrow Agent or the Owners of Obligations by this Escrow Agreement or by the Obligations, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Escrow Agreement or in aid of the exercise of any power granted in this Escrow Agreement or for the enforcement of any other legal or equitable right vested in the Escrow Agent by this Escrow Agreement or by law. However, the Financing Amount and the Financing Payments shall not be subject to acceleration.

The Escrow Agent may exercise such one or more of the rights and powers conferred by this Article IX as the Escrow Agent in its discretion being advised by its counsel shall deem most expedient and in the interests of the Owners.

Section 9.3 No Remedy Exclusive. No remedy herein conferred upon or reserved is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Escrow Agreement to the Escrow Agent, or given under the Financing Agreement and assigned hereunder to the Escrow Agent, or now or hereafter existing at law or in equity. No delay or omission of the Escrow Agent 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 Escrow Agent to exercise any remedy reserved to it, it shall not be necessary to give any notice other than such notice as may be required in this Section 9.3 or by law.

Section 9.4 Agreement to Pay Attorneys' Fees and Expenses. If any party to this Escrow Agreement should default under any of the provisions hereof and any non-defaulting party or parties should employ attorneys or incur other expenses for the collection of moneys on the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay, to the extent permitted by law, to such non-defaulting party or parties the reasonable fees of such attorneys and such other expenses incurred by such non-defaulting party or parties.

Section 9.5 No Additional Waiver Implied by One Waiver. If any agreement contained in this Escrow Agreement should be breached by a party and thereafter waived by another party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 9.6 Application of Moneys Upon Default. If at any time after an Event of Default has occurred the moneys in the Payment Account shall not be sufficient to pay the Financing Payments as the same become due and payable, such moneys together with any moneys available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for herein or otherwise, shall be applied by the Escrow Agent as follows:

- (a) First: To the payments of costs, expenses and fees, and reasonable compensation of the Escrow Agent, its agents and attorneys, and all expenses and liabilities incurred and advances made by the Escrow Agent;

(b) Second: To the payment to the persons entitled thereto of the interest components of Financing Payments as they become due in the order of the payment date of such Financing Payments, and, if the amount available shall not be sufficient to pay in full any particular interest component of a Financing Payment, then to the payment ratably, according to the amounts due on such interest portion, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Obligations;

(c) Third: To the payment of the persons entitled thereto of the principal components of Financing Payments as they become due in the order of the payment date of such Financing Payments, and, if the amount available shall not be sufficient to pay in full any particular principal component of a Financing Payment, then to the payment ratably, according to the amounts due on such principal portion, to the persons entitled thereto, without discrimination or preference; and

(d) Fourth: To the City, but only if the Obligations are no longer Outstanding and all Additional Charges have been paid.

Section 9.7 Action by Owners. If the Escrow Agent fails to take any action to eliminate an occurrence of an Event of Default, the Owners of more than fifty percent (50%) in aggregate principal amount evidenced by the Obligations then Outstanding may institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under the Financing Agreement or this Escrow Agreement, but only if the Escrow Agent shall have been given written notice of such default (unless such default shall consist of a failure to make a Financing Payment when due) and the continuance thereof and if such percentage of Owners have first made written request of the Escrow Agent to institute such action or proceedings in its own name as Escrow Agent hereunder and shall have afforded the Escrow Agent sixty (60) days either to proceed to exercise the powers granted therein or granted under law or to institute such action, suit or proceeding in its name and unless also, the Escrow Agent shall have been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Escrow Agent shall have refused or neglected to comply with such request within a reasonable time.

ARTICLE X LIMITATION OF LIABILITY

Section 10.1 Limited Liability of City. Except for the payment of Financing Payments and Additional Charges when due in accordance with the Financing Agreement, and the performance of the other covenants and agreements of the City contained in the Financing Agreement and this Escrow Agreement, the City shall have no obligation or liability to any of the other parties or to the Owners of the Obligations with respect to this Escrow Agreement or the terms, execution, delivery or transfer of the Obligations, or the distribution of Financing Payments to the Owners by the Escrow Agent.

Section 10.2 No Liability of City for Escrow Agent Performance. The City shall not have any obligation or liability to any of the other parties or to the Owners of the Obligations with respect to the performance by the Escrow Agent of any duty imposed upon it under this Escrow Agreement.

Section 10.3 No Liability of Escrow Agent for Financing Payments by City. The Escrow Agent shall not have any obligation or liability to the Owners of the Obligations with respect to the payment of the Financing Payments by the City when due, or with respect to the performance by the City of any other covenant made by it in the Financing Agreement.

Section 10.4 Opinion of Counsel; Experts.

(a) Before being required to take any action, the Escrow Agent may require an opinion of independent counsel acceptable to the Escrow Agent, which opinion shall be made available to the other parties hereto upon request, which counsel may be counsel to any of the parties hereto, or a verified certificate of any party hereto, or both, concerning the proposed action. If it does so in good faith, the Escrow Agent shall be absolutely protected in relying thereon.

(b) If an Event of Default occurs or a dispute arises under this Escrow Agreement or the Financing Agreement, the Escrow Agent may employ as its agents attorneys at law, certified public accountants and recognized authorities in their fields (who are not employees of the Escrow Agent), as it may deem necessary to carry out any of its obligations hereunder. The City shall reimburse the Escrow Agent for its reasonable expenses in so doing. The Escrow Agent shall not be responsible for any misconduct or negligence of any such agent appointed with due care by the Escrow Agent.

(c) The Escrow Agent may consult with counsel and the written advice of such counsel or any opinion of counsel shall be full and complete authorizations and protection in respect to any action taken or not taken by the Escrow Agent hereunder in good faith and in reliance thereon.

Section 10.4 Limitation of Rights to Parties and Owners. Nothing in this Escrow Agreement or in the Obligations expressed or implied is intended or shall be construed to give any person other than the City, the Escrow Agent and the Owners of the Obligations, any legal or equitable right, remedy or claims under or in respect of this Escrow Agreement; all covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the City, the Escrow Agent and the Owners.

ARTICLE XI MISCELLANEOUS

Section 11.1 Defeasance.

(a) All or any portion of the Outstanding Obligations may be paid and discharged in any one or more of the following ways:

(i) By paying or causing to be paid the Financing Payments attributable to such Obligations as and when the same become due and payable;

(ii) By irrevocably depositing with the Escrow Agent or an independent escrow agent, in trust, before the payment dates, money which,

together with the amounts then on deposit in the Payment Account, is fully sufficient to pay all Financing Payments attributable to such Obligations; or

(iii) By irrevocably depositing with the Escrow Agent or an independent escrow agent, in trust, Defeasance Obligations in such amount which will, together with the interest to accrue thereon, be sufficient to pay all Financing Payments evidenced by such Obligations, as and when the same become due and payable, as evidenced by a verification report, and providing the Escrow Agent with an opinion of Special Counsel that such deposits will not cause the interest component of Financing Payments to be includable in gross income under federal income tax laws.

(b) All obligations of the Escrow Agent and the City under this Escrow Agreement with respect to such Obligations which are paid or deemed paid hereunder shall cease and terminate, except for the obligation of the City to pay the Additional Charges specified in Section 3.2 of the Financing Agreement and to pay Financing Payments from the amount so deposited, and of the Escrow Agent to apply amounts on deposit to the payment of the Financing Payments.

(c) The Escrow Agent shall, so long as any Obligations remain Outstanding, keep complete and accurate records of all moneys received and disbursed under this Escrow Agreement, which shall be available for inspection by the City and any Owner, or the agent of any of them, at any time during reasonable business hours upon reasonable prior notice. Upon written notice, the Escrow Agent shall promptly make such records available to the City, any Owner, or their respective auditors and other representatives, and shall cooperate with them in auditing and reproducing the records.

Section 11.2 Notices.

(a) Except as otherwise provided in Section 11.2(b) below, all written notices to be given under this Escrow Agreement to any party to this Escrow Agreement shall be given by first-class mail, postage prepaid and facsimile to the following addresses (unless the addressee has previously notified the other party in writing of a change in address):

To the Escrow Agent at: Wells Fargo Bank, National Association
MAC P6101-114
1300 SW 5th Avenue, 11th Floor
Portland, OR 97201
Attn: Corporate Trust Department
Facsimile: (503) 886-3300

To the City at: City of Lake Oswego, Oregon
380 A Avenue
P.O. Box 369
Lake Oswego, OR 97034
Attn: Finance Director
Facsimile: (503) 534-5240

To Special Counsel at:

Douglas E. Goe, Esq.
Orrick, Herrington & Sutcliffe LLP
1120 N.W. Couch Street, Suite 200
Portland, OR 97209
Facsimile: (503) 943-4801

(b) **Facsimile Instructions.** The Escrow Agent agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to this Section 11.2 provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Escrow Agent shall forthwith receive the originally executed instructions and/or directions; (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions; and (c) the Escrow Agent shall have received a current incumbency certificate containing the specimen signature of such designated person.

Section 11.3 Governing Law. This Escrow Agreement shall be construed and governed in accordance with the laws of the State of Oregon. Any action regarding this Escrow Agreement or the transactions contemplated hereby shall be brought in the circuit court of Clackamas County, Oregon.

Section 11.4 Partial Invalidity. Any provision of this Escrow Agreement found to be prohibited by law shall be ineffective only to the extent of such prohibition, and shall not invalidate any remainder of this Escrow Agreement.

Section 11.5 Binding Effect; Successors. This Escrow Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Whenever in this Escrow Agreement any party hereto is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all covenants and agreements contained in this Escrow Agreement by or on behalf of any party hereto shall bind and inure to the benefit of the successors and assigns thereof whether so expressed or not.

Section 11.6 Execution in Counterparts. This Escrow Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

Section 11.7 Destruction of Canceled Obligations. Whenever in this Escrow Agreement provision is made for the surrender to or cancellation by the Escrow Agent of any Obligations, the Escrow Agent shall destroy such Obligations.

Section 11.8 Headings. The headings, titles and table of contents in this Escrow Agreement are provided for convenience and shall not affect the meaning, construction or effect of this Escrow Agreement. All references herein to "Sections," and other subdivisions which do not specify the document in which the subdivision is located shall be construed as references to this Escrow Agreement.

[Signatures follow next page]

The Escrow Agent has executed this Escrow Agreement in its corporate name by its duly authorized officer and the City has caused this Escrow Agreement to be executed in its name by its duly authorized officer, all as of the date first above written.

**WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Escrow Agent**

By: _____
Name: _____
Title: _____

CITY OF LAKE OSWEGO, OREGON

By: _____
Ursula Euler
Finance Director

EXHIBIT A

(Form of Series 2013 Obligation)

No. R-1

\$ _____

**FULL FAITH AND CREDIT OBLIGATION
SERIES 2013**

**Evidencing an Undivided Proportionate Interest of the Owner
Hereof in Certain Financing Payments to be Made
Under a Financing Agreement between the**

**City of Lake Oswego, Oregon
and
Wells Fargo Bank, National Association
as Escrow Agent**

<u>Dated Date</u>	<u>Principal Component Interest Rate Per Annum</u>	<u>Principal Component Payment Date</u>	<u>CUSIP Number</u>
_____, 2013	_____%	_____ 1, ____	_____

REGISTERED OWNER: ----- CEDE & CO. -----

PRINCIPAL AMOUNT: ---- _____ DOLLARS -----

This Obligation is executed and delivered by Wells Fargo Bank, National Association, pursuant to an Escrow Agreement, dated as of [[____]] 1, 2013, between Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"), and the City of Lake Oswego, Oregon (the "City"). The Escrow Agent and the City have entered into that certain Financing Agreement, dated as of [[____]] 1, 2013 (the "Financing Agreement"), pursuant to which the City is legally required to make financing payments (the "Financing Payments"). The City has assigned to Escrow Agent all of its right, title and interest in the Financing Payments for the benefit of the Owners of the Obligations under the Escrow Agreement.

This Obligation is entitled proportionately to receipt of the principal component of Financing Payments in the amount set forth as Principal Amount above due on the Principal Component Payment Date set forth above and is entitled proportionately to receipt of an amount of the interest component of Financing Payments on each Payment Date attributable to the interest accruing on said principal component at the Principal Component Interest Rate set forth above.

ADDITIONAL PROVISIONS OF THIS OBLIGATION APPEAR ON THE REVERSE SIDE HEREOF AND ON SUBSEQUENT PAGES; THESE PROVISIONS HAVE THE SAME EFFECT AS IF THEY WERE PRINTED HEREIN.

Wells Fargo Bank, National Association, in Portland, Oregon, as the Escrow Agent and Registrar (the "Registrar"), shall pay to the Registered Owner specified above, or registered assigns, the Principal Amount specified above on the above Principal Component Payment Date together with interest thereon from the dated date indicated above at the Principal Component Interest Rate per annum indicated above, but solely from amounts received from the City pursuant to the Financing Agreement and the Escrow Agreement. Interest is payable semiannually on [June 1 and December 1] of each year until payment, commencing on [June 1, 2014] (the "Payment Date") to the Owners of record as of the Record Date. Principal components of, and interest components of the Financing Payments on this Obligation shall be received by Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), or its registered assigns in same-day funds on each Payment Date. Such payments shall be made payable to the order of "Cede & Co." All terms used in this Obligation and not otherwise defined herein shall have the respective meanings assigned thereto in the Financing Agreement and the Escrow Agreement. The Obligations are payable from the Payment Account as provided in the Escrow Agreement.

This Obligation is one of a series of Full Faith and Credit Obligations, Series 2013 (the "Obligations"), being executed and delivered evidencing the aggregate principal amount \$_____. The City is authorized to enter into the Financing Agreement and the Escrow Agreement by Resolution No. 13-17 adopted by the City Council of the City on July 16, 2013 (the "Resolution").

This Obligation is subject to prepayment in the manner specified in the Financing Agreement and the Escrow Agreement.

The Financing Payments under the Financing Agreement shall be payable from the City's general non-restricted revenues and other funds that are lawfully available for that purpose, including, the proceeds of the Financing Agreement and revenues from an ad valorem tax authorized to be levied under the City's permanent rate limit under sections 11 and 11b, Article XI of the Oregon Constitution, and revenues derived from other taxes, if any, levied by the City in accordance with and subject to limitations and restrictions imposed under applicable law or contract, that are not dedicated, restricted or obligated by law or contract to an inconsistent expenditure or use. The City pledges its full faith and credit and taxing powers to the repayment of the Financing Payments as contemplated by Oregon Revised Statutes 271.390. The registered owners of the Obligations will not have a lien or security interest on the Project financed with the proceeds of the Financing Agreement. **THE REGISTERED OWNERS OF THE OBLIGATIONS DO NOT HAVE A LIEN OR SECURITY INTEREST ON THE PROJECT FINANCED WITH THE PROCEEDS OF THE OBLIGATIONS.**

The payment obligations of the City under the Financing Agreement are additionally secured by a subordinate pledge of Net Revenues of the Water System, as provided in Resolution No. 99-22 of the City (the "Master Water Resolution"). Such pledge of Net Revenues is subordinate to the lien on, and pledge of, the Net Revenues for the senior bonds outstanding from time to time under the Master Water Resolution (the "Senior Bonds"). The obligation of the City to pay Financing Payments is a Subordinate Obligation of the City payable from amounts in the Subordinate Obligations Account (as such terms are defined in the Master Water Resolution).

The Obligations are initially executed and delivered as a Book-Entry System issue with no Obligation certificates provided to the Owners. Records of Obligation ownership will be maintained by the Escrow Agent and DTC and its participants.

Should the book-entry-only security system be discontinued, the Obligations shall be issued in the form of fully registered Obligations without coupons in the denominations of \$5,000 or any integral multiple thereof. Such Obligations may be exchanged for Obligations of the same aggregate principal amount, but different authorized denominations, as provided in the Resolution.

Any transfer of this Obligation must be registered, as provided in the Resolution, upon the Obligation Register kept for that purpose at the Principal Office of the Registrar. Upon registration, a new registered Obligation or Obligations, 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 Registrar may treat the person in whose name this Obligation is registered as its absolute owner for all purposes, as provided in the Resolution.

The Obligation owner may exchange or transfer this Obligation only by surrendering it, together with a written instrument of transfer which is satisfactory to the Registrar and duly executed by the registered owner or his duly authorized attorney, at the principal corporate trust office of the Registrar in the manner and subject to the conditions set forth in the Resolution.

Unless this Obligation is presented by an authorized representative of DTC to the City or its agent for registration, transfer, exchange or payment, and any Obligation issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity 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.

THE ESCROW AGENT HAS NO OBLIGATION OR LIABILITY TO THE OWNERS OF OBLIGATIONS FOR THE PAYMENT OF THE INTEREST OR PRINCIPAL PORTIONS PERTAINING TO THE OBLIGATION; THE ESCROW AGENT'S ONLY OBLIGATIONS ARE TO ADMINISTER, FOR THE BENEFIT OF THE CITY AND THE OWNERS OF OBLIGATIONS, THE PAYMENT ACCOUNT ESTABLISHED IN THE ESCROW AGREEMENT AND ONLY SUCH DUTIES AS SET FORTH IN THE ESCROW AGREEMENT.

This Obligation shall remain in the Registrar's custody subject to the provisions of the Fast Automated Securities Transfer (FAST) agreement currently in effect between Wells Fargo Bank, National Association, as Registrar and The Depository Trust Company, New York, New York.

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the execution and delivery of this Obligation have existed, have happened, and have been performed in due time, form and manner.

IN WITNESS WHEREOF, the Escrow Agent has caused this Obligation to be executed by the manual or facsimile signature of an authorized officer as of the date set forth above.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Escrow Agent

By: _____
Authorized Officer

THIS OBLIGATION SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE REGISTRAR IN THE SPACE INDICATED BELOW.

Date of Authentication: _____, 2013.

CERTIFICATE OF AUTHENTICATION

This is one of the \$_____ Full Faith and Credit Obligations, Series 2013, which represents an interest in the Financing Payments due under the Financing Agreement described herein, and is properly registered and authenticated pursuant to the Escrow Agreement.

Wells Fargo Bank, National Association, as Registrar

By: _____
Authorized Officer

This Obligation shall remain in the Registrar's custody subject to the provisions of the Fast Automated Securities Transfer (FAST) agreement currently in effect between Wells Fargo Bank, National Association, as Registrar and The Depository Trust Company, New York, New York.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto _____

(Please insert social security or other identifying number of assignee)
this Obligation and does hereby irrevocably constitute and appoint
_____ as attorney to transfer this Obligation on the books kept for
registration thereof with the full power of substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this Obligation in every particular, without alteration or enlargement or any change whatever.

NOTICE: The signatures to this Assignment must be guaranteed by a financial institution that is a member of the Securities Transfer Agents Medallion Program ("STAMP"), the Stock Exchange Medallion Program ("SEMP") or the New York Stock Exchange, Inc. Medallion Securities Program ("MSP").

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

The following abbreviations, when used in the inscription on the face of this Obligation, 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
- (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.

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APPENDIX B
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR
ENDED JUNE 30, 2012

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**CITY OF LAKE OSWEGO, OREGON
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

for the fiscal year ended June 30, 2012

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prepared by
the Finance Department of
the City of Lake Oswego
and
available online at
www.ci.oswego.or.us/finance

*Cover photo of Cooks Butte is courtesy of Maria Donaldson –
1st place winner of the 2012 Lake Oswego Photo contest in the category "places in Lake Oswego"*

CITY OF LAKE OSWEGO, OREGON
Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2012

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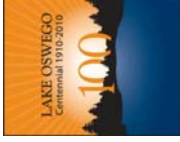
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CITY OF LAKE OSWEGO, OREGON
COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION I

INTRODUCTORY SECTION



CITY OF LAKE OSWEGO
FINANCE DEPARTMENT
380 A Avenue
PO Box 369
Lake Oswego, OR 97034
503-655-0260
www.ci.oswego.or.us

December 7, 2012

To the Mayor, City Council, and Citizens of the City of Lake Oswego:

State law requires that local governments publish within six months of the close of each fiscal year a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) for the City of Lake Oswego is hereby submitted to fulfill this requirement for the fiscal year ended June 30, 2012.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Talbot, Korvoia & Warwick LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City's financial statements for the fiscal year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Lake Oswego (the City), incorporated in 1910, is located in northwest Oregon, along the Willamette River surrounding Oswego Lake. The City currently occupies about 11 square miles and serves a population of 36,725. It is the largest city in Clackamas County and about eight miles south of downtown Portland. Access to downtown Portland is from Highway 43, which parallels the Willamette River. Interstate 5 is the quickest route for commuters on the west end of the City to get to downtown Portland.

The City Charter establishes the City under a council-manager form of government, which vests policy authority in a volunteer city council (the Council), and administrative authority for day-to-day operations in a professional city manager. The Council consists of a mayor and six councilors elected on a non-partisan basis for a term of four years. They appoint the city manager, who in turn appoints the heads of the various departments.

Mike Kehoe, Councilor ■ Sally Moncrieff, Councilor ■ Mary Olson, Councilor ■ Bill Tierney, Councilor
Jack Hoffman, Mayor ■ Jeff Gudman, Councilor ■ Donna Jordan, Councilor

To the Mayor, City Council and Citizens of the City of Lake Oswego
December 7, 2012

Kruse Way and \$2.5 million is outstanding to acquire properties for a North Anchor project on B Avenue for urban renewal.

City's Credit Ratings

In 2006, Moody's Investors Service and Standard & Poor's Rating Service raised their ratings on the City to triple A, commenting on the City's favorable socioeconomic indicators and well managed financial operations. In October 2007, Moody's Investor Service raised its rating on the City's Water Fund debt from Aa3 to Aa2, citing very good coverage, low debt burden, and excellent financial management. And in February 2009, Moody's and Standard & Poor's Rating Service raised their ratings on the City to triple A for the full faith and credit obligations issued to fund the Lake Oswego Interceptor Sewer project. These ratings were reaffirmed September 2011.

Major initiatives

The City has continued to establish and work toward clearly defined goals and objectives. During the budget review process, goals and objectives are developed and prioritized by the City Council and staff. The process is a continuing cycle of setting goals and objectives, reviewing short- and long-term goals, evaluating results, and reassessing the goals and their priority.

To prepare for the budget, the City Council defines and adopts new goals and removes the prior completed goals in January of each year. The list of goals during the 2011-12 fiscal year included these major policy areas: Provide a safe community, support in planning efforts that maintain and improve the City's quality of life and support neighborhood livability, protect City environmental assets and provide opportunities for outdoor activities, create a vibrant and dynamic business community, enhance public engagement in civic activities, and manage city operations in a fiscally prudent and efficient manner.

Awards

Comprehensive Annual Financial Reporting Award. For the eighteenth consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Lake Oswego for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards and satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

To the Mayor, City Council and Citizens of the City of Lake Oswego
December 7, 2012

The City provides a full range of municipal services to the community. These services include police and fire protection, emergency medical services, traffic control and improvement, street maintenance and improvement, water, wastewater, and surface water management services, planning and zoning regulation, building inspection and regulation, parks and recreational activities, and community library service. The City has one component unit: governmental entity, the Lake Oswego Redevelopment Agency (the Agency), the urban renewal agency of the City of Lake Oswego. The financial statements of this agency are included in this report as a blended component unit.

The Council is required to adopt a final budget by no later than June 30th of the fiscal year. This budget serves as the foundation for the City's financial planning and control. The budget is allocated by fund, function, and department (e.g., engineering — engineering management). Transfers of budget amounts between appropriation levels are approved by Council.

Local economy

The City's economy is linked with that of the entire Portland Metropolitan area, but is more insulated from economic downturns because of the high education and skill level of its population. Per capita income is one of the highest of any city in the state of Oregon.

Lake Oswego is primarily a residential community with a low ratio of heavy industry and retail-based commercial activity, although there is a significant office corridor along Kruse Way on the west side, and a major ongoing redevelopment effort at the east end of the City. The largest non-manufacturing employers are the Lake Oswego School District and the City of Lake Oswego. The largest manufacturing employers include makers of plastic extruded sheets and hybrid microcircuits.

Additional commercial development along Kruse Way, near Interstate 5, includes more than a dozen class A office buildings, the Centerpointe Corporate Office Park, and four hotels.

Long-term financial planning

Included in the review of the City's strategic financial plan, reserve amounts of each fund fall within the policy guidelines which are set by the Council and reviewed by the Citizens Budget Committee during the budget process. Reserve policy guidelines are measured as a percentage of annual operating expenses and generally range between 5 and 30 percent depending on the fund.

Along with the adoption of the 2011-12 budget, certain utility rate fee increases were approved. Effective March 1, 2012, a 25.5 percent rate increase for water, and July 1, 2012, a 7 percent rate increase for surface water management fees and a 3 percent rate increase for wastewater fees were approved.

The City had \$15,960,000 outstanding in four general obligation bond issues, \$95,000,000 outstanding in two full faith and credit obligations for wastewater, \$10,065,000 outstanding in two revenue bond issues, and \$11,130,000 outstanding in one full faith and credit obligations for urban renewal, for a total of \$432,155,000 in bond issues outstanding as of June 30, 2012. Additionally \$19 million is outstanding against a bank line of credit used to acquire the 14-acre property site on

To the Mayor, City Council and Citizens of the City of Lake Oswego
December 7, 2012

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Finance Department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also is given to the Mayor, the Council, and the Audit Committee for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Ursula Euler
Finance Director



David Donaldson
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lake Oswego
Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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.

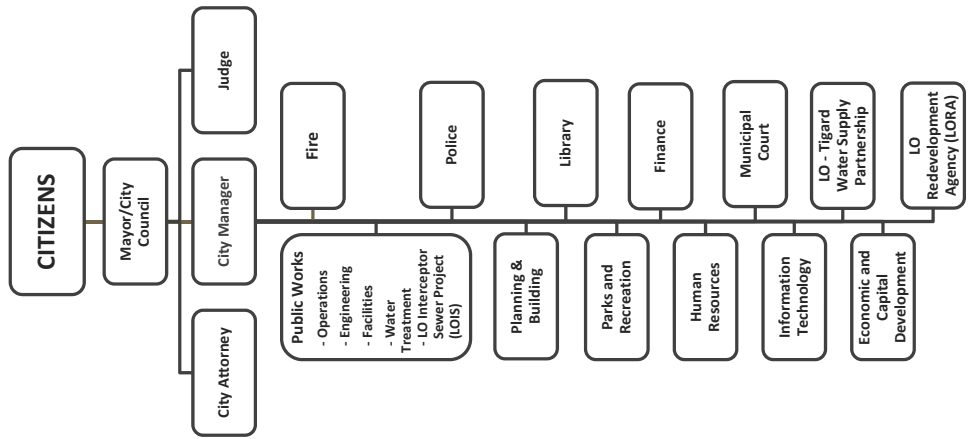


President



Executive Director

**City of Lake Oswego, Oregon
Organization Chart**



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CITY OF LAKE OSWEGO, OREGON

List of Elected and Appointed Officials

Elected Officials	Term Expires
Jack Hoffman, Mayor	December 31, 2012
Sally Moncrieff, Council President	December 31, 2012
Jeff Gudman, Councilor	December 31, 2014
Donna Jordan, Councilor	December 31, 2014
Mike Kehoe, Councilor	December 31, 2014
Mary Olson, Councilor	December 31, 2012
Bill Tierney, Councilor	December 31, 2012

Appointed Officials	Position
David Donaldson	City Manager
David Powell	City Attorney
Bruce Shepley	Municipal Court Judge

Directors:

Bill Baars	Library Director
Brant Williams	Interim Assistant City Manager
Don Johnson	Police Chief
Ursula Euler	Finance Director
Kim Gilmer	Parks and Recreation Director
Guy Graham	City Engineer
John Harris	Maintenance Services Director
Jane Heisler	Communications Director
Christine Kirk	Public Affairs Director
Joel Komarek	Project Director
Megan Phelan	Human Resources Director
Ed Wilson	Fire Chief

380 A Avenue
 Post Office Box 369
 Lake Oswego, Oregon 97034
www.ci.oswego.or.us

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CITY OF LAKE OSWEGO, OREGON
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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SECTION II

FINANCIAL SECTION



**Talbot, Korwala
& Warwick, LLP**
Certified Public Accountants
& Consultants

4800 Meadows Road, Suite 200
Lake Oswego, Oregon 97035-4253
P 503.274.2849
F 503.274.2853
www.tkw.com

INDEPENDENT AUDITOR'S REPORT

December 7, 2012

The City Council
City of Lake Oswego
Lake Oswego, 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 Lake Oswego, Oregon (the City) as of and for the year ended June 30, 2012, 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, 2012, 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 7, 2012, 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 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

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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.


Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying budgetary comparison information for the General Fund, listed in the Table of Contents as Required Supplementary Information, is not a required part of the basic financial statements and is presented for purposes of additional analysis as required by the Governmental Accounting Standards Board, who considers it to be an essential part of basic financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing procedures generally accepted in the United States of America. In our opinion, the information 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 Other Supplementary Information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Other Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing procedures generally accepted in the United States of America. In our opinion, the Other Supplementary Information 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 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 basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By 
Robert G. Moody, Jr., Partner

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis presents the highlights of financial activities and financial position for the City of Lake Oswego. The analysis focuses on significant financial issues, debt administration, capital assets, major financial activities and resulting changes in financial position, budget changes and variances from the budget, specific issues related to funds, and the economic factors affecting the City.

Management's Discussion and Analysis focuses on current year activities and resulting changes. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

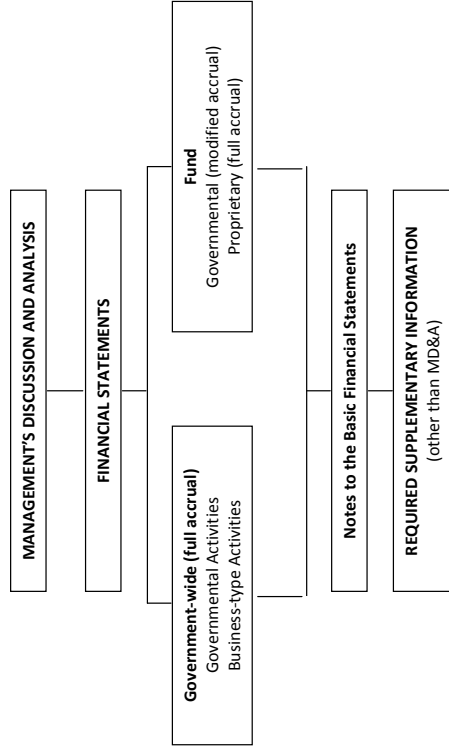
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$223 million (*net assets*). Of this amount, \$27.2 million (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets *increased* \$6.3 million over the course of this year's operations. Net assets of our governmental activities *increased* by \$3.3 million or 2.7 percent and net assets of our business-type activities *increased* by \$3 million or 3.2 percent.
- During the fiscal year, the City incurred net expenses from governmental activities totaling \$35.5 million. These net expenses were \$3.1 million less than the \$38.6 million generated in tax and other revenues for governmental programs.
- In the City's business-type activities, operating revenues increased by \$3.1 million to \$25.3 million (*including \$4.7 million for the internal service funds*), while operating expenses also increased from the prior year.
- The net direct cost of all the City's programs was \$32.4 million with no new programs added this year.
- The General Fund reports a fund balance as of the end of this fiscal year of \$24.7 million, which is a decrease of \$900,000 from the previous fiscal year-end balance. This decrease includes a one-time payment to the Lake Oswego School District, additional franchise fees revenues received, and lower debt service costs due to lower interest rates.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this discussion and analysis, the financial section of this annual report contains the *basic financial statements, required supplementary information*, and the *combining statements and schedules* of the nonmajor funds. The basic financial statements also include *notes* that explain the information in the financial statements and provide more details. The statements are followed by the section, *required supplementary information*, which provides budgetary comparison information for the City's General Fund. Chart 1 below, illustrates how the various sections of this annual report are arranged relative to one another.

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Chart 1
Required Elements of the
Comprehensive Annual Financial Report



Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between assets and liabilities—is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors, such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into two categories:

- Governmental activities—Most of the City's basic services are included here, such as police, fire, community development, parks, and general administration. Property taxes and state and federal grants finance most of these activities.

- Business-type activities—The City charges fees to customers to help it cover the costs of certain services it provides. The City's water, wastewater, and surface water management systems are included here. The internal services for management from Maintenance Services and Motor Pool and engineering are also included with business-type activities.

Statement of Net Assets as of June 30, 2012

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$223 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (81 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Net Assets as of Fiscal Year-end
(in millions)

	Governmental Activities		Business-type Activities		Total	
	FY11-12	FY10-11	FY11-12	FY10-11	FY11-12	FY10-11
Current and other assets	\$ 41.3	\$ 42.0	\$ 28.4	\$ 33.3	\$ 69.7	\$ 75.3
Capital assets	140.0	138.0	198.1	183.0	338.1	321.0
Total assets	181.3	180.0	226.5	216.3	407.8	396.3
Current liabilities	8.7	8.3	8.2	5.2	16.9	13.5
Long-term liabilities	47.8	50.2	120.1	115.9	167.9	166.1
Total liabilities	56.5	58.5	128.3	121.1	184.8	179.6
Net assets						
invested in capital assets,						
net of related debt	90.4	89.6	90.7	84.0	181.1	173.6
Restricted	14.7	16.4	-	0.2	14.7	16.6
Unrestricted	19.7	15.5	7.5	11.0	27.2	26.5
Total net assets	\$ 124.8	\$ 121.5	\$ 98.2	\$ 95.2	\$ 223.0	\$ 216.7

An additional portion of the City's net assets (\$14.7 million or 6.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$27.2 million) may be used to meet the City's ongoing obligations to citizens and creditors.

As of June 30, 2012, the City had positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true as of the end of the prior fiscal year.

Total net assets increased by \$6.3 million during the current fiscal year. This increase represents the degree to which increases in ongoing revenues have exceeded similar increases in ongoing expenses, as well as an increase in water and wastewater (sewer) utility fees needed for funding of the ongoing Lake Oswego-Tigard Water Supply Partnership Project, costs for the Lake Oswego Interceptor Sewer project, respectively.

Statement of Activities for the fiscal year ended June 30, 2012

As with the statement of net assets, the City reports activities on a consolidated basis. A summary of the statement of activities is provided in Table 2 below.

Table 2
Changes in Net Assets
(in millions)

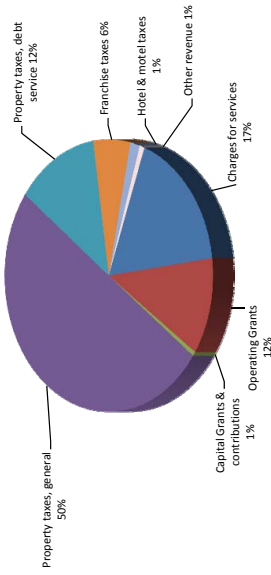
	Governmental Activities		Business-type Activities		Total	
	FY11-12	FY10-11	FY11-12	FY10-11	FY11-12	FY10-11
Revenues						
Charges for services	\$ 9.5	\$ 9.4	\$ 24.6	\$ 21.0	\$ 34.1	\$ 30.4
Grants and contributions	6.6	7.6	0.5	1.1	7.1	8.7
General revenues	34.2	32.6	-	-	34.2	32.6
Property taxes	4.0	3.6	-	-	4.0	3.6
Franchise and hotel/motel taxes	0.4	0.5	0.2	0.1	0.6	0.6
Other	54.7	53.7	25.3	22.2	80.0	75.9
Total revenues						
Charges for services	15.6	12.8	-	-	15.6	12.8
Grants and contributions	18.7	17.4	-	-	18.7	17.4
Culture and recreation	11.4	11.1	-	-	11.4	11.1
Community development	-	-	-	-	-	-
Highways and streets	4.6	4.5	-	-	4.6	4.5
Interest on long-term debt	1.3	1.5	-	-	1.3	1.5
Business-type activities	-	-	6.8	6.5	6.8	6.5
Water	-	-	11.3	6.6	11.3	6.6
Wastewater	-	-	2.3	2.2	2.3	2.2
Surface water	-	-	0.9	0.9	0.9	0.9
Golf course	-	-	0.4	0.3	0.4	0.3
Tennis facility	-	-	0.2	0.2	0.2	0.2
Maintenance & Motor Pool	-	-	0.2	0.2	0.2	0.2
Engineering	-	-	0.2	1.0	0.2	1.0
Total expenses	51.6	47.3	22.1	17.7	73.7	65.0
Excess before transfers	3.1	6.4	3.2	4.5	6.3	10.9
Transfers	0.2	(0.3)	(0.2)	0.3	-	-
Increase in net assets	\$ 3.3	\$ 6.1	\$ 3.0	\$ 4.8	\$ 6.3	\$ 10.9

Governmental Activities

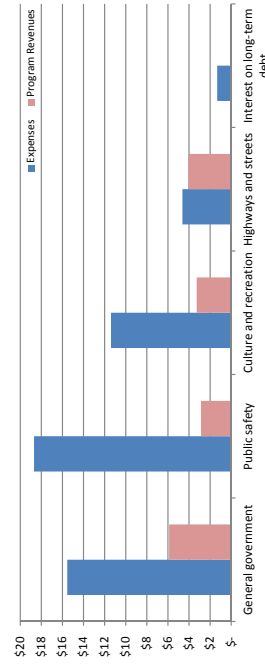
Governmental activities increased the City's net assets by \$3.3 million, amounting to 53 percent of the total growth in the net assets of the City. Key elements of this increase are illustrated in Table 2 on the previous page. Total revenues were increased in part due to a temporary increase in the Franchise Fees rate to help offset the cost of the \$2,000,000 given to the Lake Oswego School District during the fiscal year; an increase in building activity, as reflected in the General Fund as well as increases in property taxes received, motor vehicle fees and street maintenance revenue. Blended into the governmental activities is the City's component unit, Lake Oswego Redevelopment Agency (the Agency), the urban renewal agency of the City. This Agency's tax collections account for \$3.4 million, or 10 percent, of the property taxes collected by the City. Property tax collections are restricted to repayment of urban renewal debt which finances various projects within the urban renewal district.

The revenues charted in the following pie chart include all program and general revenues for governmental activities such as property taxes, franchise fees, charges for services, operating grants, capital contributions, and interest earnings. Property taxes continue to be the major source of revenue for the City's governmental activities.

Revenues by Source - Governmental Activities



Expenses and Program Revenues (in millions) - Governmental Activities



Business-type Activities – Enterprise Funds

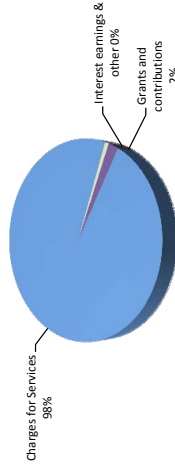
The Water Fund revenues represent approximately 36 percent of all utility revenues for the City. Most of these revenues went towards operations of the City's water treatment plant located in West Linn. The City issued new and refunded water bonds in fiscal year 2007-08 to help finance capital improvements. The Lake Oswego-Tigard Water Partnership was formed in 2009 to manage the expansion and upgrade of the City's water supply system. The City of Lake Oswego increased the water utility fees to help pay their portion of the cost of this expansion.

The Wastewater Fund revenues represent approximately 48 percent of all utility revenues for the City. Most of Lake Oswego is serviced by a wastewater system that feeds into a main pipeline located under the surface of Oswego Lake transporting sewage to the Tryon Creek wastewater treatment facility. In September 2010, \$35 million in full-faith and credit obligations were sold for the final phases of the Lake Oswego Interceptor Sewer project, which served to upgrade and replace the main sewer line.

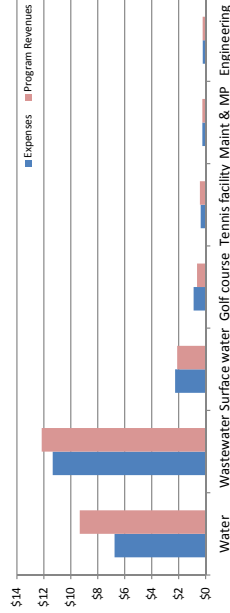
The Surface Water Fund revenues represent approximately 9 percent of all utility revenues for the City. These revenues go for the operations of the City's surface water management system. In April 2005, \$3 million in surface water revenue bonds were sold to make infrastructure improvements.

Activities of the municipal golf course and tennis facility, approximately 4 percent of the total enterprise revenues, are also included with business-type activities in the government-wide financial statements. These two activities, along with maintenance services and motor pool, and engineering services, represent a small fraction of the City's business-type activities.

Revenues by Source - Business-type Activities



Expenses and Program Revenues (in millions) – Business-type Activities



General Fund Budgetary Highlights

During the fiscal year, the General Fund's budgeted appropriations between the original and final budget increased by \$400,000. This increase reflected a grant for fire station improvements and a transfer to the General Fund to compensate for a portion of Waluga Park to be used for the Lake Oswego-Tigard water project. Also, there were some adjustments between the categories to reallocate some spending. Some of the adjustments included an a \$50,000 shift of franchise fees to non-major governmental funds; the addition of \$50,000 for code re-write expenditures for Planning & Building; additional landslide remediation project costs for the Adult Community Center \$150,000; and a retroactive Cost of Living Adjustment (COLA) of 2% for Managers to mirror the increase for represented employees.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of the end of fiscal year 2011-12, the City had a net depreciated cost of \$ 338.1 million invested in a broad range of capital assets that include police and fire equipment, buildings, park facilities, streets, bridges, and water and sewer lines (Table 3). This amount had a net increase of \$ 17.1 million or 5.3 percent over the previous fiscal year (Table 4).

**Table 3
Capital Assets as of Fiscal Year-end
(net of depreciation, in millions)**

	Governmental Activities		Business-type Activities		Total	
	FY11-12	FY10-11	FY11-12	FY10-11	FY11-12	FY10-11
Land	\$ 56.8	\$ 54.3	\$ 4.5	\$ 4.5	\$ 61.3	\$ 58.8
Buildings and improvements	33.3	33.3	159.8	160.5	193.1	193.8
Machinery and equipment	2.0	2.3	6.4	6.5	8.4	8.8
Infrastructure	46.4	47.4	-	-	46.4	47.4
Intangibles	0.2	0.1	0.2	0.2	0.4	0.3
Construction in progress	1.3	0.6	27.2	11.4	28.5	12.0
Net capital assets	\$ 140.0	\$ 138.0	\$ 198.1	\$ 183.1	\$ 338.1	\$ 321.1

The following table reconciles the change in capital assets, for the fiscal year. Expenditures for construction projects in progress at fiscal year-end are included in additions. Reductions are for capital asset dispositions and transfers of construction projects in progress that were completed during the fiscal year. Additions include capital contributions from outside developers with the revenue from these contributions reflected in capital grants and contributions on the statement of activities.

Table 4
Change in Capital Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	FY11-12	FY10-11	FY11-12	FY10-11	FY11-12	FY10-11
Beginning balance	\$ 138.0	\$ 138.2	\$ 183.1	\$ 139.2	\$ 321.1	\$ 277.4
Additions	13.0	10.6	24.3	143.7	37.3	154.3
Reductions	(5.9)	(5.8)	(4.5)	(96.1)	(10.4)	(101.9)
Depreciation	(5.1)	(5.0)	(4.8)	(3.7)	(9.9)	(8.7)
Ending balance	\$ 140.0	\$ 138.0	\$ 198.1	\$ 183.1	\$ 338.1	\$ 321.1

Assets utilized in governmental activities increased to \$140.0 million. Annual depreciation did not exceed new additions. Non depreciable land and land improvements increased by 4.6 percent or \$2.5 million. Additions include completion of the Adult Community Center Slide Remediation; the Street Paving Project; two property purchases for the North Anchor Project; additional costs for later phases of the Lake Oswego Interceptor Sewer work with improvements and smaller projects throughout the community. More detailed information about the City's capital assets is presented in Note 3.C. in the notes to the basic financial statements.

Debt Outstanding

As of the end of the fiscal year, the City had \$132.2 million in bonds outstanding—a decrease of 4 percent from last year—as shown in Table 5. More detailed information about the City's long-term debt is presented in Note 3.E. in the notes to the basic financial statements.

During the fiscal year ended June 30, 2012, the City issued \$11.5 million of LORA full faith and credit obligations to refund LORA's 2005 bond issue and provide new resources for projects. Also, the City issued \$3.5 million of general obligation bonds to refund the City's outstanding general obligation bonds for Series 2001 to achieve debt service savings.

Bond Ratings

In April 2009, Moody's upgraded the City's Wastewater Fund debt rating from Aa2 to Aaa.

Limitations on Debt

The State limits the amount of general obligation debt that cities can issue to 3 percent of the real market value of all taxable property within city limits. The City's outstanding general obligation debt of \$18.6 million is significantly below this 3 percent limit of \$243 million.

Table 5
Outstanding Bonded Debt at Fiscal Year-end
(in millions)

	June 30,	
	2012	2011
Governmental:		
General obligation bonds	\$ 16.0	\$ 18.6
LORA Full-Faith/Credit obligations	11.1	-
Urban renewal bonds	-	13.3
Sub-total	27.1	31.9
Business-type:		
Water revenue bonds	7.9	8.5
Wastewater Full-Faith/Credit obligations	95.0	95.0
Surface water revenue bonds	2.2	2.3
Sub-total	105.1	105.8
Total	\$ 132.2	\$ 137.7

Economic Factors

The State of Oregon does not have a sales tax, making property taxes the major resource for most governmental agencies in Oregon. Property taxes are important to the City as they represent 62 percent of the resources which can be used for governmental activities. The next largest resource, at 17 percent, comes from fees and charges for services, and includes such items as permits, licenses, recreation charges and system development charges. Property taxes for general operations increased slightly over the last year.

The business-type activities are funded with utility fees and charges. Effective July 1, 2011, the City increased wastewater rates by 17.25 percent, and surface water rates by 7 percent. Then, effective March 1, 2012, the City increased water rates by 25.5 percent. These rate increases equate to an additional \$16.32 per month per household.

Uncertainties about future economic changes and financial impacts are common in all cities. To deal with the swings in the economy and to plan for future capital expansion, the City routinely sets aside portions of its fund balances for contingencies and emergency situations.

Requests for Information

This City's financial statements are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability of the resources it receives and expends. If you have questions about this report, or need additional financial information, contact the Finance Department, City of Lake Oswego P.O. Box 369 Lake Oswego, Oregon 97034 or e-mail ueuler@ci.oswego.or.us.

BASIC FINANCIAL STATEMENTS

Statement of Net Assets

Statement of Activities

Fund Financial Statements

Notes to the Basic Financial Statements

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CITY OF LAKE OSWEGO, OREGON
Statement of Net Assets
as of June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and investments	\$ 19,472,027	\$ 20,590,653	\$ 40,062,680
Receivables (net of allowance)	4,314,578	6,885,280	11,199,858
Internal balances	201,663	(201,663)	-
Inventories and prepaids	-	189,885	189,885
Unamortized bond issuance costs	53,090	57,973	111,063
Restricted cash and investments	10,870,780	-	10,870,780
Total current assets	<u>34,912,138</u>	<u>27,522,128</u>	<u>62,434,266</u>
Noncurrent assets:			
Capital assets:			
Land and construction in progress	58,080,234	31,638,015	89,718,249
Other capital assets (net of accumulated depreciation)	81,933,834	166,425,452	248,359,286
Total capital assets (net of accumulated depreciation)	<u>140,014,068</u>	<u>198,063,467</u>	<u>338,077,535</u>
Restricted beneficial interest in trust	4,129,883	-	4,129,883
Notes Receivable	1,771,974	-	1,771,974
Unamortized bond issuance costs	533,045	953,507	1,486,552
Total noncurrent assets	<u>146,448,970</u>	<u>199,016,974</u>	<u>345,465,944</u>
Total assets	<u>181,361,108</u>	<u>226,539,102</u>	<u>407,900,210</u>
Liabilities			
Current liabilities:			
Accounts payable	1,625,256	3,518,993	5,144,249
Salaries and benefits payable	280,367	7,986	288,353
Deposits	93,200	101,879	195,079
Interest payable	101,819	329,149	430,968
Bonds payable	3,176,933	3,757,557	6,934,490
Line of credit payable, due within one year	850,000	-	850,000
Compensated absences payable	2,565,190	474,218	3,039,408
Total current liabilities	<u>8,692,765</u>	<u>8,189,782</u>	<u>16,882,547</u>
Noncurrent liabilities:			
Bonds payable	24,657,779	103,572,274	128,230,053
Deposits	-	15,997,917	15,997,917
Line of credit payable, due after one year	20,956,913	-	20,956,913
Accrued other postemployment benefits obligation	2,227,519	557,750	2,785,269
Total noncurrent liabilities	<u>47,842,211</u>	<u>120,127,941</u>	<u>167,970,152</u>
Total liabilities	<u>56,534,976</u>	<u>128,317,723</u>	<u>184,852,699</u>
Net Assets			
Invested in capital assets, net of related debt	90,372,443	90,733,636	181,106,079
Restricted for:			
Library and Adult Community Center programs	3,587,049	-	3,587,049
Capital projects	7,636,374	-	7,636,374
Debt service	1,133,494	-	1,133,494
Building program	2,351,593	-	2,351,593
Unrestricted	19,745,179	7,487,743	27,232,922
Total net assets	<u>\$ 124,826,132</u>	<u>\$ 98,221,379</u>	<u>\$ 223,047,511</u>

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

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CITY OF LAKE OSWEGO, OREGON
Statement of Activities
for the fiscal year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 15,541,562	\$ 4,152,150	\$ 1,722,492	\$ 15,000	\$ (9,651,920)	\$ -	\$ (9,651,920)
Public safety	18,688,761	2,600,770	265,921	-	(15,822,070)	-	(15,822,070)
Culture and recreation	11,402,540	946,670	2,327,588	1,065	(8,127,217)	-	(8,127,217)
Highways and streets	4,627,813	1,802,653	1,997,467	273,084	(554,609)	-	(554,609)
Interest on long-term debt	1,324,131	-	-	-	(1,324,131)	-	(1,324,131)
Total governmental activities	51,584,807	9,502,243	6,313,468	289,149	(35,479,947)	-	(35,479,947)
Business-type activities:							
Water	6,756,216	9,007,395	-	327,409	-	2,578,588	2,578,588
Wastewater	11,341,358	12,088,855	-	73,725	-	821,222	821,222
Surface water	2,262,510	2,103,163	-	1,762	-	(157,585)	(157,585)
Golf course	880,861	636,217	-	-	-	(244,644)	(244,644)
Tennis facility	361,385	425,061	-	-	-	63,676	63,676
Maintenance & Motor Pool	238,839	228,227	-	10,612	-	-	-
Engineering	215,231	151,282	-	70,651	-	6,702	6,702
Total business-type activities	22,056,400	24,640,200	-	413,508	-	3,067,959	3,067,959
Total government	\$ 73,641,207	\$ 34,142,443	\$ 6,384,119	\$ 702,657	(35,479,947)	3,067,959	(32,411,988)
General revenues:							
Taxes							
Property taxes, levied for general purposes					27,428,696	-	27,428,696
Property taxes, levied for debt service					6,801,369	-	6,801,369
Franchise taxes					3,135,014	-	3,135,014
Hotel and motel taxes					806,458	-	806,458
Interest and investment earnings					146,589	118,945	265,534
Other revenues					261,454	21,323	282,777
Gain on sale of capital assets					3,206	-	3,206
Transfers					160,178	(160,178)	-
Total general revenues and transfers					38,742,964	(19,910)	38,723,054
Change in net assets					3,263,017	3,048,049	6,311,066
Net assets - beginning					121,563,115	95,173,330	216,736,445
Net assets - ending					\$ 124,826,132	\$ 98,221,379	\$ 223,047,511

Continued on next page
The notes to the basic financial statements are an integral part of this statement.

CITY OF LAKE OSWEGO, OREGON
Balance Sheet
Governmental Funds
as of June 30, 2012

	General Fund	Redevelopment Agency Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 17,279,502	\$ -	\$ 2,192,525	\$ 19,472,027
Property taxes receivable	1,957,473	311,282	543,183	2,811,938
Accounts receivable	744,431	-	577,472	1,321,903
Assessment liens receivable	-	-	186,337	186,337
Notes receivable	1,771,974	-	-	1,771,974
Restricted cash and investments	2,351,593	522,265	7,996,922	10,870,780
Restricted beneficial interest in trust	4,129,883	-	-	4,129,883
Total assets	\$ 28,234,856	\$ 833,547	\$ 11,496,439	\$ 40,564,842
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,220,726	\$ -	\$ 404,530	\$ 1,625,256
Salaries and benefits payable	279,887	-	480	280,367
Refundable deposits	87,900	-	5,300	93,200
Deferred revenue	1,964,375	279,879	700,615	2,944,869
Total liabilities	3,552,888	279,879	1,110,925	4,943,692
Fund balances:				
Non-spendable in form Restricted for:	1,500,000	-	-	1,500,000
Senior center programs and capital	1,661,251	-	-	1,661,251
Library programs and capital	1,925,798	-	-	1,925,798
Building inspection	2,351,593	-	-	2,351,593
Energy conservation	15,151	-	-	15,151
Trolley	-	-	350,136	350,136
Tourism	-	-	58,338	58,338
Capital projects	-	-	7,636,374	7,636,374
Highway and streets	-	-	20,674	20,674
Debt service	-	553,668	579,826	1,133,494
Assigned to:				
Library improvements	914,000	-	-	914,000
Fire truck purchase	600,000	-	-	600,000
Art and education	-	-	6,240	6,240
Highway and streets	-	-	1,733,926	1,733,926
Equipment replacement	144,000	-	-	144,000
Unassigned	15,570,175	-	-	15,570,175
Total fund balances	24,681,968	553,668	10,385,514	35,621,150
Total liabilities and fund balances	\$ 28,234,856	\$ 833,547	\$ 11,496,439	\$ 40,564,842

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

CITY OF LAKE OSWEGO, OREGON
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
for the fiscal year ended June 30, 2012

Amounts reported for governmental activities in the statement of net assets (page 29) are different because:

Total fund balances - governmental funds (page 32)	\$ 35,621,150
Capital assets used in governmental activities are not financial resources and therefore are not reported, net of accumulated depreciation of \$66,427,149	140,014,068
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
Property taxes, earned but uncollectible	2,480,958
Assessment liens, earned but uncollectible	186,337
Interest on note from Tri-Met, earned but uncollectible	271,974
Bond issuance costs, net of amortization	586,135
Accrued liabilities that are not due and payable in the current period and therefore are not reported in the funds:	
Accrued compensated absences	(2,565,190)
Accrued interest payable	(101,819)
Accrued other post employment pension obligation	(2,227,519)
Bond premium, net of amortization	(744,712)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(48,896,913)
Adjustment to reflect the consolidation of internal service fund activities related to governmental funds.	201,663
Net assets of governmental activities	\$ 124,826,132

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

CITY OF LAKE OSWEGO, OREGON
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the fiscal year ended June 30, 2012

CITY OF LAKE OSWEGO, OREGON
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
for the fiscal year ended June 30, 2012

	General Fund	Redevelopment Agency Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 27,112,807	\$ 3,364,377	\$ 3,323,698	\$ 33,800,882
Franchise taxes	2,835,014	-	300,000	3,135,014
Intergovernmental	4,269,557	-	2,353,558	6,623,115
Licenses and fees	2,761,563	-	3,191,729	5,953,292
Fines and forfeitures	981,500	-	4,918	986,418
Sales and services	3,356,966	-	-	3,356,966
Charges for services	2,550,453	-	35,000	2,585,453
Special assessment - principal	-	9,549	12,024	21,573
Miscellaneous	256,400	-	100,279	356,679
Total revenues	44,124,260	3,373,926	9,321,206	56,819,392
Expenditures:				
Current:				
General government	13,669,034	296,092	1,576,004	15,541,130
Public safety	17,996,794	-	-	17,996,794
Culture and recreation	9,654,943	-	204,958	9,859,901
Highways and streets	-	-	2,442,792	2,442,792
Debt service:				
Principal	21,006,913	13,275,000	6,530,000	40,811,913
Interest	155,758	21,118	1,018,446	1,195,322
Intergovernmental expenditures	2,000,000	-	-	2,000,000
Capital outlay	1,003,416	-	6,111,762	7,115,178
Total expenditures	65,486,858	13,592,210	17,883,962	96,963,030
Excess (deficiency) of revenues over (under) expenditures	(21,362,598)	(10,218,284)	(8,562,756)	(40,143,638)
Other financing sources (uses):				
Proceeds from bonds issued	41,531	-	15,790,100	15,831,631
Proceeds from line-of-credit issued	20,156,913	-	2,500,000	22,656,913
Transfers in	517,178	14,471,019	4,919,000	19,907,197
Transfers out	(249,000)	(4,803,000)	(14,695,019)	(19,747,019)
Proceeds from sale of capital assets	3,206	-	-	3,206
Total other financing sources (uses)	20,469,828	9,668,019	8,514,081	38,651,928
Net change in fund balances	(892,770)	(550,265)	(48,675)	(1,491,710)
Fund balances - beginning	25,574,738	1,033,933	10,434,189	37,112,860
Fund balances - ending	\$ 24,681,968	\$ 583,668	\$ 10,385,514	\$ 35,651,150

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

Amounts reported for governmental activities in the statement of activities (pages 30 & 31) are different because:

Net change in fund balances--total governmental funds (page 34)	\$	(1,491,710)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital acquisition:	\$	7,009,820
Expenditures for capital assets		(5,131,315)
Less current-year depreciation		1,878,505

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, transfers, and donations) is to increase net assets.

(164,923)

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.

273,084

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Interest income on TruMet note 112,103

541,286

Property taxes 429,183

Issuance of debt proceeds are reported as financing sources and payments to escrow agent for refunded bonds are reported as financing uses in governmental funds and thus contribute to the change in fund balances. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

2,370,288

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

106,396

Interest expense and amortization of issuance costs (257,994)

Net other post employment pension obligation (116,638)

Compensated absences

124,723

Adjustment to reflect the consolidation of internal service fund activities related to governmental funds.

3,263,017

Change in net assets of governmental activities (page 31)

\$

3,263,017

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

CITY OF LAKE OSWEGO, OREGON
Statement of Net Assets
Proprietary Funds
as of June 30, 2012

	Business-type Activities - Enterprise Funds			Total	Business-type Activities	
	Water Fund	Wastewater Fund	Surface Water Fund		Other Enterprise Funds	Internal Service Funds
Assets						
Current assets:						
Cash and investments	\$ 622,695	\$ 16,729,667	\$ 1,549,329	\$ 663,709	\$ 19,566,400	\$ 1,025,253
Receivables (net of allowance)	4,582,886	1,894,205	346,025	-	6,823,116	62,164
Inventories	99,372	-	-	56,126	155,498	34,387
Unamortized bond issuance costs and prepaids	-	57,973	-	-	57,973	-
Total current assets	5,304,953	18,681,845	1,895,354	719,835	26,600,987	1,121,804
Noncurrent assets:						
Capital assets:						
Land	1,575,735	1,927,199	278,304	227,929	4,009,167	458,819
Intangibles	-	191,730	-	-	191,730	-
Buildings and improvements	59,361,725	136,372,614	24,453,032	2,097,115	222,284,486	1,000,903
Machinery and equipment	5,190,850	7,009,978	1,264,996	267,909	13,733,733	405,944
Construction in progress	26,877,484	292,545	-	-	27,170,029	-
	93,005,794	145,794,066	25,996,332	2,592,953	267,389,145	1,865,666
Less accumulated depreciation	(32,860,310)	(22,877,139)	(12,531,488)	(1,686,095)	(69,955,033)	(1,236,311)
Total capital assets (net of accumulated depreciation)	60,145,484	122,916,927	13,464,844	906,858	197,434,112	629,355
Unamortized bond issuance costs	-	953,507	-	-	953,507	-
Total noncurrent assets	60,145,484	123,870,434	13,464,844	906,858	198,387,619	629,355
Total assets	65,450,437	142,552,279	15,360,197	1,626,693	224,988,606	1,751,159
Liabilities						
Current liabilities:						
Accounts payable	2,774,502	659,675	28,583	21,450	3,484,210	34,783
Salaries and benefits payable	2,487	1,004	349	655	4,495	3,491
Matured and accrued bond interest payable	27,170	293,794	8,185	-	329,149	-
Deposit	-	500	-	-	500	101,379
Bonds payable	645,000	2,972,557	140,000	-	3,757,557	-
Compensated absences payable	163,691	59,171	16,238	19,684	258,784	215,434
Total current liabilities	3,612,850	3,986,701	193,355	41,789	7,834,695	355,087
Noncurrent liabilities:						
Bonds payable	7,265,000	94,292,274	2,015,000	-	103,572,274	-
Deposits	15,997,917	-	-	-	15,997,917	-
Accrued other postemployment benefits obligation	126,350	83,500	26,700	86,600	323,150	234,600
Total noncurrent liabilities	23,389,267	94,375,774	2,041,700	86,600	119,893,341	234,600
Total liabilities	27,002,117	98,362,475	2,235,055	128,389	127,728,036	589,687
Net Assets						
Invested in capital assets, net of related debt	52,235,484	25,552,096	11,309,843	906,858	90,104,281	629,355
Unrestricted	(13,787,164)	18,537,708	1,815,299	591,446	7,157,289	532,117
Total net assets	\$ 38,448,320	\$ 44,189,804	\$ 13,125,142	\$ 1,498,304	\$ 97,261,570	\$ 1,161,472
Add						
Internal service funds are used by management to charge cost of maintenance administration, motor pool, and engineering services to individual funds. Assets and liabilities of the internal service funds are included in business-type activities in the Statement of Net Assets.					959,809	
Total net assets, business-type activities					\$ 98,221,379	

Continued on next page
The notes to the basic financial statements are an integral part of this statement.

CITY OF LAKE OSWEGO, OREGON
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
for the fiscal year ended June 30, 2012

	Business-type Activities - Enterprise Funds			Total	Other Enterprise Funds	Business-type Activities Internal Service Funds
	Water Fund	Wastewater Fund	Surface Water Fund			
Operating revenues:						
Licenses & Fees	\$ 994,002	\$ 567,822	\$ -	\$ 1,565,604	\$ 3,780	\$ 940,139
Charges for sales and services	8,013,393	11,521,033	2,103,163	22,695,087	1,057,498	3,739,000
Miscellaneous	11,224	2,629	-	21,323	7,470	13,431
Total operating revenues	9,018,619	12,091,484	2,103,163	24,282,014	1,068,748	4,692,570
Operating expenses:						
Salaries and benefits	2,264,380	792,956	290,887	3,865,715	517,492	3,130,422
Operating supplies and services	1,754,801	3,096,924	392,729	5,708,056	463,602	638,216
Depreciation	1,344,771	2,616,613	621,105	4,649,123	66,634	55,594
Services performed by other funds	1,286,762	1,415,148	918,049	3,814,058	194,099	647,564
Total operating expenses	6,650,714	7,921,641	2,222,770	18,036,952	1,241,827	4,471,796
Operating income (loss)	2,367,905	4,169,843	(119,607)	6,245,062	(173,079)	220,774
Nonoperating revenues (expenses):						
Operating grants	-	-	-	-	-	70,651
Interest on investments	17,000	90,764	7,984	118,945	3,197	4,356
Interest expense	(165,644)	(3,416,209)	(100,386)	(3,682,239)	-	-
Other expense	-	(57,973)	-	(57,973)	-	-
Loss on sale of capital assets	-	(134)	-	(134)	-	-
Total nonoperating revenues (expenses)	(148,644)	(3,383,552)	(92,402)	(3,621,401)	3,197	75,007
Net income before contributions and transfers	2,219,261	786,291	(212,009)	2,623,661	(169,882)	295,781
Capital contributions	327,409	73,725	1,762	402,896	-	10,612
Transfers in	-	-	-	133,000	133,000	-
Transfers out	(293,178)	-	-	(293,178)	-	-
Change in net assets	2,253,492	860,016	(210,247)	2,866,379	(36,882)	306,393
Total net assets - beginning	36,194,828	43,329,788	13,335,389	94,395,191	1,535,186	855,079
Total net assets - ending	\$ 38,448,320	\$ 44,189,804	\$ 13,125,142	\$ 97,261,570	\$ 1,498,304	\$ 1,161,472
Add						
Adjustment to reflect the consolidation of internal service fund beginning fund balance related to enterprise funds				778,139		
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				181,670		
Change in net assets, business-type activities				\$ 98,221,379		

Continued on next page
The notes to the basic financial statements are an integral part of this statement.

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CITY OF LAKE OSWEGO, OREGON
Statement of Cash Flows
Proprietary Funds
for the fiscal year ended June 30, 2012

	Business-type Activities - Enterprise Funds			Business-type Activities	
	Water Fund	Wastewater Fund	Surface Water Fund	Other Enterprise Funds	Internal Service Funds
Cash flows from operating activities:					
Receipts from customers	\$ 5,664,291	\$ 11,827,866	\$ 2,068,958	\$ 1,061,278	\$ 4,650,495
Payments to suppliers	(385,951)	(4,397,372)	(385,394)	(454,615)	(632,764)
Payments to employees	(2,224,852)	(811,509)	(286,452)	(513,039)	(3,080,508)
Internal activity-payments to other funds	(1,286,762)	(1,415,148)	(918,049)	(194,099)	(647,564)
Other receipts	11,224	2,629	-	7,470	13,431
Net cash flows from operating activities	<u>1,777,950</u>	<u>5,206,466</u>	<u>479,063</u>	<u>(93,005)</u>	<u>303,090</u>
Cash flows from noncapital financing activities:					
Proceeds from grant	-	-	-	-	70,651
Transfers to/from other funds	(293,178)	-	-	133,000	-
Net cash flows from noncapital financing activities	<u>(293,178)</u>	<u>-</u>	<u>-</u>	<u>133,000</u>	<u>70,651</u>
Cash flows from capital and related financing activities:					
Purchases, acquisitions, and construction of capital assets	(15,649,642)	(3,521,980)	(133,771)	(16,500)	-
Proceeds from the sale of capital assets	-	12,100	-	-	-
Proceeds from intergovernmental deposit	7,919,487	-	(135,000)	-	-
Principal paid on capital debt	(615,000)	(3,550,878)	(1,005,883)	-	-
Interest paid on capital debt	(166,669)	(7,060,758)	(369,354)	(16,500)	-
Net cash flows from capital and related financing activities	<u>(8,511,824)</u>	<u>(7,060,758)</u>	<u>(369,354)</u>	<u>(16,500)</u>	<u>-</u>
Cash flows from investing activities:					
Investment income	17,000	90,764	7,984	3,197	4,356
Net increase (decrease) in cash and cash equivalents	(7,010,052)	(1,763,528)	117,693	26,692	378,097
Cash and cash equivalents, June 30, 2011	7,632,747	18,493,195	1,431,636	637,017	647,156
Cash and cash equivalents, June 30, 2012	<u>\$ 622,695</u>	<u>\$ 16,729,667</u>	<u>\$ 1,549,329</u>	<u>\$ 663,709</u>	<u>\$ 1,025,253</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 2,367,905	\$ 4,169,843	\$ (119,607)	\$ (173,079)	\$ 220,774
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	1,344,771	2,616,613	621,105	66,634	55,594
Changes in assets and liabilities:					
Receivables	(3,343,104)	(260,989)	(34,205)	-	(28,644)
Inventories	1,672	-	-	9,023	21,657
Accounts payable	1,367,178	(1,300,448)	7,335	(36)	(16,205)
Salaries and benefits payable	401	(206)	(26)	(54)	196
Accrued other postemployment benefits obligation	18,700	7,400	3,600	9,300	26,500
Compensated absences payable	20,427	(25,747)	861	(47,993)	23,218
Net cash provided by operating activities	<u>\$ 1,777,950</u>	<u>\$ 5,206,466</u>	<u>\$ 479,063</u>	<u>\$ (93,005)</u>	<u>\$ 303,090</u>
Noncash capital and related financing activities:					
Capital assets contributed to/from developers and other funds	\$ 327,409	\$ 73,725	\$ 1,762	\$ -	\$ 10,612

Continued on next page

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

1. The reporting entity and summary of significant accounting policies

The financial statements of the City of Lake Oswego, Oregon (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting entity

The City is a municipal corporation governed by the City Council which is composed of the elected mayor and six council members, who collectively comprise the legislative branch of the City government. The City operates under a Home Rule Charter originally granted by the State of Oregon in 1909. A City Manager, appointed by the City Council, administers City operations.

The City provides a full range of municipal services to the community, which includes police and fire protection, emergency medical services, traffic control and improvement, street maintenance and improvement, water, wastewater, and surface water management services, planning and zoning regulation, building inspection and regulation, parks and recreational activities, and community library service.

The accompanying financial statements present the City (primary government) and its component unit (the City's urban renewal agency), an entity for which the City is considered to be financially responsible.

Blended component unit. In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, the activities of the Lake Oswego Redevelopment Agency (the Agency) are included in the City's financial statements as a blended component unit. The Agency is a legally separate entity, which is governed by a board comprised of the City Council, as stipulated in the bylaws. The Council has the ability to impose its will on the Agency as determined on the basis of budget adoption, taxing authority, and funding. The purpose of the Agency is to undertake urban renewal projects and activities pursuant to the City's east end redevelopment plan. The financial results of the Agency are reported herein as a debt service fund and a capital projects fund. The Agency also prepares a separate component unit financial report which may be obtained from the Agency's administrative offices at 380 "A" Avenue, Lake Oswego, Oregon 97034.

B. Government-wide and fund financial statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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1. **The reporting entity and summary of significant accounting policies,** continued

B. Government-wide and fund financial statements, continued

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*.

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

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the City has only governmental and proprietary type funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. Nonmajor funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the combining and individual fund statements and schedules.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. This interfund activity results from the City's allocation of charges as reimbursement for services provided by one fund, to another. These reimbursements are for the support of interfund activity and are based on levels of service provided. Not eliminating these charges would artificially inflate the direct costs and program revenues reported for the various functions concerned.

C. Measurement focus, basis of accounting and financial statement presentation

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded. The government-wide financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus, as are the proprietary funds financial statements. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and

1. **The reporting entity and summary of significant accounting policies,** continued

C. Measurement focus, basis of accounting and financial statement presentation, continued

expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows. Governmental fund financial statements are presented on a modified accrual basis of accounting with a current financial resource measurement focus. The measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus and full accrual basis of accounting, a current financial resource measurement focus is inseparable from a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). *Measurable* means the amount of the transaction can be determined and revenues are considered *available* when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues, franchise fees, intergovernmental grants, and investment income.

A deferred revenue liability arises on the balance sheet of the governmental funds when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable deferred revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide statement of activities, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the balance sheet of the governmental funds for unavailable deferred revenue, is eliminated.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenses affecting the economic resource status of the government are recognized.

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

GASB Statement No. 34 sets forth minimum criteria for the determination of major funds. Nonmajor funds are combined in a column in the fund financial statements and detailed in the combining section.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

1. The reporting entity and summary of significant accounting policies, continued

C. Measurement focus, basis of accounting and financial statement presentation, continued

The City reports the following governmental funds:

Major Governmental Funds:

- *General Fund*
This is the City's primary operating fund. It accounts for the financial operations of the City, which are not accounted for in any other fund. Principal sources of revenue are property taxes, charges for services from other funds, intergovernmental revenues, licenses and fees, and other miscellaneous revenues. Primary expenditures are for general administration.

- *Redevelopment Agency Debt Service Fund*
This fund accounts for the payment of principal and interest on urban renewal bonds. The primary source of revenue is property tax increment revenues.

Nonmajor Governmental Funds:

- *Special Revenue Funds*
These funds account for revenues derived from specific taxes or other restricted or committed revenue sources including property taxes, franchise fees, license fees and fees, intergovernmental revenues, sales and services, and charges for services that are restricted to finance particular functions or activities.

- *Debt Service Funds*
These funds are used to account for payment of principal and interest on general obligation and tax increment bonded debt. Resources are from property taxes and interest.

- *Capital Project Funds*
These funds account for the construction of major capital facilities and projects (other than those financed by proprietary funds). Resources are primarily from general obligation bonds, urban renewal bonds, assessment collections and investment interest on fund balances.

The City reports three of its seven proprietary funds as major funds. Five of these proprietary funds are classified as enterprise funds that are used to account for the acquisition, operation, and maintenance of activities that are similar to private businesses.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

1. The reporting entity and summary of significant accounting policies, continued

C. Measurement focus, basis of accounting and financial statement presentation, continued

These proprietary funds are entirely or predominantly self-supported through user charges to customers, and are categorized as follows:

Major Proprietary Funds:

- *Water Fund*
Accounts for the activities of the City's water distribution system. Revenue is derived primarily from water service charges. The Water Fund consists of the following two budgetary funds: Water Fund and Lake Oswego-Tigard Water Partnership Fund.

- *Wastewater Fund*
Accounts for the activities of the City's wastewater collection and treatment system. Revenue is derived primarily from sewer service charges.

- *Surface Water Fund*
Accounts for the activities of the City's surface water management system which was developed to address water quality and flooding problems. Revenue is derived primarily from surface water management charges.

Nonmajor Proprietary Funds:

- *Golf Course Fund*
Accounts for the operation of the City's golf course. Revenue is derived primarily from user fees.

- *Tennis Facility Fund*
Accounts for the operation of the City's indoor tennis facility. Revenue is derived primarily from user fees.

The City reports two internal service funds. They are used to account for those activities and services furnished internally to other organizational units within the City on a cost reimbursement basis. Charges are made to the various departments to support the activities. The aggregate of all internal service funds are reflected in the proprietary fund financial statements. The City's internal service funds include:

- *Engineering Fund*
Manages the planning, design and construction of the City's infrastructure, including surface water, water, wastewater collection, and transportation. In addition, the Engineering Division provides technical support for privately financed public improvements (constructed with development projects), and provides GIS mapping services.

- *Maintenance and Motor Pool Fund*
Accounts for the maintenance of equipment, property, and for the activities of the automobile fleet of the City. Revenues are derived from reimbursements from other funds for associated costs as well as a reimbursement from the Lake Oswego School District for fuel usage.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

1. The reporting entity and summary of significant accounting policies, continued

C. Measurement focus, basis of accounting and financial statement presentation, continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Included within the principal operating revenues of the City's water, wastewater, and surface water funds are also fees that recover the cost of connecting new customers to the City's utility system. Operating expenses for the proprietary funds include the cost of sales and services, administrative overhead, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and cash equivalents include cash on hand, short-term investments, and cash deposits that are held in an investment pool that has the general characteristic of a demand deposit account. The City maintains cash and investment balances in a common pooled account. Investment income is allocated monthly based on each fund's average cash balance.

Investments are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. The City uses quoted market prices to determine fair value of investments. Realized gains and losses as well as the change in fair value of investments are recorded as components of investment income.

The City's investment policy, adopted by the City Council, essentially mirrors the requirements of the Oregon Revised Statutes. Currently, the City's investment portfolio includes investments in the State of Oregon Local Government Investment Pool and U.S. Government Agency Securities.

1. Receivables and payables

Property taxes are levied on and become a lien against the property on July 1 in the year in which they are due. Collection dates are November 15, February 15, and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

In the fund financial statements, property taxes receivables that are collected within 60 days after the end of fiscal year are considered measurable and available, and therefore, are recognized as revenue. The property taxes receivable portion beyond 60 days is recorded as deferred revenue. Assessments are recognized as receivables at the time property owners are assessed on property improvements. These receivables are entirely offset by deferred revenue, as assessment revenue is recognized upon collection.

1. The reporting entity and summary of significant accounting policies, continued

D. Assets, liabilities, and net assets or equity, continued

2. Receivables and payables, continued

In the government-wide financial statements, property taxes and assessment receivables are recognized as revenue when earned and are shown net of an allowance for uncollectibles.

In the proprietary funds, receivables include services provided but not billed. The enterprise funds' receivables include billings for residential and commercial customers utilizing the City's water, wastewater, and surface water services and are reported net of an allowance for uncollectibles, which is determined based upon an estimated percentage of the receivable balance.

3. Inventories and prepaid items

In the government-wide and the proprietary funds financial statements, inventories of materials and supplies in the proprietary funds are stated at cost, using the first-in first-out method and are charged against operations as used. Also, advance payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid. The inventories in the governmental funds are not significant at the end of the fiscal year.

4. Restricted assets

Assets whose use is restricted by legal requirements external to the City, are segregated on the government-wide statement of net assets and the proprietary fund statement of net assets. These legal restrictions include bond covenants that establish debt reserves and use limitations, as well as building fees and systems development charges that are legally restricted by applicable state statutes.

When either restricted or unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

5. Beneficial interest in Trust

The Oregon Community Foundation (the Foundation) is an Oregon non-profit corporation. Foundation endowments are owned, managed, and invested by the Foundation in accordance with the charitable goals of the underlying endowment. The Foundation maintains variance power and legal ownership of their endowments and reports the funds as assets in their financial statements. Also, in accordance with FASB ASC Topic Not-for-Profit Entities, the Foundation establishes a liability for the fair market value of the endowment, which is generally equivalent to the present value of future payments expected to be made back to the charitable organization.

Upon a majority vote of the Lake Oswego City Council, working with the Adult Community Center (ACC) and Library advisory boards, the City may receive these funds back from the Foundation and use them in a manner that is consistent with the original endowment purpose.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

1. The reporting entity and summary of significant accounting policies, continued

D. Assets, liabilities, and net assets or equity, continued

5. Beneficial Interest in Trust, continued

Based upon the City's indirect access to these funds, their respective fair values are included in the General Fund as a non-current asset (these items were included in the ACC Fund and the Library Fund's balance sheet prior to consolidation into the General Fund at year end).

The Foundation's Lake Oswego Endowment Funds:	Value as of		Value as of
	June 30, 2010	June 30, 2011	June 30, 2012
Adult Community Center Endowment Fund	\$ 1,481,590	\$ 1,788,368	\$ 1,661,251
Public Library Endowment Fund	1,628,934	1,967,955	1,925,798
Public Library - Bischoff Endowment Fund	511,582	591,009	542,834
	<u>\$ 3,622,106</u>	<u>\$ 4,347,332</u>	<u>\$ 4,129,883</u>

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. The unamortized portion is recorded as unamortized bond issuance costs on the statement of net assets.

7. Capital assets

Capital assets, which include land, buildings, improvements, equipment, infrastructure (e.g., streets, bridges, sidewalks, and similar items) and intangibles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund statements. Capital assets are defined as assets with an initial, individual cost of \$10,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

1. The reporting entity and summary of significant accounting policies, continued

D. Assets, liabilities, and net assets or equity, continued

7. Capital assets, continued

Exhaustible assets of the City, as well as the Lake Oswego Redevelopment Agency, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-50
Infrastructure	30
Vehicles	5-15
Machinery and equipment	5-10
Water systems	50
Sewer systems	40
Lake interceptor	75
Intangibles	0-50

Capital assets include contribution of capital assets from outside developers. Revenue from these capital contributions is reflected in capital grants and contributions on the statement of activities.8.
Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave, since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The City has chosen to report them as a current liability because they can be liquidated at any time.

9. 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.

10. Long-term obligations

In the government-wide financial statements, and in the proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. When significant, bond premiums, discounts, amounts deferred on refundings, and issuance costs are deferred and amortized over the applicable bond term.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs, as period costs in the year of issue. The face amount of debt issued and any related premium is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

1. The reporting entity and summary of significant accounting policies, continued

D. Assets, liabilities, and net assets or equity, continued

11. Fund balance

Fund balance is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to observe constraints imposed on the use of the resources reported in governmental funds. Those classifications are as follows:

Nonspendable – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – resources which are subject to limitations the City imposes upon itself by City Council, by resolution of the Council. Commitments may be modified or rescinded by similar resolution.

Assigned – resources neither restricted nor committed for which the City has a stated intended use as established by the City Council or the City Manager for specific purposes.

Unassigned – resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include deficits in the other governmental funds.

The City Council has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned, or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable), and lastly unassigned fund balance.

To preserve a sound financial system and to provide a stable financial base, the governing body has adopted a minimum ending fund balance policy of various operating funds at levels sufficient to protect the City's credit as well as its financial position from emergencies. These funds include the General Fund, the Bonded Debt Service Fund, the Golf Course Fund, and the Tennis Facility Fund.

In the government-wide statement of net assets, fund equity is referred to as net assets and is segregated into the following three components: 1) amount invested in capital assets, net of related debt; 2) legally restricted by outside parties for a specific purpose, and 3) unrestricted.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

1. The reporting entity and summary of significant accounting policies, continued

D. Assets, liabilities, and net assets or equity, continued

12. Use of estimates

The preparation of the 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

2. Stewardship, compliance, and accountability

Municipal budgets are adopted on a basis consistent with Oregon Revised Statutes (ORS 294 – Local Budget Law). The process under which the budget is adopted is described in the following paragraphs.

The City Manager is responsible for submitting a proposed budget to the Budget Committee, which is comprised of the City Council and an equal number of citizens of the City. In Lake Oswego, the budget is prepared in the spring to the Budget Committee for the subsequent budget period. The City is required to prepare a balanced budget for all funds, subject to the budget requirements of state law, in accordance with Oregon Revised Statutes. Each fund is budgeted on the modified accrual basis of accounting.

The budget document is required to contain specific detailed information for various revenue and expenditure categories. Information on the past two years' actual receipts and expenditures as well as current-year estimates is also included in the budget document.

The Budget Committee conducts public hearings for the purpose of obtaining citizens' comments, and then approves a budget and submits it to the City Council for final adoption. The approved expenditures for each fund may not be increased by more than 10 percent by Council without returning to the Budget Committee for a second approval. After the Council adopts the budget and certifies the total of *ad valorem* taxes to be levied, no additional tax levy may be made for that budget period.

The City Council legally adopts the budget by resolution before July 1. The resolution establishes appropriations for each fund and sets the level by which expenditures cannot legally exceed appropriations. In the general fund, community development fund, and public safety fund, the levels of budgetary control established by resolution are set at the department level. For all other funds, the levels of budgetary control established by resolution are personal services, materials and services, debt service capital outlay, transfers and operating contingency. Appropriations lapse as of the end of the fiscal year for goods or services not yet received.

The City Council may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets. Unexpected additional resources may be added to the budget through the use of a supplemental budget. Some supplemental budgets require hearings before the public, publications in newspapers and approval by the City Council. Original and supplemental

2. Stewardship, compliance, and accountability, continued

budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the City Council. During the 2011-12 fiscal year, the City Council approved three supplemental budget resolutions, recognizing bond proceeds and appropriating additional unanticipated monies received after the budget was adopted.

3. Detailed notes on all accounts

A. Cash and investments

Deposits and investments. The City maintains separate accountability by fund for cash and investments accounts. Deposits with financial institutions include bank demand deposits and time certificates of deposit. The combined book balance at June 30, 2012 was \$8,591,897 and the total bank balance was \$9,021,954. The City's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for \$9,021,954. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance are held at a qualified depository for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer.

Oregon Revised Statutes and the City's investment policy authorize the City to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade corporate indebtedness, and the State of Oregon Local Government Investment Pool (LGIP). The City's LGIP investments are reported at fair value, which is 100.08 percent of pool shares, at June 30, 2012.

The City participates in the State of Oregon Local Government Investment Pool (LGIP), an open-ended, no-load diversified portfolio created under ORS 294.805 to 294.895 that is not registered with the U.S. Securities and Exchange Commission as an investment company. The State Treasurer administers the LGIP with the oversight of the Oregon Investment Council and with the advice of the Oregon Short Term Fund Board. These funds must be invested and managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The Oregon Audits Division of the Secretary of State's Office audits the LGIP annually.

At June 30, 2012, the City's cash and investments are comprised of the following:

Cash on hand	\$ 12,849
Demand deposits with financial institutions	7,369,830
Time certificates of deposits with financial institutions	1,222,067
State of Oregon Local Government Investment Pool	42,328,714
	<u>\$ 50,933,460</u>

3. Detailed notes on all accounts, continued

A. Deposits and investments, continued

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

	Governmental Activities	Business-type Activities
Cash and investments		
Unrestricted	\$ 19,472,027	\$ 20,590,653
Restricted	10,870,780	-
Total cash and investments	<u>\$ 30,342,807</u>	<u>\$ 20,590,653</u>

Custodial credit risk - deposits. Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its deposits that are in the possession of an outside party. At June 30, 2012, the City does not have deposits exposed to custodial credit risk.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the individual maturities in its investment portfolio to eighteen months or less.

Credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top two rating issued by NRSROs. The State of Oregon Local Government Investment Pool (LGIP) is not rated by NRSROs.

Concentration of credit risk. The City's investment policy, as it relates to investing outside of the LGIP, does not allow for an investment in any single corporate entity and its affiliates or subsidiaries that is in excess of five percent of the City's total investments (ORS 294.035).

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investments at June 30, 2012 subject to custodial credit risk.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

3. Detailed notes on all accounts, continued

B. Receivables

Receivables as of the fiscal year ended June 30, 2012 for the City's governmental activities, net of the allowance for uncollectible amounts, are as follows:

	General	Debt Service	Other (nonmajor)	Total
Receivables:				
Property taxes	\$ 1,651,353	\$ 235,820	\$ 505,499	\$ 2,392,672
Accounts	744,431	-	577,472	1,321,903
Interest	306,420	75,462	37,684	419,266
Assessments	-	-	186,337	186,337
Gross receivables	<u>2,701,904</u>	<u>311,282</u>	<u>1,306,992</u>	<u>4,320,178</u>
Less: allowance for uncollectibles	-	-	(5,600)	(5,600)
Net receivables	<u>\$ 2,701,904</u>	<u>\$ 311,282</u>	<u>\$ 1,301,392</u>	<u>\$ 4,314,578</u>

Receivables of the City's business-type activities are reported net of allowance for uncollectible amounts. Total estimated uncollectible amounts related to receivables as of the end of the fiscal year are as follows:

Uncollectibles, business-type activities:	
Water Fund	\$ 12,400
Wastewater Fund	25,400
Surface Water Fund	<u>6,500</u>
Total allowance	<u>\$ 44,700</u>

Governmental funds report deferred revenue in the fund financial statements in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The deferred revenue reported in the governmental funds was as follows:

Property Taxes:	
General Fund	\$ 1,386,281
Redevelopment Agency Debt Service Fund	204,416
Nonmajor Funds	<u>476,594</u>
	<u>2,067,291</u>
Liens and assessments:	
Nonmajor Funds	186,338
Tri-Met note interest	186,338
General Fund	<u>271,974</u>
Total allowance	<u>\$ 2,525,603</u>

Note Receivable. The City of Lake Oswego loaned \$1,500,000 to Tri-County Metropolitan Transportation District for the Portland Lake Oswego Transit Corridor Project to assist with the Draft Environmental Impact Statement. The intergovernmental agreement was dated December 1, 2008. The amount of \$1,800,000 is to be repaid by September 30, 2012. The difference between the amount loaned and the amount to be repaid is being recognized by the City as investment income using the straight-line method. The note is current and has a balance at June 30, 2012 of \$1,771,974.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

3. Detailed notes on all accounts, continued

C. Capital assets

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

Primary government

Governmental activities:	Beginning balances	Additions	Reductions	Ending balances
<i>Capital assets, not being depreciated:</i>				
Land and land improvements	\$ 54,308,079	\$ 2,528,934	\$ -	\$ 56,837,013
Construction in progress	595,765	6,373,548	(5,726,092)	1,243,221
Total capital assets, not being depreciated	<u>54,903,844</u>	<u>8,902,482</u>	<u>(5,726,092)</u>	<u>58,080,234</u>
<i>Capital assets, being depreciated:</i>				
Buildings	30,620,929	1,522,481	-	32,143,410
Improvements other than building	21,422,861	261,646	-	21,684,507
Machinery and equipment	9,781,000	495,094	(560,629)	9,715,465
Infrastructure	82,861,117	1,755,293	-	84,616,410
Intangibles	129,191	72,000	-	201,191
Total capital assets, being depreciated	<u>144,815,098</u>	<u>4,106,514</u>	<u>(560,629)</u>	<u>148,360,983</u>
Less accumulated depreciation for:				
Buildings	(7,920,826)	(652,333)	-	(8,573,159)
Improvements other than building	(10,783,547)	(1,150,464)	-	(11,934,011)
Machinery and equipment	(7,468,123)	(602,960)	395,706	(7,675,377)
Infrastructure	(35,509,632)	(2,710,671)	-	(38,220,303)
Intangibles	(9,412)	(14,887)	-	(24,299)
Total accumulated depreciation	<u>(61,691,540)</u>	<u>(5,131,315)</u>	<u>395,706</u>	<u>(66,427,149)</u>
Total capital assets being depreciated, net	<u>83,123,558</u>	<u>(1,024,801)</u>	<u>(164,923)</u>	<u>81,933,834</u>
Governmental activities capital assets, net	<u>\$138,027,402</u>	<u>\$ 7,877,681</u>	<u>\$ (5,891,015)</u>	<u>\$140,014,068</u>

Depreciation expense was charged to functions/programs as follows:

General government	\$ 831,914
Public safety	507,966
Culture and recreation	1,549,353
Highways and streets	2,242,082
Depreciation expense (governmental)	<u>\$ 5,131,315</u>

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

3. Detailed notes on all accounts, continued

C. Capital assets, continued

	Beginning balances	Additions	Reductions	Reclasses & adjustments	Ending balances
Business-type activities:					
<i>Capital assets, not being depreciated:</i>					
Land and land improvements	\$ 4,467,986	\$ -	\$ -	\$ -	\$ 4,467,986
Intangibles	-	-	-	191,730	191,730
Construction in progress	11,398,631	19,400,613	(3,629,215)	-	27,170,029
Total capital assets, not being depreciated	15,866,617	19,400,613	(3,629,215)	191,730	31,829,745
<i>Capital assets, being depreciated:</i>					
Buildings	29,283,380	284,022	-	-	29,567,402
Improvements other than building	190,425,090	3,292,897	-	-	193,717,987
Machinery and equipment	13,641,521	1,117,904	(619,748)	-	14,139,677
Intangibles	191,730	-	-	(191,730)	-
Total capital assets, being depreciated	233,541,721	4,694,823	(619,748)	(191,730)	237,425,066
<i>Less accumulated depreciation for:</i>					
Buildings	(13,711,304)	(631,478)	-	-	(14,342,782)
Improvements other than building	(45,531,448)	(3,624,814)	-	-	(49,156,262)
Machinery and equipment	(7,120,569)	(448,425)	-	(123,306)	(7,692,300)
Total accumulated depreciation	(66,363,321)	(4,704,717)	-	(123,306)	(71,191,344)
Total capital assets being depreciated, net	167,178,400	(9,894)	(619,748)	(315,036)	166,233,722
Business-type activities capital assets, net	\$183,045,017	\$ 19,390,719	\$ (4,248,963)	\$ (123,306)	\$198,063,467

Depreciation expense was charged to functions/programs as follows:

Water	\$ 1,344,771
Wastewater	2,616,613
Surface water	621,105
Maintenance Svcs & Motor Pool	50,323
Engineering	5,271
Golf course	46,117
Tennis facility	20,517
Depreciation expense (business-type)	\$ 4,704,717

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

3. Detailed notes on all accounts, continued

C. Capital assets, continued

Construction commitments

The City has active construction projects as of June 30, 2012, including A Avenue Rehabilitation Project; LORA's North Anchor Project; CIPP (Cured in place pipe) part of the Lake Oswego Interceptor Sewer (LOIS) project; Rosemont Trail; and the Lake Oswego/Tigard Water Expansion. As of the fiscal year-end, the City's commitments are as follows:

Project	Expended through 6/30/12	Remaining commitment
Street rehabilitation	\$ 1,381,405	\$ 1,398,450
Lake interceptor and other sewer projects	3,461,247	687,030
Lake Oswego/Tigard Water Expansion	14,790,450	18,731,299
Water and surface water projects	985,074	776,224
Lake Oswego Redevelopment projects	4,285,366	188,751
Various other miscellaneous projects	706,777	420,265
	<u>\$ 25,610,319</u>	<u>\$ 22,202,019</u>

D. Interfund transfers

Transfers between funds provide support for various City programs in accordance with budgetary authorizations.

During the fiscal year, the City made a transfer of \$4,433,000 from the Urban Renewal Agency's debt service fund to non-major governmental funds. This transfer of tax increment revenues that are in excess of the annual debt service requirements, is to cover urban renewal expenditures accounted for in the capital projects fund.

Interfund transfers for the fiscal year ended June 30, 2012 are as follows:

	Transfer from other funds	Transfer to other funds	Net
Governmental funds:			
General	\$ 517,178	\$ (249,000)	\$ 268,178
LORA Debt Service	14,471,019	(4,803,000)	9,668,019
Nonmajor governmental	4,919,000	(14,695,019)	(9,776,019)
Total governmental funds	19,907,197	(19,747,019)	160,178
Proprietary funds:			
Water	-	(293,178)	(293,178)
Nonmajor proprietary	133,000	-	133,000
Total proprietary funds	133,000	(293,178)	(160,178)
Total interfund transfers	\$ 20,040,197	\$ (20,040,197)	\$ -

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

3. Detailed notes on all accounts, continued

E. Long-term obligations

The City issues a variety of debt types for the purpose of carrying out its capital financing activities. The various types of debt are discussed below. Outstanding debt amounts are as of June 30, 2012.

General obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues general obligation bonds to finance the purchase of major capital items and the acquisition or construction of major capital facilities. The original amount of the outstanding general obligation bonds issued in prior years totals \$30,845,000.

Annual debt service requirements to maturity for general obligation bonds, which have stated interest rates that range from 2 - 5.25%, are as follows:

Fiscal year ending June 30,	Governmental activities		Total
	Principal	Interest	
2013	\$ 2,690,000	\$ 609,254	\$ 3,299,254
2014	2,135,000	498,275	2,633,275
2015	1,895,000	420,375	2,315,375
2016	1,965,000	351,256	2,316,256
2017	1,745,000	278,344	2,023,344
2018-22	5,530,000	576,710	6,106,710
	<u>\$ 15,960,000</u>	<u>\$ 2,734,214</u>	<u>\$ 18,694,214</u>

Line of Credit. On July 6, 2006, a bank line-of-credit in the total amount of \$25 million was secured. This funding source continues to finance the West End Building property. The original line-of-credit balance was due and payable July 6, 2009, but was refinanced in fiscal year 2010 and was reduced to \$21 million. This line-of-credit was refinanced July 1, 2011. The variable interest rate at June 30, 2012 was 0.9%. The principle balance at June 30, 2012 was \$19,306,913. The rate is recalculated quarterly. There is an \$850,000 principle payment payable each year and the balance will be due and payable on July 1, 2014.

On September 23, 2011, the City secured a \$10,000,000 non-revolving line-of-credit for interim financing of upcoming urban renewal projects. The variable interest rate at June 30, 2012 was 1.05%. The rate is recalculated quarterly. The principle balance at June 30, 2012 was \$2,500,000. This will be due and payable on October 1, 2014.

Revenue bonds. The City also issues revenue bonds and pledges income derived from the acquired or constructed assets to pay debt service. During fiscal year 2004-05, the City issued surface water revenue bonds for improvements to the City's surface water management system in the amount of \$3,000,000 having a final maturity in May 2024. During fiscal year 1999-00, the City issued water revenue bonds relating to various infrastructure improvements to the City's water system in the amount of \$7,185,000,

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

3. Detailed notes on all accounts, continued

E. Long-term obligations, continued

\$4,505,000 of which were refunded in fiscal year 2007-08 with proceeds from a 2007 revenue bond issue of \$9,560,000. The 2007 revenue bonds are being repaid by enterprise fund revenues. For the fiscal year ended June 30, 2012, the City was in compliance with the covenants associated with these bonds.

Annual debt service requirements to maturity for the revenue bonds, which have stated interest rates that range from 3 - 5%, are as follows:

Fiscal year ending June 30,	Business-type activities		Total
	Principal	Interest	
2013	\$ 785,000	\$ 408,561	\$ 1,193,561
2014	815,000	376,561	1,191,561
2015	850,000	343,261	1,193,261
2016	885,000	308,561	1,193,561
2017	935,000	271,336	1,206,336
2018-22	3,400,000	818,482	4,218,482
2023-27	2,035,000	276,116	2,311,116
2028	360,000	7,875	367,875
	<u>\$ 10,065,000</u>	<u>\$ 2,810,753</u>	<u>\$ 12,875,753</u>

Full Faith and Credit obligations. In June 2009 and September 2010 the City issued \$60 million and \$35 million, respectively, in Full Faith and Credit obligations for the Lake Oswego Interceptor Sewer project.

Then in June 2012 the City issued \$11,500,000 of Full Faith and Credit obligations to refund Variable Rate Tax Increment Revenue Bonds - Series 2005A for the Lake Oswego Redevelopment Agency (LORA) - a blended component unit of the City, to finance urban renewal projects, and pay costs of issuance. The debt service will be paid from tax increment revenues generated from the respective urban renewal area.

Annual debt service requirements to maturity for the Full Faith and Credit obligations, which have stated interest rates that range from 2 - 5%, are in the following two tables:

Fiscal year ending June 30,	FF&C governmental activities		Total
	Principal	Interest	
2013	\$ 440,000	\$ 384,575	\$ 824,575
2014	450,000	375,775	825,775
2015	470,000	355,525	825,525
2016	480,000	346,125	826,125
2017	485,000	336,525	821,525
2018-22	2,655,000	1,460,425	4,115,425
2023-27	3,160,000	960,000	4,120,000
2028-31	2,990,000	304,600	3,294,600
	<u>\$ 11,130,000</u>	<u>\$ 4,523,550</u>	<u>\$ 15,653,550</u>

3. Detailed notes on all accounts, continued
E. Long-term obligations, continued

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Business-type activities:					
Revenue bonds / BAN/Full Faith & Credit	\$ 2,290,000	\$ -	\$ (135,000)	\$ 2,155,000	\$ 140,000
Series 2005 Surface Water	8,525,000	-	(615,000)	7,910,000	645,000
Series 2007 Water	60,000,000	-	-	60,000,000	1,690,000
Series 2009 Wastewater FF&C	35,000,000	-	-	35,000,000	1,150,000
Series 2010 Wastewater FF&C	105,815,000	-	(750,000)	105,065,000	3,625,000
Total revenue bonds / BAN	2,397,388	-	(132,557)	2,264,831	132,557
Unamortized bond premium	108,212,388	-	(882,557)	107,329,831	474,218
Bonds/BAN/FFC and premiums	460,252	13,966	-	474,218	474,218
Compensated absences	492,250	65,500	-	557,750	-
Accrued OPEB obligation					
	\$ 109,164,890	\$ 79,466	\$ (882,557)	\$ 108,361,799	\$ 4,231,775
Total business-type activities					

4. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant real and personal property exposures are covered for loss from all perils up to a \$5,000,000 limit through a municipal insurance pool, subject to a \$75,000 aggregate deductible. For its general insurance coverage, the City pays an annual premium to City/County Insurance Services (CIS), a public entity risk pool currently operating a common risk management and insurance program.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The agreement with CIS provides that CIS will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event. The City carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims have not exceeded commercial coverage in any of the three prior fiscal years.

3. Detailed notes on all accounts, continued
E. Long-term obligations, continued

Fiscal year ending June 30,	FF&C business activities			Total
	Principal	Interest	Total	
2013	\$ 2,840,000	\$ 3,525,532	\$ 6,365,532	
2014	2,905,000	3,462,582	6,367,582	
2015	2,970,000	3,397,907	6,367,907	
2016	3,045,000	3,319,807	6,364,807	
2017	3,120,000	3,239,632	6,359,632	
2018-22	17,100,000	14,670,221	31,770,221	
2023-27	20,495,000	11,177,334	31,672,334	
2028-32	24,710,000	6,731,285	31,441,285	
2033-35	17,815,000	1,279,625	19,094,625	
	\$ 95,000,000	\$ 50,803,925	\$ 145,803,925	

Changes in long-term obligations. Long-term debt information is presented separately with respect to governmental and business-type activities. The following table shows the fiscal year changes in long-term debt outstanding, along with the current portion for each bond issue. Also, for the governmental activities, compensated absences are liquidated by each governmental fund that has payroll expenditures, which includes the General Fund. Contingent claims are liquidated by the General Fund.

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
General obligation bonds					
Series 2001 Open Space & Fields	\$ 3,550,000	\$ -	\$ (3,550,000)	\$ -	\$ -
Series 2003 Parks, Fields & Pathways	8,650,000	-	(995,000)	7,655,000	1,035,000
Series 2003-A.G.O. Refunding	1,270,000	-	(625,000)	645,000	645,000
Series 2006-A.G.O. Refunding	5,110,000	-	(615,000)	4,495,000	645,000
Series 2011 Refunded	-	3,540,000	(375,000)	3,165,000	365,000
Urban renewal bonds					
Series 2005-A	9,665,000	-	(9,665,000)	-	-
Series 2005-B	3,610,000	-	(3,610,000)	-	-
Series 2011 LORA FF&C	-	11,500,000	(370,000)	11,130,000	440,000
Total bonds	31,855,000	15,040,000	(19,805,000)	27,090,000	3,130,000
Unamortized bond premium	-	791,631	(46,919)	744,712	46,933
Total bonds and premium payable	31,855,000	15,831,631	(19,851,919)	27,834,712	3,176,933
Line of credit	20,156,913	-	(20,156,913)	-	-
Non-revolving WEB loan	-	20,156,913	(850,000)	19,306,913	850,000
Non-revolving LORA	-	2,500,000	-	2,500,000	-
Compensated absences	2,448,552	116,638	-	2,565,190	2,565,190
Accrued OPEB obligation	1,969,525	257,994	-	2,227,519	-
Total governmental activities	\$ 56,429,990	\$ 38,863,176	\$ (40,858,832)	\$ 54,434,334	\$ 6,592,123

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

4. Other information, continued

B. Contingent liabilities

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. These claims are generally covered by insurance and are of the types which are normal in view of the City's operations. City management believes the total amount of liability, if any, which may arise from such claims and lawsuits beyond that which is covered by insurance would not have a material effect on the City's financial condition or its activities as now conducted.

C. Commitments

As of June 30, 2012, the City had commitments of approximately \$24.9 million, which includes \$22.2 million for the various construction projects, as described in Note 3.C. on page 59.

In 1983 the City entered into an agreement with the City of Portland to process the City's sewage for fifty years. The applicable treatment plant is owned and operated by the City of Portland and the City is obligated to make payments to the City of Portland for usage of the plant, based upon normal user fees estimated at \$2 million annually. At the end of the fifty years, the term changes to "in perpetuity" until either party provides a five-year advance written notice to the other. If the City terminates this agreement, the City is required to pay its share of any remaining un-depreciated portion of the facility, as determined in the use agreement at the time of termination.

D. Joint Operation

The Lake Oswego-Tigard Water Partnership is a joint operation established August 6, 2008 between the City of Lake Oswego and the City of Tigard to design, construct, operate, and maintain joint water supply facilities. The Lake Oswego-Tigard Water Partnership was established to retrofit and expand the City of Lake Oswego's water supply facilities and allow Tigard to acquire an ownership interest.

Lake Oswego is the managing agency to manage the operation, maintenance, repair and replacement of the existing supply facilities and to manage the planning, design, and construction of the initial expansion of the Project. Each City is obligated to fund the project in the proportions stated in the intergovernmental agreement. The City of Lake Oswego has financed its portion through the transfer of previously issued water revenue bonds.

The title for the City of Tigard's share of the project shall transfer upon completion of the expansion of the existing supply facilities; expected in 2016. Project costs are located in construction in progress in the Water Fund. Upon completion, the City will record a reduction in capital by the total amount paid by Tigard. The total payments from Tigard as of June 30, 2012 were \$15,997,917 and is shown as a long-term liability in the Water Fund.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

4. Other information, continued

E. Employee retirement pension plan

Plan description. The City contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the City's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying City employees hired after August 29, 2003. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. As of January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to PERS, PO Box 23700, Tigard, OR 97281-3700 or by calling (503) 598-7377.

Funding policy. Members of PERS are required to contribute 6% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The employer is allowed to pay any or all of the employees' contribution in addition to the required employer's contribution. For the fiscal year ended June 30, 2012, the City contributed all of the 6% contribution on behalf of the employees. The City is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPSRP plan, and a general service rate for the qualifying employees under the OPSRP plan. The PERS and the OPSRP rates in effect for the fiscal year ended June 30, 2012 were 15.54% and 11.28%, respectively. The OPSRP rate applicable to police and fire personnel and related payroll, in effect for the fiscal year ended June 30, 2012, was 13.99%. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual pension cost. The City's contributions to PERS for the years ending June 30, 2010, 2011, and 2012 were \$3,937,889, \$4,110,519 and \$5,048,813 respectively, which equaled the required contribution for each of these years.

F. Deferred compensation plan

The City offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all regular, salaried City employees, permits them to defer a portion of their salary until future years. Participation in the Plan is optional.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

4. Other information, continued

F. Deferred compensation plan, continued

Payment from the Plan is not available to employees until termination, retirement, death or unforeseeable emergency.

The City works with two separate investment providers who also provide third-party administration for all deferred compensation program funds. Participating employees have several investment options with varying degrees of market risk. The City has no liability for losses under the Plan but does have the duty to administer the plan in a prudent manner.

In accordance with GASB No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City created a Trust (the City of Lake Oswego Deferred Compensation Trust) and transferred all Plan assets to that Trust on December 31, 1998. All property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the employee Trust, held for the exclusive benefit of participants and their beneficiaries, and are not subject to the claims of the City's general creditors.

G. Postemployment Healthcare Plan (implicit subsidy)

Plan Description. As required by Oregon Revised Statutes 243.303, the City provides a single-employer plan to provide retirees with access to group health and dental insurance from the date of retirement to age 65 at the same rate provided to current employees. GASB 45 is applicable to the City due only to the implicit rate subsidy. This "plan" is not a stand-alone plan and therefore does not issue its own financial statements.

Funding Policy. The City collects insurance premiums from all retirees each month and deposits them into a restricted insurance premium account. The City then pays health insurance premiums for all retirees at tiered rates 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. For fiscal year ended June 30, 2012, the City retirees paid 100 percent of their insurance premium costs. The City has elected to not prefund the actuarially determined future cost amount of \$2,785,269.

The required monthly contributions of the plan members were as follows for the fiscal year ended June 30, 2012.

	Health / Vision			Dental	
	PacSci/VSP	Kaiser	ODS	Kaiser	
Employee	\$ 619	\$ 530	\$ 61	\$ 68	
Emp + child(s)	1,113	954	97	122	
Employee + 1	1,234	1,060	122	135	
Full Family	1,732	1,590	170	203	

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

4. Other information, continued

G. Postemployment Healthcare Plan (implicit subsidy), continued

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 Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 15 years.

The following table 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.

Employer's normal cost at year end	\$ 308,918
Amortization of UAAL with interest	308,459
Annual Required Contribution (ARC)	617,377
Interest on prior year Net OPEB Obligation	98,471
Adjustment to ARC	(167,300)
Less contribution (amounts paid during year for OPEB)	-
Implicit benefit payments	(225,054)
Increase in Net OPEB Obligation	323,494
OPEB obligation at beginning of year	2,461,775
OPEB obligation at end of year (June 30, 2012)	\$ 2,785,269

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contribution		Net OPEB Obligation
		Annual OPEB Cost	Cost Contribution	
06/30/2012	\$548,548		41%	\$2,785,269
06/30/2011	700,997		29%	2,461,775
06/30/2010	665,303		26%	1,961,367
06/30/2009	957,832		23%	1,470,943
06/30/2008	912,128		20%	732,488

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

4. Other information, continued

G. Postemployment Healthcare Plan (implicit subsidy), continued

Funded Status and Funding Progress. The funded status of the plan as of August 1, 2010 (the date of the most recent actuarial valuation), was as follows:

Actuarial accrued liability (AAL)	\$ 4,220,339
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,220,339</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$23,228,014
UAAL as a percentage of covered payroll	18.17%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the August 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.5 percent, reduced by decrements to an ultimate rate of 5 percent. The UAAL is being amortized using the level percentage of payroll over an open period of fifteen (15) years.

H. Retirement Health Insurance Account (RHIA)

Plan Description. As a member of Oregon Public Employees Retirement System (OPERS) the City contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefits other postemployment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements
June 30, 2012

4. Other information, continued

H. Retirement Health Insurance Account (RHIA), continued

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. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700.

Funding Policy. Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the 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 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 of 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 0.59% 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The City's contributions to RHIA for the year ended June 30, 2012 and June 30, 2011, were \$134,605 and \$66,744, respectively, which equaled the required contributions for those years.

I. Property Tax Limitation

The citizens of the State of Oregon approved the first property tax limitation in 1990 – Measure 5. This limitation divides property taxes into an education category and a non-education category. The tax rate in the education category was limited to \$5 per thousand of real market value for fiscal year 1995-96 and thereafter. The non-education category was limited to \$10 per thousand of real market value. Although all non-education taxes to the City currently do not exceed the \$10 per \$1,000 of property real market value limitation; this limitation may affect the availability of future tax revenues for the City. A second property tax limitation was approved in November 1996 and later modified in May 1997 – Measures 47 and 50, respectively. This limitation set a maximum permanent tax rate for the City exclusive of bonded debt at \$5.0353 per \$1,000 assessed value. Assessed values can only grow by a maximum of 3 percent, exclusive of new construction and annexations.

CITY OF LAKE OSWEGO, OREGON

Notes to the Basic Financial Statements

June 30, 2012

4. Other information, continued

J. Subsequent Events

In July 2012, the City Council approved \$80 million of full faith and credit obligations to finance upcoming expenditures on the LO-Tigard Water Partnership project. The Council additionally approved \$30 million in interim financing for the project.

Also in July 2012, LORA – a blended component unit, purchased property for \$1.9 million. The land acquisition is part of the larger North Anchor urban renewal project.

REQUIRED SUPPLEMENTARY INFORMATION

*Schedules of Resources and Requirements
Budget to Actual*

**SCHEDULES OF RESOURCES AND REQUIREMENTS
BUDGET TO ACTUAL**

Major Governmental Funds
(required supplementary information)

General Fund

This fund accounts for the financial operations of the City which are not accounted for in any other fund. Principal sources of revenue are property taxes, sales and services, franchise fees, county library levy, and charges for administrative services provided to other funds. Expenditures are for police protection, fire services, municipal court, parks and recreation, library, economic development, planning services, and administrative-type functions such as finance, human resources, information technology, city attorney and city manager's office.

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City of Lake Oswego, Oregon
General Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Beginning fund balance	\$ 23,868,013	\$ 23,868,013	\$ 25,574,738	\$ 1,706,725
Property taxes	27,096,000	27,096,000	27,112,807	16,807
Franchise fees	2,560,000	2,510,000	2,835,014	325,014
Intergovernmental	4,297,000	4,430,000	4,269,557	(160,443)
Licenses and fees	2,599,000	2,599,000	2,761,563	162,563
Fines and forfeitures	1,061,000	1,061,000	981,500	(79,500)
Sales and services	3,746,000	3,746,000	3,356,966	(389,034)
Miscellaneous	899,000	899,000	256,400	(642,600)
Transfers	2,881,000	3,174,000	3,067,631	(106,369)
Other financing sources	20,489,000	20,531,000	20,201,650	(329,350)
Total resources	\$ 89,496,013	\$ 89,914,013	\$ 90,417,826	\$ 503,813

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Requirements:				
City council	\$ 131,000	\$ 131,000	\$ 102,449	\$ 28,551
City attorney's office	597,000	602,000	580,006	21,994
City manager's office	1,636,000	1,691,000	1,654,367	36,633
Economic / capital development	1,233,000	1,236,000	1,093,512	142,488
Redevelopment	285,000	297,000	290,971	6,029
Facilities management	988,000	990,000	987,651	2,349
Finance	1,474,000	1,479,000	1,476,244	2,756
Risk management	675,000	455,000	402,817	52,183
Fire services	9,007,000	9,159,000	8,993,514	165,486
Human resources	603,000	606,000	576,674	29,326
Information technology	1,768,000	1,773,000	1,757,045	15,955
Library	3,221,000	3,230,000	3,197,817	32,183
Municipal court	664,000	664,000	602,833	61,167
Parks and Recreation	5,635,000	5,522,000	5,518,949	3,051
Adult community center	1,482,000	1,634,000	1,582,566	51,434
Planning and Building services	4,119,000	4,047,000	3,795,831	251,169
Police	9,598,000	9,358,000	9,204,376	153,624
Nondepartmental	24,106,000	24,164,000	23,918,236	245,764
Contingency	6,207,000	6,809,000	-	6,809,000
Unappropriated ending fund balance	16,067,013	16,067,013	24,681,968	(8,614,955)
Total requirements	\$ 89,496,013	\$ 89,914,013	\$ 90,417,826	\$ (503,813)

CITY OF LAKE OSWEGO, OREGON

Notes to Required Supplementary Information

June 30, 2012

1. Stewardship, compliance, and accountability

Municipal budgets are adopted on a basis consistent with Oregon Revised Statutes (ORS 294 – Local Budget Law).

Budgetary Basis — The basis of budgeting for all major funds is the modified accrual basis of accounting. The City Council legally adopts the budget by resolution before July 1. The resolution establishes appropriations for each fund and sets the level by which expenditures cannot legally exceed appropriations. In the general fund the levels of budgetary control established by resolution are set at the department level. For all other funds, the levels of budgetary control established by resolution are expenditure categories of personal services, materials and services, debt service, capital outlay, transfers and operating contingency.

OTHER SUPPLEMENTARY INFORMATION

*Combining and Individual Fund Financial
Statements and Schedules*

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES
for Other Major and Nonmajor Governmental Funds**

Special Revenue Funds

These nonmajor funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Tourism Fund – tracks and accounts for the revenue generated by the 2% increase in the City's portion of the local lodging tax (also known as the hotel/motel tax). Per state law, for any increases in the local transient lodging tax after July 1, 2003, at least 70% of net revenue from the increase must be used for funding tourism promotion or tourism related facilities

Trolley Fund – accounts for the activities of the City's trolley operations. Revenues are derived primarily from intergovernmental revenues restricted by Intergovernmental Agreement.

Public Art Fund – accounts for the purchase and maintenance of the City's art collection. Revenue consists of transfers from the parks and recreation fund equal to a percent and one-half of the cost of qualified projects. Revenues committed by City Code.

Street Fund – accounts for the activities of building, rebuilding and maintaining City streets, right-of-way improvements, and street lights. Revenue is derived primarily from motor vehicle fees from the State of Oregon restricted by state statute, and a street maintenance fee.

Systems Development Charges Fund – accounts for the collection and expenditure of City systems development charges for water, sanitary sewer, transportation, parks, and surface water. Revenues are derived primarily from the various systems development charges which are restricted by state statute.

Bicycle Path Fund – accounts for procurement of pathways for public use. Revenues are derived from a portion of State provided motor vehicle fees and restricted for use by state statute.

Debt Service Funds

These funds are used to account for payment of general obligation and urban renewal bonds.

Bonded Debt Service Fund – accounts for the payment of principal and interest on certain general obligation bonded debt. The primary source of revenue is property taxes.

City/LORA Debt Service Fund – accounts for the payment of principal and interest on Full Faith & Credit obligations from the City for the urban renewal district. The primary source of revenue is the Redevelopment Agency's property tax increment revenues.

Redevelopment Agency Debt Service Fund – accounts for the payment of principal and interest on urban renewal bonds. The primary source of revenue is property tax increment revenues. For fiscal year ended June 30, 2012, this fund is categorized as a major fund.

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City of Lake Oswego, Oregon
Combining Balance Sheet
Nonmajor Governmental Funds
as of June 30, 2012

Capital Project Funds

These funds account for the construction of specific capital projects.

Redevelopment Agency Capital Projects Fund – accounts for the City’s redevelopment activities in the City’s east end urban renewal district. Resources are derived primarily from debt financing, which is repayable by property tax increment revenues and interest on investments.

Assessment Project Fund – accounts for expenditures related to local improvement districts. The primary revenues source is from assessment collections.

	Special Revenue Funds			
	Tourism Fund	Trolley Fund	Public Art Fund	Street Fund
Assets				
Cash and investments	\$ 62,337	\$ 290,502	\$ 6,240	\$ 1,673,382
Property taxes receivable	-	-	-	-
Accounts receivable	29,837	60,000	-	485,897
Assessment liens receivable	-	-	-	-
Restricted cash and investments	-	-	-	-
Total assets	\$ 92,174	\$ 350,502	\$ 6,240	\$ 2,159,279
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 33,836	\$ 366	\$ -	\$ 165,979
Salaries and benefits payable	-	-	-	480
Refundable deposits	-	-	-	5,300
Deferred revenue	-	-	-	-
Total liabilities	33,836	366	-	171,759
Fund balances				
Restricted for:				
Trolley	-	350,136	-	-
Tourism	58,338	-	-	-
Capital projects	-	-	-	253,594
Highway and streets	-	-	-	-
Debt service	-	-	-	-
Assigned to:				
Art and education	-	-	6,240	-
Highway and streets	-	-	-	1,733,926
Total fund balances	58,338	350,136	6,240	1,987,520
Total liabilities and fund balances	\$ 92,174	\$ 350,502	\$ 6,240	\$ 2,159,279

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City of Lake Oswego, Oregon
Combining Balance Sheet
Nonmajor Governmental Funds
as of June 30, 2012

	Special Revenue Funds		Debt Service Funds		Capital Projects Funds			Total Nonmajor Governmental Funds
	Systems Development Charges Fund	Bicycle Path Fund	Bonded Debt Service Fund	City/LORA Debt Service Fund	Redevelopment Agency Capital Projects Fund	Assessment Project Fund		
Assets								
Cash and investments	\$ -	\$ 18,936	\$ -	\$ -	\$ -	\$ 141,128	\$ 2,192,525	
Property taxes receivable	-	-	543,183	-	-	-	543,183	
Accounts receivable	-	1,738	-	-	-	-	577,472	
Assessment liens receivable	57,660	-	-	-	-	128,677	186,337	
Restricted cash and investments	4,432,869	-	550,921	-	2,993,132	-	7,996,922	
Total assets	\$ 4,510,529	\$ 20,674	\$ 1,094,104	\$ -	\$ 2,993,132	\$ 269,805	\$ 11,496,439	
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 60,814	\$ -	\$ -	\$ -	\$ 143,535	\$ -	\$ 404,530	
Salaries and benefits payable	-	-	-	-	-	-	480	
Refundable deposits	-	-	-	-	-	-	5,300	
Deferred revenue	57,660	-	514,278	-	-	128,677	700,615	
Total liabilities	118,474	-	514,278	-	143,535	128,677	1,110,925	
Fund balances								
Restricted for:								
Trolley	-	-	-	-	-	-	350,136	
Tourism	-	-	-	-	-	-	58,338	
Capital projects	4,392,055	-	-	-	2,849,597	141,128	7,636,374	
Highway and streets	-	20,674	-	-	-	-	20,674	
Debt service	-	-	579,826	-	-	-	579,826	
Assigned to:								
Art and education	-	-	-	-	-	-	6,240	
Highway and streets	-	-	-	-	-	-	1,733,926	
Total fund balances	4,392,055	20,674	579,826	-	2,849,597	141,128	10,365,514	
Total liabilities and fund balances	\$ 4,510,529	\$ 20,674	\$ 1,094,104	\$ -	\$ 2,993,132	\$ 269,805	\$ 11,496,439	

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City of Lake Oswego, Oregon
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
for the fiscal year ended June 30, 2012

	Special Revenue Funds				Special Revenue Funds			Debt Service Funds		
	Tourism Fund	Trolley Fund	Public Art Fund	Street Fund	Systems Development Charges Fund	Bicycle Path Fund	Bonded Debt Service Fund	City/LORA Debt Service Fund		
Revenues:										
Property taxes	\$ -	\$ -	\$ -	\$ -						
Franchise fees	-	-	-	300,000						
Intergovernmental	-	60,000	-	1,977,492		19,975		296,091		
Licenses and fees	268,686	-	-	1,802,653	1,105,635	-	-	-		
Sales and services	15,000	20,000	-	-	-	-	-	-		
Charges for services	-	-	-	-	1,100	-	-	-		
Special assessment - principal	358	13,698	18	23,791	22,560	(20)	12,375	-		
Miscellaneous	284,044	93,698	18	4,103,936	1,129,295	19,955	3,336,073	296,091		
Total revenues										
Expenditures:										
Current:										
General government	-	-	-	-						
Culture and recreation	7,000	109,958	86,000	2,442,792						
Highways and streets	-	-	-	-						
Debt service:										
Principal	-	-	-	-						
Interest	-	-	-	-						
Capital outlay	78,825	-	9,600	1,351,406	356,564	30,000	6,160,000	370,000		
	85,825	109,958	97,600	3,794,198	356,564	30,000	745,152	273,294		
Total expenditures										
Excess (deficiency) of revenues over (under) expenditures	198,219	(16,260)	(97,582)	309,738	772,731	(10,045)	(3,569,079)	(570,331)		
Other financing sources (uses):										
Proceeds from bonds issued	-	-	-	-			3,618,750	12,171,350		
Proceeds from line-of-credit	-	-	-	-			-	2,500,000		
Transfers in	15,000	-	101,000	-			-	370,000		
Transfers out	(224,000)	-	-	-			-	(14,471,019)		
Total other financing sources (uses)										
Net change in fund balances	(10,781)	(16,260)	3,418	309,738	772,731	(10,045)	49,671	-		
Fund balances - beginning	69,119	366,396	2,822	1,677,782	3,619,324	30,719	530,155	-		
Fund balances - ending	\$ 58,338	\$ 350,136	\$ 6,240	\$ 1,987,520	\$ 4,392,055	\$ 20,674	\$ 579,826	\$ -		

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City of Lake Oswego, Oregon
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
for the fiscal year ended June 30, 2012

	Capital Projects Funds			Total Nonmajor Governmental Funds
	Redevelopment Agency Capital Projects Fund	Assessment Project Fund		
Revenues:				
Property taxes	\$ -	\$ -	\$ -	3,323,698
Franchise fees	-	-	-	300,000
Intergovernmental	-	-	-	2,353,558
Licenses and fees	-	14,755	-	3,191,729
Sales and services	4,918	-	4,918	35,000
Charges for services	-	-	-	12,024
Special assessment - principal	26,806	10,924	693	100,279
Miscellaneous	-	-	-	-
Total revenues	31,724	26,372	9,321,206	
Expenditures:				
Current:				
General government	1,352,876	-	-	1,576,004
Culture and recreation	-	-	-	204,958
Highways and streets	-	-	-	2,442,792
Debt service:				
Principal	-	-	-	6,530,000
Interest	-	-	-	1,018,446
Capital outlay	4,285,367	-	-	6,111,762
	5,638,243	-	-	17,883,962
Excess (deficiency) of revenues over (under) expenditures	(5,606,519)	26,372	(8,562,756)	
Other financing sources (uses):				
Proceeds from bonds issued	-	-	-	15,790,100
Proceeds from line-of-credit	-	-	-	2,500,000
Transfers in	4,433,000	-	-	4,919,000
Transfers out	-	-	-	(14,695,019)
Total other financing sources (uses)	4,433,000	-	-	8,514,081
Net change in fund balances	(1,173,519)	26,372	(48,675)	10,434,189
Fund balances - beginning	4,023,116	114,756	10,434,189	
Fund balances - ending	\$ 2,849,597	\$ 141,128	\$ 10,385,514	

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City of Lake Oswego, Oregon
Tourism Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Beginning fund balance	\$ 63,916	\$ 63,916	\$ 69,119	\$ 5,203
Intergovernmental	15,000	15,000	15,000	-
Licenses and fees	257,000	257,000	268,686	11,686
Miscellaneous	2,000	2,000	358	(1,642)
Transfers	-	15,000	15,000	-
Total resources	\$ 337,916	\$ 352,916	\$ 368,163	\$ 15,247
Requirements:				
Materials and services	\$ 1,000	\$ 1,000	\$ -	\$ 1,000
Transfers	231,000	231,000	231,000	-
Capital outlay	87,000	87,000	78,825	8,175
Contingency	-	15,000	-	15,000
Unappropriated ending fund balance	18,916	18,916	58,338	(39,422)
Total requirements	\$ 337,916	\$ 352,916	\$ 368,163	\$ (15,247)

City of Lake Oswego, Oregon
Trolley Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Variance with Final Budget
	Original	Final	Actual Amounts	
Resources:				
Beginning fund balance	\$ 280,946	\$ 280,946	\$ 366,396	\$ 85,450
Intergovernmental	60,000	60,000	60,000	-
Miscellaneous	3,000	3,000	13,698	10,698
Transfers	20,000	20,000	20,000	-
Total resources	\$ 363,946	\$ 363,946	\$ 460,094	\$ 96,148
Requirements:				
Materials and services	\$ 204,000	\$ 204,000	\$ 109,958	\$ 94,042
Transfers	10,000	10,000	-	10,000
Contingency	149,946	149,946	-	149,946
Unappropriated ending fund balance	-	-	350,136	(350,136)
Total requirements	\$ 363,946	\$ 363,946	\$ 460,094	\$ (96,148)

City of Lake Oswego, Oregon
Public Art Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Variance with Final Budget
	Original	Final	Actual Amounts	
Resources:				
Beginning fund balance	\$ 3,769	\$ 3,769	\$ 2,822	\$ (947)
Miscellaneous	1,000	1,000	18	(982)
Transfers	100,000	101,000	101,000	-
Total resources	\$ 104,769	\$ 105,769	\$ 103,840	\$ (1,929)
Requirements:				
Materials and services	\$ 80,000	\$ 88,000	\$ 88,000	\$ -
Transfers	7,000	-	-	-
Capital outlay	12,000	12,000	9,600	2,400
Unappropriated ending fund balance	5,769	5,769	6,240	(471)
Total requirements	\$ 104,769	\$ 105,769	\$ 103,840	\$ 1,929

City of Lake Oswego, Oregon
Street Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Actual Amounts	Variance with Final Budget
	Original	Final	Final		
Resources:					
Beginning fund balance	\$ 939,242	\$ 939,242	\$ 1,677,782	\$ 738,540	
Franchise fees	250,000	300,000	300,000	-	
Intergovernmental	2,043,000	2,043,000	1,977,492	(65,508)	
Licenses and fees	1,829,000	1,829,000	1,802,653	(26,347)	
Miscellaneous	2,000	2,000	23,791	21,791	
Total resources	\$ 5,063,242	\$ 5,113,242	\$ 5,781,718	\$ 668,476	
Requirements:					
Personal services	\$ 426,000	\$ 447,000	\$ 438,892	\$ 8,108	
Materials and services	1,276,000	1,306,000	992,069	313,931	
Transfers	1,025,000	1,025,000	1,011,831	13,169	
Capital outlay	1,710,000	1,710,000	1,351,406	358,594	
Contingency	626,242	625,242	-	625,242	
Unappropriated ending fund balance	-	-	1,987,520	(1,987,520)	
Total requirements	\$ 5,063,242	\$ 5,113,242	\$ 5,781,718	\$ (668,476)	

City of Lake Oswego, Oregon
Systems Development Charges Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Actual Amounts	Variance with Final Budget
	Original	Final	Final		
Resources:					
Beginning fund balance	\$ 3,456,485	\$ 3,456,485	\$ 3,619,324	\$ 162,839	
Licenses and fees	464,000	464,000	1,105,635	641,635	
Special assessment	2,000	2,000	1,100	(900)	
Miscellaneous	21,000	21,000	22,560	1,560	
Total resources	\$ 3,943,485	\$ 3,943,485	\$ 4,748,619	\$ 805,134	
Requirements:					
Capital outlay	\$ 720,000	\$ 720,000	\$ 356,564	\$ 363,436	
Contingency	3,223,485	3,223,485	-	3,223,485	
Unappropriated ending fund balance	-	-	4,392,055	(4,392,055)	
Total requirements	\$ 3,943,485	\$ 3,943,485	\$ 4,748,619	\$ (805,134)	

City of Lake Oswego, Oregon
Bicycle Path Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Variance with Final Budget
	Original	Final	Actual Amounts	
Resources:				
Beginning fund balance	\$ 68,665	\$ 68,665	\$ 30,719	\$ (37,946)
Intergovernmental	20,000	20,000	19,975	(25)
Miscellaneous	-	-	(20)	(20)
Total resources	<u>\$ 88,665</u>	<u>\$ 88,665</u>	<u>\$ 50,674</u>	<u>\$ (37,991)</u>
Requirements:				
Capital outlay	\$ 68,000	\$ 68,000	\$ 30,000	\$ 38,000
Unappropriated ending fund balance	20,665	20,665	20,674	(9)
Total requirements	<u>\$ 88,665</u>	<u>\$ 88,665</u>	<u>\$ 50,674</u>	<u>\$ 37,991</u>

City of Lake Oswego, Oregon
Bonded Debt Service Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Variance with Final Budget
	Original	Final	Actual Amounts	
Resources:				
Beginning fund balance	\$ 639,415	\$ 639,415	\$ 530,155	\$ (109,260)
Property taxes	3,320,000	3,320,000	3,323,698	3,698
Miscellaneous	48,000	48,000	12,375	(35,625)
Other financing sources	-	3,700,000	3,618,750	(81,250)
Total resources	<u>\$ 4,007,415</u>	<u>\$ 7,707,415</u>	<u>\$ 7,484,978</u>	<u>\$ (222,437)</u>
Requirements:				
Debt Service				
Principal	\$ 2,555,000	\$ 6,255,000	\$ 6,160,000	\$ 95,000
Interest	807,000	807,000	745,152	61,848
Unappropriated ending fund balance	645,415	645,415	579,826	65,589
Total requirements	<u>\$ 4,007,415</u>	<u>\$ 7,707,415</u>	<u>\$ 7,484,978</u>	<u>\$ 222,437</u>

City of Lake Oswego, Oregon
City/LORA Debt Service Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Intergovernmental	\$ -	\$ 694,000	\$ 666,091	\$ (27,909)
Other financing sources	-	14,672,000	14,671,350	(650)
Total resources	\$ -	\$ 15,366,000	\$ 15,337,441	\$ (28,559)
Requirements:				
Materials and services	\$ -	\$ 14,712,000	\$ 14,694,147	\$ 17,853
Debt Service				
Principal	-	370,000	370,000	-
Interest	-	284,000	273,294	10,706
Total requirements	\$ -	\$ 15,366,000	\$ 15,337,441	\$ 28,559

City of Lake Oswego, Oregon
Redevelopment Agency Debt Service Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Beginning fund balance	\$ 680,725	\$ 680,725	\$ 1,103,933	\$ 423,208
Property taxes	3,215,000	3,215,000	3,364,377	149,377
Intergovernmental	-	14,472,000	14,471,019	(981)
Miscellaneous	58,000	58,000	9,549	(48,451)
Total resources	\$ 3,953,725	\$ 18,425,725	\$ 18,948,878	\$ 523,153
Requirements:				
Debt Service				
Principal	\$ 1,230,000	\$ 13,969,000	\$ 13,645,000	\$ 324,000
Interest	622,000	22,000	317,210	(295,210)
Transfers	2,100,000	4,433,000	4,433,000	-
Unappropriated ending fund balance				
Total requirements	\$ 3,953,725	\$ 18,425,725	\$ 18,948,878	\$ (523,153)

City of Lake Oswego, Oregon
Redevelopment Agency Capital Projects Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Actual Amounts	Variance with Final Budget
	Original	Final			
Resources:					
Beginning fund balance	\$ 4,292,094	\$ 4,292,094	\$ 4,023,116	\$ (268,978)	
Sales and services	-	-	4,918	4,918	
Miscellaneous	100,000	100,000	26,806	(73,194)	
Transfers	2,100,000	4,433,000	4,433,000	-	
Total resources	\$ 6,492,094	\$ 8,825,094	\$ 8,487,840	\$ (337,254)	
Requirements:					
Materials and services	\$ 1,451,000	\$ 1,451,000	\$ 1,352,876	\$ 98,124	
Capital outlay	3,883,000	6,216,000	4,285,367	1,930,633	
Contingency	1,136,000	1,136,000	-	1,136,000	
Unappropriated ending fund balance	22,094	22,094	2,849,597	(2,827,503)	
Total requirements	\$ 6,492,094	\$ 8,825,094	\$ 8,487,840	\$ 337,254	

City of Lake Oswego, Oregon
Assessment Project Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Actual Amounts	Variance with Final Budget
	Original	Final			
Resources:					
Beginning fund balance	\$ 82,238	\$ 82,238	\$ 114,756	\$ 32,518	
Licenses and fees	-	-	14,755	14,755	
Special assessment	11,000	11,000	10,924	(76)	
Miscellaneous	1,000	1,000	693	(307)	
Total resources	\$ 94,238	\$ 94,238	\$ 141,128	\$ 46,890	
Requirements:					
Capital outlay	\$ 90,000	\$ 90,000	\$ -	\$ 90,000	
Contingency	4,238	4,238	-	4,238	
Unappropriated ending fund balance	-	-	141,128	(141,128)	
Total requirements	\$ 94,238	\$ 94,238	\$ 141,128	\$ (46,890)	

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES
for Major and Nonmajor Proprietary Funds**

Proprietary Funds

Enterprise Funds

These funds account for operation of the City's enterprise activities.

Major enterprise funds:

Water Fund - accounts for the activities of the City's water distribution system. Revenue is derived primarily from water service charges.

Water Fund (budgetary basis financial schedules only)

Lake Oswego-Tigard Water Partnership Fund (budgetary basis financial schedules only)

Wastewater Fund - accounts for the activities of the City's wastewater collection and treatment system. Revenue is derived primarily from sewer service charges.

Surface Water Fund - accounts for the activities of the City's surface water management system which was developed to address water quality and flooding problems. Revenue is derived primarily from surface water management charges.

Nonmajor enterprise funds:

Golf Course Fund - accounts for the operation of the City's golf course. Revenue is primarily from user fees.

Tennis Facility Fund - accounts for the operation of the City's indoor tennis facility. Revenue is primarily from user fees.

Internal Service Funds

These funds are used to account for services provided by the City of Lake Oswego to various departments within the City.

Maintenance Services and Motor Pool Fund - accounts for the maintenance of equipment, property, and for the activities of the automobile fleet of the City. Revenues are derived from reimbursements from other funds for associated costs as well as a reimbursement from the Lake Oswego School District for fuel usage.

Engineering Fund - manages the planning, design and construction of the City's infrastructure, including surface water, water, wastewater collection, and transportation. In addition, the Engineering Division provides technical support for privately financed public improvements (constructed with development projects), and provides GIS mapping services.

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City of Lake Oswego, Oregon
Combining Statement of Net Assets
Nonmajor Enterprise Funds
as of June 30, 2012

	Business-type Activities - Enterprise Funds		
	Golf Course Fund	Tennis Facility Fund	Total Nonmajor Enterprise Funds
Assets			
Current assets:			
Cash and investments	\$ 12,904	\$ 650,805	\$ 663,709
Inventories	56,126	-	56,126
Total current assets	69,030	650,805	719,835
Noncurrent assets:			
Capital assets:			
Land	227,929	-	227,929
Buildings and improvements	1,447,456	649,659	2,097,115
Machinery and equipment	257,609	10,300	267,909
	1,932,994	659,959	2,592,953
Less accumulated depreciation	(1,190,102)	(495,993)	(1,686,095)
Total capital assets (net of accumulated depreciation)	742,892	163,966	906,858
Total assets	811,922	814,771	1,626,693
Liabilities			
Current liabilities:			
Accounts payable	16,384	5,066	21,450
Salaries and benefits payable	524	131	655
Compensated absences payable	18,183	1,501	19,684
Total current liabilities	35,091	6,698	41,789
Noncurrent liabilities:			
Accrued other postemployment benefit obligation	59,700	26,900	86,600
Total noncurrent liabilities	59,700	26,900	86,600
Total liabilities	94,791	33,598	128,389
Net Assets			
Invested in capital assets, net of related debt	742,892	163,966	906,858
Unrestricted	(25,761)	617,207	591,446
Total net assets	\$ 717,131	\$ 781,173	\$ 1,498,304

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City of Lake Oswego, Oregon
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
for the fiscal year ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Golf Course Fund	Tennis Facility Fund	Total Nonmajor Enterprise Funds
Operating revenues:			
Licenses & Fees	\$ -	\$ 3,780	\$ 3,780
Charges for sales and services	636,217	421,281	1,057,498
Miscellaneous	6,320	1,150	7,470
Total operating revenues	642,537	426,211	1,068,748
Operating expenses:			
Salaries and benefits	395,602	121,890	517,492
Operating supplies and services	312,357	151,245	463,602
Depreciation	46,117	20,517	66,634
Services performed by other funds	126,366	67,733	194,099
Total operating expenses	880,442	361,385	1,241,827
Operating income (loss)	(237,905)	64,826	(173,079)
Nonoperating revenues (expenses):			
Interest on investments	(298)	3,495	3,197
Total nonoperating revenues (expenses)	(298)	3,495	3,197
Net income (loss) before transfers	(238,203)	68,321	(169,882)
Transfers in	133,000	-	133,000
Change in fund net assets	(105,203)	68,321	(36,882)
Total net assets - beginning	822,334	712,852	1,535,186
Total net assets - ending	\$ 717,131	\$ 781,173	\$ 1,498,304

CITY OF LAKE OSWEGO, OREGON
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
for the fiscal year ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Golf Course Fund	Tennis Facility Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 636,217	\$ 425,061	\$ 1,061,278
Payments to suppliers	(296,983)	(157,632)	(454,615)
Payments to employees	(395,856)	(117,183)	(513,039)
Internal activity-payments to other funds	(126,366)	(67,733)	(194,099)
Other receipts	6,320	1,150	7,470
Net cash provided by operating activities	(176,668)	83,663	(93,005)
Cash flows from noncapital financing activities:			
Transfers to/from other funds	133,000	-	133,000
Net cash provided by noncapital financing activities	133,000	-	133,000
Cash flows from noncapital financing activities:			
Purchases, acquisitions, and construction of capital assets	(16,500)	-	(16,500)
Net cash used in noncapital financing activities	(16,500)	-	(16,500)
Cash flows from investing activities:			
Investment income (expense)	(298)	3,495	3,197
Net increase (decrease) in cash and cash equivalents	(60,466)	87,158	26,692
Cash and cash equivalents, June 30, 2011	73,370	563,647	637,017
Cash and cash equivalents, June 30, 2012	\$ 12,904	\$ 650,805	\$ 663,709
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (237,905)	\$ 64,826	\$ (173,079)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	46,117	20,517	66,634
Changes in assets and liabilities:			
Inventories	9,023	-	9,023
Accounts payable	6,351	(6,387)	(36)
Salaries and benefits payable	(60)	6	(54)
Accrued other postemployment benefits obligation	6,100	3,200	9,300
Compensated absences payable	(6,294)	1,501	(4,793)
Net cash provided by operating activities	\$ (176,668)	\$ 83,663	\$ (93,005)

City of Lake Oswego, Oregon
Water Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Beginning fund balance	\$ 5,174,695	\$ 5,174,695	\$ 5,933,975	\$ 759,280
Licenses and fees	110,000	110,000	20,735	(89,265)
Sales and services	8,065,000	8,065,000	8,013,393	(51,607)
Miscellaneous	58,000	58,000	28,510	(29,490)
Total resources	\$ 13,407,695	\$ 13,407,695	\$ 13,996,613	\$ 588,918
Requirements:				
Personal services	\$ 1,558,000	\$ 1,563,000	\$ 1,499,035	\$ 63,965
Materials and services	2,248,000	2,248,000	1,705,948	542,052
Debt Service	954,000	954,000	659	659
Transfers	6,603,000	6,603,000	6,576,663	26,337
Capital outlay	1,010,000	1,010,000	946,870	63,130
Contingency	1,034,695	1,029,695	-	1,029,695
Unappropriated ending fund balance	-	-	2,314,756	(2,314,756)
Total requirements	\$ 13,407,695	\$ 13,407,695	\$ 13,996,613	\$ (588,918)

Note: For purposes of reporting this fund is combined with the Lake Oswego - Tigard Water Partnership Fund for presentation in the proprietary fund statements.

City of Lake Oswego, Oregon
Lake Oswego - Tigard Water Partnership Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Beginning fund balance	\$ 1,644,516	\$ 1,644,516	\$ 1,630,188	\$ (14,328)
Intergovernmental	8,035,000	8,035,000	7,919,487	(115,513)
Licenses and fees	700,000	700,000	973,267	273,267
Miscellaneous	10,000	10,000	7,544	(2,456)
Transfers	5,375,000	5,375,000	5,375,000	-
Total resources	\$ 15,764,516	\$ 15,764,516	\$ 15,905,486	\$ 140,970
Requirements:				
Personal services	\$ 671,000	\$ 738,000	\$ 726,220	\$ 11,780
Materials and services	65,000	65,000	48,863	16,147
Transfers	93,000	386,000	378,277	7,723
Capital outlay	13,910,000	14,575,000	14,538,929	36,071
Contingency	1,025,516	516	-	516
Unappropriated ending fund balance	-	-	213,207	(213,207)
Total requirements	\$ 15,764,516	\$ 15,764,516	\$ 15,905,486	\$ (140,970)

Note: For purposes of reporting this fund is combined with the Water Fund for presentation in the proprietary fund statements.

City of Lake Oswego, Oregon
Wastewater Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Beginning fund balance	\$ 14,799,099	\$ 14,799,099	\$ 18,164,585	\$ 3,365,486
Licenses and fees	360,000	360,000	567,822	207,822
Sales and services	11,409,000	11,409,000	11,521,033	112,033
Miscellaneous	31,000	31,000	93,393	62,393
Proceeds sale of capital assets	-	-	12,100	12,100
Total resources	\$ 26,599,099	\$ 26,599,099	\$ 30,358,933	\$ 3,759,834
Requirements:				
Personal services	\$ 886,000	\$ 891,000	\$ 811,305	\$ 79,695
Materials and services	3,434,000	3,434,000	3,096,924	337,076
Debt Service	3,552,000	3,552,000	3,550,878	1,122
Transfers	1,427,000	1,427,000	1,415,148	11,852
Capital outlay	5,371,000	5,371,000	3,521,979	1,849,021
Contingency	11,929,099	11,924,099	-	11,924,099
Unappropriated ending fund balance	-	-	17,962,699	(17,962,699)
Total requirements	\$ 26,599,099	\$ 26,599,099	\$ 30,358,933	\$ (3,759,834)

City of Lake Oswego, Oregon
Surface Water Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Beginning fund balance	\$ 1,334,550	\$ 1,334,550	\$ 1,721,833	\$ 387,283
Sales and services	2,106,000	2,106,000	2,103,163	(2,837)
Miscellaneous	11,000	11,000	7,984	(3,016)
Total resources	\$ 3,451,550	\$ 3,451,550	\$ 3,832,980	\$ 381,430
Requirements:				
Personal services	\$ 329,000	\$ 330,000	\$ 286,426	\$ 43,574
Materials and services	679,000	679,000	392,729	286,271
Debt Service	236,000	236,000	235,583	417
Transfers	922,000	922,000	918,049	3,951
Capital outlay	322,000	322,000	133,771	188,229
Contingency	963,550	962,550	-	962,550
Unappropriated ending fund balance	-	-	1,866,422	(1,866,422)
Total requirements	\$ 3,451,550	\$ 3,451,550	\$ 3,832,980	\$ (381,430)

City of Lake Oswego, Oregon
Golf Course Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Beginning fund balance	\$ 8,122	\$ 8,122	\$ 127,899	\$ 119,777
Sales and services	798,000	798,000	636,217	(161,783)
Miscellaneous	11,000	11,000	6,022	(4,978)
Transfers	133,000	133,000	133,000	-
Total resources	<u>\$ 950,122</u>	<u>\$ 950,122</u>	<u>\$ 903,138</u>	<u>\$ (46,984)</u>
Requirements:				
Personal services	\$ 471,000	\$ 456,000	\$ 395,795	\$ 60,205
Materials and services	315,000	315,000	312,357	2,643
Transfers	129,000	129,000	126,366	2,634
Capital outlay	-	17,000	16,500	500
Contingency	35,122	33,122	-	33,122
Unappropriated ending fund balance	-	-	52,120	(52,120)
Total requirements	<u>\$ 950,122</u>	<u>\$ 950,122</u>	<u>\$ 903,138</u>	<u>\$ 46,984</u>

City of Lake Oswego, Oregon
Tennis Facility Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
Resources:				
Beginning fund balance:	\$ 524,356	\$ 524,356	\$ 552,069	\$ 27,713
Licenses and fees	2,000	2,000	3,780	1,780
Sales and services	390,000	425,000	421,281	(3,719)
Miscellaneous	9,000	9,000	4,645	(4,355)
Total resources	<u>\$ 925,356</u>	<u>\$ 960,356</u>	<u>\$ 981,775</u>	<u>\$ 21,419</u>
Requirements:				
Personal services	\$ 136,000	\$ 136,000	\$ 117,189	\$ 18,811
Materials and services	163,000	198,000	151,245	46,755
Transfers	73,000	73,000	67,733	5,267
Contingency	85,000	85,000	-	85,000
Unappropriated ending fund balance	468,356	468,356	645,608	(177,252)
Total requirements	<u>\$ 925,356</u>	<u>\$ 960,356</u>	<u>\$ 981,775</u>	<u>\$ (21,419)</u>

City of Lake Oswego, Oregon
Combining Statement of Net Assets
Internal Service Funds
as of June 30, 2012

	Maintenance Services and Motor Pool Fund	Engineering Fund	Total Internal Service Funds
Assets			
Current assets:			
Cash and investments	\$ 44,960	\$ 980,293	\$ 1,025,253
Receivables	50,914	11,250	62,164
Inventories	34,387	-	34,387
Total current assets	<u>130,261</u>	<u>991,543</u>	<u>1,121,804</u>
Noncurrent assets:			
Capital assets:			
Land	458,819	-	458,819
Buildings and improvements	1,000,903	-	1,000,903
Machinery and equipment	177,688	228,256	405,944
	1,637,410	228,256	1,865,666
Less accumulated depreciation	(1,037,086)	(199,225)	(1,236,311)
Total capital assets (net of accumulated depreciation)	<u>600,324</u>	<u>29,031</u>	<u>629,355</u>
Total assets	<u>730,585</u>	<u>1,020,574</u>	<u>1,751,159</u>
Liabilities			
Current liabilities:			
Accounts payable	30,957	3,826	34,783
Salaries and benefits payable	960	2,531	3,491
Compensated absences payable	45,515	169,919	215,434
Refundable deposits	-	101,379	101,379
Total current liabilities	<u>77,432</u>	<u>277,655</u>	<u>355,087</u>
Noncurrent liabilities:			
Accrued other postemployment benefit obligation	65,200	169,400	234,600
Total noncurrent liabilities	<u>65,200</u>	<u>169,400</u>	<u>234,600</u>
Total liabilities	<u>142,632</u>	<u>447,055</u>	<u>589,687</u>
Net Assets			
Invested in capital assets, net of related debt	600,324	29,031	629,355
Unrestricted	(12,371)	544,488	532,117
Total net assets	<u>\$ 587,953</u>	<u>\$ 573,519</u>	<u>\$ 1,161,472</u>

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City of Lake Oswego, Oregon
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
for the fiscal year ended June 30, 2012

	Maintenance Services and Motor Pool Fund	Engineering Fund	Total Internal Service Funds
Operating revenues:			
Licenses & Fees	\$ 232,186	\$ 707,953	\$ 940,139
Charges for sales and services	1,254,000	2,485,000	3,739,000
Miscellaneous	6,470	6,961	13,431
Total operating revenues	1,492,656	3,199,914	4,692,570
Operating expenses:			
Salaries and benefits	914,325	2,216,097	3,130,422
Operating supplies and services	410,926	227,290	638,216
Depreciation	50,323	5,271	55,594
Services performed by other funds	160,683	486,881	647,564
Total operating expenses	1,536,257	2,935,539	4,471,796
Operating income (loss)	(43,601)	264,375	220,774
Nonoperating revenues (expenses):			
Operating grants	-	70,651	70,651
Interest on investments	183	4,173	4,356
Total nonoperating revenues (expenses)	183	74,824	75,007
Net income (loss) before contributions and transfers	(43,418)	339,199	295,781
Capital contributions	10,612	-	10,612
Change in fund net assets	(32,806)	339,199	306,393
Total net assets - beginning:	620,759	234,320	855,079
Total net assets - ending	\$ 587,953	\$ 573,519	\$ 1,161,472

City of Lake Oswego, Oregon
Combining Statement of Cash Flows
Internal Service Funds
for the fiscal year ended June 30, 2012

	Maintenance Services and Motor Pool Fund	Engineering Fund	Total Internal Service Funds
Cash flows from operating activities:			
Receipts from customers	\$ 1,458,592	\$ 3,191,903	\$ 4,650,495
Payments to suppliers	(389,043)	(243,721)	(632,764)
Payments to employees	(903,427)	(2,177,081)	(3,080,508)
Internal activity-payments to other funds	(160,683)	(486,881)	(647,564)
Other receipts	6,470	6,961	13,431
Net cash provided by operating activities	11,909	291,181	303,090
Cash flows from noncapital financing activities:			
Proceeds from grant	-	70,651	70,651
Cash flows from investing activities:			
Investment income	183	4,173	4,356
Net increase in cash and cash equivalents	12,092	366,005	378,097
Cash and cash equivalents, June 30, 2011	32,868	614,288	647,156
Cash and cash equivalents, June 30, 2012	\$ 44,960	\$ 980,293	\$ 1,025,253
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (43,601)	\$ 264,375	\$ 220,774
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	50,323	5,271	55,594
Changes in assets and liabilities:			
Receivables	(27,594)	(1,050)	(28,644)
Inventories	21,657	-	21,657
Accounts payable	226	(16,431)	(16,205)
Salaries and benefits payable	1	195	196
Accrued other postemployment benefits obligation	8,100	18,400	26,500
Compensated absences payable	2,797	20,421	23,218
Net cash provided by operating activities	\$ 11,909	\$ 291,181	\$ 303,090
Noncash capital and related financing activities:			
Capital assets contributed from other funds	\$ 10,612	\$ -	\$ 10,612

City of Lake Oswego, Oregon
Maintenance Services and Motor Pool Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Actual Amounts	Variance with Final Budget
	Original	Final	Final		
Resources:					
Beginning fund balance	\$ 35,760	\$ 35,760	\$ 80,543	\$ 44,783	
Intergovernmental	-	-	327	327	
Miscellaneous	170,000	230,000	238,512	8,512	
Transfers	1,254,000	1,254,000	1,254,000	-	
Total resources	\$ 1,459,760	\$ 1,519,760	\$ 1,577,382	\$ 53,622	
Requirements:					
Personal services	\$ 876,000	\$ 906,000	\$ 903,429	\$ 2,571	
Materials and services	352,000	432,000	410,926	21,074	
Transfers	162,000	162,000	160,683	1,317	
Contingency	69,760	19,760	-	19,760	
Unappropriated ending fund balance	-	-	98,344	(98,344)	
Total requirements	\$ 1,459,760	\$ 1,519,760	\$ 1,577,382	\$ (53,622)	

City of Lake Oswego, Oregon
Engineering Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2012

	2011-12 Budget			Actual Amounts	Variance with Final Budget
	Original	Final	Final		
Resources:					
Beginning fund balance	\$ 201,590	\$ 201,590	\$ 500,516	\$ 298,926	
Intergovernmental	-	-	70,651	70,651	
Licenses and fees	520,000	520,000	707,953	187,953	
Miscellaneous	6,000	6,000	11,134	5,134	
Transfers	2,485,000	2,485,000	2,485,000	-	
Total resources	\$ 3,212,590	\$ 3,212,590	\$ 3,775,254	\$ 562,664	
Requirements:					
Personal services	\$ 2,243,000	\$ 2,251,000	\$ 2,177,276	\$ 73,724	
Materials and services	273,000	273,000	227,290	45,710	
Transfers	504,000	504,000	486,881	17,119	
Contingency	192,590	184,590	-	184,590	
Unappropriated ending fund balance	-	-	883,807	(883,807)	
Total requirements	\$ 3,212,590	\$ 3,212,590	\$ 3,775,254	\$ (562,664)	

OTHER FINANCIAL SCHEDULES

Schedule of Future Bond Requirements

Schedule of Property Tax Transactions and Outstanding Balances

Schedule of Accountability of Independently Elected Officials

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City of Lake Oswego
 Schedule of Future Bond Requirements
 as of June 30, 2012

Fiscal Year	FUTURE BOND PRINCIPAL									
	General Obligation Bonds				Revenue Bonds			Full Faith & Credit		
	Refunded Series 2003A 5/7/03	Refunded Series 2006 10/18/06	Refunded Series 2011 6/7/12	Parks Fields & Pathways 2/1/03	Surface Water Revenue 4/7/05	Water Refunding 10/18/07	Wastewater 6/3/09	Wastewater 9/21/10	LORA Series 2011A 9/20/11	Total
2013	\$ 645,000	\$ 645,000	\$ 385,000	\$ 1,035,000	\$ 140,000	\$ 645,000	\$ 1,690,000	\$ 1,150,000	\$ 440,000	\$ 6,755,000
2014	-	665,000	375,000	1,095,000	145,000	670,000	1,740,000	1,165,000	450,000	6,305,000
2015	-	695,000	385,000	815,000	150,000	700,000	1,795,000	1,175,000	470,000	6,185,000
2016	-	730,000	390,000	845,000	155,000	730,000	1,845,000	1,200,000	480,000	6,375,000
2017	-	760,000	400,000	885,000	165,000	770,000	1,900,000	1,220,000	485,000	6,285,000
2018	-	790,000	410,000	925,000	175,000	800,000	1,960,000	1,240,000	495,000	6,205,000
2019	-	820,000	420,000	965,000	185,000	840,000	2,020,000	1,260,000	515,000	6,405,000
2020	-	850,000	425,000	1,005,000	190,000	860,000	2,100,000	1,310,000	535,000	6,485,000
2021	-	880,000	430,000	1,045,000	195,000	880,000	2,180,000	1,345,000	545,000	6,585,000
2022	-	910,000	435,000	1,085,000	200,000	900,000	2,270,000	1,385,000	560,000	6,675,000
2023	-	940,000	440,000	1,125,000	205,000	920,000	2,360,000	1,420,000	575,000	6,765,000
2024	-	970,000	445,000	1,165,000	210,000	940,000	2,450,000	1,455,000	590,000	6,855,000
2025	-	1,000,000	450,000	1,205,000	215,000	960,000	2,540,000	1,490,000	605,000	6,945,000
2026	-	1,030,000	455,000	1,245,000	220,000	980,000	2,630,000	1,525,000	620,000	7,035,000
2027	-	1,060,000	460,000	1,285,000	225,000	1,000,000	2,720,000	1,560,000	635,000	7,125,000
2028	-	1,090,000	465,000	1,325,000	230,000	1,020,000	2,810,000	1,595,000	650,000	7,215,000
2029	-	1,120,000	470,000	1,365,000	235,000	1,040,000	2,900,000	1,630,000	665,000	7,305,000
2030	-	1,150,000	475,000	1,405,000	240,000	1,060,000	2,990,000	1,665,000	680,000	7,395,000
2031	-	1,180,000	480,000	1,445,000	245,000	1,080,000	3,080,000	1,700,000	695,000	7,485,000
2032	-	1,210,000	485,000	1,485,000	250,000	1,100,000	3,170,000	1,735,000	710,000	7,575,000
2033	-	1,240,000	490,000	1,525,000	255,000	1,120,000	3,260,000	1,770,000	725,000	7,665,000
2034	-	1,270,000	495,000	1,565,000	260,000	1,140,000	3,350,000	1,805,000	740,000	7,755,000
2035	-	1,300,000	500,000	1,605,000	265,000	1,160,000	3,440,000	1,840,000	755,000	7,845,000
	\$645,000	\$4,495,000	\$3,165,000	\$7,655,000	\$2,155,000	\$7,910,000	\$50,000,000	\$35,000,000	\$11,130,000	\$132,155,000

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Fiscal Year	FUTURE BOND INTEREST									
	General Obligation Bonds				Revenue Bonds			Full Faith & Credit		
	Refunded Series 2003A 5/7/03	Refunded Series 2006 10/18/06	Refunded Series 2011 6/7/12	Parks Fields & Pathways 2/1/03	Surface Water Revenue 4/7/05	Water Refunding 10/18/07	Wastewater 6/3/09	Wastewater 9/21/10	LORA Series 2011A 9/20/11	Total
2013	\$ 23,542	\$ 179,800	\$ 63,300	\$ 342,612	\$ 95,420	\$ 313,141	\$ 2,463,119	\$ 1,062,413	\$ 384,575	\$ 4,927,922
2014	-	154,000	56,000	288,275	89,720	286,841	2,411,659	1,050,913	375,775	4,713,198
2015	-	127,000	48,500	244,475	83,820	259,441	2,358,644	1,039,863	355,525	4,517,068
2016	-	99,600	40,800	210,856	77,720	230,841	2,304,044	1,015,763	346,125	4,325,749
2017	-	70,600	33,000	174,944	70,495	200,841	2,247,869	991,763	336,525	4,125,837
2018	-	41,600	25,000	136,429	63,740	166,841	2,192,869	976,863	326,975	3,929,794
2019	-	20,800	16,500	123,100	53,320	132,641	2,139,769	966,338	316,975	3,769,525
2020	-	-	8,500	94,300	44,120	110,641	2,037,769	904,238	291,525	3,491,094
2021	-	-	-	64,044	34,370	100,041	1,952,069	868,213	278,150	3,296,887
2022	-	-	-	34,675	24,697	89,041	1,862,969	831,225	261,800	3,104,407
2023	-	-	-	15,130	13,360	44,041	1,770,369	793,138	239,400	2,895,497
2024	-	-	-	7,565	6,680	22,041	1,682,969	756,643	224,000	2,706,594
2025	-	-	-	3,782	3,340	11,020	1,595,969	720,325	110,000	2,488,083
2026	-	-	-	1,901	1,670	5,510	1,508,969	684,838	55,000	2,269,545
2027	-	-	-	950	835	2,755	1,423,969	649,300	27,500	2,050,725
2028	-	-	-	475	417	1,377	1,341,969	614,638	13,750	1,835,782
2029	-	-	-	237	209	688	1,262,969	585,338	6,875	1,620,132
2030	-	-	-	119	104	344	1,184,969	556,038	3,437	1,408,542
2031	-	-	-	60	52	172	1,108,969	526,738	1,718	1,192,422
2032	-	-	-	30	26	86	1,034,969	497,438	859	1,076,272
2033	-	-	-	15	13	43	960,969	468,138	429	960,132
2034	-	-	-	7	6	21	886,969	438,838	214	846,032
2035	-	-	-	3	3	10	812,969	409,538	107	730,432
	\$23,542	\$691,600	\$292,000	\$1,272,022	\$656,099	\$2,154,654	\$54,869,891	\$35,940,033	\$4,523,550	\$60,872,441

CITY OF LAKE OSWEGO, OREGON
 Schedule of Property Tax Transactions and Outstanding Balances
 as of June 30, 2012

CITY OF LAKE OSWEGO, OREGON
 Schedule of Accountability of Independently Elected Officials
 for the fiscal year ended June 30, 2012

Tax levy fiscal year	Balance June 30, 2011	Levy assessed	Add (deduct) adjustments and discounts	Deduct cash collections	Balance June 30, 2012
2011-12	\$ -	\$ 34,934,532	\$ (779,823)	\$ (32,917,116)	\$ 1,237,593
2010-11	1,204,594		(26,335)	(593,815)	584,444
2009-10	491,562		1,062	(109,529)	383,095
2008-09	265,831		11,482	(150,141)	127,172
2007-08 & prior	144,483		(1,946)	(82,170)	60,367
	<u>\$ 2,106,470</u>	<u>\$ 34,934,532</u>	<u>\$ (795,560)</u>	<u>\$ (33,852,771)</u>	<u>\$ 2,392,671</u>

Oregon Revised Statutes (ORS) section 297 requires a statement of accountability for each independently elected official collecting or receiving money in the municipal corporation. In compliance with ORS 297, there are no independently elected officials that collect or receive money on behalf of the City of Lake Oswego.

**CITY OF LAKE OSWEGO, OREGON
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

SECTION III

STATISTICAL SECTION

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STATISTICAL SECTION

This section provides further details as a context for a better understanding of the financial statements.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how financial performance has changed over time.	127
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, property taxes.	133
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.	137
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.	144
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.	146

Sources: The information in these schedules is derived from the comprehensive annual financial reports for the relevant year, unless otherwise noted. The City implemented GASB Statement 34 in fiscal year 2003 and GASB Statement 44 in fiscal year 2004.

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CITY OF LAKE OSWEGO, OREGON

Net Assets by Component
for the last Ten fiscal years ¹
(accrual basis of accounting)
(in thousands)

	Fiscal year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011 ¹	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ 60,174	\$ 64,446	\$ 62,007	\$ 77,320	\$ 79,435	\$ 82,266	\$ 84,360	\$ 87,117	\$ 89,610	\$ 90,372
Restricted	10,846	8,969	18,823	17,055	14,385	13,245	13,549	12,859	16,466	14,709
Unrestricted	15,626	17,377	17,033	10,177	15,800	14,487	13,514	16,121	15,487	19,745
Total governmental activities net assets	86,646	90,792	97,863	104,552	109,620	109,998	111,423	116,097	121,563	124,826
Business-type activities										
Invested in capital assets, net of related debt	66,404	66,486	63,429	67,402	70,782	71,929	77,153	79,038	84,031	90,734
Restricted	9,080	10,950	15,585	12,046	12,696	11,878	9,110	10,545	10,920	7,488
Unrestricted	75,444	77,436	79,014	81,234	83,478	83,800	86,263	89,739	95,173	98,221
Total business-type activities net assets	150,928	154,872	158,028	160,680	166,956	167,527	172,526	178,322	189,124	196,443
Primary government										
Invested in capital assets, net of related debt	126,578	130,932	125,436	144,422	150,217	154,195	161,513	166,145	173,641	181,106
Restricted	10,846	8,969	18,823	19,141	14,385	13,246	13,548	13,026	16,688	14,709
Unrestricted	24,866	28,377	32,633	22,223	28,996	26,385	22,624	26,666	26,407	27,235
Total primary government net assets	\$ 162,290	\$ 168,278	\$ 176,892	\$ 185,786	\$ 193,698	\$ 193,826	\$ 197,685	\$ 205,837	\$ 216,736	\$ 224,044

¹ With the implementation of GASB 54, the City reclassified the Maintenance Services and Motor Fuel Fund and the Engineering Fund as internal service funds from special revenue funds. This change resulted in a restatement of \$633,883 unrestricted fund balance moving to business-type activities from governmental activities July 1, 2010.

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CITY OF LAKE OSWEGO, OREGON
Changes in Net Assets
*for the last ten fiscal years*¹
(accrual basis of accounting)
(in thousands)

Expenses	Fiscal Year										
	2003	2004	2005	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:											
General government	\$ 6,448	\$ 5,806	\$ 5,913	\$ 5,960	\$ 7,629	\$ 7,369	\$ 7,391	\$ 7,391	\$ 9,128	\$ 12,846	\$ 15,542
Public safety	19,759	14,295	15,453	17,325	17,929	18,382	18,382	18,382	19,592	19,790	19,889
Police	1,886	1,899	1,282	1,508	1,746	1,617	1,323	1,323	1,396	1,404	1,416
Community development	3,215	3,106	3,446	4,162	4,476	5,348	4,383	4,383	10,389	11,074	11,760
Highways and streets	3,964	3,995	3,653	4,112	4,160	4,323	4,673	4,413	4,477	4,628	4,628
Interest on long-term debt	1,983	2,073	2,328	2,028	3,171	2,878	2,051	1,640	1,487	1,324	1,324
Total governmental activities expenses	36,129	35,688	38,940	42,153	46,288	48,309	46,960	44,284	47,275	51,585	51,585
Business-type activities:											
Water	4,471	4,506	4,308	6,805	5,205	6,220	5,461	5,900	6,522	6,756	6,756
Wastewater	3,813	3,899	4,959	4,223	4,326	6,191	6,000	5,606	6,592	11,341	11,341
Surface water	1,886	1,899	1,282	1,508	1,746	1,617	1,323	1,396	1,396	1,404	1,416
Tennis facility	226	282	289	293	293	325	347	376	376	349	361
Maintenance & Motor Pool ¹	-	-	-	-	-	-	-	-	-	-	-
Engineering ¹	-	-	-	-	-	-	-	-	-	-	-
Total business-type activities expenses	10,504	10,867	11,293	13,518	12,302	15,772	14,707	14,706	17,723	22,056	22,056
Total primary government expenses	\$ 46,633	\$ 46,555	\$ 50,242	\$ 55,671	\$ 58,590	\$ 63,381	\$ 61,667	\$ 58,991	\$ 65,000	\$ 73,641	\$ 73,641
Program Revenues											
Governmental activities:											
Charges for services:	\$ 3,343	\$ 2,301	\$ 2,384	\$ 3,441	\$ 3,157	\$ 3,181	\$ 2,340	\$ 2,340	\$ 1,476	\$ 4,272	\$ 4,153
General government	870	1,909	2,124	2,090	2,201	2,265	2,444	2,500	2,500	2,654	2,601
Police	616	644	724	926	889	990	1,047	1,046	953	953	947
Culture and recreation	2,885	2,311	2,670	3,138	2,975	2,493	1,515	1,515	1,046	1,046	1,046
Community development	23	444	1,562	1,954	1,751	1,504	1,333	1,445	1,543	1,803	1,803
Highways and streets	3,860	3,838	4,288	3,930	6,622	4,020	3,091	5,164	6,678	6,313	6,313
Operating grants and contributions	542	239	1,638	198	155	141	2,093	555	956	289	289
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-	-
Total governmental activities program revenues	13,099	11,706	15,289	15,677	17,750	13,594	13,763	12,675	17,006	16,105	16,105
Business-type activities:											
Charges for services:	4,561	4,637	4,403	5,166	4,983	4,534	4,795	5,051	6,896	6,896	9,007
Water	1,981	2,067	2,153	3,486	3,186	3,486	3,186	3,186	3,186	3,186	3,186
Wastewater	1,366	1,432	1,449	1,728	1,679	1,799	1,813	1,823	3,964	2,103	2,103
Surface water	784	733	614	642	698	726	636	658	597	425	425
Golf course	248	265	271	267	315	351	336	381	403	425	425
Tennis facility	-	-	-	-	-	-	-	-	-	-	-
Maintenance & Motor Pool ¹	-	-	-	-	-	-	-	-	-	-	-
Engineering ¹	-	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	75	75	75	75	75	75	75	75	75	75	75
Total primary government program revenues	\$ 24,488	\$ 23,686	\$ 27,043	\$ 28,417	\$ 30,657	\$ 26,889	\$ 30,465	\$ 30,655	\$ 30,655	\$ 30,130	\$ 41,229

¹ The Maintenance & Motor Pool Fund and the Engineering Fund were part of governmental activities until 2010-11. They are now classified as internal service funds.

Net (Expense) Revenue	Fiscal Year										
	2003	2004	2005	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:											
Business-type activities	\$ (23,080)	\$ (23,982)	\$ (23,600)	\$ (26,476)	\$ (27,530)	\$ (28,538)	\$ (34,715)	\$ (31,609)	\$ (33,198)	\$ (30,269)	\$ (35,480)
Total primary government expenses	\$ (22,829)	\$ (22,809)	\$ (23,329)	\$ (27,254)	\$ (27,533)	\$ (33,693)	\$ (38,693)	\$ (33,629)	\$ (38,534)	\$ (32,866)	\$ (38,442)
General Revenue and Other Changes in Net Assets											
Taxes	\$ 19,970	\$ 20,987	\$ 22,385	\$ 23,530	\$ 24,502	\$ 23,442	\$ 23,442	\$ 27,057	\$ 28,565	\$ 26,170	\$ 27,429
Property taxes, levied for general purposes	2,920	3,436	3,548	3,458	3,442	3,442	3,442	3,442	3,485	6,411	6,801
Property taxes, levied for debt service	1,983	1,845	2,096	2,165	2,164	2,538	2,538	2,529	2,627	2,773	3,135
Franchise taxes	368	410	459	432	432	432	432	432	432	432	432
Hotel and motel taxes	1,015	527	723	1,138	1,138	1,138	1,138	1,138	1,138	1,138	1,138
Income tax	86	362	600	171	292	155	155	266	449	187	261
Other revenues	-	-	-	-	-	-	-	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-	-	-	-	-	-	-	-
Transfers	148	-	-	35	35	230	(115)	(115)	(115)	(310)	160
Total governmental activities	26,900	28,128	30,731	33,164	33,606	35,094	34,621	36,285	36,360	36,360	38,743
Business-type activities:											
Interest and investment earnings	2,820	195	853	2,494	882	1,632	1,632	73	63	21	21
Capital contributions	171	31	31	30	60	60	60	60	60	60	60
Other revenues	-	-	-	-	-	-	-	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-	-	-	-	-	-	-	-
Transfers	(1,848)	-	-	(85)	(85)	(85)	(230)	115	12	310	(160)
Total business-type activities	2,820	195	853	2,494	882	1,632	1,632	73	63	21	21
Total primary government	\$ 29,720	\$ 28,323	\$ 31,584	\$ 35,658	\$ 34,488	\$ 36,726	\$ 36,253	\$ 36,360	\$ 36,423	\$ 36,381	\$ 38,764
Change in Net Assets											
Governmental activities	\$ 3,970	\$ 4,146	\$ 7,071	\$ 6,688	\$ 5,068	\$ 379	\$ 1,423	\$ 4,676	\$ 6,097	\$ 3,263	\$ 3,263
Business-type activities	3,740	1,993	1,577	2,221	2,221	2,421	332	2,456	3,476	4,802	3,048
Total primary government	\$ 7,710	\$ 6,139	\$ 8,648	\$ 8,909	\$ 7,289	\$ 7,311	\$ 7,311	\$ 7,132	\$ 9,573	\$ 8,069	\$ 6,311

CITY OF LAKE OSWEGO, OREGON
Governmental Activities Tax Revenues by Source
for the last ten fiscal years
(modified accrual basis of accounting)

Fiscal Year	Property tax	Franchise tax	Motor fuel tax ¹	Alcoholic beverage tax ¹	Total
2003	\$ 22,863,038	\$ 1,932,405	\$ 1,447,352	\$ 309,928	\$ 26,552,723
2004	24,467,913	1,845,056	1,616,831	336,032	28,265,832
2005	26,058,276	1,958,160	1,742,832	348,583	30,107,851
2006	26,981,047	2,164,721	1,743,384	375,831	31,264,983
2007	27,847,561	2,363,736	1,670,244	379,498	32,261,039
2008	29,106,537	2,557,856	1,574,305	430,649	33,669,347
2009	30,314,960	2,528,804	1,404,495	432,498	34,680,757
2010	31,963,819	2,626,633	1,523,590	413,965	36,528,007
2011	32,711,063	2,773,246	1,797,277	429,633	37,711,219
2012	33,800,882	3,135,014	1,997,467	468,432	39,401,795

Fund Balances of Governmental Funds
*for the last ten fiscal years*¹
(modified accrual basis of accounting)
(in thousands)

	Fiscal year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserved	4,782	4,369	4,983	4,918	3,257	3,604	5,049	6,078	1,500	1,500
Unreserved	-	-	-	-	-	-	14,054	10,339	6,956	5,864
Non-spendable ¹	-	-	-	-	-	-	-	-	1,014	1,658
Restricted ¹	-	-	-	-	-	-	-	-	16,305	15,570
Assigned ¹	-	-	-	-	-	-	-	-	265,575	24,882
Unassigned ¹	-	-	-	-	-	-	-	-	-	-
Total general fund	\$ 4,782	\$ 4,369	\$ 4,983	\$ 4,918	\$ 3,257	\$ 3,604	\$ 20,003	\$ 22,437	\$ 285,575	\$ 24,882
All other governmental funds										
Reserved	\$ 21,262	\$ 17,304	\$ 19,240	\$ 17,055	\$ 20,594	\$ 16,727	\$ 11,120	\$ 10,342	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	10,035	11,944	15,993	12,049	13,295	11,990	1,159	1,423	-	-
Capital projects funds	658	462	356	190	250	305	101	72	-	-
Non-spendable ¹	-	-	-	-	-	-	-	-	33	-
Restricted ¹	-	-	-	-	-	-	-	-	10,082	9,899
Assigned ¹	-	-	-	-	-	-	-	-	1,423	1,740
Total all other governmental funds	\$ 31,955	\$ 29,710	\$ 35,589	\$ 29,294	\$ 34,138	\$ 29,022	\$ 12,880	\$ 11,837	\$ 11,538	\$ 10,899

¹ These reflect the new classifications of fund balance as determined for GASB 54 beginning with fiscal year 2010-11.

¹ Motor fuel and alcoholic beverage taxes are not directly assessed by the City of Lake Oswego, but rather by the State of Oregon, and then a portion is allocated to the City based upon population.

Changes in Fund Balances of Governmental Funds
for the last ten fiscal years
(modified accrual basis of accounting)
(in thousands)

	Fiscal year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:										
Franchise fees	\$ 22,863	\$ 24,488	\$ 26,058	\$ 26,981	\$ 27,887	\$ 27,106	\$ 30,315	\$ 31,964	\$ 32,711	\$ 33,801
Intergovernmental	1,932	1,845	2,036	2,165	2,384	2,558	2,529	2,627	2,773	3,135
Licenses and fees	4,793	4,234	6,039	4,302	4,337	4,359	4,460	4,671	6,123	6,623
Fines and forfeitures	674	883	1,029	1,069	983	967	823	1,129	1,113	986
Sales and services	2,363	2,455	2,735	2,876	3,003	3,035	3,141	3,281	3,341	3,357
Charges for services	5,178	5,178	5,276	5,348	5,398	5,428	5,481	5,528	5,581	5,634
Miscellaneous	1,159	1,027	1,446	1,886	1,886	1,845	1,845	1,845	1,845	1,845
Miscellaneous - principal	1,023	1,031	1,599	2,257	5,340	1,845	88	1,606	1,206	366
Total revenues	44,106	44,465	50,581	52,632	56,922	58,684	52,598	57,720	59,220	56,810
Expenditures:										
Current:										
General government	7,704	8,105	8,476	8,629	9,967	9,418	10,424	14,431	14,276	15,541
Public safety	13,493	13,866	15,955	16,458	16,862	17,557	17,521	17,782	18,702	17,997
Public works	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
Community development	4,307	4,302	4,675	5,396	5,788	6,595	6,053	2,588	2,464	2,443
Highways and streets	1,791	1,856	1,890	2,196	2,168	2,283	2,523	2,464	2,464	2,443
Capital outlay	11,382	8,634	8,027	13,883	25,211	9,451	2,590	4,804	4,221	7,115
Debt service:										
Principal	1,995	2,595	3,145	2,770	2,740	2,935	3,161	3,375	3,510	40,812
Interest	2,054	2,274	2,372	1,950	3,285	2,840	2,004	1,273	1,504	1,195
Intergovernmental expense	-	-	-	-	-	900	-	38	150	2,000
Total expenditures	49,151	48,136	50,724	59,029	74,331	60,594	52,892	55,284	52,276	96,963
Deficiency of revenues under expenditures	(5,045)	(3,671)	(143)	(6,397)	(17,409)	(5,910)	(194)	1,936	3,244	(40,144)
Other financing sources (uses):										
Transfers in	1,220	1,018	546	3,011	1,420	2,733	19,005	1,802	2,694	19,907
Transfers out	(1,073)	(1,018)	(546)	(2,976)	(1,385)	(2,698)	(19,195)	(1,851)	(3,004)	(19,747)
Proceeds from sale of capital assets	1,256	913	1,617	2	309	1,104	142	3	3	3
Proceeds from bonds issued	-	-	-	-	20,157	-	-	-	-	15,832
Proceeds from credit issued	20,943	-	-	-	-	-	-	-	-	-
Proceeds from refunding bonds issued	(10,981)	-	-	-	(6,579)	-	-	-	-	-
Payments to refund bond escrow agent	(10,981)	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	2,325	913	1,071	37	20,592	1,139	(168)	(166)	(167)	38,655
Net change in fund balances	\$ (6,250)	\$ (2,250)	\$ (5,244)	\$ (6,397)	\$ (3,409)	\$ (2,274)	\$ (242)	\$ (1,896)	\$ (2,837)	\$ (14,952)
Debt service as a percentage of noncapital expenditures	10.7%	12.3%	12.9%	10.5%	12.3%	11.3%	10.3%	9.1%	10.5%	46.8%

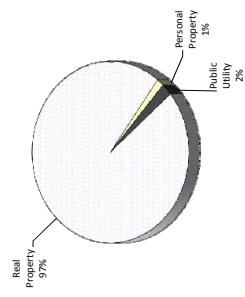
CITY OF LAKE OSWEGO, OREGON
Assessed Value and Estimated Real Market Value of Taxable Property
for the last ten fiscal years
(in thousands of dollars)

Fiscal year	Assessed value				Total direct tax rate	Estimated real market value (RMV)	Assessed value as a percentage of RMV
	Real property	Personal property	Public utility	Total			
2003	\$ 3,859,058,979	\$ 89,336,610	\$ 67,155,851	\$ 4,015,551,440	\$ 5.8293	\$ 5,303,758,907	75.7%
2004	4,011,395,332	82,195,706	69,809,322	4,163,400,360	6.0573	5,652,069,391	73.7
2005	4,181,274,462	85,442,034	75,885,019	4,342,601,515	6.2115	6,038,917,753	71.9
2006	4,360,051,208	87,775,231	65,797,150	4,513,623,589	6.1658	6,847,588,629	65.9
2007	4,581,779,113	91,639,937	64,796,580	4,738,215,630	6.0739	7,909,898,318	59.9
2008	4,836,748,746	94,410,514	67,132,080	4,998,291,340	6.0581	9,444,930,784	52.8
2009	5,070,330,976	99,718,138	65,890,930	5,235,940,044	6.0453	9,910,531,110	52.8
2010	5,283,069,817	97,869,846	91,696,150	5,472,635,813	6.0453	9,159,770,829	59.7
2011	5,476,019,197	85,399,877	93,014,268	5,654,433,342	5.9945	8,094,242,425	69.9
2012	5,639,720,370	82,744,398	126,894,660	5,849,359,428	6.0056	7,690,906,645	76.1

Sources: Clackamas, Multnomah, and Washington County Assessors' Offices

Note: Property in Oregon is assessed annually within the 3 percent limits of Measure 50. Counties assess new property at approximately 67 percent of estimated real market value for all types of real and personal property. Tax rates are per \$1,000 of assessed value.

Real Market Value by Type
for the fiscal year ended 2012



CITY OF LAKE OSWEGO, OREGON
Principal Property Taxpayers
current year and nine years ago

CITY OF LAKE OSWEGO, OREGON
Property Tax Rates - Direct and Overlapping Governments
for the last ten fiscal years
(rate per \$1,000 of assessed value)

Fiscal Year	City direct rates				Overlapping rates				Total direct and overlapping		
	Basic rate ¹	General obligation debt service	Urban renewal ¹	Total direct	Clackamas county	Education service district	Portland community college district	Lake Oswego school district		Metro	Other ²
2003	\$ 4,663.6	\$ 0.7397	\$ 0.4260	\$ 5,829.3	\$ 2.49	\$ 0.35	\$ 0.48	\$ 6.72	\$ 0.27	\$ 0.24	\$ 16.38
2004	4,748.0	0.8688	0.4425	6,057.3	2.49	0.35	0.30	6.71	0.27	0.22	16.60
2005	4,771.6	0.8716	0.4425	6,117.7	2.48	0.35	0.30	6.71	0.27	0.24	16.60
2006	4,807.6	0.8984	0.5498	6,155.8	2.48	0.35	0.48	7.08	0.27	0.24	17.07
2007	4,806.6	0.7274	0.5999	6,073.9	2.44	0.35	0.47	6.79	0.26	0.23	16.63
2008	4,803.5	0.6964	0.5822	6,058.1	2.70	0.35	0.48	6.62	0.41	0.22	16.84
2009	4,805.5	0.6908	0.5602	6,056.5	2.70	0.35	0.49	6.91	0.38	0.22	17.11
2010	4,791.5	0.6247	0.6291	6,045.3	3.17	0.35	0.61	6.91	0.41	0.22	17.72
2011	4,792.4	0.5883	0.6138	5,994.5	3.17	0.35	0.61	6.65	0.39	0.22	17.38
2012	4,785.5	0.5888	0.6303	6,005.6	3.14	0.35	0.58	6.60	0.30	0.19	17.17

Source: Clackamas County Assessor's Office

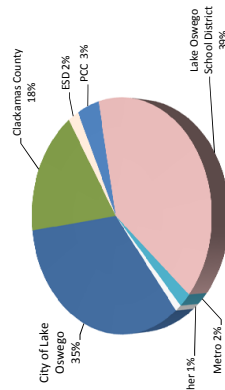
¹The City's basic rates are applied against Assessed Value.

²Includes Port of Portland, Tri-Met, Lake Grove Park and Vector Control taxing districts.

Name	2012		2003	
	Assessed value	Rank	Assessed value	Rank
Shorenstein Properties LLC	\$ 254,968,472	1		
Oswego Lender	38,771,229	2		
Property Reserve Inc.	32,941,412	3	\$ 25,218,441	4
Comcast Corporation	31,422,500	4		
Graimor Development	26,334,149	5		
Phoenix Commercial Investments	26,061,883	6	19,974,263	7
Portland General Elec. Co.	20,607,000	7	16,529,000	9
Nationwide Health Properties Inc.	19,843,832	8		
One Jefferson	19,046,534	9		
Kruse Way Centerpointe LLC	18,853,494	10		
St. Paul Properties Inc.			15,419,461	10
Society Sisters Holy Names			52,364,602	1
Spileker Properties			44,523,153	2
Prime Property Capital Inc.			29,714,919	3
Qwest Corporation			24,804,349	5
Sallinas Investments USA Inc.			17,820,881	8
S / North Creek V LLC			24,334,044	6
Total	\$ 488,850,505		\$ 270,703,113	
			8.36%	6.74%

Source: Clackamas County Assessor's Office

Property Tax Rates
Direct and Overlapping Governments
for the fiscal year ended 2012

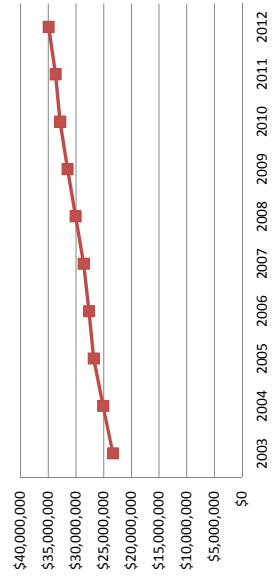


CITY OF LAKE OSWEGO, OREGON
Property Tax Levies and Collections
for the last ten fiscal years

Fiscal year	Taxes levied for the fiscal year		Collected within the fiscal year of the levy		Collections in subsequent years		Total collections to date	
	Amount	Percentage of levy	Amount	Percentage of levy	Amount	Percentage of levy	Amount	Percentage of levy
2003	\$ 23,337,918	94%	\$ 21,916,180	94%	\$ 929,088	98%	\$ 22,845,268	98%
2004	25,095,597	94	23,680,518	94	860,394	98	24,540,912	98
2005	26,794,938	95	25,368,373	95	665,984	97	26,034,357	97
2006	27,658,109	95	26,174,963	95	822,538	98	26,997,501	98
2007	28,610,074	95	27,182,459	95	627,898	97	27,810,357	97
2008	30,078,019	94	28,329,781	94	743,762	97	29,073,543	97
2009	31,529,026	94	29,507,399	94	719,498	96	30,226,897	96
2010	32,864,149	94	30,946,450	94	1,010,812	97	31,957,262	97
2011	33,689,684	94	31,650,218	94	1,104,553	97	32,754,771	97
2012	34,934,532	94	32,917,116	94	935,655	97	33,852,771	97

Sources: Annual financial statements and internal accounting reports of the City of Lake Oswego

City Property Taxes Levied



CITY OF LAKE OSWEGO, OREGON
Ratios of Outstanding Debt by Type
for the last ten fiscal years

Fiscal year	Governmental activities			Business-type activities				Total primary government	Percentage of personal income ³	Per capita ³
	General obligation bonds	Redevelopment agency urban renewal bonds	Water revenue bonds	Wastewater bond anticipation notes ¹	Surface water revenue bonds ²	Wastewater Full Faith & Credit bonds				
2003	\$ 36,635,000	\$ 14,220,000	\$ 6,510,000	\$ -	\$ 505,000	\$ -	\$ 57,870,000	84.83%	\$ 1,619	
2004	34,675,000	13,585,000	6,485,000	-	-	-	54,745,000	76.87	1,525	
2005	32,300,000	17,935,000	6,695,000	-	3,000,000	-	59,240,000	79.25	1,652	
2006	30,005,000	17,460,000	5,735,000	-	2,905,000	-	56,105,000	69.44	1,555	
2007	27,875,000	16,960,000	5,450,000	-	2,790,000	-	53,075,000	92.22	1,460	
2008	25,865,000	16,235,000	10,205,000	12,000,000	2,670,000	-	66,775,000	74.23	1,857	
2009	23,610,000	14,340,000	8,375,000	12,000,000	2,545,000	60,000,000	126,870,000	142.9	3,831	
2010	21,620,000	14,340,000	9,110,000	-	2,400,000	60,000,000	106,460,000	130.17	2,909	
2011	18,590,000	13,275,000	8,535,000	-	2,280,000	95,000,000	137,670,000	144	3,736	
2012	15,960,000	11,130,000	7,910,000	-	2,155,000	95,000,000	132,155,000	144	3,599	

Note: Details regarding the City's outstanding debt can be found in the notes to the basic financial statements.

¹ Wastewater bond anticipation notes were issued in anticipation of redemption with sewer revenue bonds in fiscal year 2009. Wastewater bonds were issued in June 2009 and the BANS were redeemed in July 2009. Then additional wastewater bonds were issued in September 2010.

² Series 1994 Surface Water revenue bonds were paid off in fiscal year 2004. The Series 2005 Surface Water revenue bonds were issued in fiscal year 2005.

³ Personal income and population data can be found in the demographic statistic on page 144.

CITY OF LAKE OSWEGO, OREGON
Ratios of General Bonded Debt Outstanding
for the last ten fiscal years

Fiscal Year	General obligation bonds	Redevelopment agency urban renewal bonds	Less: Amounts available in debt service fund	Total	Percentage of estimated actual taxable value of property	Per capita ²
2003	\$ 36,635,000	\$ 14,220,000	\$ 2,470,305	\$ 48,384,695	1.20%	\$ 1,353
2004	34,675,000	13,585,000	2,400,640	45,859,360	1.10	1,282
2005	32,300,000	17,935,000	2,294,089	47,940,911	1.10	1,337
2006	30,005,000	17,460,000	845,702	46,619,298	1.03	1,292
2007	27,875,000	16,960,000	595,586	44,325,414	0.94	1,219
2008	25,665,000	16,235,000	773,392	41,126,608	0.82	1,132
2009	23,380,000	15,380,000	1,425,502	37,314,498	0.71	1,017
2010	21,020,000	14,345,000	1,873,141	33,485,859	0.61	911
2011	18,580,000	13,275,000	1,634,088	30,220,912	0.53	820
2012	15,960,000	11,130,000	1,133,494	25,956,506	0.44	707

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ Property value data can be found on the assessed value and estimated real market value of taxable property on page 133.

² Population data can be found in the demographic statistic on page 144.

CITY OF LAKE OSWEGO, OREGON
Direct and Overlapping Governmental Activities Debt
as of June 30, 2012

Governmental unit	Debt outstanding	Estimated percentage applicable	Amount applicable City of Lake Oswego
Debt repaid with property taxes:			
Lake Oswego SD #71	\$ 110,703,506	86.56%	\$ 95,827,944
Metro	273,485,000	4.08	11,155,453
Portland Community College	188,165,000	5.02	9,447,953
Multnomah County SD #1J	460,455,126	0.58	2,684,914
Tri-Met	240,000	4.09	9,820
Other districts:			
Clackamas County	72,910,000	15.62	11,390,146
Clackamas Community College	30,100,000	0.27	79,795
Multnomah County	89,000,000	0.46	40,039
Washington County	24,050,000	0.02	2,459
Subtotal, overlapping debt	<u>1,239,108,632</u>		<u>131,003,523</u>
Direct debt outstanding: City of Lake Oswego, Oregon	15,960,000	100.00%	15,960,000
Total direct and overlapping debt outstanding	<u>\$ 1,255,068,632</u>		<u>\$ 146,963,523</u>

Source: Oregon State Treasury Department, Debt Management Division

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF LAKE OSWEGO, OREGON
Legal Debt Margin Information
for the last ten fiscal years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 159,112,767	\$ 169,562,082	\$ 181,167,533	\$ 205,427,659	\$ 237,296,950	\$ 283,347,924	\$ 297,315,933	\$ 274,793,125	\$ 242,827,273	\$ 230,727,199
Total net debt applicable to limit	34,164,695	32,274,360	32,300,000	30,005,000	27,875,000	25,665,000	23,380,000	21,020,000	18,580,000	15,960,000
Legal debt margin	\$ 124,948,072	\$ 137,287,722	\$ 148,867,533	\$ 175,422,659	\$ 209,421,950	\$ 257,682,924	\$ 273,935,933	\$ 253,773,125	\$ 224,247,273	\$ 214,767,199
Total net debt applicable to the limit as a percentage of debt limit	21.47%	19.03%	17.83%	14.61%	11.75%	9.06%	7.86%	7.65%	7.65%	6.92%

Legal debt margin calculation for fiscal year ended 2011-12

Total property real market value ¹	\$ 7,690,906,645
Debt limit (3% of total property real market value)	230,727,199
Amount of debt applicable to debt limit:	
Total bonded debt	132,155,000
Less debt excluded from debt limit:	
Wastewater Full Faith & Credit bonds '09	(60,000,000)
Wastewater Full Faith & Credit bonds '10	(35,000,000)
Revenue bonds and refunding, Water '07	(7,910,000)
Revenue bonds, Series 2005 Surface Water	(2,155,000)
Urban renewal bonds, Series 2011-A	(11,130,000)
Net amount of debt applicable to limit	15,960,000
Legal debt margin - amount available for future indebtedness	\$ 214,767,199

Note: Pursuant to Oregon Revised Statutes 287.004, outstanding general obligation debt is limited to 3 percent of real market value

¹ Source: Clackamas, Multnomah, and Washington County Department of Assessment and Taxation

Continued on next page

Continued from previous page

CITY OF LAKE OSWEGO, OREGON
Pledged-Revenue Coverage
for the last ten fiscal years

Fiscal Year	Water Revenue Bonds					Coverage
	Utility service charges ¹	Less: operating expenses ²	Net available revenue	Debt service requirements Principal	Interest	
2003	\$ 4,180,916	\$ 2,335,440	\$ 1,845,476	\$ 235,000	\$ 324,979	3.30
2004	4,215,585	2,292,645	1,922,940	245,000	314,179	3.44
2005	4,026,059	2,288,354	1,737,705	260,000	302,816	3.09
2006	6,879,077	4,459,749	2,419,328	270,000	290,891	4.31
2007	5,271,223	2,936,424	2,344,799	285,000	278,404	4.16
2008	4,894,161	3,764,285	1,129,876	300,000	394,083	1.63
2009	4,887,593	3,208,067	1,679,476	530,000	410,819	1.79
2010	5,566,541	3,024,106	2,542,435	555,000	386,779	2.70
2011	6,280,117	3,296,122	2,983,995	595,000	362,541	3.12
2012	8,062,638	3,473,983	4,588,655	615,000	338,341	4.81

Source: Annual financial statements of the City of Lake Oswego

¹ Includes operating revenue plus interest income on operating earnings

² Includes operating expenses except for depreciation and, starting with fiscal year 2000, transfers to the general and community development funds are excluded as well through fiscal year 2009, pursuant to bond covenants coverage requirements. Starting in fiscal year 2010 the transfers from the engineering fund have been excluded instead of the community development fund.

Continued on next page

Fiscal Year	Surface Water Revenue Bonds					Coverage
	Utility service charges ¹	Less: operating expenses ²	Net available revenue	Debt service requirements Principal	Interest	
2003	\$ 1,356,402	\$ 406,623	\$ 949,779	\$ 30,000	\$ 32,555	15.18
2004	1,442,624	343,582	1,099,042	35,000	30,890	16.68
2005	1,482,876	472,779	1,010,097	—	—	n/a
2006	1,115,201	563,365	551,836	95,000	143,272	2.32
2007	1,333,000	646,642	686,358	115,000	120,945	2.91
2008	1,384,460	528,878	855,582	120,000	117,420	3.60
2009	1,844,390	820,043	1,024,347	125,000	113,589	4.29
2010	1,836,641	607,675	1,228,966	125,000	109,526	5.24
2011	1,973,175	680,542	1,292,633	130,000	105,220	5.50
2012	2,103,163	851,156	1,252,007	135,000	100,582	5.31

Source: Annual financial statements of the City of Lake Oswego

¹ Includes operating revenue plus interest income on operating earnings

² Includes operating expenses except for depreciation and transfers to the general and community development funds are excluded as well through fiscal year 2009, pursuant to bond covenants coverage requirements. Starting in fiscal year 2010 the transfers from the engineering fund have been excluded instead of the community development fund.

³ In 2005, surface water revenue bonds for \$3,000,000 were issued and the previous bond issue was paid off.

Continued from previous page

CITY OF LAKE OSWEGO, OREGON
Demographic and Economic Statistics
for the last ten fiscal years

Fiscal year	Population	Personal income (in millions) ¹	Per capita personal income ¹	School enrollment	Unemployment rate
2003	35,750	\$ 68,222	\$ 33,705	7,045	9.1%
2004	35,759	70,927	34,780	6,995	7.0
2005	35,860	74,750	36,158	6,916	6.2
2006	36,075	80,794	38,416	6,896	5.3
2007	36,350	85,305	39,903	6,746	4.8
2008	36,345	89,977	41,410	6,777	5.3
2009	36,698	85,995	38,969	6,743	11.5
2010	36,755	88,965	39,843	6,702	10.3
2011	36,845	*	*	6,746	10.1
2012	36,725	*	*	6,765	5.8

* Information unavailable at this time

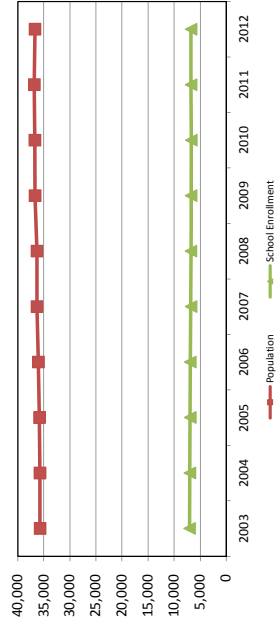
Sources: Center for Population Research and Census, Portland State University
 Bureau of Economic Analysis

¹ Beginning in 2009, the data reflects a change to the statistical area used for the metropolitan statistical area to Portland-Vancouver-Hillsboro, OR-WA. (Vancouver now replaces Beaverton as a principal city based on population.) All prior fiscal years were updated to reflect BEA revised figures as of April 2012.

Lake Oswego School District

State of Oregon Employment Division (Portland PMSA)

Population and School Enrollment Trends



CITY OF LAKE OSWEGO, OREGON
Principal Employers
current year and nine years ago

Employer	2012			2003		
	Employees	Rank	Percentage of total City employment	Employees	Rank	Percentage of total City employment
Lake Oswego School District	568	1	1.60%	721	1	2.17%
City of Lake Oswego	354	2	1.00	333	2	1.00
Waggener Edstrom, Inc.	312	3	0.88	278	4	0.83
Stanford's Restaurant	281	4	0.79			
Micro Systems Engineering, Inc.	246	5	0.69	296	3	0.89
Mary's Woods at Marylhurst	200	6	0.56			
Jacobs Engineering Group, Inc.	200	7	0.56	175	10	0.53
New Seasons Market, Inc.	173	8	0.49			
Pacificare of Oregon	165	9	0.47			
Autodesk, Inc.	150	10	0.42			
Safeco Insurance				230	5	0.69
Blackwell North America				200	6	0.60
Gage Industries, Inc.				195	7	0.59
Safeway Stores				191	8	0.57
Meritage Mortgage Corp.				191	9	0.57
Total	2,649		7.48%	2,810		8.44%

Source: Chamber of Commerce and Clackamas County

CITY OF LAKE OSWEGO, OREGON
Full-time Equivalent City Government Employees by Function
for the last ten fiscal years

Function/Program	Fiscal year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011 ¹	2012
General government	55.9	53.6	54.1	51.3	50.3	50.8	52.2	78.2	75.7	74.5
Public safety	120.0	122.5	122.5	124.5	126.0	126.0	125.0	125.0	121.0	121.0
Culture and recreation	85.4	87.5	87.5	88.0	89.7	89.9	94.5	94.5	92.6	92.4
Public Works	44.0	44.5	45.0	49.7	49.7	48.7	46.0	25.0	-	-
Highways and streets	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	4.8	4.8
Water	14.2	14.2	14.2	14.2	15.2	15.2	14.7	14.7	18.7	20.7
Wastewater	5.2	5.2	5.2	6.2	6.2	11.2	11.4	11.4	10.4	8.2
Surface water	3.0	3.0	3.0	3.0	3.0	3.0	3.3	3.3	3.8	3.8
Maintenance Services and Motor Pool	-	-	-	-	-	-	-	-	8.5	8.8
Engineering	-	-	-	-	-	-	-	-	19.5	20.3
Total	333.0	335.8	336.8	342.2	345.4	350.1	352.4	357.4	355.0	354.5

¹ With the implementation of GASB 54, Maintenance Services and Motor Pool Fund and the Engineering Fund were reclassified as internal service funds. The FTE from Maintenance Services and Motor Pool had previously been recognized in general government while Engineering had been recognized in Public Works.

Source: City of Lake Oswego's Finance department

CITY OF LAKE OSWEGO, OREGON
Operating Indicators by Function
for the last ten fiscal years

Function/Program	Fiscal year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Public safety	1,348	1,226	1,261	1,030	1,388	1,854	1,419	1,232	1,095	912
Physical arrests	6,760	7,476	7,476	7,476	4,388	5,068	5,068	4,226	4,095	5,471
Emergency fire and medical responses	3,283	3,143	3,177	3,302	3,531	3,615	3,885	3,517	3,520	3,389
Emergency calls (Police)	2,346	2,466	2,586	2,685	2,694	2,793	2,715	2,361	2,484	2,374
Culture and recreation	9,047	8,153	9,877	10,158	10,710	12,236	13,506	14,008	14,193	13,467
Library volunteer hours	27	30	31	32	33	33	33	36	36	34
Library - average items circulated per capita	444	495	555	597	340	322	372	275	297	301
Community development										
Residential building permits issued										
Business-type activities:										
Water	12,073	12,161	12,235	12,179	12,207	12,267	12,296	12,315	12,186	12,139
Service connections ²	4,991	5,087	6,084	7,214	7,698	5,753	5,750	5,460	4,900	4,811
Average daily consumption (in thousands of gallons)										
Wastewater	11,786	11,948	11,976	12,068	12,149	12,239	12,232	12,243	12,277	12,347
Service connections	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200
Average daily average treatment (in thousands of gallons)										

¹ As of 2007, traffic violations no longer includes traffic warnings.

² In previous CAFR reports the service connections included unassigned meters. As of the 2010-11 CAFR, the connection count was updated retroactively to not include unassigned meters.

Source: City of Lake Oswego's Finance department

CITY OF LAKE OSWEGO, OREGON
Capital Assets Statistics by Function
for the last ten fiscal years

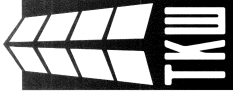
Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Culture and recreation										
Park and open space acreage	598	598	598	603	603	603	603	603	603	601
Community development										
Value of new building construction (in thousands)	42,690	31,326	47,039	66,822	56,895	50,772	13,023	10,399	28,452	20,350
Highways and streets										
Miles of streets	179	179	179	179	179	179	179	179	179	179

Source: City of Lake Oswego's Finance department

CITY OF LAKE OSWEGO, OREGON
COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION IV

COMPLIANCE



Talbot, Korvoia
& Warwick, LLP

Certified Public Accountants
& Consultants

480 Meadows Road, Suite 200
Lake Oswego, Oregon 97035-4255

P 503.714.2649

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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 7, 2012

To the City Council
City of Lake Oswego
Lake Oswego, 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 Lake Oswego, Oregon (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 7, 2012. 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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)

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*.

* * * * *

This report is intended solely for the information and use of management, the Audit Committee, City Council, 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.


Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**

December 7, 2012
The City Council
City of Lake Oswego
Lake Oswego, 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 Lake Oswego, Oregon (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 7, 2012. 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).

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS (Continued)**

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*.

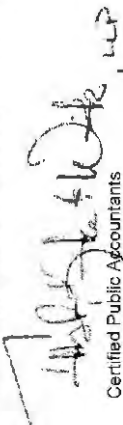
OR 162-10-230 INTERNAL CONTROL

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 opinion 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 report on the City's 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*, dated December 7, 2012, immediately precedes this report.

* * * * *

This report is intended solely for the information and use of the City Council members, 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

APPENDIX C
FORM OF LEGAL OPINION

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September ____, 2013

City of Lake Oswego, Oregon
Lake Oswego, Oregon

\$ _____
City of Lake Oswego, Oregon
Full Faith and Credit Obligations, Series 2013
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the City of Lake Oswego, Oregon (the “City”) in connection with the execution and delivery of \$_____ aggregate principal amount of Full Faith and Credit Obligations, Series 2013 ((the “Obligations”) which are executed and delivered by Wells Fargo Bank, National Association, as escrow agent (the “Escrow Agent”), pursuant to an Escrow Agreement, dated as of September 1, 2013, (the “Escrow Agreement”) between the Escrow Agent and the City. In such connection, we have reviewed the Escrow Agreement, a Financing Agreement between the Escrow Agent and the City, dated as of September 1, 2013 (the “Financing Agreement”), Resolution No. 13-17 adopted by the City Council of the City on July 16, 2013 (the “Resolution”), a tax certificate of the City, dated as of the date hereof (the “Tax Certificate”), certificates of the City and the Escrow Agent and others and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Escrow Agreement.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Obligations has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Financing

Agreement, the Escrow Agreement, the Resolution and the Tax Certificate, including (without limitation) covenants and agreements, compliance with which is necessary to assure that future actions, omissions or events will not cause the portion of each Financing Payment designated as and constituting interest paid by the City under the Financing Agreement with respect to the Obligations to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations with respect to the Obligations and under the Financing Agreement, the Escrow Agreement, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities in the State of Oregon. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Financing Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Obligations and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Financing Agreement and the Escrow Agreement have been duly executed and delivered by, and constitute valid and binding obligations of, the City.
2. The Obligations constitute the valid and binding obligation of the City, payable from the City's general non-restricted revenues and other funds which may be lawfully available therefor.
3. The portion of each Financing Payment designated as and constituting interest paid by the City under the Financing Agreement with respect to the Obligations and received by the registered owners of the Obligations is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of Oregon personal income taxes. Such interest component is not a specific preference item for

City of Lake Oswego, Oregon
September ____, 2013
Page 3

purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Obligations.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX D
FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

**\$ _____
CITY OF LAKE OSWEGO, OREGON
FULL FAITH AND CREDIT OBLIGATIONS
SERIES 2013**

This Continuing Disclosure Certificate (this "Certificate") is executed and delivered by the City of Lake Oswego, Oregon (the "City") in connection with the execution and delivery of the City of Lake Oswego, Oregon Full Faith and Credit Obligations, Series 2013 (the "Obligations"). The Obligations are being executed and delivered pursuant to Resolution No. 13-17 adopted by the City Council of the City on July 16, 2013 (the "Resolution") and pursuant to a Financing Agreement dated as of September 1, 2013 (the "Financing Agreement") and an Escrow Agreement dated as of September 1, 2013 (the "Escrow Agreement"). The City covenants and agrees as follows:

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City for the benefit of the holders of the Obligations and to assist _____ (the "Purchaser") in complying with paragraph (b)(5) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule").

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for the 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 Obligations, including persons holding Obligations through nominees or depositories.

"Commission" means the Securities and Exchange Commission.

"EMMA" means the Electronic Municipal Market Access system established through the MSRB for purposes of the Rule, currently located at <http://emma.msrb.org>.

"Listed Events" shall mean any of the events listed in Section 4(a) or (b) of this Certificate.

"MSRB" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule.

"Official Statement" means the final official statement for the Obligations which is dated August __, 2013.

"Rule" means the Commission's Rule 15c2-12 under the Securities and Exchange Act of

1934, as the same may be amended from time to time.

Section 3. Annual Financial Information. The City, as the “obligated person” for purposes of the Rule, hereby agrees to provide or cause to be provided at least annually to the MSRB, or such other central repository including any electronic municipal market access system established through the MSRB for purposes of the Rule, the financial information regarding the City of the type set forth in Table 15 and Tables 19 through 22 of the final Official Statement and the City’s annual audited financial statements prepared in accordance with generally accepted accounting principles (collectively, the “Annual Financial Information”).

The Annual Financial Information described above will be available no later than nine (9) months after the end of the preceding fiscal year, beginning with the City’s fiscal year ending June 30, 2013. The City may adjust this fiscal year by providing written notice of the change of fiscal year to the MSRB. Such information will include the City’s audited financial statements of the type set forth in the Official Statement prepared in accordance with generally accepted accounting principles as established by the Government Accounting Standards Board as in effect from time to time; provided, however, that if audited financial statements are not available within nine (9) months after the end of the preceding fiscal year, unaudited financial statements will be provided with audited financial statements to follow when available.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been made available to the public on the MSRB’s website. The City shall clearly identify each such other document so included by reference.

Section 4. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Obligations in a timely manner not later than ten business days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (6) Tender offers;
- (7) Defeasances;

- (8) Rating changes; or
- (9) Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), 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 U.S. 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 governmental 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.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Obligations, if material, in a timely manner not later than ten business days after the occurrence of the event:

(1) Unless described in paragraph 4(a)(5), other material notices of determinations by the Internal Revenue Service with respect to the tax status of the Obligations or other material events affecting the tax status of the Obligations;

(2) Modifications to rights of Beneficial Owners;

(3) Optional, unscheduled or contingent Obligation calls;

(4) Release, substitution, or sale of property securing repayment of the Obligations;

(5) Non-payment related defaults;

(6) 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; or

(7) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Upon the occurrence of a Listed Event described in Section 4(a), or upon the occurrence of a Listed Event described in Section 4(b) which the City determines would be material under applicable federal securities laws, the City shall within ten business days of

occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Obligations pursuant to the Financing Agreement.

Section 5. Failure to File Annual Financial Information. The City agrees to provide or cause to be provided to the MSRB in a timely manner, notice of a failure by the City to provide the Annual Financial Information described in Section 3 above on or prior to the time set forth in Section 3.

Section 6. Dissemination Agent. The City may, from time to time, engage or appoint an agent to assist the City in disseminating information hereunder (the “Dissemination Agent”). The City may discharge any Dissemination Agent with or without appointing a successor Dissemination Agent.

Section 7. Format for Filings with MSRB; EMMA. All documents required to be provided to the MSRB hereunder, including pursuant to Sections 3, 4 and 5 of this Certificate, shall be accompanied by such identifying information and shall be provided in an electronic format as prescribed by the MSRB through EMMA, or as otherwise prescribed by the MSRB.

Section 8. Termination of Obligations/Modification. Pursuant to paragraph (b)(5)(iii) of the Rule, the City’s obligation to provide Annual Financial Information and notices of material events, as set forth above, shall terminate if and when the City no longer remains an obligated person with respect to the Obligations, which shall occur upon either redemption in full of the Obligations, or legal defeasance of the Obligations.

In addition, and notwithstanding the provisions of Section 10 below, the City may rescind its obligations under this Certificate, in whole or in part, if (i) the City obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Obligations; and (ii) notifies and provides to the MSRB a copy of such opinion.

Section 9. Enforceability and Remedies. The City agrees that this Certificate is intended to be for the benefit of registered and beneficial holders of the Obligations and shall be enforceable by or on behalf of any such holder; provided that, the right of any holders of the Obligations to challenge the adequacy of the information furnished hereunder shall be limited to an action by or on behalf of holders of the Obligations representing at least twenty-five percent (25%) of the aggregate outstanding principal amount of Obligations. Any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Obligations under the Resolution. This Certificate confers no rights on any person or entity other than the City, holders of the Obligations, and any Dissemination Agent.

Section 10. Amendment. Notwithstanding any other provision of this Certificate, the City may amend this Certificate, without consent of holders of the Obligations under the following conditions:

(a) The amendment 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 obligated person or type of business conducted;

(b) This Certificate, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment (i) does not materially impair the interest of holders of the Obligations, as determined either by parties unaffiliated with the City (such as nationally recognized bond counsel), or (ii) by approving vote of by holders of the Obligations representing sixty percent (60%) of the aggregate outstanding principal amount of the Obligations at the time of the amendment and consistent with the terms of the Resolution.

The Annual Financial Information submitted pursuant to Section 3 above will explain, in narrative form, the reasons for any such amendment and the impact of the change in the type of operating data or financial information being provided.

Section 11. Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information or notice required to be filed pursuant to this Certificate, in addition to that which is required by this Certificate. If the City chooses to include any information or notice in addition to that which is specifically required by this Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future filing of documents required to be provided to the MSRB hereunder or in any notice of occurrence of a Listed Event or any other event required to be reported.

Section 12. 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.

Section 13. Beneficiaries. This Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Purchaser and Beneficial Owners from time to time of the Obligations, and shall create no rights in any other person or entity.

[SIGNATURE PAGE FOLLOWS]

Dated as of the ____ day of September 2013.

CITY OF LAKE OSWEGO, OREGON

By: _____
Authorized Representative

APPENDIX E
BOOK-ENTRY-ONLY SYSTEM

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The Depository Trust Company

A subsidiary of The Depository Trust & Clearing Corporation

Sample Offering Document Language Describing DTC and Book-Entry-Only Issuance

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 Standard & Poor’s highest rating: AAA. 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 and www.dtc.org.

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



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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



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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.



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APPENDIX F
MASTER WATER RESOLUTION AND RECENT AMENDMENTS

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RESOLUTION NO. 99-22

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE OSWEGO AUTHORIZING ISSUANCE OF WATER REVENUE BONDS UNDER THE UNIFORM REVENUE BOND ACT.

BE IT RESOLVED by the City Council of the City of Lake Oswego that:

Section 1. Findings

The City Council finds as follows:

- 1.1 **Prior Authorization.** The City has previously enacted Resolution No. 99-18, authorizing the issuance of not more than eight million dollars in aggregate principal amount of water revenue bonds pursuant to Oregon's Uniform Revenue Bond Act (ORS 288.805 to 288.945).
- 1.2 **Notice.** Notice that the City authorized issuance of revenue bonds was published as provided in the Uniform Revenue Bond Act; more than sixty (60) days have passed since publication of the notice, and no petitions have been received requesting that the question of issuing the bonds be placed on the ballot at the next legally available election date.
- 1.3 **Sale Now Permitted.** The City is now authorized to issue the bonds described in Resolution No. 99-18, and adopts this resolution to provide the terms under which those bonds, and future obligations having a lien on revenues of the Water System, may be issued.

Section 2. Definitions

Capitalized terms used in this Master Resolution shall have the following meanings unless the context clearly requires use of a different meaning:

“1999 Bond Proceeds Account” means an account in the Water Fund, which the City uses to account for Series 1999 Bond proceeds.

“Annual Debt Service” means the amount required to be paid in a Fiscal Year of principal and interest on any Outstanding Bonds, calculated as follows:

- (A) interest which is to be paid from Bond Proceeds shall be subtracted;
- (B) Bonds which are subject to scheduled, noncontingent redemption or tender shall be deemed to mature on the dates and in the amounts which are subject to mandatory redemption or tender, and only the amount scheduled to be outstanding on the final maturity date shall be treated as maturing on that date; and
- (C) Bonds which are subject to contingent redemption or tender shall be treated as maturing on their stated maturity dates.

“Authorized Officer” means the City Manager, Assistant City Manager, or the person designated by resolution of the City Council to act as Authorized Officer under this Master Resolution.

“Base Period” means any twelve consecutive months selected by the City out of the most recent eighteen months preceding the delivery of a Series of Parity Obligations.

“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 Counsel” means Preston Gates & Ellis LLP or another law firm having knowledge and expertise in the field of municipal law and whose opinions are generally accepted by purchasers of municipal bonds.

“Bond Reserve Account” means the Bond Reserve Account in the Water Fund described in Section 4.2.

“Bondowner” or “Owner” means a registered owner of a Bond.

“Bonds” means, the Series 1999 Bonds and any Parity Obligations.

“Business Day” means any day except a Saturday, a Sunday, a legal holiday a day on which the 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 Council” means the City Council of the City.

“City” means the City of Lake Oswego, in Multnomah, Washington and Clackamas Counties, Oregon, a municipal corporation of the State of Oregon.

“Code” means the Internal Revenue Code of 1986, as amended, including the rules and regulations promulgated thereunder.

“Credit Facility” means a letter of credit, a municipal bond insurance policy, a surety bond, standby bond purchase agreement or other credit enhancement device which is obtained by the City to secure Bonds, and which is issued or provided by a Credit Provider whose long-term debt obligations or claims-paying ability (as appropriate) are rated one of the two highest rating categories by a Rating Agency which rated the Bonds secured by the Credit Facility.

“Credit Provider” means a person or entity providing a Credit Facility.

“Direct Obligations” means direct obligations of the United States, and any obligations the payment of which is fully and unconditionally guaranteed by the United States.

“DTC” means The Depository Trust Company or any other qualified securities depository designated by the City as its successor.

“Event of Default” means any event specified in Section 10.2.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or as otherwise defined by State law.

“Fitch” means Fitch Investors Service, Inc., its successors and assigns.

“Gross Revenues” means all fees, charges, and other revenues resulting from the operation of the Water System, including revenues from product sales and interest earnings on Gross Revenues in the Water Fund except the following:

- (A) the interest income or other earnings derived from the investment any escrow fund established for the defeasance or refunding of outstanding indebtedness of the City;
- (B) moneys received by the City from any State or Federal Agency or other person if such moneys are restricted by law or the grantor to uses inconsistent with the payment of Bonds;
- (C) the proceeds of any borrowing ;
- (D) the proceeds of any liability, casualty or other insurance (except business interruption insurance or other insurance of like nature insuring against the loss of revenues);
- (E) the proceeds derived from the sales of assets pursuant to Section 9.7;
- (F) any ad valorem, income, sales or similar taxes imposed by the City;
- (G) systems development charges;
- (H) local improvement district assessments which are levied for water system improvements, unless those assessments are subsequently designated by the City as “Gross Revenues” and pledged to pay the Bonds; or
- (I) any income, fees, charges, receipts, profits or other moneys derived by the City from its ownership or operation of any Separate Utility System.

“Interest Payment Date” means any date on which Bond interest is scheduled to be paid, and any date on which Bonds are called for redemption.

“Master Resolution” means this resolution authorizing the issuance of water revenue bonds.

“Maximum Annual Debt Service” means the greatest Annual Debt Service, calculated on all Bonds which are Outstanding on the date of calculation.

“Moody's” means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns.

“Net Revenues” means the Gross Revenues less the Operating Expenses.

“Operating Expenses” means all costs which are properly treated as expenses of operating and maintaining the Water System under generally accepted accounting principles applicable to the Water System. However, Operating Expenses do not include:

- (A) any rebates or penalties paid from Gross Revenues under Section 148 of the Code;
- (B) payments of judgments against the City and payments for the settlement of litigation;
- (C) depreciation and amortization of property values or losses;

(D) all amounts treated for accounting purposes as payments for capital expenditures;
(E) debt service payments;
(F) the expenses of owning, operating or maintaining any Separate Utility System;
(G) transfers to the City's general fund for payment of operating expenses allocable to Water System administrative overhead and to the City's community development fund for design, engineering and geographic information system costs; or
(H) franchise fees and similar charges imposed by the City on the Water System or its operations.

"ORS" means the Oregon Revised Statutes.

"Outstanding" refers to all Bonds authorized and delivered pursuant to this Master Resolution and any Supplemental Resolution except Bonds theretofore canceled or defeased pursuant to Section 12, and Bonds which have matured and not been presented for payment (provided sufficient funds to pay those Bonds have been transferred to the Registrar).

"Parity Obligation" means any obligation payable from the Net Revenues which is issued in accordance with Section 6.

"Paying Agent" means U.S. Bank Trust National Association.

"Payment Date" means a Principal Payment Date or an Interest Payment Date.

"Permitted Investments" means any investments which the City is permitted to make under the laws of the State.

"Principal Payment Date" means any date on which any Bonds are scheduled to be retired, whether by virtue of their maturity or by mandatory sinking fund redemption prior to maturity, and the redemption date of any Bonds which have been called for redemption.

"Qualified Consultant" means an independent engineer, an independent auditor, an independent financial advisor, or similar independent professional consultant of recognized standing and having experience and expertise in the area for which such person or firm is retained by the City for purposes of performing activities specified in this Master Resolution or any Supplemental Resolution.

"Rate Stabilization Account" means the Rate Stabilization Account of the Water Fund established which is described in Section 4.4.

"Rating Agency" means Fitch, Moody's, S&P, or any other nationally recognized financial rating Agency which has rated Outstanding Bonds or a Credit Facility at the request of the City.

"Record Date" for the Series 1999 Bonds means the fifteenth (15th) day of the month preceding the month in which each Interest Payment Date occurs, whether or not a Business Day.

“Registrar” means the registrar and Paying Agent for the Bonds, which is U.S. Bank Trust National Association on the date of adoption of this Master Resolution.

“Reserve Credit Facility” means a Credit Facility issued for the purpose of funding, in lieu of cash, all or any portion of the Reserve Requirement, under which the Credit Provider agrees to unconditionally provide the City with funds to transfer to the Bond Reserve Account if amounts are required to be withdrawn from that account to pay Bond principal, interest or premium.

“Reserve Requirement” means the lesser of Maximum Annual Debt Service on all Outstanding Bonds or the amount described in the next sentence. If, at the time of issuance of a Series of Bonds, the amounts required to be added to the Bond Reserve Account to make the balance in the Bond Reserve Account equal to the Maximum Annual Debt Service exceeds the Tax Maximum calculated with respect to that Series, then the Reserve Requirement means the Reserve Requirement in effect on the date of issuance of the Series of Bonds (calculated as if the Series of Bonds were not Outstanding), plus the Tax Maximum for the Series of Bonds.

“S&P” means Standard & Poor’s Corporation, a corporation organized and existing under the laws of the State of New York, its successors and their assigns.

“Separate Utility System” means any utility property which is declared by the City Council to constitute a system which is distinct from the Water System in accordance with Section 8.

“Series 1999 Bonds” means the City’s Water Revenue Bonds, Series 1999, issued pursuant to Section 16 of this Master Resolution.

“Series 1999 Insurance Policy” means the insurance policy issued by the Series 1999 Insurer guaranteeing the scheduled payment of principal of and interest on the Series 1999 Bonds when due.

“Series 1999 Insurer” means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

“Series” refers to all Bonds or Parity Obligations authorized by a single resolution and delivered in exchange for payment on the same date, regardless of variations in maturity, interest rate or other provisions.

“Stabilized Net Revenues” means the Net Revenues for a period less deposits of Net Revenues to the Rate Stabilization Account for the period, and plus withdrawals from the Rate Stabilization Account for the period.

“State” means the State of Oregon.

“Subordinate Obligations Account” means the Subordinate Obligations Account of the Water Fund which is described in Section 4.3.

“Subordinate Obligations” means obligations having a lien on the Net Revenues which is subordinate to the lien of the Bonds. Restrictions on Subordinate Obligations are described in Section 7.

“Supplemental Resolution” means any resolution which supplements or amends this Master Resolution, entered into by the City in compliance with Section 11.

“Tax Maximum” means, for any Series of Bonds, the lesser of: the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on such Series; 125% of average amount of principal, interest and premium, if any, required to be paid on such Series during all Fiscal Years in which such Series will be Outstanding, calculated as of the date of issuance of such Series; or, ten percent of the proceeds of such Series, as “proceeds” is defined for purposes of Section 148(d) of the Code.

“Transfer Date” means the third Business Day before each Payment Date.

“Valuation Date” means July 1 of each year (or the first Business Day thereafter, if July 1 is not a Business Day) and any date on which amounts are withdrawn from the Bond Reserve Account pursuant to Section 4.2(1).

“Water Fund” means the collection of funds and accounts used by the City to hold the Gross Revenues and the proceeds of Bonds.

“Water System” means all utility property now or hereafter used by the City to supply water within or without the corporate limits of the City. However, the Water System does not include any Separate Utility System, or any power generating facilities which are operated in connection with assets which are part of the Water System, or the following parcels of land which are not necessary for the operation of the Water System:

Parcel No.	Acres	Name
21E06AD0010	0.75	Peters Road Res. Site (parcel 1)
21E07AD0090	1.59	Carman Dr. Reservoir Site
21E24BD0120	1.00	H2O Treatment Plant
21E24BD0130	0.98	H2O Treatment Plant
21E24BD0140	1.00	H2O Treatment Plant

Section 3. Deposit, Pledge and Use of Gross Revenues

3.1 **Deposit.** All Gross Revenues shall be deposited to and maintained in the Water Fund, and shall be used only as described in this Section as long as any Bonds remain Outstanding. All Gross Revenues in the Water Fund (other than amounts credited to the Bond Reserve Account) shall be used on or before the following dates for the following purposes in the following order of priority:

- (1) At any time to pay Operating Expenses which are then due;

- (2) On each Transfer Date, the City shall transfer to the Registrar an amount sufficient to pay all Bond principal, interest and premium which is due on the following Payment Date.
- (3) On each Transfer Date specified in Section 4.2(2) and Section 4.2(3), the City shall deposit in the Bond Reserve Account the amounts required by those sections;
- (4) On the day on which any rebates or penalties for Bonds are due to be paid to the United States pursuant to Section 148 of the Code, the City shall pay the amounts due from the Net Revenues;
- (5) After all transfers and payments having a higher priority under this section have been made, the City may transfer to the Subordinate Obligations Account the Net Revenues required by the proceedings authorizing the Subordinate Obligations;
- (6) After all transfers and payments having a higher priority under this section have been made, Net Revenues may be applied to transfers to the City's general fund for payment of operating expenses allocable to Water System administrative overhead, transfers to the City's community development fund for design, engineering and geographic information system costs, and any franchise fees and similar charges imposed by the City on the Water System or its operations.
- (7) After all transfers and payments having a higher priority under this section have been made, the City may transfer or spend Net Revenues for any other lawful purpose, including transfers to the Rate Stabilization Account.

3.2 **Pledge.** The City hereby pledges the following amounts to the payment of principal of, premium (if any) and interest on all Bonds: the Net Revenues, all amounts in the Bond Reserve Account, and any amounts available to be drawn under a Reserve Credit Facility. In addition, the City hereby pledges the Net Revenues available for deposit in the Bond Reserve Account to pay amounts due under any Reserve Credit Facility. Pursuant to ORS 288.594, these pledges hereby made by the City shall be valid and binding from the time of the adoption of this Master Resolution. The amounts so pledged and hereafter received by the City shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of the pledge shall be superior to all other claims and liens whatsoever to the fullest extent permitted by ORS 288.594(2).

Section 4. Bond Funds and Accounts

4.1 **Obligation to Maintain Accounts.** So long as Bonds are Outstanding, the City shall maintain the Bond Reserve Account as a discrete account in the Water Fund. If the City issues Subordinate Obligations the City shall create and maintain the Subordinate Obligations Account for as long as Subordinate Obligations are Outstanding.

4.2 **Bond Reserve Account.** Amounts credited to the Bond Reserve Account shall be used only to pay Bonds, and only if Net Revenues in other portions of the Water Fund are insufficient.

- (1) If, on any Transfer Date the Net Revenues available for transfer to the Registrar pursuant to Section 3.1(2) are not sufficient to pay all Bond principal, interest and premium which are due on the following Payment Date, the City shall transfer the amount of the deficiency from the Bond Reserve Account to the Registrar on that Transfer Date.
- (2) If an amount is withdrawn from the Bond Reserve Account pursuant to Section 4.2(1), the City shall make substantially equal semi-annual transfers of Net Revenues to the Bond Reserve Account on each Transfer Date, beginning as soon as practicable and not later than the first Transfer Date which is at least seven months after the date of the withdrawal, and continuing until the balance in the Bond Reserve Account is equal to the Reserve Requirement. Each transfer shall be in an amount at least equal to one-third of the sum of the amount which is withdrawn from the Bond Reserve Account plus any interest, fees or penalties owed under a Reserve Credit Facility.
- (3) If the value of cash, Permitted Investments and any Reserve Credit Facility is less than the Reserve Requirement on a Valuation Date for reasons other than a transfer pursuant to Section 4.2(1), the City shall transfer Net Revenues to the Bond Reserve Account in an amount equal to the deficiency, not later than the first Transfer Date which occurs at least four months after the Valuation Date.
- (4) If the value of the investments in the Bond Reserve Account on a Valuation Date exceeds the Reserve Requirement, the City may transfer the excess to any account of the Water Fund.
- (5) Transfers to the Bond Reserve Account pursuant to Section 3.1(3) shall be applied first, to reimburse the Providers of any Reserve Credit Facilities *pro rata* for amounts advanced under the Reserve Credit Facility; second, to replenish the balance in the Bond Reserve Account with cash or Permitted Investments; and third to pay any other amounts owed under a Reserve Credit Facility (including any interest, fees and penalties associated with any draw under a Reserve Credit Facility).
- (6) Amounts in the Bond Reserve Account shall be invested in Permitted Investments which mature within three years after the investments are purchased.
- (7) Earnings on the Bond Reserve Account shall be credited to the Bond Reserve Account whenever the balance in that account is less than the Reserve Requirement. Otherwise earnings may be credited to any account of the Water Fund specified by the City.

- (8) Permitted Investments in the Bond Reserve Account shall be valued on each Valuation Date in the following manner:
- (A) Demand deposits and deposits in the Oregon Short Term Fund or Oregon Local Government Investment Pool shall be valued at their face amount, plus accrued interest;
 - (B) Other Permitted Investments shall be valued at their purchase price, less any portion of the purchase price which is allocable to accrued interest; and
 - (C) Reserve Credit Facilities shall be valued at the amount which is available to be drawn or paid under them.
- (9) Withdrawals from the Bond Reserve Account shall be made in the following order of priority:
- (A) **First**, from any cash on deposit in the Bond Reserve Account;
 - (B) **Second**, from the liquidation proceeds of any Permitted Investments on deposit in such Bond Reserve Account; and
 - (C) **Third**, from moneys drawn or paid pro-rata under any Reserve Credit Facilities.
- (10) Amounts on deposit in the Bond Reserve Account may be applied to the final payment (whether at maturity, by prior Redemption or by means of a defeasance as provided in Section 12 hereof) of a Series of Bonds, so long as the balance remaining in the Bond Reserve Account thereafter is at least equal to the Reserve Requirement for all Bonds which will be Outstanding thereafter.
- (11) Any Supplemental Resolution authorizing the issuance of a Series of Bonds shall require a deposit into the Bond Reserve Account in an amount sufficient to make the balance in the Bond Reserve Account at least equal to the Reserve Requirement on the date of closing of that Series of Bonds, with the Series of Bonds treated as Outstanding.

4.3 **Subordinate Obligations Account.** If the City issues Subordinate Obligations, the City shall create and maintain the Subordinate Obligations Account as long as the Subordinate Obligations are outstanding. The Subordinate Obligations Account may be divided into subaccounts, and the City may establish priorities for funding the subaccounts in the Subordinate Obligations Account. Net Revenues shall be deposited into the Subordinate Obligations Account only as permitted by Section 3.1(5). Earnings on the Subordinate Obligations Account shall be credited as provided in the proceedings authorizing the Subordinate Obligations. Net Revenues in the Subordinate Obligations account are pledged to pay the Bonds.

- 4.4 **Rate Stabilization Account.** The City may create a Rate Stabilization Account within the Water Fund. Net Revenues and revenues from Systems Development Charges may be transferred to the Rate Stabilization Account at the option of the City as permitted by Section 3.1(7). Money in the Rate Stabilization Account may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. Amounts withdrawn from the Rate Stabilization Account increase Stabilized Net Revenues, and Net Revenues deposited in the Rate Stabilization Account reduce Stabilized Net Revenues for the period for which they are deposited. Deposits to and withdrawals from the Rate Stabilization Account that occur within ninety days after the end of a Fiscal Year may be treated as occurring within the most recently ended Fiscal Year. Earnings on the Rate Stabilization Account shall be credited to the Water Fund.

Section 5. Rate Covenant.

- 5.1 **Basic Rate Covenant.** The City covenants for the benefit of the Owners that it will establish and maintain rates and charges in connection with the operation of the Water System which are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Revenues, and to make all transfers required by this Master Resolution to the Registrar, and the Bond Reserve Account.
- 5.2 **Coverage Covenant.** The City covenants for the benefit of the Owners of all Bonds that it shall charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate:
- (1) to generate Stabilized Net Revenues in each Fiscal Year at least equal to one hundred twenty-five percent (125.00%) of Annual Debt Service due in that Fiscal Year; and
 - (2) to generate Net Revenues each Fiscal Year at least equal to one hundred twenty percent (120.00%) of Annual Debt Service due in that Fiscal Year.
- 5.3 **Report.** Not later than ninety days after the end of each fiscal year the City shall file a report in the City Manager's office, signed by an Authorized Officer, which demonstrates whether the City has complied with Section 5.2 during that fiscal year. If the report demonstrates that the City has not complied with Section 5.2 during that fiscal year, it shall not constitute an Event of Default if:
- (1) within thirty days after the report is filed, the City engages the services of a Qualified Consultant; and,
 - (2) within sixty days after the report is filed, the Qualified Consultant recommends a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to comply with Section 5.2 for the then current fiscal year; and,

- (3) Within ninety days after the report is filed the City implements the recommendations of the Qualified Consultant.

Section 6. Parity Obligations

6.1 General Requirements. The City may issue Parity Obligations to provide funds for any purpose relating to the Water System, but only if:

- (1) No Event of Default under this Master Resolution or any Supplemental Resolution has occurred and is continuing.
- (2) At the time of the issuance of the Parity Obligations the balance in the Bond Reserve Account is at least equal to the Reserve Requirement, calculated as if the Parity Obligations are Outstanding.
- (3) The Supplemental Resolution authorizing the issuance of the Bonds contains a covenant requiring the City to charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate: Stabilized Net Revenues in each Fiscal Year at least equal to the sum of one hundred twenty-five percent (125.00%) of Annual Debt Service due in that Fiscal Year; and Net Revenues at least equal to one hundred twenty percent (120.00%) of Annual Debt Service due in that Fiscal Year, with the proposed Parity Obligations treated as Outstanding, in accordance with Section 5.2.
- (4) There shall have been filed with the City either:
 - (A) a certificate of the Authorized Officer stating that Net Revenues (adjusted as provided in Section 6.2) for the Base Period were not less than one hundred twenty percent (120.00%) of the average Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding; or,
 - (B) a certificate or opinion of a Qualified Consultant stating:
 - (a) the amount of the Adjusted Net Revenues computed as provided in Section 6.3 below; and,
 - (b) that the amount shown in Section 6.1(4)(B)(a) is not less than one hundred twenty-five percent (125.00%) of the average Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding.

6.2 Adjustments to Net Revenues. Net Revenues may be adjusted for purposes of Section 6.1(4)(A) by adding any Net Revenues the Authorized Officer calculates the City would have had during the Base Period because of increases in Water System rates, fees

and charges which took effect after the beginning of the Base Period. However, no adjustment shall be made for these increases unless they have been approved by the Council prior to delivery of the Proposed Parity Obligations and are required to take effect no later than sixty days after the delivery of the proposed Parity Obligations.

6.3 **Adjusted Net Revenues.** Adjusted Net Revenues for purposes of Section 6.1(4)(B) shall be computed by adjusting the Net Revenues for the Base Period in any of the following ways:

- (1) if the Bonds are being issued for the purpose of acquiring operating Water System utility properties having an earnings record, the Qualified Consultant may estimate the effect on the Net Revenues for the Base Period as if the Water System utility properties had been part of the Water System during the Base Period. The estimate shall be based on the operating experience and records of the City and any available financial records relating to the Water System utility properties which will be acquired.
- (2) to reflect any changes in rates and charges adopted by the City Council, which were not in effect during the entire Base Period, and which
 - (A) are in effect on the date of sale and delivery of the Bonds, or
 - (B) are to go into effect not later than twelve months after such date.
- (3) to reflect any customers added to the Water System after the beginning of the Base Period and prior to the date of the Qualified Consultant's certificate;
- (4) if extensions of or additions to the Water System are in the process of construction on the date of the Qualified Consultant's certificate, or if the proceeds of the Bonds being issued are to be used to acquire or construct extensions of or additions to the Water System, to reflect any additional Net Revenues not included in the preceding paragraphs that will be derived from such additions and extensions (after deducting the estimated increase in operating and maintenance expenses resulting from such additions and extensions).

6.4 **Refunding Exception.** The City may issue Parity Obligations to refund Outstanding Bonds without complying with Section 6.1 if the refunded Bonds are defeased on the date of delivery of the refunding Parity Obligations and if the Annual Debt Service on the refunding Parity Obligations does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than \$5,000.

6.5 **Lien of Parity Obligations on Net Revenues.** All Parity Obligations issued in accordance with this Section shall have a lien on the Net Revenues which is equal to the lien of all other Outstanding Bonds.

Section 7. Subordinate Obligations

The City may issue Subordinate Obligations only if:

- 7.1 **Limitation on Payment.** The Subordinate Obligations are payable solely from amounts permitted to be deposited in the Subordinate Obligations Account pursuant to Section 3.1(5).
- 7.2 **No Acceleration.** The Subordinate Obligations are not subject to acceleration.
- 7.3 **Statement of Lien Status.** The Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Revenues which is subordinate to the lien on, and pledge of, the Net Revenues for the Bonds.

Section 8. Separate Utility System

The City may declare property which the City owns and is part of the Water System (but has a value of less than five percent of the Water System at the time of the declaration), and property which the City has not yet acquired but would otherwise become part of the Water System, to be part of a Separate Utility System. The City may pay costs of acquiring, operating and maintaining Separate Utility Systems from Net Revenues, but only if there is no deficit in the Bond Reserve Account. The City may issue obligations which are secured by the revenues produced by the Separate Utility System, and may pledge the Separate Utility System revenues to pay those obligations. In addition, the City may issue Subordinate Obligations to pay for costs of a Separate Utility System, and may pledge the revenues of the Separate Utility System to pay the Subordinate Obligations.

Section 9. General Covenants

The City hereby covenants and agrees with the Owners of all Outstanding Bonds as follows:

- 9.1 **Payment of Bonds.** That it will promptly cause the principal, premium, if any, and interest on the Bonds to be paid as they become due in accordance with the provisions of this Master Resolution and any Supplemental Resolution.
- 9.2 **Books and Records.** That it will maintain complete books and records relating to the operation of the Water System and all City funds and accounts in accordance with generally accepted accounting principles applicable to the Water System, and will cause such books and records to be audited annually at the end of each Fiscal Year, and an audit report prepared and made available for the inspection of Bondowners. When this Master Resolution requires that amounts of Gross Revenues, Operating Expenses, Net Revenues and similar revenues or expenses be determined, those amounts shall be determined using generally accepted accounting principles which apply to enterprises such as the Water System, such as accrual basis accounting.

- 9.3 **No Superior Liens.** That it will not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Revenues.
- 9.4 **Deposits.** That it will promptly deposit into all funds and accounts all sums required to be so deposited.
- 9.5 **Operation of the Water System.** That it will operate the Water System in a sound, efficient and economic manner, that it will not enter into any agreement to provide Water System products or services at a discount from published rate schedules, and that it will not provide free Water System products or services, except to City operations, to suppress fires or in case of emergencies.
- 9.6 **Insurance.** That it will at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.
- (1) The net proceeds of insurance against accident to or destruction of the Water System shall be used to repair, rebuild, improve or expand the Water System, and to the extent not so applied, will be applied to the payment or redemption of the Bonds on a pro rata basis.
 - (2) Insurance described in Section 9.6 shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or in the form of self-insurance by the City. The City shall establish such fund or funds or reserves which it deems are necessary to provide for its share of any such self-insurance.
- 9.7 **Sale or Transfer of System Property.** The City will not, nor will it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System except:
- (1) The City may dispose of all or substantially all of the Water System, only if the City pays all Bonds or defeases them pursuant to Section 12.
 - (2) Except as provided in Section 9.7(3), the City will not dispose of any part of the Water System in excess of five percent (5.0%) of the value of the Water System in service unless prior to such disposition either:
 - (A) there has been filed with the City a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the City to comply with the rate covenants contained in Section 5.1 and Section 5.2; or
 - (B) provision is made for the payment, redemption or other defeasance of a principal amount of Bonds equal to the greater of the following amounts:

- (a) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Bond Reserve Account) that the Gross Revenues attributable to the part of the Water System sold or disposed of for the 12 preceding months bears to the total Gross Revenues for such period; or
 - (b) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding that the book value of the part of the Water System sold or disposed of bears to the book value of the Water System immediately prior to such sale or disposition.
- (3) The City may dispose of any portion of the Water System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Water System.
 - (4) If the ownership of all or part of the Water System is transferred from the City through the operation of law, the City shall to the extent authorized by law, reconstruct or replace such transferred portion using any proceeds of the transfer unless the City Council reasonably determines that such reconstruction or replacement is not in the best interest of the City and the Bondowners, in which case any proceeds shall be used for the payment, redemption or defeasance of the Bonds.

Section 10. Events of Default and Remedies

10.1 Continuous Operation Essential. The City Council of the City hereby finds and determines that the continuous operation of the Water System and the collection, deposit and disbursement of the Net Revenues in the manner provided in this Master Resolution and in any Supplemental Resolution are essential to the payment and security of the Bonds, and the failure or refusal of the City to perform the covenants and obligations contained in this Master Resolution or any such Supplemental Resolution will endanger the necessary continuous operation of the Water System and the application of the Net Revenues to the operation of the Water System and the payment of the Bonds.

10.2 Events of Default. The following shall constitute "Events of Default":

- (1) If the City shall fail to pay any Bond principal or interest when due, either at maturity, upon exercise of a right of tender, by proceedings for redemption or otherwise;
- (2) Except as provided in Sections 5.3 and 10.3, if the City shall default in the observance and performance of any other of its covenants, conditions and agreements in this Master Resolution, if such default continues for ninety (90) days after the City receives a written notice, specifying the Event of Default and

demanding the cure of such default, from the Owners of not less than 20% in aggregate principal amount of the Bonds Outstanding;

- (3) If the City shall sell, transfer, assign or convey any properties constituting the Water System in violation of Section 9.7;
- (4) If an order, judgment or decree shall be entered by any court of competent jurisdiction:
 - (A) appointing a receiver, trustee or liquidator for the City or the whole or any part of the Water System;
 - (B) approving a petition filed against the City seeking the bankruptcy, arrangement or reorganization of the City under any applicable law of the United States or the State; or
 - (C) assuming custody or control of the City or of the whole or any part of the Water System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or
- (5) If the City shall:
 - (A) admit in writing its inability to pay its debts generally as they become due;
 - (B) file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law;
 - (C) make an assignment for the benefit of its creditors;
 - (D) consent to the appointment of a receiver of the whole or any part of the Water System; or
 - (E) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any part of the Water System.

10.3 **Exception.** It shall not constitute an Event of Default under Section 10.2(2) if the default cannot practicably be remedied within ninety days after the City receives notice of the default, so long as the City promptly commences reasonable action to remedy the default after the notice is received, and continues reasonable action to remedy the default until the default is remedied.

10.4 **Remedies.** If an Event of Default occurs, any Bondowner may exercise any remedy available at law or in equity. However, the Bonds shall not be subject to acceleration.

10.5 Books of City Open to Inspection.

- (1) The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the City and all other records relating to the Water System shall at all reasonable times be subject to the inspection and use of the Bondowners Committee and any persons holding at least twenty percent (20%) of the principal amount of Outstanding Bonds and their respective agents and attorneys.
- (2) The City covenants that if the Event of Default shall happen and shall not have been remedied, the City will continue to account, as a trustee of an express trust, for all Net Revenues and other moneys, securities and funds pledged under the Master Resolution.

10.6 Waivers of Event of Default.

- (1) No delay or omission of any Bondowner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Section 10 to the Bondowners may be exercised from time to time and as often as may be deemed expedient by the Bondowners.
- (2) The owners of not less than fifty percent (50%) in principal amount of the affected Bonds and are at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the owners of all of affected Bonds, waive any past default under this Master Resolution with respect to such Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

10.7 Remedies Granted in Master Resolution Not Exclusive.

No remedy by the terms of the Master Resolution conferred upon or reserved to the Bondowners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Resolution or existing at law or in equity or by statute on or after the date of adoption of the Master Resolution.

Section 11. Amendment of Master Resolution

11.1 Amendment without Bondowner Consent. This Master Resolution may be amended by Supplemental Resolution without the consent of any Bondowners for any one or more of the following purposes:

- (1) To cure any ambiguity or formal defect or omission in this Master Resolution;

- (2) To add to the covenants and agreements of the City in this Master Resolution, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Master Resolution as theretofore in effect;
- (3) To authorize issuance of Bonds or Subordinate Obligations;
- (4) To modify, amend or supplement this Master Resolution or any Supplemental Resolution to qualify this Master Resolution under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of any Bonds for sale under the securities laws of any of the states of the United States of America;
- (5) To confirm, as further assurance, any security interest or pledge created under this Master Resolution or any Supplemental Resolution;
- (6) To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the owners of any Outstanding Bonds or the rights or obligations hereunder of any Credit Facility Provider;
- (7) So long as a Credit Facility (other than a Reserve Credit Facility) is in full force and effect with respect to the Bonds affected by such Supplemental Resolution, to make any other change which is consented to in writing by the issuer of such Credit Facility other than any change which:
 - (A) would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or
 - (B) changes the maturity (except as permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; or
 - (C) materially and adversely affects the rights and security afforded to the Owners of any Outstanding Bonds not secured by such Credit Facility.
- (8) To modify any of the provisions of this Master Resolution or any Supplemental Resolution in any other respect whatever, as long as the modification shall take effect only after all affected Outstanding Bonds cease to be Outstanding.

11.2 Amendment with Bondowner Consent. This Master Resolution may be amended for any other purpose only upon consent of Bondowners of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Bondowners of 100 percent of the aggregate principal amount of the Bonds outstanding which:

- (1) Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bondowner; or
- (2) Reduces the percent of Bondowners required to approve Supplemental Resolutions.

11.3 Credit Facility Provider as Bondowner. Except as otherwise expressly provided in a Supplemental Resolution, as long as a Credit Facility (other than a Reserve Credit Facility) securing all or a portion of any Outstanding Bonds is in effect, the issuer of such Credit Facility shall be deemed to be the Bondowner of the Bonds secured by such Credit Facility:

- (1) at all times for the purpose of the execution and delivery of a Supplemental Resolution or of any amendment, change or modification of this Master Resolution or the initiation by Bondowners of any action which under this Master Resolution requires the written approval or consent of fifty-one percent (51%) or less in aggregate principal amount of the Bonds then Outstanding; and following an Event of Default for all other purposes.
- (2) Notwithstanding the foregoing, the issuer of such Credit Facility shall not be deemed to be a Bondowner secured thereby with respect to any such Supplemental Resolution or of any amendment, change or modification of this Master Resolution which:
 - (A) Causes a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or
 - (B) changes the maturity (except as expressly permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; or
 - (C) reduces the percentage or otherwise affects the classes of affected Bonds, the consent of the Bondowners of which is required to effect any such modification or amendment.
- (3) In addition and notwithstanding the foregoing, no issuer of a Credit Facility given as security for any Bonds shall be entitled to exercise any rights under this Section during any period where:
 - (A) the Credit Agreement or Credit Facility to which such Credit Provider is a party shall not be in full force and effect;

- (B) such Credit Provider shall have filed a petition or otherwise sought relief under any federal or state bankruptcy or similar law;
 - (C) such Credit Provider shall, for any reason, have failed or refused to honor a proper demand for payment under such Credit Facility; or
 - (D) an order or decree shall have been entered, with the consent or acquiescence of such Credit Provider, appointing a receiver or receivers or the assets of the Credit Provider, or if such order or decree having been entered without the consent or acquiescence of such Credit Provider, shall not have been vacated or discharged or stayed within ninety (90) days after the entry thereof.
- (4) For purposes of determining the percentage of Bondowners consenting to, waiving or otherwise acting with respect to any matter that may arise under this Master Resolution, the Owners of Bonds which pay interest only at maturity, and mature more than one year after they are issued shall be treated as Owners of Bonds in an aggregate principal amount equal to the accreted value of such Bonds as of the date the Registrar sends out notice of requesting consent, waiver or other action as provided herein.

Section 12. Defeasance

The City may defease and deem all or any portion of the Outstanding Bonds to be paid by:

- 12.1 Irrevocably depositing cash or noncallable, nonprepayable Direct Obligations in escrow with an independent escrow agent which are calculated to be sufficient for the payment of Bonds which are to be defeased; and,
- 12.2 Filing with the escrow agent an opinion from a Qualified Consultant to the effect that the money and the principal and interest to be received from the Direct Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased Bonds when due; and,
- 12.3 Filing with the escrow agent an opinion of nationally recognized bond counsel that the proposed defeasance will not cause interest on the defeased Bonds to be includable in gross income under the Code.

If Bonds are defeased under this Section, all obligations of the City with respect to those defeased Bonds shall cease and terminate, except for the obligation of the City, the escrow agent and the Registrar to pay the defeased Bonds from the amounts deposited in escrow, and the obligation of the Registrar to continue to transfer bonds as provided in this Master Resolution.

Section 13. Book Entry System for Bonds.

Unless otherwise provided in a Supplemental Resolution, the Bonds shall be initially issued in BEO form and shall be governed by this Section 13. While Bonds are in BEO form no physical

bonds shall be provided to Owners of Bonds. The City has executed and delivered a blanket Letter of Representations to DTC. While the Bonds are in BEO form, registration and transfer of beneficial interests in the Bonds shall be governed by that letter and the Operational Arrangements of DTC, as they may be amended from time to time, as provided in the blanket issuer letter of representations. So long as Bonds are in BEO form:

- 13.1 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 called for redemption or of any other action premised on such notice.
- 13.2 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.
- 13.3 If the City discontinues maintaining the Bonds in book-entry only form, the City shall cause the Registrar 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 15. below, regarding registration, transfer and exchange of Bonds shall apply.
- 13.4 While the Bonds are in BEO form, the City and the Registrar 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:
 - (1) 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;
 - (2) the delivery to any participant or correspondent or any other person of any notice with respect to the Bonds, including any notice of prepayment;
 - (3) the selection by DTC of the beneficial interest in Bonds to be redeemed prior to maturity; or
 - (4) 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 Registrar, of any amount with respect to principal or interest on the Bonds.
- 13.5 The City shall pay or cause to be paid all principal and interest on the Bonds only to or upon the order of the owner, as shown in the registration books maintained by the Registrar, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation with respect to payment thereof to the extent of the sum or sums so paid.
- 13.6 Upon delivery by DTC to the City and to the owner of written notice to the effect that DTC has determined to substitute a new nominee in place of the nominee, then the word

“nominee” in this order shall refer to such new nominee of DTC, and upon receipt of such notice, the City shall promptly deliver a copy thereof to the Registrar. DTC shall tender the Bonds it holds to the Registrar for reregistration.

- 13.7 The provisions of this Section 13. may be modified without the consent of the beneficial owners in order to conform this Section to the standard practices of DTC for Bonds issued in book-entry only form.

Section 14. Redemption of Bonds.

Unless otherwise provided in a Supplemental Resolution:

- 14.1 The Bonds shall be subject to redemption on the terms established by the City Official. The City reserves the right to purchase Bonds in the open market.
- 14.2 If any Bonds are subject to mandatory redemption, the City may credit against the mandatory redemption requirement any Bonds of the same maturity which the City has previously purchased or which the City has previously redeemed pursuant to any optional redemption provision.
- 14.3 So long as Bonds are in book-entry only form, the Registrar shall notify DTC of any early redemption not less than 30 days prior to the date fixed for redemption unless DTC permits a shorter notice period, and shall provide such information in connection therewith as required by a letter of representation submitted to DTC in connection with the issuance of the Bonds. The City shall notify the Registrar of any intended redemption not less than 45 days prior to the redemption date, unless the Registrar consents to a shorter notice period.
- 14.4 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 Registrar 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 Registrar. The City shall notify the Registrar of any intended redemption not less than 45 days prior to the redemption date, unless the Registrar consents to a shorter notice period. All such official notices of redemption shall be dated and shall state:
- (1) the redemption date,
 - (2) the redemption price,
 - (3) 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,
 - (4) 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

- (5) 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 Registrar.

Section 15. Authentication, Registration and Transfer.

Unless otherwise provided in a Supplemental Resolution:

- 15.1 No Bond shall be entitled to any right or benefit under this Master Resolution unless it shall have been authenticated by an authorized officer of the Registrar. The Registrar 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 Master Resolution.
- 15.2 The ownership of all Bonds shall be entered in the Bond register maintained by the Registrar, and the City and the Registrar may treat the person listed as owner in the Bond register as the owner of the Bond for all purposes.
- 15.3 While the Bonds are in book-entry only form, the Registrar shall transfer Bond principal and interest payments in the manner required by DTC.
- 15.4 If the Bonds cease to be in book-entry only form, the Registrar 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. If payment is so mailed, neither the City nor the Registrar shall have any further liability to any party for such payment.
- 15.5 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 Registrar:
 - (1) written instructions for exchange or transfer satisfactory to the Registrar, signed by the Owner or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Registrar and
 - (2) the Bonds to be exchanged or transferred.
- 15.6 The Registrar 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.
- 15.7 The Registrar 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.
- 15.8 For purposes of this Section 15, Bonds shall be considered submitted to the Registrar on the date the Registrar actually receives the materials described in Section 15.5, above.
- 15.9 The City may alter these provisions regarding registration and transfer by mailing 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 16. The Series 1999 Bonds

- 16.1 **Sale Authorized.** Pursuant to Oregon's Uniform Revenue Bond Act (ORS 288.805 to 288.945) the City Council hereby authorizes the sale and delivery of the City of Lake Oswego, Oregon Water Revenue Bonds, Series 1999 (the "Series 1999 Bonds"). The aggregate principal amount of the Series 1999 Bonds shall not exceed Eight Million Dollars (\$8,000,000). The Series 1999 Bonds shall be Bonds as defined in this Master Resolution, and shall have the terms established by the Authorized Officer pursuant to Section 16.4.
- 16.2 **Limitation on Payment.** The Series 1999 Bonds shall be special obligations of the City, and shall be payable solely from the Net Revenues and amounts required to be deposited in the Bond Reserve Account as required and as provided by this Master Resolution.
- 16.3 **Bond Form.** The Series 1999 Bonds shall be in substantially the form attached as Exhibit A, and shall be signed with the facsimile or manual signature of the Mayor and an Authorized Officer.
- 16.4 **Delegation.** The Authorized Officer may, on behalf of the City and without further action by the Council:
- (1) participate in the preparation of, authorize the distribution of, and deem final the preliminary and final official statements and any other disclosure documents for the Series 1999 Bonds;
 - (2) establish the final principal amounts, maturity schedules, interest rates, sale prices, redemption terms, payment terms and dates, and other terms of the Series 1999 Bonds, publish a notice of sale, receive bids and award the sale of the Series 1999 Bonds to the bidder complying with the notice and offering the most favorable terms to the City;
 - (3) undertake to provide continuing disclosure for the Series 1999 Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.
 - (4) apply for and purchase a Credit Facility, including a Reserve Credit Facility, enter into agreements with the Credit Facility Providers, and execute and deliver related documents; and
 - (5) execute any documents and take any other action in connection with the Series 1999 Bonds which the City Official finds will be advantageous to the City.
- 16.5 **Disposition of Series 1999 Bond Proceeds.** The Series 1999 Bond proceeds shall be applied as follows:

- (1) Interest accrued from the date of the Series 1999 Bonds until the date of closing shall be placed in the Water Fund and used to pay Series 1999 Bond interest on the next Interest Payment Date.
- (2) An amount of proceeds of the Series 1999 Bonds required to make the balance in the Bond Reserve Account equal to the Reserve Requirement shall be deposited in the Bond Reserve Account.
- (3) The balance of the Series 1999 Bond proceeds shall be placed in the 1999 Bond Proceeds Account, and shall be disbursed only to finance capital improvements to the Water System, to pay costs incurred in connection with the issuance of the Series 1999 Bonds, and to pay Bonds.

16.6 1999 Bond Proceeds Account Earnings. Earnings from investment of the funds in the 1999 Bond Proceeds Account shall be maintained in the 1999 Bond Proceeds Account, and shall be treated and disbursed as Series 1999 Bond proceeds. 1999 Bond Proceeds Account balances which are not needed to pay capital costs of the Water System may be used to pay Bond principal and interest.

16.7 Tax-Exempt Status.

- (1) The City covenants for the benefit of the Owners of the Series 1999 Bonds to comply with all provisions of the Code which are required for interest on the Series 1999 Bonds to be excluded from gross income for federal taxation purposes. In determining what actions are required to comply, the City may rely on an opinion of Bond Counsel. The City makes the following specific covenants with respect to the Code:
 - (A) The City will not take any action or omit any action if it would cause the Series 1999 Bonds to become "arbitrage bonds" under Section 148 of the Code.
 - (B) The City shall operate the facilities financed with the Series 1999 Bonds so that the Series 1999 Bonds do not become private activity bonds within the meaning of Section 141 of the Code.
 - (C) The City shall pay, when due, all rebates and penalties with respect to the Series 1999 Bonds which are required by Section 148(f) of the Code.
- (2) The Authorized Officer may enter into additional covenants to protect the tax-exempt status of the Series 1999 Bonds. The covenants contained in this Section 16.7 and any covenants in the closing documents for the Series 1999 Bonds shall constitute contracts with the owners of the Series 1999 Bonds, and shall be enforceable by them.

Section 17. Special Provisions Relating to the Series 1999 Insurance Policy.

The provisions of this Section 17 shall govern, notwithstanding any contrary provision of this Master Resolution.

17.1 Payment Procedures. As long as the Series 1999 Insurance Policy shall be in full force and effect, the City and the Paying Agent agree to comply with the following provisions:

- (1) **Claims Upon the Series 1999 Insurance Policy and payments by and to the Series 1999 Insurer.**
 - (A) If, on the business day prior to the related Payment Date there is not on deposit with the Paying Agent, after making all transfers and deposits required under this Master Resolution, moneys sufficient to pay the principal of and interest on the Series 1999 Bonds due on such Payment Date, the Paying Agent shall make a claim under the Series 1999 Insurance Policy and give notice to the Series 1999 Insurer and to its designated agent (if any) (the "Series 1999 Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 1999 Bonds and the amount required to pay principal of the Series 1999 Bonds, confirmed in writing to the Series 1999 Insurer and the Series 1999 Insurer's Fiscal Agent by 12:00 noon, New York City time, on such Business Day by filling in the form of Notice of Claim and Certificate delivered with the Series 1999 Insurance Policy.
 - (B) In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Paying Agent shall authenticate and deliver to affected Series 1999 Bondholders who surrender their Series 1999 Bonds a new Series 1999 Bond or Series 1999 Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 1999 Bond surrendered. The Paying Agent shall designate any portion of payment of principal on Series 1999 Bonds paid by the Series 1999 Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 1999 Bonds registered to the then current Series 1999 Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Series 1999 Bond to the Series 1999 Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Paying Agent's failure to so designate any payment or issue any replacement Series 1999 Bond shall have no effect on the amount of principal or interest payable by the City on any Series 1999 Bond or the subrogation rights of the Series 1999 Insurer.
 - (C) The Paying Agent shall keep a complete and accurate record of all funds deposited by the Series 1999 Insurer into the Policy Payments Account, described in the following paragraph, and the allocation of such funds to

payment of interest on and principal paid in respect of any Series 1999 Bond. The Series 1999 Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Paying Agent.

- (D) Upon payment of a claim under the Series 1999 Insurance Policy the Paying Agent shall establish a separate special purpose trust account for the benefit of Series 1999 Bondholders referred to herein as the "Policy Payments Account" and over which the Paying Agent shall have exclusive control and sole right of withdrawal. The Paying Agent shall receive any amount paid under the Series 1999 Insurance Policy in trust on behalf of Series 1999 Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Paying Agent to Series 1999 Bondholders in the same manner as principal and interest payments are to be made with respect to the Series 1999 Bonds under the sections hereof regarding payment of Series 1999 Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Funds held in the Policy Payments Account shall not be invested. Any funds remaining in the Policy Payments Account following a Payment Date shall promptly be remitted to the Series 1999 Insurer.

17.2 Series 1999 Bonds Treated As Outstanding. Amounts paid by the Series 1999 Insurer under the Series 1999 Insurance Policy shall not be deemed paid for purposes of this Master Resolution and shall remain Outstanding and continue to be due and owing until paid by the City in accordance with this Master Resolution. The Series 1999 Insurer shall, to the extent it makes any payment of principal of or interest on the Series 1999 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 1999 Insurance Policy. This Master Resolution shall not be discharged unless all amounts due or to become due to the Series 1999 Insurer have been paid in full or duly provided for.

17.3 Notices To The Series 1999 Insurer.

- (1) The notice address of the Series 1999 Insurer is:

Financial Security Assurance, Inc.
350 Park Avenue
New York, New York 10022-6022
Attention: Managing Director – Surveillance
Re: Policy No. _____
Telephone: (212) 826-0100
Telecopier: (212) 339-3529

- (2) In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the

attention of General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

17.4 **Series 1999 Insurer As Third Party Beneficiary.** The City hereby deems the Series 1999 Insurer to be a third party beneficiary to this Master Resolution.


Considered and enacted by the City Council of the City of Lake Oswego at a regular meeting held on the 20th day of July, 1999.

AYES: Lowrey, Chizum, Schoen, Hoffman, Prosser
Rohde, Mayor Klammer

NOES: None

ABSTAIN: None

ABSENT: None


W. K. Klammer, Mayor

Attest:


Kristi Hitchcock, City Recorder

APPROVED AS TO FORM:



David Powell, City Attorney

Exhibit A
Form of Series 1999 Bond

No. R-

5 _____

\$7,185,000
City of Lake Oswego
Multnomah, Washington and Clackamas Counties, Oregon
Water Revenue Bond, Series 1999

Dated Date: August 1, 1999
Interest Rate: _____ % per annum
Maturity Date: _____
CUSIP Number: _____
Registered Owner: Cede & Co.
Principal Amount: _____ Dollars

THE CITY OF LAKE OSWEGO, State of Oregon (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, but solely from the sources indicated below, the Principal Amount on the Maturity Date together with interest thereon from the date hereof at the rate per annum indicated above. Interest is payable semiannually on the first days of February and August in each year until maturity or prior redemption, commencing February 1, 2000. Principal and interest payments shall be received by Cede & Co., as nominee of The Depository Trust Company, or its registered assigns, on each payment date. Such payments shall be made payable to the order of "Cede & Co."

This Series 1999 Bond is not a general obligation or liability of the City, and is payable solely from the Net Revenues of the Water System as provided in Resolution No. 99-22 of the City adopted July 20, 1999 (the "Resolution"). The City covenants and agrees with the owner of this Series 1999 Bond that it will keep and perform all of the covenants in this Series 1999 Bond and in the Resolution. The City has pledged the Net Revenues of the Water System to the payment of principal and interest on this Series 1999 Bond.

Notice of any call for redemption shall be given as required by the Letter of Representations to The Depository Trust Company, as referenced in the Resolution. Interest on any Series 1999 Bond or Series 1999 Bonds so called for redemption shall cease on the redemption date designated in the notice. The City's paying agent and registrar, which is currently U.S. Bank Trust National Association, in Portland, Oregon (the "Registrar"), will notify The Depository Trust Company promptly of any Series 1999 Bonds called for redemption.

The Series 1999 Bonds are initially issued as a book-entry-only security issue with no certificates provided to the Series 1999 Bondowners. Records of Series 1999 Bond ownership will be maintained by the Registrar and The Depository Trust Company and its participants.

Should the book-entry-only security system be discontinued, the Series 1999 Bonds shall be issued in the form of registered Series 1999 Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Such Series 1999 Bonds may be exchanged for Series 1999 Bonds of the same aggregate principal amount, but different authorized denominations, as provided in the Resolution.

Any transfer of this Series 1999 Bond must be registered, as provided in the Resolution, upon the Series 1999 Bond register kept for that purpose by the Registrar. Upon registration, a new registered Series 1999 Bond or Series 1999 Bonds, 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 Registrar and the City may treat the person in whose name this Series 1999 Bond is registered as its absolute owner for all purposes, as provided in the Resolution.

The Series 1999 Bondowner may exchange or transfer this Series 1999 Bond only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Registrar and duly executed by the registered owner or their duly authorized attorney, at the principal corporate trust office of the Registrar in the manner and subject to the conditions set forth in the Series 1999 Bond Resolution.

Unless this certificate is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

This Series 1999 Bond is one of a series of \$7,185,000 aggregate principal amount of Water Revenue Series 1999 Bond, Series 1999, of the City, and is issued by the City for the purpose of financing Water System facility improvements in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the charter of the City.

The City reserves the right to redeem all or any portion of the Series 1999 Bonds maturing after _____, by lot within a maturity on _____, and on any date thereafter, at a price of _____ plus accrued interest to the date fixed for redemption.

The Series 1999 Bonds maturing _____, shall be subject to mandatory redemption, by lot, at the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption, in the amounts and on the dates set forth below:

Redemption Date

Principal Amount

Series 1999 Bonds optionally redeemed may be credited against the mandatory redemption by lot as determined by the Registrar.

Notice of any call for redemption, unless waived by the owners of the Series 1999 Bonds to be redeemed, shall be mailed not less than thirty days and not more than sixty days prior to such call to the registered owners of the Series 1999 Bonds, and otherwise given as required the Resolution and by law; however, any failure to give notice shall not invalidate the redemption of the Series 1999 Bonds. All Series 1999 Bonds called for redemption shall cease to bear interest from the date designated in the notice.

The Series 1999 Bonds are issuable in the form of registered Series 1999 Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Series 1999 Bonds may be exchanged for an equal aggregate principal amount of registered Series 1999 Bonds of the same maturity and of any other authorized denominations in the manner, and subject to the conditions set forth in the Resolution.

Any transfer of this Series 1999 Bond must be registered, as provided in the Resolution, upon the Series 1999 Bond register kept for that purpose at the principal corporate trust office of the Registrar. This Series 1999 Bond may be transferred only by surrendering it, together with a written instrument of transfer which is satisfactory to the Registrar and which is executed by the registered owner or his duly authorized attorney. Upon registration, a new registered Series 1999 Bond or Series 1999 Bonds, 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 Registrar may treat the person in whose name this Series 1999 Bond is registered on the Series 1999 Bond Register as its absolute owner for all purposes, as provided in the Resolution.

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this Series 1999 Bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon; that the issue of which this Series 1999 Bond is a part, and all other obligations of such City, are within every debt limitation and other limits prescribed by such Constitution and Statutes.

IN WITNESS WHEREOF, the City Council of the City of Lake Oswego, Oregon, has caused this Series 1999 Bond to be signed by facsimile signature of its <<Official 1>> and attested by facsimile signature of the <<Official 2>> of the City as of the date indicated above.

City of Lake Oswego, Multnomah, Washington and Clackamas
Counties Oregon

Mayor

ATTEST:

Authorized Officer

THIS SERIES 1999 Bond SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE REGISTRAR IN THE SPACE INDICATED BELOW.

Dated: _____

This Series 1999 Bond is one of a series of \$7,185,000 aggregate principal amount of Water Revenue Bond, Series 1999, of the City, issued pursuant to the Resolution described herein.

<<Paying Agent>>, as Registrar

Authorized Officer

Assignment

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto: _____

(Please insert social security or other identifying number of assignee)

this Series 1999 Bond and does hereby irrevocably constitute and appoint _____
as attorney to transfer this Series 1999 Bond on the books kept for registration thereof with the full
power of substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this Series 1999 Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

The following abbreviations, when used in the inscription on the face of this Series 1999 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

RECENT AMENDMENTS

The following new covenants and agreements are added to the Master Water Resolution in a new Section 18:

Section 18. Additional Covenants and Agreements.

The City covenants and agrees for the benefit of the Owners of the Bonds and the owners of all Subordinate Obligations that it will comply with all requirements of the Master Resolution. Owners of Subordinate Obligations shall not be entitled to declare an Event of Default or exercise remedies under the Master Resolution without the consent of one hundred percent (100%) of the Owners of Bonds.

The provisions of the Master Resolution shall be part of the contract of the City with the Owners of Bonds and the owners of Subordinate Obligations and shall be deemed to constitute a contract between the City and such respective Owners and owners.

The City covenants and agrees for the benefit of Owners of all Bonds and owners of all Subordinate Obligations that it will set, charge and collect rates, fees and other charges in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred percent (100%) of Annual Debt Service due with respect to Bonds in that Fiscal Year plus one hundred percent (100%) of annual debt service due with respect to Subordinate Obligations in that Fiscal Year. Annual debt service with respect to Subordinate Obligations shall be calculated in the manner set forth in the definition of "Annual Debt Service" as if such definition referred to "Subordinate Obligations" rather than "Bonds." The foregoing covenant, along with Section 5 of the Master Resolution, shall provide Owners of the Bonds and owners of the Subordinate Obligations with covenants of the City protected by (i) the respective contract clauses of the United States and Oregon Constitutions and (ii) the prohibition against the impairment of contracts to the fullest extent provided by ORS 287A.325.