

OFFICIAL STATEMENT DATED NOVEMBER 1, 2012

NEW ISSUE – COMPETITIVE
Book-Entry-Only

RATING: Moody's Aa3
See "RATING" herein.

In the opinion of Mersereau Shannon LLP, Special Counsel to the City ("Special Counsel"), assuming compliance with certain covenants of the City, interest on the Obligations is excluded from the gross income of the owners of the Obligations for federal income tax purposes under existing law. Interest on the Obligations is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Obligations may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "Tax Matters" herein for a discussion of the opinion of Special Counsel. In the opinion of Special Counsel, interest on the Obligations is exempt from Oregon personal income tax under existing law.

CITY OF CORVALLIS
BENTON COUNTY, OREGON
\$11,485,000 Full Faith and Credit Refunding Obligations
Series 2012



DATED: Date of Delivery

DUE: December 1, as shown inside cover

The \$11,485,000 Full Faith and Credit Refunding Obligations, Series 2012 (the "Obligations"), will be issued by the City of Corvallis, 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 refund certain outstanding loans of the City, and to pay costs of issuance (collectively, the "Project"). See "DESCRIPTION OF THE OBLIGATIONS – Refunding Plan" herein.

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 to be secured by and payable from lawfully available funds of the City, including any taxes levied by and for the City within the restrictions of Sections 11 and 11b, Article XI of the Oregon Constitution. 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 Beneficial Owners of the Obligations do not have a lien or security interest on the property refinanced with the proceeds of the Financing Agreement. The Financing Agreement does not constitute a debt or indebtedness of Benton County, the State of Oregon, or any political subdivision thereof other than the City.

The Obligations evidence and represent undivided proportionate interests of the Beneficial Owners thereof (as hereinafter defined) in the Financing Payments (defined herein) to be made by the City pursuant to a Financing Agreement. The principal and interest components of the Financing Payments evidenced and represented by the Obligations will be payable by the City's paying agent, registrar and escrow agent, initially Wells Fargo Bank, National Association, Portland, Oregon (the "Escrow Agent") to DTC which, in turn, will remit such principal and interest components to the DTC participants for subsequent disbursement to the beneficial owners of the Obligations at the address appearing upon the registration books on the 15th day of the month preceding a payment date. The interest component of the Financing Payments evidenced and represented by the Obligations will be payable on June 1, 2013 and semiannually thereafter on December 1 and June 1 of each year. The principal component will be payable on December 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 not subject to prepayment prior to maturity. 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.

Robert W. Baird & Co., Incorporated purchased the Obligations in a competitive sale on November 1, 2012. The Obligations are offered for sale to the original purchaser subject to the final approving opinion of Mersereau Shannon, 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 November 15, 2012 ("Date of Delivery").



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

Maturity Schedule

\$11,485,000

Full Faith and Credit Refunding Obligations, Series 2012

<u>Due December 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP # 220885†</u>
2013	\$ 2,285,000	2.00%	0.25%	6F9
2014	2,340,000	2.00	0.40	6G7
2015	1,560,000	2.00	0.60	6H5
2016	1,240,000	3.00	0.70	6J1
2017	1,115,000	3.00	0.85	6K8
2018	1,150,000	3.00	1.00	6L6
2019	1,190,000	3.00	1.25	6M4
2020	605,000	4.00	1.50	6N2

† 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.

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 CORVALLIS, OREGON
BENTON COUNTY, OREGON
\$11,485,000 Full Faith and Credit Refunding Obligations, Series 2012**

**501 SW Madison Avenue
P.O. Box 1083
Corvallis, Oregon 97339-1083
Website: www.corvallisoregon.gov¹**

CITY COUNCIL

Julie Manning, Mayor
Mark O'Brien
Roan Hogg
Richard Hervey
Dan Brown
Mike Beilstein
Joel Hirsch
Jeanne Raymond
Biff Traber
Hal Brauner

ADMINISTRATIVE STAFF

Jim Patterson, City Manager
Nancy Brewer, Finance Director
Mary Steckel, Public Works Director

SPECIAL COUNSEL

Mersereau Shannon LLP, Portland, Oregon

FINANCIAL ADVISOR

Western Financial Group, LLC, Portland, Oregon

PAYING AGENT, REGISTRAR AND ESCROW AGENT

Wells Fargo Bank, National Association, Portland, Oregon

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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 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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OFFICIAL STATEMENT FOR THE CITY OF CORVALLIS, OREGON

\$11,485,000 Full Faith and Credit Refunding Obligations, Series 2012

The City of Corvallis (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 \$11,485,000 aggregate principal amount of Full Faith and Credit Refunding Obligations, Series 2012 (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 evidence and represent undivided proportionate interests of the Beneficial Owners thereof in payments (the “Financing Payments”) to be made by the City pursuant to the Financing Agreement dated as of the Date of Delivery (the “Financing Agreement”), between the City and Wells Fargo Bank, National Association, as paying agent, registrar and escrow agent (the “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 Financing Payments will be payable by the Escrow Agent to the Depository Trust Company (“DTC”), which, in turn, is obligated to remit such principal and interest components to its participants (“DTC Participants”) for subsequent disbursement to the persons in whose names such Obligations are registered (the “Beneficial Owners”) as further described in **APPENDIX E** attached hereto.

The sum of the principal components of the Financing Payments (the “Financing Amounts”) evidenced and represented by the Obligations equals \$11,485,000. 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 June 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 December 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 the laws of the State including Oregon Revised Statutes (“ORS”) Section 271.390, to enter into financing agreements, lease purchase agreements or other contracts of purchase to finance real or personal property that the City Council (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: 1) to refund the City’s Loan Agreement No. R24481, dated as of September 1, 1997, as amended, with the Oregon Department of Environmental Quality (the “DEQ Loan”), 2) to refund the City’s Loan Agreement No. B97001, dated September 6, 1996, as amended, with the Oregon Business Development Department (the “B97001 Loan”) and 3) to refund Loan Agreement No. G95003, dated November 2, 1994, as amended, with the Oregon Business Development Department (the “G95003 Loan, collectively with the B97001 Loan, the “OBDD Loans”), and 4) to pay costs of issuance of the Obligations (collectively, the “Project”). See “Refunding Plan” herein.

The DEQ Loan is in the final amended loan amount of \$21,263,693. The outstanding balance of the DEQ Loan is approximately \$11,141,546. The proceeds of the DEQ Loan were expended for the combined wastewater overflow remediation and compliance project, including new combined wastewater storage, pumping, conveyance and treatment facilities. The City has used net revenues of the wastewater system to pay loan payments on the DEQ Loan, and expects to continue to use net revenues of the wastewater system to pay Financing Payments attributable to the refunding of the DEQ Loan. The Financing Payments and Obligations are NOT secured by, nor have a lien on, the net revenues of the wastewater system.

The B97001 Loan is in the final amended loan amount of \$2,107,000. The outstanding balance of the B97001 Loan is approximately \$759,960. The G95003 Loan is in the final amended loan amount of \$9,479,365. The outstanding balance of the G95003 Loan is approximately \$2,281,645. The proceeds of the OBDD Loans were expended for the construction of certain improvements to the Taylor Water Treatment Plant. The City has used net revenues of the water system to pay loan payments on the OBDD Loans, and expects to continue to use net revenues of the water system to pay Financing Payments attributable to the refunding of the OBDD Loans. The Financing Payments and Obligations are NOT secured by, nor have a lien on, the net revenues of the water system.

The City is pledging its full faith and credit to the payment of the principal components of the Financing Agreement. Under and in accordance with State law and pursuant to Resolution No. 2012-22 adopted by the City Council on August 20, 2012 (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.

The City is authorized to enter into the Agreements and make the Financing Payments without a vote of the people.

Pursuant to the Resolution, the City has pledged its full faith and credit and certain taxing powers within Oregon Constitutional limits to the repayment of the Financing Payments.

The City intends to use the net revenues of the City's wastewater system and water system proportionately to make the Financing Payments. **THE CITY HAS NOT PLEDGED THE NET REVENUES OF THE CITY'S WASTEWATER SYSTEM OR WATER SYSTEM AS SECURITY FOR THE FINANCING PAYMENTS OR OBLIGATIONS AND HOLDERS DO NOT HAVE DIRECT RECOURSE AGAINST THE NET REVENUES OF THE CITY'S WASTEWATER SYSTEM NOR WATER SYSTEM FOR PAYMENT OF THE FINANCING PAYMENTS OR OBLIGATIONS (SEE "SECURITY FOR THE OBLIGATIONS" herein).**

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 issued in fully registered form and, when issued, will be registered in the name of Cede & Co. as owner and as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 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. Purchasers will not receive certificates representing their interest in the Obligations. See **APPENDIX E** attached hereto.

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

The Obligations are not subject to prepayment prior to maturity.

REFUNDING PLAN

The proceeds from the Obligations will refund the DEQ Loan and the OBDD Loans and pay the costs of issuing the Obligations. The Obligations are being issued so that the City can obtain a benefit of savings in total debt service requirements. The DEQ Loan may be prepaid upon 24 hours written notice to DEQ and the OBDD Loans may be prepaid without penalty upon consent of the State. On the Date of Delivery, the principal and accrued interest on the DEQ Loan and the OBDD Loans will be prepaid with bond proceeds and other funds of the City.

Refunded Loan	Principal Amount Outstanding	Principal Amount Prepaid	Prepayment Date	Prepayment Price
DEQ Loan	\$11,141,546	\$11,141,546	November 15, 2012	100%
B97001 Loan	\$759,960	\$759,960	November 15, 2012	100%
G95003 Loan	\$2,281,645	\$2,281,645	November 15, 2012	100%

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	\$11,485,000.00
Net Original Issue Premium	804,034.65
City Debt Service Fund Contribution	<u>2,385,000.00</u>
Total Sources of Funds	\$14,674,034.65
Uses of Funds:	
DEQ Loan Prepayment	\$11,329,135.00
B97001 Loan Prepayment	799,930.00
G95003 Loan Prepayment	2,395,492.69
Cost of Issuance	87,648.50
Underwriters’ Discount	56,711.55
Additional Proceeds	<u>5,116.91</u>
Total Uses of Funds	\$14,674,034.65

Source: City of Corvallis.

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EXPECTED PLAN OF REPAYMENT

The City has used net revenues of the wastewater system to pay loan payments on the DEQ Loan, and intends to continue to use net revenues of the wastewater system to pay Financing Payments attributable to the refunding of the DEQ Loan.

The City has used net revenues of the water system to pay loan payments on the OBDD Loans, and intends to continue to use net revenues of the water system to pay Financing Payments attributable to the refunding of the OBDD Loans.

Although revenues are the expected source of repayment, they are not pledged to the Obligations or Financing Payments. If wastewater revenues or water revenues are not sufficient to pay Obligation debt service, the City would use other legally available funds to pay the debt service of the Obligations. See “**The Wastewater System**” and “**The Water System**” herein.

DEBT SERVICE REQUIREMENTS

The estimated debt service schedule for the Obligations is provided in the following table.

Table 2 –Debt Service Requirements¹

FY Ending	Principal	Interest	Total
June 30			
2013		\$ 157,208	\$ 157,208
2014	\$ 2,285,000	265,900	2,550,900
2015	2,340,000	219,650	2,559,650
2016	1,560,000	180,650	1,740,650
2017	1,240,000	146,450	1,386,450
2018	1,115,000	111,125	1,226,125
2019	1,150,000	77,150	1,227,150
2020	1,190,000	42,050	1,232,050
2021	605,000	12,100	617,100
Total	\$11,485,000	\$1,212,283	\$12,697,283

1. Columns may not foot due to rounding.

Source: City of Corvallis.

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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.

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 City anticipates using net wastewater revenues from its Wastewater Fund and net water revenues from its Water Fund to pay the Financing Payments; however, such revenues are not pledged to the payment of Financing Payments or Obligations (See "The Wastewater System" and "The Water System" herein).

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.

The Obligations are not general obligations of the City, the State or any other political subdivision or municipal corporation of the State. The Obligations are secured solely by the Financing Payments and any sums realized in connection with the remedies available upon the occurrence of an event of default all as provided in the Financing Agreement.

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 REFINANCED 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. annual appropriation.

The City's obligation to make Financing Payments under the Financing Agreement is a valid and binding obligation of the City that is enforceable against the City in accordance with the terms of the Financing Agreement, 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.

Each Obligation owner is entitled proportionately to the principal component of Financing Payments due on the Payment Date, which is the same as the maturity date of the Obligations. In addition, each Obligation owner 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 the principal component attributable to such Obligations at the interest rate set forth for said principal component.

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THE CITY

GOVERNMENT

The government of the City is vested in a city council and a mayor. The nine-member council is elected by district for two-year terms. The mayor is elected at large and serves a four-year term. The mayor presides over council meetings and appoints board and commission members with the consent of the council. The city manager is the chief administrator of the City and is appointed by the City Council.

CITY COUNCIL

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

Table 3 – City Council

Ward	Board Member	Occupation	Term Expires
	Julie Manning, Mayor	Vice President for Development, Marketing and Public Relations, Samaritan Health Services	12/31/14
1	Mark O'Brien	Business owner, American Dream Pizza	12/31/12
2	Roen Hogg	State of Oregon, Employment Department	12/31/12
3	Richard Hervey	Retired engineer, CH2M-Hill	12/31/12
4	Dan Brown	Retired business professor, Oregon State University	12/31/12
5	Mike Beilstein	Retired research chemist, Oregon State University	12/31/12
6	Joel Hirsch	Self-employed musician	12/31/12
7	Jeanne Raymond	Retired teacher	12/31/12
8	Biff Traber	Retired computer scientist	12/31/12
9	Hal Brauner	Retired public administrator	12/31/12

Source: City of Corvallis.

KEY CITY ADMINISTRATION AND MANAGEMENT

Jim Patterson, City Manager, was hired as the City's manager in October 2011. Mr. Patterson's previous experience includes seven years as Sherwood, Oregon's first Urban Renewal District Manager, Assistant City Manager and City Manager. Mr. Patterson also served as an elected City Councilor for Sherwood in the 1990s and as Chair of the Parks and Recreation Board for Wilsonville, Oregon. He received a bachelor's degree in Communications from Portland State University. Mr. Patterson is a member of the Oregon City and County Management Association (OCCMA), serves on the OCCMA Board of Directors and is a member of the International City / County Management Association.

Nancy Brewer, Finance Director, began working in Corvallis in 1990. She has served as the City's Finance Director since 1993. Ms. Brewer was Administrative Assistant for the Community Development Department from September 1992 until September, 1993 and was Administrative Analyst from August 1990 to September 1992. Prior to coming to Corvallis Ms. Brewer was a Financial Analyst for the City of Wichita, Kansas. Ms. Brewer has a Masters degree in Public Administration with an emphasis in Public Policy/Public Finance and a bachelor's degree from Wichita State University in Wichita, Kansas.

Mary Steckel, Public Works Director, has been an employee of Corvallis since 1990 and has held the position of Administrative Division Manager until named Public Works Director in May 2012. Prior to coming to the City, she worked for Oregon State University. She holds a bachelor's degree in Psychology from the University of Illinois as well as certifications in Sustainability Leadership from the University of Oregon and in Public Participation from the International Association of Public Participation. She is a member of the American Public Works Association, International Association for Public Participation and International Society of Sustainability Professionals and has been active in the Corvallis community as a member of the Benton County Solid Waste Advisory Committee, the Corvallis-Benton County Library Foundation, Joint City/School District Public Access Advisory Committee and Leadership Corvallis' Curriculum Committee.

CITY STAFF AND BARGAINING UNITS

The City has 428 full-time equivalent employees in FY 2012-13. Seasonally, the City's part-time staff numbers increase for summer Parks and Recreation programs (including lifeguards) and summer work at the utilities.

Table 4 – Bargaining Units

BARGAINING UNIT	Number of Employees	Termination Date of Current Contract
Corvallis Police Officers Association	49	6/30/2011 ¹
International Association of Firefighters	54	6/30/2015
American Federation of State, County, and Municipal Employees	228	6/30/2013
Corvallis Regional Communications Center Association	17	6/30/2012 ²

1. CPOA contract has a tentative settlement; the City Council is anticipated to approve the agreement on November 5, 2012.
2. CRCCA is negotiating for a new 3-year contract with the City Management team and expects to reach agreement in the fall of 2012.

Source: City of Corvallis

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CITY FINANCIAL INFORMATION

The City has received the Government Finance Officers Association's ("GFOA") Certificate of Achievement for Excellence in Financial Reporting for twenty-three consecutive years. To be awarded the certificate, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose content conforms to program requirements and satisfies both generally accepted accounting principles and applicable legal requirements. The City has also received the GFOA Award for Distinguished Budget Presentation for twenty-five consecutive years.

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

BASIS OF ACCOUNTING

The City's governmental and agency fund types are maintained on the modified accrual basis of accounting, under which revenues are recorded at the time they become measurable and available, and expenditures when incurred. The enterprise funds are accounted for utilizing the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. The City's accounting practices conform to GAAP.

INDEPENDENT AUDIT REQUIREMENT

The Oregon Municipal Audit Law (ORS 297.405 - 297.555) requires an audit and examination to be made of the accounts and financial affairs of every municipal corporation at least once a year. Unless the municipality elects to have the audit performed by the State Division of Audits, the audit shall be made by accountants whose names are included on the roster prepared by the State Board of Accountancy.

The City's audits for fiscal years 2007-08 through 2009-10 were performed by Grove, Mueller, & Swank, P.C., independent certified public accounts, Salem, Oregon. The City's audit for the fiscal year 2010-11 was performed by Pauly, Rogers and C., P.C., Tigard, Oregon. The auditor did not review this Official Statement and offers no opinion thereto. The City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011 is included in **APPENDIX B**.

A CONSENT OF THE INDEPENDENT AUDITOR WAS NOT REQUESTED. THE AUDITOR WAS NOT REQUESTED TO PERFORM AND HAS NOT PERFORMED ANY SERVICE IN CONNECTION WITH THE OFFERING OF THE OBLIGATIONS AND IS THEREFORE NOT ASSOCIATED WITH THE OFFERING OF THE OBLIGATIONS.

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FINANCIAL DATA

Table 5 – Statement of Net Assets¹

Fiscal Year ended June 30, 2011	Governmental		Business-type		Total
Assets	<u>Activities</u>		<u>Activities</u>		
Cash and investments	\$	13,723,025	\$	19,157,725	\$ 32,880,750
Receivables (net of allowances for uncollectibles)					
Property taxes		1,199,656		-	1,199,656
Accounts		1,243,077		1,885,920	3,128,997
Accrued interest		17,296		23,644	40,940
Assessments		80,262		43,078	123,340
Franchise fees		429,107		-	429,107
Grants		1,297,291		123,580	1,420,871
Revolving loans		2,719,809		-	2,719,809
Other receivables		719,326		182	719,508
Other assets		14		-	14
Deferred charges		469,015		420,520	889,535
Property held for resale		1,040,083		-	1,040,083
Prepaid pension obligation costs		22,369,537		-	22,369,537
Other restricted assets		-		151,078	151,078
Restricted cash and investments		-		1,627,159	1,627,159
Capital assets:					
Non-depreciable		91,046,424		2,068,811	93,115,235
Other (net of accumulated depreciation)		65,985,602		130,520,353	196,505,955
Total Assets	\$	<u>202,339,524</u>	\$	<u>156,022,050</u>	\$ <u>358,361,574</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$	1,499,980	\$	848,260	\$ 2,348,240
Accrued interest		687,763		228,600	916,363
Other accrued liabilities		943,613		71,591	1,015,204
Unearned revenue		77,520		-	77,520
Noncurrent liabilities:					
Due within one year					
Accrued compensated absences		3,449,638		643,550	4,093,188
Bonds payable		2,356,767		440,000	2,796,767
Notes payable		185,000		1,982,793	2,167,793
Due in more than one year:					
Accrued compensated absences		1,817,629		339,089	2,156,718
Net OPEB obligation		3,999,238		949,702	4,948,940
Bonds payable (net of unamortized premium and deferred amount on refunding)		38,629,200		4,180,926	42,810,126
Notes payable		1,915,000		14,387,115	16,302,115
Total liabilities		<u>55,561,348</u>		<u>24,071,626</u>	<u>79,632,974</u>
Net Assets					
Invested in capital assets (net of related debt)		146,306,669		111,598,330	257,904,999
Restricted for:					
Streets and highways		2,323,260		-	2,323,260
Capital projects and construction		3,377,276		13,625,196	17,002,472
Debt service		82,505		1,778,226	1,860,731
Endowments – nonexpendable		5,000		-	5,000
Other purposes		1,555,809		-	1,555,809
Unrestricted		<u>(6,872,343)</u>		<u>4,948,672</u>	<u>(1,923,671)</u>
Total net assets		<u>146,778,176</u>		<u>131,950,424</u>	<u>278,728,600</u>
Total Liabilities and Net Assets	\$	<u>202,339,524</u>	\$	<u>156,022,050</u>	\$ <u>358,361,574</u>

1. Beginning with the audited FY 2011-12 Comprehensive Annual Financial Report, the Statement of Net Assets will be changed to Statement of Net Position in accordance with GASB requirements.

Source: City of Corvallis.

Table 6 – Property Tax Funds Combined Balance Sheets^{1,2}

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
ASSETS					
Cash/Investments	\$11,523,406	\$9,050,772	\$5,005,271	\$5,645,713	\$8,417,199
Receivables					
Property taxes	693,599	874,524	1,131,977	1,199,656	1,177,147
Accounts	910,502	766,943	821,435	881,076	1,036,854
Accrued interest	1,636	3,214	8,243	7,678	7,790
Assessments	123,824	116,280	104,606	70,698	117,791
Franchise fees	252,529	345,147	400,388	429,107	431,533
Grants	18,644	91,857	88,995	109,193	112,028
Other receivables	227,943	294,074	232,377	324,484	419,284
Property held for resale	<u>1,040,083</u>	<u>1,040,083</u>	<u>1,040,083</u>	<u>1,040,083</u>	-
TOTAL ASSETS	\$14,792,166	\$12,582,894	\$8,833,375	\$9,707,688	\$11,719,626
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$692,124	\$469,069	\$401,931	\$468,863	\$514,330
Other accrued liabilities	322,222	674,787	589,489	844,878	1,828,513
Deferred/unearned revenue	<u>2,726,702</u>	<u>2,736,740</u>	<u>3,117,310</u>	<u>3,078,868</u>	<u>2,272,357</u>
Total Liabilities	3,741,048	3,880,596	4,108,730	4,392,609	4,615,200
Fund Balances:					
Reserved:					
Capital projects and construction	372,215	251,235	350,911	-	-
Other purposes	116,846	140,939	77,074	-	-
Restricted	-	-	-	1,882,720	2,413,026
Unreserved:					
Committed	10,562,057	8,310,124	4,296,660	-	-
Assigned	-	-	-	1,273,263	1,381,453
Unassigned	-	-	-	2,271,114	2,643,314
	-	-	-	<u>(112,018)</u>	<u>666,633</u>
Total Fund Balance	<u>11,051,118</u>	<u>8,702,298</u>	<u>4,724,645</u>	<u>5,315,079</u>	<u>7,104,426</u>
TOTAL LIABILITIES AND FUND EQUITY	\$14,792,166	\$12,582,894	\$8,833,375	\$9,707,688	\$11,719,626

1. The Property Tax Funds consists of the General Fund, Parks & Recreation Fund, Fire & Rescue Fund and Library Fund. These funds receive property taxes and the City has flexibility in allocating the property taxes among these funds.
2. For fiscal years ending 2008, 2009, 2010 and 2011, the combined amounts are derived from audited numbers of the individual funds. For fiscal year ending 2012, the amounts are unaudited.

Source: City of Corvallis.

The following table reflects the Property Tax Funds Combined Revenues, Expenditures and Changes in Fund Balance for the last five years.

Table 7 – Property Tax Funds Combined Statement of Revenues, Expenditures and Changes in Fund Balance ^{1,2}

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
REVENUES:					
Taxes	\$18,701,082	\$19,107,627	\$19,622,437	\$20,921,577	\$21,747,739
Licenses, fees & permits	5,299,828	5,469,716	5,303,032	5,481,731	5,710,000
Charges for services	5,546,564	5,361,856	5,246,417	6,559,042	6,425,943
Intergovernmental	3,316,774	3,562,315	3,753,238	3,820,228	4,230,716
Fines and forfeitures	840,042	739,433	661,414	809,652	805,079
Miscellaneous	<u>811,134</u>	<u>463,960</u>	<u>495,866</u>	<u>390,621</u>	<u>524,053</u>
Total Revenues	\$34,515,424	\$34,704,907	\$35,082,404	\$37,982,851	\$39,443,530
EXPENDITURES:					
Community Development	\$ 1,254,754	1,390,460	1,453,556	1,450,222	1,256,557
Finance	515,175	565,953	585,958	576,402	659,181
Police	8,566,912	9,042,755	9,763,512	9,894,021	10,128,072
Fire & Rescue	8,793,931	9,393,963	9,868,475	9,240,854	10,462,480
Library	5,668,989	6,013,580	6,010,835	5,993,041	5,935,014
Parks & Recreation	5,114,752	5,515,991	5,631,708	5,420,677	5,672,465
Public Works	750,264	794,684	863,804	887,312	1,130,034
Non-Departmental	1,367,740	1,435,348	1,487,599	1,424,041	1,258,694
Debt Service					
Principal	-	-	-	-	185,000
Interest	-	-	-	30,389	59,422
Capital outlay	<u>613,921</u>	<u>971,445</u>	<u>1,576,925</u>	<u>1,185,815</u>	<u>633,837</u>
Total Expenditures	32,646,438	35,124,179	37,242,372	36,102,774	37,380,756
Excess (Deficiency) of Revenues Over Expenditures	<u>1,868,986</u>	<u>(419,272)</u>	<u>(2,159,968)</u>	<u>1,880,077</u>	<u>2,062,774</u>
OTHER FINANCING SOURCES (USES)					
Proceeds – sale of capital assets	30,768	15,837	10,534	21,507	41,500
Transfers in	-	-	-	345,450	1,753,523
Transfers out	(2,282,508)	(1,945,385)	(1,828,219)	(1,656,600)	(2,068,450)
Total Other Financing Sources (Uses)	<u>(2,251,740)</u>	<u>(1,929,548)</u>	<u>(1,817,685)</u>	<u>(1,289,643)</u>	<u>(273,427)</u>
Net Change in Fund Balances	<u>(382,754)</u>	<u>(2,348,820)</u>	<u>(3,977,653)</u>	<u>590,434</u>	<u>1,789,347</u>
Fund Balance - Beginning of Year	<u>11,433,872</u>	<u>11,051,118</u>	<u>8,702,298</u>	<u>4,724,645</u>	<u>5,315,079</u>
Fund Balance - End of Year	<u>\$11,051,118</u>	<u>\$ 8,702,298</u>	<u>\$ 4,724,645</u>	<u>\$5,315,079</u>	<u>\$7,104,426</u>

1. The Property Tax Funds consists of the General Fund, Parks & Recreation Fund, Fire & Rescue Fund and Library Fund. These funds receive property taxes and the City has flexibility in allocating the property taxes among these funds.
2. For fiscal years ending 2008, 2009, 2010 and 2011, the combined amounts are derived from audited numbers of the individual funds. For fiscal year ending 2012, the amounts are unaudited.

Source: City of Corvallis.

BUDGETING PROCESS

The City prepares annual budgets in accordance with provisions of the Oregon Local Budget Law (ORS 294), 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 nine council members and an equal number of laypersons. All members of the Budget Committee have an equal vote on all budget issues prior to final approval of the budget, which is through a majority vote of the City Council. All 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. After the budget hearing, the City Council considers the testimony and, if necessary, alters the budget, subject to statutory limitations, but cannot increase any taxes to be levied without further publication and hearing.

Article XI, Section 11(b) of the Oregon Constitution imposes tax rate limits on schools and non-school governments which could affect a City's ability to fully collect its authorized levy amount; however, the City has not been affected. Levies for voter-approved general obligation bonded debt for capital construction and improvements are exempt from the tax rate limitations.

Upon adoption of the budget, the City Council prepares a formal resolution which adopts the budget, authorizes taxes to be levied and sets out a schedule of appropriations. This resolution must be adopted not later than June 30. Two copies of the resolutions adopting the budget and levying taxes are submitted to the County Assessor's Office before July 15 so that the tax levy may be certified.

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Table 8 – Property Tax Funds Combined - Summary of Budgets ^{1,2}

	Actual 2010-11	Adopted Budget 2011-12	Revised Budget 2011-12	Adopted Budget 2012-13
Resources:				
Beginning Fund Balance	\$ 4,724,645	\$ 4,951,425	\$ 5,315,079	\$ 5,271,579
Property Taxes	\$19,730,852	\$20,274,090	\$20,420,530	\$21,002,640
Other Taxes	1,190,725	1,151,190	1,214,860	1,270,650
Licenses, Fees, & Permits	5,481,731	5,624,980	5,666,960	5,708,610
Charges for Service	6,559,042	5,620,200	5,978,550	6,156,500
Intergovernmental	3,820,228	4,783,920	4,232,720	4,155,100
Fines/Forfeitures	809,652	976,510	839,150	830,110
Miscellaneous	390,621	386,230	443,860	431,000
Transfers In	361,899	1,936,060	1,864,600	1,960,350
Other Financing Sources	21,507	0	36,000	885,000
Current Revenues	<u>\$38,366,257</u>	<u>\$40,753,180</u>	<u>\$40,697,230</u>	<u>\$42,399,960</u>
Total Resources	\$43,090,902	\$45,704,605	\$46,012,309	\$47,671,539
Requirements:				
Operating Budget:				
City Manager's Office	\$ 0	\$ 0	\$ 0	\$ 380,000
Community Development	1,450,222	1,356,480	1,328,480	1,311,410
Finance	576,401	677,700	677,350	629,740
Fire	10,413,154	11,384,830	11,258,800	10,449,720
Library	5,907,437	6,486,530	6,299,300	6,053,510
Parks & Recreation	5,441,267	6,096,500	6,004,310	5,928,130
Police	9,914,795	10,502,180	10,258,450	10,352,220
Public Works	945,067	1,642,760	1,234,780	1,218,900
Misc. Non-Departmental	1,424,041	1,315,950	1,279,950	1,362,100
Total Operating Budget	\$36,072,384	\$39,462,930	\$38,341,420	\$37,685,730
Non-Operating:				
Transfers Out	\$ 1,673,049	\$ 2,590,368	\$ 2,154,880	\$ 3,315,113
Other Financing Uses	0	0	0	855,000
Debt Service - Principal	0	185,000	185,000	190,000
Debt Service - Interest	30,389	59,430	59,430	53,880
Contingency	0	368,290	0	512,850
Total Non-Operating	\$ 1,703,438	\$ 3,203,088	\$ 2,399,310	\$ 4,926,843
Total Requirements	\$37,775,822	\$42,666,018	\$40,740,730	\$42,612,573
Ending Budgetary Fund Balance (including reserves)	\$5,315,080	\$3,038,587	\$5,271,579	\$5,058,966

1. The Property Tax Funds consists of the General Fund, Parks & Recreation Fund, Fire & Rescue Fund and Library Fund. These funds receive property taxes and the City has flexibility in allocating the property taxes among these funds. The combined amounts shown are derived by adding amounts from the individual funds.

Source: Derived from City of Corvallis Fiscal Year 2012-13 Adopted Budget.

FINANCIAL POLICIES

The City Council established a goal for the fiscal year 2011-12 term to create a financially sustainable City budget, and has amended compensation policies to align total employee compensation with available City revenue, and amended financial policies and strengthened fund balances and reserves policies. The City is continuing to work on developing new sources of revenue that align with the cost of desired City services. The fiscal year 2012-13 budget was developed under these new policies.

The City has a long tradition of developing and monitoring long-term financial plans for each fund. For FY 2012-13 the City's financial plan for property tax supported operations was revised to match recurring revenues with recurring expenditures to better define "a sustainable budget." This better matches on-going expenditures with revenues and removes the fluctuations that come from grants, donations, or similar one-time monies, and also pushes the use of one-time monies for one-time expenditures. Finally, this facilitates the set-aside of fund balances to build reserves as opposed to funding on-going costs.

The City Council's adopted budgetary fund balance target for the property tax funds is 3 months of payroll expenses (approximately \$6.3 million). This policy, combined with City Council work on creating a financially sustainable budget, led to the creation of a fund balance reserve as a long-term financial planning tool to secure the desired reserve. Financial policies called for a contribution of 10% of the target to create this reserve in the first year with higher proportion set-asides in subsequent years until the goal was achieved.

The City has exceeded its contribution policies. Adopted 2012-13 budget includes the financial policy proscribed contribution of \$630,000 funded from recurring revenues, and also includes over \$1.3 million from expected beginning fund balance that would push the fund balance reserve at the end of FY 2012-13 to \$1.93 million. On October 1, 2012 the City Council set aside an additional \$1 million from unexpected FY 2011-12 savings to grow the fund balance reserve to nearly \$3 million in its first year. Currently, the June 30, 2013 ending fund balance of the property tax funds combined is projected to be \$7.2 million.

INVESTMENTS

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, 2012, the City had approximately \$18,931,460 in the State of Oregon Local Government Investment Pool and a par value of \$15 million invested in U.S. Government Agency Securities.

PENSION PLAN

Substantially all City employees, after six months of employment, are participants in the Oregon Public Employees Retirement System ("PERS") Plan or the Oregon Public Service Retirement Plan ("OPSRP"). The PERS Plan is a defined benefit pension plan that provides 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. Retirement benefits for PERS Plan members are based on final average salary and length of service and are calculated under a full formula method, formula plus annuity method, or money match (defined contribution) method if a greater benefit results.

The 72nd Oregon Legislature created OPSRP. Public employees hired on or after August 29, 2003 become part of OPSRP. Beginning January 1, 2004, PERS Plan employee contributions were directed to an individual retirement account and will be part of a separate defined contribution program under OPSRP. 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.

Every two years the Public Employees Retirement Board (PERB) establishes the contribution rates that employers will pay to fund the obligations of PERS, OPSRP and the PERS-sponsored Retirement Health Insurance Account Plan ("RHIA") (See "Other Post-Employment Retirement Benefits" below). The rates are based upon the current and projected cost of benefits and the anticipated level of funding available from the Oregon Public Employee's Retirement Fund, including known and anticipated investment performance of the fund. Covered employees are required by state statute to contribute 6% of their annual salary to the PERS Plan or OPSRP, but the employer is allowed to pay any or all of the employee's contribution in addition to the required employers' contribution. The City pays the 6% contribution for the City Manager, exempt employees, and the members of the Corvallis Police Officers Association, International Association of Fire Fighters and Corvallis Regional Communications Center Association. System employers are required to remit contributions to the retirement system based on rates calculated by the PERS Board. The City's contributions to PERS for the fiscal years ending June 30, 2010, 2011 and 2012 were \$1,933,734, \$2,433,785, and \$3,767,706 respectively, equal to the required contributions for each year. The City's unaudited total payroll for the year ended June 30, 2012 was approximately \$30 million.

On September 27, 2010, the PERS actuary released the December 31, 2009 actuarial valuation report (the "2009 Valuation"). The 2009 Valuation shows that the City has a net actuarial accrued liability ("UAAL") of \$16,484,337.

The funded status of the City will change over time depending on a variety of factors, including the market performance of the securities in which PERS funds are invested.

Employer Rates. The City's current contribution rates for the period July 1, 2011 through June 30, 2013 are 7.90% of Tier I/II General Service payroll, 16.03% of Tier I/II Police and Fire payroll, 6.53% of OPSRP General Services payroll and 9.24% of OPSRP Police and Fire payroll. Contribution rates for the period July 1, 2011 through June 30, 2013 were calculated by OPERS Actuary based upon the December 31, 2009 actuarial valuation. Actuarial valuations are performed every two years.

The City's employer rate effective July 1, 2013 through June 30, 2014 will be based on the December 31, 2011 valuation which has had preliminary data released. Contribution rates are expected to increase by 4.4% of payroll for all four rates identified above; specific details of the four rates will not be available until October.

In fiscal years 2003 and 2006, the City issued pension bonds to make two lump-sum payments to PERS totaling approximately \$33.9 million; the payments were used to finance a portion of the projected allocation of its estimated UAAL. The payments reduced the City's contribution rates, although debt service payments are also due on the pension bonds.

Employer contribution rates may increase or decrease due to a variety of factors, including the investment performance of the PERS fund, the use of reserves, changes to system valuation methodology and assumptions and the outcome of litigation relating to legislative changes and PERB action.

OTHER POST-EMPLOYMENT RETIREMENT BENEFITS

Retirement Health Insurance Account. PERS retirees who receive pension benefits through the PERS plan and are enrolled in Tier I or Tier II PERS administered health insurance programs, may also 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 premiums under the Retiree Health Insurance Account (RHIA) program. RHIA's assets and liabilities are pooled on a system-wide basis. Based upon the 2009 Valuation, the City's allocated pool RHIA UAAL is \$1,010,515. Each employer contribution rate for the RHIA plan for the period July 1, 2011 through June 30, 2013 is 0.59% of Tier I and Tier II payroll, and 0.50% of OPSRP payroll, which is included in the employer contribution rates reported above. For the period July 1, 2013 through June 30, 2014, the rate is expected to increase slightly and be incorporated in the projected rate increase identified above. The valuation information for RHIA has been calculated under GASB Statement No. 43 valuation standards.

GASB 45. Oregon municipalities, including the City, are required to allow retirees and their dependents to continue to receive health insurance by paying the premiums themselves at a rate that is blended with the rate for current employees until retirees and spouses are eligible for federal Medicare coverage and until children reach the age of 18. GASB 45 refers to this as an "implicit subsidy" and requires the corresponding liability to be determined and reported. In addition, the City had bargaining agreements until 1992 that required the City to pay the medical and dental insurance premium for retirees hired before July 1, 1992 (January 6, 1992 for the IAFF unit) until the retiree reaches age 65. GASB 45 refers to this as an "explicit subsidy" and requires the corresponding liability to be determined and reported. The City has implemented GASB 45 disclosing OPEB liabilities in financial statements.

The City's actuary for its non-PERS post employment benefits ("OPEB"), Milliman, completed an actuarial valuation as of August 1, 2010, and is currently in the process of updating the valuation as of August 1, 2012 for estimating liabilities as of June 30, 2013 and 2014 respectively. The actuarial report indicates that as of August 1, 2010, based on the implicit and explicit subsidy, the City's UAAL for its non-PERS OPEB is approximately \$34,469,170, calculated using an assumed 4.0% discount rate with an unaudited annual required contribution for fiscal year 2011-2012 of approximately \$3,466,302. The City currently pays its non-PERS OPEB on a "pay-as-you-go" basis. The City currently plans to continue to pay its non-PERS OPEB on a "pay-as-you-go" basis." The following table shows the City's other post employment benefits plan schedule of funding progress:

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Asset	AAL Unit Credit	UAAL	Ratio Funded	Actual Covered Payroll	UAAL as a % of Covered Payroll
2008	August 1, 2006	\$ -	\$25,132,913	\$25,132,913	- %	\$26,385,989	95.25%
2009	August 1, 2008	-	28,083,082	28,083,082	-	27,612,464	101.70
2010	August 1, 2008	-	28,083,082	28,083,082	-	29,258,781	95.78
2011	August 1, 2010	-	34,469,170	34,469,170	-	29,865,298	115.42
2012 ¹	August 1, 2010	-	34,469,170	34,469,170	-	29,178,937	118.13

1. Unaudited.

Additional information is available in **APPENDIX B**.

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. The City obtains insurance policies from a self-insured pool and commercial suppliers and annual premiums are paid for the following coverage: real and personal property of \$184,163,730; earthquake of \$100,000,000; water damage of \$25,000,000; computer data and media / extra expense of \$1,000,000; fine art of \$1,000,000; tort liability of \$5,000,000; airport liability of \$5,000,000; honesty blanket bond of \$400,000; public official bonds of \$500,000; various real, personal and inland marine property coverage for replacement costs; and various flood coverage for city buildings. The City also carries commercial insurance for workers' compensation and employee health, life and disability coverage. No insurance claims settled in each of the past three years have exceeded policy coverage.

Oregon local public bodies are subject to the following limits on liability. The State of Oregon is subject to different limits.

Personal Injury and Death Claim. 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 Senate Bill 311. The adjustment may not exceed 3% for any year.

Property Damage or Destruction Claim. 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 Senate Bill 311. The adjustment may not exceed 3% for any year.

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REVENUE SOURCES

The City's major revenue sources include property taxes; licenses and fees; sales and services; and charges for services. Property taxes account for 17.6% of the City's total resources in the City's 2012-13 annual budget. The following section summarizes certain of the major revenue sources of the City.

PROPERTY TAXES

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 \$5.1067 per \$1,000 of assessed property value. The City is currently levying 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. In May 2011 the voters approved a three-year \$0.45 per \$1,000 local option tax levy that brings in approximately \$1.8million annually to fund services at the Chintimini Senior Center, the Osborn Aquatic Center, the Corvallis-Benton County Public Library, and to fund grants to social service agencies.

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.

The City's assessed value is stable and development activities are happening. However, the City's assessed value for 2012 grew only half a percent from the prior year. The 3% allowed increase occurred on most property but was offset by: 1) a \$63 million decrease in Hewlett-Packard's personal property value as they have terminated all manufacturing in Corvallis; 2) a \$15 million drop in utility value; and 3) \$28 million in value removed from the rolls due to change of ownership from private entities to OSU, Samaritan Health, and Benton County.

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. If the taxes on a property exceed these limits, then tax rates are compressed to that limit. Local Option Levy compresses to zero before there is any compression of Permanent Rates. The City believes that compression continues to be a low risk to the City. "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.

The City has no ability to increase its property taxes to pay the Financing Payments, but is obligated to levy the full amount of its Operating Tax Rate Limit and use the revenues from that levy to pay the Financing Payments if other funds are not available to pay the Financing Payments.

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.

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The following tables represent historical taxable property tax values for the City.

Table 9 – Assessed Value and Estimated Real Market Value¹

Fiscal Year	AV Total ¹ (000s)	Estimated RMV (000s)	AV as a % of RMV
2003	\$3,026,702	\$3,580,388	84.54%
2004	3,113,328	3,717,868	83.74
2005	3,292,880	4,299,629	76.59
2006	3,433,620	4,522,703	75.92
2007	3,476,066	5,088,443	68.31
2008	3,613,017	5,565,083	64.92
2009	3,745,146	5,946,532	62.98
2010	3,825,054	5,825,692	65.66
2011	3,999,075	5,664,529	70.60
2012	4,118,580	5,672,462	72.61
2013	4,139,865	5,496,250	75.32

1. Due to Measure 50, the growth in assessed values is limited to 3% plus any new construction and annexations, and less decreases for property depreciation. Also, the taxable assessed values and total levy figures used in the above table do not include urban renewal increment values.

Sources: Benton County Assessor's Offices.

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Table 10 – Property Tax Levies and Collections

<u>Fiscal Year</u>	<u>Real Market Value¹</u>	<u>Percent Change</u>	<u>Assessed Value¹</u>	<u>Percent Change</u>	<u>Total Levy</u>	<u>Percent Change</u>	<u>Tax Rate per \$1,000 AV</u>	<u>Total Percent Collected⁽²⁾</u>
2003	\$3,580,388	1.63%	\$3,026,702	3.55%	\$17,325,984	3.81%	5.72	99.9
2004	3,717,868	3.84	3,113,328	2.86	17,710,636	2.22	5.68	99.9
2005	4,299,629	15.65	3,292,880	5.77	18,451,963	4.19	5.60	99.9
2006	4,522,703	5.19	3,433,620	4.27	19,458,295	5.45	5.65	99.9
2007	5,088,443	12.51	3,476,066	1.24	19,611,621	0.79	5.64	99.9
2008	5,565,083	9.37	3,613,017	3.94	20,352,962	3.78	5.62	99.9
2009	5,946,532	6.85	3,745,146	3.66	21,162,976	3.98	5.64	99.8
2010	5,825,692	(2.03)	3,825,054	2.13	21,544,022	1.80	5.63	99.5
2011	5,664,529	(2.77)	3,999,075	4.55	22,383,029	3.89	5.60	99.1
2012 ⁽³⁾	5,672,462	0.14	4,118,580	2.99	25,112,165	12.19	6.09	97.7
2013 ⁽⁴⁾	5,496,250	(3.10)	4,139,865	0.51	24,106,807	(4.00)	5.81	n/a

1. In thousands of dollars.
2. Taxes are payable in three equal installments on the fifteenth of November, February and May. This percentage is as of June 30, 2012.
3. The tax rate increase for FY 2012 is due to a voter-approved local option levy.
4. The tax rate decrease for FY 2013 is due to a reduction of nearly \$1 million levied for debt service.

Source: Benton County Department of Assessment, Annual financial statements of the City of Corvallis.

Table 11 – Top 10 Property Taxpayers

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2012-2013 Assessed Value</u>	<u>Percent of City AV*</u>
Hewlett Packard Co. ¹	Electronics manufacturer	\$328,485,796	7.93%
Comcast Corporation	Cable and telecommunications	41,229,000	0.99
Pacificcorp	Utility	35,923,000	0.86
Evanite Fiber Corp.	Pipe products manufacturer	23,274,797	0.56
NW Natural	Utility	23,868,000	0.56
Avery Investments LLC	Commercial property	19,074,656	0.46
Starker Forests Inc	Forestry	23,407,088	0.56
Witham Hill Oaks Apartments LLC	Residential property	15,100,042	0.36
Suncor Partners LLC	Commercial property	11,797,364	0.28
Bender Equities Inc.	Commercial property	<u>11,558,753</u>	<u>0.27</u>
Total		\$533,718,496	12.89 %

* Total City assessed value for 2012-13 is \$4,139,865,134 .

1. On May 24, 2012 the Corvallis Gazette-Times reported that Hewlett-Packard Co. plans to cut 27,000 jobs company wide. The reduction would affect about 8% of Hewlett Packard Co.'s employees. It is unknown how the cuts would affect the Corvallis site.

Source: Benton County Department of Assessment

Table 12 – Property Tax Rates – Direct and Overlapping Governments – Tax Code Area 0901¹

Fiscal Year Ended June 30	City of Corvallis	School District No. 509J	Linn-Benton ESD (IED)	Linn-Benton Community College (LBCC)	Benton County Library	Benton County Soil & Water Dist.	Benton County	Total
2004	5.6812	7.1300	0.3000	0.6800	0.3947	-	2.8700	17.0559
2005	5.5988	7.1489	0.3049	0.6805	0.3947	-	2.4952	16.6230
2006	5.6485	6.2375	0.3049	0.6858	0.3947	-	2.4952	15.6503
2007	5.6406	6.1494	0.3049	0.6805	0.3947	-	2.4652	15.6353
2008	5.6219	7.2494	0.3049	0.6733	0.3947	0.0500	2.4652	16.7594
2009	5.6448	7.2183	0.3049	0.6767	0.3947	0.0500	3.1052	17.3946
2010	5.6251	7.6710	0.3049	0.6822	0.3947	0.0500	2.7952	17.5231
2011	5.5939	7.6546	0.3049	0.6736	0.3947	0.0500	2.8452	17.5169
2012	6.0871	7.6457	0.3049	0.6814	0.3947	0.0500	2.8852	18.0490
2013	5.8145	7.6102	0.3049	0.6754	0.3947	0.0500	2.9665	17.8162

1. Tax code area 0901 represents approximately 96.97 percent of the City's assessed value. Values include bonds and local option levy rates.

Source: Benton County Department of Assessment

LOCAL GOVERNMENT FEES AND CHARGES FOR SERVICE

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

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

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

The City currently charges and collects fines and user fees for the library district as well as parks and recreation activities, system development charges (SDC), nuisance abatement, water, wastewater and storm water utility charges and municipal court fines. License and permits include development inspection fees, land use application fees, liquor license fees, and dog licenses, among others. In fiscal year 2012, the City collected on an unaudited basis, \$33,786,005 in total fees, charges and fines, of which the non-utility metered revenue amounts included \$2,211,993 reported in the Development Services Fund, \$3,562,995 in the SDC Funds and \$5,306,529 in Franchise Fees in the General Fund.

STATE OF OREGON FUNDING

Oregon cities and counties receive a share of the revenues the State receives from taxing motor vehicle fuels. The Oregon Constitution requires that these revenues be used only to pay for costs of public roads. Oregon cities and counties also receive a share of the revenues the State receives from tobacco taxes, liquor taxes and telephone usage taxes. The State is generally not obligated to continue to provide these revenues to local governments.

In fiscal year 2012, on an unaudited basis the City collected \$1,247,010 in state shared revenues, which were deposited to the City's General Fund, \$2,967,995 in gas tax revenue which were deposited to the Street Fund for constitutionally dedicated uses, and \$531,416 in telephone usage tax revenue which were allocated to 9-1-1 services.

FEDERAL FUNDING

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

THE WASTEWATER SYSTEM

GENERAL

The following is a brief summary of the City's Wastewater System. The City anticipates using net revenues of the City's wastewater system to pay the Financing Payments attributable to the refunding of the DEQ Loan; however, such revenues are not pledged to the payment of Financing Payments. 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 for that purpose, including 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 (the "State 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 Financing Payments is a full faith and credit obligation of the City. (See "Security for the Obligations")

The City of Corvallis provides complete wastewater management services, with a system that includes over 214 miles of collection system pipes, over 14,840 connections, 5 pump stations, and two wastewater treatment plants. The City exceeds all water quality compliance requirements in its National Pollution Discharge Elimination System (NPDES) wastewater discharge permit and has won numerous awards in recognition of its outstanding compliance record, including nine gold, two silver, and two platinum awards from the National Association of Clean Water Agencies for its discharge permit compliance record since 1998.

The City Council is authorized under the state statute to fix fees and charges for use of the wastewater system. The City reviews the adequacy of the existing user fees on a regular basis to ensure that revenues will be adequate for current and planned operating and capital outlays. City staff expects the Water Fund to perform as it has historically.

The City currently has \$4,380,000 of Wastewater Revenue Bonds, Series 2006A outstanding which have a senior lien on net revenues of the Wastewater System. The City anticipates a \$15 million financing for wastewater projects in the future. See "DEBT INFORMATION - Future Financing Plan" herein.

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THE WASTEWATER FUND

Information regarding the Wastewater Fund is shown in the following tables.

Table 13 – Five-Year Wastewater Fund - Statement of Net Assets¹

As of June 30	2008	2009	2010	2011	Unaudited 2012
Current Assets					
Cash & investments	\$9,528,690	\$10,386,969	\$10,093,027	\$10,424,490	\$9,768,874
Receivables					
Accounts	789,945	841,364	856,528	863,750	960,776
Accrued Interest	3,948	6,304	15,699	15,490	14,067
Grants	-	16,463	1,646	10,171	-
Other receivables	196	186	185	182	123
Total Current Assets	10,322,779	11,251,286	10,967,085	11,314,083	10,743,840
Noncurrent Assets					
Assessments receivable	28,306	23,148	19,619	21,551	133,247
Deferred insurance costs	290,846	263,760	236,673	212,875	189,078
Other restricted assets	37	4	-	11	2
Restricted cash and investments	1,627,159	1,627,159	1,627,159	1,627,159	1,627,159
Capital assets:					
Non-depreciable	562,640	801,586	960,038	980,078	1,361,730
Other (net of accumulated depreciation)	68,549,624	66,650,732	65,625,516	64,233,352	64,290,333
Total noncurrent assets	71,058,612	69,366,389	68,469,005	67,075,026	67,601,549
Total assets	\$81,381,391	\$80,617,675	\$79,436,090	\$78,389,109	\$78,345,389
Liabilities & Net Assets					
Current Liabilities					
Accounts payable	\$ 328,674	\$ 242,183	\$ 347,907	\$ 428,755	\$ 321,272
Accrued compensated absences	256,491	319,682	320,517	290,930	325,541
Accrued interest	97,951	126,454	116,583	106,350	95,768
Other accrued liabilities	3,497	28,069	15,284	950	156,022
Bonds payable, current portion	385,000	400,000	420,000	440,000	465,000
Notes payable, current portion	1,024,991	1,062,871	1,102,152	1,142,888	1,185,130
Total current liabilities	2,096,604	2,179,259	2,322,443	2,409,873	2,548,733
Long-term Liabilities:					
Accrued compensated absences	154,869	172,522	174,397	153,292	179,544
Net OPEB obligations	-	134,817	259,064	392,946	531,063
Bonds payable (net)	5,393,509	5,009,245	4,605,044	4,180,926	3,732,995
Notes payable	14,520,220	13,457,349	12,355,197	11,212,309	10,027,179
Total Long-term liabilities	20,068,598	18,773,933	17,393,702	15,939,473	14,470,781
Total liabilities	22,165,202	20,953,192	19,716,145	18,349,346	17,019,514
Net Assets					
Invested in capital assets, net of related debt	48,079,390	47,522,853	48,103,161	48,237,307	50,241,759
Restricted					
Capital projects and construction	7,106,475	7,377,192	7,612,509	8,430,550	8,220,534
Debt service	1,627,196	1,627,163	1,627,159	1,627,159	1,627,159
Unrestricted	2,403,128	3,137,275	2,377,116	1,744,747	1,236,423
Total Net Assets	59,216,189	59,664,483	59,719,945	60,039,763	61,325,875
Total Liabilities and Net Assets	\$81,381,391	\$80,617,675	\$79,436,090	\$78,389,109	\$78,345,389

- Beginning with the audited FY 2011-12 Comprehensive Annual Financial Report, the Statement of Net Assets will be changed to Statement of Net Position in accordance with GASB requirements.

Source: Derived from audited annual financial statements, except for FY ending 2012 which is unaudited.

Table 14 – Five-Year Wastewater Fund - Statement of Revenues, Expenses, and Changes in Fund Net Assets

As of June 30	2008	2009	2010	2011	Unaudited 2012
Operating Revenues					
Charges for services	\$9,691,076	\$9,265,067	\$9,264,718	\$10,064,001	\$10,628,403
Intergovernmental	-	16,463	-	8,525	-
Fines and forfeitures	-	-	-	-	262
Miscellaneous	19,896	15,903	23,193	23,036	160,593
Total operating revenues	9,710,972	9,297,433	9,287,911	10,095,562	10,789,258
Operating Expenses					
Personal services	2,747,025	3,143,063	3,196,868	3,366,935	3,439,171
Materials and supplies	455,678	530,574	510,044	473,091	446,526
Services	413,350	333,773	625,900	604,504	714,682
Utility and overhead	1,881,803	1,911,498	1,985,607	2,024,696	2,076,478
Training and conference	28,154	29,024	22,779	31,338	25,291
Depreciation and amortization	2,244,493	2,253,861	2,271,973	2,267,516	2,280,156
Total Operating Expenses	7,770,503	8,201,793	8,613,171	8,768,080	8,982,934
Operating Income (Loss)	1,940,469	1,095,640	674,740	1,327,482	1,806,324
Non-Operating Income (Expense)					
Interest income	475,273	252,678	85,654	66,043	85,057
Interest expense	(966,962)	(949,118)	(848,716)	(783,803)	(717,616)
Gain (Loss) on disposal of capital assets	5,265	(19,993)	(648)	(418,724)	(35,439)
Total Non-Operating Income (Expense)	(486,424)	(716,433)	(763,710)	(1,136,484)	(667,998)
Income (Expense) Before Contributions and Transfers	1,454,045	379,207	(88,970)	190,998	1,138,326
Capital Contributions					
Capital assets	258,200	252,548	339,262	366,810	253,526
Total Capital Contributions	258,200	252,548	339,262	366,810	253,526
Transfers					
Transfers out	(172,379)	(183,461)	(194,830)	(237,990)	(105,740)
Change in Net Assets	1,539,866	448,294	55,462	319,818	1,286,112
Net Assets – Beginning of year	57,676,323	59,216,189	59,664,483	59,719,945	60,039,763
Net Assets – End of year	\$59,216,189	\$59,664,483	\$59,719,945	\$60,039,763	\$61,325,875

Source: Derived from audited annual financial statements, except for FY ending 2012 which is unaudited.

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Table 15 –Wastewater Fund – Summary of Budgets

Budgetary Basis	Actual	Adopted	Revised Budget	Adopted
Major Revenue Sources	FY 2010-11	Budget FY 2011-12	FY 2011-12	Budget FY 2012-13
Beginning fund balance	\$12,250,675	\$11,869,045	\$12,533,100	\$10,056,400
Revenues				
Charges for Service	\$10,064,001	\$ 9,612,110	\$ 9,802,050	\$10,130,890
Intergovernmental	8,525	0	0	0
Miscellaneous	89,079	116,780	86,610	61,500
Transfers In	772,351	3,012,270	2,976,910	1,239,520
Current Revenues	\$10,936,347	\$12,741,160	\$12,865,570	\$11,431,910
Total Resources	\$23,187,022	\$24,610,205	\$25,398,670	\$21,488,310
Requirements				
Operating Budget:				
Community Development	\$ 47,237	\$ 50,380	\$ 50,380	\$ 52,770
Public Works	6,467,622	7,264,080	6,886,420	7,608,910
Total Operating Budget	\$ 6,514,859	\$ 7,314,460	\$ 6,936,800	\$ 7,661,680
Non-Operating:				
Capital Projects	\$ 828,415	\$ 3,012,270	\$ 2,988,420	\$ 905,360
Transfers Out	1,010,341	3,165,390	3,123,010	1,356,220
Other Financing Uses	0	0	0	0
Debt Service - Principal	1,522,152	1,582,900	1,582,900	1,650,140
Debt Service - Interest	778,155	711,140	711,140	641,410
Contingency	0	181,510	0	187,580
Total Non-Operating	\$ 4,139,063	\$ 8,653,210	\$ 8,405,470	\$ 4,470,710
Total Requirements	\$10,653,922	\$15,967,670	\$15,342,270	\$12,402,390
Ending Budgetary Fund Balance (including reserves)	\$12,533,100	\$ 8,642,535	\$10,056,400	\$ 9,085,920

Source: City of Corvallis Fiscal Year 2012-13 Adopted Budget.

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THE WATER SYSTEM

GENERAL

The following is a brief summary of the City's Water System. The City anticipates using net revenues of the City's water system to pay the Financing Payments attributable to the refunding of the OBDD Loans; however, such revenues are not pledged to the payment of Financing Payments. 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 for that purpose, including 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 (the "State 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 Financing Payments is a full faith and credit obligation of the City. (See "Security for the Obligations")

The City of Corvallis provides the full range of potable water treatment services, with a system that includes over 250 miles of collection system pipes, over 16,000 connections, 10 pump stations, 8 reservoirs, and two water treatment plants. The City exceeds all water quality requirements regulated by the Safe Drinking Water Act and the Oregon Department of Human Services. The City produces a high-quality potable water supply, voted best for two years among comparable communities in Oregon.

The City Council is authorized under the state statute to fix fees and charges for use of the water system. The City reviews the adequacy of the existing user fees on a regular basis to ensure that revenues will be adequate for current and planned operating and capital outlays.

City staff expects the Wastewater Fund to perform as it has historically. There are no major capital projects anticipated in the next five years for the Water Fund.

Other than the OBDD Loans being refunded by these Obligations, there are no outstanding loans payable from water revenues.

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THE WATER FUND

Information regarding the Water Fund is shown in the following tables.

Table 16 – Five-Year Water Fund - Statement of Net Assets¹

As of June 30	2008	2009	2010	2011	Unaudited 2012
Current Assets					
Cash & investments	\$5,671,959	\$5,310,171	\$5,765,478	\$ 6,485,057	\$6,154,481
Receivables					
Accounts	821,131	850,692	713,005	763,878	901,700
Accrued Interest	939	1,873	6,222	6,217	5,123
Grants	-	18,500	23,223	25,170	4,722
Other receivables	-	-	38,635	-	-
Total Current Assets	6,494,029	6,181,236	6,546,563	7,280,322	7,066,026
Noncurrent Assets					
Assessments receivable	29,005	28,695	23,572	20,418	49,148
Deferred insurance costs	359,313	308,757	258,201	207,645	157,089
Other restricted assets	151,067	151,067	151,067	151,067	-
Capital assets:					
Non-depreciable	2,356,889	1,157,798	1,158,711	507,225	1,626,403
Other (net of accumulated depreciation)	41,608,002	43,487,881	42,923,154	43,543,967	43,614,672
Total noncurrent assets	44,504,276	45,134,198	44,514,705	44,430,322	45,447,312
Total assets	\$50,998,305	\$51,315,434	\$51,061,268	\$51,710,644	\$52,513,338
Liabilities & Net Assets					
Current Liabilities					
Accounts payable	\$ 205,314	\$ 279,263	\$ 284,637	\$ 300,032	\$ 394,696
Accrued compensated absences	218,008	260,855	258,595	259,142	255,557
Accrued interest	181,917	161,069	139,727	117,254	93,171
Other accrued liabilities	70,010	96,344	138,545	62,588	323,198
Notes payable, current portion	702,964	739,858	767,510	815,965	860,296
Total current liabilities	1,378,213	1,537,389	1,589,014	1,554,981	1,926,918
Long-term Liabilities:					
Accrued compensated absences	131,633	140,775	140,704	136,543	140,946
Net OPEB obligations	-	129,361	255,642	388,987	504,609
Notes payable	5,364,937	4,625,080	3,857,570	3,041,605	2,181,309
Total Long-term liabilities	5,496,570	4,895,216	4,253,916	3,567,135	2,826,864
Total liabilities	6,874,783	6,432,605	5,842,930	5,122,116	4,753,782
Net Assets					
Invested in capital assets, net of related debt	38,256,303	39,280,742	39,456,785	40,193,622	42,199,470
Restricted					
Capital projects and construction	4,163,051	4,313,393	4,589,429	5,093,417	4,802,599
Debt service	151,067	151,067	151,067	151,067	-
Unrestricted	1,553,101	1,137,627	1,021,057	1,150,422	757,487
Total Net Assets	44,123,522	44,882,829	45,218,338	46,588,528	47,759,556
Total Liabilities and Net Assets	\$50,998,305	\$51,315,434	\$51,061,268	\$51,710,644	\$52,513,338

1. Beginning with the audited FY 2011-12 Comprehensive Annual Financial Report, the Statement of Net Assets will be changed to Statement of Net Position in accordance with GASB requirements.

Source: Derived from audited annual financial statements, except for FY ending 2012 which is unaudited.

Table 17 – Five-Year Water Fund - Combined Statement of Revenues, Expenses, and Changes in Fund Net Assets

As of June 30	2008	2009	2010	2011	Unaudited 2012
Operating Revenues					
Charges for services	\$8,159,359	\$8,364,067	\$8,258,499	\$8,646,978	\$9,094,084
Intergovernmental	-	18,500	27,238	46,544	17,858
Fines and forfeitures	394	284	1,018	3,149	2,954
Miscellaneous	354,214	403,282	324,021	421,611	464,599
Total operating revenues	8,513,967	8,786,133	8,610,776	9,118,282	9,579,495
Operating Expenses					
Personal services	2,809,435	3,129,345	3,196,730	3,430,144	3,519,241
Materials and supplies	901,425	931,764	916,057	955,359	712,033
Services	632,433	478,347	474,809	488,888	623,156
Utility and overhead	1,774,018	1,854,987	1,906,616	1,917,113	1,985,863
Training and conference	17,410	21,056	20,587	20,420	12,730
Depreciation and amortization	1,601,358	1,635,852	1,728,779	1,716,800	1,733,391
Total Operating Expenses	7,736,079	8,051,351	8,243,578	8,528,724	8,586,414
Operating Income (Loss)	777,888	734,782	367,198	589,558	993,081
Non-Operating Income (Expense)					
Interest income	327,818	131,011	41,539	35,258	47,877
Interest expense	(327,773)	(292,358)	(257,285)	(219,235)	(178,750)
Gain (Loss) on disposal of capital assets	-	1,426	1,009	2,100	(114,650)
Total Non-Operating Income (Expense)	45	(159,921)	(214,737)	(181,877)	(245,523)
Income (Expense) Before Contributions and Transfers	777,933	574,861	152,461	407,681	747,558
Capital Contributions					
Capital assets	366,562	361,559	384,068	1,260,329	530,210
Transfers					
Transfers out	(245,672)	(177,113)	(201,020)	(297,820)	(106,740)
Change in Net Assets	898,823	759,307	335,509	1,370,190	1,171,028
Net Assets – Beginning of year	43,224,699	44,123,522	44,882,829	45,218,338	46,588,528
Net Assets – End of year	\$44,123,522	\$44,882,829	\$45,218,338	\$46,588,528	\$47,759,556

Source: Derived from audited annual financial statements, except for FY ending 2012 which is unaudited.

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Table 18 – Water Fund - Summary of Budgets

Budgetary Basis	Actual	Adopted	Revised Budget	Adopted
Major Revenue Sources	FY 2010-11	Budget FY 2011-12	FY 2011-12	Budget FY 2012-13
Beginning fund balance	\$6,146,949	\$6,257,099	\$ 6,938,119	\$ 4,725,209
Resources				
Charges for Service	\$8,646,978	\$8,857,330	\$ 8,584,730	\$ 8,971,370
Intergovernmental	46,544	33,600	37,750	0
Fines & Forfeitures	3,149	0	0	0
Miscellaneous	456,870	440,480	592,270	416,800
Transfers In	1,017,939	3,778,560	3,435,310	1,670,510
Other Financing Sources	2,100	0	0	0
Current Revenues	\$10,173,580	\$13,109,970	\$12,650,060	\$11,058,680
Total Resources	\$16,320,529	\$19,367,069	\$19,588,179	\$15,783,889
Requirements				
Operating Budget:				
Community Development	\$ 48,327	\$ 51,350	\$ 51,350	\$ 55,770
Public Works	6,806,636	8,930,510	8,157,640	7,840,490
Total Operating Budget	\$ 6,854,963	\$ 8,981,860	\$ 8,208,990	\$ 7,896,260
Non-Operating:				
Capital Projects	\$ 202,470	\$ 2,366,140	\$ 2,003,060	\$ 1,118,180
Transfers out	1,315,759	3,991,010	3,632,100	1,799,160
Debt Service	767,510	815,980	815,980	860,300
Debt Service	241,708	202,840	202,840	160,860
Contingency	0	194,670	0	194,060
Total Non-Operating	\$ 2,527,447	\$7,570,640	\$ 6,653,980	\$ 4,132,560
Total Requirements	\$ 9,382,410	\$16,552,500	\$14,862,970	\$12,028,820
Ending Budgetary Fund Balance (including reserves)	\$ 6,938,119	\$ 2,814,569	\$ 4,725,209	\$ 3,755,069

Source: City of Corvallis Fiscal Year 2012-13 Adopted Budget.

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DEBT INFORMATION

Table 19 – Debt Ratios

	Values	Per Capita	Percent of RMV
2011 Certified Population	54,520		
2012-13 Real Market Value (RMV)	\$5,496,249,969	\$100,812	100.0%
Total Direct Net Debt ¹	\$6,800,000	\$125	.12
Overlapping Debt (as of 07/23/2012)	\$64,462,940	\$1,182	1.17
Total Direct Net Debt and Overlapping Debt	\$71,262,940	\$1,307	1.30

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. The 2002A and 2005A Pension bonds are considered self-supporting bonds.

Note: Outstanding debt information is calculated as of September 27, 2012 except for the overlapping debt calculation. The overlapping debt calculation was performed by Debt Management Division, Oregon State Treasury as of July 23, 2012.

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

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. A lower limit may be applied by an individual city’s charter. 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.** A computation of the City’s general obligation debt capacity is shown below:

2012-13 RMV	\$5,496,249,969
Debt limitation (3% of RMV)	\$164,887,499
Less applicable bonded debt	<u>6,800,000</u>
Remaining legal debt capacity	\$158,087,499
Percent of limit issued	4.12%

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

Pension Bonds. ORS 238.694 authorizes local governments to issue full faith and credit obligations to pay pension liabilities without limitation as to principal amount. Pension bonds are not general obligations as defined under State law and the City is not authorized to levy additional taxes to make pension bond payments. The City issued pension bonds in 2002 and 2005. **The Obligations are not pension bonds.**

Revenue Bonds. The City may issue revenue bonds for “... any public purpose, which are secured by revenues including revenues of a public utility or system either pledged or designated to be payable for such public purpose of the public body including improvements, projects or facilities financed by the revenue bonds of the public utility or system...” pursuant to ORS 287A.150. **The Obligations are not revenue bonds.**

DEBT MANAGEMENT

The City has never defaulted on a debt obligation.

OUTSTANDING OBLIGATIONS

Table 20 – Outstanding Obligations

	Dated Date	Maturity Date	Amount Issued	Amount Outstanding ¹
GENERAL OBLIGATION BONDS				
General Obligation Advance Refunding, Series 2009	05/27/09	06/01/19	\$ 10,190,000	\$ 6,800,000
Total General Obligation Bonds			\$ 10,190,000	\$ 6,800,000
DEBT SECURED BY THE GENERAL FUND				
Limited Tax Bonds, Series 2002A (Pension Obligation)	03/01/02	01/01/30	23,913,017	22,523,842
Limited Tax Bonds, Series 2005A (Pension Obligation) ²	09/23/05	06/01/28	9,980,000	9,375,000
Total Pension Obligation Bonds			33,893,017	31,898,842
Full Faith and Credit Ref. Obligations, Series 2012 (this issue)	11/15/12	12/01/20	11,485,000	11,485,000
Total Debt Secured by the General Fund			\$ 45,378,017	\$ 43,383,842
REVENUE BONDS				
Wastewater Revenue Bonds, Series 2006A	03/01/06	05/01/20	5,410,000	4,380,000
Total Revenue Bonds			\$ 5,410,000	\$ 4,380,000
NOTES				
BOA 2010 CIP Loan ³	08/05/10	08/01/20	2,100,000	1,915,000
OBDD Loan G95003	11/13/98	12/01/14	9,479,365	2,281,645
Less: Refunded by this issue				-2,281,645
OBDD Loan B97001	09/06/96	12/01/16	2,107,000	759,960
Less: Refunded by this issue				-759,960
SRF/DEQ Sewer Rehabilitation ⁴	01/20/92	07/01/13	700,000	70,763
SRF/DEQ CSO	09/01/97	12/01/20	21,263,693	11,141,546
Less: Refunded by this issue				-11,141,546
OBDD Loan B96002 ⁵	09/06/96	12/01/16	332,240	133,201
Total Notes			\$ 35,982,298	\$ 2,118,964

1. Amount outstanding as of November 15, 2012 and includes the Obligations.
2. Issued under Oregon Local Governments pooled obligations.
3. Source of repayment is General Fund revenues.
4. Source of repayment is Wastewater Fund revenues.
5. Source of repayment is Airport Fund revenues; secured by the City's full faith and credit.

Source: City of Corvallis.

SHORT-TERM BORROWING

The City does not anticipate any short-term borrowing at this time.

Table 21 – Overlapping Debt (as of 09/24/2012)

Overlapping District	Real Market Valuation	Percent Overlapping	Gross Property-tax Backed Debt ¹	Net Property-tax Backed Debt ²
Governmental unit				
Benton County	\$ 9,361,403,057	60.59%	\$11,022,585	\$ 896,793
Benton Cty SD 509J (Corvallis)	7,167,839,102	78.64	60,222,295	60,222,295
Linn-Benton Community College	18,401,037,048	30.63	11,881,408	3,343,852
Total Overlapping Debt			\$83,126,288	\$64,462,940

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

The City anticipates a long-term financing in 2014 or 2015 to implement the DEQ mandated solution to meet the Total Maximum Daily Load (TMDL) requirements for compliance with the NPDES permit wastewater discharges to the Willamette River. The City is currently in the pre-engineering phase of a design solution, with a City Council decision on a solution anticipated in 2013. Costs for this project are currently estimated at around \$15 million depending on the preferred alternative. This financing is expected to be funded by Wastewater Fund revenues and a consultant will also review the current rate structure to ensure fixed costs are covered in base rates.

Table 22 – City Levy Election History

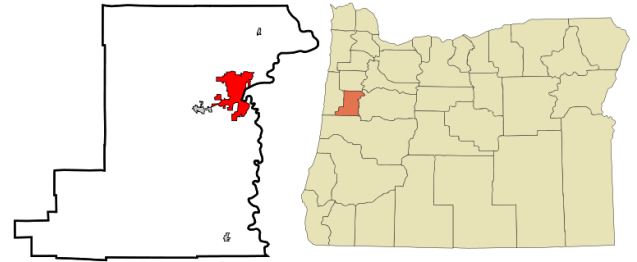
Date of Election	Type	Amount		Results	
				Yes	No
11/07/00	Open Spaces Bond	\$7,900,000	Passed	13,480	7,362
11/05/02	Operating Levy	\$0.585/\$1,000	Failed	6,859	10,724
11/04/08	Senior/Community Center and Parks Bond	\$13,610,000	Failed	11,910	13,021
11/05/12	Local Option Levy for Library, Aquatic Center & Senior Center (3 years)	\$0.45/\$1,000	Passed	8,656	4,593

Source: City of Corvallis.

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ECONOMIC AND DEMOGRAPHIC INFORMATION

Corvallis, first named Marysville, was settled in 1845. City residents petitioned to form Benton County in 1853 and the town was renamed Corvallis in 1857. The City is nestled on the banks of the Willamette River in the heart of an “emerald valley,” ideally located close to both the splendor of the Cascade Mountains and the West Coast’s beautiful Pacific shoreline. The City is a regional center for higher education, industrial technology, engineering, research, commerce, and health care. Corvallis is the Benton County seat and home of Oregon State University, the state’s leading research university. Encompassing an area of approximately 13.33 square miles, the City is the center of the Corvallis Metropolitan Statistical Area (the “MSA”) which includes Benton County.



POPULATION

The City’s 2011 population was 54,520. During the ten-year period from 2002 to 2011, the population in the City increased from 51,040 to 54,520, a compounded annual growth rate of 0.74 percent. Benton County currently ranks eleventh largest in population in the State and behind its neighbor Linn County (eighth), to the east. Since 2002, the population of Benton County grew at a compound annual growth rate of 6.82 percent. Corvallis’ unemployment rate was 6.0% in June 2012, well below the 8.5% state’s unemployment rate.

Table 23 – Population Estimates and Economic Statistics

Fiscal Year	Corvallis Population ¹	Corvallis MSA Population ¹	Corvallis MSA Personal income (in 000’s) ²	Corvallis MSA Per Capita Income ³	Corvallis MSA Unemployment rate ³
2002	51,040	79,029	\$2,506,746	31,255	5.3%
2003	52,450	79,201	2,656,749	33,076	5.8
2004	52,950	78,383	2,785,012	34,748	5.4
2005	52,590	78,640	2,707,034	33,444	4.9
2006	53,165	79,061	2,863,698	34,941	4.7
2007	53,900	81,428	3,012,941	35,969	4.1
2008	54,890	81,859	3,231,877	38,406	4.7
2009	54,880	82,605	3,120,550	36,545	7.8
2010	54,460	85,735	3,193,015	37,333	7.4
2011	54,520	85,995	NA ⁴	NA ⁴	6.6

The Federal Census figures⁵, as of April 1 of the stated year, are as follows:

	2000	2010
City of Corvallis	49,322	54,462
Corvallis MSA	78,153	85,579
State of Oregon	3,421,399	3,831,074

1. 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.
2. Bureau of Economic Analysis.
3. Per capita income and labor force data from the Oregon Employment Department.
4. Not available at this time.
5. Federal Census figures are published by the U.S. Bureau of Census. 2010 Census figures are based on the 2010 Census Redistricting Data.

Table 24 – Major Employers in the City 2011

Employer	Product or Service	2011 Estimated Employment
Oregon State University	Education	8,637
Samaritan Health Services	Medical	2,305
Hewlett Packard Co.	Electronics manufacturer	1,700 ¹
Benton County	Government	585
Corvallis School District 509J	Education	580
Corvallis Clinic	Medical	543
City of Corvallis	Government	419
CH ₂ M Hill	Engineering	400
ATS Systems Oregon	Precision manufacturing systems	200
Fiserv (formerly Summit Information Systems)	Software manufacturer	200

-
1. On May 24, 2012 the Corvallis Gazette-Times reported that Hewlett-Packard Co. plans to cut 27,000 jobs company wide. The reduction would affect about 8% of Hewlett Packard Co.'s employees. It is unknown how the cuts would affect the Corvallis site.

Source: City of Corvallis.

TRANSPORTATION

The Corvallis Transit system operates a fleet of buses including one trolley providing service on eight fixed routes, a variety of limited-service commuter and seasonal routes, as well as special events. The transit system also provides paratransit service to disabled persons who are unable to utilize the fixed route service. The Linn-Benton Loop System provides transit service at connecting points between the Corvallis Transit System and the Albany Transit System including stops at Linn-Benton Community College. Private cab and limousine service connects with commercial air service at the Eugene Airport 45 minutes to the south and the Portland International Airport two hours to the north. Greyhound Bus Lines provides commercial bus service to Eugene, Portland and other locations on the west coast.

The Corvallis Municipal Airport provides general aviation and corporate aircraft facilities. With one fixed-base operators the Corvallis Municipal Airport offers full services, including hangar space.

Amtrak provides commercial rail service in Albany located 20 minutes to the east and north of the City.

UTILITIES AND PUBLIC WORKS

Pacific Power & Light and Consumers Power provide electric service to the area and NW Natural provides natural gas. Telephone service is provided by CenturyLink (formerly Qwest). Cable TV and other cable services are provided by Comcast. Garbage pickup is provided by Allied Waste.

The City's Public Works Department provides utility (water, wastewater, storm water) and transportation services to the community. This includes water treatment and distribution and wastewater treatment and collection system operations and maintenance, street, bike facility, parking meter and traffic signal maintenance; transit service and airport management.

EDUCATION

Corvallis School District 509J enrolls approximately 7,600 students. The district has six elementary, two middle schools, two kindergarten through 8th grade schools, two high schools, three alternative schools and one charter school.

Linn-Benton Community College offers general education courses, occupational and technical preparatory training, lower division college transfer courses, skills upgrading and employee technical training. The college's Training and Business Development Center serves the needs of local businesses through workshops, seminars, training programs and counseling.

Oregon State University (OSU) is Oregon's oldest state-assisted institution of higher education. Founded in 1858 and chartered in 1868, OSU is Oregon's only Carnegie Research University. The university is Oregon's only Land Grant, Sea Grant, Sun Grant and Space Grant university. On its 500 acre campus in Corvallis, OSU offers over 200 undergraduate and graduate academic degree programs and had students in the following colleges: agricultural sciences, business, engineering, forestry, health and human performance, home economics and education, honors, liberal arts, oceanic and atmospheric

sciences, pharmacy, science, and veterinary medicine. OSU continues to see enrollment growth. Enrollment (excluding OSU – Cascade) increased 5.1%. 24,977 in Fall 2011 from 23,761 a year earlier. OSU has a target to grow to 35,000 students by 2025. OSU's faculty of 3,481 attracts more than \$200 million each year in external grants. OSU faculty are involved in developments in electronic communications, biotechnology, computer and marine science, advanced materials, family studies, and human and environmental health. OSU has acquired the vacant Nypro building to use for research and development of projects expected to become start-ups.

OSU also runs an Agricultural Experiment Station and branch stations throughout the state. Through the OSU Statewide program and Extension Service program, OSU serves citizens in all 36 counties in Oregon. OSU also operates a Cascades campus located in Bend, Oregon with an enrollment of more than 700.

HEALTH CARE

Corvallis residents' medical needs are met by over 200 physicians who practice in the region. Most of the doctors are affiliated with the Corvallis Clinic which is located next to the Good Samaritan Regional Medical Center, but a number of small private practices also provide medical care.

Good Samaritan Regional Medical Center is a subsidiary of Samaritan Health Services. It is the largest hospital in Linn, Benton and Lincoln counties and offers more than 22 medical specialties including comprehensive cancer care, a full-service cardiology and cardiac and vascular surgery program, a sleep lab, neurosurgery and other regional services. More than 2,000 employees and 275 volunteers keep the medical center running. It is licensed to operate 188 beds and is one of only three 'Level 2' trauma centers in the state. Samaritan Health Services continues to build its mid-valley presence with expansions to the hospital, new health outreach with SamFit exercise facilities, and meeting its new role as the mid-valley coordinating care organization for the Oregon Health Plan.

PUBLIC SAFETY

The Corvallis Fire Department provides services through five fire stations with approximately 66 FTE employees including firefighters and administrative staff and more than 40 volunteer support firefighters. The Corvallis Fire Department fields a comprehensive list of services designed to prevent or limit the damage caused by emergencies. In addition to emergency response services, high priority is given to proactive efforts that provide the community and rural fire district assistance with hazardous situations before they become emergencies. Services provided include the following: dealing with fire, hazardous materials emergencies, and general disasters; providing emergency and non-emergency medical assistance; assisting in abatement of hazardous conditions in occupancies and outdoor areas; and presenting disaster programs designed to enable the public to deal with fire, and medical emergencies in either a preventative or mitigating role. The Corvallis Rural Fire Protection District contracts with the City of Corvallis Fire Department to provide fire suppression services immediately outside city limits.

The Corvallis Police Department provides a full range of professional, protective and preventative police services to the citizens of Corvallis. The Department had 88.25 FTE employees including sworn officers, dispatchers, security and administrative support personnel. Emergency communication services (911) provides dispatch services for county-wide emergency service providers including police, sheriff, fire and ambulance services. Animal control, parking enforcement and non-emergency assistance are also provided. In addition, the department participates in many community outreach and safety education programs.

The Benton County Sheriff's Department provides additional public safety services throughout Benton County.

TOURISM AND RECREATION

The City receives many visitors for events and activities associated with Oregon State University. With its convenient location in the heart of the Willamette Valley, the City is a natural resting spot for visitors traveling to the central Oregon coast to the west and high desert locations to the east. Other special events occur in the area throughout the year including daVinci Days, community concerts at the LaSelles Stewart Center, events at local wineries and sporting events.

daVinci Days is a three-day festival held in the City in July, celebrating arts, science and technology. Activities include lectures by inventors and scientists, a children's village, kinetic sculpture races, musical performers and other events.

The City is home to the Corvallis Arts Center and the Corvallis-OSU Symphony.

Running and biking are favorite pastimes in Corvallis. Bike lanes are included on most streets, and there are routes along the Willamette and Mary's rivers. Trails for hiking or biking are available in Avery Park, OSU's Peavy Arboretum located eight miles north of the City or Finley National Wildlife Refuge located several miles south of the City. The Finley Refuge is a bird sanctuary that attracts many species of birds, including ducks, egrets, geese, swans, sandhill cranes, herons, plovers, sandpipers, hawks and more. The sanctuary was established to protect the winter habitat of the Canada Goose. The City is

also close to the Siuslaw National Forest, a 630,000 acre forest that includes the Oregon Dunes National Recreation Area. There are campgrounds, hiking, picnic areas, fishing, hunting, and many more activities available in the national forest.

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 Corvallis is located within Benton County and the Corvallis MSA, this statement bases information on those areas as well as the City itself.

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THE INITIATIVE AND REFERENDUM PROCESS

The Oregon Constitution, Article IV, Section 1, reserves to the people of the State the initiative and referendum power pursuant to which measures designed to amend the Oregon Constitution or enact legislation can be placed on the statewide general election ballot for consideration by the voters.

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

Referendum

“Referendum” generally refers to measures that have been passed by a legislative body, such as the Legislative Assembly or the governing body of a district, county or other political subdivision and referred to the electors by the legislative body, or by petition prior to the measure’s effective date.

In Oregon, both houses of the Legislative Assembly must vote to refer a statute or constitutional amendment for a popular vote. Such referrals cannot be vetoed by the governor. Any change to the Oregon Constitution passed by the Legislative Assembly requires referral to voters. In the case of a referendum by petition, proponents of the referendum must obtain a specified number of signatures from qualified voters. The required number of signatures is equal to four percent of the votes cast for all candidates for governor at the preceding gubernatorial election (58,142 for November 2012). There are two legislative referrals on the November 6, 2012 General Election ballot. Some measures, if approved by the voters, may have a financial impact on the City. The likelihood of voter approval or the amount of fiscal impact, if any, is currently unknown.

Initiatives

“Initiative” generally means a new measure placed before the voters as a result of a petition circulated by one or more private citizens.

Any person may file a proposed initiative with the Oregon Secretary of State’s office. The Oregon Attorney general is required by law to draft a proposed ballot title for the initiative. Public comment on the draft ballot title is then solicited by the Secretary of State. After considering any public comments submitted, the Attorney General will either certify the draft ballot title or revise the draft ballot title. Any elector that submitted written comments who is dissatisfied with the ballot title certified by the Attorney General may petition the Oregon Supreme Court seeking a revision of the certified ballot title.

Once the ballot title has been certified and the Secretary of State has authorized the petitioners, the proponents of the initiative may start gathering initiative petition signatures from qualified voters. The number of signatures required is determined by a fixed percentage of the votes cast for all candidates for governor at the preceding gubernatorial election. The signature requirements are eight percent for a constitutional measure (116,284 signatures for November 2012) and six percent for a statutory initiative (87,213 signatures for November 2012).

The initiative petition must be filed with 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 a person circulating initiative petitions to pay money to obtain signatures for the petition. If the person obtaining signatures is being paid, the signature sheet must contain a notice of such payment.

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The number of initiatives that have been approved in general elections since 2002 are as follows:

HISTORICAL INITIATIVE PETITIONS

Number of Year of General Election	Number of Initiatives that Qualified	Initiatives that were Approved
2012 ⁽¹⁾	7	NA
2010	4	2
2008	8	0
2006	10	3
2004	6	2
2002	7	3

- (1) Seven initiative measures have qualified for the November 6, 2012 General Election ballot. Some measures, if approved by the voters, may have a financial impact on the City. The likelihood of voter approval or the amount of fiscal impact, if any, is currently unknown.

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.*

CITY CHARTER

In addition to statutory and constitutional changes by the Legislative Assembly and the initiative and referendum process, the independent basis of legislative authority has been granted to cities in Oregon by municipal charters. The City Charter is available at the City's website.

LEGAL MATTERS AND LITIGATION

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of Obligations are subject to the approving legal opinion of Special Counsel, substantially in the form attached hereto as **APPENDIX C**. Special Counsel has reviewed this document only to confirm that the portions of it describing the Obligations and the authority to issue them conform to the Obligations and the applicable laws under which they are issued.

LITIGATION

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

TAX MATTERS

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Obligations in order for interest on the Obligations to be and remain excluded from gross income under Section 103 of the Code for federal income tax purposes. Noncompliance with such requirements could cause interest on the Obligations to be included in gross income under Section 103 of the Code for federal income tax purposes retroactive to the issue date of the Obligations irrespective of the date on which such noncompliance occurs or is discovered. These requirements include, but are not limited to, limitations on the use and expenditure of gross proceeds of the Obligations, limitations on the investment of gross proceeds of the Obligations and a requirement that excess arbitrage earned on the investment of gross proceeds of the Obligations be rebated on a periodic basis to the federal government under certain circumstances. The City has covenanted to comply with applicable tax requirements of the Code.

In the opinion of Mersereau Shannon LLP, Special Counsel to the City, under existing law and assuming continuing compliance by the City with certain tax covenants, interest on the Obligations is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

In the further opinion of Special Counsel to the City, under existing law, interest on the Obligations is exempt from present personal income tax imposed by the State of Oregon.

Special Counsel expresses no opinion on any other federal, state or local tax consequences arising with respect to ownership of the Obligations. Special Counsel renders its opinion under existing law as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may occur or for any other reason. Special Counsel has not undertaken to advise in the future whether any events after the date of execution and delivery of the Obligations may affect the tax status of the Obligations. In rendering its opinion, Special Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Obligations, and Special Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Obligations from gross income under Section 103 of the Code.

Although Special Counsel has rendered an opinion that the interest on the Obligations is excluded from gross income for federal income tax purposes, prospective purchasers of the Obligations should be aware that ownership of the Obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, property and casualty insurance companies, corporations (including S corporations and foreign corporations), recipients of Social Security and Railroad Retirement benefits, individuals otherwise eligible for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Prospective purchasers of the Obligations should consult their tax advisors with respect to all such possible collateral consequences and as to the treatment of interest on the Obligations under the tax laws of any state other than Oregon.

PREMIUM

An amount equal to the excess of the purchase price of a Obligation over its stated redemption price at maturity constitutes premium on that Obligation. A purchaser of a Obligation must amortize any premium over that Obligation's term using constant yield principals, based on the Obligation's yield to maturity. As premium is amortized, the purchaser's basis in the Obligation and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Obligation prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Obligations at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and the state and local tax consequences of owning such Obligations.

FUTURE AND PROPOSED FEDERAL LEGISLATION

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Obligations to be subject, directly or indirectly, to federal income taxation, alter or amend the current federal and state tax status of the Obligations, adversely affect the marketability or market value of the Obligations or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of the interest on the Obligations. For example, on September 12, 2011, the Obama Administration announced a legislative proposal entitled the American Jobs Act of 2011. If enacted, the Jobs Bill could adversely impact the marketability and market value of the Obligations and prevent certain bondholders (depending on the financial and tax circumstances of the particular bondholder) from realizing the full benefit of the tax exemption of interest on the Obligations. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Other proposals have been made that could significantly reduce the benefit or otherwise affect the exclusion from gross income of interest on obligations like the Obligations. The introduction or enactment of any such proposals, clarification of the Code or court decisions may also affect the market price for or marketability of the Obligations. It cannot be predicted whether any regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Obligations would be impacted thereby. Prospective purchases of the Obligations should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

RATING

Moody's Investors Service has assigned a rating of Aa3 to the Obligations. An explanation of the significance of the rating can be obtained from the rating agency. There are no assurances that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may adversely affect the market price of the Obligations.

UNDERWRITING

Robert W. Baird & Co., Incorporated, acting as underwriter, successfully bid for the Obligations in a competitive sale on November 1, 2012. The bid provides that the underwriter will purchase all of the Obligations, if any Obligations are purchased, at a price of 106.507 percent of the par value of the Obligations. The Obligations will be re-offered at an average price of 107.001 percent of the par value of the Obligations. After the initial public offering, the public offering prices may vary from time to time.

FINANCIAL ADVISOR

The City has retained Western Financial Group, LLC (the “Financial Advisor”), as financial advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Obligations. The Financial Advisor is not obligated to undertake, and has not undertaken, to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

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 and has not failed to comply with any prior Continuing Disclosure Certificate within the past five years.

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 CORVALLIS

By: /s/ Nancy Brewer

Authorized Representative

APPENDIX A
FORM OF FINANCING AGREEMENT AND FORM OF ESCROW AGREEMENT

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TAX-EXEMPT FINANCING AGREEMENT

between

**CITY OF CORVALLIS
BENTON COUNTY, OREGON**

“City”

and

WELLS FARGO BANK, NATIONAL ASSOCIATION

“Escrow Agent”

Relating to

\$11,485,000

**City of Corvallis
Benton County, Oregon
Full Faith and Credit Refunding Obligations
Series 2012**

Dated as of November 15, 2012

MERSEREAU SHANNON LLP

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TAX-EXEMPT FINANCING AGREEMENT

This Tax-Exempt Financing Agreement is dated as of November 15, 2012, and is entered into by and between **CITY OF CORVALLIS, BENTON COUNTY, OREGON** (the "City") and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Escrow Agent (the "Escrow Agent"). The parties hereby agree as follows:

ARTICLE I - RECITALS, DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01 Recitals.

(a) The City recites:

The City is authorized to enter into financing agreements to finance and refinance authorized projects pursuant to ORS 271.390, 287A.315 and 287A.360 and executes this Financing Agreement to finance and refinance the Project pursuant to these statutes.

(b) The City and the Escrow Agent recite:

The Escrow Agent agrees that the Financing Amount (defined herein) shall be used to (i) refinance the Refunded Obligations, and (ii) pay the costs of issuance of the Series 2012 Obligations.

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

Section 1.02 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 given those terms in this Section 1.02:

"Escrow Agreement" means the Escrow Agreement relating to the City's Full Faith and Credit Refunding Obligations, Series 2012, which is dated November 15, 2012, as it may be amended or supplemented.

"Financing Agreement" means this Tax-Exempt Financing Agreement, including the exhibits attached to this Tax-Exempt Financing Agreement and any amendments to this Tax-Exempt 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.

"Obligations" means the Series 2012 Obligations, authorized by Section 2.01 of the Escrow Agreement.

Section 1.03 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, WARRANTIES AND COVENANTS OF CITY AND ESCROW AGENT

Section 2.01 Representations, Warranties and Covenants of City.

The City represents, covenants and warrants for the benefit of the Escrow Agent and its assignees as follows:

- (a) The City is a political subdivision of the State of Oregon.
- (b) The City is authorized under ORS 271.390, 287A.315 and 287A.360 and Resolution No. 2012-22 adopted by the City Council of the City on August 20, 2012, 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), and the City has complied and will comply with such public bidding or other procurement requirements which apply to this Financing Agreement and the Escrow Agreement.
- (d) All Financing Payments and deposits required by Section 3.02(b) below and the Additional Charges required by Sections 3.02(c)(ii), and 3.02(c)(iii) below shall be paid to the Escrow Agent at the designated corporate trust office set forth in Section 11.02 of the Escrow Agreement.

Section 2.02 Representations, Warranties and Covenants of Escrow Agent.

The Escrow Agent represents, covenants and warrants for the benefit of the City as follows:

- (a) The Escrow Agent is a national banking association, duly organized and existing under the laws of the United States of America and authorized to exercise escrow powers, having a corporate trust office in Portland, Oregon, 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, charter or bylaws of the Escrow Agent.
- (c) The execution, delivery and performance by the Escrow Agent of the Escrow Agreement, the Obligations, 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 2.03 Tax Covenants.

To maintain the exclusion from gross income for federal income tax purposes of the interest component of each Financing Payment due under this Financing Agreement, the City covenants to (1) comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code; (2) to comply with any covenants related to the tax-exempt status of the interest components of Financing Payments that are contained in any of the certificates or other documents executed by the City in connection with the delivery of this Financing Agreement and the Obligations; and (3) pay, when due, all rebates, if any, on the gross proceeds of the Obligations which are required under Section 148 of the Code. The Escrow Agent hereby agrees to comply with any reasonable instructions received from the City in order to maintain such exclusion.

ARTICLE III - THE FINANCING AND THE PAYMENTS

Section 3.01 The Financing.

The Escrow Agent agrees that the Financing Amount (defined herein) shall be deposited directly to the general funds of the City, other than accrued interest which shall be deposited to the Payment Account, but solely from the proceeds of sale of the Obligations as provided in this Financing Agreement and the Escrow Agreement. This financing to the City will be deemed to have been made when the deposits and transfers to the City which are specified in this Section 3.01 are made. The City agrees to borrow the Financing Amount 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 Agreement shall commence on the Closing Date and shall end on the date all Financing Payments and Additional Charges which the City is required to pay under this Financing Agreement have been paid or defeased in accordance with Section 11.01 of the Escrow Agreement. The Escrow Agent is not selling, arranging for sale or establishing the terms of the Obligations.

Section 3.02 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 the scheduled Payment Date shown in Exhibit A.

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 one (1) Business Day preceding the scheduled Payment Date. Each deposit made under this Section 3.02(b) shall be applied toward Financing Payments due from the City as provided in the Escrow Agreement.

In making deposits under this Section 3.02(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) 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 which are required to be paid under Section 148(f) of the Code;

(ii) to the extent permitted by law, all reasonable costs and expenses which 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 reasonable fees, costs and expenses of the Escrow Agent including those of its counsel, and the reasonable fees, costs and expenses of any successor Escrow Agent.

(d) Additional Charges shall be paid by the City when due, 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 Section 3.02(c)(i) above shall be paid to the United States. Additional Charges described in Sections 3.02(c)(ii) and 3.02(c)(iii) above shall be paid to the Escrow Agent.

(e) If the date for making any payment or the last day for performance of any act or the exercise of any right, as provided in this Financing Agreement, is not a Business Day, such payment may be made or act performed or right exercised on the next succeeding day which is not a legal holiday or a day on which such banking institutions are authorized by law to remain closed with the same force and effect as if done on the nominal date provided in this Financing Agreement.

Section 3.03 Prepayment. The Obligations are not subject to optional prepayment prior to maturity.

Section 3.04 Nature of City's Obligations.

(a) The City hereby pledges its full faith and credit and all or any portion of the City's general non-restricted revenues, and other funds which may be available for that purpose, including taxes levied within the restrictions of Section 11 and 11b, Article XI of the Constitution of the State of Oregon to pay amounts due under the Financing Payments.

(b) To the extent permitted by law, the City hereby covenants to budget and appropriate in each fiscal year, in accordance with the law, sums sufficient to pay when due the Financing Payments and other amounts due under this Financing Agreement.

(c) 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.

(d) 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 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) annual appropriation.

Section 3.05 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 4.01 By the Escrow Agent.

The Escrow Agent may assign its rights under this Financing Agreement only as specifically permitted by the Escrow Agreement.

Section 4.02 By the City.

The rights and obligations of the City under this Financing Agreement shall not be sold, assigned or transferred.

ARTICLE V - TITLE; FUTURE ENCUMBRANCES AND PARITY OBLIGATIONS

Section 5.01 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 5.02 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, subject only to the City's obligations under Sections 2.01 and 2.03 above. The City reserves the right to commit its full faith and credit and available general funds for other purposes without limitation.

Section 5.03 Maintenance; Modification; Taxes; and Other Matters.

The City will pay, or cause to be paid, all taxes, insurance and other governmental charges that are lawfully assessed or levied against the Project or Project facilities. The City will also pay, when due,

all utility charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project facilities. The City has the sole responsibility to maintain, repair and make improvements and additions to the Project facilities.

The Escrow Agent shall have no obligation to maintain or modify the Project facilities, or to pay any taxes, fees or charges associated with the Project or the Project facilities, or to obtain insurance coverage for the Project or to take any action related to the Project or the Project facilities.

ARTICLE VI - EVENTS OF DEFAULT AND REMEDIES

Section 6.01 Events of Default Defined.

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:

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

(b) Except as provided in Section 6.02 below, failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed (other than as referred to in subparagraph (a) above) under this Financing Agreement for a period of 60 days after written notice to the City by the Escrow Agent, specifying such failure and requesting that it be remedied; 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;

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

(d) 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

(e) Any statement, representation or warranty made by the City in or pursuant to the Financing Agreement or Escrow Agreement shall have proven to be false, incorrect, misleading or breached in any material respect on the date when made.

Section 6.02 Force Majeure.

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 obligation of the City to pay the Financing Payments when due, 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, the State of Oregon or of the county 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 other cause or event not reasonably within the control of the City.

Section 6.03 Remedies on Default.

(a) Whenever any event of default referred to in Section 6.01 above shall have happened and be continuing, the Escrow Agent may (and shall, upon being indemnified to its satisfaction, upon written request of the Owners representing not less than a majority in aggregate principal amount of the Obligations Outstanding), without any further demand or notice, exercise any remedy described in Section 9.02 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 6.02 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 7.01 Notices.

All notices or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by first class or registered mail, postage prepaid, to (unless the addressee has previously notified the other party in writing of a change in address):

Escrow Agent: Wells Fargo Bank, National Association
1300 SW 5th Avenue, 11th Floor MAC P6101-114
Portland, Oregon 97201
Attention: Corporate Trust Services

With a copy to:
Wells Fargo Bank, National Association
Attn: Paying Agent Services
625 Marquette Avenue, 11th Floor
MAC N9311-110
Minneapolis, MN 55479
Telephone: (612) 316-1770
Facsimile: (855) 579-4534

City: City of Corvallis
501 SW Madison Avenue
P.O. Box 1083
Corvallis, OR 97339-1083
Attn: Finance Director

Section 7.02 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 7.03 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 7.04 Amendments.

This Financing Agreement may be amended only as provided in Article VII of the Escrow Agreement.

Section 7.05 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 7.06 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 an appropriate court of the State of Oregon.

Section 7.07 The Escrow Agent.

The Escrow Agent shall have the same rights, protections, immunities and indemnities hereunder as afforded to it under the Escrow Agreement.

Section 7.08 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 appear on the following 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 representative, all as of the date first above written.

**CITY OF CORVALLIS
BENTON COUNTY, OREGON**

By: _____
Authorized Representative

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

By: _____
Authorized Officer

EXHIBIT A
FINANCING PAYMENTS

Date	Principal Component	Coupon	Interest Component	Total Payment
06/01/2013			\$ 157,208.34	\$ 157,208.34
12/01/2013	\$ 2,285,000.00	2.000%	144,375.00	2,429,375.00
06/01/2014			121,525.00	121,525.00
12/01/2014	2,340,000.00	2.000%	121,525.00	2,461,525.00
06/01/2015			98,125.00	98,125.00
12/01/2015	1,560,000.00	2.000%	98,125.00	1,658,125.00
06/01/2016			82,525.00	82,525.00
12/01/2016	1,240,000.00	3.000%	82,525.00	1,322,525.00
06/01/2017			63,925.00	63,925.00
12/01/2017	1,115,000.00	3.000%	63,925.00	1,178,925.00
06/01/2018			47,200.00	47,200.00
12/01/2018	1,150,000.00	3.000%	47,200.00	1,197,200.00
06/01/2019			29,950.00	29,950.00
12/01/2019	1,190,000.00	3.000%	29,950.00	1,219,950.00
06/01/2020			12,100.00	12,100.00
12/01/2020	605,000.00	4.000%	12,100.00	617,100.00
TOTAL	\$11,485,000.00		\$1,212,283.34	\$12,697,283.34

ESCROW AGREEMENT

between

WELLS FARGO BANK, NATIONAL ASSOCIATION

“Escrow Agent”

and

**CITY OF CORVALLIS
BENTON COUNTY, OREGON**

“City”

Relating to

\$11,485,000

**City of Corvallis
Benton County, Oregon
Full Faith and Credit Refunding Obligations
Series 2012**

Dated as of November 15, 2012

MERSEREAU SHANNON LLP

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ESCROW AGREEMENT

THIS ESCROW AGREEMENT, dated November 15, 2012, is entered into by and between **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association, organized under the laws of the United States, qualified to exercise escrow powers and having a corporate trust office in Portland, Oregon, as Escrow Agent (herein referred to as the “Escrow Agent”), and **CITY OF CORVALLIS, BENTON COUNTY, OREGON** (herein referred to as the “City”). The parties hereby agree as follows:

ARTICLE I - DEFINITIONS; RECITALS; AND TRANSFER OF RIGHTS

Section 1.01 Definitions.

Unless the context clearly requires otherwise, capitalized terms not defined in this Section 1.01 shall have the meanings defined for such terms in the Financing Agreement (defined herein). Capitalized terms used in this Escrow Agreement which are defined in this Section 1.01 shall have the following meanings, unless the context clearly requires otherwise:

“Additional Charges” means the amounts specified as such pursuant to Section 3.02(c) of the Financing Agreement.

“Annual Debt Service” shall mean the amount required in a given fiscal year for the payment of the principal of (including any mandatory sinking fund installment on any term obligations due in such year) and interest on any Outstanding Obligations, except interest to be paid from the proceeds of any Obligations.

“Authorized Representative” means the City Manager or Finance Director of the City or any designee of the City Council which shall be authorized to act under this Escrow Agreement or the Financing Agreement.

“B97001 Loan” means the City’s State of Oregon, Oregon Economic Development Department, Special Public Works Fund Loan Agreement No. B97001, dated September 6, 1996, as amended as of August 7, 1998, with the Oregon Business Development Department (formally Oregon Economic Development Department).

“Beneficial Owner” means the Beneficial Owner of the Obligations as described in Section 2.03 below.

“Business Day” means any day other than (i) a Saturday or a Sunday, (ii) a day on which the Federal Reserve System is closed; (iii) a day on which commercial banks in the city or cities in which are located the office of the Escrow Agent are authorized or required by law or executive order to close; or (iv) a day on which the New York Stock Exchange is closed.

“City” means City of Corvallis, Benton County, Oregon.

“Closing Date” means the day on which the Obligations are delivered to their original purchasers in exchange for payment.

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

“Council” means the City Council of the City.

“Defeasance Obligations” means direct non-callable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the U.S. Treasury, and CATS and TGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

“DEQ Loan” means the City’s State of Oregon, Department of Environmental Quality, Clean Water State Revolving Fund Loan Agreement No. R24481, dated as of September 1, 1997, as amended as of January 10, 1999, and October 29, 1999, with the Oregon Department of Environmental Quality.

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

“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 9.01 below of this Escrow Agreement.

“Financing Agreement” means the Tax-Exempt Financing Agreement which is dated November 15, 2012 and is 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, as shown in Exhibit A to the Financing Agreement.

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

“G95003 Loan” means the City’s State of Oregon, Oregon Economic Development Department, Water/Wastewater Financing Program Loan Agreement No. G95003, dated November 2, 1994, as amended as of November 13, 1998, with the Oregon Business Development Department.

“OBDD Loans” means collectively, the B97001 Loan and the G95003 Loan.

“Obligations” means the Full Faith and Credit Refunding Obligations, Series 2012.

“Obligation Register” means the records kept for the registration of Obligations by the Escrow Agent pursuant to Section 2.09 below.

“ORS” means Oregon Revised Statutes.

“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:

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

(ii) Obligations for the payment of which funds or Defeasance Obligations in the necessary amount have previously been deposited with the Escrow Agent (whether upon or prior to the maturity date of such Obligations); and,

(iii) Obligations in lieu of or in exchange for which other Obligations have previously been executed and delivered by the Escrow Agent pursuant to Section 2.07 below.

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

“Payment Account” means the account established pursuant to Section 3.01 hereof.

“Payment Date” means the date upon which any Financing Payment is due and payable, as provided in Exhibit A to the Financing Agreement.

“Project” means the refunding of 1) the City’s Loan Agreement No. R24481, dated as of September 1, 1997, as amended, with the Oregon Department of Environmental Quality (the “DEQ Loan”), 2) the City’s Loan Agreement No. B97001, dated September 6, 1996, as amended, with the Oregon Economic Development Department (the “B97001 Loan”) and 3) the City’s Loan Agreement No. G95003, dated November 2, 1994, as amended, with the Oregon Business Development Department (the “G95003 Loan, collectively with the B97001 Loan, the “OBDD Loans.”)

“Qualified Investments” means the investments allowable under Oregon Revised Statutes Section 294.035 and the City’s investment policy, both as amended from time to time, in which the City may invest surplus funds.

“Record Date” means the 15th day of the month immediately preceding a Payment Date, whether or not such date is a Business Day.

“Refunded Obligations” shall have the meaning ascribed thereto in Section 1.02 of this Escrow Agreement.

“Registered Owner” or “Owner” means the Registered Owner as described in Section 2.03 below.

“Responsible Officer” means, when used with respect to the Escrow Agent, any vice president, assistant vice president or other officer of the Escrow Agent within the corporate trust office specified in Section 12.02(i) (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the corporate trust office specified in Section 12.02(i) because of such person’s knowledge of and familiarity with the particular subject and having direct responsibility for the administration of this Escrow Agreement.

“Special Counsel” means Mersereau Shannon LLP, or other nationally recognized bond counsel appointed by the City.

Section 1.02 Recitals.

(i) The City is authorized to refund outstanding obligations pursuant to ORS 271.390, 287A.315 and 287A.360 and executes this Financing Agreement to refund the DEQ Loan and the OBDD Loans. The DEQ Loan and the OBDD Loans being refunded are hereinafter collectively referred to herein as the “Refunded Obligations.”

(ii) The Council authorized in Resolution 2012-22 adopted on August 20, 2012 the refunding of the Refunded Obligations. The Escrow Agent and the City have entered into the Financing Agreement in which the Escrow Agent has agreed that proceeds of the Obligations shall be used to refund the Refunded Obligations and pay the costs of issuance of the Obligations in accordance with the terms of the Financing Agreement, and the City has agreed to borrow those amounts to refund the Refunded Obligations.

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

The Escrow Agent recites that it has placed its rights under the Financing Agreement, including the right to receive Financing Payments, in escrow 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 proportionate interests in the Financing Payments.

The City and the Escrow Agent hereby agree that the following rights (the “Security”) shall be held in escrow exclusively for the proportionate benefit of the Owners as provided in this Escrow Agreement:

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

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

ARTICLE II - THE SERIES 2012 FULL FAITH AND CREDIT REFUNDING OBLIGATIONS

Section 2.01 Authorization, Delivery and Terms of Obligations.

The Escrow Agent is hereby authorized and directed to prepare, authenticate and execute the Obligations in the aggregate principal amount shown in Exhibit A to the Financing Agreement. The Escrow Agent agrees to apply the Financing Payments as provided in this Escrow Agreement. The Obligations shall be in substantially the form shown in Exhibit A hereto. The Escrow Agent is hereby authorized and directed to enter into the Financing Agreement with the City.

The Escrow Agent shall hold the Obligations in custody subject to its Fast Automated Securities Transfer agreement with DTC upon receipt of the proceeds of the sale of the Obligations.

The Obligations shall be dated, shall mature on the dates and in the stated principal amounts, and accrete interest as shown in Exhibit A to the Financing Agreement. The interest on the principal components of the Financing Payments shall be calculated on the basis of a 360-day year of twelve 30-day months.

Section 2.02 Payment of Obligations.

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

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

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

The City shall pay the Financing Payments to the Escrow Agent in immediately available funds as provided in the Financing Agreement. The Escrow Agent shall transfer the Financing Payments to the Owners as provided in this Escrow Agreement.

Section 2.03 Book-Entry Only System.

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

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 2.03. The Escrow Agent shall authenticate and deliver printed Obligations to such Owners.

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 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 Obligation Register maintained by the Escrow Agent, of any notice with respect to the Obligations; or

(iii) the payment to any participant, correspondent, or any other person other than the

Owner of the Obligations as shown in the Obligation Register maintained by the Escrow Agent, of any amount with respect to principal, premium, if any, or interest with respect to the Obligations.

Notwithstanding the book-entry-only system, the City and the Escrow Agent may treat and consider the person in whose name each Obligation is registered in the Obligation Register 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 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 to the Escrow Agent, who then shall pay such amounts only to or upon the order of the Owners, as shown in the Obligation Register 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.

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.

Section 2.04 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 maturity. The Obligations and the form of assignment shall be substantially in the form set forth in Exhibit A hereto. The Obligations shall be numbered consecutively beginning with R-1.

Section 2.05 Execution.

The Obligations shall be executed by and in the name of the Escrow Agent by the manual 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 which are substantially in the form set forth in Exhibit A hereto and which have been manually authenticated by the Escrow Agent shall be valid for any purpose or entitled to the benefits of this Escrow Agreement.

Section 2.06 Registration of Transfer and Exchange.

The provisions of this Section 2.06 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 designated by the Escrow Agent for

a like aggregate principal amount of Obligations or other authorized denominations of the same maturity. 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 maturity, for like aggregate principal amount; provided that the Escrow Agent shall not be required to register transfers or make exchanges of Obligations after the fifteenth (15th) day of the month prior to any Payment Date.

Section 2.07 Mutilated, Lost, Destroyed or Stolen Obligations.

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 maturity 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.

If any Obligation is lost, destroyed or stolen, evidence of such loss, destruction or theft may 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 maturity and numbered as the Escrow Agent shall determine in lieu of and in substitution for the Obligation so lost, destroyed or stolen.

The Escrow Agent may require payment of an appropriate fee for each new Obligation delivered under this Section 2.07 and of the expenses which may be incurred by the Escrow Agent in carrying out the duties under this Section 2.07.

Section 2.08 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 2.09 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 during regular business hours of the Escrow Agent upon one (1) Business Day's notice shall be open to inspection by the City.

Section 2.10 Prepayment.

The Obligations are not subject to optional prepayment prior to maturity.

Section 2.11 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 2.11 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 designated by the Escrow Agent.

ARTICLE III - ACCOUNTS

Section 3.01 Payment Account.

The Payment Account is hereby affirmed, created or established with the Escrow Agent. 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.

To secure the payment of Financing Payments, on a semiannual basis the City shall transfer the deposits described in Section 3.02(b) of the Financing Agreement to the Escrow Agent. The Escrow Agent shall credit those deposits to the Payment Account and shall invest such amount at the written direction of the City in Qualified Investments provided such funds must be available for payment to Owners on the Payment Date. In the event the Escrow Agent does not receive written direction regarding investments, then the deposits shall remain in cash.

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.

If on any Payment Date, the amount then due and payable exceeds the amounts deposited with the Escrow Agent and available therefor, the Escrow Agent shall apply such money as provided in Section 9.05 of this Escrow Agreement.

Any amounts in the Payment Account on any Payment Date in excess of the amount necessary to pay the principal and interest components of the Financing Payments shall be retained in the Payment Account and upon written direction of the City, invested in accordance with Section 4.02 of this Escrow Agreement until needed for payment of the Obligations; the excess and any earnings thereon shall be credited against the deposits due from the City as provided in the Financing Agreement. The Escrow Agent shall provide the City, not less than 30 days before each date a deposit is required under the Financing Agreement, an invoice which sets forth the amount of the next deposit.

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 payment of all Financing Payments having been made to the satisfaction of the Escrow Agent in accordance with Section 11.01 below hereof, shall be remitted to the City.

The City may establish such additional accounts and subaccounts for the purpose of identifying more precisely the sources of payments and disbursements required hereunder. The establishment of any such additional accounts or subaccounts shall not alter any of the requirements of this Escrow Agreement with respect to the deposit or use of moneys hereunder.

Nothing contained in this Escrow Agreement shall cause the Escrow Agent to risk or expend its own funds or otherwise incur any financial liability.

Section 3.02 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 were 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 3.03 Deposits at Closing.

The net proceeds of the Obligations deposited with the City shall be (1) used to refund the Refunded Obligations and (2) used to pay the costs of issuance of the Obligations.

Amounts in the Payment Account shall be invested in Qualified Investments pursuant to Section 4.02 and interest earnings thereon shall be retained therein.

ARTICLE IV - MONEYS IN FUNDS; INVESTMENT

Section 4.01 Moneys and Investments Held in Escrow.

The moneys and investments held by the Escrow Agent under this Escrow Agreement are irrevocably held in escrow for the purposes herein specified, and such moneys and any other income or interest earned thereon shall be expended 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, but shall be subject to the lien of the Escrow Agent, if any, for the benefit of the Owners.

Section 4.02 Investments Authorized.

Moneys held by the Escrow Agent hereunder shall be invested and reinvested by the Escrow Agent in Qualified Investments at the written direction of the City and earnings thereon shall be retained therein. The Escrow Agent may conclusively rely upon the City's investment selections that such investments constitute Qualified Investments hereunder.

Qualified Investments in the Payment Account shall mature on or before the date the amounts invested are required for use under this Escrow Agreement. The Escrow Agent shall not be liable for any gain or loss of funds on any investment made in accordance with the instructions from the City.

The Escrow Agent may purchase or sell from itself or any affiliate, as principal or agent, investments authorized by this Section 4.02 and which shall be entitled to its customary fee. Such investments and reinvestments shall be made giving full consideration for the time at which funds are required to be available and the Escrow Agent shall have no liability for the failure of the City to provide timely written investment instructions. The Escrow Agent may act as purchaser or agent in the making or disposing of any investment.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of the security transactions as they occur at no additional cost, the City specifically waives receipt of such confirmations to the extent permitted by law. The Escrow Agent will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Escrow Agent hereunder.

Section 4.03 Accounting.

The Escrow Agent shall furnish to the City, at least semi-annually, an accounting of each fund and account and of all investments made by the Escrow Agent. The Escrow Agent shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with this Escrow Agreement.

Section 4.04 Allocation of Earnings.

Interest earnings and investment income on moneys held by the Escrow Agent shall inure to the benefit of the City, but shall be held by the Escrow Agent for application as provided in this Escrow Agreement and the Financing Agreement. Any interest or investment income earned on moneys deposited in the Payment Account shall be credited to the Payment Account.

Section 4.05 Disposition of Investments.

The Escrow Agent may sell at the then current market price, or present for redemption, any Qualified Investment so purchased by the Escrow Agent whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from any Account, and the Escrow Agent shall not be liable or responsible for any loss resulting from such investment. The City may instruct the Escrow Agent in writing at any time to sell any Qualified Investment which may be sold at a profit; proceeds of such sale shall be deposited in the account to which the Qualified Investment was credited. The City shall be liable for any remaining amount necessary to make any required payment, transfer, withdrawal or disbursement from any Account following the sale of such Qualified Investments.

Section 4.06 Deposit and Investment of Moneys in Account.

The Escrow Agent 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 Escrow Agent hereunder shall be accounted for separately notwithstanding such commingling by the Escrow Agent.

ARTICLE V - THE ESCROW AGENT

Section 5.01 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 fees, expenses and disbursements of its counsel), except any such expense, disbursement or advance as may arise from its gross negligence or bad faith. The Escrow agent shall also be entitled to receive extraordinary fees and its extraordinary expenses if it is requested or required to render services in connection with a default or under other circumstances not provided for in this Escrow Agreement.

Section 5.02 Removal of Escrow Agent.

The Escrow Agent may be removed upon 60 days' prior notice and a successor Escrow Agent appointed by the City if:

(i) 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, or

(ii) 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 of all Obligations Outstanding. Such removal shall become effective upon acceptance of appointment by the successor Escrow Agent.

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

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

(iv) have substantial prior experience as an Escrow Agent for the benefit of the owners of municipal debt securities; and,

(v) shall 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 5.03 Resignation of Escrow Agent.

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 60 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 dollar amount of the Obligations then Outstanding.

Upon receiving such notice of resignation or removing the Escrow Agent, 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 30 days following receipt of such written notice of resignation or removing the Escrow Agent, the Owners of a majority in aggregate principal amount of all Obligations Outstanding may appoint a successor Escrow Agent, or the resigning or removed Escrow Agent may appoint or petition the appropriate court having jurisdiction to appoint a successor Escrow Agent.

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 5.04 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 or to which the Escrow Agent may sell or transfer all or substantially all of its corporate trust business shall become the successor Escrow Agent under this Escrow Agreement with the same rights, powers, duties and obligations and subject to the same restrictions, limitations and liabilities as its predecessor, 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 5.02 above.

Section 5.05 Acceptance of Appointment by Successor Escrow Agent.

Any successor Escrow Agent appointed as provided in Section 5.02 or Section 5.03 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 upon payment of its fees and expenses then due and owing to the prior Escrow Agent 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.

Upon acceptance of appointment by a successor Escrow Agent as provided in this Section 5.05, the successor Escrow Agent shall mail, first-class, postage prepaid, notice of its appointment to the Owners.

Section 5.06 Duties and Responsibilities of the Escrow Agent Prior to and During Default.

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.

No provision of this Escrow Agreement shall be construed to relieve the Escrow Agent from liability for its own grossly negligent action, its grossly 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 grossly 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 of 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 indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

Section 5.07 Protection and Rights of the Escrow Agent.

The Escrow Agent shall be protected and shall incur no liability in acting or proceeding in good faith upon any opinion, 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 signed or passed by the proper person or board 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. Whenever in the administration of its duties under this Escrow Agreement, the Escrow Agent shall deem it necessary or desirable that a matter be provided 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 Authorized 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 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.

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 Obligations 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 of the Obligations then Outstanding.

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.

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.

The right to indemnification of the Escrow Agent provided in this Escrow Agreement shall survive the termination of the Escrow Agreement.

The Escrow Agent shall be under no obligation to exercise any of the rights or powers vested in it by this Escrow Agreement or the Financing Agreement at the request, order or direction of any Owner pursuant to the terms of this Escrow Agreement or the Financing Agreement unless such Owner shall have offered to the Escrow Agent security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

The Escrow Agent shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Escrow Agreement or the Financing Agreement.

The Escrow Agent shall not be deemed to have knowledge of any default or Event of Default hereunder or under the Financing Agreement unless and until it shall have actual knowledge thereof, or shall have received written notice thereof from the City or Owners of 25% of unpaid principal component of Financing Payments, at the office designated in Section 11.02. As used herein, the term “actual knowledge” means the actual fact or statement of knowing, without any duty to make any investigation with regard thereto.

The Escrow Agent shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or gross negligence, including, but not limited to, acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other occurrences beyond the control of the Escrow Agent; it being understood that the Escrow Agent shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

The Escrow Agent agrees to accept and act upon instructions and/or directions pursuant to this Escrow Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Escrow Agent shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the City elects to give the Escrow Agent e-mail or facsimile instructions (or instructions by a similar electronic method) and the Escrow Agent in its discretion elects to act upon such instructions, the Escrow Agent’s understanding of such instructions shall be deemed controlling. The Escrow Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Agent’s reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The City agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Escrow Agent, including without limitation the risk of the Escrow Agent acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The permissive right of the Escrow Agent to do things enumerated in this Escrow Agreement shall not be construed as a duty and the Escrow Agent shall not be answerable for other than its gross negligence or willful misconduct. The Escrow Agent shall not be accountable for the use or application by the City of any of the proceeds of the Obligations. The Escrow Agent shall have no responsibility or liability with respect to any information, statements or recitals in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Obligations.

Section 5.08 Indemnification.

To the extent permitted by law, the City covenants and agrees to indemnify and save the Escrow Agent and its officers, directors, agents and employees 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, including legal fees and expenses, 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, gross negligence or willful misconduct. The obligations of the City under this Section 5.08 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 Section 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.

Before taking any action under Article IX hereof (including without limitation, Section 9.02 and Section 9.03) or Section 6.02 of the Financing Agreement, the Escrow Agent may require payment of its fees and expenses, including reasonable attorney's fees, and upon receipt of indemnity satisfactory to it be furnished by Owners of the Obligations for the reimbursement of all further expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its gross negligence or willful misconduct by reason of any action so taken.

ARTICLE VI - CONCERNING THE OBLIGATION OWNERS

Section 6.01 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 of 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:

- (i) 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
- (ii) by the record of the Owners voting in favor thereof at any meeting of Owners, or
- (iii) by a combination of such instrument or instruments and any such record of such a meeting of Owners.

Section 6.02 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 of 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 6.03 Certain Obligations Disregarded.

In determining whether the Owners of the requisite aggregate principal amount of 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 a Responsible Officer of the Escrow Agent actually 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 7.01 Limitations.

The Escrow Agreement and the Financing Agreement may only be modified or amended in accordance with this Article VII. The Escrow Agent may, but shall not be obligated to, enter into any such modification or amendment that affects its rights, protections or obligations hereunder or under the Financing Agreement.

Section 7.02 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:

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 (as certified to the Escrow Agent by an Authorized Representative), materially and adversely affect the interests of the Owners;

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 (as certified to the Escrow Agent by a Authorized Representative), a material and adverse effect on any Owner which has not consented to a supplemental Escrow Agreement;

To modify, alter, amend or supplement this Escrow Agreement in any other respect which is not materially adverse to the Owners (as certified to the Escrow Agent by a Authorized Representative) and which does not involve a change described in Sections 7.03(i), 7.03(ii), 7.03(iii), or 7.03(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 7.03 Supplemental Escrow Agreement with Consent of the Owners.

Any amendment to this Escrow Agreement which is not described in Section 7.02 above requires the consent of the City, the Escrow Agent and the Owners of not less than sixty percent (60%) in aggregate principal amount of 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 of any portion of the Financing Payments, or
- (ii) the creation of a claim or lien upon, or a pledge of 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 of Obligations the consent of the Owners of which is required for any supplemental Escrow Agreement or which is required, under Section 7.06 below, for any modification, alteration, amendment or supplement to the Financing Agreement.

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 7.03 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 state that a supplemental Escrow Agreement is being proposed by the City and shall include a copy of the proposed supplement as an exhibit, 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.

If the Owners of not less than the percentage of Obligations then Outstanding required by this Section 7.03 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 7.04 Effect of Supplemental Escrow Agreement.

Upon the execution and delivery of any supplemental Escrow Agreement pursuant to the provisions of Sections 7.02 and 7.03 herein, 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 7.05 Amendments to Financing Agreement Not Requiring Consent of Owners.

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, if any;
- (ii) To cure any ambiguity, formal defect or omission (that does not materially and adversely affect the Owner as certified to the Escrow Agent by an Authorized Representative) in the Financing Agreement; or
- (iii) To make any other change to the Financing Agreement which, in the reasonable judgment of the City (as certified to the Escrow Agent by an Authorized Representative), does not materially and adversely affect the Owners.

Before the City shall enter into, and the Escrow Agent shall consent to, any amendment change or modification pursuant to this Section 7.05 or Section 7.06 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 7.06 Amendments to Financing Agreement Requiring Consent of the Owners.

Any amendment to the Financing Agreement which is not described in Section 7.05 above requires the consent of the City, the Escrow Agent, and the Owners of not less than sixty percent (60%) in aggregate principal amount of the Obligations Outstanding given as provided in this Section 7.06. 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. 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 7.05 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 7.03 above with respect to supplemental Escrow Agreements. Such notice shall briefly state that an amendment, change or modification is being proposed by the City, and shall include a copy of such amendment, change or modification as an exhibit, 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. 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 7.03 above hereof with respect to supplemental Escrow Agreements, provided the City has obtained the opinion of Special Counsel which is described in Section 7.05 above.

ARTICLE VIII - COVENANTS; NOTICES

Section 8.01 Compliance With and Enforcement of Financing Agreement.

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.

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, upon the occurrence of an Event of Default, 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 8.02 Notice in Event of Late Financing Payment.

If the amounts on deposit in the Payment Account are insufficient to make any payment when due in accordance with the Financing Agreement, then the Escrow Agent shall promptly, but in no event later than two (2) Business Days prior to the Payment Date, give notice of such fact to the City.

Section 8.03 Notice of Default.

If an Event of Default occurs of which a Responsible Officer of the Escrow Agent has actual knowledge 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 9.01(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 8.04 Tax Covenants.

To maintain the exclusion from gross income for federal income tax purposes of the interest component of each Financing Payment, the City has covenanted in the Financing Agreement to comply with the applicable provisions of the Code. The Escrow Agent hereby agrees to comply with any reasonable instructions received from the City in order to maintain such exclusion.

Section 8.05 Further Assurances.

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

ARTICLE IX - EVENTS OF DEFAULT

Section 9.01 Events of Default.

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

(a) There shall have occurred an Event of Default under the Financing Agreement; or

(b) The City shall fail to observe and perform any other covenant, condition or agreement on its part to be observed or performed hereunder or under the Financing Agreement for a period of 60 days after written notice to the City by the Escrow Agent, specifying such failure and requesting that it be remedied; 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, which extension shall be no longer than 180 days from the date of the notice of default.

Section 9.02 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 of 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; PROVIDED, HOWEVER, THAT UPON AN EVENT OF DEFAULT THE ESCROW AGENT SHALL NOT HAVE THE RIGHT TO DECLARE THE UNPAID PRINCIPAL COMPONENTS OF THE FINANCING PAYMENTS IMMEDIATELY DUE AND PAYABLE.

Section 9.03 No Remedy Exclusive.

No remedy herein conferred upon or reserved to the Escrow Agent 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 to the Escrow Agent and assigned hereunder to the Escrow Agent, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. To entitle the 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 9.03 or by law.

Section 9.04 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 9.05 Application of Moneys Upon Default.

If at any time after an Event of Default has occurred, 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:

(i) 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.

(ii) 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 maturity 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;

(iii) 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 maturity 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,

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

Section 9.06 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 of 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 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 security and indemnity satisfactory to it 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 10.01 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 10.02 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 10.03 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 10.04 Opinion of Counsel; Experts.

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.

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, 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.

The Escrow Agent may consult with counsel (including its own in-house counsel) and the advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect to any action taken or not taken by the Escrow Agent hereunder in good faith and in reliance thereon.

Section 10.05 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 11.01 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 maturity, 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 amounts that will, as evidenced by an accountant's certificate provided by the City to the Escrow Agent, together with the interest to accrue thereon, be sufficient to pay all Financing Payments attributable to such Obligations, as and when the same become due and payable, 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 and that the Obligations are no longer outstanding under the Financing Documents.

(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 3.02 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 of the Escrow Agent 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 reproducing the records at the expense of the requesting party.

Section 11.02 Notices.

All written notices to be given under this Escrow Agreement to any party to this Escrow Agreement shall be given by mail to the following addresses (unless the addressee has previously notified the other party in writing of a change in address):

Escrow Agent: Wells Fargo Bank, National Association
1300 SW 5th Avenue, 11th Floor MAC P6101-114
Portland, Oregon 97201
Attention: Corporate Trust Services

With a copy to:
Wells Fargo Bank, National Association
Attn: Paying Agent Services
625 Marquette Avenue, 11th Floor
MAC N9311-110
Minneapolis, MN 55479
Telephone: (612) 316-1770
Facsimile: (855) 579-4534

Payment Addresses: Wiring Instructions
Wells Fargo Bank, N.A.
ABA No. 121000248
Account No. 6355060501
Attn: Paying Agent Services
Ref: Account Number

Payment by ACH
Wells Fargo Bank, N.A.
ABA No. 091000019
Account No. 6355060501
Attn: Paying Agent Services
Ref: Account Number

Address for Checks
Wells Fargo Corporate Trust Services
NW6222
P.O. Box 1450
Minneapolis, MN 55485-6222

Overnight Address for Checks
Wells Fargo Corporate Trust Services
Lockbox Services #6222
1350 Energy Lane, Suite 200
St. Paul, MN 55108

City: City of Corvallis
501 SW Madison Avenue
P.O. Box 1083
Corvallis, OR 97339-1083
Attn: Finance Director

Any such notice shall be deposited in the United States mail in first-class, registered or certified form (return receipt requested), with postage fully paid.

Section 11.03 Payments Due on Holidays.

If the date for making any payment or the last day for performance of any act or the exercise of any right, as provided in this Escrow Agreement, is not a Business Day, such payment may be made or act performed or right exercised on the next succeeding day which is not a legal holiday or a day on which such banking institutions are authorized by law to remain closed with the same force and effect as if done on the nominal date provided in this Escrow Agreement.

Section 11.04 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 an appropriate court of the State of Oregon.

Section 11.05 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 11.06 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 11.07 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 11.08 Destruction of Canceled Obligations.

Whenever in this Escrow Agreement provision is made for the delivery, surrender to or cancellation by the Escrow Agent of any Obligations, the Escrow Agent may, in lieu of such cancellation and delivery, destroy such Obligations and upon the City's request deliver a certificate of such destruction to the City.

Section 11.09 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 appear on the following page.]

This Escrow Agreement is executed by its parties as of the 15th day of November 2012.

**CITY OF CORVALLIS
BENTON COUNTY, OREGON**

By: _____
Authorized Representative

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

By: _____
Authorized Officer

EXHIBIT A
(Form of Full Faith and Credit Refunding Obligations)

No. R-1

\$_____

FULL FAITH AND CREDIT REFUNDING OBLIGATIONS
SERIES 2012

Evidencing a Proportionate Interest of the Owner
Hereof in Certain Financing Payments to Be Made
Under a Tax-Exempt Financing Agreement Between

CITY OF CORVALLIS
BENTON COUNTY, OREGON

and

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Escrow Agent

<u>DATED</u> <u>DATE</u>	<u>PRINCIPAL COMPONENT</u> <u>INTEREST RATE PER ANNUM</u>	<u>PRINCIPAL COMPONENT</u> <u>MATURITY DATE</u>	<u>CUSIP</u> <u>NUMBER</u>
November 15, 2012	_____	_____	_____

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

PRINCIPAL AMOUNT: -----XXXX DOLLARS -----

This Obligation is executed and delivered by Wells Fargo Bank, National Association, as escrow agent and registrar (the "Escrow Agent") under an Escrow Agreement dated as of November 15, 2012, between the Escrow Agent and City of Corvallis, Benton County, Oregon (the "City"). The Escrow Agent and the City have also entered into a certain Tax-Exempt Financing Agreement, dated as of November 15, 2012 (the "Financing Agreement"), pursuant to which the City is legally required to make financing payments (the "Financing Payments"). The City has assigned to the 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.

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.

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

The Escrow Agent shall pay to the Registered Owner specified above, or registered assigns, the Principal Amount specified above on the above Principal Component Maturity 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 Escrow Agreement. Interest will be compounded semiannually and is payable at on December 1 and June 1 of each year commencing June 1, 2013 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 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 Refunding Obligations, Series 2012 (the “Obligations”), being executed and delivered in the aggregate principal amount of \$11,485,000. The City is authorized to enter into the Financing Agreement and the Escrow Agreement by a resolution adopted by the City Council of the City on August 20, 2012 (the “Resolution”).

The Financing Payments are payable from all legally available funds of the City, and the City has pledged its full faith and credit and taxing power within the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution to pay the Financing Payments. **THE FINANCING AGREEMENT IS NOT A DEBT OF THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE CITY, AND THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE CITY SHALL NOT BE LIABLE THEREON. NOR, IN ANY EVENT, SHALL THE OBLIGATIONS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE DESCRIBED ABOVE. THE TAXING POWER OF THE CITY IS NOT PLEDGED TO THE REPAYMENT OF THE OBLIGATIONS.**

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

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 OBLIGATIONS; 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 SUCH OTHER DUTIES AS SET FORTH IN THE ESCROW AGREEMENT.

This Obligation shall remain in the Escrow Agent’s custody subject to the provisions of the Fast Automated Securities Transfer (FAST) agreement currently in effect between the Escrow Agent and DTC.

IN WITNESS WHEREOF, the Escrow Agent has caused this Obligation to be executed by the manual 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: November 15, 2012.

CERTIFICATE OF AUTHENTICATION

This is one of the \$11,485,000 Full Faith and Credit Refunding Obligations, Series 2012, 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 Escrow Agent

By: _____
Authorized Officer

ADDITIONAL PROVISIONS

The Obligations are not subject to optional prepayment prior to maturity.

This Obligation has been authenticated by the Escrow Agent pursuant to the terms of the Agreement. Copies of the Agreement are on file at the office of the City. Reference to the Agreement and any and all amendments thereto is made for a description of the covenants of the City securing the Financing Payments, the nature, extent and manner of enforcement of such covenants, the rights and remedies of the registered owners of the Obligations with respect thereto, the right of the City and the Escrow Agent to amend the Agreement and the other terms and conditions upon which the Obligations are delivered thereunder.

This Obligation may be exchanged, transferred or replaced only as provided in the Agreement. The ownership of this Obligation must be registered upon the books of the Escrow Agent as provided in the Agreement. The Escrow Agent may treat the registered owner hereof as the absolute owner hereof for all purposes, and the Escrow Agent shall not be affected by any notice to the contrary.

LEGAL OPINION

I, Nancy Brewer, Finance Director for City of Corvallis, Benton County, Oregon certify that the following is a true copy of the signed original legal opinion of Mersereau Shannon LLP, Attorneys, Portland, Oregon. The opinion was dated and issued as of the date of delivery of and payment for City of Corvallis, Benton County, Oregon Full Faith and Credit Refunding Obligations, Series 2012.

NANCY BREWER
FINANCE DIRECTOR

November 15, 2012

City of Corvallis
501 SW Madison Avenue
P.O. Box 1083
Corvallis, OR 97339-1083

Re: \$11,485,000.00 City of Corvallis, Benton County, Oregon
Full Faith and Credit Refunding Obligations, Series 2012

We have acted as special counsel in connection with the authorization of \$11,485,000 City of Corvallis, Benton County, Oregon, Full Faith and Credit Refunding Obligations, Series 2012 (the "Series 2012 Obligations"), pursuant to a Tax Exempt Financing Agreement and an Escrow Agreement, both being dated November 15, 2012 (collectively, the "Agreement"). We have examined the law and such certified proceedings of the City and other papers as we deem necessary to render this opinion.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of any offering material relating to the Obligations and we express no opinion relating thereto.

As to questions of fact material to our opinion, we have relied upon the certified proceedings of the City and other certifications of City officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Obligations have been legally authorized, sold and issued under and pursuant to the Constitution and statutes of the State of Oregon and the Agreement is a valid and legally binding obligation of the City enforceable in accordance with its terms.

2. The Obligations are payable from the general revenues of the City and other funds which may be available for that purpose, including the proceeds of ad valorem property taxes levied

by the City, subject to applicable constitutional and statutory limitations now or hereafter in effect.

3. Assuming compliance with certain covenants of the City concerning the tax status of the interest on the Obligations, the interest on the Obligations is excluded 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 and corporations; it should be noted, however, that for the purpose of computing alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. Any original issue premium properly allocable to the owner of the Obligations may not be deducted from federal gross income, but must be amortized actuarially on a constant interest rate basis over the term of such Obligation, and the federal tax basis of such Obligation will be decreased over its term by the amount of such amortized premium. The opinions set forth in this letter are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Obligations in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of the interest on the Obligations in gross income for federal income tax purposes to be retroactive to the date of issuance. We express no opinion regarding other federal tax consequences arising with respect to the Obligations.

4. The interest on the Obligations is exempt from present State of Oregon personal income taxes.

It is to be understood that the rights of the owners of the Obligations and the enforceability thereof are subject to (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, (ii) the application of equitable principles and to the exercise of judicial discretion in appropriate cases, (iii) common law and statutes affecting the enforceability of contractual obligations generally, and (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

Our opinions are limited to matters of current Oregon law and applicable federal law, and we assume no responsibility for the applicability or effect of laws of other jurisdictions.

Respectfully submitted,

MERSEREAU SHANNON LLP

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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EXHIBIT A - Form of Full Faith and Credit Refunding Obligations

APPENDIX B
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR
ENDED JUNE 30, 2011

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

CITY OF CORVALLIS, OREGON



CITY OF CORVALLIS, OREGON
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2011



Prepared by the City of Corvallis
Department of Finance

CITY OF CORVALLIS, OREGON
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- CERTIFICATE OF ACHIEVEMENT
- ORGANIZATION CHART
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November 15, 2011

To the Honorable Mayor, City Council, City Manager, and Citizens of Corvallis, Oregon

We hereby submit the Comprehensive Annual Financial Report (CAFR) of the City of Corvallis for the fiscal year ended June 30, 2011 in compliance with state law. State law requires that a CAFR be published within six months of fiscal year end and be audited in accordance with generally accepted auditing standards by independent certified public accountants.

Responsibility for the completeness and reliability of the information contained in this report rests with the City's management and is based on an internal control structure designed for this purpose. The internal control structure is designed to provide reasonable, rather than absolute, assurance that these objectives are met because the cost of the internal control should not exceed the related benefits.

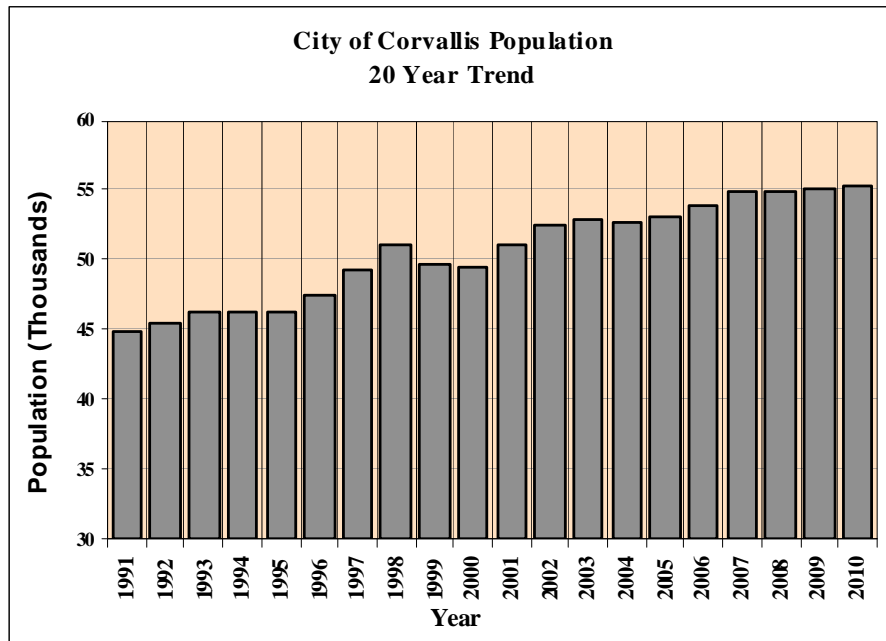
The City's financial statements were audited by Pauly Rogers and Co. PC, a firm of independent certified public accountants. The independent auditors have issued an unqualified opinion on the City of Corvallis' financial statements for the fiscal year ended June 30, 2011. The independent auditor's report is presented in the Financial Section of this report.

Management's Discussion and Analysis (MD&A) is located in its own Management's Discussion and Analysis section of this report. The MD&A provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with the MD&A.

THE CITY OF CORVALLIS AND ITS SERVICES

The City of Corvallis, Oregon (population 55,370) is Oregon's 10th largest City and the county seat of Benton County. Corvallis is located in the central Willamette Valley, approximately 80 miles south of Portland and 50 miles from the Pacific Ocean. The name Corvallis means "Heart of the Valley" and was arrived at by compounding the Latin words for heart and valley.

The City of Corvallis, Oregon is a municipal corporation governed by an elected Mayor and nine Councilors. The nine City Councilors are elected in the November general election by ward for two year terms. The Mayor is elected at-large and serves a four-year term. The City Manager is appointed by the City Council and is responsible to the City Council for the day-to-day management of the City. The City Council is assisted in their policy making role by 22 standing advisory boards and commissions. The City has no component units as defined by accounting principles generally accepted in the United States of America.



The City provides a full range of municipal services including: police and fire protection; emergency communications for all of Benton County; parks and recreation programs; library; public infrastructure improvements; planning and housing; building plan inspections and reviews; water, wastewater, and storm water utilities; bus transit system; municipal airport; and general administrative services.

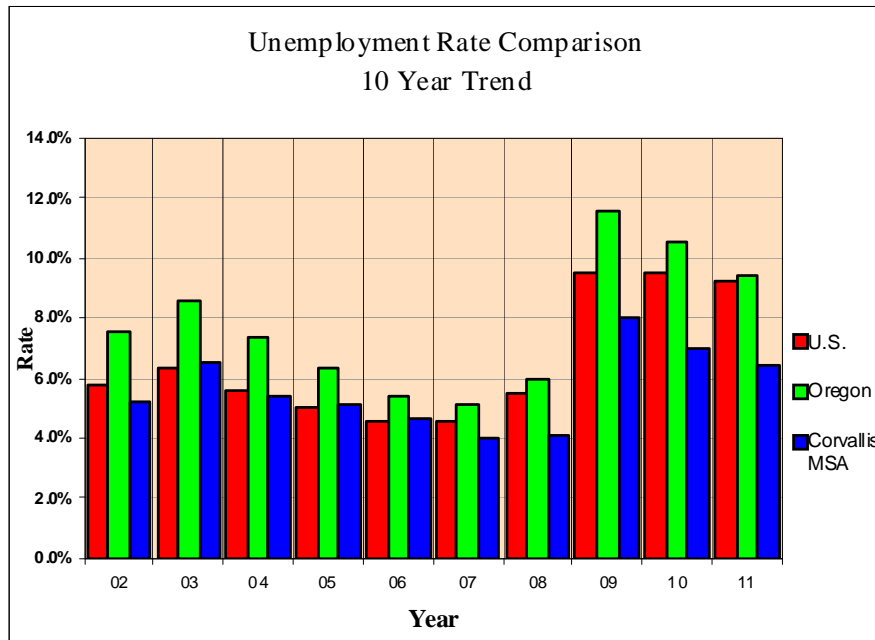
The Oregon Constitution and Oregon Revised Statutes require that the budget be balanced, adopted by July 1, and that the fiscal year for local governments is July 1 through June 30. The budget sets forth City Council's goals and objectives, and identifies the resources necessary to accomplish Council's goals and objectives. The legal level of budgetary control, as adopted by Council Resolution, is by department within each fund. Appropriations lapse at fiscal year end and incomplete projects must be re-appropriated in the following fiscal year as part of the adoption of the annual budget. The City did not exceed legally adopted budget appropriations during the 2010-11 fiscal year.

ASSESSING ECONOMIC CONDITION

Corvallis' primary employment bases are education, high-technology, and service industries. Corvallis is home to Oregon State University (OSU). OSU is one of only two universities in the country designated as a combined land, space, sea, and sun grant university. OSU enrolls approximately 23,760 students and employs approximately 8,637 people. OSU serves as Oregon's leading source of basic applied research in forestry, agriculture, fisheries, engineering, electronics, home economics and the sciences for the development of human, land, atmospheric and oceanic resources, and is one of the nation's leading research universities.

Corvallis is also home to high-tech industry. Hewlett-Packard (HP) employs approximately 1,700 people at its Corvallis location. HP's presence has generated satellite businesses to supply its needs, among these satellite businesses is ATS Systems Oregon which employs approximately 200. CH₂M Hill, an international consulting firm of engineers, planners, economists and scientists, was founded in Corvallis in 1946. CH₂M Hill maintains a regional headquarters in Corvallis which employs approximately 400 people. Good Samaritan Regional Medical Center employs 2,305 people and the Corvallis Clinic

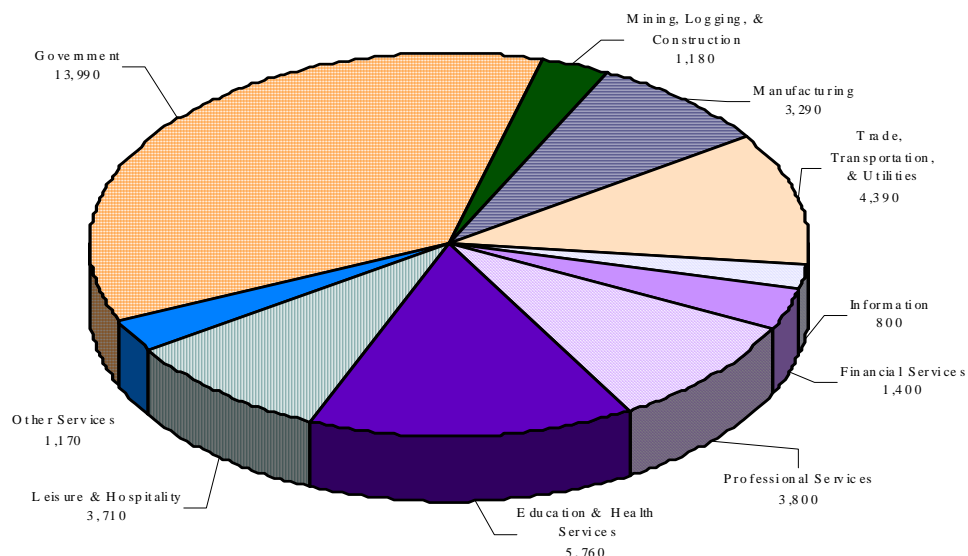
employs 543 people. Fiserv Corporation provides data processing systems created specifically for the credit union industry and employs 200 at its Corvallis location. The Oregon Nanoscience and Microtechnologies Institute (ONAMI) is a collaboration among Oregon universities, including OSU, and regional industry for micro and nanotechnology research and development and is a leader in this field. ONAMI has multiple facilities located in Oregon's Silicon Forest, including facilities in Corvallis.



Oregon's June 2011 seasonally adjusted unemployment rate was 9.4%. The Corvallis MSA's (Benton County) seasonally adjusted unemployment rate for June 2011 was 6.4% or .60 percentage points lower than the June 2010 unemployment rate of 7.0%. The Corvallis' MSA seasonally adjusted unemployment rate is 2.80 percentage points below the national unemployment rate and 3.00 percentage points below Oregon's unemployment rate. Compared to June 2010 the Corvallis MSA gained 2,380 jobs. Manufacturing jobs increased by 190 and trade, transportation, utilities employment increased by 290, education and health services increased by 220, governmental employment increased by 810, and all other services increased by 870 jobs bringing total employment to 39,490. The Corvallis MSA unemployment rate is the lowest in the state.

Factors contributing to the Corvallis MSA's relatively low unemployment rate on a state-wide basis are a highly educated work force (47% hold a bachelor's degree or higher degree, 53% of those residing in Corvallis) and a high per capita personal income. The most recent reported Corvallis MSA per capita income of \$37,030 (2009) was the sixth highest of Oregon's 36 counties. What makes the per capita income number more impressive is the high OSU student population with many students living in college induced poverty. The Corvallis MSA has been affected by the recession but has consistently had the state's lowest unemployment rate and a high per capita personal income. The recession has impacted the local housing market; residential construction activity has slowed significantly. There are major commercial construction projects planned or underway at OSU and Good Samaritan Regional Health Center.

Corvallis MSA Non farm Employment



MAJOR INITIATIVES

Local governments throughout the Willamette Valley, the State of Oregon and the USA are experiencing budget reductions due to the continued deterioration of the economy and property tax growth which lags underlying expenditure increases. The City of Corvallis is no different in this experience. The City of Corvallis' fiscal challenges as an organization, similar to years past, are primarily in its property tax supported services. The structural challenges of a revenue stream that grows, at best, by 3% annually, while mandated expenditures grow at 5.5% or more annually result in cyclical corrections to the organization's budget. The City's non-dedicated revenues (property taxes, franchise fees, transient room taxes, and state shared revenues), which provide over 68% of the total revenues available to fund the Police, Fire, Library, Parks & Recreation and Land-Use Planning functions, are projected to grow only 2.4% in total in FY 11-12.

For FY 10-11 the City's property tax revenue actually grew by about 4.55%, a surprising improvement on the 1.87% forecast that was premised on a 10-year average less an allowance for anticipated industrial property depreciation. However, a portion of that growth is associated with two property owners which have appealed their value; if they prevail, the City could experience significant reductions in FY 11-12 property tax revenue if refunds are made. Existing residential property in Corvallis has done better than national averages at holding its value, with median values dropping 4.3% in 2009 and 3.9% in 2010. As a result of the 41.6% difference between real market and assessed values, most existing residential and commercial property will see the constitutional 3% increase in assessed value in 2011. However, industrial property is again projected to decrease 10% in value. The general economic downturn that has led to the steep decline in new residential construction has meant that there is very little new assessed value added to the tax roles to offset the declines in value for industrial property. New non-residential development occurring in Corvallis has predominantly been tax exempt facilities at OSU or at Good Samaritan Regional Medical Center. Budget cuts in property tax supported programs are slated to occur for FY 11-12 and are likely to occur again in FY 12-13 and into the future.

The City Council elected for the 2011-2012 term adopted four new goals, and work on these goals has

already begun. City staff will also continue to work on the City Council's overarching values of cost efficiency, sustainability, citizen involvement, and diversity, incorporating these values in all work products.

The goals, and the specific FY 11-12 budget implications of the goals, include:

- 1) **By December 2011, the Council will provide direction on recommendations to strengthen access to and availability of locally produced food and community gardens via policy, ordinance and Land Development Code changes. By December 2012, the Council will enact code and policy changes corresponding with that direction.** Work on this goal is well underway. The Parks & Recreation Department is currently in the middle of a community-wide process to develop a community garden master plan with expected outcomes to include defining the types of gardens, establishing garden site selection criteria, and developing a user friendly guide on how and where to start a Community Garden on City of Corvallis park lands. The master plan is expected to be completed during FY 11-12 using current appropriations for the Parks & Recreation Department and a grant, with most of the work completed by staff and interested volunteers. Community Development staff are working with a group of Benton County staff on the Health Impact Assessment project that includes discussions of ordinance and Land Development Code issues associated with local food, with work expected to continue into FY 11-12.
- 2) **By December 2011, the Council will consider action on recommendations by the Economic Development Commission concerning strategic priorities and funding sources for Economic Development initiatives.** The Economic Development Commission (EDC) has been meeting twice monthly, has received orientation information, and is in the process of developing strategic initiatives for the City Council. In the coming fiscal year, the EDC will continue work on strategic planning and will also provide recommendations to the City Council regarding interim economic development services for the year.
- 3) **Working with OSU President and his staff, by December 2011, the Council will create a plan to seize opportunities on parking, code enforcement, infill design, rental code, traffic design and other important issues.** Leadership from the City and OSU met to develop a plan for prioritizing initiatives and moving forward. Respective staffs will meet in the second quarter with a check-in scheduled with joint leadership by the end of the second quarter. Once reviewed by leadership, a follow-up Council discussion will be scheduled regarding the plan, including priorities, timelines and resources necessary to be successful.
- 4) **The Council will create a financially sustainable City budget. Amend compensation policies to align total employee compensation with available City revenue. Develop new sources of revenue that align with the cost of desired City services.** The Budget Commission directed the City Manager to develop the FY 11-12 budget as a balanced budget, and subsequently adopted the budget as proposed. The Council policy on City compensation review will be completed by the end of October 2011, with the review of the Council's Financial Policies scheduled for completion in early February 2012. The City Council has scheduled a work session to discuss several preferred revenue alternatives as well as to develop more information on services currently provided. Additional work sessions will be scheduled to develop direction and process for the FY 12-13 budget. The Fire department is working with City of Albany Fire department and a consultant to study opportunities for joint operations, and the City's Management Information Services Division is working with Benton County Information Technology on whether a single joint operation could work. The Parks and Recreation Department is exploring creation of a Parks and Recreation District, and the 9-1-1 Users Board is also exploring creation of a 9-1-1 District. The Parks & Recreation Department is also working with a consultant to revise their cost recovery model which is expected to result in a different fee schedule, and ultimately revised language in the Council's Financial Policies about fees.

LONG-TERM FINANCIAL PLANNING

Long-term financial plans are developed for each operating fund of the organization. Revenue and expenditure estimates are updated as more information becomes available through each fiscal year. The plans are presented in a three-year format but staff uses the financial plans projected over the course of seven years for longer range planning such as utility rate setting and modeling tax levies in order to see the long term impact of short term decisions. Capital project budgets are included in the financial plans to ensure that adequate revenue sources are projected to be available for both the construction of a project and the related operating costs that may be incurred upon the project's completion.

RELEVANT FINANCIAL POLICIES

For general governmental and enterprise funds, the City's Fund Balance Policy guideline is to project a positive budgetary ending fund balance for each fund for the year. The Finance Director recommends an appropriate ending fund balance for each fund taking into account items such as:

- the current fund balance;
- the City Council's recommended fund balance for the property tax funds combined;
- cash flow requirements to support expenditures, including up to three months of payroll costs;
- future capital needs;
- significant revenue and expenditure trends;
- relative rate stability from year to year for enterprise funds;
- susceptibility of the fund to emergency or unanticipated expenditures;
- credit worthiness and capacity to support debt service requirements;
- legal or regulatory requirements affecting revenues, expenditures, and fund balances;
- reliability of outside revenues; and
- any other factors pertinent to that fund's operations.

The Government Accounting Standards Board (GASB) Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions has been implemented for fiscal year ending June 30, 2011. GASB Statement no. 54 applies to an organization's governmental funds – General, Special Revenue, Capital Construction, and Debt Service Funds; it does not apply to proprietary funds (Water, Wastewater, Storm Water, Airport and the Internal Service Funds). Financial policies were adjusted to reflect new fund balance definitions.

Per the Fund Balance policy, the City of Corvallis will use the GASB's definitions of Fund Balance for the Comprehensive Annual Financial Report (CAFR) and for all other financial reporting. For all financial planning purposes, the term Budgetary Fund Balance will be used and will include any portion of the fund balance that is available for appropriation. Portions of the fund balance that are not available for appropriation will be identified as a Reserved Balance. The new fund balance classification definitions are provided in the Notes to the Basic Financial Statements under GASB Statement No. 54 – New Fund Balance.

The City's bond refunding policy specifies that the refunding bond issuances be authorized by City Council and comply with the rules adopted by the State Treasurer and outlined in Oregon Revised Statutes. Advance refundings require that a financial advisor be employed and must either have a present value savings of \$5 million or more or have a minimum savings ratio of 3.0%.

The City's Property Tax Allocation Policy requires that an annual analysis be completed for all property tax funds, General, Fire & Rescue, Parks & Recreation, Transit, and Library. The analysis is reviewed by

City Council to ensure that the property tax allocations are sufficient to support Council approved operating costs.

The City's Investment Policy is designed to establish and provide guidelines for the safe and efficient management of the City's cash and investments. The primary Investment Policy objectives are: preservation of capital; conformance with federal, state and other legal requirements; maintaining sufficient liquidity to meet operating cash flows; and achieve diversification to limit risk exposure to acceptable levels. During FY 10-11, the City entered into an agreement with Davidson Fixed Income Management for investment advisory services. Staff prepares a monthly Treasury Report as required by the investment policy. Staff also meets quarterly with Investment Council to review reports and portfolio performance. The Investment Policy's diversification and risk management are discussed in greater detail in the Notes to the Basic Financial Statements under Cash and Investments.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Corvallis, Oregon for its comprehensive annual financial report for the year ended June 30, 2010. This is the twenty-second consecutive year that the City of Corvallis has achieved this prestigious award. In order to be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.


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

DISTINGUISHED BUDGET PRESENTATION AWARD

The City of Corvallis received GFOA's Distinguished Budget Presentation Award for its 2010/2011 annual budget document and the 2011/2012 annual budget document has been submitted. The Distinguished Budget Presentation award is the highest form of recognition in governmental budgeting. Its attainment represents a significant accomplishment by a government and its management. In order to receive the award, a governmental unit must publish a budget document that meets program criteria as a policy document, a communications medium, an operations guide, and a financial plan.

ACKNOWLEDGMENTS

The compilation of the Comprehensive Annual Financial Report is the responsibility of the Finance Department. This report is evidence of the dedication and many hours of hard work required to compile such a report. We would like to thank the entire Finance staff, specifically Lisa Hill, Tina Stephens, Staci Voight and Jeanna Yeager, for the excellent service they provide throughout the year which is reflected in this Comprehensive Annual Financial Report. We would also like to thank the City Council, the Administrative Services Committee, and the City Manager for their leadership and support in developing this CAFR.


Nancy Brewer
Finance Director


Julian Contreras
Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Corvallis
Oregon

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

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



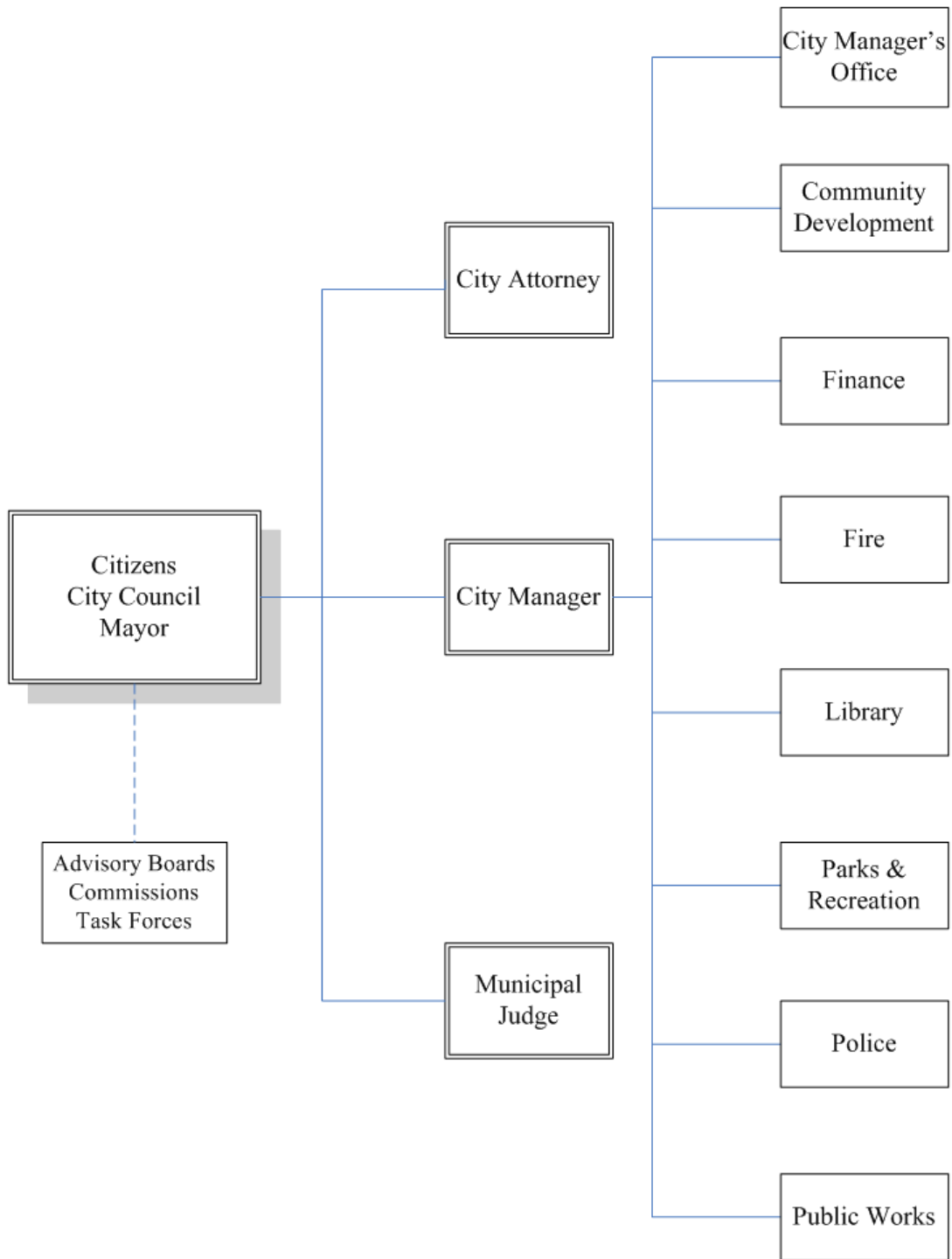
Linda C. Davison

President

Jeffrey R. Enos

Executive Director

CITY OF CORVALLIS
ORGANIZATION CHART



CITY OF CORVALLIS, OREGON
ELECTED AND APPOINTED OFFICIALS OF THE CITY
JUNE 30, 2011

ELECTED

MAYOR
Julie Manning

Mark O'Brien	Ward 1
Roen Hogg	Ward 2
Richard Hervey	Ward 3
Dan Brown	Ward 4
Mike Beilstein	Ward 5
Joel Hirsch	Ward 6
Jeanne Raymond	Ward 7
Biff Traber	Ward 8
Hal Brauner	Ward 9

APPOINTED

CITY MANAGER
Jon Nelson

FINANCE DIRECTOR
Nancy Brewer

FINANCIAL SERVICES MANAGER
Julian Contreras

SENIOR ACCOUNTANT
Tina Stephens

500 SW Madison Avenue
Corvallis, Oregon 97333

FINANCIAL SECTION

- INDEPENDENT AUDITOR'S REPORT
- MANAGEMENT'S DISCUSSION AND ANALYSIS
- BASIC FINANCIAL STATEMENTS
- REQUIRED SUPPLEMENTARY INFORMATION
- SUPPLEMENTARY INFORMATION



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

November 15, 2011

To the Honorable Mayor, Members of
the City Council, and City Manager
City of Corvallis, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Corvallis Oregon, as of and for the year ended June 30, 2011 which collectively comprise the basic financial statements as listed in the table of contents. The basic financial statements are the responsibility of the management. Our responsibility is to express opinions on these basic financial statements based on our audit. The financial statements as of June 30, 2010, were audited by other auditors whose report dated December 8, 2010, issued an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 basic 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 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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type-activities, each major fund and the aggregate remaining fund information of the City of Corvallis, Oregon, at June 30, 2011, the results of its operations and the cash flows, where applicable, and the respective budgetary comparison for the general fund, street fund, parks and recreation fund, fire and rescue fund, community development revolving fund, library fund, and capital construction fund 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 reports dated November 15, 2011, on our consideration of internal control over financial reporting and our tests of the compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Schedule of Expenditures of Federal Awards, as listed in the table of contents, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The introductory section, supplementary information (including the combining financial statements, individual non-major fund budgetary comparison schedules and the other financial schedules, as listed in the table of contents) and statistical schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section, statistical section and pages 100 through 106 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pauly, Rogers and Co. P. C.
PAULY, ROGERS AND CO., P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) is a narrative, introduction, overview and analysis of the basic financial statements. MD&A is Required Supplementary Information.

Management's Discussion and Analysis

Readers of the City of Corvallis' Comprehensive Annual Financial Report (CAFR) are offered this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011 by management. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the transmittal letter, which can be found on pages 1-7 of this CAFR.

Financial Highlights

- ❖ The assets of the City of Corvallis exceeded liabilities at the close of the fiscal year by \$278,728,600 (net assets), an increase of \$182,357 from June 30, 2010. Of this amount (\$1,923,671) (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ Net assets decreased for governmental activities by \$1,765,398 or 1.19 percent from June 30, 2010, primarily the result of decreases in current assets and increases in liabilities. Net assets increased for business-type activities by \$1,947,755, an increase of 1.50 percent from June 30, 2010, based on increases in current assets and decreases in long-term liabilities.
- ❖ As of the close of FY 2011, the City of Corvallis' governmental funds reported combined ending fund balances of \$12,750,504, a decrease of \$374,847 from the prior year. Approximately 48.08 percent of the total amount, \$6,130,001, is available for spending at the City Council's discretion (unassigned and assigned fund balance).
- ❖ At the end of FY 2011, the total assigned and unassigned fund balance in the General Fund was (\$112,018) which was (0.78) percent of the total General Fund expenditures of \$14,340,917. This was a decrease of \$594,284 in the fund balance available for expenditures from June 30, 2010, based on revenues not meeting projections.
- ❖ Total governmental activities debt decreased by \$471,667 or 1.08 percent during FY 2011. Total business-type activities debt decreased by \$2,313,401 or 9.84 percent. The decrease for both governmental and business-type activities was the result of making all required payments. In August 2010, subsequent to the close of the 2010 fiscal year, the City issued a full faith and credit bank loan for \$2.1 million principal at 2.96 percent interest to implement several public safety related capital improvements, including the City Hall Seismic Upgrade, and construction of a new Fire Department Drill Tower.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Corvallis' basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary and supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements The government-wide financial statements are designed to provide readers with a broad overview of the City of Corvallis' finances, in a manner similar to a private-sector business.

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

The Statement of Net Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected property taxes and earned but unused leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (called governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (called business-type activities). The governmental activities of the City include police, fire, library, parks and recreation, general administration, public works, and community development. The business-type activities of the City include water, wastewater, and storm water utilities, and the municipal airport.

The government-wide financial statements can be found on pages 23-24 of this report.

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

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Corvallis maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Street, Parks and Recreation, Fire and Rescue, Community Development Revolving, Library, and Capital Construction funds, all of which are considered to be major funds. Data from the other seven governmental funds is combined into a single aggregated presentation. Fund data for each of these non-major governmental funds is disclosed as supplementary information in the form of statements and schedules.

The City adopts an annual appropriated budget for its General Fund, along with all other funds. Budgetary comparison statements have been provided in the basic financial statements for the General Fund and major special revenue funds to demonstrate compliance with this budget. Budgetary comparisons for all other funds have been provided as supplementary information.

The basic governmental fund financial statements can be found on pages 25-34 of this report.

Proprietary Funds The City of Corvallis maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, wastewater, storm water, and airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Corvallis uses internal service funds to account for its garage, facility management, telephone and data systems, central administration, and risk management operations. Because these services predominantly benefit governmental rather than business-type functions, they have been consolidated within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater, Storm Water and Airport Funds, all of which are considered to be major funds of the City of

Corvallis. The internal service funds are all considered to be non-major funds and are combined into a single aggregated presentation in the proprietary fund financial statements. In the basic financial statements, internal service funds are presented as governmental type activities after eliminating interfund transactions. Individual fund data for the internal service funds is provided elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 35-37 of this report.

Fiduciary Funds The City has no fiduciary funds.

Notes to the Basic Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the financial statements. The notes to the basic financial statements can be found on pages 38-65 of this report.

Required Supplementary Information Required supplementary information includes the Other Postemployment Benefits Plan Schedule of Funding Progress. This information can be found on page 66 of this report.

Supplementary Information Supplementary information includes the combining statements referred to earlier in connection with non-major governmental funds and internal service funds; budgetary comparisons for non-major, enterprise and internal service funds; and other financial schedules. This information can be found on pages 67-106 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$278,728,600 at the close of FY 2011. This represented a \$182,357 or 0.07 percent increase in net assets from the prior fiscal year.

CITY OF CORVALLIS
Summary of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Current and other assets	\$ 46,366,483	\$ 45,307,498	\$ 22,556,438	\$ 23,432,886	\$ 68,922,921	\$ 68,740,384
Capital assets	156,776,284	157,032,026	133,750,711	132,589,164	290,526,995	289,621,190
Total assets	<u>203,142,767</u>	<u>202,339,524</u>	<u>156,307,149</u>	<u>156,022,050</u>	<u>359,449,916</u>	<u>358,361,574</u>
Current liabilities	2,812,151	3,208,876	1,345,685	1,148,451	4,157,836	4,357,327
Long-term liabilities	51,787,042	52,352,472	24,958,795	22,923,175	76,745,837	75,275,647
Total liabilities	<u>54,599,193</u>	<u>55,561,348</u>	<u>26,304,480</u>	<u>24,071,626</u>	<u>80,903,673</u>	<u>79,632,974</u>
Net Assets						
Invested in capital assets, net of related debt	145,961,066	146,306,669	110,462,358	111,598,330	256,423,424	257,904,999
Restricted	3,980,184	7,343,850	13,990,821	15,403,422	17,971,005	22,747,272
Unrestricted	(1,397,676)	(6,872,343)	5,549,490	4,948,672	4,151,814	(1,923,671)
Total Net Assets	<u>\$ 148,543,574</u>	<u>\$ 146,778,176</u>	<u>\$ 130,002,669</u>	<u>\$ 131,950,424</u>	<u>\$ 278,546,243</u>	<u>\$ 278,728,600</u>

The largest portion of the City's net assets, \$257,904,999, reflects the City's investment in capital assets (land, building, machinery, and equipment), less any related outstanding debt used to acquire those assets. The City's investment in capital assets increased \$1,481,575 or 0.58 percent from June 30, 2010. The City's major capital assets are investments in infrastructure – the water, wastewater and storm water systems of treatment plants and collection/distribution facilities, the street and sidewalk system, and the municipal airport. The City uses the 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 the debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Net assets totaling \$22,747,272 or 8.16 percent of the total represent resources that are subject to external restrictions on how they may be used. This represents an increase of \$4,776,267 in the City's restricted net assets from June 30, 2010. The remaining balance of unrestricted net assets, (\$1,923,671), may be used to meet the City's ongoing obligations to citizens and creditors. Ending the year with negative unrestricted net assets has required the City to modify the services it offers to balance the budget for FY 2012.

Unrestricted net assets for governmental activities totaled (\$6,872,343) or (4.68) percent of the total net assets for governmental activities. Business-type activities unrestricted net assets totaled \$4,948,672 or 3.75 percent of the total net assets for business-type activities. At the end of FY 2011, the City of Corvallis is able to report positive balances in two of three categories of net assets, with the total unrestricted net assets negative. The City has taken action during FY 2012 to bring the unrestricted net assets in governmental activities to a positive balance.

CITY OF CORVALLIS
Summary of Changes in Net Assets

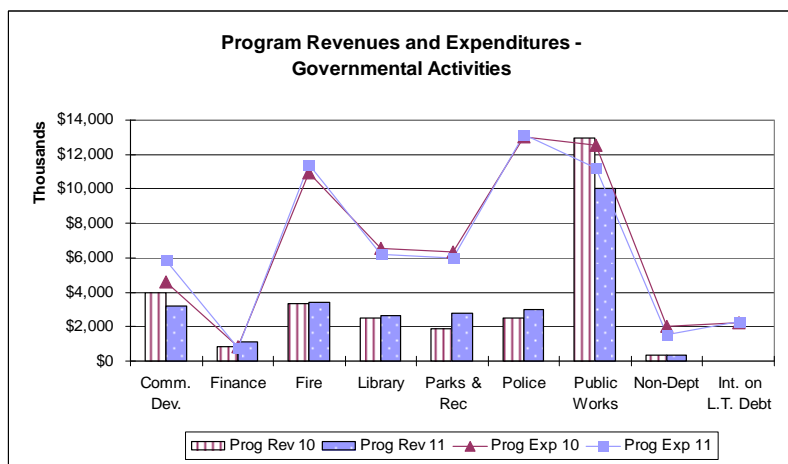
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>
Revenue:						
Program Revenue:						
Charges for Service	\$ 13,093,894	\$ 11,858,935	\$ 19,352,231	\$ 19,865,571	\$ 32,446,125	\$ 31,724,506
Operating grants and contributions	8,641,809	8,962,239	27,238	58,196	8,669,047	9,020,435
Capital grants and contributions	6,713,015	5,641,347	2,177,949	4,808,133	8,890,964	10,449,480
General Revenue:						
Property taxes levied for op. purposes	19,017,384	19,876,172	-	-	19,017,384	19,876,172
Property taxes levied for debt service	1,933,343	1,899,302	-	-	1,933,343	1,899,302
Transient room taxes	1,079,621	1,190,725	-	-	1,079,621	1,190,725
Franchise Fees	5,004,727	5,142,289	-	-	5,004,727	5,142,289
Interest and investment earnings	158,842	144,235	144,423	113,416	303,265	257,651
Miscellaneous	1,579,768	1,421,942	5,808	8,041	1,585,576	1,429,983
Gain on sale of capital assets	6,644	43,271	-	-	6,644	43,271
Total Revenues	<u>57,229,047</u>	<u>56,180,457</u>	<u>21,707,649</u>	<u>24,853,357</u>	<u>78,936,696</u>	<u>81,033,814</u>
Expenses:						
Community Development	4,622,690	5,854,253	-	-	4,622,690	5,854,253
Finance Department	807,226	782,197	-	-	807,226	782,197
Fire Department	10,963,048	11,426,793	-	-	10,963,048	11,426,793
Library	6,544,201	6,221,228	-	-	6,544,201	6,221,228
Parks & Recreation	6,323,593	6,020,914	-	-	6,323,593	6,020,914
Police Department	13,013,915	13,184,192	-	-	13,013,915	13,184,192
Public Works	12,515,686	11,245,957	-	-	12,515,686	11,245,957
Non-Departmental	1,986,064	1,511,814	-	-	1,986,064	1,511,814
Interest on long-term debt	2,254,830	2,292,797	-	-	2,254,830	2,292,797
Water	-	-	8,499,854	8,745,859	8,499,854	8,745,859
Wastewater	-	-	9,462,535	9,970,607	9,462,535	9,970,607
Storm Water	-	-	2,021,492	2,097,052	2,021,492	2,097,052
Airport	-	-	842,116	1,497,794	842,116	1,497,794
Total Expenses	<u>59,031,253</u>	<u>58,540,145</u>	<u>20,825,997</u>	<u>22,311,312</u>	<u>79,857,250</u>	<u>80,851,457</u>
Excess of revenues over expenditures						
before transfers	(1,802,206)	(2,359,688)	881,652	2,542,045	(920,554)	182,357
Transfers	523,680	594,290	(523,680)	(594,290)	-	-
Change in Net Assets	<u>(1,278,526)</u>	<u>(1,765,398)</u>	<u>357,972</u>	<u>1,947,755</u>	<u>(920,554)</u>	<u>182,357</u>
Net Assets - Beginning	149,822,100	148,543,574	129,644,697	130,002,669	279,466,797	278,546,243
Net Assets - Ending	<u>\$148,543,574</u>	<u>\$ 146,778,176</u>	<u>\$ 130,002,669</u>	<u>\$131,950,424</u>	<u>\$278,546,243</u>	<u>\$278,728,600</u>

- Governmental activities decreased the City’s net assets by \$1,765,398. This was primarily the result of decreased revenues from most major sources, including franchise fees, State Revenue Sharing, building permits and plan reviews for new construction and Systems Development Charge (SDC) revenue for Streets. The lower operating revenues led to mid-year budget reductions to bring expenditures in line with decreased revenue projections. SDC revenue is reserved for future capital projects; the result of the lower revenue may be the delay in implementing future year capital projects.
- Business-type activities increased the City’s net assets by \$1,947,755. Rate increases in the water and wastewater funds have been implemented to increase program revenue to fund operating and maintenance costs as well as to build capacity for either cash or debt funded infrastructure projects.

Financial Analysis of the Government’s Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds The focus of the City’s governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a city’s net resources available for spending at the end of the fiscal year.



As of June 30, 2011, the City’s governmental funds reported combined ending fund balances of \$12,750,504, a decrease of \$374,847 in comparison with the prior year. Approximately \$6,130,001 or 48.08 percent constitutes assigned and unassigned fund balance which is available for spending at the City’s discretion. The remainder of the fund balance, \$6,620,503 is reserved or committed to indicate that it is not available for new spending because it has already been committed to pay for capital construction, endowments, and other purposes.

The General Fund is the main operating fund for the City. At the end of FY 2011, the unassigned and assigned fund balance of the General Fund was (\$112,018). Monies reserved and committed totaled \$516,098. As a measure of the General Fund’s liquidity, it may be useful to compare the spendable fund balance to total fund expenditures. The unassigned and assigned fund balance represents (0.78) percent of the total General Fund operating expenditures.

The total fund balance (reserved, committed, unassigned, and assigned) of the General Fund decreased by \$266,323 during FY 2011. Key factors in this decrease are:

- ❖ Transient room tax, franchise fees, plan review, and interest earnings were all lower than expected in FY 10-11. Most of these decreases were the result of the general economic downturn facing all cities in the US and in other countries.
- ❖ Pending appeals of the assessed value for two of the largest property tax payers have resulted in the County withholding a portion of the City’s property tax revenue to be used to re-pay the appellants if they are successful at tax court.
- ❖ Fine revenue was lower than expected due to a number of vacancies in the Police Department and a commensurate decrease in the number of citations issued. However, collections activity was initiated at Municipal Court, with certain delinquent accounts turned over to a collection agency, and past due

amounts are being collected. Future year revenues are expected to improve due to this action, and an increase in Police Department staffing levels.

In the Street Fund, the fund balance increased by \$333,276. State Highway Tax revenue was lower than budgeted by around \$250,000, however, the City received American Recovery and Reinvestment Act (ARRA) monies as part of the federal stimulus program for street projects which in part offset the lower than expected Highway Tax revenue.

In the Parks and Recreation Fund, the ending fund balance was \$1,094,525 higher than the prior year. Systems Development Charge revenue was significantly over budget due to the construction of a new residential facility at the Oregon State University campus, and apartment construction elsewhere in the City.

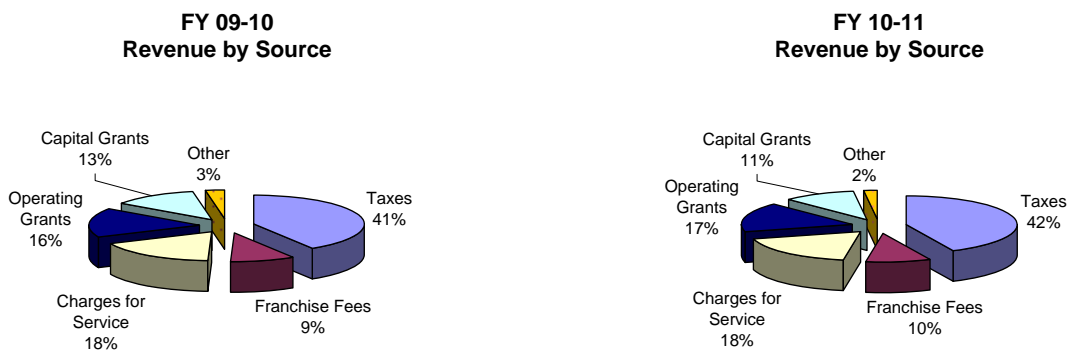
The Fire and Rescue Fund ending fund balance was \$655,733 lower than June 30, 2010. As with other funds, the decreases in non-dedicated revenue, combined with the purchase of replacement vehicles, served to lower the fund balance.

The Community Development Revolving Fund ending fund balance was \$923,363 lower than the prior year due to loan and grant allocations for affordable housing.

The Library Fund ended FY 2011 with a fund balance \$417,965 higher than the prior year. This was the result of holding a number of positions vacant while the local option tax levy campaign was underway, pending the outcome of funding for FY 2012.

The Capital Construction Fund ending fund balance for June 30, 2011 was \$984,970 higher than the prior year. The increase was the result of balances being held for several projects in progress at the end of the fiscal year.

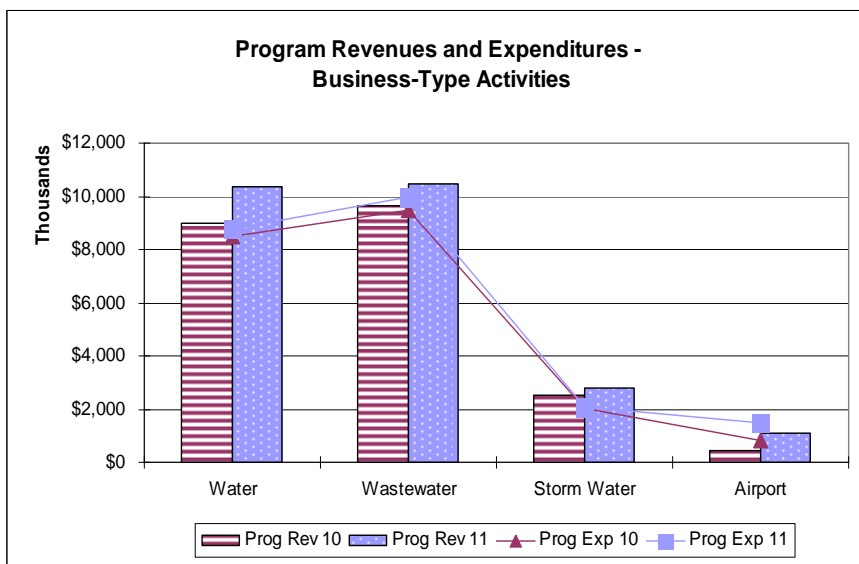
Revenue by Source – Governmental Funds



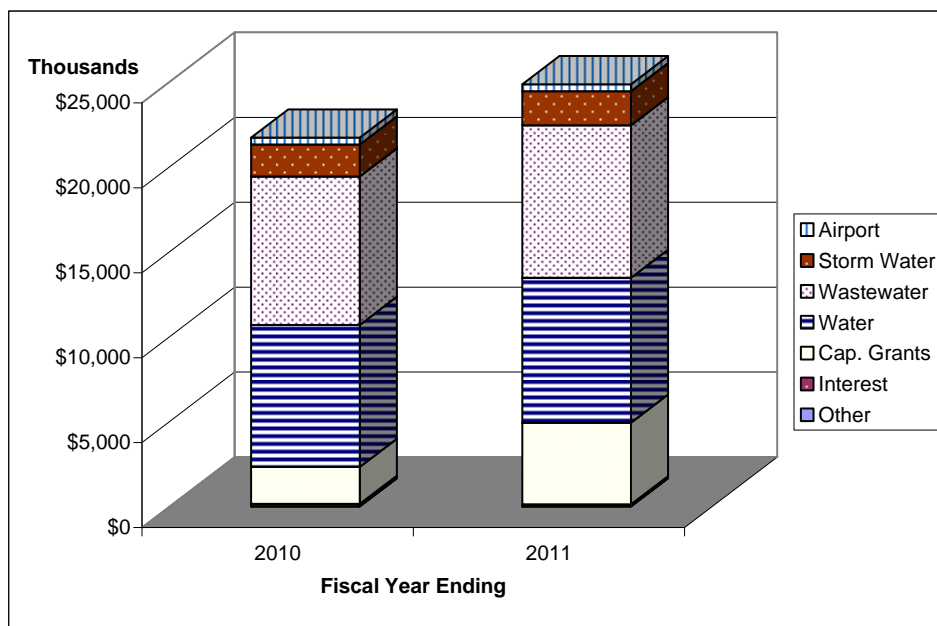
Proprietary Funds The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Activities in the proprietary funds increased the City’s net assets by \$1,947,755. Key elements of this increase are as follows:

- The Water and Wastewater funds accounted for a significant portion of this increase, which resulted in part from the approval of a 3.7 percent rate increase for water and 2.0 percent increase for wastewater rates to provide additional monies for operations and maintenance and future capital projects.

- Storm Water fees were increased ten percent in FY 09-10, and held steady in FY 10-11. This has primarily been to develop capacity within rates to implement new infrastructure projects that are the result of the storm water master plan.
- Systems Development Charges (SDCs) for water, wastewater, and storm water revenues combined were more than \$973,000 higher than anticipated in FY 2011, the result of significant new construction at Oregon State University. SDC revenue is used to fund infrastructure projects that occur as the result of increased demand.



Revenues by Source – Business-type Activities



General Fund Budgetary Highlights

There was a \$611,246 increase between the adopted and final budget in the General Fund. During the course of the year the City Council accepted and appropriated Department of Justice Grants for the Police Department and an Environmental Protection Agency grant for a climate change related project. Significant variances between budget and actual activity can be summarized as follows:

- ❖ Revenues were lower than expected from transient room taxes, franchise fees, development review fees, and interest earnings due to the economic slow down.
- ❖ Property tax revenue was higher than expected, built on new statewide assessment of Comcast that included property taxes on intangibles and increases to a higher 2010 base for industrial property. Comcast has

appealed its valuation, and subsequent to fiscal year end won its appeal; the State Department of Revenue, which performed the assessment, has not yet decided whether it will appeal this decision. The base for the higher industrial property values is on appeal from 2008; the outcome of that appeal could have impacts on the 2011 revenue as well as future year projections.

- ❖ Franchise fees were lower than expected due to both a decrease in the number of land line phones in use and general conservation measures put into place by Corvallis homeowners as part of the community sustainability efforts.

Capital Asset and Debt Administration

Capital Assets The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$289,621,190 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, machinery and equipment, office equipment, intangibles, infrastructure, and construction in progress. The total increase in the City’s investment in capital assets for the current fiscal year was 0.31 percent. This total includes a 0.16 percent increase in governmental activities and a 0.87 percent decrease in business-type activities.

Major capital asset events during FY 2011 included the following:

- ❖ Infrastructure maintenance projects capitalized for water, wastewater, storm water, streets, sidewalks, parks, and municipal buildings totaled \$1,818,241.
- ❖ FY 2011 marks the first year the City is reporting the acquisition of intangible assets in its business-type activities. Recorded intangibles include assets for land easements and software development.
- ❖ Airport Facility Improvements completed during the year included reconstruction and widening of Hout Street in the industrial park and the first phase of off-site wetland mitigation work.
- ❖ City Hall projects, including seismic improvements funded by a FEMA grant, window and HVAC replacement/upgrade, and the Moose Lodge demolition and parking lot & restroom construction were all completed.
- ❖ The third phase of the Majestic Theatre Seismic Upgrade was completed.

The economic slow-down in Corvallis and the rest of the nation led to a lower than usual level of infrastructure assets constructed by private developers and donated to the City.

CITY OF CORVALLIS’ CAPITAL ASSETS (net of depreciation)
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	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>
Intangibles	\$ 106,023	\$ 433,150	\$ -	\$ 148,617	\$ 106,023	\$ 581,767
Land	87,240,451	88,117,613	1,142,357	1,142,357	88,382,808	89,259,970
Buildings	16,706,974	17,306,742	1,574,303	1,508,791	18,281,277	18,815,533
Machinery and equipment	1,961,823	2,189,028	1,825,941	1,790,231	3,787,764	3,979,259
Vehicles	6,301,978	5,619,606	1,197,953	961,344	7,499,931	6,580,950
Infrastructure	42,586,423	40,755,216	126,467,494	126,259,987	169,053,917	167,015,203
Construction in Progress	1,872,612	2,610,671	1,542,663	777,837	3,415,275	3,388,508
Total	<u>\$ 156,776,284</u>	<u>\$ 157,032,026</u>	<u>\$ 133,750,711</u>	<u>\$ 132,589,164</u>	<u>\$ 290,526,995</u>	<u>\$ 289,621,190</u>

Additional information on the City of Corvallis’ capital assets can be found on pages 51-52 of this report.

Long-Term Debt At the end of FY 2011 the City had total debt outstanding of \$64,345,517 . Of this amount, \$8,695,000 comprises debt backed by the full faith and credit of the government, \$4,820,000 is revenue supported,

backed by the revenue of the wastewater utility operation, and \$32,360,610 is limited-tax debt supported by operating funds of the City. The City also had total notes outstanding of \$18,469,907 .

CITY OF CORVALLIS
Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>
General obligation bonds	\$ 10,860,000	\$ 8,695,000	\$ -	\$ -	\$ 10,860,000	\$ 8,695,000
Revenue bonds	-	-	5,240,000	4,820,000	5,240,000	4,820,000
Pension obligation bonds	32,767,277	32,360,610	-	-	32,767,277	32,360,610
Total bonded debt	43,627,277	41,055,610	5,240,000	4,820,000	48,867,277	45,875,610
Notes payable	-	2,100,000	18,263,308	16,369,907	18,263,308	18,469,907
Total Debt Outstanding	<u>\$ 43,627,277</u>	<u>\$ 43,155,610</u>	<u>\$23,503,308</u>	<u>\$21,189,907</u>	<u>\$ 67,130,585</u>	<u>\$64,345,517</u>

The City’s total debt decreased \$2,785,068 or 4.15 percent during FY 2011. The decrease was the net result of paying scheduled debt payments and completing a full faith and credit bank loan for \$2.1 million in August 2010.

Moody’s change to a global rating system has changed the City’s debt ratings. The City’s 2002 pension obligation bonds are rated Aa3; all other City issued debt is rated Aa2. In June 2011, Moody’s placed the City on negative outlook and indicated that decreasing General Fund reserves were the major area of concern. The City Council has developed a goal to create a financially sustainable budget, and work on that goal is progressing.

Additional information on the City of Corvallis’ long-term debt can be found on pages 53-57 of this report.

Economic Factors and Next Year’s Budgets and Rates

- The seasonally adjusted unemployment rate for the Corvallis MSA in June 2011 was 6.4 percent, a decrease from last June’s 7 percent seasonally adjusted rate. Benton County has continued to have one of the lowest unemployment rates in the State of Oregon, where the June seasonally adjusted statewide rate was 9.4 percent.
- Property tax revenue has remained relatively stable. Oregon’s property tax system, where assessed values for tax purposes are not tied to real market values, has allowed revenue to remain stable even as real market value has declined by 2 to 4 percent. In Corvallis, the average residential property assessed value is forty percent lower than real market value. However, valuation appeals by large industrial properties have led to a lower than expected level of revenue.
- Utility rates for the water, wastewater, and storm water funds are projected to increase in line with the City Council’s policy guidelines of 2 to 3 percent on the average residential utility bill. The need for infrastructure maintenance and improvements is driving the annual rate increases.
- Single family residential construction has essentially stopped in Corvallis, although commercial projects have remained strong, and Oregon State University is in the middle of several major building projects. Oregon State University enrollment increased close to 4,000 students for the 11-12 school year, and with a near zero vacancy rate for rental units a number of developers are looking at apartment construction projects. At this point, it is difficult to predict when the single family residential market will return to its previous level.

All of these factors were considered when preparing the budget for the 2012 fiscal year.

During FY 2011, unassigned fund balances in the General Fund decreased to \$(112,018). The City of Corvallis has appropriated some of its committed balances for planned projects for which these balances were set aside. The planned draw on fund balances continues a trend over the last six years where operating expenses are higher than operating revenue. For FY 2012, the City cut the budget by \$1.8 million to obtain a balanced budget; this was following a mid-year FY 2011 cut of \$2.3 million.

Requests for Information

This financial report is designed to provide a general overview of the City of Corvallis' finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Corvallis, 500 SW Madison, Corvallis, Oregon 97333, 541-766-6990 or via e-mail at finance@ci.corvallis.or.us.

BASIC FINANCIAL STATEMENTS

- GOVERNMENT-WIDE FINANCIAL STATEMENTS
- FUND FINANCIAL STATEMENTS
 - GOVERNMENTAL FUNDS
 - PROPRIETARY FUNDS
- NOTES TO THE BASIC FINANCIAL STATEMENTS



BASIC FINANCIAL STATEMENTS

The basic financial statements consist of the government-wide financial statements, fund financial statements and the notes to the financial statements. An auditor's opinion is expressed on the basic financial statements.

CITY OF CORVALLIS, OREGON
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
ASSETS			
Cash and investments	\$ 13,723,025	\$ 19,157,725	\$ 32,880,750
Receivables (net of allowances for uncollectibles)			
Property taxes	1,199,656	-	1,199,656
Accounts	1,243,077	1,885,920	3,128,997
Accrued interest	17,296	23,644	40,940
Assessments	80,262	43,078	123,340
Franchise fees	429,107	-	429,107
Grants	1,297,291	123,580	1,420,871
Revolving loans	2,719,809	-	2,719,809
Other receivables	719,326	182	719,508
Other assets	14	-	14
Deferred charges	469,015	420,520	889,535
Property held for resale	1,040,083	-	1,040,083
Prepaid pension obligation costs	22,369,537	-	22,369,537
Other restricted assets	-	151,078	151,078
Restricted cash and investments	-	1,627,159	1,627,159
Capital assets:			
Non-depreciable	91,046,424	2,068,811	93,115,235
Other (net of accumulated depreciation)	65,985,602	130,520,353	196,505,955
<i>Total Assets</i>	<u>\$ 202,339,524</u>	<u>\$ 156,022,050</u>	<u>\$ 358,361,574</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 1,499,980	\$ 848,260	\$ 2,348,240
Accrued interest	687,763	228,600	916,363
Other accrued liabilities	943,613	71,591	1,015,204
Unearned revenue	77,520	-	77,520
Noncurrent liabilities:			
Due within one year			
Accrued compensated absences	3,449,638	643,550	4,093,188
Bonds payable	2,356,767	440,000	2,796,767
Notes payable	185,000	1,982,793	2,167,793
Due in more than one year:			
Accrued compensated absences	1,817,629	339,089	2,156,718
Net OPEB obligation	3,999,238	949,702	4,948,940
Bonds payable (net of unamortized premium and deferred amount on refunding)	38,629,200	4,180,926	42,810,126
Notes payable	1,915,000	14,387,115	16,302,115
<i>Total Liabilities</i>	<u>55,561,348</u>	<u>24,071,626</u>	<u>79,632,974</u>
Net Assets			
Investment in capital assets (net of related debt)	146,306,669	111,598,330	257,904,999
Restricted for:			
Streets and highways	2,323,260	-	2,323,260
Capital projects and construction	3,377,276	13,625,196	17,002,472
Debt service	82,505	1,778,226	1,860,731
Endowments - nonexpendable	5,000	-	5,000
Other purposes	1,555,809	-	1,555,809
Unrestricted	(6,872,343)	4,948,672	(1,923,671)
<i>Total Net Assets</i>	<u>146,778,176</u>	<u>131,950,424</u>	<u>278,728,600</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 202,339,524</u>	<u>\$ 156,022,050</u>	<u>\$ 358,361,574</u>

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

CITY OF CORVALLIS, OREGON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

<i>Activities</i>	<i>Expenses</i>	<i>Program Revenues</i>		
		<i>Fees, Fines, and Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>
Governmental Activities:				
Community Development	\$ 5,854,253	\$ 2,157,595	\$ 1,024,105	\$ -
Finance	782,197	1,094,015	-	-
Fire	11,426,793	3,318,101	37,562	58,012
Library	6,221,228	211,198	2,407,275	36,999
Parks and Recreation	6,020,914	1,512,646	46,806	1,209,457
Police	13,184,192	1,293,267	1,276,987	398,897
Public Works	11,245,957	1,901,110	4,169,504	3,937,982
General Government	1,511,814	371,003	-	-
Interest on long-term debt	2,292,797	-	-	-
<i>Total Governmental Activities</i>	<i>58,540,145</i>	<i>11,858,935</i>	<i>8,962,239</i>	<i>5,641,347</i>
Business-type Activities:				
Water	8,745,859	8,482,624	46,544	1,846,713
Wastewater	9,970,607	8,969,074	8,525	1,479,547
Storm Water	2,097,052	2,005,560	3,127	811,322
Airport	1,497,794	408,313	-	670,551
<i>Total Business-type Activities</i>	<i>22,311,312</i>	<i>19,865,571</i>	<i>58,196</i>	<i>4,808,133</i>
<i>Total Activities</i>	<i>\$ 80,851,457</i>	<i>\$ 31,724,506</i>	<i>\$ 9,020,435</i>	<i>\$ 10,449,480</i>

General Revenues:

Taxes
Property taxes, levied for general purposes
Property taxes, levied for debt service
Transient room taxes
Franchise fees
Interest and investment earnings
Miscellaneous
Gain on sale of capital assets

Total General Revenues

Transfers

Change in Net Assets

Net Assets, Beginning of Year

Net Assets, End of Year

***Net (Expenses) Revenues and
Changes in Net Assets***

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
\$ (2,672,553)	\$ -	\$ (2,672,553)
311,818	-	311,818
(8,013,118)	-	(8,013,118)
(3,565,756)	-	(3,565,756)
(3,252,005)	-	(3,252,005)
(10,215,041)	-	(10,215,041)
(1,237,361)	-	(1,237,361)
(1,140,811)	-	(1,140,811)
(2,292,797)	-	(2,292,797)
<u>(32,077,624)</u>	<u>-</u>	<u>(32,077,624)</u>
-	1,630,022	1,630,022
-	486,539	486,539
-	722,957	722,957
-	(418,930)	(418,930)
<u>-</u>	<u>2,420,588</u>	<u>2,420,588</u>
<u>(32,077,624)</u>	<u>2,420,588</u>	<u>(29,657,036)</u>
19,876,172	-	19,876,172
1,899,302	-	1,899,302
1,190,725	-	1,190,725
5,142,289	-	5,142,289
144,235	113,416	257,651
1,421,942	8,041	1,429,983
43,271	-	43,271
<u>29,717,936</u>	<u>121,457</u>	<u>29,839,393</u>
594,290	(594,290)	-
(1,765,398)	1,947,755	182,357
<u>148,543,574</u>	<u>130,002,669</u>	<u>278,546,243</u>
<u>\$ 146,778,176</u>	<u>\$ 131,950,424</u>	<u>\$ 278,728,600</u>

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

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FUND FINANCIAL STATEMENTS

MAJOR GOVERNMENTAL FUNDS



MAJOR GOVERNMENTAL FUNDS

GENERAL FUND - Accounts for all of the financial resources of the City which are not accounted for in any other fund. Principal sources of revenue are property taxes, franchise fees, licenses, permits and state shared revenues. Primary expenditures in the General Fund are for police, planning, municipal court, and facilities maintenance.

STREET FUND - Accounts for the engineering, maintenance and improvements of city streets. The major revenue sources are state gasoline tax proceeds, the transportation maintenance fee and system development charges.

PARKS AND RECREATION FUND - Accounts for the operation of the Parks and Recreation Department including park maintenance, the aquatic center and recreational programs for youth and adults. Major revenue sources include property taxes, fees for recreational programs, and system development charges.

FIRE AND RESCUE FUND - Accounts for revenues and expenditures associated with the operation of fire, emergency medical and transport ambulance services. Fund operations are financed by property taxes, ambulance fees, and Firemed revenue.

COMMUNITY DEVELOPMENT REVOLVING FUND - Accounts for housing and community improvement services funded by loan repayments from community development block grant activities and federal HOME grants. Major revenue sources include grants and loan repayments.

LIBRARY FUND - Accounts for the system operation and extension services of the Corvallis-Benton County Public Library. The major revenue sources are property taxes and intergovernmental monies from the Benton County Library Service District.

CAPITAL CONSTRUCTION FUND - Accounts for the construction and improvement of roads, parks, and facilities, and for the acquisition of park land. Major revenue sources are from interfund transfers and grants.

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CITY OF CORVALLIS, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Street</u>	<u>Parks and Recreation</u>
ASSETS			
Cash and investments	\$ 607,739	\$ 2,159,034	\$ 2,612,526
Receivables			
Property taxes	1,199,656	-	-
Accounts	355,189	71,925	98,269
Accrued interest	623	4,089	4,629
Assessments	61,069	9,564	9,629
Franchise fees	429,107	-	-
Grants	80,345	180,721	-
Revolving loans	-	-	-
Other receivables	181,648	257,934	-
Property held for resale	1,040,083	-	-
Other assets	-	-	-
	<u> </u>	<u> </u>	<u> </u>
<i>Total Assets</i>	<u><u>\$ 3,955,459</u></u>	<u><u>\$ 2,683,267</u></u>	<u><u>\$ 2,725,053</u></u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 128,447	\$ 322,314	\$ 182,975
Other accrued liabilities	843,534	28,129	1,296
Deferred/unearned revenue	2,579,398	9,564	25,902
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities</i>	<u>3,551,379</u>	<u>360,007</u>	<u>210,173</u>
 Fund Balances			
Nonspendable	-	-	-
Restricted	263,683	1,874,768	1,612,951
Committed	252,415	91,625	572,523
Assigned	-	356,867	329,406
Unassigned	(112,018)	-	-
	<u> </u>	<u> </u>	<u> </u>
<i>Total Fund Balance</i>	<u>404,080</u>	<u>2,323,260</u>	<u>2,514,880</u>
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities and Fund Balances</i>	<u><u>\$ 3,955,459</u></u>	<u><u>\$ 2,683,267</u></u>	<u><u>\$ 2,725,053</u></u>

<i>Fire & Rescue</i>	<i>Community Development Revolving</i>	<i>Library</i>	<i>Capital Construction</i>	<i>Other Governmental Funds</i>	<i>Total</i>
\$ 1,240,100	\$ 17,983	\$ 1,185,348	\$ 1,143,930	\$ 3,019,159	\$ 11,985,819
-	-	-	-	-	1,199,656
427,614	30	4	-	277,714	1,230,745
1,363	410	1,063	808	2,659	15,644
-	-	-	-	-	80,262
-	-	-	-	-	429,107
28,848	51,532	-	874,793	81,052	1,297,291
-	2,719,809	-	-	-	2,719,809
11,589	-	131,247	-	136,908	719,326
-	-	-	-	-	1,040,083
-	-	-	-	14	14
<u>\$ 1,709,514</u>	<u>\$ 2,789,764</u>	<u>\$ 1,317,662</u>	<u>\$ 2,019,531</u>	<u>\$ 3,517,506</u>	<u>\$ 20,717,756</u>
\$ 74,896	\$ 6,016	\$ 82,545	\$ 196,218	\$ 194,601	\$ 1,188,012
-	9,471	48	5,621	46,682	934,781
469,472	2,719,810	4,096	-	36,217	5,844,459
<u>544,368</u>	<u>2,735,297</u>	<u>86,689</u>	<u>201,839</u>	<u>277,500</u>	<u>7,967,252</u>
-	-	-	-	5,000	5,000
-	-	6,086	1,133,541	81,557	4,972,586
3,408	240,706	444,917	-	37,323	1,642,917
1,161,738	-	779,970	684,151	3,116,126	6,428,258
-	(186,239)	-	-	-	(298,257)
<u>1,165,146</u>	<u>54,467</u>	<u>1,230,973</u>	<u>1,817,692</u>	<u>3,240,006</u>	<u>12,750,504</u>
<u>\$ 1,709,514</u>	<u>\$ 2,789,764</u>	<u>\$ 1,317,662</u>	<u>\$ 2,019,531</u>	<u>\$ 3,517,506</u>	<u>\$ 20,717,756</u>

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

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CITY OF CORVALLIS, OREGON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Amounts reported for governmental activities in the statement of net assets (page 23) are different because:

Fund balance - total governmental funds (page 25)	\$ 12,750,504
Capital assets used in governmental activities are not financial resources and, therefore, are not included in the funds. Capital assets reported in internal service funds are included in the governmental capital assets reported on the statement of net assets but are not included here.	156,221,515
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	469,015
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(51,801,237)
Internal service funds are used by management to charge the costs of fleet, facility, technology and communications, administrative services and risk management to the individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	1,001,903
In 2002 and 2005, the City made a payment to PERS for unfunded pension liabilities. The expenditures were reported in the funds when paid; however, the prepaid asset is not reported in the funds and must be amortized over the life of the debt. The unamortized balance is reported as a prepaid asset of governmental funds on the entity wide statement of net assets.	22,369,537
Other revenues are earned but are deferred as they are not available in the current period to pay for current period expenditures; therefore, these revenues are not reported in the funds.	5,766,939
	<hr/>
Net assets of governmental activities (page 23)	<u>\$ 146,778,176</u>

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

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

	<u>General</u>	<u>Street</u>	<u>Parks and Recreation</u>
REVENUES			
Taxes	\$ 6,169,798	\$ -	\$ 3,971,633
Licenses, fees, and permits	5,375,369	566,660	85,200
Charges for services	675,033	852,727	2,569,529
Intergovernmental	1,367,991	3,244,275	7,400
Fines and forfeitures	697,994	4,717	228
Miscellaneous	138,017	16,221	101,742
	<hr/>	<hr/>	<hr/>
<i>Total Revenues</i>	14,424,202	4,684,600	6,735,732
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Current			
Community Development	1,450,222	18,106	-
Finance	576,402	-	-
Fire	-	-	-
Library	-	-	-
Parks & Recreation	-	-	5,420,677
Police	9,894,021	-	-
Public Works	887,312	3,602,705	-
Nondepartmental	1,424,041	-	-
Debt service			
Principal	-	-	-
Interest	30,389	-	-
Capital outlay	78,530	130,464	20,590
	<hr/>	<hr/>	<hr/>
<i>Total Expenditures</i>	14,340,917	3,751,275	5,441,267
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	83,285	933,325	1,294,465
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)			
Proceeds - issuance of debt	-	-	-
Proceeds - sale of capital assets	4,002	-	-
Transfers in	345,450	-	-
Transfers out	(699,060)	(600,049)	(199,940)
	<hr/>	<hr/>	<hr/>
<i>Total Other Financing Sources (Uses)</i>	(349,608)	(600,049)	(199,940)
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	(266,323)	333,276	1,094,525
	<hr/>	<hr/>	<hr/>
FUND BALANCE, Beginning of year	670,403	1,989,984	1,420,355
	<hr/>	<hr/>	<hr/>
FUND BALANCE, End of year	\$ 404,080	\$ 2,323,260	\$ 2,514,880
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<i>Fire & Rescue</i>	<i>Community Development Revolving</i>	<i>Library</i>	<i>Capital Construction</i>	<i>Other Governmental Funds</i>	<i>Total</i>
\$ 6,842,357	\$ -	\$ 3,937,789	\$ -	\$ 1,976,944	\$ 22,898,521
21,162	116,220	-	-	1,425,862	7,590,473
3,271,140	5,000	43,340	-	2,339,999	9,756,768
37,562	1,015,560	2,407,275	868,706	2,164,417	11,113,186
17,223	476	94,207	-	412,269	1,227,114
72,221	244,918	78,641	31,037	209,679	892,476
<u>10,261,665</u>	<u>1,382,174</u>	<u>6,561,252</u>	<u>899,743</u>	<u>8,529,170</u>	<u>53,478,538</u>
-	2,216,117	-	-	1,949,082	5,633,527
-	-	-	-	112,029	688,431
9,240,854	-	-	-	-	9,240,854
-	-	5,993,041	-	147	5,993,188
-	-	-	-	-	5,420,677
-	-	-	-	2,295,681	12,189,702
-	-	-	-	2,583,173	7,073,190
-	-	-	-	1,350	1,425,391
-	-	-	-	2,571,667	2,571,667
-	-	-	-	2,255,229	2,285,618
1,172,299	-	(85,604)	2,752,422	-	4,068,701
<u>10,413,153</u>	<u>2,216,117</u>	<u>5,907,437</u>	<u>2,752,422</u>	<u>11,768,358</u>	<u>56,590,946</u>
<u>(151,488)</u>	<u>(833,943)</u>	<u>653,815</u>	<u>(1,852,679)</u>	<u>(3,239,188)</u>	<u>(3,112,408)</u>
-	-	-	2,100,000	-	2,100,000
17,505	-	-	-	21,764	43,271
-	-	-	812,649	2,501,680	3,659,779
(521,750)	(89,420)	(235,850)	(75,000)	(644,420)	(3,065,489)
<u>(504,245)</u>	<u>(89,420)</u>	<u>(235,850)</u>	<u>2,837,649</u>	<u>1,879,024</u>	<u>2,737,561</u>
(655,733)	(923,363)	417,965	984,970	(1,360,164)	(374,847)
<u>1,820,879</u>	<u>977,830</u>	<u>813,008</u>	<u>832,722</u>	<u>4,600,170</u>	<u>13,125,351</u>
<u>\$ 1,165,146</u>	<u>\$ 54,467</u>	<u>\$ 1,230,973</u>	<u>\$ 1,817,692</u>	<u>\$ 3,240,006</u>	<u>\$ 12,750,504</u>

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

CITY OF CORVALLIS, OREGON

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Amounts reported for governmental activities in the statement of activities (page 24) are different because:

Net change in fund balances - total governmental funds (page 27)	\$ (374,847)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and depreciation expense is recorded over the assets' useful lives. These are the amounts associated with the current period.	
Capital outlay (net)	3,344,729
Current period depreciation	(5,496,712)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(147,907)
Contributions of capital assets increase net assets. These assets are not reported in the funds.	2,566,998
The issuance of long-term debt (i.e., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any affect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(780,746)
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.	(951,589)
Some revenues are earned but are deferred as they are not available in the current period and, therefore, are not reported in the funds.	78,979
Internal service funds are used by management to charge the costs of fleet, facility, technology and communications, administrative services and risk management to the individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(4,303)
Change in net assets of governmental activities (page 24)	<u>\$ (1,765,398)</u>

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

CITY OF CORVALLIS, OREGON

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – GENERAL FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes	\$ 5,893,340	\$ 5,893,340	\$ 6,169,798	\$ 276,458
Licenses, fees, and permits	5,383,940	5,383,940	5,375,369	(8,571)
Charges for services	713,370	713,370	675,033	(38,337)
Intergovernmental	1,881,100	2,476,979	1,367,991	(1,108,988)
Fines and forfeitures	866,700	866,700	697,994	(168,706)
Miscellaneous	113,290	113,290	138,017	24,727
<i>Total Revenues</i>	<u>14,851,740</u>	<u>15,447,619</u>	<u>14,424,202</u>	<u>(1,023,417)</u>
EXPENDITURES				
Current				
Community Development	1,618,220	1,618,220	1,450,222	167,998
Finance	618,920	618,920	576,402	42,518
Police	9,940,990	10,060,474	9,914,796	145,678
Public Works	1,325,090	1,816,852	945,067	871,785
Nondepartmental	1,497,910	1,537,910	1,424,041	113,869
Contingency	143,640	103,640	-	103,640
<i>Total Expenditures</i>	<u>15,194,690</u>	<u>15,805,936</u>	<u>14,340,917</u>	<u>1,465,019</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(342,950)	(358,317)	83,285	441,602
OTHER FINANCING SOURCES (USES)				
Proceeds - issuance of debt	25,000	25,000	-	(25,000)
Proceeds - sale of capital assets	-	-	4,002	4,002
Transfers in	345,450	345,450	345,450	-
Transfers out	(700,760)	(700,760)	(699,060)	1,700
NET CHANGE IN FUND BALANCE	(673,260)	(688,627)	(266,323)	422,304
FUND BALANCE, Beginning of year	<u>1,268,343</u>	<u>1,268,343</u>	<u>670,403</u>	<u>(597,940)</u>
FUND BALANCE, End of year	<u>\$ 595,083</u>	<u>\$ 579,716</u>	<u>\$ 404,080</u>	<u>\$ (175,636)</u>

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

CITY OF CORVALLIS, OREGON**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – STREET FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses, fees, and permits	\$ 452,390	\$ 452,390	\$ 566,660	\$ 114,270
Charges for services	505,860	505,860	852,727	346,867
Intergovernmental	3,667,260	3,797,260	3,244,275	(552,985)
Fines and forfeitures	500	500	4,717	4,217
Miscellaneous	15,650	15,650	16,221	571
<i>Total Revenues</i>	<u>4,641,660</u>	<u>4,771,660</u>	<u>4,684,600</u>	<u>(87,060)</u>
EXPENDITURES				
Current				
Community Development	19,750	19,750	18,106	1,644
Public Works	4,299,360	4,429,360	3,733,169	696,191
Contingency	73,920	73,920	-	73,920
<i>Total Expenditures</i>	<u>4,393,030</u>	<u>4,523,030</u>	<u>3,751,275</u>	<u>771,755</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	248,630	248,630	933,325	684,695
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,606,520)	(1,606,520)	(600,049)	1,006,471
NET CHANGE IN FUND BALANCE	(1,357,890)	(1,357,890)	333,276	1,691,166
FUND BALANCE, Beginning of year	<u>1,607,329</u>	<u>1,607,329</u>	<u>1,989,984</u>	<u>382,655</u>
FUND BALANCE, End of year	<u>\$ 249,439</u>	<u>\$ 249,439</u>	<u>\$ 2,323,260</u>	<u>\$ 2,073,821</u>

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

CITY OF CORVALLIS, OREGON**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – PARKS AND RECREATION FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes	\$ 3,870,450	\$ 3,870,450	\$ 3,971,633	\$ 101,183
Licenses, fees, and permits	47,800	47,800	85,200	37,400
Charges for services	1,552,430	1,552,430	2,569,529	1,017,099
Intergovernmental	29,900	29,900	7,400	(22,500)
Fines and forfeitures	100	100	228	128
Miscellaneous	79,790	79,790	101,742	21,952
<i>Total Revenues</i>	<u>5,580,470</u>	<u>5,580,470</u>	<u>6,735,732</u>	<u>1,155,262</u>
EXPENDITURES				
Current				
Parks & Recreation	5,795,480	5,795,480	5,441,267	354,213
Contingency	54,900	54,900	-	54,900
<i>Total Expenditures</i>	<u>5,850,380</u>	<u>5,850,380</u>	<u>5,441,267</u>	<u>409,113</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(269,910)	(269,910)	1,294,465	1,564,375
OTHER FINANCING SOURCES (USES)				
Transfers out	(403,452)	(403,452)	(199,940)	203,512
NET CHANGE IN FUND BALANCE	(673,362)	(673,362)	1,094,525	1,767,887
FUND BALANCE, Beginning of year	<u>1,689,366</u>	<u>1,689,366</u>	<u>1,420,355</u>	<u>(269,011)</u>
FUND BALANCE, End of year	<u>\$ 1,016,004</u>	<u>\$ 1,016,004</u>	<u>\$ 2,514,880</u>	<u>\$ 1,498,876</u>

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

CITY OF CORVALLIS, OREGON**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – FIRE AND RESCUE FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes	\$ 6,667,370	\$ 6,667,370	\$ 6,842,357	\$ 174,987
Licenses, fees, and permits	17,950	17,950	21,162	3,212
Charges for services	3,146,270	3,146,270	3,271,140	124,870
Intergovernmental	32,800	32,800	37,562	4,762
Fines and forfeitures	15,340	15,340	17,223	1,883
Miscellaneous	70,180	70,180	72,221	2,041
<i>Total Revenues</i>	<u>9,949,910</u>	<u>9,949,910</u>	<u>10,261,665</u>	<u>311,755</u>
EXPENDITURES				
Current				
Fire	10,626,930	10,626,930	10,413,153	213,777
Contingency	101,230	101,230	-	101,230
<i>Total Expenditures</i>	<u>10,728,160</u>	<u>10,728,160</u>	<u>10,413,153</u>	<u>315,007</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(778,250)	(778,250)	(151,488)	626,762
OTHER FINANCING SOURCES (USES)				
Proceeds - sale of capital assets	-	-	17,505	17,505
Transfers out	(521,750)	(521,750)	(521,750)	-
NET CHANGE IN FUND BALANCE	(1,300,000)	(1,300,000)	(655,733)	644,267
FUND BALANCE, Beginning of year	<u>1,855,656</u>	<u>1,855,656</u>	<u>1,820,879</u>	<u>(34,777)</u>
FUND BALANCE, End of year	<u>\$ 555,656</u>	<u>\$ 555,656</u>	<u>\$ 1,165,146</u>	<u>\$ 609,490</u>

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

CITY OF CORVALLIS, OREGON**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – COMMUNITY DEVELOPMENT REVOLVING FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses, fees, and permits	\$ 118,000	\$ 118,000	\$ 116,220	\$ (1,780)
Charges for services	5,000	5,000	5,000	-
Intergovernmental	3,626,190	3,626,190	1,015,560	(2,610,630)
Fines and forfeitures	2,500	2,500	476	(2,024)
Miscellaneous	477,430	477,430	244,918	(232,512)
<i>Total Revenues</i>	<u>4,229,120</u>	<u>4,229,120</u>	<u>1,382,174</u>	<u>(2,846,946)</u>
EXPENDITURES				
Current				
Community Development	4,262,670	4,262,670	2,216,117	2,046,553
Contingency	35,720	35,720	-	35,720
<i>Total Expenditures</i>	<u>4,298,390</u>	<u>4,298,390</u>	<u>2,216,117</u>	<u>2,082,273</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(69,270)	(69,270)	(833,943)	(764,673)
OTHER FINANCING SOURCES (USES)				
Transfers out	(89,420)	(89,420)	(89,420)	-
NET CHANGE IN FUND BALANCE	(158,690)	(158,690)	(923,363)	(764,673)
FUND BALANCE, Beginning of year	<u>880,361</u>	<u>880,361</u>	<u>977,830</u>	<u>97,469</u>
FUND BALANCE, End of year	<u>\$ 721,671</u>	<u>\$ 721,671</u>	<u>\$ 54,467</u>	<u>\$ (667,204)</u>

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

CITY OF CORVALLIS, OREGON**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – LIBRARY FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes	\$ 3,838,270	\$ 3,838,270	\$ 3,937,789	\$ 99,519
Charges for services	45,400	45,400	43,340	(2,060)
Intergovernmental	2,460,620	2,510,620	2,407,275	(103,345)
Fines and forfeitures	75,500	75,500	94,207	18,707
Miscellaneous	86,330	86,330	78,641	(7,689)
<i>Total Revenues</i>	<u>6,506,120</u>	<u>6,556,120</u>	<u>6,561,252</u>	<u>5,132</u>
EXPENDITURES				
Current				
Library	6,384,110	6,434,110	5,907,437	526,673
Contingency	55,480	55,480	-	55,480
<i>Total Expenditures</i>	<u>6,439,590</u>	<u>6,489,590</u>	<u>5,907,437</u>	<u>582,153</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	66,530	66,530	653,815	587,285
OTHER FINANCING SOURCES (USES)				
Proceeds - sale of capital assets	60,000	60,000	-	(60,000)
Transfers out	(295,850)	(295,850)	(235,850)	60,000
NET CHANGE IN FUND BALANCE	(169,320)	(169,320)	417,965	587,285
FUND BALANCE, Beginning of year	<u>674,953</u>	<u>674,953</u>	<u>813,008</u>	<u>138,055</u>
FUND BALANCE, End of year	<u>\$ 505,633</u>	<u>\$ 505,633</u>	<u>\$ 1,230,973</u>	<u>\$ 725,340</u>

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

FUND FINANCIAL STATEMENTS

PROPRIETARY FUNDS



PROPRIETARY FUNDS

ENTERPRISE FUNDS:

These funds account for activities and services performed primarily for external users. Charges are based on the cost of services.

- **WATER, WASTEWATER AND STORM WATER FUNDS** - Account for the operation, maintenance, department services, and capital improvements of the water, wastewater, and storm water systems of the City. The primary source of revenue is user service charges.
- **AIRPORT FUND** - Accounts for the operation, maintenance, debt service, and capital improvements of the City's airport facilities. Revenues are derived primarily from hangar and building rental revenue, seed crop revenue, and capital improvement grants.

INTERNAL SERVICE FUNDS:

These funds account for activities and services performed primarily for other organizational units within the City. Charges are based on recovering costs from the benefited City units.

CITY OF CORVALLIS, OREGON
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2011

	Business-type Activities - Enterprise Funds					Governmental
	Water	Wastewater	Storm Water	Airport	Total	Activities Internal Service Funds
ASSETS						
Current Assets						
Cash and investments	\$ 6,485,057	\$ 10,424,490	\$ 1,665,515	\$ 582,663	\$ 19,157,725	\$ 1,737,206
Receivables						
Accounts	763,878	863,750	186,673	71,619	1,885,920	12,332
Accrued interest	6,217	15,490	1,570	367	23,644	1,652
Grants	25,170	10,171	-	88,239	123,580	-
Other receivables	-	182	-	-	182	-
Total Current Assets	7,280,322	11,314,083	1,853,758	742,888	21,191,051	1,751,190
Noncurrent Assets						
Assessments receivable	20,418	21,551	1,109	-	43,078	-
Deferred issuance costs	207,645	212,875	-	-	420,520	-
Other restricted assets	151,067	11	-	-	151,078	-
Restricted cash and investments	-	1,627,159	-	-	1,627,159	-
Capital assets						
Non-depreciable	507,225	980,078	393,208	188,299	2,068,810	500,663
Other (net of accumulated depreciation)	43,543,967	64,233,352	16,370,879	6,372,156	130,520,354	309,848
Total Noncurrent Assets	44,430,322	67,075,026	16,765,196	6,560,455	134,830,999	810,511
Total Assets	\$ 51,710,644	\$ 78,389,109	\$ 18,618,954	\$ 7,303,343	\$ 156,022,050	\$ 2,561,701
LIABILITIES AND NET ASSETS						
Current Liabilities						
Accounts payable	\$ 300,032	\$ 428,755	\$ 34,340	\$ 85,133	\$ 848,260	\$ 311,968
Accrued compensated absences	259,142	290,930	81,826	11,652	643,550	454,592
Accrued interest	117,254	106,350	-	4,996	228,600	-
Other accrued liabilities	62,588	950	4,737	3,316	71,591	8,832
Bonds payable, current portion	-	440,000	-	-	440,000	-
Notes payable, current portion	815,965	1,142,888	-	23,940	1,982,793	-
Total Current Liabilities	1,554,981	2,409,873	120,903	129,037	4,214,794	775,392
Long-Term Liabilities						
Accrued compensated absences	136,543	153,292	43,115	6,139	339,089	239,527
Net OPEB obligations	388,987	392,946	142,529	25,240	949,702	544,879
Bonds payable (net of unamortized premium and deferred amount on refunding)	-	4,180,926	-	-	4,180,926	-
Notes payable	3,041,605	11,212,309	-	133,201	14,387,115	-
Total Long-Term Liabilities	3,567,135	15,939,473	185,644	164,580	19,856,832	784,406
Total Liabilities	5,122,116	18,349,346	306,547	293,617	24,071,626	1,559,798
Net Assets						
Investment in capital assets, net of related debt	40,193,622	48,237,307	16,764,087	6,403,314	111,598,330	810,511
Restricted						
Capital projects and construction	5,093,417	8,430,550	75,137	26,092	13,625,196	-
Debt service	151,067	1,627,159	-	-	1,778,226	-
Unrestricted	1,150,422	1,744,747	1,473,183	580,320	4,948,672	191,392
Total Net Assets	46,588,528	60,039,763	18,312,407	7,009,726	131,950,424	1,001,903
Total Liabilities and Net Assets	\$ 51,710,644	\$ 78,389,109	\$ 18,618,954	\$ 7,303,343	\$ 156,022,050	\$ 2,561,701

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

CITY OF CORVALLIS, OREGON

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

	<i>Business-type Activities - Enterprise Funds</i>					<i>Governmental</i>
	<i>Water</i>	<i>Wastewater</i>	<i>Storm Water</i>	<i>Airport</i>	<i>Total</i>	<i>Activities Internal Service Funds</i>
OPERATING REVENUES						
Licenses, fees, and permits	\$ -	\$ -	\$ -	\$ 4,450	\$ 4,450	\$ -
Charges for services	8,646,978	10,064,001	2,052,097	394,784	21,157,860	8,680,965
Intergovernmental	46,544	8,525	3,127	-	58,196	-
Fines and forfeitures	3,149	-	-	-	3,149	32
Miscellaneous	421,611	23,036	3,241	9,079	456,967	57,702
<i>Total Operating Revenues</i>	<u>9,118,282</u>	<u>10,095,562</u>	<u>2,058,465</u>	<u>408,313</u>	<u>21,680,622</u>	<u>8,738,699</u>
OPERATING EXPENSES						
Personal services	3,430,144	3,366,935	1,109,602	152,290	8,058,971	5,080,830
Materials and supplies	955,359	473,091	60,836	11,208	1,500,494	595,275
Services	488,888	604,504	46,451	115,809	1,255,652	1,099,726
Utility and overhead	1,917,113	2,024,696	503,653	65,203	4,510,665	1,847,257
Training and conference	20,420	31,338	1,323	1,581	54,662	38,635
Depreciation and amortization	1,716,800	2,267,516	374,003	351,959	4,710,278	93,950
<i>Total Operating Expenses</i>	<u>8,528,724</u>	<u>8,768,080</u>	<u>2,095,868</u>	<u>698,050</u>	<u>20,090,722</u>	<u>8,755,673</u>
OPERATING INCOME (LOSS)	<u>589,558</u>	<u>1,327,482</u>	<u>(37,403)</u>	<u>(289,737)</u>	<u>1,589,900</u>	<u>(16,974)</u>
NON-OPERATING INCOME (EXPENSE)						
Interest income	35,258	66,043	9,346	2,769	113,416	12,671
Interest expense	(219,235)	(783,803)	-	(9,183)	(1,012,221)	-
Gain (loss) on disposal of capital assets	2,100	(418,724)	(1,184)	(790,561)	(1,208,369)	-
<i>Total Non-Operating Income (Expense)</i>	<u>(181,877)</u>	<u>(1,136,484)</u>	<u>8,162</u>	<u>(796,975)</u>	<u>(2,107,174)</u>	<u>12,671</u>
INCOME (EXPENSE) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>407,681</u>	<u>190,998</u>	<u>(29,241)</u>	<u>(1,086,712)</u>	<u>(517,274)</u>	<u>(4,303)</u>
CAPITAL CONTRIBUTIONS						
Capital assets	1,260,329	366,810	761,629	-	2,388,768	-
Capital grants	-	-	-	670,551	670,551	-
<i>Total Capital Contributions</i>	<u>1,260,329</u>	<u>366,810</u>	<u>761,629</u>	<u>670,551</u>	<u>3,059,319</u>	<u>-</u>
TRANSFERS						
Transfers in	-	-	5,000	144,160	149,160	-
Transfers out	(297,820)	(237,990)	(174,460)	(33,180)	(743,450)	-
<i>Total Transfers</i>	<u>(297,820)</u>	<u>(237,990)</u>	<u>(169,460)</u>	<u>110,980</u>	<u>(594,290)</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>1,370,190</u>	<u>319,818</u>	<u>562,928</u>	<u>(305,181)</u>	<u>1,947,755</u>	<u>(4,303)</u>
NET ASSETS, Beginning of year	<u>45,218,338</u>	<u>59,719,945</u>	<u>17,749,479</u>	<u>7,314,907</u>	<u>130,002,669</u>	<u>1,006,206</u>
NET ASSETS, End of year	<u>\$ 46,588,528</u>	<u>\$ 60,039,763</u>	<u>\$ 18,312,407</u>	<u>\$ 7,009,726</u>	<u>\$ 131,950,424</u>	<u>\$ 1,001,903</u>

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

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CITY OF CORVALLIS, OREGON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Funds
	Water	Wastewater	Storm Water	Airport	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 9,120,614	\$ 10,045,027	\$ 2,030,467	\$ 328,608	\$ 21,524,716	\$ 172,651
Receipts from interfund services provided	4,767	3,380	5,641	498	14,286	1,049,854
Payments to suppliers	(1,964,206)	(1,439,080)	(174,658)	(46,767)	(3,624,711)	(3,229,916)
Payments to employees	(3,254,993)	(3,340,307)	(1,121,475)	(181,861)	(7,898,636)	(4,712,840)
Payments for interfund services used	(1,591,155)	(1,592,493)	(454,162)	(66,251)	(3,704,061)	6,951,667
<i>Net Cash Provided (Used) by Operating Activities</i>	<u>2,315,027</u>	<u>3,676,527</u>	<u>285,813</u>	<u>34,227</u>	<u>6,311,594</u>	<u>231,416</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	-	-	5,000	144,160	149,160	-
Transfers out	(297,820)	(237,990)	(174,460)	(33,180)	(743,450)	-
<i>Net Cash Used In Noncapital Financing Activities</i>	<u>(297,820)</u>	<u>(237,990)</u>	<u>(169,460)</u>	<u>110,980</u>	<u>(594,290)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	(326,160)	(876,819)	(178,764)	(770,605)	(2,152,348)	(82,585)
Capital contributions	-	-	-	670,551	670,551	-
Interest paid	(241,708)	(778,153)	-	(9,924)	(1,029,785)	-
Payments on bond principal	-	(420,000)	-	-	(420,000)	-
Payments on notes payable	(767,510)	(1,102,152)	-	(23,739)	(1,893,401)	-
Proceeds - sale of capital assets	2,100	2,391	-	2,500	6,991	-
<i>Net Cash Used In Capital and Related Financing Activities</i>	<u>(1,333,278)</u>	<u>(3,174,733)</u>	<u>(178,764)</u>	<u>(131,217)</u>	<u>(4,817,992)</u>	<u>(82,585)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest on investments	35,650	67,659	9,615	2,981	115,905	12,753
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	719,579	331,463	(52,796)	16,971	1,015,217	161,584
CASH AND INVESTMENTS, Beginning of year	<u>5,765,478</u>	<u>11,720,186</u>	<u>1,718,311</u>	<u>565,692</u>	<u>19,769,667</u>	<u>1,575,622</u>
CASH AND INVESTMENTS, End of year	<u>\$ 6,485,057</u>	<u>\$ 12,051,649</u>	<u>\$ 1,665,515</u>	<u>\$ 582,663</u>	<u>\$ 20,784,884</u>	<u>\$ 1,737,206</u>

	<i>Business-type Activities - Enterprise Funds</i>					<i>Governmental Activities Internal Service Funds</i>
	<i>Water</i>	<i>Wastewater</i>	<i>Storm Water</i>	<i>Airport</i>	<i>Total</i>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN)						
OPERATING ACTIVITIES						
Operating income (loss)	\$ 589,558	\$ 1,327,482	\$ (37,403)	\$ (289,737)	\$ 1,589,900	\$ (16,974)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation and amortization	1,716,800	2,267,516	374,003	351,959	4,710,278	93,950
Change in assets and liabilities						
Receivables						
Accounts receivable	(50,877)	(7,222)	8,640	(9,929)	(59,388)	785
Assessments	2,766	(3,350)	2	-	(582)	-
Grants	(1,946)	(8,526)	-	(69,278)	(79,750)	-
Other	38,635	3	-	-	38,638	-
Other Assets	(49,080)	(49,080)	(50,456)	-	(148,616)	-
Accounts payable	15,395	80,848	(24,517)	33,869	105,595	74,353
Accrued compensated absences	(3,614)	(50,692)	(17,915)	4,872	(67,349)	(49,509)
Net OPEB obligations	133,345	133,882	52,866	9,155	329,248	159,876
Other accrued liabilities	(75,955)	(14,334)	(19,407)	3,316	(106,380)	(31,065)
<i>Net Cash Provided (Used) by Operating Activities</i>	<u>\$ 2,315,027</u>	<u>\$ 3,676,527</u>	<u>\$ 285,813</u>	<u>\$ 34,227</u>	<u>\$ 6,311,594</u>	<u>\$ 231,416</u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS



CITY OF CORVALLIS, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Corvallis, Oregon (“the City”) is a municipal corporation governed by an elected mayor and nine-member Council. The Council appoints a City Manager to act as the administrative head of operations. As required by accounting principles generally accepted in the United States of America (GAAP) all significant activities of the City have been included in the basic financial statements. The City qualifies as a primary government since the City has a separately elected governing body, is a legally separate entity, and is fiscally independent. There are various governmental agencies and special service districts which provide services within the City’s boundaries. The City is not financially accountable for any of these entities; therefore, none of them are considered component units nor are they included in these basic financial statements.

Government-wide and fund financial statements

The government-wide financial statements, the Statement of Net Assets and the Statement of Activities, report information on all of the City’s activities. For the most part, the effect of interfund activity has been removed from the government-wide statements. An exception to this is services or goods provided by an activity and used by another activity. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are segregated from business-type activities, which are primarily supported by charges for services and fees.

The Statement of Activities demonstrates the degree to which the direct expenses of a given activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific activity. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided and capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular activity. Indirect expenses are recovered through internal service fund charges. These indirect expenses are allocated based on a full-cost approach, thereby allocating indirect expenses among functions with the objective of allocating all expenses. Taxes and other revenues that are not properly included among program revenues are reported as general revenues. When both restricted and unrestricted resources are available for use, the City’s policy is to utilize the restricted resources first; unrestricted resources are then utilized as needed.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

The City’s government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash inflows and outflows. Property taxes are recognized as revenues in the year for which they are assessed. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are

CITY OF CORVALLIS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

collected within 30 days of June 30 for the year being reported. Expenditures other than debt service, compensated absences, and claims and judgments are recorded when a liability is incurred, as under accrual accounting. Debt service, compensated absences, and claims and judgments are recorded when payment is due.

Property taxes, franchise fees, transient room taxes, and state shared revenues associated with the current period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period when collected within 30 days following year end. Investment interest earned but not received as of June 30 is also accrued and recorded as revenue of the current fiscal year. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received.

The City reports the following major governmental funds:

General Fund

The General Fund is the primary operating fund of the City. The General Fund accounts for all financial resources of the City excluding those required to be accounted for in another fund. Principal sources of revenue are taxes, fees, licenses, permits, and intergovernmental revenues. Primary expenditures in the General Fund are made for police, community development, and finance.

Street Fund

The Street Fund accounts for the engineering, operations, maintenance and improvements of city streets. The major revenue sources for the Street Fund are intergovernmental revenue, the transportation maintenance fee and charges for services.

Parks and Recreation Fund

The Parks and Recreation Fund accounts for the operations of the Parks and Recreation Department including park maintenance, the aquatic center, and recreation programs for youth and adults. Major revenue sources include taxes and charges for services.

Fire and Rescue Fund

The Fire and Rescue fund accounts for the revenues and expenditures associated with the operation of fire, emergency medical, and transport ambulance services. Primary sources of revenue are taxes and charges for services.

Community Development Revolving Fund

The Community Development Revolving Fund accounts for community improvement services funded by loan repayments from community development block grant activities. The fund also accounts for housing improvement activities funded by grants and loan repayments.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Library Fund

The Library Fund accounts for the operation and extension services of the Corvallis-Benton County Public Library. Major revenue sources include taxes and intergovernmental revenues.

Capital Construction Fund

The Capital Construction Fund accounts for the construction and improvements of roads, park acquisition, park improvements, facility improvements, and facility construction. Primary sources of funds are grants and transfers-in of system development charges or operating fund monies.

The City reports the following major enterprise funds:

Water Fund

The Water Fund accounts for the operation, maintenance, capital improvements and related debt service of the City's water acquisition, treatment, and distribution system. Primary revenues are charges for services.

Wastewater Fund

The Wastewater Fund accounts for the operation, maintenance, capital improvements and related debt service of the City's sanitary sewer collection and treatment system. Primary revenues are charges for services.

Storm Water Fund

The Storm Water Fund accounts for the operation, maintenance, capital improvements and related debt service of the City's storm water drainage system which includes both closed pipe and open urban streams. Primary revenues are charges for services.

Airport Fund

The Airport Fund accounts for the operation, maintenance, capital improvements and related debt service of the City's airport facilities. Primary revenues are from charges for services and intergovernmental revenues.

Additionally the City reports the following:

Internal Service Funds

Internal service funds account for services provided for departmental units within the City. Services provided by the internal service funds include facility maintenance, fleet maintenance, technology and communications, administrative services, and risk management. The cost of the services provided is recovered by charges to the department receiving the service.

CITY OF CORVALLIS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Non-major Funds

The City also reports on non-major special revenue funds, debt service funds and permanent funds. Non-major special revenue funds include the 9-1-1 Fund, Development Services Fund, Parking Fund, and Transit Fund. The City's non-major debt service funds are the General Obligation Debt Service Fund and the Pension Obligation Debt Service Fund. The City's permanent fund is the Davidson Library Fund. Budgetary statements for these funds are included as part of supplementary information.

The City's government-wide and proprietary statements are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 to the extent that those standards do not conflict or contradict guidance issued by GASB. Governments also have the option of following subsequent private sector guidance for business-type activities and enterprise funds subject to this same limitation. The City has elected not to implement FASB pronouncements issued after November 30, 1989.

Interfund transfers, interfund services provided and used, interfund reimbursements and interfund payables and receivables are all interfund activities. The effect of interfund activities and administrative charges are eliminated from the government-wide financial statements. Interfund services that are provided and used are not eliminated from the government-wide statements since elimination would distort the program revenues and direct costs of the City's functions.

Amounts reported as program revenues in the government-wide statement of activities include: fines, fees, and charges to users for services provided, goods produced or privileges provided; operating grants and contributions; and capital grants and contributions. Taxes, grants and contributions that are not restricted are reported as general revenues. Franchise fees are based on gross receipts and are reported as general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's primary ongoing operations. The primary operating revenues of the Water Fund, Wastewater Fund, Storm Water Fund, Airport Fund, and internal service funds are charges to customers for sales and services. The Water Fund, Wastewater Fund, and Storm Water Fund also receive fees which are intended to recover the cost of connecting new customers to the utility systems. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Equity

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments. Cash and cash equivalents, with the exception of investments, are recorded at cost, which approximates fair value. Fair value is defined as the amount at which an investment could be exchanged between willing parties, other than in a forced or liquidation sale. As of June 30, full accrual accounting on investments was implemented, as it is a best practice for the industry. Investments are booked at par value, rather than cost, and interest income is accrued on a monthly basis, with the premium or discount paid up front on an investment being amortized or accreted respectively over the life of the investment.

CITY OF CORVALLIS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

Cash and Investments (Continued)

The impact related to investments held from prior fiscal years has been recognized in FY 10-11 due to the immateriality of the amortized/accreted amounts, and will not require restated financial statements.

State Statutes authorize the City to invest in obligations of the U.S. Treasury, certificates of deposit, U.S. Government Agency Securities, instrumentalities of U.S. Government-sponsored corporations, commercial paper, bankers' acceptances, repurchase agreements and the State of Oregon Treasurer's Local Government Investment Pool (LGIP). The City has an investment policy which is more restrictive than State law. The investment policy is reviewed annually by the City's Investment Council, as well as the City's Investment Advisor. In March 2011, the City acquired Davidson Fixed Income Management, Inc. as Investment Advisor to assist with managing the City's investment portfolio. The Investment Council meets quarterly and its membership includes the City Council President, City Manager, City Attorney, Finance Director, and a qualified citizen. Additionally, Oregon Revised Statutes require that deposits be made with approved depository banks. Local Government Investment Pool balances are backed by the full faith and credit of the State of Oregon.

The City maintains a cash and investment pool for all of the City's funds. Monies within the cash and investment pool are identified by fund and by type. Interest earned on the cash and investment pool is allocated to the individual funds based on the individual fund's average cash balance for the period in which the interest was earned. For the Statement of Cash Flow purposes, the City considers "cash" to include the pooled cash and investments. The cash and investment pool has the general characteristics of a demand deposit account since the cash and investment pool has sufficient liquidity so that any fund may deposit or withdraw cash at any time without notice or penalty.

Receivables

Trade receivables are reported in total, except for ambulance receivables which are shown net of an allowance for uncollectibles.

Property taxes receivable that are collected within 30 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance the operations of the current period. Property taxes are levied and become a lien on the property as of July 1. Taxes are payable in three installments on November 15, February 15, and May 15. Taxes unpaid as of May 16 are considered delinquent. All property taxes are billed and collected by Benton County, Oregon and then turned over to the City. No allowance for uncollectible property taxes is considered necessary by management as property taxes are collectible as a lien.

The City administers housing rehabilitation and acquisition assistance loan programs under Title 1 of the Housing and Community Development Act of 1974 as codified under federal regulations at 24 CFR Part 570, as well as under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as codified at 24 CFR Part 92. Loans from these programs are secured by the assisted property and collectible as a lien.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

Receivables (Continued)

Grant proceeds for costs of managing the rehabilitation loan program are recorded as revenue when operating costs are incurred. Three types of programs are used to deliver loans. The first provides loans to low income owner/occupants for single family housing rehabilitation and may be a no-interest deferred or fully amortized payment loan. The second type consists of loans to low income purchasers of Corvallis homes which typically combine an initial period of loan deferral followed by a period of amortization with monthly payments. The final type consists of interest bearing loans to investor/owner borrowers who own rental housing property occupied primarily by low income tenants. All three loan types are extended to qualified buyers for rehabilitation or acquisition of eligible properties and are collateralized by real property. All three types are recorded as revolving loans receivable and deferred revenue when the loan is extended to the borrower.

The owner/occupants deferred payment loans are due upon sale or transfer of the real property or at such time as the property is no longer the owner's primary residence. Interest bearing loans require monthly payments which are amortized over a period of years. When loan payments or payoffs are received, such amounts are recognized as program income (revenue) and utilized to continue or benefit the program.

Property Held for Resale

Foreclosed land held for resale includes assessments receivable that have been foreclosed by the City. The properties are recorded at the lower of the cost of the assessment or the estimated net realizable value. Such amounts are fully offset by deferred revenue in the fund financial statements.

Prepaid Pension Obligation Costs

The City issued debt in 2002 and 2005 to fund the City's Public Employees Retirement System (PERS) unfunded actuarial liability. The amounts that were paid to PERS were recorded as prepaid pension obligation costs in the year of debt issuance and are amortized on a straight-line basis over the life of each debt issue.

Capital Assets

Capital assets are classified as land, buildings, office equipment, machinery and equipment, vehicles, utility plants and systems, infrastructure, and construction in progress. Capital assets have an initial, individual cost of \$5,000 or more and a useful life greater than a single reporting year. Capital assets, excluding governmental activity, and infrastructure acquired prior to June 30, 1980, have been capitalized in the government-wide and proprietary fund financial statements. Capital assets are recorded at historical cost or estimated historical cost when no historical cost records are available. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Property, utility plants and equipment in the proprietary funds are recorded at cost. Donated capital assets of the proprietary fund types are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the assets constructed, net of interest earned on the investment proceeds over the same period.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

Depreciation on capital assets is calculated on a straight line basis over their estimated useful lives. Depreciation is calculated on capital assets acquired during the fiscal year from the beginning of the month of acquisition to the end of the fiscal year. Retired or sold capital assets are depreciated through the end of the month in the month of retirement.

Intangible Assets

The City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, which established accounting and financial reporting requirements for intangible assets. In accordance with GASB Statement No. 51, the City has recorded identifiable intangible assets as part of capital assets in the government-wide and proprietary fund Statements of Net Assets; the assets are reflected in these Notes to the Basic Financial Statements.

Intangible assets are classified as computer software, land easements, patents, and trademarks as well as water, sewer and timber rights. Intangible assets lack physical substance, are not financial in nature and have a useful life extending beyond a single reporting period. The City has established a capitalization threshold for all intangible assets of \$100,000, with the exception of one. Land easements are treated like all other land acquisitions, and have no established threshold. Major outlays for intangible assets and significant improvements are capitalized as acquired. As such, computer software is added as a non-depreciable work in progress addition for each year of development. The work in progress is then disposed of and reacquired as a depreciable addition once software is put into service or implemented. All intangible assets are reported in the government-wide Statement of Net Assets.

Depreciation on intangible assets is calculated on a straight line basis over the asset’s estimated useful life. Depreciation is calculated on intangible assets acquired during the fiscal year from the beginning of the month of acquisition to the end of the fiscal year. Retired intangibles are depreciated through the end of the month in the month of retirement.

The estimated useful lives of depreciable capital and intangible asset classifications are as follows:

<u>Assets</u>	<u>Years</u>
Infrastructure	20-75
Utility plants and system	40-80
Buildings	50
Vehicles	4-25
Machinery and equipment	5-10
Office equipment	3-5
<u>Intangible Assets</u>	
Computer Software	3

Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation within limits set by collective bargaining agreements. All employees with accrued vacation leave are paid the outstanding vacation accrual balance at separation. Employees with sick leave accruals and meeting longevity requirements are paid,

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

Compensated Absences (Continued)

within limits, for their sick leave accruals. All vacation and sick pay is accrued when incurred in the government-wide and proprietary statements. Compensated absences are paid by the individual funds when they become due. The General Fund, Fire and Rescue Fund and the Library Fund are the governmental funds that have been primarily used in prior years to pay for compensated absences.

Long-term Debt

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond issuance costs, prepaid assets, and deferred amounts on refunding, if significant, are deferred and amortized over the life of the bond using straight-line amortization. Bond premiums and discounts are amortized using the bonds outstanding method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose by an outside third party. Committed are segregated for a specific purpose by City Council through resolution or ordinance. Assignments of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenditures/expenses. Actual results may differ from such estimates.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City adopts an annual budget in accordance with Oregon Revised Statutes (ORS) 294.305 through 294.565. The adopted budget is on a modified accrual basis for all funds. Minor reclassifications are made between the budgetary and the GAAP statements. The Oregon Constitution and ORS require that the budget must be balanced and that the fiscal year for local governments is from July 1 through June 30.

The Budget Commission, consisting of nine citizen representatives and the nine City Councilors, is required by ORS as part of the budget process. Through a process of public hearings and deliberations, the Budget Commission develops and then recommends a budget to City Council for approval. The budget sets forth City Council's goals and objectives, and identifies the resources necessary to accomplish the goals and objectives. The City's budget is legally adopted by Council resolution before July 1.

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

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The City maintains budgetary controls to ensure compliance with legal provisions of the City's annual appropriations resolution adopted by the City Council as part of the budget process. The legal level of budgetary control, by Council Resolution, is by department within each fund. The City cannot legally exceed appropriations at this level. Departments may transfer appropriations within a fund and department. All such transfers are reviewed by Finance Department staff for appropriateness. Appropriations lapse at fiscal year end; projects not completed in the current fiscal year must be re-appropriated in the next fiscal year as part of the adoption of the annual budget.

City Council may change the budget throughout the fiscal year by transferring appropriations between levels of legal compliance. Unexpected additional resources may be budgeted by adopting supplemental budgets as authorized by ORS. A supplemental budget requires newspaper publications, and City Council approval at a minimum, and may require public comments or hearings, over a certain dollar threshold. City Council adopted two supplemental budgets for increased fuel prices and to expend Criminal Asset Forfeiture revenues for law enforcement operations. City Council also approved four appropriation transfers for use of budgeted contingencies and several resolutions authorizing interfund transfers or accepting and appropriating grant funds that had not been anticipated at the time that the budget had been adopted.

Expenditures of the various funds were within authorized appropriations.

CASH AND INVESTMENTS

Pooled Deposits and Investments

The City maintains a cash management pool for its deposits and investments in which each fund participates. Interest earnings are allocated monthly based on average daily balances of each fund. Cash and investments are reflected in the government-wide Statement of Net Assets as follows:

	<i><u>Governmental</u></i> <i><u>Activities</u></i>	<i><u>Business-type</u></i> <i><u>Activities</u></i>	<i><u>Total</u></i>
Cash and investments	\$ 13,723,025	\$ 19,157,725	\$ 32,880,750
Restricted cash and investments	-	1,627,159	1,627,159
<i>Total Cash and Investments</i>	<u>\$ 13,723,025</u>	<u>\$ 20,784,884</u>	<u>\$ 34,507,909</u>

Deposits

As of June 30, the City's bank deposits had a book balance of \$4,407,485 and a bank balance of \$5,040,083. The difference is due to transactions in process.

Custodial Risk - Deposits

The Oregon legislature revised public funds collateralization statutes effective July 1, 2008. The new legislation creates a shared liability structure for depository banks but does not guarantee that public funds are 100% protected. ORS requires depository banks to pledge collateral against public funds in excess of federal depository insurance (FDIC) amounts and sets the value and type of collateral needed. The Public Funds Collateralization Program (PFCP) was created by the Oregon Office of the State Treasurer to facilitate depository bank, custodian, and public official compliance with ORS. Depository banks are required to report quarterly to the Office of the

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

CASH AND INVESTMENTS (Continued)

Custodial Risk - Deposits (Continued)

State Treasurer information on public funds in excess of FDIC insurance limits, the bank's net worth, and FDIC capitalization information. Based on this information the PFCP calculates the amount of collateral required for the following quarter. The City is required to verify that amounts in excess of FDIC insurance limits are deposited only in qualified depository banks listed by the Office of the State Treasurer. The City must also report, at least annually, the depository banks the City does business with and public official contact information. The FDIC insures \$500,000 of the City's cash and investment balance. The remaining balance has been placed in qualified depository banks in compliance with Oregon Revised Statutes. The shared liability structure does not provide that all public funds are 100% protected.

Investments

As of June 30, 2011 the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 18 months</u>	<u>18-60 months</u>
Investments in the State of Oregon			
Local Government Investment Pool (LGIP)	\$ 22,554,345	\$ 22,554,345	\$ -
US Agencies	7,535,070	3,018,460	4,516,610
<i>Total Investments</i>	<u>\$ 30,089,415</u>	<u>\$ 25,572,805</u>	<u>\$ 4,516,610</u>

Fifty percent of the LGIP portfolio must mature within 93 days. A maximum of 25 percent of the LGIP portfolio may have maturities greater than one year. No investments may have maturities greater than three years. The Investments are valued at fair value as required by GASB 31. At June 30, 2011, the fair value of the City's position in the State Treasurer's Local Governmental Investment Pool was approximate to the fair value of the pool share.

The City's holdings in United States Government Agency securities with maturities greater than one-year since purchase date had an unrealized fair value gain of \$31,562 over cost as of June 30, 2011.

Custodial Credit Risk - Investments

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not rated or registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any public funds. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. The Board has established portfolio diversification percentages based on the types and maturities of investments. LGIP must manage and invest its funds as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP. A copy of the State's Comprehensive Annual Financial Report may be obtained at <http://www.ost.state.or.us/>.

CITY OF CORVALLIS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

CASH AND INVESTMENTS (Continued)

Interest Rate Risk

The City's investment policy limits the maximum weighted average maturity of investments to one and one-half years, with a minimum of 10% of the investment portfolio maturing under 30 days and 25% maturing in under one year. The City defines long-term as having a maturity of greater than 18 months to a maximum of 60 months. As of June 30, 2011, 13% of the City's investment portfolio was classified as long-term.

Credit Risk

The City's investment policy limits investments in commercial paper to a rating by nationally recognized credit rating organizations that is higher than specified by State Law, and is therefore more restrictive than what is allowed by state law. As of June 30, 2011 the City did not hold any commercial paper. State and local government securities are required by the City's investment policy to have an AA credit rating or better. As of June 30, 2011 the City did not hold any state or local government securities.

The City's investment policy also limits credit risk by restricting the amount invested in any class of security. The maximum percentage amount of the total investment portfolio that can be invested in US treasuries is 100%; US government agency securities 100%; LGIP 100% (subject to the ORS imposed maximum dollar amount); certificates of deposit 25%; banker acceptances, commercial paper and State of Oregon and local government securities are limited to 10% of the total portfolio.

Concentration of Credit Risk

The City's investment policy limits the amount that may be invested with any one issuer or institution. Commercial paper may have no more than 5% of the total portfolio from a single issuer. Certificates of deposit may have no more than 15% of the total portfolio invested with any one institution. No more than 5% of the total portfolio may be invested in one entity's state or local government security. Individual US Government agency securities may be no more than 40% of the total portfolio. There is no limit on the percent of the portfolio that may be invested in US treasuries.

RECEIVABLES

Receivables include balances that are not expected to be collected within a year. The City anticipates that 50% of the property tax receivables will be collected after the subsequent year; 96% of assessments, housing and notes receivable are scheduled to be collected after the subsequent year.

DEFERRED / UNEARNED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

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

DEFERRED / UNEARNED REVENUE (Continued)

At June 30, 2011, the various components of deferred revenue and unearned revenues reported in the governmental funds are as follows:

	<u>Deferred</u>	<u>Unearned</u>	<u>Total</u>
Delinquent property taxes receivable (General Fund)	\$ 1,199,656	\$ -	\$ 1,199,656
Assessments not yet due:			
General Fund	47,574	-	47,574
Street Fund	9,564	-	9,564
Parks and Recreation Fund	9,629	561	10,190
Grants	-	19,809	19,809
Property held for resale (General Fund)	1,040,083	-	1,040,083
Housing loans not yet due (Community Development Revolving Fund)	2,719,809	-	2,719,809
Receivables to be collected in future years	740,624	-	740,624
Operating revenue received but unearned (Fire and Rescue Fund)	-	57,150	57,150
	<u>\$ 5,766,939</u>	<u>\$ 77,520</u>	<u>\$ 5,844,459</u>
<i>Total Deferred and Unearned Revenue</i>			

ENDOWMENT

The City's Permanent Fund includes amounts that are restricted for use. The non-expendable portion of the fund is segregated as a restriction for endowments on the Statement of Net Assets. The expendable portion of the fund is included as restricted net assets. The spending of investment income for these funds is budgeted in compliance with the related agreements; state law does not limit the ability to spend the investment income.

The following are the amounts available:

<u>Davidson Library Fund:</u>	<u>Permanently Restricted for Endowment</u>	<u>Amount Available for Specific Expenditure</u>	<u>Total</u>
<i>Total Net Assets</i>	\$ 5,000	\$ 917	\$ 5,917

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

CAPITAL ASSETS

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

Governmental Activities:

	<i>Balances June 30, 2010</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balances June 30, 2011</i>
<i>Non-depreciable capital assets</i>				
Intangible	\$ 106,023	\$ 291,517	\$ (79,400)	\$ 318,140
Land	87,240,451	877,162	-	88,117,613
Construction in progress	1,872,612	2,419,741	(1,681,682)	2,610,671
<i>Total non-depreciable capital assets</i>	<u>89,219,086</u>	<u>3,588,420</u>	<u>(1,761,082)</u>	<u>91,046,424</u>
<i>Depreciable capital assets</i>				
Intangible	-	118,296	-	118,296
Buildings	24,564,691	1,164,253	-	25,728,944
Machinery and equipment	5,356,061	697,254	(287,622)	5,765,693
Vehicles	11,422,449	264,803	(556,529)	11,130,723
Infrastructure	104,045,365	1,844,115	-	105,889,480
<i>Total depreciable capital assets</i>	<u>145,388,566</u>	<u>4,088,721</u>	<u>(844,151)</u>	<u>148,633,136</u>
<i>Less Accumulated Depreciation</i>				
Intangible	-	(3,286)	-	(3,286)
Buildings	(7,857,717)	(564,485)	-	(8,422,202)
Machinery and equipment	(3,394,238)	(470,048)	287,621	(3,576,665)
Vehicles	(5,120,471)	(877,521)	486,875	(5,511,117)
Infrastructure	(61,458,942)	(3,675,322)	-	(65,134,264)
<i>Total accumulated depreciation</i>	<u>(77,831,368)</u>	<u>(5,590,662)</u>	<u>774,496</u>	<u>(82,647,534)</u>
<i>Total depreciable capital assets, net of accumulated depreciation</i>	<u>67,557,198</u>	<u>(1,501,941)</u>	<u>(69,655)</u>	<u>65,985,602</u>
<i>Governmental activities capital assets, net of accumulated depreciation</i>	<u>\$ 156,776,284</u>	<u>\$ 2,086,479</u>	<u>\$ (1,830,737)</u>	<u>\$ 157,032,026</u>

Depreciation expense was charged to the functions of governmental activities as follows:

Finance	\$ 90,193
Community Development	22,409
Public Works	4,041,443
Library	233,972
Parks and Recreation	445,668
Police	304,663
Fire	452,314
Total depreciation expense, governmental activities	<u><u>\$ 5,590,662</u></u>

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

CAPITAL ASSETS (Continued)

Business-Type Activities:

	<i>Balances June 30, 2010</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balances June 30, 2011</i>
<i>Non-depreciable capital assets</i>				
Land	\$ 1,142,357	\$ -	\$ -	\$ 1,142,357
Construction in progress	1,542,663	1,963,484	(2,728,310)	777,837
Intangible in progress	-	148,617	-	148,617
<i>Total non-depreciable capital assets</i>	<u>2,685,020</u>	<u>2,112,101</u>	<u>(2,728,310)</u>	<u>2,068,811</u>
<i>Depreciable capital assets</i>				
Buildings	2,196,016	-	-	2,196,016
Machinery and equipment	4,118,448	210,765	(17,498)	4,311,715
Vehicles	2,823,140	-	(10,430)	2,812,710
Infrastructure	188,637,526	3,882,442	-	192,519,968
<i>Total depreciable capital assets</i>	<u>197,775,130</u>	<u>4,093,207</u>	<u>(27,928)</u>	<u>201,840,409</u>
<i>Less Accumulated Depreciation</i>				
Buildings	(621,713)	(65,512)	-	(687,225)
Machinery and equipment	(2,292,507)	(246,475)	17,498	(2,521,484)
Vehicles	(1,625,187)	(233,986)	7,807	(1,851,366)
Infrastructure	(62,170,032)	(4,089,949)	-	(66,259,981)
<i>Total accumulated depreciation</i>	<u>(66,709,439)</u>	<u>(4,635,922)</u>	<u>25,305</u>	<u>(71,320,056)</u>
<i>Total depreciable capital assets, net of accumulated depreciation</i>	<u>131,065,691</u>	<u>(542,715)</u>	<u>(2,623)</u>	<u>130,520,353</u>
<i>Business-type activities capital assets, net of accumulated depreciation</i>	<u>\$ 133,750,711</u>	<u>\$ 1,569,386</u>	<u>\$ (2,730,933)</u>	<u>\$ 132,589,164</u>

Depreciation expense was charged to the functions of business-type activities as follows:

Water	\$ 1,666,244
Wastewater	2,243,718
Storm Water	374,002
Airport	351,959
Total depreciation expense, business-type activities	<u><u>\$ 4,635,922</u></u>

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

LONG-TERM OBLIGATIONS

Bonds Payable

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital construction. General obligation bonds are direct obligations and are backed by the full faith and credit of the City. The City has outstanding general obligation bonds for governmental activities. Principal and interest on the outstanding debt is paid by the debt service funds.

General obligation bonds outstanding are as follows:

<u>Governmental Activities:</u>	<u>Amount of Original Issue</u>	<u>Interest Rates on Outstanding Balances</u>	<u>Balances June 30, 2011</u>	<u>Due within One Year</u>
Advance Refunding 2009	\$ 10,190,000	3.00 - 4.00	8,695,000	\$ 1,895,000

Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,895,000	\$ 312,650
2013	785,000	255,800
2014	835,000	232,250
2015	895,000	207,200
2016	965,000	171,400
2017-2019	3,320,000	271,000
<i>Total</i>	<u>\$ 8,695,000</u>	<u>\$ 1,450,300</u>

In the year ended June 30, 2009, the City issued \$10,190,000 of general obligation bonds to advance refund the Riverfront Park, Series 1999A general obligation bonds and a partial advance refunding of the Open Space, Series 2001A general obligation bonds. The outstanding balance of the defeased debt at June 30, 2011 is \$4,790,000.

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

LONG-TERM OBLIGATIONS (Continued)

Bonds Payable (Continued)

Revenue Bonds

The City issues revenue bonds to finance major capital construction projects for business-type activities. Income derived from the acquired or constructed assets is pledged to pay debt service. The City has committed to establish utility user charges sufficient to pay principal and interest when due. If user charges are not sufficient, the City is required by covenant to raise utility rates sufficient to pay maturing principal and interest. The City Council financial policy is to hold rate increases to 2 - 3 % of the total utility charge, with a maximum allowed rate of 7%, to meet operating costs and debt service requirements of the utilities. To date, utility rates have not been increased beyond the limits of the Council policy. Principal and interest on the revenue bonds are payable solely from user fees.

Revenue bonds outstanding are as follows:

<u><i>Business-type Activities:</i></u>	<u><i>Amount of Original Issue</i></u>	<u><i>Interest Rates on Outstanding Balances</i></u>	<u><i>Balances June 30, 2011</i></u>	<u><i>Due within One Year</i></u>
Series 2006A	\$ 5,410,000	3.00 - 5.00 %	\$ 4,820,000	\$ 440,000

Annual debt service requirements to maturity for the revenue bonds are as follows:

<u><i>Year Ending June 30</i></u>	<u><i>Business-type Activities</i></u>	
	<u><i>Principal</i></u>	<u><i>Interest</i></u>
2012	\$ 440,000	\$ 205,200
2013	465,000	183,200
2014	485,000	159,950
2015	510,000	135,700
2016	535,000	110,200
2017-2020	2,385,000	212,450
<i>Total</i>	<u>\$ 4,820,000</u>	<u>\$ 1,006,700</u>

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

LONG-TERM OBLIGATIONS (Continued)

Bonds Payable (Continued)

Limited Tax Bonds

The City issued \$23,913,017 of limited tax Pension Obligation Bonds (Series 2002A) in fiscal year 2003 to finance a portion of the City's unfunded actuarial liability with the Oregon Public Employees Retirement System. The City issued another \$9,980,000 of limited tax obligation bonds in fiscal year 2006 (Series 2005A) to retire the City's transition liability with PERS. Payment source is transfers from operating funds.

Limited tax obligation bonds outstanding are as follows:

<u>Governmental Activities:</u>	<u>Amount of Original Issue</u>	<u>Interest Rates on Outstanding Balances</u>	<u>Balances June 30, 2011</u>	<u>Due within One Year</u>
Series 2002A	\$ 23,913,017	6.35 - 7.06 %	\$ 22,805,610	\$ 281,767
Series 2005A	9,980,000	4.52 - 5.50	9,555,000	180,000
<i>Total</i>	<u>\$ 33,893,017</u>		<u>\$ 32,360,610</u>	<u>\$ 461,767</u>

Annual debt service requirements to maturity for the pension obligation bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 461,767	\$ 1,923,380
2013	516,249	1,974,000
2014	570,257	2,030,073
2015	627,139	2,091,529
2016	684,519	2,160,057
2017-2021	4,334,673	11,924,969
2022-2026	11,091,006	9,151,984
2027-2030	14,075,000	2,228,090
<i>Total</i>	<u>\$ 32,360,610</u>	<u>\$ 33,484,082</u>

Notes Payable

The City issues notes payable to finance major acquisitions or construction projects in governmental and business-type activities. In 1992, the City borrowed \$700,000 from the State of Oregon Department of Environmental Quality (DEQ) to complete a project to replace/rehabilitate a portion of the sewers in the older part of the community that had exceeded their service life.

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

LONG-TERM OBLIGATIONS (Continued)

Notes Payable (Continued)

In 1994, the City began expansion of its water treatment capacity at the Taylor treatment plant. The City borrowed \$9,703,408 in 1994 and \$2,107,000 in 1996 to complete the project. Both Taylor treatment plant loans are from the Oregon Business Development Department, formally known as the Oregon Economic Development Department. The 1994 loan was refunded in 1998 in order to take advantage of lower interest rates.

In 1996, the City borrowed \$332,240 from the Oregon Business Development Department to develop water and sewer utilities for land in the Airport Industrial Park, and in 1997, the City borrowed \$21,263,693 from the DEQ to finance construction of a combined sewer overflow project.

In 2009, the City entered into a loan agreement with the Oregon Business Development Department to develop the Corvallis Airport Industrial Park. The loan proceeds will be disbursed to the City on a reimbursement basis. As of June 30, 2011, no proceeds had been requested or disbursed.

On August 5, 2010, the City entered into a loan agreement with Bank of America (BOA) for \$2,100,000. The loan proceeds will be used to finance several capital improvement projects.

Outstanding notes payable are as follows:

	<i>Amount of Original Issue</i>	<i>Interest Rates on Outstanding Balances</i>	<i>Balances June 30, 2011</i>	<i>Due within One Year</i>
<u>Governmental Activities:</u>				
BOA 2010 CIP Loan	\$ 2,100,000	2.9600 %	\$ 2,100,000	\$ 185,000
<u>Business-type Activities:</u>				
OEDD Loan G95003	9,703,048	4.5407	2,966,387	684,743
OEDD Loan B97001	2,107,000	5.4442	891,182	131,222
DEQ sewer rehabilitation	700,000	3.0000	116,218	45,455
DEQ CSO	21,263,693	3.6900	12,238,979	1,097,433
OEDD Loan B96002	332,240	5.4687	157,141	23,940
<i>Total Notes Payable, Business-Type Activities</i>	<u>\$ 34,105,981</u>		<u>\$ 16,369,907</u>	<u>\$ 1,982,793</u>

Annual debt service requirements to maturity for the notes are as follows:

<i>Year Ending June 30</i>	<i>Governmental Activities</i>		<i>Business-type Activities</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 185,000	\$ 59,422	\$ 1,982,793	\$ 717,404
2013	190,000	53,872	2,069,583	626,378
2014	195,000	48,174	2,129,548	530,758
2015	200,000	42,328	2,201,033	431,699
2016	205,000	36,334	1,461,441	328,139
2017-2021	1,125,000	85,322	6,525,509	698,641
<i>Total</i>	<u>\$ 2,100,000</u>	<u>\$ 325,452</u>	<u>\$ 16,369,907</u>	<u>\$ 3,333,019</u>

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

LONG-TERM OBLIGATIONS (Continued)

Notes Payable (Continued)

The above notes contain various restrictive covenants which include, among other conditions, requirements to maintain net operating revenues, create a loan reserve account and deposit from the fund's net operating revenues or other available funds into the loan reserve account, an amount equal to the average loan payments, and restrictions on certain additional indebtedness. As of June 30, 2011 \$1,627,159 was held in a loan reserve account. All of the covenants were met at June 30, 2011.

Changes in Long-Term Obligations

<i>Governmental Activities:</i>	<i>Balances June 30, 2010</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balances June 30, 2011</i>	<i>Due within One Year</i>
Bonds Payable					
General Obligation Bonds	\$ 10,860,000	\$ -	\$ 2,165,000	\$ 8,695,000	\$ 1,895,000
Limited Tax Bonds	32,767,277	-	406,667	32,360,610	461,767
Less deferred amounts:					
For issuance premium	376,115	-	78,026	298,089	-
On refunding	(420,897)	-	(53,166)	(367,731)	-
<i>Total Bonds Payable</i>	43,582,495	-	2,596,527	40,985,968	2,356,767
Notes Payable	-	2,100,000	-	2,100,000	185,000
Compensated Absences	5,402,753	3,484,144	3,619,630	5,267,267	3,449,638
Net OPEB obligation	2,801,795	1,197,443	-	3,999,238	-
<i>Total Long-Term Obligations, Governmental Activities</i>	\$ 51,787,043	\$ 6,781,587	\$ 6,216,157	\$ 52,352,473	\$ 5,991,405
<i>Business-type Activities:</i>	<i>Balances June 30, 2010</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balances June 30, 2011</i>	<i>Due within One Year</i>
Bonds Payable					
Revenue Bonds	\$ 5,240,000	\$ -	\$ 420,000	\$ 4,820,000	\$ 440,000
Less deferred amounts:					
For issuance premium	87,136	-	14,840	72,296	-
On refunding	(302,092)	-	(30,721)	(271,371)	-
<i>Total Bonds Payable</i>	5,025,044	-	404,119	4,620,925	440,000
Notes Payable	18,263,308	-	1,893,401	16,369,907	1,982,793
Compensated Absences	1,049,988	636,000	703,349	982,639	643,550
Net OPEB obligation	620,454	329,248	-	949,702	-
<i>Total Long-Term Obligations, Business-Type Activities</i>	\$ 24,958,794	\$ 965,248	\$ 3,000,869	\$ 22,923,174	\$ 3,066,343

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

INTERFUND TRANSFERS

Interfund transfers between governmental and business-type activities are reported as net transfers in the Statement of Activities. Details of the transfers between governmental and business-type activities are as follows:

<u>Transfers Out:</u>	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Construction</u>	<u>Other Governmental Funds</u>	<u>Business-Type Funds</u>	
General Fund	\$ -	\$ 18,300	\$ 680,760	\$ -	\$ 699,060
Street Fund	-	348,989	132,650	118,410	600,049
Parks & Recreation Fund	-	10,000	189,940	-	199,940
Fire and Rescue Fund	-	-	521,750	-	521,750
Community Development Revolving Fund	-	61,890	27,530	-	89,420
Library Fund	-	-	235,850	-	235,850
Capital Construction Fund	75,000	-	-	-	75,000
Non-Major Governmental Funds	250,450	194,990	198,980	-	644,420
Water Fund	-	81,940	190,130	25,750	297,820
Wastewater Fund	-	48,270	189,720	-	237,990
Storm Water Fund	-	48,270	126,190	-	174,460
Airport Fund	20,000	-	8,180	5,000	33,180
<i>Total Transfers</i>	<u>\$ 345,450</u>	<u>\$ 812,649</u>	<u>\$ 2,501,680</u>	<u>\$ 149,160</u>	<u>\$ 3,808,939</u>

The City routinely transfers monies to the Capital Construction Fund to finance the acquisition and construction of capital assets; all funds, excluding the permanent fund, transfer funds to the Pension Obligation Fund for annual debt service payments; and the Storm Water Fund supports the erosion and sediment control program in the Development Services Fund. The Street Fund, Parks and Recreation Fund, Water Fund, Wastewater Fund, and Storm Water Fund support the system development charge and site engineering program in the Development Services Fund. The General Fund supports the Land Use Senior Planner position in the Development Services Fund.

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. The City obtains insurance policies from commercial suppliers and annual premiums are paid for the following coverage: real and personal property of \$184,163,730; earthquake of \$100,000,000; water damage of \$25,000,000; computer data and media / extra expense of \$1,000,000; fine art of \$1,000,000; tort liability of \$5,000,000; airport liability of \$5,000,000; honesty blanket bond of \$400,000; public official bonds of \$300,000; various real, personal and inland marine property coverage for replacement costs; and various flood coverage for city buildings. The City also carries commercial insurance for workers' compensation and employee health, life and disability coverage. No insurance claims settled in each of the past three years have exceeded policy coverage.

CITY OF CORVALLIS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

RISK MANAGEMENT (Continued)

The City's Risk Management Fund, an Internal Service Fund, accounts for and finances the City's risks of loss. All funds of the City participate in the Risk Management Fund. Amounts payable to the Risk Management Fund are based on cost estimates necessary to pay premiums and if applicable, prior and current year claims and to establish a reserve of \$500,000 for catastrophic losses.

OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City administers a single-employer defined benefit healthcare plan as established through negotiations between the City and collective bargaining units. The healthcare plan provides post-retirement medical, dental, and vision coverage for eligible retirees, spouses, domestic partners, and dependents. Eligible retirees are those who were hired prior to July 1, 1992 (January 7, 1992 for firefighters) and retired from active service at age 55 and over, age 50 for sworn police and fire retirees. Retirees are eligible even if they delay receiving Oregon PERS retirement payments. The City pays the single party premiums for eligible retirees. Retirees must pay for spouse and dependent coverage. The level of benefits provided by the plans are the same as those afforded to active employees. Coverage is provided to retirees and dependents until the retiree becomes eligible for Medicare, typically age 65.

The City's post-retirement healthcare plan was established in accordance with Oregon Revised Statutes (ORS) 243.303. ORS stipulate that for the purpose of establishing healthcare premiums, the rate must be based on all plan members, including active employees and retirees. The difference between retiree claims costs, which because of the effect of age, is generally higher in comparison to all plan members, and the amount of retiree healthcare premiums represents the City's implicit employer contribution.

The City also provides post-employment life insurance benefits to retirees. The City purchases life insurance (\$2,500 face value) for general service, fire, and police retirees until age 65. After age 65 the City pays for life insurance with a face value of \$1,500. The City pays life insurance for exempt employees with a face value equal to the employee's final annual salary until age 65. After age 65 the City pays for life insurance with a face value of \$1,500 for exempt employees.

The City has not established an irrevocable trust (or equivalent arrangement) to account for the plan. The plan does not issue a separate report.

Funding Policy

The City has the authority to establish and amend contribution requirements. The required contribution is based on projected pay-as-you-go financing requirements. Since the City's healthcare plan is self-insured, the annual required contributions can fluctuate. For the fiscal year ending June 30, 2011, the City's plan contributions were \$1,529,265.

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

OTHER POST EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The City’s annual other post-employment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance within the parameters of GASB 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) over a period not to exceed thirty years. The City amortizes unfunded actuarial liabilities over an open period of fifteen years.

The following table shows the components of the City’s annual OPEB cost for the fiscal year ending June 30, 2011, the amount actually contributed to the plans, and changes in the City’s net OPEB obligation:

Annual required contribution	\$ 3,143,520
Interest on net OPEB obligation	154,001
Adjustment to the Annual Required Contribution	<u>(241,565)</u>
Annual OPEB cost (expense)	3,055,956
Contribution made	<u>1,529,265</u>
Increase in net OPEB obligation	1,526,691
Net OPEB obligation, beginning of year	<u>3,422,249</u>
Net OPEB obligation, end of year	<u><u>\$ 4,948,940</u></u>

The City’s annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the past three years were as follows:

<i>Fiscal year ended June 30,</i>	<i>Annual OPEB Cost</i>	<i>Contribution</i>	<i>Percentage of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
2009	\$ 2,938,483	\$ 1,178,470	40.10%	\$ 1,760,013
2010	2,980,618	1,318,382	44.23%	3,422,249
2011	3,055,956	1,529,265	50.04%	4,948,940

Funded Status and Funding Progress

As of August 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$34,469,170, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$34,469,170. The covered payroll (annual payroll of active employees covered by the plan) was \$29,865,298, and the ratio of the UAAL to the covered payroll was 115.42%.

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 regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

CITY OF CORVALLIS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

OTHER POST EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to the evaluation date. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The August 1, 2010 actuarial valuations for the OPEB plan is based on the projected unit credit actuarial cost method. The actuarial assumptions include an investment return of 4.0%, a healthcare cost inflation trend rate of 8.5% for the 1st year, August 1, 2010 to August 1, 2011, 7.5% in the 2nd year, 6.5% in the third year, 6.0% for the 4th through 23rd year, 5.5% for the 24th through 47th year, and 5.0% thereafter. Annual payroll increases are compounded at 3.75% annually. The unfunded actuarially accrued liability and the gain or loss is amortized as a level percentage of projected payroll over an open period of 15 years.

PENSION PLAN

Plan Description

The City is a participating employer in the Oregon Public Employees Retirement System (“OPERS”), a cost-sharing multiple-employer defined benefit pension plan. The Public Employee Retirement System (PERS), which was established under Oregon Revised Statute (ORS) 238.600, applies to all employees who had established membership prior to August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), which was established under ORS 238A and went into effect on January 1, 2004, applies to all people who are first employed with a public employer after August 29, 2003. The Public Employees Retirement Board (PERB) governs and acts as a common investment and administrative agent for both plans which are the retirement plans for most public employers in the State of Oregon. Benefits are established by state statute, and employer contributions are made at the actuarially determined rate for each system as adopted by the PERB. The Oregon Public Employees Retirement System, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained by writing to Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

Both PERS and OPSRP plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Funding Status

Covered employees are required by state statute to contribute 6.0 percent of their salary to the plan which is invested in the Individual Account Program (IAP). Employers are permitted to pay employee contributions to the fund. During fiscal year 2010-11, employees of the City of Corvallis who are in the American Federation of State, County and Municipal Employees bargaining unit contributed the 6.0 percent share from their salary. The City Manager, exempt employees and the members of the International Association of Fire Fighters, the Corvallis Police Officers Association, and the Corvallis Regional Communications Center Association have their 6.0 percent contribution paid by the City based upon their respective contracts.

CITY OF CORVALLIS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

PENSION PLAN (Continued)

Funding Status (Continued)

The City is required by statute to contribute actuarially computed amounts as determined by OPERS. OPERS completes an actuarial valuation as of December 31 of odd numbered years for new rates to be implemented July 1 of the next odd numbered year. Rates are subject to change as a result of subsequent actuarial valuations and the proportion of the system that is funded for each local government employer.

For PERS, the City is a participant in the State and Local Government Rate Pool, which includes the State, Oregon Community Colleges, and most local governmental entities. Employer rates can be set as a single rate, weighted for police and fire participants, or the government can choose to have separate rates for police and fire participants and general service participants; the City has elected to have separate rates. For FY 2010-2011 the City's contribution rates were 2.05 percent of payroll for general service participants and 10.33 percent for police and fire participants. For OPSRP, all employers are included in a single pool, with separate rates assigned for police and fire participants and general service participants. For FY 2010-2011 the City's contribution rates were 3.09 percent for general service participants and 5.80 percent for police and fire participants.

Annual Pension Cost

The City's employer contributions to PERS for the fiscal years ending June 30, 2009, 2010, and 2011 were \$2,663,525, \$1,933,734, and \$2,433,785 respectively, which equaled the required contribution for the year. In March 2002 the City issued \$23,913,017 in Pension Obligation Bonds to pay the City's unfunded actuarial liability as identified by OPERS based on the December 31, 2000 system valuation brought forward to the March 2002 pay-off date. In September 2005 the City issued \$9,980,000 in Pension Obligation Bonds to retire the City's transition liability with PERS.

GASB STATEMENT NO. 54 – NEW FUND BALANCE

The City implemented GASB Statement No. 54 – New Fund Balance for fiscal year ending June 30, 2011. GASB Statement No. 54 requires presentation of fund balances in five classifications. The new fund balance classifications are:

- *Nonspendable*: Amounts inherently nonspendable or that must remain intact due to third party imposed legal or contractual restrictions.
- *Restricted*: Amounts constrained to specific purposes by externally enforceable legal restrictions, such as those provided by creditors, grantors, higher levels of government, through constitutional provisions, or by enabling legislation.
- *Committed*: Amounts constrained by City Council through resolution or ordinance.
- *Assigned*: Amounts the City intends to use for a specific purpose. The authority to assign resources lies with the City's Finance Director.
- *Unassigned*: Amounts that are not categorized into one of the aforementioned classifications; these resources may be used for any purpose. Only the General Fund should show a positive unassigned fund balance. For all funds, a negative unassigned fund balance should be reported if more resources are used than are available in the fund.

CITY OF CORVALLIS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

GASB STATEMENT NO. 54 – NEW FUND BALANCE (continued)

Below is a schedule of ending fund balance, based on GASB Statement No. 54 implementation:

Fund Balances:	General	Street	Parks and Recreation	Fire & Rescue	Community Development Revolving	Library	Capital Construction	Other Governmental Funds	Total
Nonspendable:									
Endowment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ 5,000
Restricted:									
Streets and highways	-	-	-	-	-	-	11,567	-	11,567
Capital projects and construction	198,483	1,874,478	1,326,876	-	-	-	1,121,974	-	4,521,811
Debt service	-	-	-	-	-	-	-	80,640	80,640
Other									
Senior Center reserve	-	-	186,903	-	-	-	-	-	186,903
Open Space	-	-	93,324	-	-	-	-	-	93,324
Other purposes	65,200	290	5,848	-	-	6,086	-	917	78,341
	<u>263,683</u>	<u>1,874,768</u>	<u>1,612,951</u>	<u>-</u>	<u>-</u>	<u>6,086</u>	<u>1,133,541</u>	<u>81,557</u>	<u>4,972,586</u>
Committed:									
Streets and highways	-	52,383	-	-	-	-	-	-	52,383
Other									
Public access television	249,829	-	-	-	-	-	-	-	249,829
Reserves	-	-	543,577	-	-	432,101	-	-	975,678
Housing loans	-	-	-	-	240,706	-	-	-	240,706
Sustainability initiative fees	-	39,242	28,946	-	-	-	-	-	68,188
Other purposes	2,586	-	-	3,408	-	12,816	-	37,323	56,133
	<u>252,415</u>	<u>91,625</u>	<u>572,523</u>	<u>3,408</u>	<u>240,706</u>	<u>444,917</u>	<u>-</u>	<u>37,323</u>	<u>1,642,917</u>
Assigned:									
Vehicle reserves	-	271,666	43,007	554,564	-	(9,781)	-	-	859,456
Other purposes	-	85,201	286,399	607,174	-	789,751	684,151	3,116,126	5,568,802
	<u>-</u>	<u>356,867</u>	<u>329,406</u>	<u>1,161,738</u>	<u>-</u>	<u>779,970</u>	<u>684,151</u>	<u>3,116,126</u>	<u>6,428,258</u>
Unassigned:	<u>(112,018)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(186,239)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(298,257)</u>
Total Fund Balances:	<u>\$ 404,080</u>	<u>\$2,323,260</u>	<u>\$2,514,880</u>	<u>\$1,165,146</u>	<u>\$ 54,467</u>	<u>\$1,230,973</u>	<u>\$ 1,817,692</u>	<u>\$ 3,240,006</u>	<u>\$ 12,750,504</u>

CITY OF CORVALLIS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

GASB STATEMENT NO. 54 – NEW FUND BALANCE (continued)

On February 7, 2011, the City Council authorized, through approval of the Financial Policies document, the Finance Director to assign fund balance. Assignments of fund balance can be done at any time, including after the fiscal year end date.

Commitments of fund balance should occur prior to the end of the reporting period, but the amount subject to the constraint may be determined in the subsequent period.

Finally, GASB 54 requires a spending policy, as it relates to ending fund balance. The following order applies to all governmental funds:

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

CONTINGENCIES

The City is a defendant in various litigation proceedings. Management believes any losses arising from these actions will not materially affect the City's financial position.

SUBSEQUENT EVENT

The City adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes new accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through November 2011, the date on which the financial statements were available to be issued. The City Council approved the sale of 3.46 acres of the City-owned ~30 acres of surplus property at Seavey Meadows to Willamette Neighborhood Housing Services for an affordable housing development project. The property will be sold for \$150,000 with a series of three installment payments to be received during FY 11-12. The sale was completed on October 5, 2011. The balance of the property will have a conservation easement placed on it and will be used as open space; the value of the remaining asset will be treated as undeveloped park land. Management requested the Oregon Business Development Department (OBDD) cancel the loan for Airport Wetlands development related to the Corvallis Airport Industrial Park. Approval was received from OBDD on July 14, 2011. Management is not aware of any other subsequent events that require recognition or disclosure in the financial statements.

NEW PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) has issued pronouncements that have future effective dates that may impact future financial presentations.

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

NEW PRONOUNCEMENT (Continued)

Management has not currently determined what, if any, impact implementation of the following statement may have on future financial statements.

GASB Statement No. 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”, issued June 2011 will be effective for financial statements for periods beginning after December 15, 2011. The requirements of this Statement improves financial reporting by standardizing the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government’s net position.

REQUIRED SUPPLEMENTARY INFORMATION

- OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS



CITY OF CORVALLIS, OREGON
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2011

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Asset	AAL Unit Credit	UAAL	Ratio Funded	Actual Covered Payroll	UAAL as a % of Covered Payroll
2008	August 1, 2006	\$ -	\$25,132,913	\$25,132,913	- %	\$26,385,989	95.25 %
2009	August 1, 2008	-	28,083,082	28,083,082	-	27,612,464	101.70
2010	August 1, 2008	-	28,083,082	28,083,082	-	29,258,781	95.98
2011	August 1, 2010	-	34,469,170	34,469,170	-	29,865,298	115.42

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SUPPLEMENTARY INFORMATION

- NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS

- NON-MAJOR SPECIAL REVENUE, CAPITAL
PROJECTS, DEBT SERVICE, PERMANENT, AND
PROPRIETARY FUND STATEMENTS AND
SCHEDULES
 - NON-MAJOR SPECIAL REVENUE FUNDS
 - CAPITAL PROJECTS FUND
 - DEBT SERVICE FUNDS
 - PERMANENT FUNDS
 - ENTERPRISE FUNDS
 - INTERNAL SERVICE FUNDS

- OTHER FINANCIAL SCHEDULES



CITY OF CORVALLIS, OREGON
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Permanent</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 2,931,334	\$ 81,911	\$ 5,914	\$ 3,019,159
Receivables				
Accounts	277,714	-	-	277,714
Accrued interest	2,076	580	3	2,659
Grants	81,052	-	-	81,052
Other receivables	136,908	-	-	136,908
Other assets	-	14	-	14
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total Assets</i>	<u>\$ 3,429,084</u>	<u>\$ 82,505</u>	<u>\$ 5,917</u>	<u>\$ 3,517,506</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 194,601	\$ -	\$ -	\$ 194,601
Other accrued liabilities	46,682	-	-	46,682
Deferred revenue	36,217	-	-	36,217
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities</i>	277,500	-	-	277,500
 Fund Balances				
Nonspendable	-	-	5,000	5,000
Restricted	-	80,640	917	81,557
Committed	37,323	-	-	37,323
Assigned	3,114,261	1,865	-	3,116,126
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total Fund Balances</i>	<u>3,151,584</u>	<u>82,505</u>	<u>5,917</u>	<u>3,240,006</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,429,084</u>	<u>\$ 82,505</u>	<u>\$ 5,917</u>	<u>\$ 3,517,506</u>

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

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Permanent</u>	<u>Total</u>
REVENUES				
Taxes	\$ 77,641	\$ 1,899,303	\$ -	\$ 1,976,944
Licenses, fees, and permits	1,425,862	-	-	1,425,862
Charges for services	2,339,999	-	-	2,339,999
Intergovernmental	2,164,417	-	-	2,164,417
Fines and forfeitures	412,269	-	-	412,269
Miscellaneous	205,981	3,665	33	209,679
	<u>6,626,169</u>	<u>1,902,968</u>	<u>33</u>	<u>8,529,170</u>
<i>Total Revenues</i>				
EXPENDITURES				
Current				
Community Development	1,949,082	-	-	1,949,082
Finance	112,029	-	-	112,029
Library	-	-	147	147
Police	2,295,681	-	-	2,295,681
Public Works	2,583,173	-	-	2,583,173
Nondepartmental	-	1,350	-	1,350
Debt service				
Principal	-	2,571,667	-	2,571,667
Interest	-	2,255,229	-	2,255,229
	<u>6,939,965</u>	<u>4,828,246</u>	<u>147</u>	<u>11,768,358</u>
<i>Total Expenditures</i>				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>(313,796)</u>	<u>(2,925,278)</u>	<u>(114)</u>	<u>(3,239,188)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds - sale of capital assets	21,764	-	-	21,764
Transfers in	218,390	2,283,290	-	2,501,680
Transfers out	(644,420)	-	-	(644,420)
	<u>(404,266)</u>	<u>2,283,290</u>	<u>-</u>	<u>1,879,024</u>
<i>Total Other Financing Sources (Uses)</i>				
NET CHANGE IN FUND BALANCES	(718,062)	(641,988)	(114)	(1,360,164)
FUND BALANCE, Beginning of year	<u>3,869,646</u>	<u>724,493</u>	<u>6,031</u>	<u>4,600,170</u>
FUND BALANCE, End of year	<u>\$ 3,151,584</u>	<u>\$ 82,505</u>	<u>\$ 5,917</u>	<u>\$ 3,240,006</u>

NON-MAJOR SPECIAL REVENUE FUNDS



NON-MAJOR SPECIAL REVENUE FUNDS

These funds account for proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

9-1-1 FUND - Accounts for the regional emergency 9-1-1 system activities. Major revenues include state revenues from 9-1-1 tax, and charges for services from regional and local agencies.

DEVELOPMENT SERVICES FUND - Accounts for the plan review and inspection services provided by the Development Services Division. The primary revenue source is fees paid by developers for these services.

PARKING FUND - Accounts for revenues and expenditures associated with the operation, enforcement, maintenance, and capital improvements for downtown parking. Major revenue sources include charges for services, parking meters, and fines.

TRANSIT FUND - Accounts for revenues and expenditures associated with the operation of the City's transit system. Major revenue sources include property taxes, grant monies, and charges for services (rider fees).

CITY OF CORVALLIS, OREGON
COMBINING BALANCE SHEET – NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2011

	<u>9-1-1</u>	<u>Development Services</u>	<u>Parking</u>	<u>Transit</u>	<u>Total</u>
ASSETS					
Cash and investments	\$ 508,759	\$ 1,447,500	\$ 951,022	\$ 24,053	\$ 2,931,334
Receivables					
Accounts	-	112,160	36,475	129,079	277,714
Accrued interest	436	1,043	593	4	2,076
Grants	-	-	-	81,052	81,052
Other receivables	136,908	-	-	-	136,908
	<u>646,103</u>	<u>1,560,703</u>	<u>988,090</u>	<u>234,188</u>	<u>3,429,084</u>
<i>Total Assets</i>	<u>\$ 646,103</u>	<u>\$ 1,560,703</u>	<u>\$ 988,090</u>	<u>\$ 234,188</u>	<u>\$ 3,429,084</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 5,516	\$ 18,742	\$ 6,575	\$ 163,768	\$ 194,601
Other accrued liabilities	-	46,675	-	7	46,682
Deferred revenue	-	-	36,217	-	36,217
	<u>5,516</u>	<u>65,417</u>	<u>42,792</u>	<u>163,775</u>	<u>277,500</u>
<i>Total Liabilities</i>	<u>5,516</u>	<u>65,417</u>	<u>42,792</u>	<u>163,775</u>	<u>277,500</u>
Fund Balances					
Committed	-	-	37,323	-	37,323
Assigned	640,587	1,495,286	907,975	70,413	3,114,261
	<u>640,587</u>	<u>1,495,286</u>	<u>907,975</u>	<u>70,413</u>	<u>3,114,261</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 646,103</u>	<u>\$ 1,560,703</u>	<u>\$ 988,090</u>	<u>\$ 234,188</u>	<u>\$ 3,429,084</u>

CITY OF CORVALLIS, OREGON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2011**

	<u>9-1-1</u>	<u>Development Services</u>	<u>Parking</u>	<u>Transit</u>	<u>Total</u>
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 77,641	\$ 77,641
Licenses, fees, and permits	-	1,019,673	17,758	388,431	1,425,862
Charges for services	939,405	897,620	167,438	335,536	2,339,999
Intergovernmental	1,183,433	-	-	980,984	2,164,417
Fines and forfeitures	-	-	411,983	286	412,269
Miscellaneous	4,123	10,230	5,012	186,616	205,981
	<u>2,126,961</u>	<u>1,927,523</u>	<u>602,191</u>	<u>1,969,494</u>	<u>6,626,169</u>
EXPENDITURES					
Current					
Community Development	-	1,945,554	3,528	-	1,949,082
Finance	-	-	112,029	-	112,029
Police	2,026,176	-	269,505	-	2,295,681
Public Works	-	-	134,100	2,449,073	2,583,173
	<u>2,026,176</u>	<u>1,945,554</u>	<u>519,162</u>	<u>2,449,073</u>	<u>6,939,965</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	100,785	(18,031)	83,029	(479,579)	(313,796)
OTHER FINANCING SOURCES (USES)					
Proceeds - sale of capital assets	-	-	-	21,764	21,764
Transfers in	-	218,390	-	-	218,390
Transfers out	(77,940)	(274,330)	(23,230)	(268,920)	(644,420)
	<u>22,845</u>	<u>(73,971)</u>	<u>59,799</u>	<u>(726,735)</u>	<u>(718,062)</u>
NET CHANGE IN FUND BALANCE					
	<u>617,742</u>	<u>1,569,257</u>	<u>885,499</u>	<u>797,148</u>	<u>3,869,646</u>
FUND BALANCE, Beginning of year					
	<u>\$ 640,587</u>	<u>\$ 1,495,286</u>	<u>\$ 945,298</u>	<u>\$ 70,413</u>	<u>\$ 3,151,584</u>
FUND BALANCE, End of year					

CITY OF CORVALLIS, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – BUDGETARY BASIS – 9-1-1 FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 936,420	\$ 936,420	\$ 939,405	\$ 2,985
Intergovernmental	1,174,150	1,174,150	1,183,433	9,283
Miscellaneous	2,210	2,210	4,123	1,913
<i>Total Revenues</i>	<u>2,112,780</u>	<u>2,112,780</u>	<u>2,126,961</u>	<u>14,181</u>
EXPENDITURES				
Current				
Police	2,180,630	2,180,630	2,026,176	154,454
Contingency	44,120	44,120	-	44,120
<i>Total Expenditures</i>	<u>2,224,750</u>	<u>2,224,750</u>	<u>2,026,176</u>	<u>198,574</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(111,970)	(111,970)	100,785	212,755
OTHER FINANCING SOURCES (USES)				
Transfers out	(77,940)	(77,940)	(77,940)	-
NET CHANGE IN FUND BALANCE	(189,910)	(189,910)	22,845	212,755
FUND BALANCE, Beginning of year	<u>617,433</u>	<u>617,433</u>	<u>617,742</u>	<u>309</u>
FUND BALANCE, End of year	<u>\$ 427,523</u>	<u>\$ 427,523</u>	<u>\$ 640,587</u>	<u>\$ 213,064</u>

CITY OF CORVALLIS, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – DEVELOPMENT SERVICES FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses, fees, and permits	\$ 799,500	\$ 799,500	\$ 1,019,673	\$ 220,173
Charges for services	892,260	892,260	897,620	5,360
Miscellaneous	7,010	7,010	10,230	3,220
<i>Total Revenues</i>	<u>1,698,770</u>	<u>1,698,770</u>	<u>1,927,523</u>	<u>228,753</u>
EXPENDITURES				
Current				
Community Development	<u>2,221,550</u>	<u>2,221,550</u>	<u>1,945,554</u>	<u>275,996</u>
<i>Total Expenditures</i>	<u>2,221,550</u>	<u>2,221,550</u>	<u>1,945,554</u>	<u>275,996</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(522,780)	(522,780)	(18,031)	504,749
OTHER FINANCING SOURCES (USES)				
Transfers in	218,390	218,390	218,390	-
Transfers out	<u>(274,330)</u>	<u>(274,330)</u>	<u>(274,330)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(578,720)	(578,720)	(73,971)	504,749
FUND BALANCE, Beginning of year	<u>391,551</u>	<u>391,551</u>	<u>1,569,257</u>	<u>1,177,706</u>
FUND BALANCE, End of year	<u>\$ (187,169)</u>	<u>\$ (187,169)</u>	<u>\$ 1,495,286</u>	<u>\$ 1,682,455</u>

CITY OF CORVALLIS, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – PARKING FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses, fees, and permits	\$ 20,000	\$ 20,000	\$ 17,758	\$ (2,242)
Charges for services	164,450	164,450	167,438	2,988
Fines and forfeitures	404,930	404,930	411,983	7,053
Miscellaneous	3,200	3,200	5,012	1,812
<i>Total Revenues</i>	<u>592,580</u>	<u>592,580</u>	<u>602,191</u>	<u>9,611</u>
EXPENDITURES				
Current				
Community Development	4,010	4,010	3,528	482
Finance	132,180	132,180	112,029	20,151
Police	344,320	344,320	269,505	74,815
Public Works	162,590	190,590	134,100	56,490
Contingency	12,030	12,030	-	12,030
<i>Total Expenditures</i>	<u>655,130</u>	<u>683,130</u>	<u>519,162</u>	<u>163,969</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(62,550)	(90,550)	83,029	173,579
OTHER FINANCING SOURCES (USES)				
Transfers out	(223,230)	(195,230)	(23,230)	172,000
NET CHANGE IN FUND BALANCE	(285,780)	(285,780)	59,799	345,579
FUND BALANCE, Beginning of year	<u>849,663</u>	<u>849,663</u>	<u>885,499</u>	<u>35,836</u>
FUND BALANCE, End of year	<u>\$ 563,883</u>	<u>\$ 563,883</u>	<u>\$ 945,298</u>	<u>\$ 381,415</u>

CITY OF CORVALLIS, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – TRANSIT FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes	\$ 75,000	\$ 75,000	\$ 77,641	\$ 2,641
Charges for services	502,410	502,410	335,536	(166,874)
Intergovernmental	1,618,340	1,618,340	980,984	(637,356)
Fines and forfeitures	-	-	286	286
Miscellaneous	811,680	811,680	186,616	(625,064)
<i>Total Revenues</i>	<u>3,007,430</u>	<u>3,007,430</u>	<u>1,969,494</u>	<u>(1,037,936)</u>
EXPENDITURES				
Current				
Public Works	3,442,830	3,442,830	2,449,073	993,757
Contingency	29,940	29,940	-	29,940
<i>Total Expenditures</i>	<u>3,472,770</u>	<u>3,472,770</u>	<u>2,449,073</u>	<u>1,023,697</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(465,340)	(465,340)	(479,579)	(14,239)
OTHER FINANCING SOURCES (USES)				
Proceeds - sale of capital assets	-	-	21,764	21,764
Transfers out	(268,920)	(268,920)	(268,920)	-
NET CHANGE IN FUND BALANCE	(734,260)	(734,260)	(726,735)	7,525
FUND BALANCE, Beginning of year	<u>1,254,696</u>	<u>1,254,696</u>	<u>797,148</u>	<u>(457,548)</u>
FUND BALANCE, End of year	<u>\$ 520,436</u>	<u>\$ 520,436</u>	<u>\$ 70,413</u>	<u>\$ (450,023)</u>

CAPITAL PROJECTS FUND



CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for the acquisition and construction of major capital facilities other than those financed solely by Proprietary Funds. Included is:

CAPITAL CONSTRUCTION FUND - Accounts for the construction and improvement of roads, parks, and facilities, and for acquisition of park land. Major revenues are from interfund transfers and grants.

CITY OF CORVALLIS, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – BUDGETARY BASIS – CAPITAL CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 2,148,260	\$ 2,148,260	\$ 868,706	\$ (1,279,554)
Miscellaneous	398,800	398,800	31,037	(367,763)
<i>Total Revenues</i>	<u>2,547,060</u>	<u>2,547,060</u>	<u>899,743</u>	<u>(1,647,317)</u>
EXPENDITURES				
Capital outlay	<u>6,221,457</u>	<u>6,221,457</u>	<u>2,752,422</u>	<u>3,469,035</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,674,397)	(3,674,397)	(1,852,679)	1,821,718
OTHER FINANCING SOURCES (USES)				
Proceeds - issuance of debt	2,354,470	2,354,470	2,100,000	(254,470)
Transfers in	2,330,292	2,284,332	812,649	(1,471,683)
Transfers out	(75,000)	(75,000)	(75,000)	-
<i>Total Other Financing Sources (Uses)</i>	<u>4,609,762</u>	<u>4,563,802</u>	<u>2,837,649</u>	<u>(1,726,153)</u>
NET CHANGE IN FUND BALANCE	935,365	889,405	984,970	95,565
FUND BALANCE, Beginning of year	<u>519,272</u>	<u>519,272</u>	<u>832,722</u>	<u>313,450</u>
FUND BALANCE, End of year	<u>\$ 1,454,637</u>	<u>\$ 1,408,677</u>	<u>\$ 1,817,692</u>	<u>\$ 409,015</u>

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DEBT SERVICE FUNDS



DEBT SERVICE FUNDS

The Debt Service Funds account for the accumulation of resources for the payment of general obligation and special assessment debt including principal, interest and related costs. Included are:

NON-MAJOR FUNDS:

GENERAL OBLIGATION DEBT SERVICE FUND - Accounts for the accumulation of resources for, and the payment of, general obligation bond principal and interest. The principal source of revenue is property taxes.

PENSION OBLIGATION DEBT SERVICE FUND - Accounts for the accumulation of resources for, and the payment of, pension obligation bond principal and interest. The principal source of revenue is payments from operating funds for their portion of annual debt service.

CITY OF CORVALLIS, OREGON
COMBINING BALANCE SHEET – DEBT SERVICE FUNDS
JUNE 30, 2011

	General Obligation Debt Service	Pension Obligation Debt Service	Total
ASSETS			
Cash and investments	\$ 81,477	\$ 434	\$ 81,911
Receivables			
Accrued interest	580	-	580
Other assets	-	14	14
	<u> </u>	<u> </u>	<u> </u>
<i>Total Assets</i>	<u>\$ 82,057</u>	<u>\$ 448</u>	<u>\$ 82,505</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>
Fund Balances			
Restricted	80,219	421	80,640
Assigned	1,838	27	1,865
	<u> </u>	<u> </u>	<u> </u>
<i>Total Fund Balances</i>	<u>82,057</u>	<u>448</u>	<u>82,505</u>
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 82,057</u>	<u>\$ 448</u>	<u>\$ 82,505</u>

CITY OF CORVALLIS, OREGON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2011

	General Obligation Debt Service	Pension Obligation Debt Service	Total
REVENUES			
Taxes	\$ 1,899,303	\$ -	\$ 1,899,303
Miscellaneous	3,638	27	3,665
<i>Total Revenues</i>	<u>1,902,941</u>	<u>27</u>	<u>1,902,968</u>
EXPENDITURES			
Current			
Nondepartmental	-	1,350	1,350
Debt service			
Principal	2,165,000	406,667	2,571,667
Interest	379,974	1,875,255	2,255,229
<i>Total Expenditures</i>	<u>2,544,974</u>	<u>2,283,272</u>	<u>4,828,246</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(642,033)	(2,283,245)	(2,925,278)
OTHER FINANCING SOURCES			
Transfers in	-	2,283,290	2,283,290
NET CHANGE IN FUND BALANCES	(642,033)	45	(641,988)
FUND BALANCE, Beginning of year	<u>724,090</u>	<u>403</u>	<u>724,493</u>
FUND BALANCE, End of year	<u>\$ 82,057</u>	<u>\$ 448</u>	<u>\$ 82,505</u>

CITY OF CORVALLIS, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – BUDGETARY BASIS – GENERAL OBLIGATION DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes	\$ 1,900,000	\$ 1,900,000	\$ 1,899,303	\$ (697)
Miscellaneous	2,710	2,710	3,638	928
<i>Total Revenues</i>	<u>1,902,710</u>	<u>1,902,710</u>	<u>1,902,941</u>	<u>231</u>
EXPENDITURES				
Current				
Principal	2,165,000	2,165,000	2,165,000	-
Interest	379,980	379,980	379,974	6
<i>Total Expenditures</i>	<u>2,544,980</u>	<u>2,544,980</u>	<u>2,544,974</u>	<u>6</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(642,270)	(642,270)	(642,033)	237
FUND BALANCE, Beginning of year	<u>721,532</u>	<u>721,532</u>	<u>724,090</u>	<u>2,558</u>
FUND BALANCE, End of year	<u>\$ 79,262</u>	<u>\$ 79,262</u>	<u>\$ 82,057</u>	<u>\$ 2,795</u>

CITY OF CORVALLIS, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – BUDGETARY BASIS – PENSION OBLIGATION DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ -	\$ -	\$ 27	\$ 27
<i>Total Revenues</i>	<u>-</u>	<u>-</u>	<u>27</u>	<u>27</u>
EXPENDITURES				
Current				
Nondepartmental	1,350	1,350	1,350	-
Debt service				
Principal	406,670	406,670	406,667	3
Interest	1,875,280	1,875,280	1,875,255	25
<i>Total Expenditures</i>	<u>2,283,300</u>	<u>2,283,300</u>	<u>2,283,272</u>	<u>28</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,283,300)	(2,283,300)	(2,283,245)	55
OTHER FINANCING SOURCES (USES)				
Transfers in	2,283,290	2,283,290	2,283,290	-
NET CHANGE IN FUND BALANCE	(10)	(10)	45	55
FUND BALANCE, Beginning of year	<u>1,580</u>	<u>1,580</u>	<u>403</u>	<u>(1,177)</u>
FUND BALANCE, End of year	<u>\$ 1,570</u>	<u>\$ 1,570</u>	<u>\$ 448</u>	<u>\$ (1,122)</u>

NON-MAJOR PERMANENT FUND



NON-MAJOR PERMANENT FUND

The Permanent Fund accounts for resources that are legally restricted to the extent that earnings, not principal, are used to support the City's programs.

DAVIDSON LIBRARY FUND - Accounts for Library resources restricted for book purchases. The major revenue source derives from interest earnings.

CITY OF CORVALLIS, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - BUDGETARY BASIS – DAVIDSON LIBRARY FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 140	\$ 140	\$ 33	\$ (107)
EXPENDITURES				
Current				
Library	500	500	147	353
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(360)	(360)	(114)	246
FUND BALANCE, Beginning of year	5,907	5,907	6,031	124
FUND BALANCE, End of year	<u>\$ 5,547</u>	<u>\$ 5,547</u>	<u>\$ 5,917</u>	<u>\$ 370</u>

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ENTERPRISE FUNDS



ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition, operation, maintenance, and debt service of governmental facilities and services which are entirely or predominantly self-supporting by user charges. Enterprise funds use the economic resources measurement focus and accrual accounting to report the results of operation.

WATER, WASTEWATER AND STORM WATER FUNDS - Accounts for the operation, maintenance, debt service, and capital improvements of the water, wastewater, and storm water systems of the City. The primary source of revenue is user service charges.

AIRPORT FUND - Accounts for the operation, maintenance, debt service, and capital improvements of the City's airport facilities. Revenues are derived primarily from hangar and building rental revenue, seed crop revenue, and capital improvement grants.

CITY OF CORVALLIS, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - WATER FUND
YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 8,805,430	\$ 8,805,430	\$ 8,646,978	\$ (158,452)
Intergovernmental	108,670	108,670	46,544	(62,126)
Fines and forfeitures	-	-	3,149	3,149
Miscellaneous	449,740	449,740	456,870	7,130
<i>Total Revenues</i>	<u>9,363,840</u>	<u>9,363,840</u>	<u>9,153,541</u>	<u>(210,299)</u>
EXPENDITURES				
Community Development	50,740	50,740	48,327	2,413
Public Works	8,054,750	8,054,750	6,806,636	1,248,114
Capital Projects	2,951,950	2,951,950	202,470	2,749,480
Debt service				
Principal	767,520	767,520	767,510	10
Interest	241,720	241,720	241,708	12
Contingency	178,150	178,150	-	178,150
<i>Total Expenditures</i>	<u>12,244,830</u>	<u>12,244,830</u>	<u>8,066,651</u>	<u>4,178,179</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,880,990)</u>	<u>(2,880,990)</u>	<u>1,086,890</u>	<u>3,967,880</u>
OTHER FINANCING SOURCES (USES)				
Proceeds - sale of capital assets	-	-	2,100	2,100
Transfers in	3,674,420	3,674,420	-	(3,674,420)
Transfers out	(3,972,240)	(3,972,240)	(297,820)	3,674,420
<i>Total Other Financing Sources (Uses)</i>	<u>(297,820)</u>	<u>(297,820)</u>	<u>(295,720)</u>	<u>2,100</u>
NET CHANGE IN FUND BALANCE	<u>(3,178,810)</u>	<u>(3,178,810)</u>	<u>791,170</u>	<u>3,969,980</u>
FUND BALANCE, Beginning of year	<u>5,647,023</u>	<u>5,647,023</u>	<u>6,146,949</u>	<u>499,926</u>
FUND BALANCE, End of year	<u>\$ 2,468,213</u>	<u>\$ 2,468,213</u>	<u>\$ 6,938,119</u>	<u>\$ 4,469,906</u>

CITY OF CORVALLIS, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - WASTEWATER FUND
YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 9,551,530	\$ 9,551,530	\$ 10,064,001	\$ 512,471
Miscellaneous	55,740	55,740	89,079	33,339
<i>Total Revenues</i>	<u>9,607,270</u>	<u>9,607,270</u>	<u>10,161,605</u>	<u>554,335</u>
EXPENDITURES				
Community Development	49,540	49,540	47,237	2,303
Public Works	7,034,410	6,967,920	6,467,622	500,298
Capital Projects	3,417,040	3,417,040	828,415	2,588,625
Debt service				
Principal	1,522,170	1,522,170	1,522,152	18
Interest	711,680	778,170	778,155	15
Contingency	181,140	181,140	-	181,140
<i>Total Expenditures</i>	<u>12,915,980</u>	<u>12,915,980</u>	<u>9,643,581</u>	<u>3,272,399</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,308,710)</u>	<u>(3,308,710)</u>	<u>518,024</u>	<u>3,826,734</u>
OTHER FINANCING SOURCES (USES)				
Proceeds - sale of capital assets	-	-	2,391	2,391
Transfers in	3,515,260	3,515,260	-	(3,515,260)
Transfers out	(3,753,250)	(3,753,250)	(237,990)	3,515,260
<i>Total Other Financing Sources (Uses)</i>	<u>(237,990)</u>	<u>(237,990)</u>	<u>(235,599)</u>	<u>2,391</u>
NET CHANGE IN FUND BALANCE	<u>(3,546,700)</u>	<u>(3,546,700)</u>	<u>282,425</u>	<u>3,829,125</u>
FUND BALANCE, Beginning of year	<u>12,207,574</u>	<u>12,207,574</u>	<u>12,250,675</u>	<u>43,101</u>
FUND BALANCE, End of year	<u>\$ 8,660,874</u>	<u>\$ 8,660,874</u>	<u>\$ 12,533,100</u>	<u>\$ 3,872,226</u>

CITY OF CORVALLIS, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – STORM WATER FUND
YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 2,113,970	\$ 2,113,970	\$ 2,052,098	\$ (61,872)
Intergovernmental	-	139,337	3,127	(136,210)
Miscellaneous	9,280	9,280	12,587	3,307
<i>Total Revenues</i>	<u>2,123,250</u>	<u>2,262,587</u>	<u>2,067,812</u>	<u>(194,775)</u>
EXPENDITURES				
Community Development	50,480	50,480	47,825	2,655
Public Works	2,109,020	2,123,757	1,706,316	417,441
Capital Projects	602,200	726,800	161,994	564,806
Contingency	41,860	41,860	-	41,860
<i>Total Expenditures</i>	<u>2,803,560</u>	<u>2,942,897</u>	<u>1,916,135</u>	<u>1,026,762</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(680,310)</u>	<u>(680,310)</u>	<u>151,677</u>	<u>831,987</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	602,200	602,200	5,000	(597,200)
Transfers out	(756,660)	(756,660)	(174,460)	582,200
<i>Total Other Financing Sources (Uses)</i>	<u>(154,460)</u>	<u>(154,460)</u>	<u>(169,460)</u>	<u>(15,000)</u>
NET CHANGE IN FUND BALANCE	<u>(834,770)</u>	<u>(834,770)</u>	<u>(17,783)</u>	<u>816,987</u>
FUND BALANCE, Beginning of year	<u>1,363,334</u>	<u>1,363,334</u>	<u>1,833,574</u>	<u>470,240</u>
FUND BALANCE, End of year	<u>\$ 528,564</u>	<u>\$ 528,564</u>	<u>\$ 1,815,791</u>	<u>\$ 1,287,227</u>

CITY OF CORVALLIS, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - AIRPORT FUND
YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses, fees, and permits	\$ 5,000	\$ 5,000	\$ 4,450	\$ (550)
Charges for services	365,000	365,000	394,785	29,785
Intergovernmental	817,150	876,411	670,551	(205,860)
Miscellaneous	9,630	9,630	11,848	2,218
<i>Total Revenues</i>	<u>1,196,780</u>	<u>1,256,041</u>	<u>1,081,634</u>	<u>(174,407)</u>
EXPENDITURES				
Public Works	445,350	504,611	332,065	172,546
Capital Projects	965,200	965,200	770,605	194,595
Debt service				
Principal	23,740	23,740	23,739	1
Interest	18,430	18,430	9,924	8,506
Contingency	9,390	9,390	-	9,390
<i>Total Expenditures</i>	<u>1,462,110</u>	<u>1,521,371</u>	<u>1,136,332</u>	<u>385,039</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(265,330)</u>	<u>(265,330)</u>	<u>(54,698)</u>	<u>210,632</u>
OTHER FINANCING SOURCES (USES)				
Proceeds - issuance of debt	90,000	90,000	-	(90,000)
Proceeds - sale of capital assets	-	-	2,500	2,500
Transfers in	148,050	194,010	144,160	(49,850)
Transfers out	(98,030)	(98,030)	(33,180)	64,850
<i>Total Other Financing Sources (Uses)</i>	<u>140,020</u>	<u>185,980</u>	<u>113,480</u>	<u>(72,500)</u>
NET CHANGE IN FUND BALANCE	<u>(125,310)</u>	<u>(79,350)</u>	<u>58,782</u>	<u>138,132</u>
FUND BALANCE, Beginning of year	<u>836,862</u>	<u>836,862</u>	<u>595,659</u>	<u>(241,203)</u>
FUND BALANCE, End of year	<u>\$ 711,552</u>	<u>\$ 757,512</u>	<u>\$ 654,441</u>	<u>\$ (103,071)</u>

INTERNAL SERVICE FUNDS



INTERNAL SERVICE FUNDS

These funds account for activities and services performed primarily for other organizational units within the City. Charges are based on recovering costs from the benefited City units.

FLEET MANAGEMENT FUND - Accounts for the activities to operate the City's fleet of vehicles and equipment.

FACILITY MAINTENANCE FUND - Accounts for the operation of the City's central shop facility.

TECHNOLOGY AND COMMUNICATIONS FUND - Accounts for the activities related to centralized information and management systems, and operations.

ADMINISTRATIVE SERVICES FUND - Accounts for the activities to provide administrative services to the City departments.

RISK MANAGEMENT FUND - Accounts for the activities associated with providing risk management services to the organization.

CITY OF CORVALLIS, OREGON
COMBINING STATEMENT OF NET ASSETS – ALL INTERNAL SERVICE FUNDS
JUNE 30, 2011

	<u>Fleet Services</u>	<u>Facility Maintenance</u>	<u>Technology and Communications</u>	<u>Administrative Services</u>	<u>Risk Management</u>	<u>Total</u>
ASSETS						
Current assets						
Cash and investments	\$ 62,852	\$ 127,800	\$ 580,402	\$ 177,306	\$ 788,846	\$ 1,737,206
Receivables						
Accounts	11,928	400	-	4	-	12,332
Accrued interest	71	177	519	355	530	1,652
Total Current Assets	74,851	128,377	580,921	177,665	789,376	1,751,190
Capital Assets						
Land	-	-	-	500,663	-	500,663
Buildings	-	47,786	-	86,849	-	134,635
Vehicles	24,969	17,993	22,506	-	15,465	80,933
Machinery and equipment	9,850	67,529	803,117	25,857	15,464	921,817
Total Capital Assets	34,819	133,308	825,623	613,369	30,929	1,638,048
Less accumulated depreciation	(5,173)	(35,489)	(658,864)	(112,705)	(15,306)	(827,537)
Capital Assets (net of accumulated depreciation)	29,646	97,819	166,759	500,664	15,623	810,511
Total Assets	\$ 104,497	\$ 226,196	\$ 747,680	\$ 678,329	\$ 804,999	\$ 2,561,701
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable	\$ 34,988	\$ 55,804	\$ 75,914	\$ 57,224	\$ 88,038	\$ 311,968
Accrued compensated absences	9,536	46,957	77,486	320,613	-	454,592
Other accrued liabilities	-	-	-	8,832	-	8,832
Total Current Liabilities	44,524	102,761	153,400	386,669	88,038	775,392
Noncurrent liabilities						
Accrued compensated absences	5,025	24,742	40,828	168,932	-	239,527
Net OPEB Obligations	25,240	37,117	120,754	361,768	-	544,879
Total Liabilities	74,789	164,620	314,982	917,369	88,038	1,559,798
Net Assets						
Investment in capital assets	29,646	97,819	166,759	500,664	15,623	810,511
Unrestricted	62	(36,243)	265,939	(739,704)	701,338	191,392
Total Net Assets	29,708	61,576	432,698	(239,040)	716,961	1,001,903
Total Liabilities and Net Assets	\$ 104,497	\$ 226,196	\$ 747,680	\$ 678,329	\$ 804,999	\$ 2,561,701

CITY OF CORVALLIS, OREGON
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2011

	<u>Fleet Services</u>	<u>Facility Maintenance</u>	<u>Technology and Communications</u>	<u>Administrative Services</u>	<u>Risk Management</u>	<u>Total</u>
OPERATING REVENUES						
Charges for services	\$ 740,062	\$ 691,910	\$ 1,549,293	\$ 4,685,490	\$ 1,014,210	\$ 8,680,965
Fines and forfeitures	32	-	-	-	-	32
Miscellaneous	1,345	926	561	5,784	49,086	57,702
<i>Total Operating Revenues</i>	<u>741,439</u>	<u>692,836</u>	<u>1,549,854</u>	<u>4,691,274</u>	<u>1,063,296</u>	<u>8,738,699</u>
OPERATING EXPENSES						
Personal services	197,513	386,360	1,204,691	3,292,266	-	5,080,830
Materials and supplies	447,987	56,952	27,507	43,361	19,468	595,275
Services	40,599	128,518	240,054	690,477	78	1,099,726
Utility and overhead	43,246	124,571	78,693	665,575	935,172	1,847,257
Training and conference	367	300	8,501	28,594	873	38,635
Depreciation and amortization	3,436	9,090	78,187	-	3,237	93,950
<i>Total Operating Expenses</i>	<u>733,148</u>	<u>705,791</u>	<u>1,637,633</u>	<u>4,720,273</u>	<u>958,828</u>	<u>8,755,673</u>
OPERATING INCOME (LOSS)	8,291	(12,955)	(87,779)	(28,999)	104,468	(16,974)
NONOPERATING INCOME (EXPENSE)						
Interest income	399	1,137	4,061	2,688	4,386	12,671
CHANGE IN NET ASSETS	8,690	(11,818)	(83,718)	(26,311)	108,854	(4,303)
NET ASSETS, Beginning of year	<u>21,018</u>	<u>73,394</u>	<u>516,416</u>	<u>(212,729)</u>	<u>608,107</u>	<u>1,006,206</u>
NET ASSETS, End of year	<u>\$ 29,708</u>	<u>\$ 61,576</u>	<u>\$ 432,698</u>	<u>\$ (239,040)</u>	<u>\$ 716,961</u>	<u>\$ 1,001,903</u>

CITY OF CORVALLIS, OREGON
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2011

	<i>Fleet Services</i>	<i>Facility Maintenance</i>	<i>Technology and Comm</i>	<i>Administrative Services</i>	<i>Risk Management</i>	<i>Total</i>
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 107,729	\$ 6,116	\$ 1,283	\$ 6,769	\$ 50,754	\$ 172,651
Receipts from interfund services provided	315,388	(129,880)	(149,864)	-	1,014,210	1,049,854
Payments to suppliers	(517,022)	(263,415)	(303,329)	(1,215,016)	(931,134)	(3,229,916)
Payments to employees	(168,720)	(358,301)	(1,171,871)	(3,013,948)	-	(4,712,840)
Payments for interfund services used	275,958	757,535	1,660,116	4,261,216	(3,158)	6,951,667
<i>Net Cash Provided by (Used In) Operating Activities</i>	13,333	12,055	36,335	39,021	130,672	231,416
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	(5,505)	-	(77,080)	-	-	(82,585)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest on investments	378	1,120	4,116	2,749	4,390	12,753
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	8,206	13,175	(36,629)	41,770	135,062	161,584
CASH AND INVESTMENTS, Beginning of year	54,646	114,625	617,031	135,536	653,784	1,575,622
CASH AND INVESTMENTS, End of year	\$ 62,852	\$ 127,800	\$ 580,402	\$ 177,306	\$ 788,846	\$ 1,737,206
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES						
Operating income (loss)	\$ 8,291	\$ (12,955)	\$ (87,779)	\$ (28,999)	\$ 104,468	\$ (16,974)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Depreciation and amortization	3,436	9,090	78,187	-	3,237	93,950
Change in assets and liabilities						
Receivables						
Accounts receivable	1,141	(400)	44	-	-	785
Accounts payable	(2,953)	6,881	13,449	34,009	22,967	74,353
Accrued compensated absences	(5,053)	(3,380)	1,685	(42,761)	-	(49,509)
Net OPEB obligations	8,471	12,819	30,749	107,837	-	159,876
Other accrued liabilities	-	-	-	(31,065)	-	(31,065)
<i>Net Cash Provided by (Used In) Operating Activities</i>	\$ 13,333	\$ 12,055	\$ 36,335	\$ 39,021	\$ 130,672	\$ 231,416

CITY OF CORVALLIS, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – BUDGETARY BASIS – FLEET MAINTENANCE FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 691,630	\$ 760,630	\$ 740,062	\$ (20,568)
Fines and forfeitures	-	-	32	32
Miscellaneous	1,200	1,200	1,744	544
<i>Total Revenues</i>	<u>692,830</u>	<u>761,830</u>	<u>741,838</u>	<u>(19,992)</u>
EXPENDITURES				
Public Works	692,270	761,270	731,799	29,471
Contingency	16,000	16,000	-	16,000
<i>Total Expenditures</i>	<u>708,270</u>	<u>777,270</u>	<u>731,799</u>	<u>45,471</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,440)	(15,440)	10,039	25,479
FUND BALANCE, Beginning of year	<u>37,298</u>	<u>37,298</u>	<u>29,823</u>	<u>(7,475)</u>
FUND BALANCE, End of year	<u>\$ 21,858</u>	<u>\$ 21,858</u>	<u>\$ 39,862</u>	<u>\$ 18,004</u>

CITY OF CORVALLIS, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – BUDGETARY BASIS – FACILITY MAINTENANCE FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 816,200	\$ 816,200	\$ 691,910	\$ (124,290)
Miscellaneous	3,070	3,070	2,063	(1,007)
<i>Total Revenues</i>	<u>819,270</u>	<u>819,270</u>	<u>693,973</u>	<u>(125,297)</u>
EXPENDITURES				
Public Works	819,660	819,660	687,262	132,398
Contingency	10,000	10,000	-	10,000
<i>Total Expenditures</i>	<u>829,660</u>	<u>829,660</u>	<u>687,262</u>	<u>142,398</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,390)	(10,390)	6,711	17,101
FUND BALANCE, Beginning of year	<u>66,491</u>	<u>66,491</u>	<u>65,862</u>	<u>(629)</u>
FUND BALANCE, End of year	<u>\$ 56,101</u>	<u>\$ 56,101</u>	<u>\$ 72,573</u>	<u>\$ 16,472</u>

CITY OF CORVALLIS, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – BUDGETARY BASIS – TECHNOLOGY AND COMMUNICATIONS FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 1,699,180	\$ 1,699,180	\$ 1,549,293	\$ (149,887)
Miscellaneous	3,040	3,040	4,622	1,582
<i>Total Revenues</i>	<u>1,702,220</u>	<u>1,702,220</u>	<u>1,553,915</u>	<u>(148,305)</u>
EXPENDITURES				
Finance	1,577,000	1,577,000	1,426,463	150,537
Public Works	219,070	219,070	177,629	41,441
Contingency	30,000	30,000	-	30,000
<i>Total Expenditures</i>	<u>1,826,070</u>	<u>1,826,070</u>	<u>1,604,092</u>	<u>221,978</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(123,850)	(123,850)	(50,177)	73,673
FUND BALANCE, Beginning of year	<u>530,867</u>	<u>530,867</u>	<u>555,185</u>	<u>24,318</u>
FUND BALANCE, End of year	<u>\$ 407,017</u>	<u>\$ 407,017</u>	<u>\$ 505,008</u>	<u>\$ 97,991</u>

CITY OF CORVALLIS, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – BUDGETARY BASIS – ADMINISTRATIVE SERVICES FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 4,785,490	\$ 4,785,490	\$ 4,685,490	\$ (100,000)
Miscellaneous	8,000	8,000	8,472	472
<i>Total Revenues</i>	<u>4,793,490</u>	<u>4,793,490</u>	<u>4,693,962</u>	<u>(99,528)</u>
EXPENDITURES				
City Manager's Office	2,114,260	2,144,260	2,122,104	22,156
Finance	2,667,300	2,667,300	2,533,092	134,208
Contingency	30,000	-	-	-
<i>Total Expenditures</i>	<u>4,811,560</u>	<u>4,811,560</u>	<u>4,655,197</u>	<u>156,363</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(18,070)	(18,070)	38,765	56,835
FUND BALANCE, Beginning of year	<u>52,066</u>	<u>52,066</u>	<u>72,844</u>	<u>20,778</u>
FUND BALANCE, End of year	<u>\$ 33,996</u>	<u>\$ 33,996</u>	<u>\$ 111,609</u>	<u>\$ 77,613</u>

CITY OF CORVALLIS, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL – BUDGETARY BASIS – RISK MANAGEMENT FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 1,014,210	\$ 1,014,210	\$ 1,014,210	\$ -
Miscellaneous	40,620	40,620	53,472	12,852
<i>Total Revenues</i>	<u>1,054,830</u>	<u>1,054,830</u>	<u>1,067,682</u>	<u>12,852</u>
EXPENDITURES				
City Manager's Office	970,010	1,005,010	955,591	49,419
Contingency	275,000	240,000	-	240,000
<i>Total Expenditures</i>	<u>1,245,010</u>	<u>1,245,010</u>	<u>955,591</u>	<u>289,419</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(190,180)	(190,180)	112,091	302,271
FUND BALANCE, Beginning of year	<u>631,819</u>	<u>631,819</u>	<u>589,247</u>	<u>(42,572)</u>
FUND BALANCE, End of year	<u>\$ 441,639</u>	<u>\$ 441,639</u>	<u>\$ 701,338</u>	<u>\$ 259,699</u>

OTHER FINANCIAL SCHEDULES



CITY OF CORVALLIS, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
YEAR ENDED JUNE 30, 2011

<i>Fiscal Year</i>	<i>Property Taxes Receivable June 30, 2010</i>	<i>Extended by Assessor</i>	<i>(Deduct) Collections (1)</i>	<i>Add (Deduct) Discounts and Adjustments</i>	<i>Property Taxes Receivable June 30, 2011</i>
2011	\$ -	\$ 22,383,029	\$ (21,261,945)	\$ (575,792)	\$ 545,292
2010	717,125	-	(269,017)	(15,543)	432,565
2009	227,559	-	(96,096)	(9,680)	121,783
2008	92,930	-	(47,083)	(1,245)	44,602
2007	42,783	-	(27,015)	(1,509)	14,259
2006	12,211	-	(2,702)	(1,223)	8,286
2005 and prior	39,369	-	(3,940)	(2,562)	32,867
	<u>\$ 1,131,977</u>	<u>\$ 22,383,029</u>	<u>\$ (21,707,798)</u>	<u>\$ (607,554)</u>	<u>\$ 1,199,654</u>

Notes:

- (1) The records from Benton County include collection adjustments for the 2003 fiscal year's levy as well as prior fiscal years. A total of \$21,707,798 in property tax receipts were received by the City in FY 2010/11. The City also received an additional \$61,379 from Benton County for property tax related interest.

CITY OF CORVALLIS, OREGON
SCHEDULE OF LONG-TERM DEBT TRANSACTIONS
YEAR ENDED JUNE 30, 2011

<i>Series</i>	<i>Date of Issue</i>	<i>Final Maturity Date</i>	<i>Amount of Original Issue</i>	<i>Outstanding July 1, 2010</i>	<i>Bonds Issued</i>	<i>Bonds Called and Matured</i>	<i>Outstanding June 30, 2011</i>
BONDS PAYABLE							
<i>General Obligation Bonds</i>							
Advance Refunding 1994	01/01/94	08/01/10	\$ 5,380,000	\$ 605,000	\$ -	\$ 605,000	\$ -
Series 2001 A	05/01/01	05/01/21	7,900,000	370,000	-	370,000	-
Series 2009	05/27/09	06/01/19	10,190,000	9,885,000	-	1,190,000	8,695,000
<i>Total General Obligation Bonds</i>				10,860,000	-	2,165,000	8,695,000
<i>Pension Obligation Bonds</i>							
Series 2002 A	03/01/02	01/01/30	23,913,017	23,062,277	-	256,667	22,805,610
Series 2005 A	09/23/05	06/01/28	9,980,000	9,705,000	-	150,000	9,555,000
<i>Total Pension Obligation Bonds</i>				32,767,277	-	406,667	32,360,610
<i>Revenue Bonds</i>							
Series 2006 A	03/01/06	05/01/20	5,410,000	5,240,000	-	420,000	4,820,000
<i>Total Revenue Bonds</i>				5,240,000	-	420,000	4,820,000
<i>Total all Bonds</i>				48,867,277	-	2,991,667	45,875,610
NOTES PAYABLE							
BOA 2010 CIP Loan	08/05/10	08/01/20	2,100,000	-	2,100,000	-	2,100,000
OEDD Loan G95003	11/13/98	12/01/14	9,703,048	3,613,763	-	647,376	2,966,387
OEDD Loan B97001	09/06/96	12/01/16	2,107,000	1,011,316	-	120,134	891,182
SRF/DEQ Sewer Rehab	01/20/92	07/01/13	700,000	160,339	-	44,121	116,218
SRF/DEQ CSO	09/01/97	12/01/20	21,263,693	13,297,010	-	1,058,031	12,238,979
OEDD Loan B96002	09/06/96	12/01/16	332,240	180,880	-	23,739	157,141
<i>Total all Notes</i>				18,263,308	2,100,000	1,893,401	18,469,907
<i>Total Long-term Debt Transactions</i>				\$ 67,130,585	\$ 2,100,000	\$ 4,885,068	\$ 64,345,517

Note: The 2002A issue consists of two separate bond structures: the Capital Appreciation Bonds with par value of \$5,353,017 are dated 3/12/02; the Current Interest Bond with par value of \$18,560,000 are dated 3/1/02.

CITY OF CORVALLIS, OREGON
SCHEDULE OF LONG-TERM DEBT INTEREST TRANSACTIONS
YEAR ENDED JUNE 30, 2011

<i>Series</i>	<i>Interest Rates on Outstanding Balances</i>	<i>Unmatured and Outstanding July 1, 2010</i>	<i>Bonds Issued</i>	<i>Coupons Called and Matured</i>	<i>Unmatured and Outstanding June 30, 2011</i>
BONDS PAYABLE					
General Obligation Bonds					
Advance Refunding 1994	4.95%	\$ 14,974	\$ -	\$ 14,974	\$ -
Series 2001 A	4.50%	16,650	-	16,650	-
Series 2009	3.00 - 4.00 %	1,798,650	-	348,350	1,450,300
<i>Total General Obligation Bonds</i>		<u>1,830,274</u>	<u>-</u>	<u>379,974</u>	<u>1,450,300</u>
Pension Obligation Bonds					
Series 2002 A	6.35 - 7.06 %	29,575,248	-	1,394,733	28,180,515
Series 2005 A	4.516 - 5.50 %	5,784,089	-	480,522	5,303,567
<i>Total Pension Obligation Bonds</i>		<u>35,359,337</u>	<u>-</u>	<u>1,875,255</u>	<u>33,484,082</u>
Revenue Bonds					
Series 2006 A	3.00 - 5.00 %	1,232,900	-	226,200	1,006,700
<i>Total Revenue Bonds</i>		<u>1,232,900</u>	<u>-</u>	<u>226,200</u>	<u>1,006,700</u>
<i>Total All Bonds</i>		<u>38,422,511</u>	<u>-</u>	<u>2,481,429</u>	<u>35,941,082</u>
NOTES PAYABLE					
BOA 2010 CIP Loan	2.9600%	-	355,841	30,389	325,452
OEDD Loan G95003	4.5407%	583,117	-	186,203	396,914
OEDD Loan B97001	5.4442%	234,228	-	55,505	178,723
SRF/DEQ Sewer Rehab	3.0000%	9,760	-	4,481	5,279
SRF/DEQ CSO	3.6900%	3,267,994	-	547,474	2,720,520
OEDD Loan B96002	5.4687%	41,507	-	9,924	31,583
<i>Total All Notes</i>		<u>4,136,606</u>	<u>355,841</u>	<u>833,976</u>	<u>3,658,471</u>
<i>Total Long-term Debt Interest Transactions</i>		<u>\$ 42,559,117</u>	<u>\$ 355,841</u>	<u>\$ 3,315,405</u>	<u>\$ 39,599,553</u>

CITY OF CORVALLIS, OREGON

SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS OF GENERAL OBLIGATION BONDS

JUNE 30, 2011

<i>Year of Maturity</i>	<i>Total Requirements</i>			<i>Series 2009</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>
2011-2012	\$ 1,895,000	\$ 312,650	\$ 2,207,650	\$ 1,895,000	\$ 312,650
2012-2013	785,000	255,800	1,040,800	785,000	255,800
2013-2014	835,000	232,250	1,067,250	835,000	232,250
2014-2015	895,000	207,200	1,102,200	895,000	207,200
2015-2016	965,000	171,400	1,136,400	965,000	171,400
2016-2017	1,035,000	132,800	1,167,800	1,035,000	132,800
2017-2018	1,115,000	91,400	1,206,400	1,115,000	91,400
2018-2019	1,170,000	46,800	1,216,800	1,170,000	46,800
Total	<u>\$ 8,695,000</u>	<u>\$ 1,450,300</u>	<u>\$ 10,145,300</u>	<u>\$ 8,695,000</u>	<u>\$ 1,450,300</u>

CITY OF CORVALLIS, OREGON

SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS OF PENSION OBLIGATION BONDS

JUNE 30, 2011

<i>Year of Maturity</i>	<i>Total Requirements</i>			<i>Series 2002 A</i>		<i>Series 2005 A</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2011-2012	\$ 461,767	\$ 1,923,380	\$ 2,385,147	\$ 281,767	\$ 1,449,632	\$ 180,000	\$ 473,748
2012-2013	516,249	1,974,000	2,490,249	301,249	1,510,152	215,000	463,848
2013-2014	570,257	2,030,073	2,600,330	320,257	1,576,143	250,000	453,930
2014-2015	627,139	2,091,529	2,718,668	337,139	1,649,261	290,000	442,268
2015-2016	684,519	2,160,057	2,844,576	349,519	1,731,881	335,000	428,176
2016-2017	744,957	2,228,342	2,973,299	359,957	1,816,443	385,000	411,899
2017-2018	805,251	2,304,341	3,109,592	370,251	1,911,149	435,000	393,192
2018-2019	861,833	2,381,622	3,243,455	376,833	2,009,567	485,000	372,055
2019-2020	926,608	2,463,281	3,389,889	381,608	2,114,792	545,000	348,489
2020-2021	996,024	2,547,383	3,543,407	386,024	2,225,376	610,000	322,007
2021-2022	1,065,211	2,637,672	3,702,883	390,211	2,346,189	675,000	291,483
2022-2023	1,140,795	2,728,311	3,869,106	390,795	2,470,605	750,000	257,706
2023-2024	2,615,000	1,426,576	4,041,576	1,790,000	1,206,400	825,000	220,176
2024-2025	2,955,000	1,268,943	4,223,943	2,045,000	1,090,050	910,000	178,893
2025-2026	3,315,000	1,090,482	4,405,482	2,320,000	957,125	995,000	133,357
2026-2027	3,715,000	889,892	4,604,892	2,620,000	806,325	1,095,000	83,567
2027-2028	3,525,000	664,798	4,189,798	2,950,000	636,025	575,000	28,773
2028-2029	3,310,000	444,275	3,754,275	3,310,000	444,275	-	-
2029-2030	3,525,000	229,125	3,754,125	3,525,000	229,125	-	-
Total	\$ 32,360,610	\$ 33,484,082	\$ 65,844,692	\$ 22,805,610	\$ 28,180,515	\$ 9,555,000	\$ 5,303,567

CITY OF CORVALLIS, OREGON
SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS OF NOTES
JUNE 30, 2011

<i>Year of Maturity</i>	<i>Total Requirements</i>			<i>OEDD Loan G95003</i>		<i>OEDD Loan B97001</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2011-2012	\$ 2,167,793	\$ 776,826	\$ 2,944,619	\$ 684,743	\$ 153,816	\$ 131,222	\$ 49,017
2012-2013	2,259,583	680,250	2,939,833	722,906	119,053	137,390	41,799
2013-2014	2,324,548	578,932	2,903,480	756,914	81,815	143,622	34,242
2014-2015	2,401,033	474,027	2,875,060	801,824	42,230	149,920	26,342
2015-2016	1,666,441	364,473	2,030,914	-	-	161,291	18,097
2016-2017	1,725,461	294,161	2,019,622	-	-	167,737	9,226
2017-2018	1,586,642	221,256	1,807,898	-	-	-	-
2018-2019	1,642,535	156,944	1,799,479	-	-	-	-
2019-2020	1,700,325	90,332	1,790,657	-	-	-	-
2020-2021	995,546	21,270	1,016,816	-	-	-	-
Total	\$ 18,469,907	\$ 3,658,471	\$ 22,128,378	\$ 2,966,387	\$ 396,914	\$ 891,182	\$ 178,723

<i>SRF/DEQ Sewer Rehab</i>		<i>SRF/DEQ CSO</i>		<i>OEDD Loan B96002</i>		<i>BOA 2010 CIP Loan</i>	
<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
\$ 45,455	\$ 3,147	\$ 1,097,433	\$ 502,782	\$ 23,940	\$ 8,642	\$ 185,000	\$ 59,422
46,829	1,773	1,138,301	456,427	24,157	7,326	190,000	53,872
23,934	359	1,180,692	408,344	24,386	5,998	195,000	48,174
-	-	1,224,662	358,471	24,627	4,656	200,000	42,328
-	-	1,270,269	306,740	29,881	3,302	205,000	36,334
-	-	1,317,574	253,084	30,150	1,659	210,000	30,192
-	-	1,366,642	197,428	-	-	220,000	23,828
-	-	1,417,535	139,702	-	-	225,000	17,242
-	-	1,470,325	79,824	-	-	230,000	10,508
-	-	755,546	17,718	-	-	240,000	3,552
<u>\$ 116,218</u>	<u>\$ 5,279</u>	<u>\$ 12,238,979</u>	<u>\$ 2,720,520</u>	<u>\$ 157,141</u>	<u>\$ 31,583</u>	<u>\$ 2,100,000</u>	<u>\$ 325,452</u>

CITY OF CORVALLIS, OREGON

**SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS OF SENIOR AND SUBORDINATE DEBT
IN WASTEWATER FUND**

JUNE 30, 2011

SENIOR DEBT

<i>Year of Maturity</i>	<i>Total Requirements</i>			<i>Series 2006 A</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>
2011-2012	\$ 440,000	\$ 205,200	\$ 645,200	\$ 440,000	\$ 205,200
2012-2013	465,000	183,200	648,200	465,000	183,200
2013-2014	485,000	159,950	644,950	485,000	159,950
2014-2015	510,000	135,700	645,700	510,000	135,700
2015-2016	535,000	110,200	645,200	535,000	110,200
2016-2017	565,000	83,450	648,450	565,000	83,450
2017-2018	590,000	60,850	650,850	590,000	60,850
2018-2019	605,000	43,150	648,150	605,000	43,150
2019-2020	625,000	25,000	650,000	625,000	25,000
Total	\$ 4,820,000	\$ 1,006,700	\$ 5,826,700	\$ 4,820,000	\$ 1,006,700

SUBORDINATE DEBT

<i>Year of Maturity</i>	<i>Total Requirements</i>			<i>SRF-DEQ #R24480</i>		<i>SRF-DEQ #R24481</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2011-2012	\$ 1,142,888	\$ 505,929	\$ 1,648,817	\$ 45,455	\$ 3,147	\$ 1,097,433	\$ 502,782
2012-2013	1,185,130	458,200	1,643,330	46,829	1,773	1,138,301	456,427
2013-2014	1,204,626	408,703	1,613,329	23,934	359	1,180,692	408,344
2014-2015	1,224,662	358,471	1,583,133	-	-	1,224,662	358,471
2015-2016	1,270,269	306,740	1,577,009	-	-	1,270,269	306,740
2016-2017	1,317,574	253,084	1,570,658	-	-	1,317,574	253,084
2017-2018	1,366,642	197,428	1,564,070	-	-	1,366,642	197,428
2018-2019	1,417,535	139,702	1,557,237	-	-	1,417,535	139,702
2019-2020	1,470,325	79,824	1,550,149	-	-	1,470,325	79,824
2020-2021	755,546	17,718	773,264	-	-	755,546	17,718
Total	\$ 12,355,197	\$ 2,725,799	\$ 15,080,996	\$ 116,218	\$ 5,279	\$ 12,238,979	\$ 2,720,520

CITY OF CORVALLIS, OREGON
ANNUAL DISCLOSURE INFORMATION – PROPERTY TAX COLLECTION RECORD
LAST TEN FISCAL YEARS - UNAUDITED

<i>Fiscal Year Ended June 30,</i>	<i>Assessed Value of Real Estate (1)</i>	<i>Percent Change in Assessed Value</i>	<i>Total Levy (2)</i>	<i>Percent Change in Levy</i>	<i>Tax Rate per \$1,000 Assessed Value</i>	<i>Percent Collected at June 30, 2011 (1)</i>
2002	\$ 2,922,822,672	1.52 %	\$ 16,689,552	5.55 %	\$ 5.7030	99.99 %
2003	3,026,702,455	3.55	17,325,984	3.81	5.7197	99.99
2004	3,113,328,235	2.86	17,710,636	2.22	5.6812	99.99
2005	3,292,880,209	5.77	18,451,963	4.19	5.5988	99.98
2006	3,433,620,092	4.27	19,458,295	5.45	5.6485	99.96
2007	3,467,065,775	0.97	19,611,621	0.79	5.6406	99.93
2008	3,613,016,933	4.21	20,352,962	3.78	5.6219	99.78
2009	3,745,146,887	3.66	21,162,976	3.98	5.6448	99.41
2010	3,825,053,618	2.13	21,544,022	1.80	5.6251	97.94
2011	3,999,075,433	4.55	22,383,029	3.89	5.5939	97.50

- (1) Source: Benton County Assessor's Office
(2) The total levy includes taxes levied for operations and debt.

CITY OF CORVALLIS, OREGON
ANNUAL DISCLOSURE INFORMATION – STATE REVOLVING FUND AND REVENUE
BOND RATE COVENANT CALCULATIONS – WASTEWATER FUND
YEAR ENDED JUNE 30, 2011- UNAUDITED

REVENUES	
Gross operating revenues (1)	\$ 8,992,474
SDC revenues	1,160,607
Transfers from (to) Rate Stabilization Account (RSA)	-
<i>Total Gross Revenues</i>	<u>10,153,081</u>
OPERATING EXPENSES (2)	<u>(6,466,456)</u>
NET REVENUES (3)	<u>\$ 3,686,625</u>
NET OPERATING REVENUES (4)	<u>\$ 2,526,018</u>
ANNUAL DEBT SERVICE (Principal & Interest)	
Senior Debt	
CSO Revenue Bond (2006A)	<u>\$ 646,200</u>
<i>Total Senior Debt Service</i>	<u>646,200</u>
Subordinate Debt	
State Revolving Fund / DEQ Loan (1992) #R24480	48,602
State Revolving Fund / DEQ Loan (1998) #R24481	<u>1,605,505</u>
<i>Total Subordinated Debt Service</i>	<u>1,654,107</u>
<i>Total Annual Debt Service</i>	<u>\$ 2,300,307</u>
NET REVENUE DEBT SERVICE COVERAGE (Requirement is 1.20 times senior debt)	<u>5.71</u>
NET REVENUE DEBT SERVICE COVERAGE (Requirement is 1.05 times subordinate debt)	<u>2.23</u>
NET OPERATING REVENUE DEBT SERVICE COVERAGE (Requirement is 1.05 times total debt service)	<u>1.10</u>
RATE STABILIZATION ACCOUNT (RSA) BALANCE - JUNE 30, 2011	<u>\$ 300,000</u>

The Wastewater Fund Retained Earnings Reserved for Debt Service and Construction include \$1,627,159 reserved for the two state revolving fund loans. The 2006A reserve is backed by a surety bond that guarantees future schedules principal and interest payments. In addition, the 2006A issue is supported by financial guarantee insurance policies through XL Capital Assurance.

Principal and interest have rate covenant requirements according to the above coverage ratios. The annual debt service for subordinate debt will decrease in future years and should not exceed \$1.7 million per year based on debt commitments as of June 30, 2011.

- (1) Gross operating revenues include charges for service, intergovernmental and miscellaneous income. SDC revenues are not included in gross operating revenues.
- (2) Operating expenses do not include debt service, depreciation, amortization or capital outlay.
- (3) Gross revenue less operating expenses.
- (4) Net revenues less SDC revenues.

CITY OF CORVALLIS, OREGON**ANNUAL DISCLOSURE INFORMATION – SCHEDULE OF WASTEWATER FUND STATISTICS****HISTORICAL SYSTEM STATISTICS AND LARGEST SEWER SYSTEM CUSTOMERS****YEAR ENDED JUNE 30, 2011 - UNAUDITED****HISTORICAL SYSTEM STATISTICS**

<i>Fiscal Year Ended June 30,</i>	<i>Net Revenues (less SDCs)</i>	<i>Number of Sewer Customers</i>	<i>Average Monthly Residential Sewer Bill</i>
2007	\$ 3,548,543	14,593	\$ 30.43
2008	3,638,196	14,698	31.49
2009	3,233,122	14,769	32.39
2010	3,159,322	14,835	33.01
2011	3,686,625	14,840	33.65

LARGEST SEWER SYSTEM CUSTOMERS

<i>Customer</i>	<i>2011 System Usage in Units (1)</i>	<i>2011 Annual Revenue</i>	<i>Percent of Total System Gross Revenue (2)</i>
Oregon State University	219,624	\$ 771,912	7.60 %
Hewlett-Packard	180,662	535,050	5.27
Samaritan Health Services	31,027	106,108	1.04
Witham Hill Oaks Apts, LLC	20,973	63,411	0.62
Mtn View at Rivergreen	14,934	47,811	0.47
Foster Poultry Farms	13,496	46,753	0.46
Corvallis Schools 509J	13,067	40,534	0.40
David Huarte	13,056	38,217	0.38
Safeway	12,251	50,050	0.49
Evanite	11,146	38,823	0.38
Conifer Place / Bird LLC	9,779	30,864	0.30
Julantru Limited Partnership	9,742	29,103	0.29
Korda Group	8,102	26,022	0.26
Fred Haruda	7,737	24,014	0.24
Meadow Park Mobile Est	7,428	22,107	0.22
	<u>573,024</u>	<u>\$ 1,870,779</u>	<u>18.42 %</u>

(1) One unit = 1 hcf - 748 gallons

(2) Total system gross revenues for fiscal year 2011 were \$10,161,605

CITY OF CORVALLIS, OREGON

**ANNUAL DISCLOSURE INFORMATION – SCHEDULE OF DIRECT AND OVERLAPPING DEBT
TO PROPERTY VALUE RATIOS
JUNE 30, 2011 - UNAUDITED**

	<u>Values</u>	<u>Per Capita</u>	<u>Percent of Real Market Value</u>	<u>Percent of Assessed Value</u>
2011 population	55,370	-	-	-
2010-11 real market value	\$ 5,664,529,057	\$ 102,303	100.00 %	-
2010-11 assessed value	3,999,075,433	72,225	70.60	100.00 %
Long-term gross bonded debt	45,875,610	829	0.81	1.15
Long-term net direct debt	8,612,943	156	0.15	0.22
Overlapping debt	49,987,453	903	0.88	1.25
Long-term net direct and overlapping debt	58,600,396	1,058	1.03	1.47

The purpose of this schedule is to provide disclosures required by debt covenants.

CITY OF CORVALLIS, OREGON
ANNUAL DISCLOSURE INFORMATION – SCHEDULE OF OUTSTANDING DEBT OBLIGATIONS
JUNE 30, 2011 - UNAUDITED

<i>Series</i>	<i>Issuance Date</i>	<i>Maturity Date</i>	<i>Bond CUSIP or Loan No.</i>	<i>Original Issuance Amount</i>	<i>Principal Balance June 30, 2011</i>
UNLIMITED TAX GENERAL OBLIGATION BONDS					
<i>Tax Supported</i>					
Series 2009	05/27/09	06/01/19	2208855	\$ 10,190,000	\$ 8,695,000
DEBT PAID AND/OR SECURED BY THE GENERAL FUND					
<i>Limited Tax Obligation Bonds</i>					
Pension Obligation - Series 2002 A	3/1/2002 & 03/12/02	01/01/30	2208854Z-5T	23,913,017	22,805,610
Pension Obligation - Series 2005 A	09/23/05	06/01/28	68608D	9,980,000	9,555,000
<i>Loan</i>					
BOA 2010 CIP Loan	08/05/10	08/01/20	Series 2010	2,100,000	2,100,000
REVENUE BONDS					
Combined Sewer Overflow - Series 2006 A	03/01/06	05/01/20	221004	5,410,000	4,820,000
<i>Total Unlimited Tax General Obligation Bonds, Debt Paid and/or Secured by the General Fund, and Revenue Bonds</i>				<u>64,873,017</u>	<u>47,975,610</u>
OTHER REVENUE SUPPORTED LOANS					
Sewer Rehabilitation - SRF/DEQ 1992	01/20/92	07/01/13	R24480	700,000	116,218
Taylor Treatment Plant - OEDD 1994 (Refunded 1998)	11/02/94	12/01/14	G95003	9,703,048	2,966,387
Taylor Treatment Plant - OEDD 1996	09/06/96	12/01/16	B97001	2,107,000	891,182
Airport - OEDD 1996	09/06/96	12/01/16	B96002	332,240	157,141
Combined Sewer Overflow - SRF/DEQ 1997	10/01/97	12/01/20	R24481	21,263,693	12,238,979
<i>Total Other Revenue Supported Loans</i>				<u>34,105,981</u>	<u>16,369,907</u>
<i>Total Outstanding Debt Obligations</i>				<u>\$ 98,978,998</u>	<u>\$ 64,345,517</u>

CITY OF CORVALLIS, OREGON**ANNUAL DISCLOSURE INFORMATION – SUMMARY OF ADOPTED BUDGET – ALL FUNDS
LAST TWO FISCAL YEARS - UNAUDITED**

	<u>2009-10</u>	<u>2010-11</u>
RESOURCES		
Fund Balance, Beginning of Year	\$ 38,223,492	\$ 33,950,070
Revenues		
Property taxes	20,961,130	21,208,240
Other taxes	1,194,350	1,036,190
Licenses, fees, and permits	6,886,740	6,844,580
Charges for services	38,215,330	38,306,510
Intergovernmental	16,031,320	17,564,440
Fines and forfeitures	1,413,310	1,365,570
Miscellaneous	3,095,810	2,648,600
Other financing sources	13,769,335	15,646,822
<i>Total Revenues</i>	<u>101,567,325</u>	<u>104,620,952</u>
<i>Total Resources</i>	<u>\$ 139,790,817</u>	<u>\$ 138,571,022</u>
REQUIREMENTS		
Operating Expense		
Personal services	\$ 43,109,280	\$ 45,326,660
Supplies and services	36,562,130	34,397,430
Capital outlay	3,826,780	2,009,160
<i>Total Operating Expense</i>	<u>83,498,190</u>	<u>81,733,250</u>
Nonoperating Expense		
Capital projects	11,866,610	14,157,847
Transfers	13,880,335	8,162,110
Debt service	7,214,200	13,117,352
Contingencies	1,710,740	1,322,520
<i>Total Nonoperating Expense</i>	<u>34,671,885</u>	<u>36,759,829</u>
<i>Total Expenditures</i>	<u>\$ 118,170,075</u>	<u>\$ 118,493,079</u>

CITY OF CORVALLIS, OREGON

**ANNUAL DISCLOSURE INFORMATION – STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGETARY BASIS – GENERAL FUND
LAST FIVE FISCAL YEARS - UNAUDITED**

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
REVENUES					
Taxes	\$ 5,319,213	\$ 4,784,086	\$ 4,149,749	\$ 5,978,510	\$ 6,169,798
Licenses, fees, and permits	5,071,181	5,228,281	5,396,443	5,227,722	5,375,369
Charges for services	554,627	723,496	531,606	585,995	675,033
Intergovernmental	1,180,864	1,009,226	1,288,467	1,347,433	1,367,991
Fines and forfeitures	796,101	739,487	646,667	573,806	697,994
Miscellaneous	343,816	251,502	144,828	95,575	138,017
<i>Total Revenues</i>	<u>13,265,802</u>	<u>12,736,078</u>	<u>12,157,760</u>	<u>13,809,041</u>	<u>14,424,202</u>
EXPENDITURES					
Current					
City Manager's Office	-	-	-	-	-
Community Development	1,149,683	1,277,252	1,390,460	1,453,556	1,450,222
Finance	496,410	515,175	565,953	614,534	576,402
Police	8,353,027	8,605,967	9,315,498	9,978,567	9,914,796
Public Works	693,063	783,384	794,684	878,851	945,067
Nondepartmental	1,354,701	1,367,740	1,435,348	1,487,599	1,424,041
Capital outlay	-	-	-	-	30,389
<i>Total Expenditures</i>	<u>12,046,884</u>	<u>12,549,518</u>	<u>13,501,943</u>	<u>14,413,107</u>	<u>14,340,917</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,218,918</u>	<u>186,560</u>	<u>(1,344,183)</u>	<u>(604,066)</u>	<u>83,285</u>
OTHER FINANCING					
SOURCES (USES)					
Proceeds - sale of capital assets	5,661	24,136	13,437	6,396	4,002
Transfers in	-	-	-	-	345,450
Transfers out	(893,127)	(531,293)	(524,137)	(641,910)	(699,060)
<i>Total Other Financing Sources (Uses)</i>	<u>(887,466)</u>	<u>(507,157)</u>	<u>(510,700)</u>	<u>(635,514)</u>	<u>(349,608)</u>
NET CHANGE IN FUND BALANCE	331,452	(320,597)	(1,854,883)	(1,239,580)	(266,323)
FUND BALANCE, Beginning of year	<u>3,754,011</u>	<u>4,085,463</u>	<u>3,764,866</u>	<u>1,909,983</u>	<u>670,403</u>
FUND BALANCE, End of year	<u>\$ 4,085,463</u>	<u>\$ 3,764,866</u>	<u>\$ 1,909,983</u>	<u>\$ 670,403</u>	<u>\$ 404,080</u>

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STATISTICAL SECTION



STATISTICAL SECTION

The Statistical Section of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the overall financial health of the City of Corvallis.

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

REVENUE CAPACITY

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's capacity to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

OPERATING INFORMATION

These schedules contain service and infrastructure data to help the reader understand how the information in the financial report relates to the services the City provides and the activities it performs.

STATISTICAL SECTION

FINANCIAL TRENDS



CITY OF CORVALLIS, OREGON
NET ASSETS BY COMPONENT
LAST NINE FISCAL YEARS
(accrual basis of accounting)

	<i>Fiscal Year</i>								
	<u>2003</u>	<u>2004^(a)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental Activities									
Invested in capital assets, net of related debt	\$ 129,736,676	\$ 134,302,482	\$ 135,631,050	\$ 137,331,672	\$ 140,587,954	\$ 141,455,487	\$ 142,337,802	\$ 145,961,066	\$ 146,306,669
Restricted for special purposes	5,677,732	6,028,650	3,978,206	3,647,503	4,311,449	3,579,434	4,289,737	3,980,184	7,343,850
Unrestricted	15,581,392	13,598,184	16,632,858	14,946,146	13,398,537	11,885,844	3,194,561	(1,397,676)	(6,872,343)
<i>Total Governmental Activities Net Assets</i>	<u>\$ 150,995,800</u>	<u>\$ 153,929,316</u>	<u>\$ 156,242,114</u>	<u>\$ 155,925,321</u>	<u>\$ 158,297,940</u>	<u>\$ 156,920,765</u>	<u>\$ 149,822,100</u>	<u>\$ 148,543,574</u>	<u>\$ 146,778,176</u>
Business-type Activities									
Invested in capital assets, net of related debt	\$ 79,151,163	\$ 90,265,015	\$ 96,337,907	\$ 104,168,328	\$ 106,978,116	\$ 108,814,471	\$ 109,369,298	\$ 110,462,358	\$ 111,598,330
Restricted for special purposes	10,636,632	9,951,921	11,583,667	12,421,513	13,472,647	13,145,730	13,469,355	13,990,821	15,403,422
Unrestricted	13,604,517	10,144,280	7,995,633	5,181,976	6,302,255	6,630,423	6,806,044	5,549,490	4,948,672
<i>Total Business-type Activities Net Assets</i>	<u>\$ 103,392,312</u>	<u>\$ 110,361,216</u>	<u>\$ 115,917,207</u>	<u>\$ 121,771,817</u>	<u>\$ 126,753,018</u>	<u>\$ 128,590,624</u>	<u>\$ 129,644,697</u>	<u>\$ 130,002,669</u>	<u>\$ 131,950,424</u>
Primary Government									
Invested in capital assets, net of related debt	\$ 208,887,839	\$ 224,567,497	\$ 231,968,957	\$ 241,500,000	\$ 247,566,070	\$ 250,269,958	\$ 251,707,100	\$ 256,423,424	\$ 257,904,999
Restricted for special purposes	16,314,364	15,980,571	15,561,873	16,069,016	17,784,096	16,725,164	17,759,092	17,971,005	22,747,272
Unrestricted	29,185,909	23,742,464	24,628,491	20,128,122	19,700,792	18,516,267	10,000,605	4,151,814	(1,923,671)
<i>Total Primary Government Activities Net Assets</i>	<u>\$ 254,388,112</u>	<u>\$ 264,290,532</u>	<u>\$ 272,159,321</u>	<u>\$ 277,697,138</u>	<u>\$ 285,050,958</u>	<u>\$ 285,511,389</u>	<u>\$ 279,466,797</u>	<u>\$ 278,546,243</u>	<u>\$ 278,728,600</u>

(a) The beginning balance of invested in capital assets, net of related debt was restated in fiscal year 2003/04 due to a change in accounting for the Pension Obligation Bonds (POB).

Financial trend schedule: Net assets by component is intended to provide the user with summary data to analyze changes in the components of net assets.

Accompanying schedule: Changes in net assets provides user with additional detail for analytical purposes.

This schedule normally requires presentation of ten years of data. Governmental Accounting Standards Board (GASB) Statement No. 44 permits the City to retroactively present data beginning with the implementation of GASB Statement No. 34, which occurred June 30, 2003.

CITY OF CORVALLIS, OREGON
CHANGES IN NET ASSETS
LAST NINE FISCAL YEARS - UNAUDITED
(accrual basis of accounting)

	<i>Fiscal Year</i>								
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Expenses									
Governmental Activities:									
General Government	\$ 3,401,774	\$ 1,341,051	\$ 1,504,824	\$ 1,687,447	\$ 1,652,481	\$ 1,796,330	\$ 1,620,536	\$ 1,986,064	\$ 1,511,814
Community Development	3,337,680	4,429,195	4,120,924	4,284,073	5,168,425	4,721,202	5,232,238	4,622,690	5,854,253
Finance	496,896	636,148	643,858	676,305	723,744	723,139	807,497	807,226	782,197
Fire	6,707,388	6,895,286	7,662,260	8,656,311	9,200,110	9,582,929	10,575,015	10,963,048	11,426,793
Library	4,866,842	4,987,063	5,194,096	5,591,093	5,716,184	5,956,494	6,664,627	6,544,201	6,221,228
Parks and Recreation	4,103,637	4,543,507	4,719,536	5,098,047	5,396,528	5,495,996	6,166,056	6,323,593	6,020,914
Police	8,306,310	9,502,172	9,245,375	10,344,246	10,744,348	10,949,777	12,002,325	13,013,915	13,184,192
Public Works	8,379,298	9,009,275	9,826,111	9,811,124	9,975,656	10,416,224	11,810,710	12,515,686	11,245,957
Interest on long-term debt	2,100,736	2,086,022	2,038,212	2,373,330	2,452,755	2,423,186	2,367,064	2,254,830	2,292,797
<i>Total Governmental Activities</i>	<u>41,700,561</u>	<u>43,429,719</u>	<u>44,955,196</u>	<u>48,521,976</u>	<u>51,030,231</u>	<u>52,065,277</u>	<u>57,246,068</u>	<u>59,031,253</u>	<u>58,540,145</u>
Business-type Activities:									
Water	7,411,746	7,067,877	7,376,890	7,318,210	7,641,213	8,063,852	8,342,283	8,499,854	8,745,859
Wastewater	8,077,938	7,954,165	8,244,864	8,025,574	8,492,767	8,732,200	9,170,904	9,462,535	9,970,607
Storm Water	1,426,681	1,543,130	1,630,566	1,710,288	1,707,827	2,670,369	2,298,342	2,021,492	2,097,052
Airport	409,125	517,965	495,144	545,676	597,816	594,875	680,639	842,116	1,497,794
<i>Total Business-type Activities</i>	<u>17,325,490</u>	<u>17,083,137</u>	<u>17,747,464</u>	<u>17,599,748</u>	<u>18,439,623</u>	<u>20,061,296</u>	<u>20,492,168</u>	<u>20,825,997</u>	<u>22,311,312</u>
<i>Total Primary Government</i>	<u>\$ 59,026,051</u>	<u>\$ 60,512,856</u>	<u>\$ 62,702,660</u>	<u>\$ 66,121,724</u>	<u>\$ 69,469,854</u>	<u>\$ 72,126,573</u>	<u>\$ 77,738,236</u>	<u>\$ 79,857,250</u>	<u>\$ 80,851,457</u>
Program Revenues									
Governmental Activities:									
Charges for services									
General Government	\$ 181,896	\$ 228,250	\$ 183,146	\$ 258,355	\$ 256,786	\$ 285,301	\$ 251,920	\$ 318,131	\$ 371,003
Community Development	1,671,224	2,296,253	3,114,476	1,576,158	2,441,356	914,830	1,634,006	3,275,953	2,157,595
Finance	787,346	835,772	1,024,993	1,045,316	1,192,579	1,122,641	956,815	861,040	1,094,015
Fire	2,406,835	2,474,002	2,401,259	2,656,598	2,948,347	3,256,362	3,074,246	3,296,688	3,318,101
Library	126,463	152,048	138,361	173,497	168,862	216,866	196,913	182,153	211,198
Parks and Recreation	1,238,048	1,649,349	1,538,150	1,368,525	1,398,611	1,423,883	1,528,078	1,708,603	1,512,646
Police	746,912	756,240	791,786	726,802	1,008,405	1,094,862	913,453	1,320,249	1,293,267
Public Works	1,365,254	835,541	957,000	1,475,280	1,909,003	2,366,278	1,655,549	2,131,077	1,901,110
Operating grants and contributions	5,375,432	7,927,343	7,015,894	7,442,569	7,854,696	7,542,838	7,650,047	8,641,809	8,962,239
Capital grants and contributions	8,922,267	5,134,923	4,719,933	4,076,091	5,754,056	3,256,066	3,013,921	6,713,015	5,641,347
<i>Total Governmental Activities</i>	<u>22,821,677</u>	<u>22,289,721</u>	<u>21,884,998</u>	<u>20,799,191</u>	<u>24,932,701</u>	<u>21,479,927</u>	<u>20,874,948</u>	<u>28,448,718</u>	<u>26,462,521</u>
Business-type Activities:									
Charges for services									
Water	6,459,161	6,838,575	6,790,271	7,004,077	7,779,966	8,126,619	8,538,420	8,328,087	8,482,624
Waste water	7,434,553	7,963,496	7,840,994	7,922,298	8,702,620	9,028,522	8,838,806	8,739,964	8,969,074
Storm Water	1,719,255	1,757,383	1,768,116	1,811,365	1,866,500	1,859,065	1,829,778	1,883,720	2,005,560
Airport	243,554	309,419	371,093	290,869	330,477	382,523	452,297	400,460	408,313
Operating grants and contributions	-	90,478	4,993	54,624	1,773	-	43,463	27,238	58,196
Capital grants and contributions	7,556,656	6,551,941	6,167,665	5,995,971	4,311,390	2,057,705	1,840,821	2,177,949	4,808,133
<i>Total Business-type Activities</i>	<u>23,413,179</u>	<u>23,511,292</u>	<u>22,943,132</u>	<u>23,079,204</u>	<u>22,992,726</u>	<u>21,454,434</u>	<u>21,543,585</u>	<u>21,557,418</u>	<u>24,731,900</u>
<i>Total Primary Government</i>	<u>\$ 46,234,856</u>	<u>\$ 45,801,013</u>	<u>\$ 44,828,130</u>	<u>\$ 43,878,395</u>	<u>\$ 47,925,427</u>	<u>\$ 42,934,361</u>	<u>\$ 42,418,533</u>	<u>\$ 50,006,136</u>	<u>\$ 51,194,421</u>

CITY OF CORVALLIS, OREGON
CHANGES IN NET ASSETS (Continued)
LAST NINE FISCAL YEARS - UNAUDITED
(accrual basis of accounting)

	<i>Fiscal Year</i>								
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net (Expense) / Revenue									
Governmental activities	\$ (18,878,884)	\$ (21,139,998)	\$ (23,070,198)	\$ (27,722,785)	\$ (26,097,530)	\$ (30,585,350)	\$ (36,371,120)	\$ (30,582,535)	\$ (32,077,624)
Business-type activities	6,087,689	6,428,155	5,195,668	5,479,456	4,553,103	1,393,138	1,051,417	731,421	2,420,588
Total Primary Government	\$ (12,791,195)	\$ (14,711,843)	\$ (17,874,530)	\$ (22,243,329)	\$ (21,544,427)	\$ (29,192,212)	\$ (35,319,703)	\$ (29,851,114)	\$ (29,657,036)
General Revenues and Other Changes in Net Assets									
Governmental activities									
Taxes									
Property taxes	\$ 16,726,032	\$ 17,221,001	\$ 17,945,723	\$ 18,860,943	\$ 19,100,501	\$ 19,797,404	\$ 20,620,144	\$ 20,950,727	\$ 21,775,474
Other taxes	692,399	938,601	946,925	1,002,657	1,113,828	1,147,595	1,076,629	1,079,621	1,190,725
Franchise fees	3,996,138	4,017,391	4,142,251	4,423,025	4,827,108	4,988,241	5,178,552	5,004,727	5,142,289
Interest and investment earnings	602,457	340,073	562,460	1,054,506	1,332,488	1,098,958	491,698	158,842	144,235
Miscellaneous	1,380,820	1,348,363	1,514,561	1,542,147	1,451,951	1,641,909	1,453,065	1,579,768	1,421,942
Gain on sale of capital assets	4,617	4,935	53,061	45,207	58,082	30,768	5,451	6,644	43,271
Transfers	431,906	203,150	218,015	477,507	586,191	503,300	446,916	523,680	594,290
Total Governmental Activities	23,834,369	24,073,514	25,382,996	27,405,992	28,470,149	29,208,175	29,272,455	29,304,009	30,312,226
Business-type activities									
Interest and investment earnings	531,114	272,976	446,418	770,821	1,001,448	931,722	436,941	144,423	113,416
Miscellaneous	199,864	452,923	129,329	81,840	12,841	16,046	12,631	5,808	8,041
Gain on sale of capital assets	958	18,000	2,591	-	-	-	-	-	-
Transfers	(431,906)	(203,150)	(218,015)	(477,507)	(586,191)	(503,300)	(446,916)	(523,680)	(594,290)
Total Business-type Activities	300,030	540,749	360,323	375,154	428,098	444,468	2,656	(373,449)	(472,833)
Total Primary Government	\$ 24,134,399	\$ 24,614,263	\$ 25,743,319	\$ 27,781,146	\$ 28,898,247	\$ 29,652,643	\$ 29,275,111	\$ 28,930,560	\$ 29,839,393
Change in Net Assets									
Governmental activities	\$ 4,955,485	\$ 2,933,516	\$ 2,312,798	\$ (316,793)	\$ 2,372,619	\$ (1,377,175)	\$ (7,098,665)	\$ (1,278,526)	\$ (1,765,398)
Business-type activities	6,387,719	6,968,904	5,555,991	3,854,610	4,981,201	1,837,606	1,054,073	357,972	1,947,755
Total Primary Government	\$ 11,343,204	\$ 9,902,420	\$ 7,868,789	\$ 3,537,817	\$ 7,353,820	\$ 460,431	\$ (6,044,592)	\$ (920,554)	\$ 182,357

Financial trend schedule: Changes in net assets is intended to provide the user with summary data to analyze changes in the activities and changes in those activities.

This schedule normally requires presentation of ten years of data. Governmental Accounting Standards Board (GASB) Statement No. 44 permits the City to retroactively present data beginning with the implementation of GASB Statement No. 34, which occurred June 30, 2003.

CITY OF CORVALLIS, OREGON
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011(a)</u>
General Fund										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 263,683
Committed	-	-	-	-	-	-	-	-	-	252,415
Unassigned	3,597,137	1,959,353	2,599,727	3,468,723	3,754,011	4,085,463	3,764,866	1,909,983	670,403	(112,018)
Total General Fund	3,597,137	1,959,353	2,599,727	3,468,723	3,754,011	4,085,463	3,764,866	1,909,983	670,403	404,080
Street										
Restricted	-	-	-	-	-	-	-	-	-	1,874,768
Committed	-	-	-	-	-	-	-	-	-	91,625
Assigned	3,636,836	3,624,244	3,474,944	3,716,975	3,297,908	3,899,117	3,728,781	2,756,739	1,989,984	356,867
Total Street Fund	3,636,836	3,624,244	3,474,944	3,716,975	3,297,908	3,899,117	3,728,781	2,756,739	1,989,984	2,323,260
Parks and Recreation										
Restricted	-	-	-	-	-	-	-	-	-	1,612,951
Committed	-	-	-	-	-	-	-	-	-	572,523
Assigned	2,632,741	2,280,178	2,288,822	2,920,667	3,091,823	2,798,345	2,502,095	1,920,186	1,420,355	329,406
Total Parks and Recreation Fund	2,632,741	2,280,178	2,288,822	2,920,667	3,091,823	2,798,345	2,502,095	1,920,186	1,420,355	2,514,880
Fire & Rescue										
Committed	-	-	-	-	-	-	-	-	-	3,408
Assigned	3,010,962	3,323,059	2,224,438	2,785,121	3,056,427	2,519,585	2,690,180	3,219,696	1,820,879	1,161,738
Total Fire & Rescue Fund	3,010,962	3,323,059	2,224,438	2,785,121	3,056,427	2,519,585	2,690,180	3,219,696	1,820,879	1,165,146
Community Development Revolving										
Committed	-	-	-	-	-	-	-	-	-	240,706
Assigned	732,449	937,361	618,850	573,717	685,127	964,169	1,294,100	883,911	977,830	-
Unassigned	-	-	-	-	-	-	-	-	-	(186,239)
Total Community Development Fund	732,449	937,361	618,850	573,717	685,127	964,169	1,294,100	883,911	977,830	54,467
Library										
Restricted	-	-	-	-	-	-	-	-	-	6,086
Committed	-	-	-	-	-	-	-	-	-	444,917
Assigned	1,678,485	1,382,455	1,779,807	1,867,472	1,984,385	2,030,479	2,093,977	1,652,433	813,008	779,970
Total Library Fund	1,678,485	1,382,455	1,779,807	1,867,472	1,984,385	2,030,479	2,093,977	1,652,433	813,008	1,230,973

CITY OF CORVALLIS, OREGON
FUND BALANCES, GOVERNMENTAL FUNDS (Continued)
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011(a)</u>
Capital Construction										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-	-	-	-	-	1,133,541
Assigned	1,635,337	972,238	641,457	655,597	568,641	1,006,689	1,191,342	670,242	832,722	684,151
Total Capital Construction Fund	<u>1,635,337</u>	<u>972,238</u>	<u>641,457</u>	<u>655,597</u>	<u>568,641</u>	<u>1,006,689</u>	<u>1,191,342</u>	<u>670,242</u>	<u>832,722</u>	<u>1,817,692</u>
Pension Obligation Debt Service										
Assigned	-	-	-	-	10,104	-	-	-	-	-
Total Pension Obligation Debt Service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Governmental Funds										
Nonspendable	-	-	-	-	-	-	-	-	-	5,000
Restricted	-	-	-	-	-	-	-	-	-	81,557
Committed	-	-	-	-	-	-	-	-	-	37,323
Assigned	6,517,193	6,629,474	6,198,540	5,318,339	4,734,444	4,117,646	4,145,818	3,008,046	4,600,170	3,116,126
Total Other Governmental Funds	<u>6,517,193</u>	<u>6,629,474</u>	<u>6,198,540</u>	<u>5,318,339</u>	<u>4,734,444</u>	<u>4,117,646</u>	<u>4,145,818</u>	<u>3,008,046</u>	<u>4,600,170</u>	<u>3,240,006</u>
Total All Funds	<u>\$ 23,441,140</u>	<u>\$ 21,108,362</u>	<u>\$ 19,826,585</u>	<u>\$ 21,306,611</u>	<u>\$ 21,182,870</u>	<u>\$ 21,421,493</u>	<u>\$ 21,411,159</u>	<u>\$ 16,021,236</u>	<u>\$ 13,125,351</u>	<u>\$ 12,750,504</u>

(a) GASB 54 implemented in 2011 - requiring new fund balance categories. Over time, all fund balance will be reported under new GASB 54 fund balance categories.

CITY OF CORVALLIS, OREGON
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS - UNAUDITED
(modified accrual basis of accounting)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes	\$ 17,012,593	\$ 17,420,385	\$ 18,293,641	\$ 18,946,837	\$ 19,847,086	\$ 20,135,770	\$ 20,945,820	\$ 21,515,848	\$ 21,772,894	22,898,521
Licenses, fees and permits	4,788,266	5,181,690	5,514,902	5,677,958	5,761,430	6,724,385	6,903,922	6,628,905	7,059,886	7,590,473
Charges for services	7,271,344	6,795,631	7,423,696	7,891,789	7,155,204	8,383,481	9,251,853	7,790,799	9,649,331	9,756,768
Intergovernmental	8,027,466	7,891,967	10,312,917	8,770,198	9,054,686	9,912,764	9,065,501	9,401,237	12,278,283	11,113,186
Fines and forfeitures	848,122	882,524	914,559	1,070,391	1,115,954	1,297,790	1,213,369	1,119,762	1,032,005	1,227,114
Miscellaneous	2,029,990	1,793,147	1,382,863	1,566,146	2,400,275	2,436,752	2,753,223	1,109,738	1,791,816	892,476
Total Revenues	39,977,781	39,965,344	43,842,578	43,923,319	45,334,635	48,890,942	50,133,688	47,566,289	53,584,215	53,478,538
Expenditures										
Community Development	3,360,221	3,276,799	4,397,863	4,020,308	4,099,543	4,999,714	4,607,964	4,949,678	4,400,049	5,633,527
Finance	458,642	458,027	556,484	560,701	569,606	595,666	623,352	676,358	691,409	688,431
Fire	5,934,332	6,266,441	6,481,451	7,142,795	7,859,065	8,499,495	8,793,931	9,393,963	9,868,475	9,240,854
Library	4,664,106	4,597,949	4,763,415	4,868,998	5,221,912	5,336,415	5,669,909	6,014,385	6,011,301	5,993,188
Parks and Recreation	4,030,623	3,957,010	4,349,882	4,453,344	4,687,642	4,981,924	5,114,752	5,515,991	5,631,708	5,420,677
Police	8,022,106	7,969,757	9,386,130	8,707,851	9,611,397	9,984,726	10,445,595	11,025,495	11,957,750	12,189,702
Public Works	4,126,952	4,211,882	5,023,348	5,005,155	5,080,103	5,432,133	5,911,169	6,538,914	8,582,020	7,073,190
Miscellaneous nondepartmental	3,355,332	3,320,995	1,142,365	1,295,660	1,490,786	1,357,376	1,539,101	1,529,669	1,781,334	1,425,391
Payment of unfunded pension liability	23,124,956	-	-	-	9,795,521	-	-	-	-	-
Capital outlay	14,009,824	5,503,767	5,908,448	3,287,815	3,812,503	4,282,594	3,994,551	3,792,751	4,231,632	4,068,701
Debt Service										
Principal	1,333,000	1,244,000	1,224,000	1,319,582	1,416,893	1,392,863	1,540,618	1,671,192	1,589,592	2,571,667
Interest	999,796	1,912,108	2,099,054	2,052,365	2,349,139	2,464,856	2,437,148	2,410,504	2,270,909	2,285,618
Total Expenditures	73,419,890	42,718,735	45,332,440	42,714,574	55,944,110	49,327,762	50,678,090	53,518,900	57,016,179	56,590,946
Excess of Revenues Over (Under) Expenditures	(33,442,109)	(2,753,391)	(1,489,862)	1,208,745	(10,609,475)	(436,820)	(544,402)	(5,952,611)	(3,431,964)	(3,112,408)
Other Financing Sources (Uses)										
Proceeds - issuance of debt	23,913,017	-	-	-	9,980,000	-	-	10,190,000	-	2,100,000
Premium - issuance of debt	-	-	-	-	-	-	-	537,000	-	-
Proceeds - sale of capital assets	-	4,617	4,935	53,265	45,207	58,082	30,768	20,737	12,399	43,271
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	(10,631,965)	-	-
Operating transfers in	6,849,191	4,624,865	4,741,726	2,405,139	3,611,267	4,793,019	4,687,961	3,648,623	3,612,002	3,659,779
Operating transfers out	(6,039,533)	(4,208,869)	(4,538,576)	(2,187,123)	(3,150,740)	(4,175,658)	(4,184,661)	(3,201,707)	(3,088,322)	(3,065,489)
Total Other Financing Sources (Uses)	24,722,675	420,613	208,085	271,281	10,485,734	675,443	534,068	562,688	536,079	2,737,561
Net Residual Transfers In (Out)	-	-	-	-	-	-	-	-	-	-
Net Changes in Fund Balances	\$ (8,719,434)	\$ (2,332,778)	\$ (1,281,777)	\$ 1,480,026	\$ (123,741)	\$ 238,623	\$ (10,334)	\$ (5,389,923)	\$ (2,895,885)	(374,847)
Debt Service as a Percentage of Noncapital Expenditures	3.9%	8.5%	8.4%	8.6%	7.2%	8.6%	8.5%	8.2%	7.3%	9.2%

Notes:

Proceeds from the issuance of debt are as follows: Riverfront Bonds (Series 1999), Moose Building (Series 2001), OpenSpace Bonds (Series 2001), Pension Obligation Bonds (Series 2002 and Series 2005)

CITY OF CORVALLIS, OREGON
PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST NINE FISCAL YEARS – UNAUDITED
(accrual basis of accounting)

	<i>Fiscal Year</i>								
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Governmental Activities:									
General government	\$ 181,896	\$ 228,250	\$ 183,146	\$ 258,355	\$ 256,786	\$ 285,301	\$ 251,920	\$ 325,170	\$ 371,003
Community Development	2,254,942	3,283,781	4,094,210	2,396,155	4,118,817	1,668,613	2,614,190	3,995,021	3,181,700
Finance	787,346	835,772	1,024,993	1,045,316	1,192,579	1,122,641	956,815	861,040	1,094,015
Fire	2,460,757	2,483,143	2,401,259	2,876,287	3,041,540	3,276,979	3,132,325	3,373,068	3,413,675
Library	1,829,770	2,138,745	1,999,770	2,166,175	2,279,942	2,479,887	2,418,289	2,504,178	2,655,472
Parks and Recreation	2,243,851	2,147,398	2,228,539	1,761,995	2,665,317	1,724,669	1,914,115	1,892,964	2,768,909
Police	1,461,214	2,627,353	1,858,178	1,975,730	1,732,885	2,363,212	2,296,508	2,527,227	2,969,151
Public Works	11,601,901	8,545,279	8,094,903	8,319,178	9,644,835	8,558,625	7,290,786	12,970,050	10,008,596
<i>Total Governmental Activities</i>									
	<u>22,821,677</u>	<u>22,289,721</u>	<u>21,884,998</u>	<u>20,799,191</u>	<u>24,932,701</u>	<u>21,479,927</u>	<u>20,874,948</u>	<u>28,448,718</u>	<u>26,462,521</u>
Business-type Activities									
Water	8,844,231	9,040,689	8,641,773	8,355,687	9,221,365	8,873,854	9,146,138	8,992,731	10,375,881
Wastewater	10,023,638	10,508,490	11,262,803	10,105,792	10,574,818	9,960,251	9,539,259	9,623,586	10,457,146
Storm Water	3,744,530	2,639,044	2,468,198	2,495,285	2,865,142	2,210,661	2,023,609	2,521,680	2,820,009
Airport	800,780	1,323,069	570,358	2,122,440	331,401	409,668	834,579	419,421	1,078,864
<i>Total Business-type Activities</i>									
	<u>23,413,179</u>	<u>23,511,292</u>	<u>22,943,132</u>	<u>23,079,204</u>	<u>22,992,726</u>	<u>21,454,434</u>	<u>21,543,585</u>	<u>21,557,418</u>	<u>24,731,900</u>
<i>Total Primary Government</i>									
	<u>\$ 46,234,856</u>	<u>\$ 45,801,013</u>	<u>\$ 44,828,130</u>	<u>\$ 43,878,395</u>	<u>\$ 47,925,427</u>	<u>\$ 42,934,361</u>	<u>\$ 42,418,533</u>	<u>\$ 50,006,136</u>	<u>\$ 51,194,421</u>

CITY OF CORVALLIS, OREGON
TAX AND FRANCHISE FEE REVENUES BY SOURCE
LAST TEN FISCAL YEARS - UNAUDITED
(modified accrual basis of accounting)

<i>Fiscal Year Ended June 30,</i>	<i>General Property Taxes (1)</i>	<i>% Change From Prior Year</i>	<i>Franchise Fees</i>	<i>% Change From Prior Year</i>	<i>Transient Room Taxes</i>	<i>% Change From Prior Year</i>	<i>Total Taxes and Fees</i>	<i>% Change From Prior Year</i>
2002	\$ 16,271,088	7.39 %	\$ 3,731,397	9.86 %	\$ 741,505	(1.66) %	\$ 20,743,990	7.47 %
2003	16,727,986	2.81	3,996,138	7.09	692,399	(6.62)	21,416,523	3.24
2004	17,355,040	3.75	4,017,391	0.53	938,601	35.56	22,311,032	4.18
2005	17,999,911	3.72	4,142,251	3.11	946,925	0.89	23,089,087	3.49
2006	18,844,428	4.69	4,423,025	6.78	1,002,657	5.89	24,270,110	5.12
2007	19,021,943	0.94	4,827,108	9.14	1,113,828	11.09	24,962,879	2.85
2008	19,798,225	4.08	4,988,241	3.34	1,147,595	3.03	25,934,061	3.89
2009	20,439,220	3.24	5,178,552	3.82	1,076,629	(6.18)	26,694,401	2.93
2010	20,693,274	1.24	5,004,727	(3.36)	1,079,621	0.28	26,777,622	0.31
2011	21,707,796	4.90	5,142,289	2.75	1,190,725	10.29	28,040,810	4.72
Change 2002-2011	33.41%		37.81%		60.58%		35.18%	

(1) Balances do not include taxes that are collected for the Corvallis Arts Center until 2004. Effective July 1, 2004 the Corvallis Arts Center property tax collections and allocations are accounted for in the General Fund as a General Fund property tax revenue and General Fund City allocation expenditure, respectively.

STATISTICAL SECTION

REVENUE CAPACITY



CITY OF CORVALLIS, OREGON
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS – UNAUDITED
(in thousands of dollars)

<i>Fiscal Year Ended June 30,</i>	<i>Real Property</i>	<i>Personal Property</i>	<i>Manufactured Property</i>	<i>Utility Property</i>	<i>Less Tax Exempt Property</i>	<i>Total Taxable Assessed Value</i>	<i>Total Direct Tax Rate</i>	<i>Real Market Value (RMV)</i>	<i>Assessed Value as a % of Real Market Value (RMV)</i>
2002	\$ 2,694,923	\$ 154,904	18,476	\$ 54,519	\$ -	\$ 2,922,822	5.7030	\$ 3,523,137	82.961 %
2003	2,805,447	144,169	16,430	60,656	-	3,026,702	5.7197	3,580,388	84.536
2004	2,902,281	141,153	15,040	54,854	-	3,113,328	5.6812	3,717,868	83.740
2005	3,078,680	132,536	15,079	66,585	-	3,292,880	5.5988	4,299,629	76.585
2006	3,209,956	156,544	13,579	53,541	-	3,433,620	5.6485	4,522,703	75.920
2007	3,255,651	154,425	12,590	53,400	-	3,476,066	5.6406	5,088,443	68.313
2008	3,390,920	144,925	12,660	64,511	-	3,613,016	5.6219	5,565,083	64.923
2009	3,517,710	159,318	13,661	54,458	-	3,745,147	5.6448	5,946,532	62.980
2010	3,566,440	156,153	14,667	87,793	-	3,825,053	5.6251	5,825,692	65.658
2011	3,752,236	140,303	15,463	91,075	-	3,999,077	5.5939	5,664,529	70.599

Source: Benton County Assessor

Note: The City's permanent tax rate is \$5.1067 per \$1,000 of assessed value.
The debt service levy is set annually in the amount required to fulfill debt obligations and is the difference between the total direct tax rate and the permanent rate.

CITY OF CORVALLIS, OREGON
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS - UNAUDITED
(rate per \$1,000 of assessed value)

<i>Fiscal Year Ended June 30,</i>	<i>City of Corvallis Direct Rates</i>			<i>Overlapping Rates *</i>						<i>Total Rate</i>
	<i>Permanent Rate</i>	<i>General Obligation Debt Service</i>	<i>Total Direct</i>	<i>School District No. 509J</i>	<i>Linn-Benton ESD</i>	<i>Linn-Benton Community College (LBCC)</i>	<i>Benton County Soil and Water District</i>	<i>Benton County Library</i>	<i>Benton County</i>	<i>Total Direct and Overlapping</i>
2002	\$ 5.1067	\$ 0.5963	\$ 5.7030	\$ 5.4900	\$ 0.3049	\$ 0.7200	\$ -	\$ 0.3947	\$ 2.8700	\$ 15.4826
2003	5.1067	0.6130	5.7197	5.4500	0.3049	0.6900	-	0.3947	2.8700	15.4293
2004	5.1067	0.5745	5.6812	7.1300	0.3049	0.6800	-	0.3947	2.8700	17.0608
2005	5.1067	0.4921	5.5988	7.1489	0.3049	0.6805	-	0.3947	2.4952	16.6230
2006	5.1067	0.5418	5.6485	6.2375	0.3049	0.6858	0.0500	0.3947	2.4952	15.8166
2007	5.1067	0.5339	5.6406	6.1644	0.3049	0.6805	0.0500	0.3947	2.4652	15.7003
2008	5.1067	0.5152	5.6219	7.2494	0.3049	0.6733	0.0500	0.3947	2.4652	16.7594
2009	5.1067	0.5381	5.6448	7.2183	0.3049	0.6767	0.0500	0.3947	3.1052	17.3946
2010	5.1067	0.5184	5.6251	7.6710	0.3049	0.6822	0.0500	0.3947	2.7952	17.5231
2011	5.1067	0.4872	5.5939	7.6546	0.3049	0.6736	0.0500	0.3947	2.8452	17.5169

Source: Benton County

Notes: The debt service levy is set annually in the amount required to fulfill debt obligations and is the difference between the total direct tax rate and the permanent rate.

* Overlapping rates are those of local and county governments that apply to property owners within the City of Corvallis. All overlapping rates apply to Corvallis.

CITY OF CORVALLIS, OREGON
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO - UNAUDITED

<i>Taxpayer</i>	<i>2011</i>			<i>2002</i>		
	<i>Taxable Assessed Value</i>	<i>Rank</i>	<i>Percentage of Total City Taxable Assessed Value (e)</i>	<i>Taxable Assessed Value</i>	<i>Rank</i>	<i>Percentage of Total City Taxable Assessed Value</i>
Hewlett-Packard Co. (a)	\$ 400,801,347	1	10.05 %	\$ 520,303,432	1	17.80 %
Comcast Corporation (b)	32,771,000	2	0.82	-		-
Evanite Fiber Inc	23,157,766	3	0.58	24,936,496	3	0.85
Avery Investments LLC	17,454,857	4	0.44	13,235,911	4	0.45
Qwest Corporation (c)	16,413,400	5	0.41	29,764,315	2	1.02
Witham Hill Oaks Apartments, LLC	14,233,238	6	0.36	10,908,592	5	0.37
Northwest Natural Gas Co	13,444,200	7	0.34	8,101,026	10	0.28
Pacificorp (d)	13,328,000	8	0.33	-		-
Suncor Partners LLC	11,120,148	9	0.28	-		-
Bender Equities Inc	10,899,027	10	0.27	8,369,821	8	0.29
Accu Fab Systems Inc	-		-	11,103,474	6	0.38
Creekside Group LLC	-		-	8,505,809	7	0.29
Research Way Investments	-		-	6,971,926	9	0.24
Total	\$ 553,622,983		13.88 %	\$ 642,200,802		21.97 %
City Assessed Value	\$ 3,988,175,433			\$ 2,922,822,672		

Source: Benton County Finance and Assessment Department

- (a) Transfer of substantial manufacturing operations overseas, property tax appeals, and depreciation have reduced Hewlett-Packard's taxable assessed value over the last 10 years.
- (b) Comcast is new on this list due to a change in the way the State values cable companies. This has been appealed statewide by Comcast.
- (c) U. S West Communication became Qwest Communications in FY 2002.
- (d) Pacific Power and Light prior to 2002.
- (e) Percentage of Total City Assessed Value = Taxpayer Assessed Value/Total City Assessed Value

Purpose: Property taxes are the City's most significant own source revenue. This schedule provides the user with basic information about the City's most significant revenue payers and the degree of dependence on a small number of payers.

CITY OF CORVALLIS, OREGON
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS - UNAUDITED

<i>Fiscal Year Ended June 30,</i>	<i>Original Tax Levy for the Year</i>	<i>To Date Levy Adjustments (1)</i>			<i>Collected within the Fiscal Year of the Levy</i>		<i>Collected in subsequent years</i>	<i>Total Collections to Date</i>	
		<i>Amount</i>	<i>Percentage of Levy</i>	<i>Adjusted Levy</i>	<i>Amount</i>	<i>Percentage of Levy (2)</i>		<i>Amount</i>	<i>Percentage of Adjusted Levy</i>
2002	\$ 16,689,552	\$ (409,002)	2.45 %	\$ 16,280,550	\$ 15,790,901	94.62 %	\$ 487,901	\$ 16,278,802	99.99 %
2003	17,325,984	(565,967)	3.27	16,760,017	16,361,270	94.43	396,610	16,757,880	99.99
2004	17,710,636	(470,209)	2.65	17,240,427	16,924,276	95.56	313,770	17,238,046	99.99
2005	18,451,963	(498,786)	2.70	17,953,177	17,658,023	95.70	290,868	17,948,891	99.98
2006	19,458,295	(548,115)	2.82	18,910,180	18,577,677	95.47	324,217	18,901,894	99.96
2007	19,611,621	(519,255)	2.65	19,092,366	18,707,158	95.39	370,950	19,078,108	99.93
2008	20,352,962	(520,635)	2.56	19,832,327	19,439,277	95.51	348,448	19,787,725	99.78
2009	21,162,976	(549,627)	2.60	20,613,349	20,104,983	95.00	386,583	20,491,566	99.41
2010	21,544,022	(581,098)	2.70	20,962,924	20,261,342	94.05	269,017	20,530,359	97.94
2011	22,383,029	(575,792)	2.57	21,807,237	21,261,945	94.99	-	21,261,945	97.50

Source: Benton County Finance and Assessment Department
Working File can be found at: \\corvallis\departments\Finance\Function\Accounting\Audit\FY 10-11\Statistical Section\Revenue Capacity Schedules\Last Ten Fiscal Years.xls

- (1) Property tax levy adjustments include discounts taken plus or minus roll adjustments. Property taxpayers are granted a statutory 3% discount when taxes are paid in full by the November 15th due date.
- (2) Calculated as a percentage of the original levy.

Purpose: Property taxes are the City's most significant own source revenue. This schedule provides the user with basic information concerning property tax levy and collection ratios over time.

STATISTICAL SECTION

DEBT CAPACITY



CITY OF CORVALLIS, OREGON
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS - UNAUDITED
(in thousands of dollars, except per capita)

<i>Fiscal Year Ended June 30,</i>	<i>General Bonded Debt</i>					<i>Other Governmental Activities Debt</i>				
	<i>General Obligation Bonds</i>	<i>Amount Restricted to Paying Debt Principal</i>	<i>Net General Obligation Bonds (1)</i>	<i>Percentage of Actual Property Value</i>	<i>Per Capita (2)</i>	<i>Bancroft Improvement Bonds</i>	<i>Limited Tax Obligation Bonds</i>	<i>Notes Payable</i>	<i>Capital Leases</i>	
2002	\$ 20,655	\$ 1,345	\$ 19,310	0.55 %	\$ 378.33	\$ 60	\$ 23,913	\$ 468	\$ -	
2003	19,580	1,255	18,325	0.51	349.39	-	23,913	359	-	
2004	18,470	1,262	17,208	0.46	324.99	-	23,913	245	-	
2005	17,310	882	16,428	0.38	312.39	-	23,873	125	-	
2006	16,105	753	15,352	0.34	288.75	-	33,767	-	-	
2007	14,840	614	14,226	0.28	263.93	-	33,639	-	-	
2008	13,530	479	13,051	0.23	237.76	-	33,408	-	-	
2009	12,100	463	11,637	0.20	212.04	-	33,117	-	-	
2010	10,860	724	10,136	0.17	183.87	-	32,767	-	-	
2011	8,695	82	8,613	0.15	155.55	-	32,361	2,100	-	

<i>Fiscal Year Ended June 30,</i>	<i>Business-Type Activities</i>						<i>Total City Government Debt</i>	<i>Percentage of Personal Income (3)</i>	<i>Per Capita (2)</i>
	<i>Water Bonds</i>	<i>Wastewater Bonds</i>	<i>Storm Water Bonds</i>	<i>Airport Bonds</i>	<i>Capital Leases</i>	<i>Notes Payable</i>			
2002	\$ -	\$ 8,325	\$ 85	\$ -	\$ -	\$ 30,946	\$ 83,107	3.50 %	\$ 1,628.27
2003	-	8,525	70	-	-	29,583	80,775	3.35	1,540.05
2004	-	7,055	-	-	-	28,157	76,578	2.87	1,446.24
2005	-	6,760	-	-	-	26,671	73,857	2.61	1,404.40
2006	-	6,735	-	-	-	25,122	80,976	2.67	1,523.10
2007	-	6,390	-	-	-	23,509	77,764	2.56	1,442.75
2008	-	6,025	-	-	-	21,831	74,315	2.44	1,353.89
2009	-	5,640	-	-	-	20,084	70,478	2.30	1,284.22
2010	-	5,240	-	-	-	18,263	66,406	N/A	1,204.65
2011	-	4,820	-	-	-	16,370	64,264	N/A	1,160.62

Notes: n/a = Personal Income is not available.

Details regarding the City's outstanding debt can be found in the Management Discussion and Analysis, in the Notes to the Financial Statements and in Other Financial Schedules. Population and personal income data can be found in the Schedule of Demographic and Economic Statistics.

- (1) Bonded debt is net of accumulated funds for repayment of bond principal.
- (2) Due to restatement of population data based on Portland State University (Population Research Center), the per capita ratios are slightly different than reported in previous years.
- (3) N/A means data for 2010 and 2011 is not available as of 9/21/2011. 2010 Data would normally be available by this time; however, Bureau of Economic Analysis and the Advance Metropolitan Statistical Area Income Summary (AMSA04 table) does not have updated information at this time.

CITY OF CORVALLIS, OREGON
DIRECT AND OVERLAPPING DEBT
AS OF JUNE 30, 2011 - UNAUDITED

<i>Governmental Unit</i>	<i>Debt Outstanding(1)</i>	<i>Assessed Property Value</i>	<i>Estimated Percentage Applicable</i>	<i>Estimated Share of Overlapping Debt</i>
Debt repaid with property taxes				
School District No. 509J	\$ 58,017,480	\$ 4,960,008,378	80.63 %	\$ 46,779,494
Benton County	-	6,610,232,210	60.50	-
Linn-Benton Community College	5,208,571	6,493,330,617	61.59	3,207,959
Subtotal Overlapping Debt				49,987,453
City direct debt				8,695,000
Total direct and overlapping debt				\$ 58,682,453

Source: Assessed value data used to estimate applicable percentages provided by Benton County.
Outstanding debt data provided by governmental unit.

Note: (1) The debt outstanding is the portion of debt that is applicable to Benton County only.

Note: Overlapping governments are those that coincide, at least in part, with 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 Corvallis. 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 CORVALLIS, OREGON
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS - UNAUDITED

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Debt limit	\$ 101,709,316	\$ 110,834,773	\$ 110,978,724	\$ 128,415,787	\$ 135,681,077	\$ 152,653,305	\$ 166,952,486	\$ 178,395,974	\$ 174,770,778	\$ 169,935,872
Total net debt applicable to limit	19,309,719	18,990,483	17,208,404	16,428,471	15,351,558	14,226,030	13,050,837	11,636,138	10,135,910	8,612,943
Legal debt margin	82,399,597	91,844,290	93,770,320	111,987,316	120,329,519	138,427,275	153,901,649	166,759,836	164,634,868	161,322,929
Total net debt applicable to the limit as a percentage of debt limit	18.99%	17.31%	15.51%	12.79%	11.31%	9.32%	7.82%	6.52%	5.80%	5.07%

LEGAL DEBT MARGIN CALCULATION FOR FISCAL YEAR 2011

TOTAL REAL MARKET VALUE OF REAL ESTATE WITHIN THE CITY	\$ 5,664,529,057
Debt Limitation - 3% of total real market value (1)	<u>0.03</u>
DEBT LIMIT	<u>\$ 169,935,872</u>
AMOUNT OF DEBT APPLICABLE TO DEBT LIMIT	
Total General Obligation Bonded Debt (2)	
Governmental Activities	\$ 8,695,000
Business-type Activities	<u>-</u>
Total General Obligation Bonded Debt	8,695,000
Less: Amount held for repayment of principal	<u>(82,057)</u>
TOTAL AMOUNT OF DEBT APPLICABLE TO DEBT LIMIT	<u>\$ 8,612,943</u>
LEGAL DEBT MARGIN	<u>\$ 161,322,929</u>

(1) Oregon Revised Statutes (ORS) 287A.050 states: "Unless a lesser limitation upon the issuance of bonds has otherwise been provided by law or charter, no city shall issue or have outstanding at any one time bonds in excess of three percent of real market value of all taxable property within its boundaries, computed in accordance with ORS 308.207, after deducting for outstanding bonds such cash funds and sinking funds as are applicable to the payment of principal thereof."

(2) Oregon Revised Statutes (ORS) 287A.001 (3) states: "Bonds" means (a) a contractual undertaking or instrument of a public body to repay borrowed moneys; (b) does not mean a credit enhancement device.

CITY OF CORVALLIS, OREGON
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS - UNAUDITED
(accrual basis of accounting)

<i>Fiscal Year Ended June 30,</i>	<i>Gross Revenues (1)</i>	<i>Less Direct Operating Expenses (2)</i>	<i>Net Revenue Available for Debt Service</i>	<i>Debt Service Requirements</i>			<i>Coverage</i>
				<i>Principal</i>	<i>Interest</i>	<i>Total</i>	
WASTEWATER (3)							
2002	\$ 8,479,736	\$ 4,267,537	\$ 4,212,199	\$ 1,222,547	\$ 1,370,611	\$ 2,593,158	1.62 %
2003	8,779,193	4,789,553	3,989,640	1,219,659	1,315,806	2,535,465	1.57
2004	9,731,868	4,761,007	4,970,861	1,729,574	1,294,807	3,024,381	1.64
2005	9,911,357	5,018,829	4,892,528	1,181,517	1,171,243	2,352,760	2.08
2006	9,596,476	4,937,112	4,659,364	1,304,272	1,021,310	2,325,582	2.00
2007	9,952,942	5,357,269	4,595,673	1,298,240	1,353,465	2,651,705	1.73
2008	9,710,972	5,526,010	4,184,962	1,353,465	964,255	2,317,720	1.81
2009	9,297,433	5,947,932	3,349,501	1,409,991	904,880	2,314,871	1.45
2010	9,287,911	6,341,198	2,946,713	1,463,071	252,225	1,715,296	1.72
2011	10,095,562	6,500,564	3,594,998	1,522,152	821,242	2,343,394	1.53

Notes: The purpose of this schedule is to provide information on economic condition, and does not fulfill legal compliance. State Revolving Fund and Revenue Bond Rate Covenant Calculations - Wastewater Fund is located in the Other Financial Schedules section.

- (1) Gross Revenues consist primarily of charges for services.
- (2) Direct Operating Expenses do not include interest or depreciation.
- (3) The Wastewater fund debt service requirement includes the following debt: 2006A Adv Ref CSO Bonds, DEQ Loan R24480, DEQ Loan R24481.

STATISTICAL SECTION

DEMOGRAPHIC AND ECONOMIC INFORMATION



CITY OF CORVALLIS, OREGON
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS - UNAUDITED

<i>Year</i>	<i>City of Corvallis Population (1)</i>	<i>Corvallis Metropolitan Statistical Area (MSA) Population (2)</i>	<i>Total Personal Income (MSA) (Thousands of dollars) (2)</i>	<i>Per Capita Personal Income (MSA) (2)</i>	<i>Unemployment Rate (MSA) (3)</i>	<i>Corvallis Public School Enrollment (4)</i>
2002	51,040	79,029	\$ 2,373,827	\$ 30,037	5.2 %	6,875
2003	52,450	79,201	2,410,599	30,436	6.5	6,821
2004	52,950	78,383	2,664,113	33,988	5.4	6,624
2005	52,590	78,640	2,826,102	35,937	5.1	6,492
2006	53,165	79,061	3,030,585	38,332	4.7	6,470
2007	53,900	81,428	3,040,634	37,341	4.0	6,642
2008	54,890	81,859	3,046,063	37,211	4.1	6,631
2009	54,880	82,605	3,058,827	37,030	8.0	6,568
2010	55,125	n/a	n/a	n/a	7.0	6,461
2011	55,370	n/a	n/a	n/a	6.4	6,541

Sources:

- (1) Portland State University, Population Research Center as reported in December of each year as of July of that year. Since population for current fiscal year is reported in December (after CAFR is published), population data will be used as of the prior year. Prior years were adjusted to reflect the correct numbers as reported by PSU.
- (2) U.S. Bureau of Economic Analysis, AMSA04 report - Advanced Metropolitan Statistical Area.
- (3) Seasonally adjusted unemployment rate as reported in the Oregon Employment Department, Oregon Labor Market Information System. Unemployment rates prior to FY 2009 have been adjusted to reflect the seasonally adjusted unemployment rate.
- (4) Corvallis School District 509J.

Notes: The Corvallis Metropolitan Statistical Area (MSA) is defined as Benton County by the Bureau of Economic Analysis, U.S. Department of Commerce. The seasonally adjusted unemployment rate is for Benton County and is the rate for June of each year. Prior to 2009, Public school enrollment data from the Corvallis School District are figures reported in September of each year. 2009 data (and forward) is as of June.

(n/a) = Data for 2010 and 2011 is not available as of 9/21/2011. 2010 Data would normally be available by this time, however Bureau of Economic Analysis and the Advance Metropolitan Statistical Area Income Summary (AMSA04 table) does not have updated information at this time.

CITY OF CORVALLIS, OREGON
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO - UNAUDITED

Employer	2011			2002		
	Employees	Rank	Percentage of Total Employment*	Employees	Rank	Percentage of Total Employment*
Oregon State Univerity (1)	8,637	1	21.87 %	8,836	1	23.75 %
Samaritan Health Services (2)	2,305	2	5.84	-	-	
Hewlett Packard (3)	1,700	3	4.30	3,400	2	9.14
Benton County (6)	585	4	1.48	514	5	1.38
Corvallis School District 509J (4)	580	5	1.47	434	7	1.17
Corvallis Clinic (5)	543	6	1.38	890	4	2.39
City of Corvallis (7)	419	7	1.06	408	8	1.10
CH2M Hill (8)	400	8	1.01	375	9	1.01
ATS Systems Oregon (9)	200	9	0.51	361	10	0.97
Fiserv (formerly Summit Information Systems) (3)	200	10	0.51	-	-	
Good Samaritan Hospital (a)	-	-	-	1,100	3	2.96
Siuslaw National Forest	-	-	-	463	6	1.24
Total	15,569		39.43 %	16,781		45.11 %

Sources:

Nine years ago employer / employee information is from the City of Corvallis annual buget document.

Current year information:

- (1) Estimate based on OSU Office of Institutional Research June 2011 Employment Report.
- (2) Samaritan Health Services
- (3) Estimate based on trends from previous estimates
- (4) Corvallis School District 509J (FTE)
- (5) Corvallis Clinic
- (6) Benton County
- (7) City of Corvallis 4th Quarter Vacancy Summary (FTE)
- (8) 12/09 Gazette-Times Newspaper
- (9) ATS website

Notes:

(a) Good Samaritan Hospital is now included in Samaritan Health Services.

* Total employment is for the Corvallis Metropolitan Statistical Area (MSA) which is Benton County.

The MSA information is from the Oregon Employment Department (OED) - Oregon Labor Market Information System.

Total non-farm MSA employment:

Current year:	39,490
Nine years ago:	37,200

STATISTICAL SECTION

OPERATING INFORMATION



CITY OF CORVALLIS, OREGON
FULL-TIME EQUIVALENT EMPLOYEES BY ACTIVITY
LAST TEN FISCAL YEARS - UNAUDITED

Full-Time Equivalent Employees as of June 30

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
ACTIVITIES										
City Manager's Office	9.50	9.50	9.50	9.50	9.50	9.00	10.00	10.00	9.80	9.75
Community Development	31.00	30.90	29.80	32.00	34.70	34.55	36.05	34.55	33.80	33.80
Finance	36.00	34.75	34.75	36.25	34.25	35.25	36.75	37.75	36.00	36.75
Fire	59.00	59.00	60.00	67.72	69.72	66.72	66.72	69.00	65.00	65.00
Library	42.77	45.27	43.76	45.77	45.14	45.77	45.77	46.39	43.39	41.39
Parks and Recreation	28.13	27.88	27.43	27.43	27.43	34.46	31.79	37.64	35.97	31.56
Police	84.25	80.25	82.25	76.25	77.25	78.75	77.25	81.75	84.25	85.50
Public Works	32.77	34.72	35.02	33.52	30.82	34.27	35.14	35.40	35.23	34.64
Water	32.66	34.61	34.91	33.41	31.53	33.48	31.93	33.23	31.67	33.69
Wastewater	31.65	33.54	33.83	32.38	32.38	32.00	31.42	33.93	32.54	33.98
Storm Water	10.86	11.51	11.61	11.11	11.20	11.21	10.47	11.54	10.61	11.11
Airport	1.06	1.12	1.13	1.08	1.08	1.04	1.04	1.08	1.58	1.70
Total Full-Time Equivalent Employees	<u>399.65</u>	<u>403.05</u>	<u>403.99</u>	<u>406.42</u>	<u>405.00</u>	<u>416.50</u>	<u>414.33</u>	<u>432.26</u>	<u>419.84</u>	<u>418.87</u>

Source: City of Corvallis Fourth Quarter Operating Report - Vacancy Report - Filled Positions

Notes:

1 Full-Time Equivalent (FTE) = 2,080 hours

Amounts do not include casual or temporary employees.

CITY OF CORVALLIS, OREGON
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS - UNAUDITED

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
FUNCTION ⁽¹⁾										
Community Development										
Building permits - single family ⁽²⁾	250	184	195	210	190	89	34	34	34	n/a
Building permits - total ⁽²⁾	843	741	756	743	727	645	588	557	557	n/a
Inspections	19,760	18,145	17,433	19,215	23,260	18,755	16,537	14,329	14,686	n/a
Residential plan reviews	431	377	426	429	403	423	284	248	256	271
Public Works										
Street resurfacing (miles) ⁽²⁾	0.54	1.51	0.16	1.67	1.70	2.26	4.32	4.32	7	n/a
Library										
Volumes	297,051	311,281	318,010	328,381	347,616	358,130	363,398	344,557	347,465	345,279
Average monthly circulation	130,065	127,108	125,484	119,177	121,844	128,215	124,817	132,914	139,530	137,811
Registrations	39,323	46,847	46,008	46,130	49,576	46,586	50,122	50,111	49,942	50,557
Patrons using library	733,963	1,035,340	1,085,505	1,223,400	1,301,299	1,420,633	1,632,114	1,748,618	1,884,890	1,901,807
Parks and Recreation										
Sports teams	554	568	495	505	470	446	502	449	432	395
Recreation programs, classes, events	1,669	2,144	1,395	1,188	1,052	1,194	1,055	1,021	1,020	909
Recreation program registrations	19,844	22,476	20,180	21,630	21,832	25,534	29,799	34,086	25,504	19,980
Police ⁽²⁾										
Public safety dispatches	34,426	34,204	34,348	33,059	35,034	36,190	35,174	36,813	36,926	n/a
Total 911 center calls	146,049	167,380	157,932	166,345	164,057	152,642	146,319	142,872	134,565	n/a
Major felonies	2,293	2,574	2,323	2,308	2,307	1,824	1,690	2,055	1,757	n/a
Incidents investigated	21,183	20,378	21,199	20,531	22,038	23,278	22,886	24,405	23,650	n/a
Fire										
All fire responses	205	220	270	134	202	187	174	177	131	155
All non-fire responses	1,647	1,815	2,155	1,987	2,256	2,450	2,812	2,966	3,092	3,276
Fire safety inspections	1,356	1,455	1,317	1,911	1,950	1,993	2,711	2,155	2,752	2,665
Patient contacts	2,937	2,798	3,048	3,181	3,203	3,767	4,295	4,094	4,104	4,139
Transportation										
Bus ridership	525,021	502,420	511,830	530,287	566,670	551,906	613,166	681,456	700,791	884,687

CITY OF CORVALLIS, OREGON
OPERATING INDICATORS BY FUNCTION (Continued)
LAST TEN FISCAL YEARS - UNAUDITED

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water										
Number of consumers	14,333	14,631	14,398	14,635	15,061	15,348	15,498	15,911	15,609	16,033
Average daily use (1,000 gal)	7,650	7,900	8,090	7,900	7,900	7,751	7,564	7,328	6,933	6,910
Annual water production (MG)	2,792	2,870	2,953	2,742	2,781	2,791	2,750	2,666	2,497	2,434
Wastewater ⁽³⁾										
Number of consumers	13,852	13,858	13,874	14,212	14,341	14,593	14,698	15,097	14,835	14,840
Average daily use (1,000 gal) ⁽⁵⁾	7,120	7,320	7,750	8,861	9,717	8,947	10,178	9,156	4,042	3,999
Annual wastewater treated (MG)	3,799	3,901	3,833	3,233	3,547	3,547	3,715	3,342	3,726	3,872
Bio-solids recycled (MG)	3.9	4.3	3.0	2.6	1.1	1.1	1.2	4.1	3.8	3.0
Storm Water										
Number of consumers	13,951	13,958	13,974	14,210	14,444	14,650	14,764	15,107	14,892	14,900
Airport ⁽⁴⁾										
Estimated aircraft movements	56,300	70,340	91,000	91,000	93,000	103,000	103,000	103,000	103,000	103,000
Permanently based aircraft	141	148	152	152	152	157	157	157	167	167

Sources: Data has been supplied by various City departments.

Notes:

- (1) Operating indicators are not available for Finance or the City Manager's Office.
- (2) Data reported is on calendar year basis.
- (3) Wastewater daily usage is reported for dry weather flow for the months of May through December.
- (4) Considered the busiest non-towered / non-controlled airport in Oregon based on the 2004 state report of take offs and landings.
- (5) Restated Average daily use for 2010, based on new methodology using Utility Billing data.

n/a = information not available

CITY OF CORVALLIS, OREGON
CAPITAL ASSET STATISTICS BY ACTIVITY
LAST TEN FISCAL YEARS – UNAUDITED

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
ACTIVITIES ⁽¹⁾										
Public Works										
Streets (miles)	172	175	175	177	177	178	180	180	n/a	n/a
Traffic signals	79	79	80	80	80	82	83	83	86	90
Library										
Branch libraries	3	4	4	4	4	4	4	4	4	4
Parks and Recreation										
Parks	46	47	47	47	47	43	43	43	43	43
Acreage devoted to parks	1,684	1,685	1,685	1,685	1,685	1,685	1,685	1,685	1,685	1,685
Beautification areas ⁽²⁾	37	40	40	40	40	45	45	45	45	45
Playgrounds (excluding schools)	17	17	22	24	24	28	28	28	28	28
Sports fields / courts	49	46	47	60	60	59	59	58	59	59
Swimming pools ⁽³⁾	1	1	1	1	1	1	1	1	1	1
Police										
Stations ⁽⁴⁾	1	1	1	1	1	1	1	1	1	1
Patrol vehicles, motorcycles	20	20	20	18	18	19	19	19	20	20
Fire										
Stations - city	4	4	4	5	5	5	5	5	5	5
Stations - rural ⁽⁵⁾	1	1	1	1	1	1	1	1	1	1
Emergency vehicles ⁽⁶⁾	32	30	30	30	30	29	31	33	34	34
Transportation										
Bike paths (miles) ⁽⁷⁾	12.74	12.74	13.46	13.69	13.89	13.89	21	21	21	n/a
Bike lanes (miles) ⁽⁷⁾	60.04	60.45	61.23	61.23	61.23	63.29	105	111	113	n/a
City buses	11	11	10	10	10	10	10	12	15	12

CITY OF CORVALLIS, OREGON
CAPITAL ASSET STATISTICS BY ACTIVITY (Continued)
LAST TEN FISCAL YEARS - UNAUDITED

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water										
Lineal miles of system	227	239	244	246	249	244	245	245	247	n/a
Treatment capacity (1,000 gal)	24,000	24,000	24,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000
Wastewater										
Lineal miles of system	206	209	211	214	216	215	216	216	216	n/a
Treatment capacity (1,000 gal)	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700
Storm Water										
Lineal miles of system	147	154	136	158	162	166	168	168	168	n/a
Airport										
Runways	2	2	2	2	2	2	2	2	2	2

Sources: Data has been supplied by various City departments.

Notes:

- (1) Capital asset indicators are not available for Finance or the City Manager's Office.
- (2) Beautification areas were not identified until FY 2001 when the Parks Facilities Plan was published.
- (3) The City assumed operation and maintenance responsibility for Osborn Aquatic Center in the fall of 2000. The pool is owned by the Corvallis School District 509J.
- (4) The police station is owned by Benton County but is staffed and maintained by both the City of Corvallis and Benton County.
- (5) The rural fire station is owned by the Corvallis Rural Fire District but is staffed by the City of Corvallis per agreement with the Rural Fire District.
- (6) Includes fire apparatus, tankers, ambulances and passenger vehicles.
- (7) Data reported is on a calendar year basis. In 2008, the bike lane calculation was standardized to include lanes in both directions on a single street ("bike travel lanes").

n/a = information not available

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COMPLIANCE SECTION





PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

November 15, 2011

To the Honorable Mayor, Members of
the City Council, and City Manager
City of Corvallis, Oregon

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the City of Corvallis, Oregon as of and for the year ended June 30, 2011, and have issued our report thereon dated November 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the 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 statements 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 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).**

In connection with our testing nothing came to our attention that caused us to believe the City of Corvallis, Oregon 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.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

This report is intended solely for the information and use of the Council, management of the City of Corvallis and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

Pauly, Rogers and Co. P.C.
PAULY, ROGERS AND CO., P.C.



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

November 15, 2011

To the City Council
City of Corvallis, Oregon

Independent Auditors' 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*

We have audited the financial statements of City of Corvallis, Oregon, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of 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 Council, management of the City of Corvallis, 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.

Pauly, Rogers and Co. P.C.
PAULY, ROGERS AND CO., P.C.



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

November 15, 2011

To the City Council
City of Corvallis, Oregon

**Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of City of Corvallis, Oregon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. City of Corvallis, Oregon's major federal programs are identified in the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of compliance with those requirements.

In our opinion, City of Corvallis, Oregon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or

combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of Council, management of the City of Corvallis, 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.

Pauly, Rogers and Co. P.C.
PAULY, ROGERS AND CO., P.C.

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CITY OF CORVALLIS, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Grant Number</i>
U.S. DEPARTMENT OF AGRICULTURE FOREST SERVICE		
<i>Passed through Cascade Pacific Resource</i>		
<i>Conservation and Development</i>		
CPRCD - Corvallis Forest Habitat Enhancement	10.678	WY-M2-05
ARRA CPRCD - Reed Canary Grass Meadow Restoration	10.687	STIM1-01
ARRA CPRCD - Old Peak Down Wood & Meadow Restoration	10.687	STIM1-07
ARRA CPRCD - Corvallis Forest Down Wood & Tree Topping	10.687	STIM1-08
<i>Total U.S. Department of Agriculture Forest Service</i>		
U.S. DEPARTMENT OF ENERGY		
<i>Direct Program</i>		
ARRA Energy Efficiency and Conservation Block Grant	81.128	DE-SC0002467
<i>Total U.S. Department of Energy</i>		
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
<i>Direct Program</i>		
<i>CDBG - Entitlement Grants Cluster</i>		
Community Development Block Grant Program	14.218	B-10-MC-41-0009
ARRA Community Development Block Grant Program - FY 09/10	14.218	B-09-MY-41-0009
<i>Total CDBG - Entitlement Grants Cluster</i>		
HOME Grant Program	14.239	M10-MC410205
<i>Total U.S. Department of Housing and Urban Development</i>		
U.S. DEPARTMENT OF THE INTERIOR		
<i>Passed through the State of Oregon Historic</i>		
<i>Preservation Office</i>		
Basic Certified Local Govt.	15.904	HPF OR-09-07
Basic Certified Local Govt.	15.904	HPF OR-11-01
<i>Total U.S. Department of Interior</i>		

The accounting policies applied in the preparation of this schedule are the same as those documented in the Notes to the Basic Financial Statements.

<i>Program Award Amount</i>	<i>Receivable/ (Deferred Revenue) July 1, 2010</i>	<i>Total Receipts</i>	<i>Total Expenditures</i>	<i>Receivable/ (Deferred Revenue) June 30, 2011</i>
\$ 33,600	\$ 6,805	\$ 6,805	\$ -	\$ -
4,490	-	3,157	3,157	-
5,580	-	5,580	5,580	-
48,550	12,403	29,056	32,883	16,230
	19,208	44,598	41,620	16,230
511,600	63,120	105,464	83,129	40,785
	63,120	105,464	83,129	40,785
587,479	11,114	498,787	515,255	27,582
145,487	-	4,130	4,130	-
	11,114	502,917	519,385	27,582
446,537	-	472,224	496,174	23,950
	11,114	975,141	1,015,559	51,532
15,000	6,750	6,750	-	-
14,500	-	-	8,546	8,546
	6,750	6,750	8,546	8,546

CITY OF CORVALLIS, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2011

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Grant Number</i>
U.S. DEPARTMENT OF JUSTICE		
<i>Bureau of Justice</i>		
Bulletproof Vest Program (2009)	16.607	--
Bulletproof Vest Program (2010)	16.607	--
2008 Byrne JAG Grant (Year 2)	16.738	07-006
2010-2012 Byrne JAG Grant (Year 1)	16.738	LE06-10 JAG
2010 Byrne JAG Grant: Death Investigator Services	16.738	2010-DJ-BX-0024
ARRA 2009 Byrne JAG Grant	16.804	2009-SB-B9-1773
<i>Total U.S. Department of Justice</i>		
U. S. DEPARTMENT OF TRANSPORTATION		
<i>Direct Program</i>		
FAA: Airport Facility Improvement - Fencing	20.106	3-41-0014-015
FTA: Transit Operations Center	20.500	OR-03-0101-00
FTA: Transit Operating Grant (2010)	20.507	OR-90-X148-03
FTA: Transit Operating Grant (2011)	20.507	OR-90-X148-04
ARRA 09 5307 Buses, Facilities & Equipment	20.507	OR-96-X002-00
<i>Total Federal Transit Cluster</i>		
<i>Passed through the State of Oregon</i>		
<i>Department of Transportation</i>		
<i>Highway Planning and Construction Cluster</i>		
Transportation Demand Management Program (2010)	20.205	25848
Transportation Demand Management Program (2011)	20.205	26790
ARRA FHWA Grind/Inlay (Corvallis)	20.205	1580(031) / 25540
ARRA Springhill Drive (County)	20.205	C003(037) / 25789-01
ARRA NW 29th Street: Circle to Walnut Blvd	20.205	1580(041) / 27039
FHWA: Corvallis (509J) Safe Routes to School	20.205	1580(038) / 26651
FHWA: Benton County Safe Routes to School	20.205	C003(039) / 26732
FHWA: Airport Industrial Park Improvements - Hout Street	20.205	1580(035) / 26287
<i>Total Highway Planning and Construction Cluster</i>		

<i>Program Award Amount</i>	<i>Receivable/ (Deferred Revenue) July 1, 2010</i>	<i>Total Receipts</i>	<i>Total Expenditures</i>	<i>Receivable/ (Deferred Revenue) June 30, 2011</i>
\$ 6,800	\$ 662	\$ 4,810	\$ 4,148	\$ -
5,228	-	613	1,717	1,104
77,778	8,134	31,799	23,665	-
85,411	-	18,401	25,715	7,314
13,478	-	13,478	13,478	-
80,052	9,427	29,008	19,581	-
	18,223	98,109	88,304	8,418
80,000	-	380	62,721	62,341
257,482	20,625	72,817	61,100	8,908
794,332	181,687	181,687	-	-
791,689	-	749,567	791,689	42,122
1,053,488	304	14,535	18,358	4,127
	202,616	1,018,986	933,868	117,498
40,379	15,300	15,300	-	-
43,070	-	22,482	36,250	13,768
1,246,491	374,039	409,468	35,429	-
146,149	5,878	135,672	129,794	-
136,000	-	-	111,639	111,639
243,214	21,814	206,500	184,686	0
200,000	-	-	55,314	55,314
732,518	18,961	600,892	604,528	22,597
	435,992	1,390,314	1,157,640	203,318

CITY OF CORVALLIS, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2011

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Grant Number</i>
<i>Transit Services Cluster</i>		
Rural Transit Assistance Program	20.509	-----
Job Access and Reverse Commute Program (2010)	20.516	25887
New Freedom/ADA Ramp & Sidewalk Improvements	20.521	25868
<i>Total Transit Services Cluster</i>		
<i>Total U.S. Department of Transportation</i>		
NATIONAL ENDOWMENT FOR THE ARTS		
<i>Passed through the Oregon Arts Commission</i>		
Cultural Tourism Grant: Artists in the Parks	45.025	FY11-CTG-10235
<i>Total National Endowment for the Arts</i>		
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
<i>Passed through the State of Oregon Library</i>		
Library Services and Technology Act	45.310	09-14-2P
<i>Total Institute of Museum and Library Services</i>		
U.S. ENVIRONMENTAL PROTECTION AGENCY		
<i>Direct Program</i>		
Climate Showcase Communities Grant	66.041	AF-83495501-0
Community Stream Stewards Program	66.951	NE-00J14001-0
<i>Passed through the State of Oregon Business Development</i>		
Corvallis Willamette Watershed Pharmaceutical Cleanup	66.468	U10003
<i>Total U.S. Environmental Protection Agency</i>		
FEDERAL EMERGENCY MANAGEMENT AGENCY		
<i>Passed through the State of Oregon</i>		
<i>Emergency Management</i>		
City Hall Seismic Retrofit	97.047	EMS-2009-PC-0001
Emergency Management Performance Program - 2010	97.402	-----
<i>Total Federal Emergency Management Agency</i>		
<i>Total Federal Assistance</i>		

<i>Program Award Amount</i>	<i>Receivable/ (Deferred Revenue) July 1, 2010</i>	<i>Total Receipts</i>	<i>Total Expenditures</i>	<i>Receivable/ (Deferred Revenue) June 30, 2011</i>
\$ 1,033	\$ -	\$ 1,033	\$ 1,033	\$ -
328,040	46,521	181,622	169,904	34,803
121,440	45,200	61,921	71,648	54,927
	91,721	244,576	242,585	89,730
	730,329	2,653,876	2,334,093	410,546
4,400	-	4,400	-	(4,400)
	-	4,400	-	(4,400)
150,000	-	64,982	64,982	-
	-	64,982	64,982	-
491,762	-	3,947	26,543	22,596
14,737	-	3,127	3,127	-
20,000	-	-	7,327	7,327
	-	7,074	36,997	29,923
842,924	-	-	634,035	634,035
varies	-	8,714	37,562	28,848
	-	8,714	671,597	662,883
	<u>\$ 848,744</u>	<u>\$ 3,969,108</u>	<u>\$ 4,344,827</u>	<u>\$ 1,224,463</u>

CITY OF CORVALLIS, OREGON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Purpose of the Schedule

The accompanying schedule of expenditures of federal awards (the "Schedule") is a supplementary schedule to the City of Corvallis' financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a selected portion of the activities of the City of Corvallis, it is not intended to and does not present either the financial position, changes in fund balances, or the operating funds' revenues and expenditures for the City of Corvallis.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The information in the Schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Federal Financial Assistance

Pursuant to the Single Audit Act Amendment of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs

The Single Audit Act Amendment of 1996 and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for the City of Corvallis are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

Reporting Entity

The reporting entity is fully described in the notes to the financial statements. Additionally, the Schedule includes all federal programs administered by the City of Corvallis for the year ended June 30, 2011.

Revenue and Expenditure Recognition

The receipt and expenditure of federal awards are accounted for under the modified accrual basis of accounting. Revenues are recorded as received in cash or on the accrual basis where measurable and available. Expenditures are recorded when the liability is incurred.

CITY OF CORVALLIS, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's opinion issued: Unqualified
 Internal control reporting:
 • Material weakness(es) identified? No
 • Significant deficiency(ies) identified? None reported
 Noncompliance material to financial statements noted? No
 Any audit findings disclosed relating to the financial statements which are required to be reported in accordance with GAGAS, A-133 S505(d)(2) No

Federal Awards

Internal control over major programs:
 • Material weakness(es) identified? No
 • Significant deficiency(ies) identified? None reported
 Type of auditors' report issued on compliance for major programs: Unqualified
 Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major program:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.239	Home Investment Partnerships Program
20.205	Highway Planning and Construction Cluster
97.047	Pre-Disaster Mitigation

Dollar threshold used to distinguish between type A and type B programs: \$300,000
 Auditee qualified as low-risk auditee? Yes

FINANCIAL STATEMENT FINDINGS

None reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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APPENDIX C
FORM OF LEGAL OPINION

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MERSEREAU SHANNON LLP

PETER R. MERSEREAU
JAMES P. SHANNON, LLM
KAREN M. VICKERS
THOMAS W. MCPHERSON
BARRETT C. MERSEREAU
COURTNEY L. DAUSZ
BLAKE H. FRY

LAWYERS
FOUNDED IN 1885
SMITH & TEAL

ROBERT J. SULLIVAN, P.C.*
OF COUNSEL

TELEPHONE: 503-226-6400
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ONE S.W. COLUMBIA STREET, SUITE 1600
PORTLAND, OREGON 97258
MERSHANLAW.COM

*LICENSED IN OREGON & WASHINGTON

November 15, 2012

City of Corvallis
501 SW Madison Avenue
P.O. Box 1083
Corvallis, OR 97339-1083

Re: \$11,485,000 City of Corvallis, Benton County, Oregon
Full Faith and Credit Refunding Obligations, Series 2012

We have acted as special counsel in connection with the authorization of \$11,485,000 City of Corvallis, Benton County, Oregon, Full Faith and Credit Refunding Obligations, Series 2012 (the "Series 2012 Obligations"), pursuant to a Tax Exempt Financing Agreement and an Escrow Agreement, both being dated November 15, 2012 (collectively, the "Agreement"). We have examined the law and such certified proceedings of the City and other papers as we deem necessary to render this opinion.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of any offering material relating to the Obligations and we express no opinion relating thereto.

As to questions of fact material to our opinion, we have relied upon the certified proceedings of the City and other certifications of City officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Obligations have been legally authorized, sold and issued under and pursuant to the Constitution and statutes of the State of Oregon and the Agreement is a valid and legally binding obligation of the City enforceable in accordance with its terms.

2. The Obligations are payable from the general revenues of the City and other funds which may be available for that purpose, including the proceeds of ad valorem property taxes levied by the City, subject to applicable constitutional and statutory limitations now or hereafter in effect.

3. Assuming compliance with certain covenants of the City concerning the tax status of the interest on the Obligations, the interest on the Obligations is excluded 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 and corporations; it should be noted, however, that for the purpose of computing alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current

earnings. Any original issue premium properly allocable to the owner of the Obligations may not be deducted from federal gross income, but must be amortized actuarially on a constant interest rate basis over the term of such Obligation, and the federal tax basis of such Obligation will be decreased over its term by the amount of such amortized premium. The opinions set forth in this letter are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Obligations in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of the interest on the Obligations in gross income for federal income tax purposes to be retroactive to the date of issuance. We express no opinion regarding other federal tax consequences arising with respect to the Obligations.

4. The interest on the Obligations is exempt from present State of Oregon personal income taxes.

It is to be understood that the rights of the owners of the Obligations and the enforceability thereof are subject to (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, (ii) the application of equitable principles and to the exercise of judicial discretion in appropriate cases, (iii) common law and statutes affecting the enforceability of contractual obligations generally, and (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

Our opinions are limited to matters of current Oregon law and applicable federal law, and we assume no responsibility for the applicability or effect of laws of other jurisdictions.

Respectfully submitted,

MERSEREAU SHANNON LLP

James P. Shannon

APPENDIX D
FORM OF CONTINUING DISCLOSURE CERTIFICATE

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[Form of]
CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by City of Corvallis, Benton County, Oregon (the “City”) in connection with the sale and issuance of the \$11,485,000 City of Corvallis, Benton County, Oregon, Full Faith and Credit Refunding Obligations, Series 2012. The Obligations are being executed and delivered pursuant to Resolution No. 2012-22 adopted by the City Council of the City on August 20, 2012, (the “Resolution”). Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in the Resolution. The City covenants as follows:

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City for the benefit of Holders and Beneficial Owners of the Obligations and to assist the Underwriter in complying with Securities and Exchange Commission (“SEC”) Rule 15c2-12 (the “Rule”).

Section 2. Definitions. In addition to the definitions set forth the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Certificate.

“Beneficial Owner” means any person who has or shares the power, directly or indirectly, to vote or to consent with respect to, or dispose of ownership of, any Obligations (including persons holding Obligations through nominees, depositories or other intermediaries), or is treated as the owner of any Obligations for federal income tax purposes.

“Dissemination Agent” means the City, or any successor Dissemination Agent designated in writing by the City which has filed with the City a written acceptance of such designation.

“Holder” means the registered holders of the Obligations, as recorded in the registration books of the Registrar.

“Listed Events” means any of the events listed in Section 5(a) 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. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, located at <http://emma.msrb.org> as of the date of this Certificate.

“Official Statement” means the Official Statement dated November 1, 2012, prepared and distributed in connection with the initial sale of the Obligations.

“Rule” means Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Underwriter” means the original underwriter(s) of the Obligations required to comply with the Rule in connection with the offering of the Obligations.

Section 3. Provisions of Annual Reports.

a. As soon as available but not later than 270 days after the end of the City's fiscal year (presently June 30), commencing with the report for the 2011-2012 fiscal year, the City shall, or shall cause the Dissemination Agent (if any) to, provide to the MSRB an electronic copy of its Annual Report which is consistent with the requirements of Section 4 of this Certificate and which Annual Report is in a format accompanied by such identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(a).

b. If the City has designated a Dissemination Agent, then not later than fifteen (15) business days prior the filing date in Section 3.a., the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Dissemination Agent (if other than the City) shall file a report with the City certifying that the Annual Report has been provided pursuant to this Certificate, and stating the date it was provided to the MSRB.

c. If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report to the MSRB by the date required in Section 3.a., the City shall provide in a timely manner (or cause the Dissemination Agent to provide in a timely manner) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

a. Audited financial statements of the City for the preceding fiscal year prepared in accordance with the laws of the State of Oregon. If the City's audited financial statements are not available by the by the time the Annual Report is required to be filed pursuant to Section 3.a., the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

b. To the extent not provided in the audited financial statements incorporated in the Annual Report pursuant to Section 4.a. above, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement under the following captions:

CITY FINANCIAL INFORMATION

- Statement of Net Assets (expected to be changed to "Statement of Net Position" for future reporting in accordance with GASB requirements)
- Property Tax Funds Combined Balance Sheets
- Property Tax Funds Combined Statement of Revenues, Expenditures and Changes in Fund Balance
- Property Tax Funds Combined – Summary of Budgets
- Pension Plan - including City's net unfunded actuarial accrued pension liability
- Other Post-Employment Retirement Benefits

REVENUE SOURCES

- Assessed Value and Estimated Real Market Value

- Property Tax Levies and Collections
- Top 10 Property Taxpayers
- Property Tax Rates (for the City of Corvallis only)

THE WASTEWATER SYSTEM

- Five-Year Wastewater Fund - Statement of Net Assets (expected to be changed to “Five-Year Wastewater Fund - Statement of Net Position” for future reporting in accordance with GASB requirements)
- Five-Year Wastewater Fund - Statement of Revenues, Expenses, and Changes in Fund Net Assets
- Wastewater Fund Summary of Budgets

THE WATER SYSTEM

- Five-Year Water Fund - Statement of Net Assets (expected to be changed to “Five-Year Water Fund - Statement of Net Position” for future reporting in accordance with GASB requirements)
- Five-Year Water Fund - Statement of Revenues, Expenses, and Changes in Fund Net Assets
- Water Fund Summary of Budgets

DEBT INFORMATION

- Outstanding Obligations

c. In addition to any of the information expressly required to be provided under paragraphs a. and b. of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

d. 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 5. Reporting of Significant Events.

a. The City agrees to provide or cause to be provided, in a timely manner not in excess of ten (10) business days after the occurrence of the Listed Event, to the MSRB, notice of the occurrence of any of the following with respect to the Obligations:

- i. Principal and interest payment delinquencies;
- ii. Non-payment related defaults, if material;
- iii. Unscheduled draws on debt service reserves reflecting financial difficulties;
- iv. Unscheduled draws on credit enhancements reflecting financial difficulties;
- v. Substitution of credit or liquidity providers, or their failure to perform;
- vi. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of

the Obligations, or other events affecting the tax status of the Obligations;

- vii. Modifications to rights of Obligation holders, if material;
- viii. Obligation calls, if material, and tender offers;
- ix. Defeasances;
- x. Release, substitution or sale of property securing repayment of the Obligations, if material;
- xi. Rating changes;
- xii. Bankruptcy, insolvency, receivership or similar event of the City;*
- xiii. The consummation of a merger, consolidation, or acquisition involving the City, or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- xiv. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

b. The City may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the City, such other event is material with respect to the Obligations, but the City does not undertake any commitment to provide such notice of any event except those events listed above.

Section 6. Termination of Reporting Obligation. The City's obligations under this Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations.

Section 7. 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 8. Form of Information and Filing. All information required to be provided under this certificate will be provided in electronic format and with the identifying information prescribed by the MSRB. So long as the MSRB continues to approve the use of the Electronic Municipal Market Access ("EMMA") continuing disclosure service, any information required to be provided to the MSRB under this Certificate may be provided through EMMA. As of the date of this Certificate, the web portal for EMMA is www.emma.msrb.org.

* For the purposes of the event identified in paragraph 5.a.xii., 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 City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or government authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 9. Amendment or Waiver. Notwithstanding any other provision of this Certificate, the City may amend this Certificate, and any provisions of this Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3.a., 4, or 5, it may only be made in accordance 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 with respect to the Obligations, or type of business conducted;

(b) This Certificate, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, 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 or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of Holders or Beneficial Owners of the Obligations.

In the event of any amendment or waiver of a provision of this Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating date being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5.a., and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. 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 11. Enforceability and Remedies. The City agrees that this Certificate is intended to be for the benefit of the Holders and Beneficial Owners of the Obligations and shall be enforceable by or on behalf of such Holders and Beneficial Owners; provided that, the right of Holders to challenge the adequacy of the information furnished hereunder shall be limited to an action by or on behalf of Holders representing 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 under the Resolution. This Certificate confers no rights on any person or entity other than the City, Holders and Beneficial Owners of the Obligations, and any Dissemination Agent.

Section 12. Beneficiaries. This Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Underwriter and Holders and Beneficial Owners from time to time of the Obligations, and shall create no rights in any other person or entity.

[Signature follows on the next page]

Dated this 15th day of November 2012.

CITY OF CORVALLIS
BENTON COUNTY, OREGON

By: _____
Authorized Representative

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO
FILE ANNUAL REPORT

Name of City: City of Corvallis, Benton County, Oregon
Name of Issue: Full Faith and Credit Refunding Obligations, Series 2012
Date of Issuance November 15, 2012

NOTICE IS HEREBY GIVEN that City of Corvallis, Benton County, Oregon (the "City") has not provided an Annual Report with respect to the above-named Obligations as required by Section 4 of the Continuing Disclosure Certificate of the City, dated November 15, 2012. The City anticipates that the Annual Report will be filed by _____.

Dated: _____.

CITY OF CORVALLIS
BENTON COUNTY, OREGON

By: _____

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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 a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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



**The Depository Trust &
Clearing Corporation**

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.



**The Depository Trust &
Clearing Corporation**