Supplement to Final Official Statement for the

CITY OF LAKE OSWEGO

CLACKAMAS, MULTNOMAH AND WASHINGTON COUNTIES, OREGON
$11,500,000 Full Faith and Credit Obligations, Series 2011A

This supplement is dated September 15, 2011, and supplements the final official statement for the captioned obligations that is dated September 20, 2011 (the "Official Statement").

Upon request of the bond purchaser, the City is making the following changes to the Official Statement:

The "Tax Matters" section on page 29 and 30 of the Official Statement is changed to read:

TAX MATTERS

In the opinion of Special Counsel, under existing law the interest component of Financing Payments that is paid to owners of the 2011A Obligations ("Interest") is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however Interest is included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the 2011A Obligations, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the 2011A Obligations and the facilities refinanced and financed with proceeds of the 2011A Obligations and certain other matters. The City and LORA have each covenanted to comply with all applicable requirements.

Special Counsel's opinion is subject to the condition that the City and LORA comply with the above-referenced covenants and, in addition, will rely on representations by the City, LORA, and the advisors of each with respect to matters solely within the knowledge of the City, LORA, and their respective advisors, which Special Counsel has not independently verified. If the City or LORA fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the 2011A Obligations could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2011A Obligations, regardless of the date on which the event causing taxability occurs.

Except as expressly stated in this Tax Matters section, Special Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the 2011A Obligations. Owners of the 2011A Obligations should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2011A Obligations, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the 2011A Obligations should be aware that ownership of the 2011A Obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2011A Obligations. Special Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the 2011A Obligations should consult their tax advisors regarding collateral federal income tax consequences.

Special Counsel's opinion only addresses laws in effect on the date of delivery of the 2011A Obligations. Subsequent changes in federal law may reduce or eliminate favorable tax treatment of the 2011A Obligations.

Payments of interest on tax-exempt obligations, such as the 2011A Obligations, are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Special Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Special Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Special Counsel and the City's and LORA's compliance with their respective covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Special Counsel cannot predict whether the IRS will commence an audit of the 2011A Obligations. Owners of the 2011A Obligations are advised that, if the IRS does audit the 2011A Obligations, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the City as the taxpayer, and the owners of the 2011A Obligations may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the 2011A Obligations until the audit is concluded, regardless of the ultimate outcome.

ORIGINAL ISSUE PREMIUM

The initial public offering price of certain 2011A Obligations is greater than the amount payable on those 2011A Obligations at maturity. Special Counsel expresses no opinion with respect to the treatment of this additional amount.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of certain 2011A Obligations (the "Original Issue Discount Obligations") is less than the stated redemption price at maturity. In such case, the difference between (i) the stated amount payable at the maturity of an Original Issue Discount Obligation and (ii) the initial public offering price of that Original Issue Discount Obligation constitutes original issue discount with respect to that Original Issue Discount Obligation in the hands of the owner who purchased that Original Issue Discount Obligation at the initial public offering price in the initial public offering of the 2011A Obligations. The initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to an Original Issue Discount Obligation equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Obligation continues to be owned by the initial owner.

In the event of the redemption, sale or other taxable disposition of an Original Issue Discount Obligation prior to its stated maturity, however, the amount realized by the initial owner in excess of the basis of the Original Issue Discount Obligation in the hands of its initial owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Obligation was held by the initial owner) is includable in gross income. Purchasers of Original Issue Discount Obligations should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning Original Issue Discount Obligations.

OREGON STATE TAX EXEMPTION

In the opinion of Special Counsel, Interest is exempt from Oregon personal income tax under existing law.

RECENT LEGISLATIVE PROPOSAL

On September 12, 2011, President Obama submitted the "American Jobs Act of 2011" (the "2011 Jobs Act") to Congress. If the 2011 Jobs Act is enacted in its current form, it would subject a portion of the interest on tax-exempt Obligations received by certain high-income holders to federal income tax. This provision would be effective for taxable years beginning on or after January 1, 2013, and would apply to existing tax-exempt Obligations, including the 2011A Obligations, as well as tax-exempt Obligations issued in the future. Neither the City nor Special Counsel can predict whether the 2011 Jobs Act, modifications of it, or similar legislation will be approved by Congress. Purchasers of the 2011A Obligations should consult their own tax advisors regarding the impact of any potential change in federal law on the treatment of Interest.

References to the Official Statement

All references to the "Official Statement" are deemed to be references to the Official Statement dated September 8, 2011, as supplemented by this supplement which is dated September 15, 2011.

-end of supplement to Official Statement dated September 8, 2011-

OFFICIAL STATEMENT DATED SEPTEMBER 8, 2011
(AS SUPPLEMENTED SEPTEMBER 15, 2011)

NEW ISSUE -- COMPETITIVE
Book-Entry-Only

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

In the opinion of K&L Gates LLP, Portland, Oregon, Special Counsel, assuming compliance with certain covenants of the City, the interest component of Financing Payments that is paid to owners of the 2011A Obligations ("Interest") is excluded from gross income for federal income tax purposes under existing law. Interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, Interest is included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. In the opinion of Special Counsel, Interest is exempt from Oregon personal income tax under existing law. See "Tax Matters" for a discussion of the opinion of Special Counsel.

CITY OF LAKE OSWEGO

CLACKAMAS, MULTNOMAH AND WASHINGTON COUNTIES, OREGON

$11,500,000 Full Faith and Credit Obligations, Series 2011A

DATED: Date of Delivery **DUE: June 1, as shown inside cover**

The Full Faith and Credit Obligations, Series 2011A (the "2011A Obligations"), will be issued by the City of Lake Oswego, Oregon (the "City"), in book-entry-only form in denominations of $5,000 or integral multiples thereof. The 2011A 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 2011A Obligations remain in the book-entry-only system, principal and interest payments will be remitted by the escrow agent, 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 2011A Obligations will be used to refinance the Lake Oswego Redevelopment Agency ("LORA") Variable Rate Tax Increment Revenue Bonds, Series 2005A (Federally Tax-Exempt), to finance urban renewal projects, and to pay costs of issuance (collectively, the "Project").

The 2011A Obligations represent undivided ownership interests in the principal and interest payments due from the City under the Financing Agreement, as defined herein (the "Financing Payments"). The obligation of the City to pay the Financing Payments is unconditional, and the City has agreed to make payments from any and all of its legally available funds. The City has also 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 Owners of the 2011A Obligations do not have a lien or security interest in the projects financed or refinanced with the proceeds of the 2011A Obligations. The Financing Agreement does not constitute a debt or indebtedness of the State of Oregon, or any political subdivision thereof other than the City.

The interest component of the Financing Payments evidenced and represented by the 2011A Obligations will be payable on June 1, 2012 and semiannually thereafter on June 1 and December 1 of each year. The principal component will be payable on June 1 as shown in the maturity schedule on the inside cover hereto. The principal and interest components of the Financing Payments evidenced and represented by the 2011A Obligations will be payable to the persons in whose names such 2011A 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 2011A Obligations are subject to prepayment. See "DESCRIPTION OF THE 2011A 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.

Fidelity Capital Markets purchased the 2011A Obligations via competitive sale on September 8, 2011. The 2011A Obligations are offered for sale to the original purchaser subject to the final approving opinion of K&L Gates, LLP, Special Counsel to the City. It is expected that the 2011A Obligations will be available for delivery to the Registrar for Fast Automated Securities Transfer on behalf of DTC, on or about September 20, 2011 ("Date of Delivery").

WESTERN FINANCIAL GROUP

Western Financial Group, LLC
333 State Street
Lake Oswego, Oregon 97034

Maturity Schedule

Due June 1	Principal Amount	Interest Rate	Yield	CUSIP # 510390†
2012	$370,000	2.00%	0.25%	VC8
2013	440,000	2.00	0.35	VD6
2014	450,000	4.50	0.45	VE4
2015	470,000	2.00	0.64	VF1
2016	480,000	2.00	1.00	VG9
2017	485,000	3.00	1.27	VH7
2018	500,000	3.00	1.56	VJ3
2019	515,000	3.00	1.85	VK0
2020	535,000	2.50	2.08	VL8
2021	545,000	3.00	2.29	VM6
2022	560,000	4.00	2.50 *	VN4
2023	585,000	4.00	2.70 *	VP9
2024	610,000	4.00	2.88 *	VQ7
2025	630,000	4.00	3.03 *	VR5
2026	660,000	3.00	3.17	VS3
2027	675,000	4.00	3.30 *	VT1
2028	705,000	4.00	3.43 *	VU8
2029	735,000	4.00	3.52 *	VV6
2030	760,000	4.00	3.61 *	VW4
2031	790,000	4.00	3.70 *	VX2

* Priced to the first call date of June 1, 2021 at par.

† 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 2011A Obligations. No assurance can be given that the CUSIP numbers for the 2011A Obligations will remain the same after the date of issuance and delivery of the 2011A 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 2011A 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 or this Official Statement nor any sale made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date hereof.

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

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

OFFICIAL STATEMENT
OF
CITY OF LAKE OSWEGO, OREGON
CLACKAMAS, MULTNOMAH AND WASHINGTON COUNTIES, OREGON
$11,500,000 Full Faith and Credit Obligations, Series 2011A

380 "A" Avenue
P.O. Box 369
Lake Oswego, Oregon 97034
Website: www.ci.oswego.or.us[1]

CITY COUNCIL
Jack D. Hoffman, Mayor
Jeff Gudman
Donna Jordan
Mike Kehoe
Mary Olson
Sally Moncrieff
Bill Tierney

ADMINISTRATIVE STAFF
Alex D. McIntyre, City Manager
Ursula Euler, Finance Director
Brant Williams, Economic & Capital Development Director

SPECIAL COUNSEL
K&L Gates LLP, Portland, Oregon

FINANCIAL ADVISOR
Western Financial Group, LLC, Lake Oswego, Oregon

PAYING AGENT, REGISTRAR AND ESCROW AGENT
Wells Fargo Bank, National Association, Portland, Oregon

[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 2011A 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 LAKE OSWEGO, OREGON

$11,500,000 Full Faith and Credit Obligations, Series 2011A

The City of Lake Oswego (the "City"), a political subdivision duly organized and existing under and by virtue of the laws of the State of Oregon (the "State") furnishes this Official Statement in connection with the offering of $11,500,000 aggregate principal amount of Full Faith and Credit Obligations, Series 2011A (the "2011A Obligations"), dated the Date of Delivery. This Official Statement, which includes the cover page and appendices, provides information concerning the City and the 2011A 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 2011A OBLIGATIONS

The 2011A Obligations will be issued in the aggregate principal amount of $11,500,000. The 2011A Obligations evidence and represent undivided proportionate interests of the Owners thereof in payments (the "Financing Payments") to be made by the City pursuant to a financing agreement (the "Financing Agreement") dated the Date of Delivery, between the City and Wells Fargo Bank, National Association, as paying agent, registrar and escrow agent (the "Registrar" or "Escrow Agent"). The 2011A Obligations are executed and delivered pursuant to an escrow agreement (the "Escrow Agreement") dated the Date of Delivery, between the City and the Escrow Agent.

PRINCIPAL AMOUNT, DATE, INTEREST RATE AND MATURITIES

The sum of the principal components of the Financing Payments (the "Financing Amounts") evidenced and represented by the 2011A Obligations equals $11,500,000*. The interest components of the Financing Payments evidenced and represented by the 2011A Obligations are payable on the scheduled Payment Dates (each June 1 and December 1, commencing June 1, 2012) 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 2011A Obligations will be computed on the basis of a 360-day year consisting of twelve 30-day months. The principal component of the Financing Payments will be due on June 1 as set forth on the inside cover of this Official Statement.

The 2011A 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 2011A Obligations is remitted by the Escrow Agent to Depository Trust Company ("DTC"), who in turn will be required to distribute such payments to its participants (the "DTC Participants") for ultimate distribution to Beneficial Owners (as defined herein).

AUTHORIZATION AND PURPOSE OF ISSUANCE

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

The 2011A Obligations are being issued to refinance the Lake Oswego Redevelopment Agency ("LORA") Variable Rate Tax Increment Revenue Bonds, Series 2005A (Federally Tax-Exempt), to finance urban renewal projects, and to pay costs of issuance (collectively, the "Project").

The City is pledging its full faith and credit to the payment of the principal components of the Financing Agreement as security for the Project. Under and in accordance with State law and pursuant to Resolution No. 11-42 adopted by the City Council on June 21, 2011 (the "Obligation Resolution"), the City is authorized to enter into the Financing Agreement and the Escrow Agreement for the 2011A Obligations; to provide the terms of execution, delivery and sale of the 2011A 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 2011A 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 2011A Obligations are authorized to be issued without a vote of the people.

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 2011A Obligations (the "Beneficial Owners"), as further described in APPENDIX E attached hereto.

Book-Entry System. The 2011A Obligations will be executed and delivered as fully registered obligations and, when executed and delivered, will be registered in the name of Cede & Co. as Owner and as nominee for DTC. DTC will act as securities depository for the 2011A Obligations. Individual purchases and sales of the 2011A Obligations may be made in book-entry form only in minimum denominations of $5,000 within a single maturity and integral multiples thereof. Beneficial Owners will not receive certificates representing their interest in the 2011A Obligations. See APPENDIX E attached hereto for additional information.

Procedure in the Event of Revisions of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC, or the City has determined that it is in the best interest of the City not to continue the book-entry system of transfer or that interests of the Beneficial Owners of the 2011A 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, 2011A 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 2011A Obligations will be payable upon due presentment and surrender of such 2011A Obligations at the principal office of the Registrar. The interest components of the Financing Payments evidenced and represented by the 2011A 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 2011A Obligations will be transferable as provided in the Escrow Agreement.

PREPAYMENT PROVISIONS

The 2011A Obligations maturing on and after June 1, 2022 are subject to optional prepayment at the option of the City, in whole or in part on any date on and after June 1, 2021 at a price of par, plus accrued interest, if any, to the date of prepayment. The 2011A Obligations are not subject to mandatory sinking fund prepayment.

Notice of Prepayment (DTC). So long as the 2011A Obligations are in book-entry form, the Paying Agent shall notify DTC of an early prepayment not less than 20 days prior to the date fixed for prepayment, and shall provide such information as required by a letter of representation submitted to DTC in connection with the issuance of the 2011A Obligations.

Notice of Prepayment (No DTC). During any period in which the 2011A Obligations are not in book-entry only form, unless waived by any Owner of the 2011A Obligations to be redeemed, official notice of any prepayment of 2011A Obligations shall be given by the Paying Agent on behalf of the City by mailing a copy of an official prepayment notice by first class mail, postage prepaid, at least 20 days and not more than 60 days prior to the date fixed for prepayment, to the Owners of the 2011A Obligations to be prepaid at the address shown on the 2011A Obligation register or at such other address as is furnished in writing by such Owner to the Paying Agent.

Conditional Prepayment. Any notice of optional prepayment to the Registrar or to the 2011A Obligation owners may state that the optional prepayment is conditional upon receipt by the Registrar of moneys sufficient to pay the prepayment price of such 2011A Obligations or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such prepayment price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission or of the failure of any such condition shall be given by the Registrar to affected 2011A Obligation owners as promptly as practicable upon the failure of such condition or the occurrence of such other event.

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SECURITY FOR THE 2011A OBLIGATIONS

The 2011A 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 2011A Obligations are not general obligations of the City, Clackamas County, Multnomah County, Washington County, the State or any other political subdivision or municipal corporation of the State. The 2011A 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 2011A OBLIGATIONS DO NOT HAVE A LIEN OR SECURITY INTEREST IN THE PROJECT FINANCED OR REFINANCED WITH THE PROCEEDS OF THE 2011A OBLIGATIONS.

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

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

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

EXPECTED PLAN OF REPAYMENT

The City expects to repay the 2011A Obligations from tax increment revenues of the East End Redevelopment Area. The City has entered into an intergovernmental agreement with LORA in which LORA obligates itself to the City to pay all amounts the City is required to pay in connection with the Financing Agreement. Although tax increment revenues are the expected source of repayment, they are not pledged to the 2011A Obligations. If tax increment revenues were not sufficient to pay 2011A Obligation debt service, the City would use other legally available funds to pay the debt service of the 2011A Obligations. See "**Lake Oswego Redevelopment Agency**" herein.

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SOURCES AND USES OF FUNDS

The proceeds of the sale of the 2011A Obligations will be used to refinance the Lake Oswego Redevelopment Agency ("LORA") Variable Rate Tax Increment Revenue Bonds, Series 2005A (Federally Tax-Exempt), to finance urban renewal projects, and to pay costs of issuance. The proceeds from the 2011A Obligations are estimated to be applied as shown in Table 1.

Table 1 – Sources and Uses of Funds

Sources of Funds:	
Par Amount	$11,500,000.00
Original Issue Premium	671,349.90
Total Sources of Funds	$12,171,349.90
Uses of Funds:	
Project Fund	$ 2,306,019.40
Redeem LORA's 2005A Bonds	9,665,000.00
Cost of Issuance	90,568.00
Underwriters' Discount	109,762.50
Total Uses of Funds	$12,171,349.90

Source: City of Lake Oswego.

REFUNDING PLAN

The City expects to refund all outstanding LORA's Variable Rate Tax Increment Revenue Bonds, Series 2005A (Federally Tax-Exempt) (the "Refunded Bonds") to convert from variable rate to fixed rate debt.

Date Issued	Maturity to be Prepaid	Redemption Date	Redemption Price	Principal Amount Redeemed
06/23/2005	June 1, 2020	10/11/2011	100%	$9,665,000

The proceeds of the 2011A Obligations will be held by the City until September 30 when the City will transfer those funds to the Trustee of the Refunded Bonds to pay accrued interest and to redeem the Refunded Bonds on October 11, 2011.

DEBT SERVICE REQUIREMENTS

The following table presents the debt service requirements of obligations with a claim on the general fund of the City, including the 2011A Obligations. However it does not include debt service requirements of the City's general obligation bonds which are payable from ad valorem taxes, and does not include debt service requirements of the City's short-term borrowings (see "CITY DEBT INFORMATION - SHORT TERM BORROWING" herein).

The City will to pay debt service on the 2011A Obligations from payments received from LORA under the intergovernmental agreement described herein under "EXPECTED PLAN OF REPAYMENT." The debt service schedule for the 2011A Obligations is provided in Table 2.

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Table 2 – Full Faith and Credit Obligations Debt Service Requirements

FY Ending June 30	Outstanding Obligations[1]	Series 2011A[2] Principal	Interest	Total
2012	$ 3,550,882	$ 370,000	$ 273,294	$ 4,194,176
2013	6,365,532	440,000	384,575	7,190,107
2014	6,367,582	450,000	375,775	7,193,357
2015	6,367,907	470,000	355,525	7,193,432
2016	6,364,807	480,000	346,125	7,190,932
2017	6,359,632	485,000	336,525	7,181,157
2018	6,362,332	500,000	321,975	7,184,307
2019	6,356,407	515,000	306,975	7,178,382
2020	6,352,007	535,000	291,525	7,178,532
2021	6,350,282	545,000	278,150	7,173,432
2022	6,349,194	560,000	261,800	7,170,994
2023	6,343,507	585,000	239,400	7,167,907
2024	6,332,332	610,000	216,000	7,158,332
2025	6,332,507	630,000	191,600	7,154,107
2026	6,325,082	660,000	166,400	7,151,482
2027	6,338,907	675,000	146,600	7,160,507
2028	6,333,307	705,000	119,600	7,157,907
2029	6,334,082	735,000	91,400	7,160,482
2030	6,326,272	760,000	62,000	7,148,272
2031	6,310,525	790,000	31,600	7,132,125
2032	6,307,100			6,307,100
2033	6,313,644			6,313,644
2034	6,305,781			6,305,781
2035	6,305,200			6,305,200
Totals	$149,354,806	$11,500,000	$4,796,844	$165,651,650

[1] Repayment source of this debt comes from sewer system revenues.
[2] Repayment source of this debt comes from LORA.

Columns may not foot due to rounding.

Source: City of Lake Oswego.

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THE CITY

GENERAL DESCRIPTION

The City of Lake Oswego, located eight miles southwest of Portland on the Willamette River, covers an area of approximately ten square miles, including the 405-acre Oswego Lake. The City, with an estimated 2010 population of 36,845, is located in three counties, the largest portion in Clackamas County, with small areas in Multnomah and Washington counties.

GOVERNMENT

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

CITY COUNCIL

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

Table 3 – City Council

Board Member	Occupation	Term Expires
Jack D. Hoffman, Mayor	Attorney, Dunn Carney Allen Higgins & Tongue	12/31/12
Jeff Gudman	Businessman, investor	12/31/14
Donna Jordan	Background in public relations and advertising management	12/31/14
Mary Olson	Background in accounting and financial management	12/31/12
Sally Moncrieff	Community activist and volunteer	12/31/12
Bill Tierney	Manager, Portland General Electric	12/31/12
Mike Kehoe	Business owner	12/31/14

Source: City of Lake Oswego.

KEY CITY ADMINISTRATION AND MANAGEMENT

Alex D. McIntyre, City Manager, was hired as the City's manager in May 2008. Mr. McIntyre's previous experience includes positions as Town Manager of Tiburon, California and Assistant County Manager and Budget Director for Marin County, California. Mr. McIntyre received a degree in political science from the University of California Irvine, and a Masters in public administration from University of Southern California.

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

CITY STAFF AND BARGAINING UNITS

As of June 30, 2011, the City had 303 full-time employees, 25 part-time employees and 222 temporary/seasonal employees. The majority of City employees who are eligible under State law to be represented by a labor organization are employed under provisions of negotiated contracts with the three labor organizations. The City enters into written bargaining agreements with each of the bargaining organizations. The agreements contain provisions on such matters as salaries, vacation, sick leave, medical and dental insurance, working conditions, and grievance procedures.

Table 4 – Bargaining Units

BARGAINING UNIT	Number of Employees	Termination Date of Current Contract
Lake Oswego Police Officers Association	49	6/30/12
International Association of Firefighters	43	6/30/12
Lake Oswego Municipal Employees Association	155	6/30/12

Source: City of Lake Oswego

CITY FINANCIAL INFORMATION

FISCAL YEAR

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

SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

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

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

INDEPENDENT AUDIT REQUIREMENT

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

The City's audits for the Fiscal Years ended June 30, 2006 through 2010 were performed by Talbot, Korvola & Warwick LLP, Portland, Oregon. The City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010 is included in **APPENDIX B**.

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

BUDGETING PROCESS

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

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

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

The City Council has adopted an ending fund balance and contingency policy for all major funds. In accordance with the policy for the General Fund contingency, the General Fund contingency and required ending fund balance is 14% and 16%, respectively, of General Fund annual operating expenses. Lake Oswego has also received the GFOA Distinguished Budget Presentation Award every year from 1999-00 budget to 2008-09.

GENERAL FUND BUDGETS

Table 5 shows the adopted General Fund Budgets for the most recent and current fiscal years, and estimated Resources and Requirements for FY2010-2011. The FY2010-11 Estimated amounts shown were developed in January 2011 and are stated as disclosed in the City's FY2011-12 Adopted Budget. More recent estimates place the ending fund balance (including contingency) as of June 30, 2011 at $24,992,513. The ending fund balance (including contingency) for June 30, 2012 is projected to be $23,398,513.

Table 5 –General Fund Budgets

	2010-11 Adopted Budget	2010-2011 Estimated	2011-2012 Adopted Budget
RESOURCES			
Beginning Fund Balances	$18,625,978	$22,436,513	$23,868,013
Property Taxes	26,475,000	26,475,000	27,096,000
Franchise Fees	1,938,000	1,926,000	2,560,000
Intergovernmental	4,190,000	4,284,000	4,297,000
Fines & Forfeitures	970,000	1,085,000	1,061,000
Licenses	228,000	197,000	214,000
Fees	2,098,000	2,282,000	2,385,000
Sales & Services	3,455,000	3,494,000	3,746,000
Investment Income	352,000	850,000	443,000
Reimbursements	67,000	95,000	168,000
Gifts & Donations	152,000	245,000	227,000
Other Revenues	81,000	78,000	61,0000
Transfers	2,996,000	2,965,000	2,881,000
Other Financing Sources [1]	-	-	20,489,000
TOTAL RESOURCES	$61,627,978	$66,412,513	$89,496,013
Requirements			
Personal Services	$29,955,000	$29,871,500	$31,367,000
Materials & Services [2]	10,756,000	10,703,000	12,213,000
Debt Service [1]	483,000	400,000	21,750,000
Transfers to Other Funds	1,355,000	1,415,000	1,062,000
Capital Outlay	466,000	405,000	830,000
Contingency	7,504,000	-	6,207,000
Unappropriated Ending Fund Balance	11,108,978	23,618,013	16,067,013
TOTAL REQUIREMENTS	$61,627,978	$66,412,513	$89,496,013

Source: Adopted Budget 2010-11 and Adopted Budget 2011-12

1. In 2011-2012 Adopted Budget, an existing Line of Credit for $20.2 million was refinanced with a short-term loan of same amount.
2. In 2011-2012 Adopted Budget, includes a one-time payment of $2.0 million in support of the Lake Oswego School District.

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Table 6 – General Fund Balance Sheets

As of June 30	2006	2007	2008	2009[1]	2010
Assets and other debits					
Cash & investments	$5,472,431	$3,487,971	$3,568,655	$14,177,790	$9,074,051
Receivables					
Property taxes	135,431	205,904	206,678	1,785,581	1,714,415
Accounts	222,043	219,790	337,676	725,427	
Notes	-	-	-	-	1,576,267
Interest	12,930	8,527	--	-	,
Due from other funds	-	-	-	226,023	-
Restricted cash and investments	-	-	-	2,666,967	2,455,684
Restricted beneficial interest in trust	-	-	-	3,295,233	3,622,106
Total assets & other debits	$5,842,835	$3,922,192	$4,113,009	$22,877,021	$24,793,883
Liabilities & Fund Balances					
Liabilities					
Accounts payable	$ 267,807	$ 272,107	$ 132,954	$756,321	$632,879
Salaries and benefits payable	535,950	200,668	190,587	260,043	238,330
Refundable deposits	-	-	-	204,083	112,208
Deferred revenue	121,004	192,659	185,522	1,653,596	1,373,953
Total liabilities	924,761	665,434	509,063	2,874,043	2,357,370
Fund balances					
Reserved for library & community center	-	-	-	3,295,233	3,622,106
Reserved for building fees and permits	-	-	-	2,653,658	2,455,684
Unreserved – undesignated	4,918,074	3,256,758	3,603,946	14,054,087	16,358,723
Total fund balances	4,918,074	3,256,758	3,603,946	20,002,978	22,436,513
Total liabilities & fund balances	$5,842,835	$3,922,192	$4,113,009	$22,877,021	$24,793,883

1. Beginning with FY 2008-09, Parks and Recreation, Community Development, Public Safety, Community Services (including Library Services) were combined into one General Fund consolidating all assets, liabilities and fund balances.

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

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

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

As of June 30	2006	2007	2008	2009	2010
Property taxes [1]	$ 246,258	$ 947,958	$ 2,152,467	$1,951,218	$25,484,337
Franchise fees	140,000	140,000	243,053	171,146	2,126,633
Intergovernmental	1,040,699	1,042,261	1,213,379	1,202,299	4,087,668
Licenses & fees	1,074,721	1,296,910	1,207,169	1,134,382	2,042,439
Fines and forfeitures	-	-	-	-	1,129,228
Sales and services	979	1,137	977	736	3,280,961
Charges for service	2,847,452	2,958,202	2,985,230	3,009,855	4,014,897
Miscellaneous	528,777	259,347	242,379	138,288	1,228,561
Total revenues	5,878,886	6,645,815	8,044,654	7,607,924	43,394,724
Expenditures					
General government	5,760,361	7,051,408	6,355,214	6,614,380	12,532,848
Public safety	-	-	-	-	17,782,141
Culture and recreation	-	-	-	-	9,018,294
Debt service [2]	-	1,052,901	-	-	-
Intergovernmental expense	-	-	-	-	38,499
Capital outlay [3]	473,739	20,565,735	166,256	614,645	1,194,907
Total expenditures	6,234,100	28,670,044	6,521,470	7,229,025	40,566,689
Revenues over (under) expenditures	(355,214)	(22,024,229)	1,523,184	378,899	2,828,035
Other financing sources (uses)					
Operating transfers in [4]	290,000	206,000	318,504	17,052,724	35,000
Transfers out [5]	-	-	(1,494,500)	(1,032,591)	(432,000)
Proceeds from sale of capital assets	-	-	-	-	2,500
Proceeds from Line of Credit [3]	-	20,156,913	-	-	-
Total other financing sources (uses)	290,000	20,362,913	(1,175,996)	16,020,133	(394,500)
Net change in fund balances	(65,214)	(1,661,316)	347,188	16,399,032	2,433,535
Fund balance -- beginning of year	4,983,288	4,918,074	3,256,758	3,603,946	20,002,978
Fund balance -- end of year[6]	$4,918,074	$3,256,758	$3,603,946	$20,002,978	$22,436,513

1. Prior to FY 2010, the City allocated property taxes to five separate funds. Beginning with FY 2010, they were combined into the General Fund.
2. Debt service on an interim financing, pending future conversion to long-term debt.
3. Capital outlay and Line of Credit proceeds used to acquire 14-acre Safeco property, the "West End" property.
4. Until FY 2009 the General Fund represented the indirect cost of managing and administering general government services, such as Parks and Recreation, Community Development, Public Safety, Community Services (including Library Services) while the latter were presented in separate funds. As of FY2009, these services were combined into the General Fund via a year-end transfer of ending fund balances.
5. Transfers out in the amounts of $1,494,500 and $732,591 were made in FY 2007-08 and FY 2008-09 respectively, to the Community Center Development Fund. The purpose of the Fund was fulfilled by the end of FY 2008-09 and it was closed. Another $300,000 was transferred in FY 2008-09 for Street Infrastructure improvements.
6. The decrease in fund balance for FY ended 2006-07 is attributable to a transfer of $1.8 million to the newly-created Community Center Development Fund to pay for expenses relating to the acquisition and development of the West End property.

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

INVESTMENT POLICY

Oregon Revised Statues 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, 2011, the City had approximately $40,366,000 in the State of Oregon Local Government Investment Pool and $10,200,000 invested in short-term Certificates of Deposit.

PENSION PLAN

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

T1/T2 Pension Programs. Employees hired before August 29, 2003 participate in the "Tier 1" and "Tier 2" pension programs (the "T1/T2 Pension Programs"). The benefits provided through the T1/T2 Pension Programs are based primarily on a defined benefit pension model and provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Different benefit structures apply to participants depending on their date of hire. Effective January 1, 2004, T1/T2 Pension Program participant contributions fund individual retirement accounts under the separate defined contribution program described below.

OPSRP. Employees hired on or after August 29, 2003 participate in the Oregon Public Service Retirement Plan ("OPSRP") unless membership was previously established in the T1/T2 Pension Programs. OPSRP is a hybrid defined contribution defined benefit pension plan with two components. Employer contributions fund the defined benefit program and employee contributions fund individual retirement accounts under the separate defined contribution program. Effective January 1, 2004, T1/T2 Pension Program participant contributions also fund individual retirement accounts under the separate defined contribution program.

Actuarial Valuation. Oregon statutes require an actuarial valuation of the System at least once every two years. Based on the biennial actuarial valuations as of December 31 of odd-numbered years, such as 2007 and 2009, the Public Employees Retirement Board ("PERB") establishes the contribution rates that employers will pay to fund the T1/T2 Pension Programs, OPSRP and the PERS-sponsored Retirement Health Insurance Account program ("RHIA") described herein. Actuarial valuations are performed annually as of December 31 of each year, with the valuations as of December 31 of even-numbered years (such as 2008) used for advisory purposes only. Actuarial valuations are performed for the entire System (the "System Valuation"), and for each participating employer, including the City (the "City Valuation"). Valuations are released approximately one year after the valuation date. PER'S current actuary is Mercer (US), Inc. ("Mercer").

Valuation	Release Date	Rates Effective
December 31, 2007	September 2008	July 1, 2009-June 30, 2011
December 31, 2008	October 2009	Advisory only
December 31, 2009	September 2010	July 1, 2011-June 30, 2013

Employer Assets, Liabilities and Unfunded Actuarial Liabilities. An employer's unfunded actuarial liability ("UAL") is the excess of the actuarially determined present value of the employer's benefit obligations to employees over the existing actuarially determined assets available to pay those benefits. For the T1/T2 Pension Programs, the City is pooled with the State of Oregon and other local government and community college public employers (the "State and Local Government Rate Pool" or "SLGRP"). The City's portion of PERS' assets and liabilities is based on the City's proportionate share of the SLGRP's pooled payroll ("City Allocated T1/T2 UAL").

OPSRP's assets and liabilities are pooled on a program-wide basis. These assets and liabilities are not tracked or calculated on an employer basis. The City's allocated share of OPSRP's assets and liabilities is based on the City's proportionate share of OPSRP's pooled payroll (the "City Allocated OPSRP UAL").

Changes in the City's relative growth in payroll will cause and other pool participants' failure to pay their full employer contributions may cause the City Allocated T1/T2 UAL and City Allocated OPSRP UAL to shift.

The City's net unfunded pension UAL is the total of the City's Allocated T1/T2 UAL, transitional surplus and Allocated OPSRP UAL. The City's net unfunded pension UAL as of the valuation as of December 31, 2008 (the "2008 City Advisory Valuation") and the valuation as of December 31, 2009 (the "2009 City Valuation") is shown in the following table:

	2008 Advisory Valuation	2009 Valuation
Allocated SLGRP T1/T2 UAL	$37,023,488	$29,852,953
Transition liability/(surplus)[1]	(2,886,683)	(2,873,989)
Allocated OPSRP UAL	177,357	233,862
Net unfunded pension actuarial accrued liability/(surplus)	$ 34,314,162	$27,212,826

(1) The transition surplus represents the surplus that was created when the City joined the local government rate pool (LGRP), the predecessor rate pool to the SLGRP. The transition surplus is solely the City's.

Source: 2008 City Advisory Valuation and 2009 City Valuation

The funded status of the PERS and of the City will change over time depending on the market performance of the securities that the Oregon Public Employees' Retirement Fund is invested, future changes in compensation and benefits of covered employees, demographic characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS.

Significant actuarial assumptions and methods used in the valuations included: (a) Projected Unit Credit actuarial cost method, (b) asset valuation method based on market value, (c) rate of return on the investment of present and future assets of 8%, (d) payroll growth rate of 3.75%, (e) consumer price inflation of 2.75% per year, and (f) UAL amortization method of a level percentage of payroll over 21 years (fixed) for the T1/T2 Pension Programs and16 years (fixed) for OPSRP.

Employer Contribution Rates. Employer contribution rates are calculated as a percent of covered payroll. The rates are based on the current and projected cost of benefits and the anticipated level of funding available from the OPERF, including anticipated investment performance of the fund. Contribution rates are subject to future adjustment based on factors such as the result of subsequent actuarial valuations and changes in benefits resulting from legislative modifications. Employees are required to contribute 6 percent of their annual salary to the respective programs. Employers are allowed to pay the employees' contribution in addition to the required employers' contribution. The City has elected to make the employee contribution. Employer contribution rate changes from one period to the next are limited by a contribution rate collar.

City Contribution Rates. The City's current contribution rates are based on the 2009 City Valuation and are effective through June 30, 2013. Based on the 2009 City Valuation, the 2011-2013 employer contribution rates for the City are 16.13% for Tier I and Tier II payroll, 11.78% for OPSRP General Service payroll and 14.49% for OPSRP Police and Fire payroll.

The City's employer rate effective July 1, 2009 through June 30, 2011 was based on the December 31, 2007 Valuation and the contribution rates were 11.86% for Tier I and Tier II payroll, 9.70% for OPSRP General Service payroll and 12.41% for OPSRP Police and Fire payroll.

Included in these rates are contribution rates for the PERS RHIA program described below. These rates do not include the 6% employer contribution rate which the City has elected to make for its employees. Currently, the City's payroll for the three pension benefit programs is approximately $17.6 million for T1/T2 Pension Programs, $5.1 million for OPSRP general services and $1.5 million for OPSRP police and fire.

Contribution Rate Collar. In January 2010 the PERS Board adopted a revised implementation of the rate collar limiting increases in employer contribution rates from biennium to biennium (the "Rate Collar"). Under normal conditions, the Rate Collar is the greater of 3 percent of payroll or 20 percent of the current base rate. If the funded status of the SLGRP is below 80 percent, the Rate Collar increases by 0.3 percent for every percentage point under the 80 percent funded level until it reaches 6 percent at the 70 percent funded level. The 2009 System Valuation found that the SLGRP was 77 percent funded, resulting in a Rate Collar of 3.9 percent. The Rate Collar limits increases in employer contribution rates before rate reductions from side accounts are deducted, and does not cover charges associated with RHIA and RHIPA. Because the 2011-2013 employer contribution rates were reduced by the Rate Collar, further rate increases are anticipated for the 2013-2015 biennium. Presently, PERS anticipates that system-wide, the 2013-2015 rates will be increased by approximately 5% of covered payroll as a result of the implementation of the Rate Collar in the 2011-2013 biennium. This increase, however, will be subject to change based on the investment performance of OPERF and other factors. The City's actual 2013-2015 contribution rate increase also may vary from the System-wide number.

OTHER POST-EMPLOYMENT BENEFIT PROGRAMS

The City is required under GASB 45 to determine the extent of its liabilities for post employment benefits and to record the liability in its financial statements on an actuarial basis. This includes the requirement under ORS 243.303 that the City offer to all retirees and their dependents the same healthcare benefits the City offers to current City employees until such time as the retirees are eligible for Medicare. GASB 45 refers to this as an "implicit subsidy" and requires that the corresponding liability be determined and reported.

The City received its actuarial report performed by Milliman, Inc. dated as of April 7, 2011 that will meet the GASB 45 reporting requirements for Fiscal Years ending June 30, 2011 and June 30, 2012 (the "Report"). The Report indicates that *based solely on the implicit subsidy*, as of August 1, 2010, the City's UAL for its non-PERS OPEB was $4.22 million. According to the Report, as of June 30, 2010 the City's annual required contribution ("ARC") for non-PERS OPEB is approximately $702,940. For the Fiscal Year 2010, the City paid $174,879 which is equal to the pay-as-you-go amount and represents approximately 25 percent of the ARC. According to the Report, the City's ARC for non-PERS OPEB as of June 30, 2011 is $751,181. The City currently plans to continue to pay its non-PERS OPEB on a "pay-as-you-go" basis.

Retirement Health Insurance Account. PERS retirees who receive benefits through the T1/T2 Pension Programs and are enrolled in the Retirement Health Insurance Account ("RHIA") plan administered by PERS may receive a subsidy towards the payment of health insurance premiums. Under ORS 238.420, retirees may receive a subsidy for Medicare supplemental health insurance of up to $60 per month towards the cost of their health insurance premium under RHIA. According to the 2009 System Valuation, this program had a UAL of approximately $297 million. The RHIA program's assets and liabilities are pooled on a system-wide basis and are not tracked or calculated on an employer basis. The City's allocated share of the RHIA program's assets and liabilities is based on the City's proportionate share of the program's pooled payroll. According to the 2009 City Valuation, the City's allocated share of the RHIA programs UAL was $771,053. Based on the 2009 City Valuation, the City's employer contribution rates to fund RHIA benefits are 0.59% for the T1/T2 Pension Programs and 0.50% for the OPSRP Program. These rates are included in the total employer contribution rates shown above.

RISK MANAGEMENT

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

The City is also exposed to Third-Party Liability risks, related to torts and errors & omissions. The City purchases a combined $5,000,000 limit each occurrence / $15,000,000 annual aggregate third-party liability coverage through the CCIS Trust. A $75,000 annual aggregate deductible applies.

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

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

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

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

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

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

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LAKE OSWEGO REDEVELOPMENT AGENCY

GENERAL

The Lake Oswego Redevelopment Agency ("LORA") was formed in 1979 pursuant to ORS, Chapter 457, as the urban renewal agency for the City of Lake Oswego, with the authority to use tax increment financing to fund the implementation of revitalization projects within a defined area. In 1986, LORA approved an urban renewal plan and began implementation activities. In 2004, LORA adopted the Lake Oswego Redevelopment Agency East End Redevelopment Plan, amending and superseding the 1986 plan. The members of the LORA Board of Directors are the members of the City Council.

TAX INCREMENT FINANCING

Tax increment financing under Oregon statutes is a method of identifying and collecting property tax revenue associated with the changes in incremental assessed values within a designated urban renewal district. Tax Increment Revenues means all revenues which the Agency collects under the provisions of Article IX, Section 1c of the Oregon Constitution and ORS Chapter 457 in connection with the East End Redevelopment Area (the "East End Area").

LORA has identified projects to develop outside the current boundaries of the East End Area and is studying various options to fund these projects including (1) establishing another urban renewal area, (2) expanding the existing East End Area, or (3) removing a portion of the existing East End Area and adding it to a new urban renewal area. The removal of an area from the East End Area would decrease the amount of tax increment revenues generated for the East End Area. The adoption of any of these options will require approval by the LORA Board of Directors and some will require approval by the City Council

LORA has entered into an intergovernmental agreement with the City (the "IGA"), which constitutes an indebtedness of LORA, and will be secured by a pledge of and a lien on LORA's Tax Increment Revenues. In the IGA, LORA has pledged its Tax Increment Revenues to pay amounts equal to the Financing Payments. The pledge of the Tax Increment Revenues made in the IGA will be equal to the pledge of Tax Increment Revenues that LORA makes to secure LORA's obligations under any other agreements that are similar to the IGA, and will otherwise be superior to all future pledges or commitments of Tax Increment Revenues that LORA makes, unless the City agrees in writing to subordinate its claim against the Tax Increment Revenues. The IGA also provides that LORA must demonstrate to the City its ability to pay its obligations.

To determine the amount of property taxes levied, the total assessed value within each urban renewal area is segregated by the County Assessor into two parts: (a) the assessed value of the district at the time the Urban Renewal Plan was adopted (frozen tax base), and (b) the difference between the frozen tax base and the current total assessed value (incremental value). Tax revenues derived from the application of the tax rate for each affected taxing district to the amount of the incremental value are collected by LORA and deposited into the Redevelopment Agency Debt Service Fund (see Table 8). This revenue is then used to repay indebtedness incurred while carrying out projects in the East End Area.

Table 8 – Redevelopment Agency Debt Service Fund

	2007-08	2008-09	2009-10
Property taxes	2,550,590	2,670,556	3,161,045
Miscellaneous	42,804	6,100	16,863
Total	**$ 2,593,394**	**$ 2,676,656**	**$ 3,177,908**

Source: City of Lake Oswego

CITY DEBT INFORMATION

Table 9 – Debt Ratios

	Values	Per Capita	Percent of RMV
2010 Estimated Population	36,845	--	--
2010-11 Real Market Value (RMV)	$ 8,094,242,425	$219,684	--
Total Direct Net Debt[1]	$ 18,570,000	$ 504	0.2%
Overlapping Debt (as of 8/2/11)	130,077,581	3,530	1.6
Total Direct Net Debt and Overlapping Debt	**$148,647,581**	**$4,034**	**1.8%**

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. Includes the 2011A Obligations and the City's General Obligation Refunding Bonds, Series 2011A (the "2011 Bonds") which are being issued concurrently with the 2011A Obligations.

Note: Outstanding debt information is calculated as of September 20, 2011 except for the overlapping debt calculation. The overlapping debt calculation was performed by Debt Management Division, Oregon State Treasury as of August 2, 2011.

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

DEBT LIMITATION

General Obligation Bonds. ORS Chapter 287A limits the amount of certain general obligation bonds that an Oregon city may have outstanding at any time to three percent of the real market value of the taxable property within the city. The statutory limitation does not apply to general obligation bonds issued for water, sanitary or storm sewers, sewage disposal plants, hospitals, infirmaries, gas power, or lighting purposes, or the acquisition, establishment, or reconstruction of any off-street motor vehicle parking facility nor to bonds issued pursuant to application to pay assessments for improvements in installments under statutory or charter authority that are completely self-supporting. The 2011A Obligations are not general obligation bonds and are not subject to the debt limitation.

2010-11 RMV	$8,094,242,425
Debt limitation (3% of RMV)	$242,827,273
Less applicable bonded debt	$18,570,000
Remaining legal debt capacity	$224,257,273
Percent of limit issued	7.65%

Limited-Tax Obligations. The Oregon Constitution and statutes do not limit the amount of debt an Oregon city may incur for payment of financing agreements, lease-purchase agreements or other contracts of purchase for any real or personal property, so long as such city has sufficient resources available to it within the limitations of Article Xl, Section 11and 11B. The 2011A Obligations are limited-tax obligations.

DEBT MANAGEMENT

The City has never defaulted on a debt obligation.

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OUTSTANDING OBLIGATIONS

Table 10 – Outstanding Obligations

	Dated Date	Maturity Date	Amount Issued	Amount Outstanding[1]
GENERAL OBLIGATION BONDS				
General Obligation Bonds, Series 2001 (Open Space/Field Renovation)[1]	5/1/01	6/1/20	$ 6,000,000	$ 3,550,000
Refunded Bonds[1]				-3,550,000
General Obligation Bonds, Series 2003 (Open Space/Park Renovation/Refunding)	2/1/03	6/1/22	14,735,000	8,650,000
General Obligation Refunding Bonds, Series 2003A	5/1/03	6/1/13	6,030,000	1,270,000
General Obligation Refunding Bonds, Series 2006	10/1/06	6/1/19	6,540,000	5,110,000
General Obligation Refunding Bonds, Series 2011A[1]	9/20/11	6/1/20	3,540,000	3,540,000
Total General Obligation Bonds			**$36,845,000**	**$ 18,570,000**
DEBT SECURED BY THE GENERAL FUND				
Full Faith and Credit Obligations, Series 2009A[3]	6/3/09	12/1/34	$ 60,000,000	$ 60,000,000
Full Faith and Credit Obligations, Series 2010A[3]	9/29/10	6/1/35	35,000,000	35,000,000
Full Faith and Credit Obligations, Series 2011A (this issue) [1]	9/20/11	6/1/31	11,500,000	11,500,000
Total Debt Secured by the General Fund[1]			**$106,500,000**	**$106,500,000**
REVENUE BONDS				
Surface Water Revenue Bonds, Series 2005	4/6/05	12/1/23	3,000,000	2,290,000
Water Revenue and Refunding Bonds, Series 2007	10/18/07	12/1/27	9,560,000	8,525,000
Total Revenue Bonds			**$12,560,000**	**$10,815,000**

1. Amount outstanding as of September 20, 2011 plus the 2011A Obligations and the 2011A GO Bonds which are being issued concurrently with the 2011A Obligations.
2. See comments below- **SHORT-TERM BORROWING.**
3. Repayment comes from sewer system revenues.

Source: City of Lake Oswego.

SHORT-TERM BORROWING

Non-Revolving Credit Facility, 2011. The City currently has a Non-Revolving Credit Facility (the "2011 Credit Facility" with Bank of America, N. A. with a limit of $20,156,913. The balance owed on the 2011 Credit Facility is $20,156,913 as of September 20, 2011. This borrowing funded the purchase cost, development costs and other expenses related to the Safeco/West End Property, a 14-acre site on Kruse Way that is being considered for some public purpose still to be determined for the citizens of the City.

Non-Revolving Line of Credit, 2011. The City is in the process of obtaining a Non-Revolving Line of Credit (the "2011 Line") in the amount of $10 million to fund urban renewal projects. Draws are expected to begin November 2011. The line of credit is secured by the City's full faith and credit. The City has entered into an intergovernmental agreement with LORA with which LORA obligated itself to reimburse the City for all amounts the City is required to pay in connection with the line of credit. The City and LORA expect to issue long-term bonds to refinance the line of credit on or prior to its maturity on October 1, 2014.

Table 11 – Overlapping Debt (as of 8/2/2011)

Overlapping District	Real Market Valuation	Percent Overlapping	Gross Property-tax Backed Debt [1]	Net Property-tax Backed Debt [2]
Governmental unit				
Clackamas Community College	$ 35,664,395,610	0.27%	$ 223,321	$ 87,349
Clackamas County	49,233,660,124	15.49	15,897,508	11,800,396
Clackamas County ESD	46,889,463,367	16.33	4,258,778	0
Clackamas County SD #3J (West Linn/Wilsonville)	7,591,047,720	0.00	223	223
Clackamas County SD #7J (Lake Oswego)	8,841,054,110	86.62	98,831,724	98,831,724
Metro	204,123,947,819	3.96	8,225,684	6,253,958
Multnomah County	104,999,696,637	0.42	1,223,837	439,258
Multnomah County SD 1J (Portland)	77,886,957,970	0.54	2,572,488	2,572,488
Multnomah ESD	106,345,991,268	0.400.40	140,498	0
Port of Portland	223,151,821,692	3.62	2,549,190	0
Portland Community College	164,112,266,666	4.86	18,739,959	9,698,928
Tri-Met	203,265,967,775	3.97	389,491	389,491
Washington County	68,918,447,061	0.02	22,960	3,766
Total Overlapping Debt			**$153,075,661**	**$130,077,581**

1. Gross Property-Tax Backed Debt includes all general obligation (G.O.) bonds and full faith and credit borrowings.
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 borrowings.

Source: Municipal Debt Advisory Commission, Oregon State Treasury.

FUTURE FINANCING PLAN

During the next two to three years, the City may issue either general obligation bonds or a combination of full faith and credit obligations and general obligation bonds for several projects: (1) $5 to $10 million to take out the 2011 Credit Facility upon the sale or development of the West End property; (2) approximately $3 to 6 million to replace a fire station; (3) approximately $18 million to replace a maintenance building and yard; (4) between $25 million and $60 million for the public portion of a new library; and (5) approximately $22 million for police/911/courts facility. The City is required to obtain voter approval prior to the issuance of general obligation bonds.

The City expects to issue approximately $110 million in either full faith and credit obligations or water revenue bonds, or a combination thereof, to replace and expand drinking water infrastructure in cooperation with the neighboring City of Tigard. The first bond issue is expected to occur in the Fall of 2012, in the amount of $60 million. The second bond issue in the amount of $50 million is expected to occur in the Fall of 2014.

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Table 12 – City Levy Election History

Date	Purpose	Amount Requested	Votes Yes	Votes No	Margin	Percent Passed (Failed)
5/20/08	West End Building/Recreational Facility	$20,000,000	5,579	7,486	(-1,907)	(-57.30)
11/5/02	Parks, Open Space, Pathways	9,750,000	9,248	6,805	2,443	57.61%
11/3/98	Sports Field Renovation Open space acquisition	13,000,000	8,706	5,678	3,028	60.52
11/5/96	City/School Partnership (3-year Serial Levy)	1,157,222	9,968	6,612	3,356	60.12
5/21/96	G.O. Road Improvement Bonds	6,970,000	5,323	2,919	2,404	64.58
11/8/94	Tax Base	2,183,751	8,414	5,936	2,478	58.63
9/20/94	G.O. Street Bonds	5,971,500	4,556	5,171	(-615)	(-53.16)
9/20/94	Real Estate Transfer Tax	NA	2,777	6,795	(-4,018)	(-70.99)

Source: City of Lake Oswego.

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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 $5.0353 per $1,000 of assessed property value. The City is currently levying $4.9703 which is below the maximum permanent rate.

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

Local governments impose property taxes by certifying their levies to the county assessor of the county in which the local government is located. Property taxes ordinarily can only be levied once each Fiscal Year, which is July 1 through June 30. The local government ordinarily must notify the county assessor of its levies by July 15.

Valuation of Property – Assessment. Property subject to taxation includes all privately owned real property (land, buildings and improvements) and personal property (machinery, office furniture and equipment) for non-residential taxpayers. There is no property tax on household furnishings (exempt since 1913), personal belongings, automobiles (exempt since 1920), crops, orchards, business inventories or intangible property such as stocks, bonds or bank accounts, except for centrally assessed utilities, for which intangible personal property is subject to taxation. Forestland is subject to special assessment that provides a reduction in property tax that would be paid if based on the real market value. Property used for charitable, religious, fraternal and governmental purposes is exempt and reductions in assessments may be granted (upon application) for veterans' homesteads, farm and forest land, open space and historic buildings. The assessment roll, a listing of all taxable property, is prepared as of January 1 of each year.

Property taxes are imposed on the assessed value of property. The assessed value of each parcel cannot exceed its fair market value, and ordinarily is less than its fair market value. The assessed value of property was initially established as a result of the enactment of a constitutional amendment. That amendment (now Article XI, Section 11 of the Oregon Constitution and often called "Measure 50") assigned each property a value that was in most cases less than its fair market value in fiscal year 1997-1998, and limited increases in that assessed value to three percent per year, unless the property is improved, rezoned, subdivided, or ceases to qualify for exemption. When property is newly constructed or reassessed because it is improved, rezoned, subdivided, or ceases to qualify for exemption, it is assigned an assessed value that is comparable to the assessed value of similar property.

Certain properties, such as utilities, are valued on the unitary valuation approach. Under the unitary valuation approach, the taxpaying entity's operating system is defined and a value is assigned for the operating unit using the market value approach (cost, market value and income appraisals). Values are then allocated to the entities' operations in Oregon, and then to each county the entity operates in and finally to site locations.

Tax Rate Limitation – Real Market Value. Article XI, Section 11b of the State Constitution separates property taxes into two categories: one to fund the public school system (kindergarten through grade twelve school districts, education service districts and community college districts) and one to fund government operations other than the public school system. Public school system taxes are limited to $5 per $1,000 of the Real Market Value of property. Other government operations taxes are limited to $10 per $1,000 of the Real Market Value of property. "Real Market Value" is the minimum amount in cash which could reasonably be expected by an informed seller acting without compulsion, from an informed buyer acting without compulsion, in an "arms-length" transaction during the period for which the property is taxed. **Property taxes that might be imposed to pay the Financing Payments are subject to the "other government operations" limitations of Article XI, Section 11b.** Taxes imposed to pay the principal and interest on the following bonded indebtedness are not subject to the foregoing limitations: (1) bonded indebtedness authorized by a specific provision of the State Constitution; and (2) general obligation bonded indebtedness incurred for capital construction or improvements approved by the electors of the issuer.

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

The method of giving notice of taxes due, the County Treasurer's account for the money collected, the division of the taxes among the various taxing districts, notices of delinquency, and collection procedures are all specified by detailed statutes.

The lien for property taxes is prior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may not commence foreclosure of a tax lien on real property until three years have passed since the first delinquency.

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

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

Table 13 – Assessed Value and Estimated Real Market Value[1]

Fiscal Year	AV Total [2]	Total Direct Tax Rate	Estimated RMV [3]	AV as a % of RMV
2000-01	$3,575,388,574	5.4535	$4,691,116,668	76.2%
2001-02	3,827,983,317	5.4641	5,095,554,355	75.1
2002-03	4,015,551,440	5.8293	5,303,758,907	75.7
2003-04	4,163,400,360	6.0573	5,652,069,391	73.7
2004-05	4,342,601,515	6.2115	6,038,917,753	71.9
2005-06	4,513,623,589	6.1658	6,847,588,629	65.9
2006-07	4,738,215,630	6.0739	7,909,898,318	59.9
2007-08	4,995,291,340	6.0581	9,444,930,784	52.9
2008-09	5,071,782,358	6.0565	9,910,531,110	51.2
2009-10	5,286,444,776	6.0453	9,159,770,829	57.7
2010-11	5,462,945,518	5.9945	8,094,242,425	67.5

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

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

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Table 14 – Property Tax Levies and Collections

Fiscal Year	Taxes levied for the fiscal year	Amount Collected w/in fiscal year of levy	Percent of Levy	Collections in subsequent years	Total Collections	Total Collections Percent of Levy
1999-00	$20,052,420	$18,806,309	94%	$704,602	$19,510,911	97%
2000-01	20,330,222	19,033,203	94	742,206	19,775,409	97
2001-02	21,895,955	20,480,001	94	741,174	21,221,175	97
2002-03	23,337,918	21,916,180	94	929,088	22,845,268	98
2003-04	25,095,597	23,680,518	94	860,394	24,540,912	98
2004-05	26,794,938	25,368,373	95	665,984	26,034,357	97
2005-06	27,658,109	26,338,108	95	659,393	26,997,501	98
2006-07	28,610,074	27,182,459	95	627,898	27,810,357	97
2007-08	30,078,019	28,329,781	94	743,762	29,073,543	97
2008-09	31,529,026	29,507,399	94	719,498	30,226,897	96
2009-10	32,864,149	30,946,450	94	1,010,812	31,957,262	97
2010-11[1]	33,442,696	31,497,000	94	1,117,000	32,614,000	98

1. Estimated, unaudited.

Source: City of Lake Oswego.

Table 15 – Top 10 Property Taxpayers

Name	Assessed Taxes	2010-11 Assessed Value	Percent of Total Value
Shorenstein Properties LLC	$3,905,630	$234,640,864	4.30%
Oswego Lender LLC	608,193	37,641,970	0.69%
Property Reserve Inc.	555,942	31,981,953	0.59%
Gramor Development	441,590	27,642,800	0.51
Comcast Corporation	440,495	25,570,691	0.47%
Phoenix Commercial Investments LLC	410,872	25,302,799	0.46%
St. Paul Properties Inc.	342,498	20,215,000	0.37%
Portland General Electric Co.	325,282	19,703,021	0.36%
Kruse Way Centerpointe LLC	313,763	18,496,157	0.34%
Alliance Tax Advisors	297,975	18,304,363	0.34%
Total	**$7,642,240**	**$459,499,618**	**8.41%**

Note: The City is located primarily in Clackamas County and the table presents major taxpayers in Clackamas County. The City's 2010-11 AV is $5,463,015,518.

Source: Clackamas County Assessor's Office.

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Table 16 – Property Tax Rates – Direct and Overlapping Governments – Rate per $1,000 of Assessed Value

Fiscal Year	Basic Rate[1]	GO Debt Service	Urban Renewal[2]	Total direct	Clackamas County	Education Service District	Portland Comm. College	Lake Oswego Sch. Dist.	Metro	Other[3]	Total Direct and Overlapping
1999-00	5.0353	0.7912	--	5.8265	2.54	0.37	0.36	5.51	0.33	0.26	15.20
2000-01	4.7034	0.7501	--	5.4535	2.57	0.37	0.37	6.08	0.34	0.26	15.44
2001-02	4.7034	0.7607	--	5.4641	2.57	0.37	0.55	7.02	0.33	0.26	16.56
2002-03	4.6636	0.7397	0.4260	5.8293	2.49	0.35	0.48	6.72	0.27	0.24	16.38
2003-04	4.7480	0.8668	0.4425	6.0573	2.49	0.35	0.50	6.71	0.27	0.22	16.60
2004-05	4.8116	0.8689	0.5310	6.2115	2.48	0.35	0.49	6.88	0.27	0.22	16.90
2005-06	4.8076	0.8084	0.5498	6.1658	2.48	0.35	0.48	7.08	0.27	0.24	17.07
2006-07	4.8066	0.7274	0.5399	6.0734	2.44	0.35	0.47	6.79	0.26	0.23	16.63
2007-08	4.8035	0.6964	0.5582	6.0581	2.70	0.35	0.48	6.62	0.41	0.22	16.84
2008-09	4.8055	0.6908	0.5602	6.0565	2.70	0.35	0.49	6.91	0.38	0.22	17.11
2009-10	4.7915	0.6247	0.6291	6.0453	3.17	0.35	0.61	6.91	0.41	0.22	17.72
2010-11	4.7924	0.5883	0.6138	5.9945	3.16	0.35	1.04	6.65	0.39	0.22	17.80

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

Source: City of Lake Oswego.

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ECONOMIC AND DEMOGRAPHIC INFORMATION

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

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

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

POPULATION

The City's 2010 population was 36,845. During the ten-year period from 2000 to 2010, the population in the City increased from 35,278 to 36,845, a compounded annual growth rate of 0.44 percent. Clackamas County currently ranks third largest in population among all counties in the state behind its neighbors, Multnomah County to the north and Washington County to the west. Since 2000, the population of Clackamas County grew at a compound annual growth rate of 4.44 percent.

Table 17 – Population Estimates and Economic Statistics

Fiscal Year	Lake Oswego Population	Clackamas County Personal income (in 000's)	Clackamas County Per capita Personal Income	Clackamas County Unemployment rate
2000	35,278	$12,635,175	$37,212	4.1%
2001	35,434	12,494,637	36,233	5.3
2002	35,580	12,672,189	36,037	6.9
2003	35,750	13,132,736	36,918	7.5
2004	35,759	13,876,687	38,471	6.7
2005	35,860	14,601,351	39,959	5.5
2006	36,350	15,872,775	42,796	4.8
2007	36,345	16,678,152	44,403	4.6
2008	36,590	17,203,458	45,126	5.7
2009	36,755	16,853,655	43,646	10.3
2010	36,845	NA[1]	NA[1]	10.1

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

	1980	1990	2000	2010
City of Lake Oswego	22,630	30,576	35,278	NA
Clackamas County	243,000	278,850	338,391	375,992
State of Oregon	2,639,915	2,842,321	3,421,399	3,831,704

1. Not available at this time. 2010 data is expected to be released August 6, 2011.

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

Table 18 – Major Employers in the City 2011

Employer	Product or Service	2011 Estimated Employment
Lake Oswego School District	Education	568
City of Lake Oswego	Government	354
Waggener Edstrom, Inc.	Telecommunications & public relations	312
Stanford's Restaurant	Food service - restaurant	281
Micro Systems Engineering, Inc.	Microelectronics manf.–medical equipment	246
Mary's Woods at Marylhurst	Retirement and senior living	200
Jacobs Engineering Group Inc.	Engineering	200
New Seasons Market, Inc.	Grocery	173
PacifiCare of Oregon	Insurance coverage & wellness plans	165
Autodesk, Inc.	Software development	150
Otak, Inc.	Architecture and engineering	145
Sabrix, Inc.	Software development	135
The Olive Garden Italian	Restaurant	131
Biotronik Inc.	Medical equipment manufacturing	127
AAA Oregon/Idaho	Travel services	125
The Pearl at Kruse Way	Assisted living/retirement living	110
Hyperion Capital Group, LLC	Mortgage lender	100

Source: City of Lake Oswego and NW Resources.

Table 19 – Major Employers in the Portland-Vancouver MSA (Oregon Portion) 2010

Employer	Product or Service	2010 Estimated Employment[1]
U.S. Government	Government	15,259
State of Oregon	Government	15,325
Intel Corporation	Semiconductor integrated circuits	15,228
Providence Health System	Health care & health insurance	13,831
Oregon Health & Science University	Health care & education	13,283
Fred Meyer Stores	Grocery & retail variety chain	9,630
Kaiser Foundation Health Plan of the NW	Healthcare	9,204
Legacy Health System	Nonprofit health care	8,250
City of Portland	Government	6,310
NIKE Inc.	Sports shoes and apparel	6,000
Portland Public School District	Education	5,101
Multnomah County	Government	5,000
Beaverton School District	Education	5,000
Wells Fargo	Bank	4,861
Safeway Inc.	Grocery chain	4,200
Portland Community College	Education	4,000
Portland State University	Education	3,868
U.S. Bank	Bank	3,856

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

Source: State of Oregon Employment Department and Top Regional Employers – Portland Business Journal as of March 2011.

TRANSPORTATION

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

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

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

UTILITIES

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

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

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

EDUCATION

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

Marylhurst University, a four-year private liberal arts college with graduate and undergraduate students, is located within the City. The college provides lifelong learning for students of all ages.

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

HEALTH CARE

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

TOURISM AND RECREATION

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

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

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

INFORMATION SOURCES

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

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THE INITIATIVE PROCESS

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

Because many proposed initiative measures are submitted which do not qualify for the ballot, the City does not formally or systematically monitor the impact of those measures or estimate their financial effect prior to the time the measures qualify for the ballot. Consequently, the City does not ordinarily disclose information about proposed initiative measures that have not qualified for the ballot.

PROPOSED INITIATIVES THAT QUALIFY TO BE PLACED ON THE BALLOT

To be placed on a general election ballot, the proponents of a proposed initiative must submit to the Secretary of State initiative petitions signed by a number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a Governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2010 general election, the requirements were eight percent (110,358 signatures) for a constitutional amendment measure and six percent (82,769 signatures) for a statutory initiative. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote.

The initiative petition must be submitted to the Secretary of State not less than four months prior to the general election at which the proposed measure is to be voted upon. As a practical matter, proponents of an initiative have approximately two years in which to gather the necessary number of signatures. State law permits persons circulating initiative petitions to pay money to persons obtaining signatures for the petition.

Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure's financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact only.

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

INITIATIVE HISTORY

Table 20 – Initiative Petitions that Qualified and Passed (1998-2010)

Year of General Election	Number of Initiatives that Qualified	Number of Initiatives that Passed
1998	16	6
2000	18	4
2002	7	3
2004	6	2
2006	10	3
2008	8	0
2010	4	2

NOTE: The Secretary of State posts a listing of initiatives on its web site: www.sos.state.or.us.

Source: Elections Division, Oregon Secretary of State.

LITIGATION

There is no pending litigation questioning the validity of the Financing Agreement, the Escrow Agreement or the 2011A Obligations or the authority of the City to make the Financing Payments, undivided proportionate interests in the principal and interest components of which are represented by the 2011A Obligations. There is no litigation pending that would materially affect the finances of the City or affect the City's ability to meet debt service requirements on the 2011A Obligations.

LEGALITY

The validity of the Financing Agreement, the 2011A Obligations and certain other legal matters are subject to the approving opinion of K&L Gates LLP, Portland, Oregon, Special Counsel for the City ("Special Counsel"). A complete copy of the proposed form of Special Counsel Opinion is included as APPENDIX C of this Official Statement. Special Counsel undertakes no responsibility for the accuracy, completeness, or fairness of this Official Statement.

TAX MATTERS

In the opinion of Special Counsel, under existing law the interest component of Financing Payments that is paid to owners of the 2011A Obligations ("Interest") is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however Interest is included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the 2011A Obligations, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the 2011A Obligations and the facilities refinanced and financed with proceeds of the 2011A Obligations and certain other matters. The City and LORA have each covenanted to comply with all applicable requirements.

Special Counsel's opinion is subject to the condition that the City and LORA comply with the above-referenced covenants and, in addition, will rely on representations by the City, LORA, and the advisors of each with respect to matters solely within the knowledge of the City, LORA, and their respective advisors, which Special Counsel has not independently verified. If the City or LORA fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the 2011A Obligations could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2011A Obligations, regardless of the date on which the event causing taxability occurs.

Except as expressly stated in this Tax Matters section, Special Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the 2011A Obligations. Owners of the 2011A Obligations should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2011A Obligations, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the 2011A Obligations should be aware that ownership of the 2011A Obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2011A Obligations. Special Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the 2011A Obligations should consult their tax advisors regarding collateral federal income tax consequences.

Special Counsel's opinion only addresses laws in effect on the date of delivery of the 2011A Obligations. Subsequent changes in federal law may reduce or eliminate favorable tax treatment of the 2011A Obligations.

Payments of interest on tax-exempt obligations, such as the 2011A Obligations, are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Special Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Special Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Special Counsel and the City's and LORA's compliance with their respective covenants. The IRS has established an ongoing program to audit

tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Special Counsel cannot predict whether the IRS will commence an audit of the 2011A Obligations. Owners of the 2011A Obligations are advised that, if the IRS does audit the 2011A Obligations, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the City as the taxpayer, and the owners of the 2011A Obligations may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the 2011A Obligations until the audit is concluded, regardless of the ultimate outcome.

ORIGINAL ISSUE PREMIUM

The initial public offering price of certain 2011A Obligations is greater than the amount payable on those 2011A Obligations at maturity. Special Counsel expresses no opinion with respect to the treatment of this additional amount.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of certain 2011A Obligations (the "Original Issue Discount Obligations") is less than the stated redemption price at maturity. In such case, the difference between (i) the stated amount payable at the maturity of an Original Issue Discount Obligation and (ii) the initial public offering price of that Original Issue Discount Obligation constitutes original issue discount with respect to that Original Issue Discount Obligation in the hands of the owner who purchased that Original Issue Discount Obligation at the initial public offering price in the initial public offering of the 2011A Obligations. The initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to an Original Issue Discount Obligation equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Obligation continues to be owned by the initial owner.

In the event of the redemption, sale or other taxable disposition of an Original Issue Discount Obligation prior to its stated maturity, however, the amount realized by the initial owner in excess of the basis of the Original Issue Discount Obligation in the hands of its initial owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Obligation was held by the initial owner) is includable in gross income. Purchasers of Original Issue Discount Obligations should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning Original Issue Discount Obligations.

OREGON STATE TAX EXEMPTION

In the opinion of Special Counsel, Interest is exempt from Oregon personal income tax under existing law.

RECENT LEGISLATIVE PROPOSAL

On September 12, 2011, President Obama submitted the "American Jobs Act of 2011" (the "2011 Jobs Act") to Congress. If the 2011 Jobs Act is enacted in its current form, it would subject a portion of the interest on tax-exempt Obligations received by certain high-income holders to federal income tax. This provision would be effective for taxable years beginning on or after January 1, 2013, and would apply to existing tax-exempt Obligations, including the 2011A Obligations, as well as tax-exempt Obligations issued in the future. Neither the City nor Special Counsel can predict whether the 2011 Jobs Act, modifications of it, or similar legislation will be approved by Congress. Purchasers of the 2011A Obligations should consult their own tax advisors regarding the impact of any potential change in federal law on the treatment of Interest.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Group, a Division of the McGraw-Hill Companies have assigned ratings of Aa1 and AAA, respectively, to the 2011A Obligations. An explanation of the significance of the ratings can be obtained from the rating agencies. There are no assurances that the ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may adversely affect the market price of the 2011A Obligations.

FINANCIAL ADVISOR

The City has retained Western Financial Group, LLC, Lake Oswego, Oregon, as Financial Advisor in connection with the authorization and issuance of the 2011A Obligations.

UNDERWRITING

Fidelity Capital Markets, acting as underwriter successfully bid for the 2011A Obligations in a competitive sale on September 8, 2011. The bid provides that the underwriter will purchase all of the 2011A Obligations, if any 2011A Obligations are purchased, at a price of 104.883% of the par value of the 2011A Obligations. The 2011A Obligations will be re-offered at an average price of 105.838% of the par value of the 2011A Obligations. After the initial public offering, the public offering prices may vary from time to time.

OFFICIAL STATEMENT

At the time of the original delivery of and payment for the 2011A Obligations, the City will deliver a certificate of the Authorized Representative, addressed to the 2011A 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/her knowledge and belief, (i) the Official Statement, both as of its date and as of the date of delivery of the 2011A 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 2011A 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 2011A Obligations. The City previously has executed and delivered Continuing Disclosure Certificates with respect to debt issues for which the City is the "obligated person" as defined in the Rule. On September 7, 2011, the City retroactively submitted financial information for the fiscal year 2008 after it could not verify the filing of that year's Comprehensive Annual Financial Report. Otherwise, to the best knowledge of the City, during the last five years, it has complied with all prior Continuing Disclosure Certificates.

MISCELLANEOUS

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

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the 2011A 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.

APPENDIX A
FORM OF FINANCING AGREEMENT AND FORM OF ESCROW AGREEMENT

FINANCING AGREEMENT

by and between

Wells Fargo Bank, National Association
as Escrow Agent

and

City of Lake Oswego, Oregon
as Borrower

Dated as of September 20, 2011

$11,500,000
City of Lake Oswego, Oregon
Full Faith and Credit Obligations,
Series 2011A

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EXHIBIT B: Escrow Agent's Corporate Trust Services Contact Information

FINANCING AGREEMENT

This Financing Agreement is dated as of September 20, 2011, and is entered into by and between the Wells Fargo Bank, National Association, as Escrow Agent, and the City of Lake Oswego, Oregon (the "City"), as the borrower. The parties hereby agree as follows:

1. Recitals, Definitions and Rules of Construction.

1.1 Recitals.

1.1(A) The City recites that the City is authorized to finance or refinance real and personal property by Financing Agreement pursuant to ORS 271.390, and executes this Financing Agreement to finance and refinance the Projects, as defined below.

1.1(B) The City and the Escrow Agent recite:

(1) The Escrow Agent desires to loan the Financing Amount to the City to finance and refinance the Projects, but only from the proceeds of the Obligations.

(2) The City desires to borrow the Financing Amount from the Escrow Agent to finance and refinance the Projects as provided in this Financing Agreement.

1.2 Definitions.

Unless the context clearly requires otherwise: capitalized terms not defined in this Section 1.2 shall have the meanings defined for such terms in the Escrow Agreement; and, capitalized terms used in this Financing Agreement which are defined in this Section 1.2 shall have the following meanings:

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

"Escrow Agreement" means the Escrow Agreement relating to the City's Full Faith and Credit Obligations, Series 2011A which is dated as of September 20, 2011, as it may be amended or supplemented.

"Financing Agreement" means this Financing Agreement, including the exhibits attached to this Financing Agreement and any amendments to this Financing Agreement and its exhibits.

"Financing Amount" means $11,500,000.

"Financing Default" means any event described in Section 5.1 of this Financing Agreement.

"Financing Payments" means the payments described in Section 3.2(B) of this Financing Agreement.

"Obligations" means the Full Faith and Credit Obligations, Series 2011A which are issued pursuant to the Escrow Agreement.

"Payment Date" means the date upon which any Financing Payment is due and payable, as provided in Section 3.2(B) herein, or the date on which any Financing Payment will be prepaid in accordance with the Escrow Agreement and this Financing Agreement.

"Projects" means the projects described in the City's Resolution No. 11-42 adopted by the City Council on June 21, 2011.

1.3 Rules of Construction.

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

2. Representations, Warranties and Covenants.

2.1 Representations, Warranties and Covenants of City.

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

2.1(A) The City is a properly incorporated and existing City under the laws of the State of Oregon.

2.1(B) The City is authorized under ORS 271.390 to enter into this Financing Agreement and to perform all of its obligations under this Financing Agreement.

2.1(C) The City has taken all action which is required to ensure the enforceability of this Financing Agreement in accordance with its terms (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).

2.1(D) The City has complied and will comply with all public bidding or other procurement requirements which apply to this Financing Agreement and the acquisition and construction of the projects financed with or refinanced with this Financing Agreement.

2.1(E) The estimated weighted average life of this Financing Agreement does not exceed the estimated dollar weighted average life of the Projects.

2.2 Representations, Warranties and Covenants of Escrow Agent.

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

2.2(A) The Escrow Agent is a national banking association, 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.

2.2(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 incorporation, charter or bylaws of the Escrow Agent or any agreement to which the Escrow Agent is a party.

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

2.3 Tax Covenants.

To maintain the exclusion of the interest component of each Financing Payment from gross income under the Code, the City covenants for the benefit of the Owners to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code, and with all covenants and agreements in the certificates or other documents executed by the City in connection with delivery of the Financing Agreement and the Obligations which relate to the excludability of the interest components from gross income, so that the interest components of the Financing Payments are excludable from gross income under the Code. The Escrow Agent hereby agrees to comply with any instructions given by the City to maintain the exclusion of the interest component of each Financing Payment from gross income under the Code. The covenants in this Section shall survive the payment of the Obligations and the interest thereon, including any payment or defeasance thereof pursuant to the Escrow Agreement.

3. The Loan and the Financing Payments.

3.1 The Loan.

3.1(A) The Escrow Agent agrees to loan the City an amount equal to the Financing Amount, but solely from the proceeds of sale of the Obligations as provided in this Financing Agreement and the Escrow Agreement. This loan from the Escrow Agent to the City will be deemed to have been made when the Escrow Agent makes the deposits and transfers to the City which are specified in Section 3.3 of the Escrow Agreement.

3.1(B) The City agrees to borrow the Financing Amount from the Escrow Agent, and to repay that Financing Amount 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 the Financing Payments and Additional Charges have been paid or defeased in accordance with Section 12.1 of the Escrow Agreement.

3.2 The Financing Payments and Additional Charges.

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

3.2(B) The City shall pay the Financing Amount to the Escrow Agent in semiannual Financing Payments which consist of the annual principal installments shown in Exhibit A, together with interest on those principal installments, payable semiannually on June 1 and December 1 of each year, commencing June 1, 2012, at the rates shown in Exhibit A.

3.2(C) To secure the performance of its obligation to pay Financing Payments, the City shall deposit an amount equal to each Financing Payment with the Escrow Agent one Business Day preceding each scheduled Payment Date. Each deposit made under this Section 3.2(C) shall be applied toward its Financing Payment.

3.2(D) In determining the amount of the deposit which is due from the City under Section 3.2(C) the City shall be credited on the deposit date for any amounts then on hand in the Payment Account and available to pay the Financing Payments (including accrued interest, and any other amounts to be deposited therein) 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.

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

(1) 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; and

(2) the reasonable fees, costs and expenses of the Escrow Agent, including, to the extent permitted by law, all 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 the fees, costs and expenses of the Escrow Agent as provided in the Escrow Agreement and the reasonable fees, costs and expenses of any successor Escrow Agent.

3.2(F) Additional Charges shall be paid by City when due. Additional Charges described in Section 3.2(E)(1) above shall be paid to the United States Department of Treasury. Additional Charges described in Section 3.2(E)(2) above shall be paid to the Escrow Agent.

3.3 Prepayment.

3.3(A) Optional Prepayment. The principal component of Financing Payments coming due in years 2012 through 2021, inclusive, are not subject to prepayment prior to their respective payment dates. The principal component of Financing Payments coming due on June 1, 2022 and on any date thereafter are subject to prepayment at the option of the City prior to their stated maturity dates at any date on or after June 1, 2021, as a whole or in part (and if in part, with maturities of the Obligations to be selected by the City and by The Depository Trust Company or by lot within a maturity at a price of par), plus accrued interest, if any, to the date of prepayment.

3.3(B) [Insert Mandatory Prepayment Provisions if required]

The Escrow Agent and The Depository Trust Company will determine how prepayment of Financing Payments will be allocated to term obligations]

3.3(C) Notice of Prepayment. The City shall give notice of prepayment of Financing Payments to the Escrow Agent not later than 5 business days before the notice of prepayment is required to be made.

3.4 Obligation to Pay Financing Payments is Unconditional; Pledge of Full Faith and Credit.

3.4(A) The obligation of the City to make Financing Payments shall be unconditional, and the City shall pay the Financing Payments from any and all of its legally available taxes, revenues and other funds. Pursuant to ORS 287A.315, the City hereby pledges its full faith and credit and taxing power within the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution to pay the Financing Payments and other amounts due under this Financing Agreement.

3.4(B) The City hereby agrees that its obligation to pay all Financing Payments and Additional Charges is absolute and unconditional, and shall not be subject to 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 projects financed or refinanced with this Financing Agreement; or

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

3.5 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.

4. Title and Assignment.

4.1 Title.

The City shall be entitled to unencumbered, fee simple title to the projects financed or refinanced with this Financing Agreement, and the Escrow Agent and the Owners shall have no lien on, or security interest in, the projects financed or refinanced with this Financing Agreement.

4.2 Assignment By the Escrow Agent.

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

4.3 Assignment by the City.

The rights and obligations of the City under this Financing Agreement may be assigned or transferred to any entity which succeeds or replaces the City, or any entity into which the City may be merged or consolidated, but only if the assignee or transferee assumes all of the City's obligations under this Financing Agreement. The rights and obligations of City under this Financing Agreement shall not otherwise be assigned or transferred.

5. Financing Defaults and Remedies

5.1 Financing Defaults Defined.

Any one or more of the following events shall constitute Financing Defaults:

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

5.1(B) Except as provided in Section 5.2 below, failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed for a period of 60 days after written notice to the City by the Escrow Agent, specifying such failure and requesting that it be remedied, unless the Escrow Agent shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice cannot be corrected within the applicable period, the Escrow Agent will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected;

5.1(C) The occurrence and continuance of an Escrow Default;

5.1(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.

5.2 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.

5.3 Remedies on Financing Default.

5.3(A) Whenever a Financing Default shall have happened and be continuing, the Escrow Agent upon receipt of indemnity and fulfillment of the conditions contained in Sections 5.8(B) and 9.2 of the Escrow Agreement shall have the right, at its sole option without any further demand or notice, to exercise any remedy described in Section 9.2 of the Escrow Agreement.

5.3(B) The Escrow Agent shall exercise its rights hereunder only in accordance with the Escrow Agreement. No remedy referred to in this Section 5.3 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 a Financing Default shall constitute a waiver of any other or subsequent Financing Default.

6. Miscellaneous

6.1 Notices.

All notices and other communications required by the Agreement shall be considered properly given if they are delivered via electronic or by facsimile or first class mail:

To the Escrow Agent at:

Wells Fargo Bank, National Association
1300 S.W. Fifth Avenue, MAC P6101-114
Portland, Oregon 97201
Attention: Corporate Trust Services
Fax: (503) 886-3300

And to :
Wells Fargo Bank, National Association
608 2nd Avenue South, 12th Floor East
MAC N9303-121
Minneapolis, MN 55479
Attention: Paying Agent Services
Fax: (855) 579-4534

To the City at:

City of Lake Oswego
380 "A" Avenue
Lake Oswego, Oregon 97034
Attention: Finance Director
Fax: (503) 534-5240

Additional contact information for the Escrow Agent is listed in Exhibit B.

6.2 Binding Effect.

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

6.3 Severability.

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

6.4 Amendments.

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

6.5 Execution in Counterparts.

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

6.6 Applicable Law.

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

6.7 Headings.

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

[The remainder of this page is left blank intentionally.]

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 City Official, all as of the date first above written.

Wells Fargo Bank, National Association,
as Escrow Agent

_____
Authorized Officer

City of Lake Oswego, Oregon

_____
City Official

EXHIBIT A
Financing Payments Schedule

Period Ending	Principal	Coupon	Interest	Debt Service
6/1/2012	370,000	2.000%	273,293.68	643,293.68
12/1/2012			192,287.50	192,287.50
6/1/2013	440,000	2.000%	192,287.50	632,287.50
12/1/2013			187,887.50	187,887.50
6/1/2014	450,000	4.500%	187,887.50	637,887.50
12/1/2014			177,762.50	177,762.50
6/1/2015	470,000	2.000%	177,762.50	647,762.50
12/1/2015			173,062.50	173,062.50
6/1/2016	480,000	2.000%	173,062.50	653,062.50
12/1/2016			168,262.50	168,262.50
6/1/2017	485,000	3.000%	168,262.50	653,262.50
12/1/2017			160,987.50	160,987.50
6/1/2018	500,000	3.000%	160,987.50	660,987.50
12/1/2018			153,487.50	153,487.50
6/1/2019	515,000	3.000%	153,487.50	668,487.50
12/1/2019			145,762.50	145,762.50
6/1/2020	535,000	2.500%	145,762.50	680,762.50
12/1/2020			139,075.00	139,075.00
6/1/2021	545,000	3.000%	139,075.00	684,075.00
12/1/2021			130,900.00	130,900.00
6/1/2022	560,000	4.000%	130,900.00	690,900.00
12/1/2022			119,700.00	119,700.00
6/1/2023	585,000	4.000%	119,700.00	704,700.00
12/1/2023			108,000.00	108,000.00
6/1/2024	610,000	4.000%	108,000.00	718,000.00
12/1/2024			95,800.00	95,800.00
6/1/2025	630,000	4.000%	95,800.00	725,800.00
12/1/2025			83,200.00	83,200.00
6/1/2026	660,000	3.000%	83,200.00	743,200.00
12/1/2026			73,300.00	73,300.00
6/1/2027	675,000	4.000%	73,300.00	748,300.00
12/1/2027			59,800.00	59,800.00
6/1/2028	705,000	4.000%	59,800.00	764,800.00
12/1/2028			45,700.00	45,700.00
6/1/2029	735,000	4.000%	45,700.00	780,700.00
12/1/2029			31,000.00	31,000.00
6/1/2030	760,000	4.000%	31,000.00	791,000.00
12/1/2030			15,800.00	15,800.00
6/1/2031	790,000	4.000%	15,800.00	805,800.00

EXHIBIT B
Wells Fargo Bank, N.A.
Corporate Trust Services Contact Information

Local Contact:
Local Relationship Manager. Your relationship manager serves as your point of contact for new deal closings.

Beth Moyer, Relationship Manager
Wells Fargo Bank, N.A.
1300 SW 5th Avenue, 11th Floor
MAC P6101-114
Portland, OR 97201

Phone: (503) 886-1366
Fax: (503) 886-3300
Email: beth.a.moyer@wellsfargo.com

Paying Agent and Refunding Escrow Agent Services Unit Information:
Relationship Specialist. Your relationship specialist serves as your point of contact for ongoing account administration. Ongoing account administration includes debt service and fee matters, audit confirmations and any other questions or inquiries regarding your account with us.

Alicia Amato, Relationship Specialist
Wells Fargo Bank, N.A.
Attn: Paying Agent Services
608 2nd Avenue South, 12th Floor East
MAC N9303-121
Minneapolis, MN 55479

Phone: 1-855-411-2654
Fax: 1-855-579-4534
Email: payingagentservices@wellsfargo.com

Account Administration Unit Manager. Your dedicated account administration unit manager serves as an additional point of contact to assist you with any ongoing account needs or questions.

Greg Maples, Vice President
Wells Fargo Bank, N.A.
608 2nd Avenue South, 12th Floor East
MAC N9303-121
Minneapolis, MN 55479

Phone: 1-855-411-2654
Fax: 1-855-579-4534
Email: payingagentservices@wellsfargo.com

Debt Service Payments. Effective immediately, please remit all debt service payments to Wells Fargo using the following delivery instructions:

Wiring Instructions	Payment by ACH	Payment by check
Wells Fargo Bank, N.A. ABA 121000248 Account 6355060501 Attn: Paying Agent Services Ref: Account number	Wells Fargo Bank, N.A. ABA 091000019 Account 6355060501 Attn: Paying Agent Services Ref: Account number	Wells Fargo Corporate Trust Services NW6222 P.O. Box 1450 Minneapolis, MN 55485-6222

ESCROW AGREEMENT

by and between

Wells Fargo Bank, National Association
as Escrow Agent

and

City of Lake Oswego, Oregon

Dated as of September 20, 2011

$11,500,000
Full Faith and Credit Obligations,
Series 2011A
Evidencing interests in the Financing Payments due from
City of Lake Oswego, Oregon

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ESCROW AGREEMENT

$11,500,000
City of Lake Oswego, Oregon
Full Faith and Credit Obligations
Series 2011A

THIS ESCROW AGREEMENT is dated as of September 20, 2011, is entered into by and between Wells Fargo Bank, National Association, a national banking association, organized under the laws of the United States, and having a corporate trust office in Portland, Oregon, as Escrow Agent, and City of Lake Oswego, Oregon. The parties hereby agree as follows:

1. Definitions; Rules of Construction, Recitals; and Transfer of Rights.

1.1 Definitions.

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

"Additional Charges" means the amounts specified as such pursuant to Section 3.2(E) of the Financing Agreement.

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

"City" means City of Lake Oswego, Oregon, or its successors.

"City Official" means the City Manager, the City Finance Director, or the person designated by the City Council to act on behalf of the City under Resolution No. 11-42 adopted by the City Council on June 21, 2011.

"Closing Date" means the day on which the Obligations are delivered to their initial purchasers in exchange for payment.

"Defeasance Obligations" means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America. Defeasance Obligations may not be subject to prepayment.

"Escrow Agent" 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.

"Escrow Default" means the events described in Section 9.1 of this Escrow Agreement.

"Financing Agreement" means the Financing Agreement for the financing and refinancing of the Projects which is dated as of September 20, 2011 and is signed by the Escrow Agent and the City, as it may be amended and supplemented.

"Financing Default" means any event described in Section 5.1 of the Financing Agreement.

"Financing Payments" mean the payments of principal and interest which the City is required to make under Section 3.2(B) of the Financing Agreement to repay the Financing Amount, and any prepayments of the Financing Amount (including accrued interest on the prepaid Financing Amount).

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

"Obligation Register" means the records kept for the registration of Obligations by the Escrow Agent pursuant to Section 2.7 below.

"Obligations" means the Full Faith and Credit Obligations, Series 2011A, which are authorized by Section 2.1 below.

"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 which have been defeased pursuant to Section 11.1 of this Escrow Agreement; 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 2.7 below.

"Owner" means the person in whose name an Outstanding Obligation is registered, as shown in the Obligation Register.

"Payment Account" means the Full Faith and Credit Obligations Payment Account established pursuant to Section 3 below.

"Payment Date" means the date upon which any Financing Payment is due and payable, as provided in Section 3.2(B) of the Financing Agreement, or the date on which any Financing Payment will be prepaid in accordance with this Escrow Agreement and the Financing Agreement.

"Projects" means the projects described in the City's Resolution No. 11-42 adopted by the City Council on June 21, 2011.

"Qualified Institution" means an institution which maintains a head office or a branch in the State of Oregon, the deposits of which are insured under the provisions of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1811, et seq).

"Qualified Investments" means the investments in which the City may invest surplus funds under the laws of the State of Oregon, including ORS 294.035 and 294.040, as amended.

"Special Counsel" means K&L Gates LLP, or other counsel nationally recognized for its expertise in municipal finance, that is appointed by the City.

1.2 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 Escrow Agreement.

1.3 Recitals.

1.3(A) City's Recitals.

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

(2) The City Council has determined in the Resolution that the Projects are needed, and has authorized execution of the Financing Agreement and this Escrow Agreement to finance and refinance the Projects.

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

1.3(B) The Escrow Agent recites that it has placed its rights under the Financing Agreement, including the right to receive the 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.

1.4 Rights Under Financing Agreement Held for Benefit of Owners.

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

(1) All rights of the Escrow Agent under the Financing Agreement (except for the Escrow Agent's right to payment from Additional Charges); and,

(2) All rights of the Escrow Agent and the City to amounts in the Payment Account.

2. The Full Faith and Credit Obligations, Series 2011A.

2.1 Preparation and Delivery of Obligations.

2.1(A) The Escrow Agent is hereby authorized and directed to prepare and execute the Obligations in the aggregate principal amount of $11,500,000. The Obligations shall be dated, shall mature on the dates and in the principal amounts, and pay interest at the rates shown in Exhibit A.

2.1(B) The Escrow Agent shall receive and accept the Obligations and will hold the Obligations under The Depository Trust Company's Fast Automated Securities Transfer (FAST) program, upon confirmation of the receipt of the proceeds of the sale of the Obligations.

2.2 Payment of Obligations.

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

(1) a proportionate share of a specified principal component of the Financing Payments, plus

(2) a proportionate share of the Financing Payments allocable to the interest paid on that specified principal component.

2.2(B) 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 credit the Financing Payments to the Payment Account and transfer the Financing Payment to the Owners as provided in this Escrow Agreement.

2.3 Book-Entry Only System.

2.3(A) The Obligations shall be initially executed and delivered as a book-entry only security issue with no Obligations being made available to the Owners in accordance with the Blanket Issuer Letter of Representations the City has filed with The Depository Trust Company. While the Obligations are in book-entry form, the Obligations shall be subject to the rules and procedures of The Depository Trust Company.

2.3(B) If The Depository Trust Company ceases to act as depository for the Obligations the City will request the Escrow Agent to, and the Escrow Agent and the City shall, amend this Escrow Agreement to provide for an alternative system of registration and payment for the Obligations that is of general acceptance in the municipal bond markets. If no better system is then available, the Escrow Agent and the City shall amend this Escrow Agreement to provide that printed, registered Obligations shall be issued to beneficial owners of the Obligations, and shall give notice of those amendments to all Owners.

2.3(C) While the Obligations are in book entry form, the City and the Escrow Agent shall have no responsibility or obligation to any participant or correspondent of the depository or to any beneficial owner for:

(1) 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;

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

(3) the selection by the depository of the beneficial interest in Obligations to be prepaid if the City prepays the Obligations in part; or

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

2.3(D) Notwithstanding the book-entry-only system, the City may treat the Owner of an Obligation as the absolute owner of that Obligation for all purposes, including the payment of principal, premium, if any, and interest with respect to such Obligation, or for giving notices of redemption and other matters with respect to such Obligation, or for registering transfers with respect to such Obligation. The Escrow Agent shall pay or cause to be paid all principal, premium, if any, and interest with respect to the Obligations only to or upon the order of the Owners 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. Interest on the Obligations shall cease to accrue on the earlier of their final maturity date or the date they are prepaid.

2.4 Form of Obligations.

The Obligations shall be executed and delivered in fully registered form in denominations of $5,000 or any integral multiple thereof within a single maturity. The Obligations and the form of assignment shall be substantially in the form set forth in Exhibit B. The Escrow Agent shall select the numbering for the Obligations.

2.5 Execution.

The Obligations shall be executed by and in the name of the Escrow Agent by the manual or facsimile signature of an authorized officer of the Escrow Agent; if an Obligation is executed by facsimile signature of the Escrow Agent it 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 B and which have been manually executed or authenticated by the Escrow Agent shall be valid for any purpose or entitled to the benefits of this Escrow Agreement.

2.6 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.

2.7 Obligation Register.

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

2.8 Redemption.

The Obligations shall be redeemed by the Escrow Agent from prepayments of Financing Amounts as provided in this section.

2.8(A) Optional Redemption. The Obligations coming due in years 2012 through 2021, inclusive, are not subject to prepayment prior to their respective payment dates. The Obligations maturing on June 1, 2022 and on any date thereafter are subject to prepayment at the option of the City prior to their stated maturity dates at any time on or after June 1, 2021, as a whole or in part, and if in part, with maturities to be selected by the City and by The Depository Trust Company or by lot within a maturity at a price of par, plus accrued interest, if any, to the date of prepayment.

2.8(B) Mandatory Redemption

The Obligations are not subject to mandatory sinking fund prepayment.

2.8(C) Notice of Prepayment. The City shall give notice of prepayment of Financing Payments to the Escrow Agent not later than 5 days before the notice of prepayment is required to be made.

2.9 Conditional Redemption.

Any notice of optional redemption given for the Obligations pursuant to Section 2.8(A) herein may state that the optional redemption is conditional upon receipt by the Escrow Agent of moneys sufficient to pay the redemption price of such Obligations or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission or of the failure of any such condition shall be given by the Escrow Agent to affected owners of the Obligations as promptly as practicable.

2.10 Notice of Redemption.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Blanket Issuer Letter of Representations to The Depository Trust Company. Interest on any Obligations so called for redemption shall cease on the redemption date designated in the notice. Unless the Depository Trust Company consents to a shorter period, the Escrow Agent will notify The Depository Trust Company of any Obligations called for redemption no fewer than 20 calendar days nor more than 60 calendar days prior to the date fixed for redemption. If the book-entry-only system is discontinued, notice of redemption shall be given under the system established by the City pursuant to Section 2.3(B) herein.

3. Accounts.

3.1 Payment Account.

The Escrow Agent shall establish 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.

3.1(A) To secure the payment of the Financing Payments, one Business Day preceding the Payment Date, the City shall transfer the deposits described in Section 3.2(C) of the Financing Agreement to the Escrow Agent. The Escrow Agent shall credit these deposits to the Payment Account.

3.1(B) On each Payment Date the Escrow Agent shall withdraw from the Payment Account and transfer to Owners an amount equal to the principal and interest components of the Financing Payment due and payable on such Payment Date.

3.1(C) If on any Payment Date, the amount of the Financing Payment then due and payable exceeds the amounts deposited with the Escrow Agent and available therefor, the Escrow Agent shall distribute the amounts available:

(1) First, to the Owners of the interest components of the Financing Payments which are then due (and if the amount available is not sufficient to pay in full all the interest components of the Financing Payment then due, then ratably to the Owners entitled to the interest payments then due, without any discrimination or preference); and,

(2) Second, to the Owners of the principal components of the Financing Payments which are then due (and if the amount available is not sufficient to pay all principal components which are then due, then ratably to the Owners entitled to the principal components which are then due, without discrimination or preference).

3.1(D) The Escrow Agent shall provide the City, not less than 30 days before the date the deposit is required under Section 3.2(C) of the Financing Agreement, an invoice which sets forth the amount of that deposit.

3.1(E) Any surplus remaining in the Payment Account after payment of the Financing Payment and all Outstanding Obligations and payment of any unpaid Additional Charges, shall be remitted to the City.

3.1(F) Any surplus remaining in the Payment Account after payment of a Financing Payment shall be retained in the Payment Account and invested by the Escrow Agent as provided in Section 4.2 herein.

3.2 Additional Charges.

If the Escrow Agent receives Additional Charges pursuant to the Financing Agreement, the Escrow Agent shall apply those payments for the purposes indicated in the Financing Agreement.

3.3 Deposits at Closing.

The proceeds of the Obligations shall be transferred directly to the City by Fidelity Capital Markets, the initial purchaser of the Obligations pursuant to the Closing Memorandum prepared by the City's financial advisor, Western Financial Group, LLC.

4. Payment Account Held in Trust; Investment.

4.1 Moneys and Investments Held in Trust.

The moneys and investments held by the Escrow Agent under this Escrow Agreement are irrevocably held in trust 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.

4.2 Investments Authorized.

4.2(A) Moneys held by the Escrow Agent hereunder shall be invested and reinvested by the Escrow Agent in Qualified Investments selected by the City. The City may notify the Escrow Agent of its investment selections orally or in writing, but if the City notifies the Escrow Agent orally the City shall promptly confirm its notification in writing. If the City fails to provide investment direction to the Escrow Agent in accordance with this Section 4.2, the Escrow Agent shall invest any uninvested funds in a qualified repurchase agreement. Amounts may be invested in an account of the Escrow Agent while the Escrow Agent is a Qualified Institution. The Escrow Agent shall have no duty to determine whether an investment selected by the City is a Qualified Investment.

4.2(B) 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.

4.2(C) The Escrow Agent may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by this Section 4.2, and shall be entitled to its reasonable fee therefor. Such investments and reinvestments shall be made giving full consideration for the time at which funds are required to be available. The Escrow Agent may act as purchaser or agent in the making or disposing of any investment.

4.2(D) The City acknowledges that to the extent that regulations of the Comptroller of the Currency grant the City the right to receive brokerage confirmations of security transactions, the City waives receipt of such confirmations and shall rely on periodic statements of the account provided by the Escrow Agent.

4.3 Accounting.

The Escrow Agent shall furnish to the City, semi-annually, an accounting of each fund and account and of all investments made by the Escrow Agent. Except as provided in Section 5.6 below, 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.

4.4 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.

4.5 Disposition of Investments.

The Escrow Agent may sell at the then current market price, or present for prepayment, 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 the Payment Account, and, except as provided in Section 5.6 below, the Escrow Agent shall not be liable or responsible for any loss resulting from such investment. The City may instruct the Escrow Agent 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.

4.6 Deposit and Investment of Moneys in Accounts.

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 any commingling by the Escrow Agent.

5. The Escrow Agent.

5.1 Compensation of the Escrow Agent.

The City shall from time to time pay to the Escrow Agent reasonable compensation for its services and will pay or reimburse the Escrow Agent upon its request for all reasonable expenses, disbursements and advances made by the Escrow Agent in accordance with the provisions of this Escrow Agreement (including the reasonable expenses and disbursements of its counsel and agents), except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Escrow Agent shall also be entitled to receive reasonable extraordinary fees and its reasonable 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.

5.2 Removal of Escrow Agent.

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

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

(2) 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.

5.2(B) Any successor Escrow Agent appointed pursuant to the provisions of this Section 5.2(B) shall:

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

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

(3) 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.

5.3 Resignation of Escrow Agent.

5.3(A) The Escrow Agent or any successor may at any time resign by giving written notice to the City and by giving notice by first class mail to the Owners as of the date such notice is mailed of its intention to resign and of the proposed date of resignation, which shall be a date not less than 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.

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

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

5.4 Merger or Consolidation.

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

5.5 Acceptance of Appointment by Successor Escrow Agent.

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

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

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

5.6(A) The Escrow Agent undertakes, prior to the occurrence of an Escrow 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 Escrow 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 that person's own affairs.

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

(1) Prior to the occurrence of an Escrow 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;

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

(3) 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

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

5.6(C) The Escrow Agent may execute any of the duties or powers hereof and perform any of its duties by and through attorneys, agents, receivers or employees and shall not be responsible for the acts or omissions of attorneys, agents, or receivers not affiliated with the Escrow Agent if (a) selected with reasonable care, and (b) the City is a third party beneficiary to the Escrow Agent's arrangements with such attorneys, agents, receivers or employees, the Escrow Agent shall be entitled to advice of counsel concerning all matters or duties hereunder, and may in all cases pay such reasonable compensation to such attorneys, agents, receivers and employees as may reasonably be employed in connection with the duties hereof. The Escrow Agent may act upon the opinion or advice of any attorney, approved by the Escrow Agent in the exercise of reasonable care. The Escrow Agent shall not be responsible for any loss or damage resulting from any action or non-action in good faith and reliance upon such opinion or advice.

5.7 Protection and Rights of the Escrow Agent.

5.7(A) The Escrow Agent shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of this Escrow Agreement, and the Escrow Agent shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Escrow Agent 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.

5.7(B) Whenever in the administration of its duties under this Escrow Agreement, the Escrow Agent shall deem it necessary or desirable that a matter be 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 a City Official and such certificate shall be full warranty to the Escrow Agent for

any action taken or suffered under the provisions of this Escrow Agreement upon the faith thereof, but in its discretion the Escrow Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

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

5.7(D) The recitals, statements and representations by the City contained in this Escrow Agreement and 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 shall have no responsibility with respect to any information, statement, or recital in an offering memorandum, official statement or other disclosure material prepared or distributed with respect to Obligations.

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

5.8 Indemnification.

5.8(A) To the extent permitted by law, the City covenants and agrees to indemnify and hold the Escrow Agent harmless against any loss, expense or liability which it may incur arising out of or in the exercise or performance of its duties and powers hereunder, including the costs and expenses of defending against any claim or liability, or enforcing any of the rights or remedies granted to it under the terms of this Escrow Agreement, excluding any losses or expenses which are due to the Escrow Agent's breach of fiduciary duties, negligence or willful misconduct. The obligations of the City under this Section 5.8 shall survive the resignation or removal of the Escrow Agent under this Escrow Agreement and the payment of the Obligations and discharge under this Escrow Agreement. The damages claimed against the City shall not exceed the damages which may be allowed under the Oregon Tort Claims Act, Oregon Revised Statutes 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.

5.8(B) Before taking any action under Article 9, Section 9.2 and Section 9.3 hereof or Section 5.3 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 negligence or willful default by reason of any action so taken.

6. Concerning the Obligation Owners.

6.1 Evidence of Action Taken by Owners.

Whenever in this Escrow Agreement it is provided that the Owners of a specified percentage in aggregate principal amount 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:

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

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

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

6.2 Action Taken by Owners Irrevocable.

Any consent to the taking of any action by any Owner of an Outstanding Obligation shall be irrevocable and shall be conclusive and binding upon such Owner and upon all future Owners of such Obligation and of any Obligation executed and delivered in exchange or substitution therefor, irrespective of whether or not any notation and regard thereto is made upon such Obligation. Any action taken by the Owners of the percentage in aggregate principal amount 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.

6.3 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 the Escrow Agent knows are so owned shall be so disregarded. Obligations so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 6.3, 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.

7. Modification of Escrow Agreement and Financing Agreement.

7.1 Limitations.

This Escrow Agreement may be modified or amended only in accordance with this Section 7.

7.2 Supplemental Escrow Agreement Without Consent of Owners.

7.2(A) 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:

(1) To cure any formal defect, omission, inconsistency or ambiguity in this Escrow Agreement or to make any other change to this Escrow Agreement, as long as the change does not, in the reasonable judgment of the City, materially and adversely affect the interests of the Owners or involve a change described in Section 7.3(A);

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

7.2(B) 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.

7.3 Supplemental Escrow Agreement with Consent of the Owners.

7.3(A) Any amendment to this Escrow Agreement which is not described in Section 7.2 above requires the consent of: 1) the City, 2) the Escrow Agent and 3) the consent of Owners of not less than a majority in aggregate principal amount of the Obligations then Outstanding. However, in addition to the consent of the City, the Escrow Agent, and the consent of all affected Owners of all the Obligations then Outstanding is required for:

(1) a change in the terms of the payment or prepayment of any portion of the Financing Payment, or

(2) the creation of a claim or lien upon, or a pledge of the rights of the Escrow Agent under the Financing Agreement (other than the Escrow Agent's right to Additional Charges) or amounts in the Payment Account 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

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

(4) 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 7.6, for any modification, alteration, amendment or supplement to the Financing Agreement.

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

7.3(C) If the Owners of not less than the percentage of Obligations then Outstanding required by Section 7.3(A) 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.

7.4 Effect of Supplemental Escrow Agreement.

Upon the execution and delivery of any supplemental Escrow Agreement pursuant to the provisions of this Section 7, 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.

7.5 Amendments to Financing Agreement Not Requiring Consent of Owners.

7.5(A) The City and the Escrow Agent may at any time enter into amendments to the Financing Agreement without the consent of or notice to the Owners for the following purposes:

(1) To cure any formal defect, omission, inconsistency or ambiguity in the Financing Agreement or to make any other change to the Financing Agreement, as long as the change does not, in the reasonable judgment of the City, materially and adversely affect the interests of the Owners or permit the termination or cancellation of the Financing Agreement or a reduction in or postponement of the Financing Payments; and,

(2) 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 the Financing Agreement in any other way for the benefit of the Owners; provided that no such amendment may have, in the reasonable judgment of the City, a material and adverse effect on any Owner which has not consented to the amended Financing Agreement.

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

7.6 Amendments to Financing Agreement Requiring Consent of the Owners.

7.6(A) Any amendment to the Financing Agreement which is not described in Section 7.5 requires the consent of: 1) the City, 2) the Escrow Agent and 3) the consent of Owners of not less than a majority in aggregate principal amount of the Obligations Outstanding given as provided in this Section 7.6. However, in addition to the consent of the City, the Escrow Agent, 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 Financing Payments.

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

8. Covenants.

8.1 Compliance With and Enforcement of Financing Agreement.

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

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

8.2 Notice of Default.

If an Escrow Default or a Financing Default occurs the Escrow Agent shall give written notice to the Owners of the Obligations then Outstanding. The notice shall specify that an Escrow Default or a Financing Default has occurred and give a brief description of the event or failure. The Escrow Agent shall give this notice by first class mail, postage prepaid, to each Owner within thirty (30) days of the Escrow Agent's actual knowledge of the event or failure. However, except for an Escrow Default described in Section 9.1(A) below, the Escrow Agent may withhold such notice if and so long as the Escrow Agent in good faith determines that the withholding of such notice is in the interests of the Owners of Obligations. Any failure by the Escrow Agent to give this notice shall not affect any rights of Owners to take the actions described in Section 9 herein.

8.3 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 the applicable provisions of the Code. The Escrow Agent hereby agrees to comply with any instructions received from the City in order to maintain the exclusion of the interest component of each Financing Payment from gross income under the Code. The covenants in this Section shall survive the payment of the Obligations and interest thereon, including any payment or defeasance thereof pursuant to the Escrow Agreement.

8.4 Further Assurances.

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

9. Events of Default.

9.1 Events of Default.

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

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

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

9.1(C) A Financing Default occurs and is continuing.

9.2 Remedies on Escrow Default.

Upon the occurrence and continuance of any Escrow 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, shall take whatever action at law or in equity may appear necessary or desirable to enforce the Financing Agreement or to protect any of the rights vested in the Escrow Agent or the Owners of Obligations by this Escrow Agreement or by the Obligations, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Escrow Agreement or in aid of the exercise of any power granted in this Escrow Agreement or for the enforcement of any other legal or equitable right vested in the Escrow Agent by this Escrow Agreement or by law. However, the Financing Amount and the Financing Payments shall not be subject to acceleration. The Escrow Agent may exercise such one or more of the rights and powers conferred by this section as the Escrow Agent in its discretion being advised by its counsel shall deem most expedient and in the interests of the Owners.

9.3 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 or by law.

9.4 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.

9.5 Application of Moneys Upon Default.

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

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

9.5(B) ***Second:*** To the payment to the Owners of the interest components of the Financing Payments which are then due, and, if the amount available is not sufficient to pay in full all the interest components of the Financing Payment then due, then ratably to the Owners entitled to the interest payments then due, without any discrimination or preference;

9.5(C) ***Third:*** To the payment to the Owners of the principal components of the Financing Payment which are then due, and, if the amount available shall not be sufficient to pay all principal components which are then due, then ratably to the Owners entitled to the principal components which are then due, without discrimination or preference; and,

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

9.6 Action by Owners.

If the Escrow Agent fails to take any remedy available as a result of the occurrence of an Escrow Default or a Financing Default, the Owners of a majority 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 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 reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Escrow Agent shall have refused or neglected to comply with such request within a reasonable time.

10. Limitation of Liability.

10.1 Limited Liability of City.

Except for the payment of Financing Payment 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 the Financing Payments to the Owners by the Escrow Agent.

10.2 No Liability of City for Escrow Agent Performance.

The City shall not have any obligation or liability to any of the other parties or to the Owners of the Obligations with respect to the performance by the Escrow Agent of any duty imposed upon the Escrow Agent under this Escrow Agreement.

10.3 No Liability of Escrow Agent for the Financing Payment by City.

The Escrow Agent (except as provided herein) 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 the City in this Escrow Agreement or the Financing Agreement.

10.4 Opinion of Counsel; Experts.

10.4(A) Before being required to take any action after or in connection with an Escrow Default or a Financing Default, 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.

10.4(B) If an Escrow Default occurs or a dispute arises under this Escrow Agreement or the Financing Agreement, the Escrow Agent may employ as its agents, attorneys at law, certified public accountants and recognized authorities in their fields (who are not employees of the Escrow Agent), as it may reasonably deem necessary to carry out any of its obligations hereunder. The City shall reimburse the Escrow Agent for its reasonable expenses in so doing.

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

10.5 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.

11. Miscellaneous.

11.1 Defeasance.

11.1(A) All or any portion of the Outstanding Obligations may be defeased, and deemed paid and discharged by irrevocably depositing with the Escrow Agent or an independent escrow agent, in trust, money and Defeasance Obligations in amounts which are calculated by an independent certified public accountant or other qualified professional to be sufficient, without reinvestment, to pay all principal and interest due on the defeased Obligations (either at maturity on through the date on which the City has irrevocably called the defeased Obligations for prepayment), and by providing the Escrow Agent with an opinion of Special Counsel that such deposits will not cause the interest payable on any Obligations to be includable in gross income under the Code.

11.1(B) All obligations of the Escrow Agent and the City under this Escrow Agreement with respect to Obligations which are defeased in accordance with Section 11.1(A) shall cease and terminate, except for the obligation of the City to pay the Additional Charges specified in Section 3.2(E) of the Financing Agreement and the Escrow Agent to apply the amounts deposited in trust to pay the Financing Payments and the defeased Obligations.

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

11.2 Notices.

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

To the Escrow Agent at:
Wells Fargo Bank, National Association
1300 S.W. Fifth Avenue, MAC P6101-114
Portland, Oregon 97201
Attention: Corporate Trust Services
Fax: (503) 886-3300

And to :
Wells Fargo Bank, National Association
608 2nd Avenue South, 12th Floor East
MAC N9303-121
Minneapolis, MN 55479
Attention: Paying Agent Services
Fax: (855) 579-4534

To the City at:

City of Lake Oswego
380 "A" Avenue
Lake Oswego, Oregon 97034
Attention: Finance Director
Fax: (503) 534-5240

Additional contact information for the Escrow Agent is listed in Exhibit C.

11.2(B) Any such notice shall be deemed given if sent via electronic or by facsimile or deposited in the United States mail with postage pre-paid.

11.3 Governing Law.

This Escrow Agreement shall be construed and governed in accordance with the laws of the State of Oregon. Any action regarding this Escrow Agreement or the transactions contemplated hereby shall be brought in an appropriate court for the State of Oregon in Clackamas County, Oregon.

11.4 Partial Invalidity.

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

11.5 Binding Effect; Successors.

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

11.6 Execution in Counterparts.

This Escrow Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute the same agreement.

11.7 Destruction of Canceled Obligations.

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

11.8 Headings.

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

[The remainder of this page is left blank intentionally.]

This Escrow Agreement is executed by its parties as of the September 20, 2011.

Wells Fargo Bank, National Association,
as Escrow Agent

_____
Authorized Officer

City of Lake Oswego, Oregon

_____
City Official

EXHIBIT A
(Maturity Schedule)

Aggregate original principal amount of Obligations: $11,500,000

Date of Obligations: September 20, 2011

Obligation interest is payable on June 1 and December 1 of each year, commencing June 1, 2012.

Maturity Date (June 1)	Maturity Amount ($)	Interest Rate (%)	CUSIP No. (Base 510390)
2012	$370,000	2.00%	VC8
2013	440,000	2.00	VD6
2014	450,000	4.50	VE4
2015	470,000	2.00	VF1
2016	480,000	2.00	VG9
2017	485,000	3.00	VH7
2018	500,000	3.00	VJ3
2019	515,000	3.00	VK0
2020	535,000	2.50	VL8
2021	545,000	3.00	VM6
2022	560,000	4.00	VN4
2023	585,000	4.00	VP9
2024	610,000	4.00	VQ7
2025	630,000	4.00	VR5
2026	660,000	3.00	VS3
2027	675,000	4.00	VT1
2028	705,000	4.00	VU8
2029	735,000	4.00	VV6
2030	760,000	4.00	VW4
2031	790,000	4.00	VX2

EXHIBIT B
(Form of Obligation)

No. R-__ $_____

Full Faith and Credit Obligation, Series 2011A
Evidencing a Proportionate Interest of the Owner Hereof
in Financing Payments to be Made Under a Financing Agreement Between
City of Lake Oswego, Oregon, as Borrower
and
Wells Fargo Bank, National Association, as Escrow Agent

Dated Date: September 20, 2011
Interest Rate Per Annum: ___%
Maturity Date: June 1, _____
CUSIP Number: 510390_____
Registered Owner: -----Cede & Co.-----
Principal Amount: -----_____ Dollars-----

This is to certify that the Registered Owner named above (the "Owner") of this Obligation is the owner of a proportionate and undivided interest in and right to receive a portion of the principal component of the Financing Payment due on the Maturity Date named above under and as defined in the Financing Agreement dated as of September 20, 2011, relating to this Obligation (the "Financing Agreement") by and between Wells Fargo Bank, National Association (the "Escrow Agent") and the City of Lake Oswego, Oregon (the "City"). Interest on this Obligation is payable on June 1 and December 1 of each year until maturity, commencing June 1, 2012, at the Interest Rate Per Annum set forth above. Payment of principal and interest shall be made to the Owner hereof as the Owner's name appears on the registration books of the City maintained by the Escrow Agent, as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable payment date. For so long as this Obligation is subject to a book-entry-only system, principal and interest payments shall be paid to the nominee of the securities depository for this Obligation. On the date of issuance of this Obligation, the securities depository for this Obligation is The Depository Trust Company, New York, New York, and Cede & Co. is the nominee of The Depository Trust Company. Such payment shall be made payable to the order of "Cede & Co."

This Obligation is one of the Full Faith and Credit Obligations, Series 2011A (the "Obligations"), executed and delivered by the Escrow Agent pursuant to an Escrow Agreement dated as of September 20, 2011, (the "Escrow Agreement") by and between the Escrow Agent and the City. The Financing Agreement and the Escrow Agreement (copies of which are on file with the Escrow Agent) state the terms on which the Obligations are delivered, and the rights thereunder of the Owners of the Obligations, the rights, duties and immunities of the Escrow Agent and the rights and obligations of the City under the Financing Agreement. The provisions of the Escrow Agreement and the Financing Agreement are incorporated into this Obligation by reference. Capitalized terms used in this Obligation have the meanings defined for such terms in the Escrow Agreement and the Financing Agreement.

This Obligation represents an ownership interest in and a right to receive up to the Principal Amount named above, representing a proportionate share of the principal component of the Financing Payment which is due on the maturity date of this Obligation, plus a proportionate share of interest accrued on that principal component, as provided in the Escrow Agreement.

The obligation of the City to pay the Financing Payments is unconditional. 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 City is authorized to enter into the Financing Agreement pursuant to the laws of the State of Oregon and Resolution No. 11-42 adopted by the City Council on June 21, 2011. The City has entered into the Financing Agreement for the purpose of financing and refinancing the projects described in the Resolution, and costs related to the authorization, sale, issuance and delivery of the Obligations. The Escrow Agent has agreed to hold its rights to receive the Financing Payments in escrow for the benefit of the Owners.

The Obligations are initially issued as a book-entry-only security issue with no certificates provided to the beneficial owners. While the Obligations are in book-entry form, the Obligations shall be subject to the rules and procedures of The Depository Trust Company. Records of ownership of beneficial interests in the Obligations will be maintained by The Depository Trust Company and its participants. Any exchange or transfer of this Obligation must be registered as provided in the Escrow Agreement. Should the book-entry-only system be discontinued, the Escrow Agent shall provide all beneficial owners with executed, printed Obligations which are registered in the name of the beneficial owners, who shall each then become Owners, as provided in the Escrow Agreement.

The Obligations shall mature and be subject redemption as described in the final Official Statement for the Obligations which is dated September 8, 2011.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Blanket Issuer Letter of Representations to The Depository Trust Company, as referenced in the Escrow Agreement. The Obligations are subject to conditional notice of redemption as provided in the Escrow Agreement. Unless the Depository Trust Company consents to a shorter period, the Escrow Agent will notify The Depository Trust Company of any Obligations called for redemption no fewer than 20 calendar days nor more than 60 calendar days prior to the date fixed for redemption. If the book-entry-only system is discontinued, the Escrow Agent and the City shall provide for an alternative system of providing notice of redemption and such other matters as need to be updated for the Obligations that is of general acceptance in the municipal bond market. Any failure to give notice shall not invalidate the redemption of the Obligations.

Unless this Obligation is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC") to the City or the Escrow Agent for registration of transfer, exchange or payment, and any Obligation issued is registered in the name of Cede & Co. or such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entry as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the Registered Owner hereof, Cede & Co., has an interest herein.

This Obligation shall remain in the Escrow Agent's custody subject to the provisions of the FAST Balance Certificate Agreement currently in effect between the Escrow Agent and The Depository Trust Company.

IN WITNESS WHEREOF, this Obligation has been executed and delivered by Wells Fargo Bank, National Association, as Escrow Agent, acting pursuant to the Escrow Agreement.

Wells Fargo Bank, National Association, as Escrow Agent

_____

Authorized Officer

THIS OBLIGATION SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE ESCROW AGENT IN THE SPACE PROVIDED BELOW.

CERTIFICATE OF AUTHENTICATION

This is one of the $11,500,000 aggregate principal amount of the City of Lake Oswego, Oregon, Full Faith and Credit Obligations, Series 2011A, issued in accordance with the Escrow Agreement described herein.

Date of authentication: September 20, 2011.

Wells Fargo Bank, National Association, as Escrow Agent

_____
Authorized Officer

ASSIGNMENT

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

_____

(Please insert social security or other identifying number of assignee)

this 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: Signature(s) must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company

Signature Guaranteed

_____
(Bank, Trust Company or Brokerage Firm)

_____
Authorized Officer

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

EXHIBIT C
Wells Fargo Bank, N.A.
Corporate Trust Services Contact Information

Local Contact:

Local Relationship Manager. Your relationship manager serves as your point of contact for new deal closings.

Beth Moyer, Relationship Manager
Wells Fargo Bank, N.A.
1300 SW 5th Avenue, 11th Floor
MAC P6101-114
Portland, OR 97201

Phone: (503) 886-1366
Fax: (503) 886-3300
Email: beth.a.moyer@wellsfargo.com

Paying Agent and Refunding Escrow Agent Services Unit Information:

Relationship Specialist. Your relationship specialist serves as your point of contact for ongoing account administration. Ongoing account administration includes debt service and fee matters, audit confirmations and any other questions or inquiries regarding your account with us.

Alicia Amato, Relationship Specialist
Wells Fargo Bank, N.A.
Attn: Paying Agent Services
608 2nd Avenue South, 12th Floor East
MAC N9303-121
Minneapolis, MN 55479

Phone: 1-855-411-2654
Fax: 1-855-579-4534
Email: payingagentservices@wellsfargo.com

Account Administration Unit Manager. Your dedicated account administration unit manager serves as an additional point of contact to assist you with any ongoing account needs or questions.

Greg Maples, Vice President
Wells Fargo Bank, N.A.
608 2nd Avenue South, 12th Floor East
MAC N9303-121
Minneapolis, MN 55479

Phone: 1-855-411-2654
Fax: 1-855-579-4534
Email: payingagentservices@wellsfargo.com

Debt Service Payments. Effective immediately, please remit all debt service payments to Wells Fargo using the following delivery instructions:

Wiring Instructions	Payment by ACH	Payment by check
Wells Fargo Bank, N.A. ABA 121000248 Account 6355060501 Attn: Paying Agent Services Ref: Account number	Wells Fargo Bank, N.A. ABA 091000019 Account 6355060501 Attn: Paying Agent Services Ref: Account number	Wells Fargo Corporate Trust Services NW6222 P.O. Box 1450 Minneapolis, MN 55485-6222

APPENDIX B
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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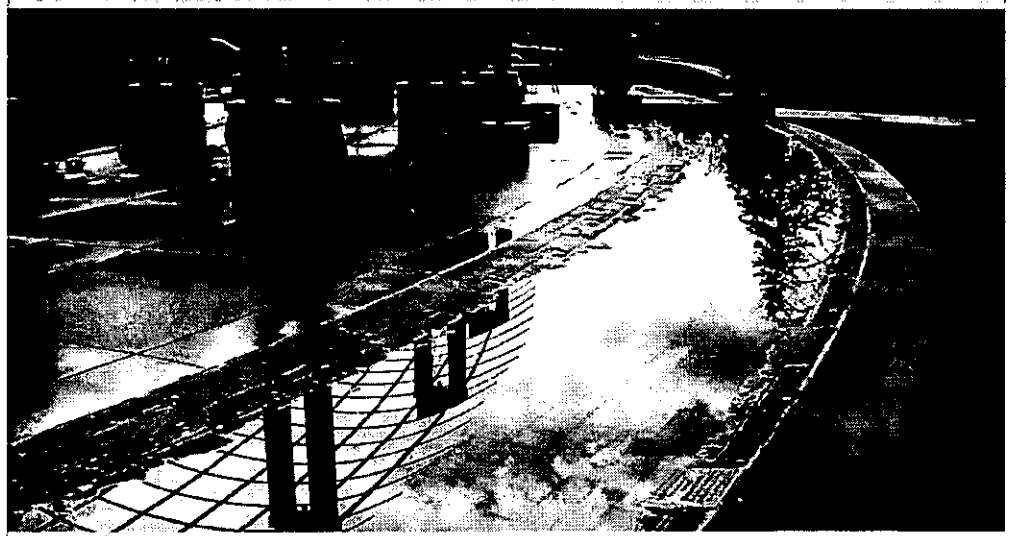
City of LAKE OSWEGO
OREGON



Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

CITY OF LAKE OSWEGO, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2010

prepared by

the Finance Department of
the City of Lake Oswego

and

available online at
www.ci.oswego.or.us/finance

This report was printed on recycled paper

CITY OF LAKE OSWEGO, OREGON

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2010

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CITY OF LAKE OSWEGO, OREGON

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2010

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CITY OF LAKE OSWEGO, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION I

INTRODUCTORY SECTION

CITY OF LAKE OSWEGO

FINANCE DEPARTMENT

380 A Avenue
PO Box 369
Lake Oswego, OR 97034

503-635-0260
www.ci.oswego.or.us

November 29, 2010

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

State law requires that local governments publish within six months of the close of each fiscal year a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) for the City of Lake Oswego is hereby submitted to fulfill this requirement for the fiscal year ended June 30, 2010.

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

Talbot, Korvola & Warwick LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City's financial statements for the fiscal year ended June 30, 2010. The independent auditor's report is located at the front of the financial section of this report.

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

Profile of the Government

The City of Lake Oswego (the City), incorporated in 1910, is located in northwest Oregon, along the Willamette River surrounding Oswego Lake. The City currently occupies about 11 square miles and serves a population of 36,755. It is the largest city in Clackamas County and about eight miles south of downtown Portland. Access to downtown Portland is from Highway 43, which parallels the Willamette River. Interstate 5 is the quickest route for commuters on the west end of the City to get to downtown Portland.

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

Jack Hoffman, Mayor ▪ Roger Hennagin, Councilor ▪ Donna Jordan, Councilor
Sally Moncrieff, Councilor ▪ Mary Olson, Councilor ▪ Bill Tierney, Councilor ▪ Dan Vizzini, Councilor

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

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

Local economy

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

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

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

Long-term financial planning

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

Along with the adoption of the 2009-10 budget, certain utility rate fee increases were approved. Effective July 1, 2009, a 15.5 percent rate increase for water, a 3 percent rate increase for surface water management fees, and a 30 percent rate increase for sewer fees were approved.

The City had $21,020,000 outstanding in three general obligation bond issues, $60,000,000 outstanding in one full faith and credit obligation, $11,540,000 outstanding in three revenue bond issues, and $14,345,000 outstanding in two urban renewal bond issues, for a total of $106,905,000 in bond issues outstanding as of June 30, 2010. Additionally $20 million is outstanding against a bank line of credit used to acquire the 14-acre property site on Kruse Way.

To the Mayor, City Council and Citizens of the City of Lake Oswego
November 29, 2010

City's Credit Ratings

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

Major initiatives

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

To prepare for the budget, the City Council defines and adopts new goals and removes the prior completed goals in January of each year. The list of goals during the 2009-10 fiscal year included these major policy areas: continuing an economic development strategy including redevelopment of the downtown area, sustainability, monitoring growth in the Stafford area, planning for neighborhood and community livability, approve a water treatment plant process for the Lake Oswego-Tigard water partnership, maintaining and improving city facilities, updating infrastructure, enhance public engagement in civic activities, senior needs, and protect the City's environmental assets.

Awards

Comprehensive Annual Financial Reporting Award. For the eighteenth consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Lake Oswego for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards and satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

To the Mayor, City Council and Citizens of the City of Lake Oswego
November 29, 2010

Acknowledgements

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

Respectfully submitted,

Ursula R. Euler
Finance Director

Alex D. McIntyre
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lake Oswego
Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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

President

Executive Director

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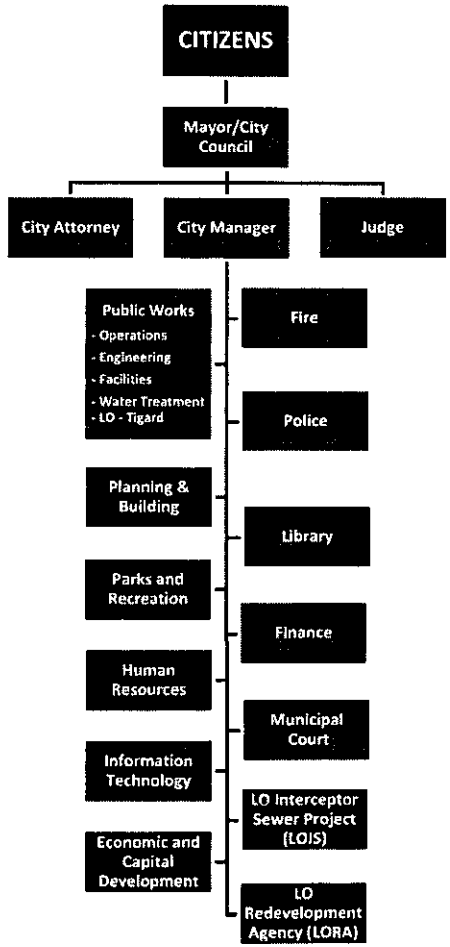
City of Lake Oswego, Oregon
Organization Chart



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CITY OF LAKE OSWEGO, OREGON

List of Elected and Appointed Officials

Elected Officials	Term Expires
Jack Hoffman, Mayor	December 31, 2012
Donna Jordan, Council President	December 31, 2010
Roger Hennagin, Councilor	December 31, 2010
Kristin Johnson, Councilor	December 31, 2010
Sally Moncrieff, Councilor	December 31, 2012
Mary Olson, Councilor	December 31, 2012
Bill Tierney, Councilor	December 31, 2012

Appointed Officials	Position
Alex D. McIntyre	City Manager
David Powell	City Attorney
Bruce Shepley	Municipal Court Judge
Directors:	
Bill Baars	Library Director
David Donaldson	Assistant City Manager
Don Forman	Interim Police Chief
Ursula Euler	Finance Director
Denise Frisbee	Planning & Building Director
Robert Galante	Redevelopment Director
Kim Gilmer	Parks and Recreation Director
Guy Graham	City Engineer
John Harris	Maintenance Services Director
Jane Heisler	Communications Director
Christine Kirk	Public Affairs Director
Joel Komarek	Project Director
Megan Phelan	Human Resources Director
Brant Williams	Director of Economic/Capital Developmt
Ed Wilson	Fire Chief

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CITY OF LAKE OSWEGO, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION II

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

November 29, 2010

The City Council
City of Lake Oswego, Oregon
Lake Oswego, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Oswego, Oregon (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2010, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (Continued)

The City Council
City of Lake Oswego
November 29, 2010

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

The Required Supplementary Information (budgetary comparison information for the General Fund and Notes to Required Supplementary Information), as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This budgetary comparison information for the General Fund and Notes to Required Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining and Individual Fund Financial Statements and Other Financial Schedules, listed in the Table of Contents as Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By _____
Robert G. Moody, Jr., Partner

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

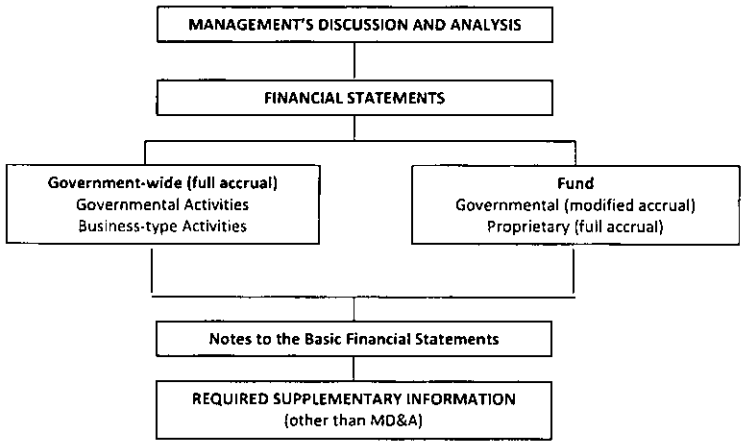
FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $206 million (*net assets*). Of this amount, $22 million (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets *increased* $8.1 million over the course of this year's operations. Net assets of our business-type activities *increased* by $3.5 million or four percent and net assets of our governmental activities *increased* by $4.6 million or four percent.
- During the fiscal year, the City incurred net expenses from governmental activities totaling $31.6 million. These net expenses were $4.6 million less than the $36.2 million generated in tax and other revenues for governmental programs.
- In the City's business-type activities, operating revenues increased by $2.4 million to $17.3 million, while operating expenses also increased from the prior year.
- The net direct cost of all the City's programs was $28.3 million with no new programs added this year.
- The General Fund reports a fund balance as of the end of this fiscal year of $22.4 million, which is an increase from the previous fiscal year-end balance of $2.4 million. This increase includes additional funds received for the Library after the formation of the Clackamas County Library District, savings in professional and technical costs, and lower debt service costs due to lower interest rates.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Chart 1
Required Elements of the
Comprehensive Annual Financial Report



Government-wide Statements

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

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

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

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

- Governmental activities—Most of the City's basic services are included here, such as police, fire, community development, parks, and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities—The City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sanitary sewer, and surface water management systems are included here.

Statement of Net Assets as of June 30, 2010

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 $206 million at the close of the most recent fiscal year.

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

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

	Governmental Activities		Business-type Activities		Total	
	FY09-10	FY08-09	FY09-10	FY08-09	FY09-10	FY08-09
Current and other assets	$ 38.8	$ 37.1	$ 34.7	$ 80.8	73.5	117.9
Capital assets	139.1	139.1	138.3	98.5	277.4	237.6
Total assets	177.9	176.2	173.0	179.3	350.9	355.5
Current liabilities	8.0	8.0	5.2	19.0	13.2	27.0
Long-term liabilities	53.8	56.8	78.1	74.0	131.9	130.8
Total liabilities	61.8	64.8	83.3	93.0	145.1	157.8
Net assets						
Invested in capital assets, net of related debt	87.7	84.4	79.6	77.2	167.3	161.6
Restricted	16.4	13.5	-	-	16.4	13.5
Unrestricted	12.0	13.5	10.1	9.1	22.1	22.6
Total	$ 116.1	$ 111.4	$ 89.7	$ 86.3	$ 205.8	$ 197.7

An additional portion of the City's net assets ($16.4 million or 8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($22.1 million) may be used to meet the City's ongoing obligations to citizens and creditors.

As of June 30, 2010, the City had positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true as of the end of the prior fiscal year.

Total net assets increased by $8.1 million during the current fiscal year. This increase represents the degree to which increases in ongoing revenues have exceeded similar increases in ongoing expenses, as well as an increase in sewer utility fees needed for funding of the ongoing Lake Oswego Interceptor Sewer project.

Statement of Activities for the fiscal year ended June 30, 2010

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

Table 2
Changes in Net Assets
(in millions)

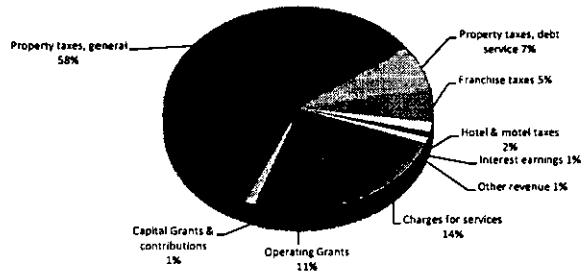
	Governmental Activities		Business-type Activities		Total	
	FY09-10	FY08-09	FY09-10	FY08-09	FY09-10	FY08-09
Revenues						
Charges for services	$ 7.0	$ 8.6	$ 17.2	$ 14.9	$ 24.2	$ 23.5
Grant and contributions	5.7	5.2	0.8	1.8	6.5	7.0
General revenues						
Property taxes	32.0	30.7	-	-	32.0	30.7
Franchise and hotel/motel taxes	3.3	3.2	-	-	3.3	3.2
Other	0.9	0.8	0.2	0.4	1.1	1.2
Total revenues	48.9	48.5	18.2	17.1	67.1	65.6
Expenses						
Governmental activities						
General government	9.1	7.4	-	-	9.1	7.4
Public safety	18.4	18.2	-	-	18.4	18.2
Culture and recreation	10.2	10.3	-	-	10.2	10.3
Community development	0.6	4.3	-	-	0.6	4.3
Highways and streets	4.4	4.7	-	-	4.4	4.7
Interest on long-term debt	1.6	2.1	-	-	1.6	2.1
Business-type activities						
Water	-	-	5.9	5.5	5.9	5.5
Wastewater	-	-	5.6	6.1	5.6	6.1
Surface water	-	-	2.0	1.9	2.0	1.9
Golf course	-	-	0.8	0.9	0.8	0.9
Tennis facility	-	-	0.4	0.3	0.4	0.3
Total expenses	44.3	47.0	14.7	14.7	59.0	61.7
Excess before transfers	4.6	1.5	3.5	2.4	8.1	3.9
Transfers	-	(0.1)	-	0.1	-	-
Increase in net assets	$ 4.6	$ 1.4	$ 3.5	$ 2.5	$ 8.1	3.9

Governmental Activities

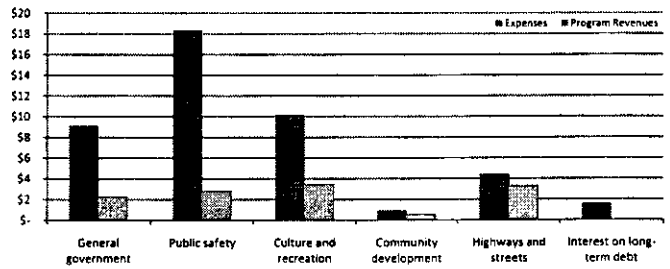
Governmental activities increased the City's net assets by $4.6 million, amounting to 57 percent of the total growth in the net assets of the City. Key elements of this increase are illustrated in Table 2 above. Total revenues remained stable and expenses were reduced in part due to a reduction in interest rates paid on the line-of-credit for the West End property purchased in fiscal year 2007. The reduction in fee revenue received due to less building activity was offset by increases in property tax revenue. Blended into the governmental activities is the City's component unit, Lake Oswego Redevelopment Agency (the Agency), the urban renewal agency of the City. This Agency's tax collections account for $3.2 million, or 10 percent, of the property taxes collected by the City. Property tax collections are restricted to repayment of urban renewal debt which finances various projects within the urban renewal district.

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

Revenues by Source - Governmental Activities



Expenses and Program Revenues (in millions) – Governmental Activities



Business-type Activities

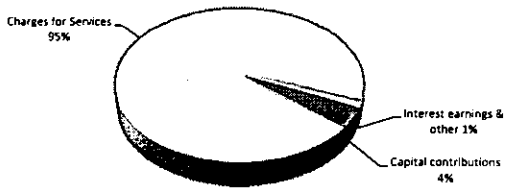
The Water Fund revenues represent approximately 36 percent of all utility revenues for the City. Most of these revenues went towards operations of the City's water treatment plant located in West Linn. The City issued new and refunded water bonds in fiscal year 2007-08 to help finance capital improvements.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

The Wastewater Fund revenues represent approximately 52 percent of all utility revenues for the City. Most of Lake Oswego is serviced by a wastewater system that feeds into a main pipeline located under the surface of Oswego Lake transporting sewage to the Tryon Creek wastewater treatment facility. In June 2009, $60 million in full-faith and credit obligations were sold for the first phases of the Lake Oswego Interceptor Sewer project, which is to upgrade and replace the main sewer line.

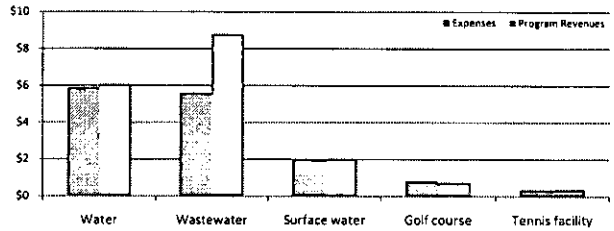
The Surface Water Fund revenues represent approximately 12 percent of all utility revenues for the City. These revenues go for the operations of the City's surface water management system. In April 2005, $3 million in surface water revenue bonds were sold to make infrastructure improvements.

Activities of the municipal golf course and tennis facility, approximately 6 percent of the total business-type revenues, are also included with business-type activities in the government-wide financial statements. These two activities represent a small fraction of the City's business-type activities.

Revenues by Source - Business-type Activities



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



General Fund Budgetary Highlights

During the fiscal year, there was a $700,000 increase in the General Fund's budgeted appropriations between the original and final budget. This increase reflected a grant received for energy savings projects, completion of the restoration of the historic iron furnace, and a $150,000 restitution pass-through payment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of the end of fiscal year 2009-10, the City had a net depreciated cost of $277.4 million invested in a broad range of capital assets that include police and fire equipment, buildings, park facilities, streets, bridges, and water and sewer lines (Table 3). This amount had a net increase of $39.8 million or 17 percent over the previous fiscal year (Table 4).

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

	Governmental Activities		Business-type Activities		Total	
	FY09-10	FY08-09	FY09-10	FY08-09	FY09-10	FY08-09
Land	$ 53.9	$ 53.2	$ 4.2	$ 3.8	$ 58.1	$ 57.0
Buildings and improvements	32.4	32.0	70.8	72.4	103.2	104.4
Machinery and equipment	2.6	3.0	3.3	3.5	5.9	6.5
Infrastructure	48.3	48.3	-	-	48.3	48.3
Construction in progress	1.9	2.6	60.0	18.8	61.9	21.4
Net capital assets	$ 139.1	$ 139.1	$ 138.3	$ 98.5	$ 277.4	$ 237.6

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

Table 4
Change in Capital Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	FY09-10	FY08-09	FY09-10	FY08-09	FY09-10	FY08-09
Beginning balance	$ 139.1	$ 140.2	$ 98.5	$ 86.8	$ 237.6	$ 227.0
Additions	10.5	4.2	44.6	15.2	55.1	19.4
Reductions	(5.3)	(0.2)	(1.4)	(0.1)	(6.7)	(0.3)
Depreciation	(5.2)	(5.1)	(3.4)	(3.4)	(8.6)	(8.5)
Ending balance	$ 139.1	$ 139.1	$ 138.3	$ 98.5	$ 277.4	$ 237.6

Assets utilized in governmental activities remained at $139.1 million. Annual depreciation did not exceed new additions. Non depreciable land and land improvements increased by one percent or $.70 million. Additions include completion of Millennium Plaza Park Improvements Phase 4 and the Historic Furnace restoration along with improvements and smaller projects throughout the community. The Lake Oswego/Tigard Water Expansion and Lake Oswego Interceptor Sewer Projects accounted for 94 percent of the increase in Business-type activities. The increases related to Construction in progress. More detailed information about the City's capital assets is presented in Note 3.C. in the notes to the basic financial statements.

Debt Outstanding

As of the end of the fiscal year, the City had $106.8 million in bonds outstanding—a decrease of 4 percent from last year—as shown in Table 5. More detailed information about the City's long-term debt is presented in Note 3.E. in the notes to the basic financial statements.

During the fiscal year ended June 30, 2009, the City issued $60 million of wastewater full faith and credit bonds to provide new resources for wastewater system improvements and to pay off the $12 million of bond anticipation notes issued in 2007. The bond anticipation notes were paid in full in July 2009.

Bond Ratings

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

Limitations on Debt

The State limits the amount of general obligation debt that cities can issue to 3 percent of the real market value of all taxable property within city limits. The City's outstanding general obligation debt of $21 million is significantly below this 3 percent limit of $275 million.

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

	June 30,	
	2010	2009
Governmental:		
General obligation bonds	$ 21.0	$ 23.4
Urban renewal bonds	14.3	15.4
Sub-total	35.3	38.8
Business-type:		
Water revenue bonds	9.1	9.7
Sanitary Sewer Full-Faith/Credit obligations	60.0	60.0
Surface water revenue bonds	2.4	2.5
Sub-total	71.5	72.2
Total	$ 106.8	$ 111.0

Economic Factors

The State of Oregon does not have a sales tax, making property taxes the major resource for most governmental agencies in Oregon. Property taxes are important to the City as they represent 65 percent of the resources which can be used for governmental activities. The next largest resource, at 14 percent, comes from fees and charges for services, and includes such items as permits, licenses, recreation charges and system development charges. Property taxes for general operations increased slightly over the last year.

The business-type activities are funded with utility fees and charges. Effective July 1, 2009, the City increased water rates by 15.5 percent, surface water rates by 3 percent, and increased wastewater rates by 30 percent. These rate increases equate to an additional $8.97 per month per household.

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

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

Statement of Net Assets

Statement of Activities

Fund Financial Statements

Notes to the Basic Financial Statements

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CITY OF LAKE OSWEGO, OREGON
Statement of Net Assets
as of June 30, 2010

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and investments	$ 10,425,312	$ 15,403,260	$ 25,828,572
Receivables (net of allowance)	3,852,740	3,974,404	7,827,144
Inventories	24,195	166,253	190,448
Unamortized bond issuance costs and prepaids	51,788	32,034	83,822
Restricted cash and investments	18,725,734	14,550,310	33,276,044
Total current assets	33,079,769	34,126,261	67,206,030
Noncurrent assets:			
Capital assets:			
Land and construction in progress	55,815,673	64,194,990	120,010,663
Other capital assets (net of accumulated depreciation)	83,262,981	74,125,293	157,388,274
Total capital assets (net of accumulated depreciation)	139,078,654	138,320,283	277,398,937
Restricted beneficial interest in trust	3,622,106	-	3,622,106
Notes Receivable	1,576,267	-	1,576,267
Unamortized bond issuance costs	507,717	576,612	1,084,329
Total noncurrent assets	144,784,744	138,896,895	283,681,639
Total assets	177,864,513	173,023,156	350,887,669
Liabilities			
Current liabilities:			
Accounts payable	1,171,584	3,838,712	5,010,296
Salaries and benefits payable	245,969	6,852	252,821
Deposits	196,124	-	196,124
Interest payable	198,074	246,352	444,426
Bonds payable	3,510,000	846,184	4,356,184
Compensated absences payable	2,696,399	275,975	2,972,374
Total current liabilities	8,018,150	5,214,075	13,232,225
Noncurrent liabilities:			
Bonds payable	31,855,000	72,996,301	104,851,301
Deposits	-	4,848,759	4,848,759
Line of credit payable, due after one year	20,156,913	-	20,156,913
Accrued other postemployment benefits obligation	1,736,717	224,650	1,961,367
Total noncurrent liabilities	53,748,630	78,069,710	131,818,340
Total liabilities	61,766,780	83,283,785	145,050,565
Net Assets			
Invested in capital assets, net of related debt	87,117,042	79,028,108	166,145,150
Restricted for:			
Inventories	24,195	166,253	190,448
Library and Adult Community Center programs	3,622,106	-	3,622,106
Capital projects	2,295,792	-	2,295,792
Debt service	1,879,140	-	1,879,140
Building program	2,455,684	-	2,455,684
System development charges	2,582,485	-	2,582,485
Unrestricted	16,121,289	10,545,010	26,666,299
Total net assets	$ 116,097,733	$ 89,739,371	$ 205,837,104

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

CITY OF LAKE OSWEGO, OREGON

Statement of Activities

for the fiscal year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:							
General government	$ 9,128,383	$ 1,426,492	$ 878,743	$ -	$ (6,823,148)	$ -	$ (6,823,148)
Public safety	18,358,774	2,503,422	402,462	-	(15,452,890)	-	(15,452,890)
Culture and recreation	10,187,448	1,045,546	2,374,872	108,374	(6,658,656)	-	(6,658,656)
Community development	556,623	536,236	-	49,560	29,173	-	29,173
Highways and streets	4,412,712	1,444,671	1,508,354	396,653	(1,063,034)	-	(1,063,034)
Interest on long-term debt	1,640,462	-	-	-	(1,640,462)	-	(1,640,462)
Total governmental activities	44,284,402	6,956,367	5,164,431	554,587	(31,609,017)	-	(31,609,017)
Business-type activities:							
Water	5,900,327	5,950,853	-	122,765	-	173,291	173,291
Wastewater	5,605,555	8,393,043	-	400,703	-	3,188,191	3,188,191
Surface water	1,996,007	1,822,127	-	165,947	-	(7,933)	(7,933)
Golf course	828,171	657,685	-	89,202	-	(81,284)	(81,284)
Tennis facility	376,281	380,719	-	-	-	4,438	4,438
Total business-type activities	14,706,341	17,204,427	-	778,617	-	3,276,703	3,276,703
Total government	$ 58,990,743	$ 24,160,794	$ 5,164,431	$ 1,333,204	(31,609,017)	3,276,703	(28,332,314)
General revenues:							
Taxes							
Property taxes, levied for general purposes					28,564,882	-	28,564,882
Property taxes, levied for debt service					3,485,289	-	3,485,289
Franchise taxes					2,626,633	-	2,626,633
Hotel and motel taxes					716,097	-	716,097
Interest and investment earnings					455,217	124,329	579,546
Other revenues					448,938	63,142	512,080
Transfers					(11,805)	11,805	-
Total general revenues and transfers					36,285,251	199,276	36,484,527
Change in net assets					4,676,234	3,475,979	8,152,213
Net assets - beginning					111,421,499	86,263,392	197,684,891
Net assets - ending					$ 116,097,733	$ 89,739,371	$ 205,837,104

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

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CITY OF LAKE OSWEGO, OREGON
Balance Sheet
Governmental Funds
as of June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	$ 9,074,051	$ 1,351,261	$ 10,425,312
Property taxes receivable	1,714,415	570,162	2,284,577
Accounts receivable	552,849	539,593	1,092,442
Due from other funds	5,798,511	-	5,798,511
Assessment liens receivable	-	164,846	164,846
Notes receivable	1,576,267	-	1,576,267
Inventories	-	24,195	24,195
Restricted cash and investments	2,455,684	16,270,050	18,725,734
Restricted beneficial interest in trust	3,622,106	-	3,622,106
Total assets	$ 24,793,883	$ 18,920,107	$ 43,713,990
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 632,879	$ 538,705	$ 1,171,584
Salaries and benefits payable	238,330	7,639	245,969
Refundable deposits	112,208	83,916	196,124
Deferred revenue	1,373,953	654,493	2,028,446
Due to other funds	-	5,798,511	5,798,511
Total liabilities	2,357,370	7,083,264	9,440,634
Fund balances:			
Reserved for:			
Inventories	-	24,195	24,195
Library and Adult Community Center	3,622,106	-	3,622,106
Capital projects	-	5,856,093	5,856,093
Debt service	-	1,879,140	1,879,140
Building programs	2,455,684	-	2,455,684
Systems development charges	-	2,582,485	2,582,485
Unreserved, reported in:			
General Fund	16,358,723	-	16,358,723
Special revenue funds	-	1,422,692	1,422,692
Capital projects funds	-	72,238	72,238
Total fund balances	22,436,513	11,836,843	34,273,356
Total liabilities and fund balances	$ 24,793,883	$ 18,920,107	
Net assets reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $57,744,395.			139,078,654
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:			
Property taxes, earned but unavailable			2,186,375
Assessment liens, earned but unavailable			152,946
Bond issuance costs, net of amortization			559,505
Accrued liabilities that are not due and payable in the current period and therefore are not reported in the funds:			
Accrued compensated absences			(2,696,399)
Accrued interest payable			(198,074)
Accrued other post employment pension obligation			(1,736,717)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds			(55,521,913)
Net assets of governmental activities			$ 116,097,733

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

CITY OF LAKE OSWEGO, OREGON
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the fiscal year ended June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	$ 25,484,337	$ 6,479,482	$ 31,963,819
Franchise taxes	2,126,633	500,000	2,626,633
Intergovernmental	4,087,668	1,583,590	5,671,258
Licenses and fees	2,042,439	2,622,310	4,664,749
Fines and forfeitures	1,129,228	-	1,129,228
Sales and services	3,280,961	-	3,280,961
Charges for services	4,014,897	2,713,335	6,728,232
Special assessment - principal	-	49,560	49,560
Miscellaneous	1,228,561	377,230	1,605,791
Total revenues	43,394,724	14,325,507	57,720,231
Expenditures:			
Current:			
General government	12,532,848	1,897,896	14,430,744
Public safety	17,782,141	-	17,782,141
Culture and recreation	9,018,294	265,111	9,283,405
Community development	-	2,589,235	2,589,235
Highways and streets	-	2,207,705	2,207,705
Debt service:			
Principal	-	3,375,000	3,375,000
Interest	-	1,273,498	1,273,498
Intergovernmental expense	38,499	-	38,499
Capital outlay	1,194,907	3,609,578	4,804,485
Total expenditures	40,566,689	15,218,023	55,784,712
Excess (deficiency) of revenues over (under) expenditures	2,828,035	(892,516)	1,935,519
Other financing sources (uses):			
Transfers in	35,000	1,767,572	1,802,572
Transfers out	(432,000)	(1,418,572)	(1,850,572)
Proceeds from sale of capital assets	2,500	-	2,500
Total other financing sources (uses)	(394,500)	349,000	(45,500)
Net change in fund balances	2,433,535	(543,516)	1,890,019
Fund balances - beginning	20,002,978	12,380,359	32,383,337
Fund balances - ending	$ 22,436,513	$ 11,836,843	$ 34,273,356

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

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CITY OF LAKE OSWEGO, OREGON

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

for the fiscal year ended June 30, 2010

Amounts reported for governmental activities in the statement of activities (pages 28 & 29) are different because:		
Net change in fund balances--total governmental funds (page 31)		$ 1,890,019
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital acquisition:		
Expenditures for capital assets	$ 4,804,485	
Less current year depreciation	(5,202,509)	(398,024)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, transfers, and donations) is to decrease net assets.		(47,514)
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.		399,553
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Property taxes	152,779	
Assessments and interest	(88,406)	64,373
Issuance of debt proceeds are reported as financing sources and payments to escrow agent for refunded bonds are reported as financing uses in governmental funds and thus contribute to the change in fund balances. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		3,375,000
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.		
Interest expense and amortization of issuance costs		(21,038)
Net other post employment pension obligation		(437,924)
Compensated absences		(148,211)
Change in net assets of governmental activities (page 29)		$ 4,676,234

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

CITY OF LAKE OSWEGO, OREGON
Statement of Net Assets
Proprietary Funds
as of June 30, 2010

	Business-type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Surface Water Fund	Other Enterprise Funds	Total
Assets					
Current assets:					
Cash and investments	$ 6,546,334	$ 7,030,481	$ 1,342,497	$ 483,948	$ 15,403,260
Receivables (net of allowance)	2,250,412	1,416,567	307,425	-	3,974,404
Inventories	93,025	-	-	73,228	166,253
Unamortized bond issuance costs and prepaids	-	32,034	-	-	32,034
Restricted cash and investments	2,913,059	11,637,251	-	-	14,550,310
Total current assets	11,802,830	20,116,333	1,649,922	557,176	34,126,261
Noncurrent assets:					
Capital assets:					
Land	1,575,735	2,090,301	278,304	227,929	4,172,269
Buildings and improvements	59,042,360	40,872,192	24,123,389	2,097,115	126,135,056
Machinery and equipment	5,006,496	3,653,137	748,322	251,409	9,659,364
Construction in progress	3,890,744	56,040,814	91,163	-	60,022,721
	69,515,335	102,656,444	25,241,178	2,576,453	199,989,410
Less accumulated depreciation	(30,059,752)	(19,292,899)	(10,764,677)	(1,551,799)	(61,669,127)
Total capital assets (net of accumulated depreciation)	39,455,583	83,363,545	14,476,501	1,024,654	138,320,283
Unamortized bond issuance costs	-	576,612	-	-	576,612
Total noncurrent assets	39,455,583	83,940,157	14,476,501	1,024,654	138,896,895
Total assets	51,258,413	104,056,490	16,126,423	1,581,830	173,023,156
Liabilities					
Current liabilities:					
Accounts payable	1,287,898	2,482,375	52,108	16,331	3,838,712
Salaries and benefits payable	3,779	1,717	-	1,356	6,852
Matured and accrued bond interest payable	30,212	207,372	8,768	-	246,352
Bonds payable	595,000	121,184	130,000	-	846,184
Compensated absences payable	137,932	98,670	16,664	22,709	275,975
Total current liabilities	2,054,821	2,911,318	207,540	40,396	5,214,075
Noncurrent liabilities:					
Bonds payable	8,525,000	62,181,301	2,290,000	-	72,996,301
Deposits	4,848,759	-	-	-	4,848,759
Accrued other postemployment benefits obligation	83,150	61,600	17,600	62,300	224,650
Total noncurrent liabilities	13,456,909	62,242,901	2,307,600	62,300	78,069,710
Total liabilities	15,511,730	65,154,219	2,515,140	102,696	83,283,785
Net Assets					
Invested in capital assets, net of related debt	33,248,642	32,698,311	12,056,501	1,024,654	79,028,108
Unrestricted	2,498,041	6,203,960	1,554,782	454,480	10,711,263
Total net assets	$ 35,746,683	$ 38,902,271	$ 13,611,283	$ 1,479,134	$ 89,739,371

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

Continued from previous page

CITY OF LAKE OSWEGO, OREGON

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

for the fiscal year ended June 30, 2010

	Business-type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Surface Water Fund	Other Enterprise Funds	Total
Operating revenues:					
Licenses & Fees	488,296	669,992	-	2,347	1,160,635
Charges for sales and services	5,462,557	7,723,051	1,822,127	1,036,057	16,043,792
Miscellaneous	20,590	14,942	3,930	23,680	63,142
Total operating revenues	5,971,443	8,407,985	1,826,057	1,062,084	17,267,569
Operating expenses:					
Salaries and benefits	1,633,120	976,455	262,080	652,510	3,524,165
Operating supplies and services	1,583,766	2,453,582	279,845	376,097	4,693,290
Depreciation	1,442,136	1,251,878	659,240	66,585	3,419,839
Services performed by other funds	1,055,068	1,044,829	685,844	102,578	2,888,319
Total operating expenses	5,714,090	5,726,744	1,887,009	1,197,770	14,525,613
Operating income (loss)	257,353	2,681,241	(60,952)	(135,686)	2,741,956
Nonoperating revenues (expenses):					
Interest on investments	80,580	28,189	10,584	4,976	124,329
Interest expense	(186,237)	-	(108,998)	-	(295,235)
Bond premium	-	121,189	-	-	121,189
Loss on sale of capital assets	-	-	-	(6,682)	(6,682)
Total nonoperating revenues (expenses)	(105,657)	149,378	(98,414)	(1,706)	(56,399)
Net income before contributions	151,696	2,830,619	(159,366)	(137,392)	2,685,557
Capital contributions	122,765	400,703	165,947	89,202	778,617
Transfers in	-	-	-	83,000	83,000
Transfers out	-	-	(36,195)	(35,000)	(71,195)
Change in net assets	274,461	3,231,322	(29,614)	(190)	3,475,979
Total net assets - beginning	35,472,222	35,670,949	13,640,897	1,479,324	86,263,392
Total net assets - ending	$ 35,746,683	$ 38,902,271	$ 13,611,283	$ 1,479,134	$ 89,739,371

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

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CITY OF LAKE OSWEGO, OREGON

Statement of Cash Flows
Proprietary Funds
for the fiscal year ended June 30, 2010

	Business-type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Surface Water Fund	Other Enterprise Funds	Total
Cash flows from operating activities:					
Receipts from customers	$ 4,595,033	$ 8,123,373	$ 1,854,385	$ 1,044,998	$ 15,617,789
Payments to suppliers	(495,425)	(2,495,431)	(236,189)	(388,651)	(3,615,696)
Payments to employees	(1,603,329)	(945,429)	(260,550)	(634,172)	(3,443,480)
Internal activity-payments to other funds	(1,055,068)	(1,044,829)	(685,844)	(102,578)	(2,888,319)
Other receipts	20,590	14,942	3,930	23,680	63,142
Net cash flows from operating activities	1,461,801	3,652,626	675,732	(56,723)	5,733,436
Cash flows from noncapital financing activities:					
Transfers to/from other funds	-	-	(36,195)	48,000	11,805
Cash flows from capital and related financing activities:					
Purchases, acquisitions, and construction of capital assets	(4,063,530)	(38,290,079)	(124,929)	(16,643)	(42,495,181)
Proceeds from intergovernmental deposit	2,008,091	-	-	-	2,008,091
Amortization of bond issuance costs	-	32,033	-	-	32,033
Principal paid on capital debt	(555,000)	(12,000,000)	(125,000)	-	(12,680,000)
Interest paid on capital debt	(204,436)	(101,196)	(109,526)	-	(415,158)
Net cash flows from capital and related financing activities	(2,814,875)	(50,359,242)	(359,455)	(16,643)	(53,550,215)
Cash flows from investing activities:					
Investment income	80,580	28,189	10,584	4,976	124,329
Net increase (decrease) in cash and cash equivalents	(1,272,494)	(46,678,427)	290,666	(20,390)	(47,680,645)
Cash and cash equivalents, June 30, 2009	10,731,887	65,346,159	1,051,831	504,338	77,634,215
Cash and cash equivalents, June 30, 2010	$ 9,459,393	$ 18,667,732	$ 1,342,497	$ 483,948	$ 29,953,570
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	$ 257,353	$ 2,681,241	$ (60,952)	$ (135,686)	$ 2,741,956
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	1,442,136	1,251,878	659,240	66,585	3,419,839
Changes in assets and liabilities:					
Receivables	(1,355,820)	(269,670)	32,258	6,594	(1,586,638)
Inventories	9,869	-	-	(5,303)	4,566
Prepaid expenses	-	17,314	-	-	17,314
Accounts payable	1,078,472	(59,163)	43,656	(7,251)	1,055,714
Salaries and benefits payable	1,842	1,717	-	969	4,528
Accrued other postemployment benefits obligation	19,100	22,600	4,400	6,400	52,500
Compensated absences payable	8,849	6,709	(2,870)	10,969	23,657
Net cash provided by operating activities	$ 1,461,801	$ 3,652,626	$ 675,732	$ (56,723)	$ 5,733,436
Noncash capital and related financing activities:					
Capital assets contributed to/from developers and other funds	$ 122,765	$ 400,703	$ 129,752	$ 89,202	$ 742,422

Continued on next page

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

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1. The reporting entity and summary of significant accounting policies

The financial statements of the City of Lake Oswego, Oregon (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). GAAP statements require the application of all relevant Governmental Accounting Standards Board (GASB) pronouncements. The financial statements have incorporated all applicable GASB pronouncements as well as, for the proprietary funds, the Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. No FASB guidance issued after November 30, 1989 has been applied.

A. Reporting entity

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

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

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

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

B. Government-wide and fund financial statements

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

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

B. Government-wide and fund financial statements, continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The City reports the following governmental funds:

Major Governmental Funds:

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

Nonmajor Governmental Funds:

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

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

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

The City reports three of its five proprietary funds as major funds. All five of these proprietary funds are classified as enterprise funds that are used to account for the acquisition, operation, and maintenance of activities that are similar to private businesses. These funds are entirely or predominantly self-supported through user charges to customers, and are categorized as follows:

Major Proprietary Funds:

- *Water Fund*
  Accounts for the activities of the City's water distribution system. Revenue is derived primarily from water service charges. The Water Fund consists of the following two budgetary funds: Water Fund and Lake Oswego-Tigard Water Partnership Fund.

- *Wastewater Fund*
  Accounts for the activities of the City's wastewater collection and treatment system. Revenue is derived primarily from sewer service charges.

CITY OF LAKE OSWEGO, OREGON
Notes to the Basic Financial Statements
June 30, 2010

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

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

- *Surface Water Fund*
  Accounts for the activities of the City's surface water management system which was developed to address water quality and flooding problems. Revenue is derived primarily from surface water management charges.

Nonmajor Proprietary Funds:

- *Golf Course Fund*
  Accounts for the operation of the City's golf course. Revenue is derived primarily from user fees.

- *Tennis Facility Fund*
  Accounts for the operation of the City's indoor tennis facility. Revenue is derived primarily from user fees.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Included within the principal operating revenues of the City's water, sanitary sewer, and surface water funds are also fees that recover the cost of connecting new customers to the City's utility system. Operating expenses for the proprietary funds include the cost of sales and services, administrative overhead, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

Cash and cash equivalents include cash on hand, short-term investments, and cash deposits that are held in an investment pool that has the general characteristic of a demand deposit account. The City maintains cash and investment balances in a common pooled account. Investment income is allocated monthly based on each fund's average cash balance.

Investments are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. The City uses quoted market prices to determine fair value of investments. Realized gains and losses as well as the change in fair value of investments are recorded as components of investment income.

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

D. Assets, liabilities, and net assets or equity, continued

2. Receivables and payables

The City's investment policy, adopted by the City Council, essentially mirrors the requirements of the Oregon Revised Statutes. Currently, the City's investment portfolio includes investments in the State of Oregon Local Government Investment Pool and U.S. Government Agency Securities.

Property taxes are levied on and become a lien against the property on July 1 in the year in which they are due. Collection dates are November 15, February 15, and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

In the fund financial statements, property taxes receivables that are collected within 60 days after the end of fiscal year are considered measurable and available, and therefore, are recognized as revenue. The property taxes receivable portion beyond 60 days is recorded as deferred revenue. Assessments are recognized as receivables at the time property owners are assessed on property improvements. These receivables are entirely offset by deferred revenue, as assessment revenue is recognized upon collection.

In the government-wide financial statements, property taxes and assessment receivables are recognized as revenue when earned and are shown net of an allowance for uncollectibles.

In the proprietary funds, receivables include services provided but not billed. The enterprise funds' receivables include billings for residential and commercial customers utilizing the City's water, sanitary sewer, and surface water services and are reported net of an allowance for uncollectibles, which is determined based upon an estimated percentage of the receivable balance.

3. Inventories and prepaid items

In the government-wide and the proprietary funds financial statements, inventories of materials and supplies in the proprietary funds are stated at the lower of average cost or market, using the first-in first-out method and are charged against operations as used. Also, advance payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid. The inventories in the governmental funds are not significant at the end of the fiscal year.

4. Restricted assets

Assets whose use is restricted by legal requirements external to the City, are segregated on the government-wide statement of net assets and the proprietary fund statement of net assets. These legal restrictions include bond covenants that establish debt reserves and use limitations, as well as building fees and systems development charges that are legally restricted by applicable state statutes.

When either restricted or unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

CITY OF LAKE OSWEGO, OREGON
Notes to the Basic Financial Statements
June 30, 2010

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

D. Assets, liabilities, and net assets or equity, continued

5. Beneficial Interest in Trust

The Oregon Community Foundation (the Foundation) is an Oregon non-profit corporation. Foundation endowments are owned, managed, and invested by the Foundation in accordance with the charitable goals of the underlying endowment. The Foundation maintains variance power and legal ownership of their endowments and reports the funds as assets in their financial statements. Also, in accordance with FASB ASC Topic Not-for-Profit Entities, the Foundation establishes a liability for the fair market value of the endowment, which is generally equivalent to the present value of future payments expected to be made back to the charitable organization.

Upon a majority vote of the Lake Oswego City Council, working with the Adult Community Center (ACC) and Library advisory boards, the City may receive these funds back from the Foundation and use them in a manner that is consistent with the original endowment purpose. Based upon the City's indirect access to these funds, their respective fair values are included in the General Fund as a non-current asset (these items were included in the ACC Fund and the Library Fund's balance sheet prior to consolidation into the General Fund at year end).

The Foundation's Lake Oswego Endowment Funds:	Value as of June 30, 2008	Value as of June 30, 2009	Value as of June 30, 2010
Adult Community Center Endowment Fund	$ 1,688,738	$ 1,340,423	$ 1,481,590
Public Library Endowment Fund	1,848,084	1,467,187	1,628,934
Public Library - Bischoff Endowment Fund	650,757	487,623	511,582
	$ 4,187,579	$ 3,295,233	$ 3,622,106

6. Unamortized Bond Issuance Costs

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. The unamortized portion is recorded as unamortized bond issuance costs on the statement of net assets.

7. Capital assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of $10,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

D. Assets, liabilities, and net assets or equity, continued

7. Capital assets, continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Exhaustible assets of the City, as well as the Lake Oswego Redevelopment Agency, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-50
Infrastructure	30
Vehicles	5-15
Machinery and equipment	5-10
Water systems	50
Sewer systems	40

Capital assets include contribution of capital assets from outside developers. Revenue from these capital contributions is reflected in capital grants and contributions on the statement of activities.

8. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave, since the City does not have a policy to ***pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The City has chosen to report them as a current liability because they can be liquidated at any time.***

9. Other Postemployment Benefits Obligations

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

10. Long-term obligations

In the government-wide financial statements, and in the proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. When significant, bond premiums, discounts, amounts deferred on refundings, and issuance costs are deferred and amortized over the applicable bond term.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs, as period costs in the year of issue. The face amount of debt issued and any related premium is reported as other financing sources, while discounts on debt issuances are reported as other

CITY OF LAKE OSWEGO, OREGON
Notes to the Basic Financial Statements
June 30, 2010

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

D. Assets, liabilities, and net assets or equity, continued

10. Long-term obligations, continued

financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Fund equity

In the fund financial statements, governmental funds report reserved fund balances for amounts that are not available for appropriation because they are legally segregated for a specific purpose. These legal segregations include bond covenants reserving debt service payments and use limitations, as well as building and systems development charges fund balances legally restricted by applicable state statutes.

In the government-wide statement of net assets, fund equity is referred to as *net assets* and is segregated into the following three components: 1) amount invested in capital assets, net of related debt, 2) legally restricted by outside parties for a specific purpose, and 3) unrestricted.

12. Use of estimates

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

2. **Stewardship, compliance, and accountability**

Municipal budgets are adopted on a basis consistent with Oregon Revised Statutes (ORS 294 – Local Budget Law). The process under which the budget is adopted is described in the following paragraphs.

The City Manager is responsible for submitting a proposed budget to the Budget Committee, which is comprised of the City Council and an equal number of citizens of the City. In Lake Oswego, the budget is presented in the spring to the Budget Committee for the subsequent budget period. The City is required to prepare a balanced budget for all funds, subject to the budget requirements of state law, in accordance with Oregon Revised Statutes. Each fund is budgeted on the modified accrual basis of accounting.

The budget document is required to contain specific detailed information for various revenue and expenditure categories. Information on the past two years' actual receipts and expenditures as well as current-year estimates is also included in the budget document.

The Budget Committee conducts public hearings for the purpose of obtaining citizens' comments, and then approves a budget and submits it to the City Council for final adoption. The approved expenditures for each fund may not be increased by more than 10 percent by Council without returning to the Budget

2. Stewardship, compliance, and accountability, continued

Committee for a second approval. After the Council adopts the budget and certifies the total of *ad valorem* taxes to be levied, no additional tax levy may be made for that budget period.

The City Council legally adopts the budget by resolution before July 1. The resolution establishes appropriations for each fund and sets the level by which expenditures cannot legally exceed appropriations. In the general fund, community development fund, and public safety fund, the levels of budgetary control established by resolution are set at the department level. For all other funds, the levels of budgetary control established by resolution are personal services, materials and services, debt service, capital outlay, transfers and operating contingency. Appropriations lapse as of the end of the fiscal year for goods or services not yet received.

The City Council may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets. Unexpected additional resources may be added to the budget through the use of a supplemental budget. Some supplemental budgets require hearings before the public, publications in newspapers and approval by the City Council. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the City Council. During the 2009-10 fiscal year, the City Council approved three supplemental budget resolutions, recognizing additional resources carried over from the prior period and appropriating additional unanticipated monies received after the budget was adopted.

3. Detailed notes on all accounts

A. Deposits and Investments

Deposits. Deposits with financial institutions are comprised of two general demand-deposit accounts and a payroll zero-balance account. The combined bank balance in these accounts at June 30, 2010 is $5,647,858. Of these deposits, $250,000 is covered by federal depository insurance. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance were held at a qualified depository for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer.

Investments. Oregon Revised Statues and the City's investment policy authorize the City to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade corporate indebtedness, and the State of Oregon Local Government Investment Pool (LGIP). The City's LGIP investments are reported at fair value, which is 99 percent of pool shares, at June 30, 2010.

3. Detailed notes on all accounts, continued

A. Deposits and Investments, continued

As of June 30, 2010, the City had the following investments:

Investment type	Fair value	Weighted average maturity (months)
Bayerische Landesbank		
Government National Mortgage Association	$ 26,450,302	0.50
State of Oregon Local Government Investment Pool	26,918,492	-
Certificates of Deposit (CD)	1,200,000	11.00
	$ 54,568,794	

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the individual maturities in its investment portfolio to eighteen months or less.

Credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top two rating issued by NRSROs. The State of Oregon Local Government Investment Pool (LGIP) is not rated by NRSROs. As of June 30, 2010, the City's investment in US Government Agency Securities Government National Mortgage Association was backed by the full faith and credit of the Federal Government.

Concentration of credit risk. The City's investment policy, as it relates to investing outside of the LGIP, does not allow for an investment in any single corporate entity and its affiliates or subsidiaries that is in excess of five percent of the City's total investments (ORS 294.035).

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City participates in the State of Oregon Local Government Investment Pool (LGIP), an open-ended, no-load diversified portfolio created under ORS 294.805 to 294.895 that is not registered with the U.S. Securities and Exchange Commission as an investment company. The State Treasurer administers the LGIP with the oversight of the Oregon Investment Council and with the advice of the Oregon Short Term Fund Board. These funds must be invested and managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The Oregon Audits Division of the Secretary of State's Office audits the LGIP annually.

3. Detailed notes on all accounts, continued

B. Receivables

Receivables as of the fiscal year ended June 30, 2010 for the City's governmental activities, net of the allowance for uncollectible amounts, are as follows:

	General	Other (nonmajor)	Total
Receivables:			
Property taxes	$ 1,714,415	$ 570,162	$ 2,284,577
Accounts	552,849	539,593	1,092,442
Interest	222,772	93,103	315,875
Assessments	-	164,846	164,846
Gross receivables	2,490,036	1,367,704	3,857,740
Less: allowance for uncollectibles	-	(5,000)	(5,000)
Net receivables	$ 2,490,036	$ 1,362,704	$ 3,852,740

Receivables of the City's business-type activities are reported net of allowance for uncollectible amounts. Total estimated uncollectible amounts related to receivables as of the end of the fiscal year are as follows:

Uncollectibles, business-type activities:	
Water Fund	$ 12,000
Sanitary Sewer Fund	18,400
Surface Water Fund	6,200
Total allowance	$ 36,600

Governmental funds report deferred revenue in the fund financial statements in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The deferred revenue reported in the governmental funds was as follows:

Property taxes:	
General Fund	$ 1,373,953
Nonmajor Funds	489,647
	1,863,600
Liens and assessments:	
Systems Development Charges Fund	9,813
Nonmajor Funds	155,033
	164,846
Total deferred revenue for governmental funds	$ 2,028,446

3. Detailed notes on all accounts, continued

B. Receivables, continued

Note Receivable. The City of Lake Oswego loaned $1,500,000 to Tri-County Metropolitan Transportation District for the Portland Lake Oswego Transit Corridor Project to assist with the Draft Environmental Impact Statement. The intergovernmental agreement was dated December 1, 2008. The amount of $1,800,000 is to be repaid by September 30, 2012. The difference between the amount loaned and the amount to be repaid is being recognized by the City as investment income using the straight- line method. The note is current and has a balance at June 30, 2010 of $1,576,267.

C. Capital assets

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

Primary government

Governmental activities:	Beginning balances	Additions	Reductions	Reclasses & adjustments	Ending balances
Capital assets, not being depreciated:					
Land and land improvements	$ 53,230,671	$ 711,383	$ -	$ -	$ 53,942,054
Construction in progress	2,604,821	4,550,332	(5,281,534)	-	1,873,619
Total capital assets, not being depreciated	55,835,492	5,261,715	(5,281,534)	-	55,815,673
Capital assets, being depreciated:					
Buildings	28,451,547	1,601,216	(37,752)	-	30,015,011
Improvements other than buildings	19,092,878	667,611	(10,164)	-	19,750,325
Machinery and equipment	9,932,621	259,100	(182,372)	49,981	10,059,330
Infrastructure	78,539,786	2,642,924	-	-	81,182,710
Total capital assets, being depreciated	136,016,832	5,170,851	(230,288)	49,981	141,007,376
Less accumulated depreciation for:					
Buildings	(6,906,276)	(849,945)	52,755	-	(7,703,466)
Improvements other than buildings	(8,679,313)	(1,038,997)	5,775	-	(9,712,535)
Machinery and equipment	(6,914,792)	(700,840)	127,270	-	(7,488,362)
Infrastructure	(30,227,305)	(2,612,727)	-	-	(32,840,032)
Total accumulated depreciation	(52,727,686)	(5,202,509)	185,800	-	(57,744,395)
Total capital assets being depreciated, net	83,289,146	(31,658)	(44,488)	49,981	83,262,981
Governmental activities capital assets, net	$139,124,638	$ 5,230,057	$ (5,326,022)	$ 49,981	$139,078,654

3. Detailed notes on all accounts, continued

C. Capital assets, continued

Depreciation expense was charged to functions/programs as follows:

General government	$ 1,043,757
Public safety	553,470
Culture and recreation	1,378,588
Community development	29,088
Highways and streets	2,197,606
Depreciation expense (governmental)	$ 5,202,509

	Beginning balances	Additions	Reductions	Reclasses & adjustments	Ending balances
Business-type activities:					
Capital assets, not being depreciated:					
Land and land improvements	$ 3,819,152	$ 353,117	$ -	$ -	$ 4,172,269
Construction in progress	18,822,323	42,475,110	(1,274,712)	-	60,022,721
Total capital assets, not being depreciated	22,641,475	42,828,227	(1,274,712)	-	64,194,990
Capital assets, being depreciated:					
Buildings	27,247,407	256,620	(13,362)	-	27,490,665
Improvements other than buildings	97,306,091	1,338,300	-	-	98,644,391
Machinery and equipment	9,605,902	135,287	(31,844)	(49,981)	9,659,364
Total capital assets, being depreciated	134,159,400	1,730,207	(45,206)	(49,981)	135,794,420
Less accumulated depreciation for:					
Buildings	(11,970,370)	(555,782)	6,681	-	(12,519,471)
Improvements other than buildings	(40,259,015)	(2,507,252)	-	-	(42,766,267)
Machinery and equipment	(6,108,409)	(356,805)	81,825	-	(6,383,389)
Total accumulated depreciation	(58,337,794)	(3,419,839)	88,506	-	(61,669,127)
Total capital assets being depreciated, net	75,821,606	(1,689,632)	43,300	(49,981)	74,125,293
Business-type activities capital assets, net	$ 98,463,081	$ 41,138,595	$ (1,231,412)	$ (49,981)	##########

Depreciation expense was charged to functions/programs as follows:

Water	$ 1,442,136
Wastewater	1,251,878
Surface water	659,240
Golf course	46,345
Tennis facility	20,240
Depreciation expense (business-type)	$ 3,419,839

3. Detailed notes on all accounts, continued

C. Capital assets, continued

Construction commitments

The City has active construction projects as of June 30, 2010, including the Lake Oswego Interceptor Sewer (LOIS) project; Oswego Lakefront Park project; and the Lake Oswego/Tigard Water Expansion. As of the fiscal year-end, the City's commitments are as follows:

Project	Expended through 6/30/10	Remaining commitment
Street rehabilitation	$ 140,547	$ 210,699
Lake interceptor and other sewer projects	58,209,936	31,320,388
Lake Oswego/Tigard Water Expansion	3,838,192	1,599,377
Water and surface water projects	143,715	103,524
Various other miscellaneous projects	1,733,071	365,903
	$ 64,065,461	$ 33,599,891

D. Interfund transfers

Transfers between funds provide support for various City programs in accordance with budgetary authorizations.

During the fiscal year, the City made a transfer of $1,418,572 from the Urban Renewal Agency's debt service fund to the Urban Renewal Agency's capital projects fund. This transfer of tax increment revenues that are in excess of the annual debt service requirements, is to cover urban renewal expenditures accounted for in the capital projects fund.

Interfund transfers for the fiscal year ended June 30, 2010 are as follows:

	Transfer from other funds	Transfer to other funds	Net
Governmental funds:			
General	$ 35,000	$ (432,000)	$ (397,000)
Nonmajor governmental	1,803,767	(1,418,572)	385,195
Total governmental funds	1,838,767	(1,850,572)	(11,805)
Proprietary funds:			
Surface Water fund	-	(36,195)	(36,195)
Nonmajor proprietary	83,000	(35,000)	48,000
Total proprietary funds	83,000	(71,195)	11,805
Total interfund transfers	$ 1,921,767	$ (1,921,767)	$ -

3. Detailed notes on all accounts, continued

E. Long-term debt

The City issues a variety of debt types for the purpose of carrying out its capital financing activities. The various types of debt are discussed below. Outstanding debt amounts are as of June 30, 2010.

General obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues general obligation bonds to finance the purchase of major capital items and the acquisition or construction of major capital facilities. The original amount of the outstanding general obligation bonds issued in prior years totals $33,305,000.

Annual debt service requirements to maturity for general obligation bonds, which have stated interest rates that range from 2-5.25%, are as follows:

Fiscal year ending June 30,	Governmental activities		
	Principal	Interest	Total
2011	$ 2,440,000	$ 898,190	$ 3,338,190
2012	2,555,000	804,922	3,359,922
2013	2,665,000	702,369	3,367,369
2014	2,115,000	583,050	2,698,050
2015	1,885,000	495,965	2,380,965
2016-20	7,995,000	1,315,046	9,310,046
2021-22	1,365,000	98,719	1,463,719
	$ 21,020,000	$ 4,898,261	$ 25,918,261

Line of Credit. On July 6, 2006, a bank line-of-credit in the total amount of $25 million was secured. This funding source continues to finance the West End Building property. The original line-of-credit balance was due and payable July 6, 2009, but was refinanced in fiscal year 2010 and was reduced to $21 million. The variable interest rate at June 30, 2010 was 1.75%. The rate is recalculated quarterly and adjusted to LIBOR plus 1.35 %. This will be due and payable on July 6, 2011.

Revenue bonds. The City also issues revenue bonds and pledges income derived from the acquired or constructed assets to pay debt service. During fiscal year 2004-05, the City issued surface water revenue bonds for improvements to the City's surface water management system in the amount of $3,000,000 having a final maturity in May 2024. During fiscal year 1999-00, the City issued water revenue bonds relating to various infrastructure improvements to the City's water system in the amount of $7,185,000, $4,505,000 of which were refunded in fiscal year 2007-08 with proceeds from a 2007 revenue bond issue. The 2007 revenue bonds are being repaid by enterprise fund revenues. For the fiscal year ended June 30, 2010, the City was in compliance with the covenants associated with these bonds.

CITY OF LAKE OSWEGO, OREGON
Notes to the Basic Financial Statements
June 30, 2010

3. Detailed notes on all accounts, continued

E. Long-term debt, continued

Annual debt service requirements to maturity for the revenue bonds, which have stated interest rates that range from 3% - 5%, are as follows:

Fiscal year ending June 30,	Business-type activities		
	Principal	Interest	Total
2011	$ 725,000	$ 467,761	$ 1,192,761
2012	750,000	438,924	1,188,924
2013	785,000	408,561	1,193,561
2014	815,000	376,561	1,191,561
2015	850,000	343,261	1,193,261
2016-20	4,260,000	1,150,230	5,410,230
2021-25	2,320,000	462,905	2,782,905
2026-28	1,035,000	69,235	1,104,235
	$ 11,540,000	$ 3,717,438	$ 15,257,438

Full Faith and Credit obligations. In June 2009 the City issued $60 million in Full Faith and Credit obligations for the lake full phase of the Lake Oswego Interceptor Sewer project.

Annual debt service requirements to maturity for the Full Faith and Credit obligations, which have stated interest rates that range from 3-5%, are as follows:

Fiscal year ending June 30,	FFC activities		
	Principal	Interest	Total
2011	$ -	$ 2,488,469	$ 2,488,469
2012	-	2,488,469	2,488,469
2013	1,690,000	2,463,119	4,153,119
2014	1,740,000	2,411,669	4,151,669
2015	1,795,000	2,358,644	4,153,644
2016-20	9,825,000	10,899,819	20,724,819
2021-25	11,850,000	8,783,119	20,633,119
2026-30	14,775,000	5,804,272	20,579,272
2031-35	18,325,000	2,143,250	20,468,250
	$ 60,000,000	$ 39,840,830	$ 99,840,830

3. Detailed notes on all accounts, continued

E. Long-term debt, continued

Urban renewal bonds. The Lake Oswego Redevelopment Agency (LORA) – a blended component unit of the City – issues urban renewal and redevelopment bonds to finance capital projects to stimulate job creation and growth in the east end redevelopment area. LORA has urban renewal and redevelopment bonds outstanding that are secured by the tax increment revenues generated from the respective urban renewal area. The original amount of the outstanding urban renewal and redevelopment bonds issued in prior years total $9,665,000 tax-exempt and $8,270,000 taxable. The variable interest rate for both bonds at June 30, 2010 was 0.4%. The rate is adjusted weekly and set by the remarketing agency.

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

Fiscal year ending June 30,	Governmental activities		
	Principal	Interest	Total
2011	$ 1,070,000	$ 677,707	$ 1,747,707
2012	1,230,000	620,537	1,850,537
2013	1,285,000	561,110	1,846,110
2014	1,345,000	501,939	1,846,939
2015	1,405,000	439,020	1,844,020
2016-20	8,010,000	1,148,414	9,158,414
	$ 14,345,000	$ 3,948,727	$ 18,293,727

Sewer Bond Anticipation Notes. On September 4, 2007, the City Council authorized the issuance of $12 million in Bond Anticipation Notes representing the first funding phase of the City's lake interceptor project. These notes were refunded by the second funding phase, issuance of the Full Faith and Credit obligations, which occurred in June 2009. The Bond Anticipation notes were paid in full July 3, 2009.

CITY OF LAKE OSWEGO, OREGON
Notes to the Basic Financial Statements
June 30, 2010

3. Detailed notes on all accounts, continued

E. Long-term debt, continued

Changes in long-term liabilities. Long-term debt information is presented separately with respect to governmental and business-type activities. The following table shows the fiscal year changes in long-term debt outstanding, along with the current portion for each bond issue. Also, for the governmental activities, compensated absences are liquidated by each governmental fund that has payroll expenditures, which includes the General Fund. Contingent claims are liquidated by the General Fund.

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
General obligation bonds					
Series 2001 Open Space & Fields	$ 4,150,000	$ -	$ (295,000)	$ 3,855,000	$ 305,000
Series 2003 Parks, Fields & Pathways	10,510,000	-	(915,000)	9,595,000	945,000
Series 2003-A G.O. Refunding	2,450,000	-	(580,000)	1,870,000	600,000
Series 2006-A G.O. Refunding	6,270,000	-	(570,000)	5,700,000	590,000
Urban renewal bonds					
Series 2005-A	9,665,000	-	-	9,665,000	-
Series 2005-B	5,695,000	-	(1,015,000)	4,680,000	1,070,000
Total bonds payable	38,740,000	-	(3,375,000)	35,365,000	3,510,000
Line of credit	20,156,913	-	-	20,156,913	-
Compensated absences	2,548,188	2,008,322	(1,860,111)	2,696,399	2,696,399
Total governmental activities	$ 61,445,101	$ 2,008,322	$ (5,235,111)	$ 58,218,312	$ 6,206,399
Business-type activities:					
Revenue bonds / BAN /Full Faith & Credit					
Series 1999 Water	$ 330,000	$ -	$ (330,000)	$ -	$ -
Series 2005 Surface Water	2,545,000	-	(125,000)	2,420,000	130,000
Series 2007 Water	9,345,000	-	(225,000)	9,120,000	595,000
Series 2007 Sewer BAN	12,000,000	-	(12,000,000)	-	-
Series 2009 Wastewater FFC	60,000,000	-	-	60,000,000	-
Total revenue bonds / BAN	84,220,000	-	(12,680,000)	71,540,000	725,000
Unamortized bond premium	2,423,675	-	(121,190)	2,302,485	121,184
Bonds/BAN/FFC and premiums	86,643,675	-	(12,801,190)	73,842,485	846,184
Compensated absences	252,318	172,907	(149,250)	275,975	275,975
Total business-type activities	$ 86,895,993	$ 172,907	$ (12,950,440)	$ 74,118,460	$ 1,122,159

4. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant real and personal property exposures are covered for loss from all perils up to a $5,000,000 limit through a municipal insurance pool, subject to a $75,000 aggregate deductible. For its general insurance coverage, the City pays an annual premium to City/County Insurance Services (CIS), a public entity risk pool currently operating a common risk management and insurance program.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The agreement with CIS provides that CIS will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $500,000 for each insured event. The City carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims have not exceeded commercial coverage in any of the three prior fiscal years.

B. Contingent liabilities

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. These claims are generally covered by insurance and are of the types which are normal in view of the City's operations. City management believes the total amount of liability, if any, which may arise from such claims and lawsuits beyond that which is covered by insurance would not have a material effect on the City's financial condition or its activities as now conducted.

C. Commitments

As of June 30, 2010, the City had commitments of approximately $34.9 million, which includes $33.6 million for the various construction projects, as described in Note 3.C. on page 55.

In 1983 the City entered into an agreement with the City of Portland to process the City's sewage for fifty years. The applicable treatment plant is owned and operated by the City of Portland and the City is obligated to make payments to the City of Portland for usage of the plant, based upon normal user fees estimated at $2 million annually. At the end of the fifty years, the term changes to "in perpetuity" until either party provides a five-year advance written notice to the other. If the City terminates this agreement, the City is required to pay its share of any remaining un-depreciated portion of the facility, as determined in the use agreement at the time of termination.

D. Joint Operation

The Lake Oswego-Tigard Water Partnership is a joint operation established August 6, 2008 between the City of Lake Oswego and the City of Tigard to design, construct, operate, and maintain joint water supply facilities. The Lake Oswego-Tigard Water Partnership was established to retrofit and expand the City of Lake Oswego's water supply facilities and allow Tigard to acquire an ownership interest.

CITY OF LAKE OSWEGO, OREGON
Notes to the Basic Financial Statements
June 30, 2010

4. Other information, continued

D. Joint Operation, continued

Lake Oswego is the managing agency to manage the operation, maintenance, repair and replacement of the existing supply facilities and to manage the planning, design, and construction of the initial expansion of the Project. Each City is obligated to fund the project in the proportions stated in the intergovernmental agreement. The City of Lake Oswego has financed its portion through the transfer of previously issued water revenue bonds.

Upon dissolution of the Lake Oswego-Tigard Water Partnership prior to the construction of the initial expansion, the City of Lake Oswego shall refund to the City of Tigard the amount of Tigard's payments plus interest at the LGIP rate and Tigard will have no more equitable interest in the Lake Oswego Supply Facilities. The payments from Tigard as of June 30, 2010 were $4,848,759 as shown as a long-term liability in the Water Fund.

E. Employee retirement pension plan

Plan description. The City contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the City's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying City employees hired after August 29, 2003. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. As of January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statue Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to PERS, PO Box 23700, Tigard, OR 97281-3700 or by calling 503-598-7377.

Funding policy. Members of PERS are required to contribute 6% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The employer is allowed to pay any or all of the employees' contribution in addition to the required employer's contribution. For the fiscal year ended June 30, 2010, the City contributed all of the 6% contribution on behalf of the employees. The City is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPSRP plan, and a general service rate for the qualifying employees under the OPSRP plan. The PERS and the OPSRP rates in effect for the fiscal year ended June 30, 2010 were 11.86% and 9.70%

4. Other information, continued

E. Employee retirement pension plan, continued

respectively. The OPSRP rate applicable to police and fire personnel and related payroll, in effect for the fiscal year ended June 30, 2010, was 12.41%. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual pension cost. The City's contributions to PERS for the years ending June 30, 2008, 2009, and 2010 were $4,299,847, $4,611,636 and $3,937,889 respectively, which equaled the required contribution for each of these years.

F. Deferred compensation plan

The City offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all regular, salaried City employees, permits them to defer a portion of their salary until future years. Participation in the Plan is optional. Payment from the Plan is not available to employees until termination, retirement, death or unforeseeable emergency.

The City works with two separate investment providers who also provide third-party administration for all deferred compensation program funds. Participating employees have several investment options with varying degrees of market risk. The City has no liability for losses under the Plan but does have the duty to administer the plan in a prudent manner.

In accordance with GASB No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* the City created a Trust (the City of Lake Oswego Deferred Compensation Trust) and transferred all Plan assets to that Trust on December 31, 1998. All property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the employee Trust, held for the exclusive benefit of participants and their beneficiaries, and are not subject to the claims of the City's general creditors.

G. Postemployment Healthcare Plan (implicit subsidy)

Plan Description. As required by Oregon Revised Statutes 243.303, the City provides a single-employer plan to provide retirees with access to group health and dental insurance from the date of retirement to age 65 at the same rate provided to current employees. GASB 45 is applicable to the City due only to the implicit rate subsidy. This "plan" is not a stand-alone plan and therefore does not issue its own financial statements.

Funding Policy. The City collects insurance premiums from all retirees each month and deposits them into a restricted insurance premium account. The City then pays health insurance premiums for all retirees at tiered rates to the insurance company. The required contributions to the plan include the employer's pay-as-you-go amount, an amount paid by retirees, and an additional amount calculated to prefund future benefits as determined by the actuary. For fiscal year ended June 30, 2010, the City retirees paid 100

4. Other information, continued

G. Postemployment Healthcare Plan (implicit subsidy), continued

percent of their insurance premium costs. The City has elected to not prefund the actuarially determined future cost amount of $1,961,367.

The required monthly contributions of the plan members were as follows for the fiscal year ended June 30, 2010.

	Health/Vision		Dental	
	PacSce/Vsp	Kaiser	ODS	Kaiser
Employee	$ 449	$ 430	$ 61	$ 65
Emp + child(s)	850	773	97	117
Employee + 1	1,012	859	122	130
Full Family	1,342	1,289	170	195

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post employment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 15 years

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's OPEB obligation to the plan.

Employer's normal cost at year end	$ 350,104
Amortization of UAAL with interest	352,836
Annual Required Contribution (ARC)	702,940
Interest on prior year Net OPEB Obligation	66,192
Adjustment to ARC	(103,829)
Less contribution (amounts paid during year for OPEB)	-
Implicit benefit payments	(174,879)
Increase in Net OPEB Obligation	490,424
OPEB obligation at beginning of year	1,470,943
OPEB obligation at end of year (June 30, 2010)	$ 1,961,367

4. **Other Information,** continued

G. Postemployment Healthcare Plan (implicit subsidy), continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contribution	Net OPEB Obligation
06/30/2010	$ 665,303	26%	$1,961,367
06/30/2009	957,832	23%	1,470,943
06/30/2008	912,128	20%	732,488

Funded Status and Funding Progress. The funded status of the plan as of August 1, 2008 (the date of the most recent actuarial valuation), was as follows:

Actuarial accrued liability (AAL)	$ 4,627,417
	-
Unfunded actuarial accrued liability (UAAL)	$ 4,627,417
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$22,918,922
UAAL as a percentage of covered payroll	20.19%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the August 1, 2008 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8 percent, reduced by decrements to an ultimate rate of 5 percent. The UAAL is being amortized using the level percentage of payroll over an open period of fifteen (15) years.

CITY OF LAKE OSWEGO, OREGON
Notes to the Basic Financial Statements
June 30, 2010

4. **Other Information,** continued

H. Retirement Health Insurance Account (RHIA)

Plan Description. As a member of Oregon Public Employees Retirement System (OPERS) the City contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefits other postemployment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700.

Funding Policy. Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to $60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of $60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating cities are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.29% of annual covered payroll. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The City's contributions to RHIA for the year ended June 30, 2010 and June 30, 2009, were $62,031 and $135,701, respectively, which equaled the required contributions for those years.

4. Other Information, continued

I. Property tax limitation

The citizens of the State of Oregon approved the first property tax limitation in 1990 – Measure 5. This limitation divides property taxes into an education category and a non-education category. The tax rate in the education category was limited to $5 per thousand of real market value for fiscal year 1995-96 and thereafter. The non-education category was limited to $10 per thousand of real market value. Although all non-education taxes to the City currently do not exceed the $10 per $1,000 of property real market value limitation; this limitation may affect the availability of future tax revenues for the City.

A second property tax limitation was approved in November 1996 and later modified in May 1997 – Measures 47 and 50, respectively. This limitation set a maximum permanent tax rate for the City exclusive of bonded debt at $5.0353 per $1,000 assessed value. Assessed values can only grow by a maximum of 3 percent, exclusive of new construction and annexations.

J. Subsequent Event

In September 2010, the City issued $35 million of Full Faith and Credit obligations to finish the Lake Oswego Intercepter Sewer project. The future debt payments will be made from the Wastewater Utility Fund.

K. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This pronouncement issued February 2009 will be effective for the City beginning with its fiscal year ending June 30, 2011. The Statement establishes new classifications for fund equity and new definitions for governmental fund types and may have a slight impact on future financial presentations.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Resources and Requirements - Budget to Actual

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SCHEDULES OF RESOURCES AND REQUIREMENTS
BUDGET TO ACTUAL

Major Governmental Fund
(required supplementary information)

General Fund

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City of Lake Oswego, Oregon
General Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 19,587,222	$ 20,002,978	$ 20,002,978	$ -
Property taxes	25,430,000	25,430,000	25,484,337	54,337
Franchise fees	2,195,000	2,195,000	2,126,633	(68,367)
Intergovernmental	3,965,000	4,122,000	4,087,668	(34,332)
Licenses and fees	2,090,000	2,090,000	2,042,439	(47,561)
Fines and forfeitures	972,000	1,122,000	1,129,228	7,228
Sales and services	3,311,000	3,311,000	3,280,961	(30,039)
Miscellaneous	1,070,000	1,070,000	1,228,561	158,561
Transfers	4,193,000	4,193,000	4,049,897	(143,103)
Other financing sources	372,000	372,000	2,500	(369,500)
Total resources	$ 63,185,222	$ 63,907,978	$ 63,435,202	$ (472,776)
Requirements:				
City council	$ 91,000	$ 91,000	$ 85,146	$ 5,854
City attorney's office	580,000	580,000	561,160	18,840
City manager's office	1,788,000	1,955,000	1,781,775	173,225
Economic / capital development	2,058,000	2,498,000	487,945	2,010,055
Redevelopment	264,000	288,000	275,494	12,506
Facilities management	1,180,000	1,251,000	863,055	387,945
Finance	1,284,000	1,394,000	1,310,783	83,217
Risk management	690,000	690,000	593,654	96,346
Fire services	8,501,000	8,703,000	8,537,911	165,089
Human resources	531,000	571,000	525,108	45,892
Information technology	1,367,000	1,383,000	1,378,368	4,632
Library	3,302,000	3,374,000	3,109,623	264,377
Municipal court	765,000	915,000	887,720	27,280
Parks and Recreation	5,774,000	6,009,000	5,386,675	622,325
Adult community center	1,167,000	1,180,000	1,021,340	158,660
Planning and Building services	3,476,000	3,607,000	3,360,015	246,985
Police	10,136,000	10,388,000	9,380,710	1,007,290
Nondepartmental	852,000	1,753,000	1,452,207	300,793
Contingency	6,497,000	4,395,756	-	4,395,756
Unappropriated ending fund balance	12,882,222	12,882,222	22,436,513	(9,554,291)
Total requirements	$ 63,185,222	$ 63,907,978	$ 63,435,202	$ 472,776

1. **Stewardship, compliance, and accountability**

   Municipal budgets are adopted on a basis consistent with Oregon Revised Statutes (ORS 294 – Local Budget Law).

   Budgetary Basis — The basis of budgeting for all major funds is the modified accrual basis of accounting. The City Council legally adopts the budget by resolution before July 1. The resolution establishes appropriations for each fund and sets the level by which expenditures cannot legally exceed appropriations. In the general fund the levels of budgetary control established by resolution are set at the department level. For all other funds, the levels of budgetary control established by resolution are expenditure categories of personal services, materials and services, debt service, capital outlay, transfers and operating contingency.

SUPPLEMENTARY INFORMATION

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES
for Other Major and Nonmajor Governmental Funds

Special Revenue Funds

These nonmajor funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Tourism Fund – tracks and accounts for the revenue generated by the 2% increase in the City's portion of the local lodging tax (also known as the hotel/motel tax). Per state law, for any increases in the local transient lodging tax after July 1, 2003, at least 70% of net revenue from the increase must be used for funding tourism promotion or tourism related facilities

Streetcar Fund – accounts for the activities of the City's trolley operations. Revenues are derived primarily from intergovernmental revenues.

Percent for Art Fund – accounts for the purchase and maintenance of the City's art collection. Revenue consists of transfers from the parks and recreation fund equal to a percent and one-half of the cost of qualified projects.

Street Fund – accounts for the activities of building, rebuilding and maintaining City streets, right-of-way improvements, and street lights. Revenue is derived primarily from motor vehicle fees from the State of Oregon, and a street maintenance fee.

Systems Development Charges Fund – accounts for the collection and expenditure of City systems development charges for water, sanitary sewer, transportation, parks, and surface water. Revenues are derived primarily from the various systems development charges.

Maintenance Services and Motor Pool Fund – accounts for the maintenance of equipment, property, and for the activities of the automobile fleet of the City. Revenues are derived from reimbursements from other funds for associated costs as well as a reimbursement from the Lake Oswego School District for fuel usage.

Engineering Fund – manages the planning, design and construction of the City's infrastructure, including surface water, water, wastewater collection, and transportation. In addition, the Engineering Division provides technical support for privately financed public improvements (constructed with development projects), and provides GIS mapping services.

Bicycle Path Fund – accounts for procurement of pathways for public use. Revenues are derived from a portion of State provided motor vehicle fees.

Debt Service Funds

These nonmajor funds are used to account for payment of general obligation and urban renewal bonds.

Bonded Debt Service Fund – accounts for the payment of principal and interest on certain general obligation bonded debt. The primary source of revenue is property taxes.

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

Capital Project Funds

These funds account for the construction of specific capital projects.

Redevelopment Agency Capital Projects Fund – accounts for the City's redevelopment activities in the City's east end urban renewal district. Resources are derived primarily from debt financing, which is repayable by property tax increment revenues and interest on investments.

Assessment Project Fund – accounts for expenditures related to local improvement districts. The primary revenues source is from assessment collections.

City of Lake Oswego, Oregon
Combining Balance Sheet
Nonmajor Governmental Funds
as of June 30, 2010

	Special Revenue Funds			
	Tourism Fund	Streetcar Fund	Percent for Art Fund	Street Fund
Assets				
Cash and investments	$ 138,958	$ 306,888	$ 9,769	$ 573,399
Property taxes receivable	-	-	-	-
Accounts receivable	25,735	100,000	-	375,225
Assessment liens receivable	-	-	-	-
Inventories	-	-	-	-
Restricted cash and investments	-	-	-	-
Total assets	$ 164,693	$ 406,888	$ 9,769	$ 948,624
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 24,777	$ 19,942	$ -	$ 218,082
Salaries and benefits payable	-	-	-	-
Refundable deposits	-	-	-	5,300
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	24,777	19,942	-	223,382
Fund balances:				
Reserved for:				
inventories	-	-	-	-
Capital projects	-	-	-	-
Debt service	-	-	-	-
Systems development charges	-	-	-	-
Unreserved, reported in:				
Special revenue funds	139,916	386,946	9,769	725,242
Capital projects funds	-	-	-	-
Total fund balances	139,916	386,946	9,769	725,242
Total liabilities and fund balances	$ 164,693	$ 406,888	$ 9,769	$ 948,624

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City of Lake Oswego, Oregon
Combining Balance Sheet
Nonmajor Governmental Funds
as of June 30, 2010

	Special Revenue Funds				Debt Service Funds		Capital Projects Funds		
	Systems Development Charges Fund	Maintenance Services and Motor Pool Fund	Engineering Fund	Bicycle Path Fund	Bonded Debt Service Fund	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund	Assessment Project Fund	Total Nonmajor Governmental Funds
Assets									
Cash and investments	$ -	$ 41,851	$ 95,757	$ 87,665	$ -	$ -	$ -	$ 96,974	$ 1,351,261
Property taxes receivable	-	-	-	-	352,584	217,578	-	-	570,162
Accounts receivable	-	19,433	19,200	-	-	-	-	-	539,593
Assessment liens receivable	9,813	-	-	-	-	-	-	155,033	164,846
Inventories	-	24,195	-	-	-	-	-	-	24,195
Restricted cash and investments	2,582,485	-	-	-	686,794	5,142,070	7,858,701	-	16,270,050
Total assets	$ 2,592,298	$ 85,479	$ 114,957	$ 87,665	$ 1,039,378	$ 5,359,648	$ 7,858,701	$ 252,007	$ 18,920,107
Liabilities and Fund Balances									
Liabilities:									
Accounts payable	$ -	$ 12,514	$ 4,318	$ -	$ -	$ -	$ 234,336	$ 24,736	$ 538,705
Salaries and benefits payable	-	3,206	4,433	-	-	-	-	-	7,639
Refundable deposits	-	-	78,616	-	-	-	-	-	83,916
Deferred revenue	9,813	-	-	-	311,963	177,684	-	155,033	654,493
Due to other funds	-	-	-	-	-	4,030,239	1,768,272	-	5,798,511
Total liabilities	9,813	15,720	87,367	-	311,963	4,207,923	2,002,608	179,769	7,083,264
Fund balances:									
Reserved for:									
Inventories	-	24,195	-	-	-	-	-	-	24,195
Capital projects	-	-	-	-	-	-	5,856,093	-	5,856,093
Debt service	-	-	-	-	727,415	1,151,725	-	-	1,879,140
Systems development charges	2,582,485	-	-	-	-	-	-	-	2,582,485
Unreserved, reported in:									
Special revenue funds	-	45,564	27,590	87,665	-	-	-	-	1,422,692
Capital projects funds	-	-	-	-	-	-	-	72,238	72,238
Total fund balances	2,582,485	69,759	27,590	87,665	727,415	1,151,725	5,856,093	72,238	11,836,843
Total liabilities and fund balances	$ 2,592,298	$ 85,479	$ 114,957	$ 87,665	$ 1,039,378	$ 5,359,648	$ 7,858,701	$ 252,007	$ 18,920,107

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City of Lake Oswego, Oregon

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

for the fiscal year ended June 30, 2010

	Special Revenue Funds			
	Tourism Fund	Streetcar Fund	Percent for Art Fund	Street Fund
Revenues:				
Property taxes	$ -	$ -	$ -	$ -
Franchise fees	-	-	-	500,000
Intergovernmental	-	60,000	-	1,508,354
Licenses and fees	258,669	-	-	1,254,307
Charges for services	-	20,000	-	-
Special assessment - principal	-	-	-	-
Miscellaneous	55	4,282	241	26,223
Total revenues	258,724	84,282	241	3,288,884
Expenditures:				
Current:				
General government	-	-	-	-
Culture and recreation	-	172,111	93,000	-
Community Development	-	-	-	-
Highways and streets	-	-	-	2,207,705
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	118,808	-	11,500	652,669
Total expenditures	118,808	172,111	104,500	2,860,374
Excess (deficiency) of revenues over (under) expenditures	139,916	(87,829)	(104,259)	428,510
Other financing sources (uses):				
Transfers in	-	-	100,000	249,000
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	100,000	249,000
Net change in fund balances	139,916	(87,829)	(4,259)	677,510
Fund balances - beginning	-	474,775	14,028	47,732
Fund balances - ending	$ 139,916	$ 386,946	$ 9,769	$ 725,242

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	Special Revenue Funds				Debt Service Funds	
	Systems Development Charges Fund	Maintenance Services and Motor Pool Fund	Engineering Fund	Bicycle Path Fund	Bonded Debt Service Fund	Redevelopment Agency Debt Service Fund
Revenues:						
Property taxes	$ -	$ -	$ -	$ -	$ 3,318,437	$ 3,161,045
Franchise fees	-	-	-	-	-	-
Intergovernmental	-	-	-	15,236	-	-
Licenses and fees	571,520	1,578	509,655	-	-	-
Charges for services	-	596,335	2,097,000	-	-	-
Special assessment - principal	-	-	-	-	-	-
Miscellaneous	20,796	182,665	25,434	653	24,363	16,863
Total revenues	592,316	780,578	2,632,089	15,889	3,342,800	3,177,908
Expenditures:						
Current:						
General government	2,970	1,186,266	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Community Development	-	-	2,589,235	-	-	-
Highways and streets	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	2,360,000	1,015,000
Interest	-	-	-	-	985,165	288,333
Capital outlay	-	75,687	15,264	-	-	-
Total expenditures	2,970	1,261,953	2,604,499	-	3,345,165	1,303,333
Excess (deficiency) of revenues over (under) expenditures	589,346	(481,375)	27,590	15,889	(2,365)	1,874,575
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(1,418,572)
Total other financing sources (uses)	-	-	-	-	-	(1,418,572)
Net change in fund balances	589,346	(481,375)	27,590	15,889	(2,365)	456,003
Fund balances - beginning	1,993,139	551,134	-	71,776	729,780	695,722
Fund balances - ending	$ 2,582,485	$ 69,759	$ 27,590	$ 87,665	$ 727,415	$ 1,151,725

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City of Lake Oswego, Oregon

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

for the fiscal year ended June 30, 2010

	Capital Projects Funds		
	Redevelopment Agency Capital Projects Fund	Assessment Project Fund	Total Nonmajor Governmental Funds
Revenues:			
Property taxes	$ -	$ -	$ 6,479,482
Franchise fees	-	-	500,000
Intergovernmental	-	-	1,583,590
Licenses and fees	-	26,581	2,622,310
Charges for services	-	-	2,713,335
Special assessment - principal	-	49,560	49,560
Miscellaneous	81,787	(6,132)	377,230
Total revenues	81,787	70,009	14,325,507
Expenditures:			
Current:			
General government	708,660	-	1,897,896
Culture and recreation	-	-	265,111
Community Development	-	-	2,589,235
Highways and streets	-	-	2,207,705
Debt service:			
Principal	-	-	3,375,000
Interest	-	-	1,273,498
Capital outlay	2,636,572	99,078	3,609,578
Total expenditures	3,345,232	99,078	15,218,023
Excess (deficiency) of revenues over (under) expenditures	(3,263,445)	(29,069)	(892,516)
Other financing sources (uses):			
Transfers in	1,418,572	-	1,767,572
Transfers out	-	-	(1,418,572)
Total other financing sources (uses)	1,418,572	-	349,000
Net change in fund balances	(1,844,873)	(29,069)	(543,516)
Fund balances - beginning	7,700,966	101,307	12,380,359
Fund balances - ending	$ 5,856,093	$ 72,238	$ 11,836,843

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City of Lake Oswego, Oregon

Tourism Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget			
	Original	Final	Actual Amounts	Variance with Final Budget
Resources:				
Licenses and fees	$ 320,000	$ 320,000	$ 258,669	$ (61,331)
Miscellaneous	12,000	12,000	55	(11,945)
Total resources	$ 332,000	$ 332,000	$ 258,724	$ (73,276)
Requirements:				
Materials and services	$ 175,000	$ 175,000	$ -	$ 175,000
Capital outlay	125,000	125,000	118,808	6,192
Unappropriated ending fund balance	32,000	32,000	139,916	(107,916)
Total requirements	$ 332,000	$ 332,000	$ 258,724	$ 73,276

City of Lake Oswego, Oregon

Streetcar Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 380,674	$ 380,674	$ 474,775	$ 94,101
Intergovernmental	60,000	60,000	60,000	-
Miscellaneous	11,000	11,000	4,282	(6,718)
Transfers	20,000	20,000	20,000	-
Total resources	$ 471,674	$ 471,674	$ 559,057	$ 87,383
Requirements:				
Materials and services	$ 126,000	$ 191,000	$ 172,111	$ 18,889
Contingency	345,674	280,674	-	280,674
Unappropriated ending fund balance	-	-	386,946	(386,946)
Total requirements	$ 471,674	$ 471,674	$ 559,057	$ (87,383)

City of Lake Oswego, Oregon

Percent for Art Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 16,867	$ 16,867	$ 14,028	$ (2,839)
Miscellaneous	-	-	241	241
Transfers	100,000	100,000	100,000	-
Total resources	$ 116,867	$ 116,867	$ 114,269	$ (2,598)
Requirements:				
Materials and services	$ 93,000	$ 93,000	$ 93,000	-
Capital outlay	12,000	12,000	11,500	500
Unappropriated ending fund balance	11,867	11,867	9,769	2,098
Total requirements	$ 116,867	$ 116,867	$ 114,269	$ 2,598

City of Lake Oswego, Oregon

Street Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 177,031	$ 177,031	$ 47,732	$ (129,299)
Franchise fees	500,000	500,000	500,000	-
Intergovernmental	2,480,000	2,480,000	1,508,354	(971,646)
Licenses and fees	1,214,000	1,214,000	1,254,307	40,307
Miscellaneous	15,000	15,000	26,223	11,223
Transfers	-	249,000	249,000	-
Total resources	$ 4,386,031	$ 4,635,031	$ 3,585,616	$ (1,049,415)
Requirements:				
Personal services	$ 446,000	$ 484,000	$ 463,545	$ 20,455
Materials and services	1,203,000	1,203,000	1,006,640	196,360
Transfers	689,000	911,000	737,520	173,480
Capital outlay	1,793,000	1,793,000	652,669	1,140,331
Contingency	255,031	244,031	-	244,031
Unappropriated ending fund balance	-	-	725,242	(725,242)
Total requirements	$ 4,386,031	$ 4,635,031	$ 3,585,616	$ 1,049,415

City of Lake Oswego, Oregon

Systems Development Charges Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 1,135,041	$ 1,135,041	$ 1,993,139	$ 858,098
Licenses and fees	580,000	580,000	571,520	(8,480)
Miscellaneous	68,000	68,000	20,796	(47,204)
Total resources	$ 1,783,041	$ 1,783,041	$ 2,585,455	$ 802,414
Requirements:				
Materials and services	$ 30,000	$ 30,000	$ 2,970	$ 27,030
Contingency	1,753,041	1,753,041	-	1,753,041
Unappropriated ending fund balance	-	-	2,582,485	(2,582,485)
Total requirements	$ 1,783,041	$ 1,783,041	$ 2,585,455	$ (802,414)

City of Lake Oswego, Oregon

Maintenance Services and Motor Pool Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 496,514	$ 551,134	$ 551,134	$ -
Licenses and fees	-	-	1,578	1,578
Miscellaneous	225,000	225,000	182,665	(42,335)
Transfers	613,000	716,000	596,335	(119,665)
Total resources	$ 1,334,514	$ 1,492,134	$ 1,331,712	$ (160,422)
Requirements:				
Personal services	$ 792,000	$ 846,000	$ 832,683	$ 13,317
Materials and services	330,000	480,000	352,207	127,793
Transfers	2,000	2,000	1,376	624
Capital outlay	73,000	155,000	75,687	79,313
Contingency	137,514	9,134	-	9,134
Unappropriated ending fund balance	-	-	69,759	(69,759)
Total requirements	$ 1,334,514	$ 1,492,134	$ 1,331,712	$ 160,422

City of Lake Oswego, Oregon

Engineering Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Licenses and fees	$ 1,338,000	$ 565,000	$ 509,655	$ (55,345)
Miscellaneous	50,000	50,000	25,434	(24,566)
Transfers	1,824,000	2,597,000	2,097,000	(500,000)
Total resources	$ 3,212,000	$ 3,212,000	$ 2,632,089	$ (579,911)
Requirements:				
Personal services	$ 2,352,000	$ 2,401,000	$ 2,229,399	$ 171,601
Materials and services	355,000	355,000	138,507	216,493
Transfers	226,000	226,000	221,329	4,671
Capital outlay	20,000	20,000	15,264	4,736
Contingency	259,000	210,000	-	210,000
Unappropriated ending fund balance	-	-	27,590	(27,590)
Total requirements	$ 3,212,000	$ 3,212,000	$ 2,632,089	$ 579,911

City of Lake Oswego, Oregon

Bicycle Path Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 71,867	$ 71,867	$ 71,776	$ (91)
Intergovernmental	15,000	15,000	15,236	236
Miscellaneous	1,000	1,000	653	(347)
Total resources	$ 87,867	$ 87,867	$ 87,665	$ (202)
Requirements:				
Capital outlay	$ 87,867	$ 87,867	$ -	$ 87,867
Unappropriated ending fund balance	-	-	87,665	(87,665)
Total requirements	$ 87,867	$ 87,867	$ 87,665	$ 202

City of Lake Oswego, Oregon

Bonded Debt Service Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 690,810	$ 690,810	$ 729,780	$ 38,970
Property taxes	3,310,000	3,310,000	3,318,437	8,437
Miscellaneous	45,000	45,000	24,363	(20,637)
Total resources	$ 4,045,810	$ 4,045,810	$ 4,072,580	$ 26,770
Requirements:				
Debt Service				
Principal	$ 2,360,000	$ 2,360,000	$ 2,360,000	$ -
Interest	986,000	986,000	985,165	835
Unappropriated ending fund balance	699,810	699,810	727,415	(27,605)
Total requirements	$ 4,045,810	$ 4,045,810	$ 4,072,580	$ (26,770)

City of Lake Oswego, Oregon

Redevelopment Agency Debt Service Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 388,129	$ 388,129	$ 695,722	$ 307,593
Property taxes	2,748,443	2,748,443	3,161,045	412,602
Miscellaneous	30,000	30,000	16,863	(13,137)
Total resources	$ 3,166,572	$ 3,166,572	$ 3,873,630	$ 707,058
Requirements:				
Debt Service				
Principal	$ 1,015,000	$ 1,015,000	$ 1,015,000	$ -
Interest	733,000	733,000	288,333	444,667
Transfers	1,418,572	1,418,572	1,418,572	-
Unappropriated ending fund balance	-	-	1,151,725	(1,151,725)
Total requirements	$ 3,166,572	$ 3,166,572	$ 3,873,630	$ (707,058)

City of Lake Oswego, Oregon

Redevelopment Agency Capital Projects Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 7,132,438	$ 7,132,438	$ 7,700,966	$ 568,528
Miscellaneous	144,000	144,000	81,787	(62,213)
Transfers	1,418,572	1,418,572	1,418,572	-
Total resources	$ 8,695,010	$ 8,695,010	$ 9,201,325	$ 506,315
Requirements:				
Materials and services	$ 888,000	$ 888,000	$ 708,660	$ 179,340
Capital outlay	7,800,000	7,800,000	2,636,572	5,163,428
Unappropriated ending fund balance	7,010	7,010	5,856,093	(5,849,083)
Total requirements	$ 8,695,010	$ 8,695,010	$ 9,201,325	$ (506,315)

City of Lake Oswego, Oregon
Assessment Project Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 82,751	$ 82,751	$ 101,307	$ 18,556
Licenses and fees	-	-	26,581	26,581
Special assessment	18,000	18,000	49,560	31,560
Miscellaneous	19,000	19,000	(6,132)	(25,132)
Total resources	$ 119,751	$ 119,751	$ 171,316	$ 51,565
Requirements:				
Capital outlay	$ 100,000	$ 100,000	$ 99,078	$ 922
Contingency	19,751	19,751	-	19,751
Unappropriated ending fund balance	-	-	72,238	(72,238)
Total requirements	$ 119,751	$ 119,751	$ 171,316	$ (51,565)

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES
for Major and Nonmajor Proprietary Funds

Proprietary Funds

These funds account for operation of the City's enterprise activities.

Major enterprise funds:

Water Fund - accounts for the activities of the City's water distribution system. Revenue is derived primarily from water service charges.

Water Fund (budgetary basis financial schedules only)
Lake Oswego-Tigard Water Partnership Fund (budgetary basis financial schedules only)

Wastewater Fund - accounts for the activities of the City's wastewater collection and treatment system. Revenue is derived primarily from sewer service charges.

Surface Water Fund - accounts for the activities of the City's surface water management system which was developed to address water quality and flooding problems. Revenue is derived primarily from surface water management charges.

Nonmajor enterprise funds:

Golf Course Fund – accounts for the operation of the City's golf course. Revenue is primarily from user fees.

Tennis Facility Fund – accounts for the operation of the City's indoor tennis facility. Revenue is primarily from user fees.

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City of Lake Oswego, Oregon
Combining Statement of Net Assets
Nonmajor Proprietary Funds
as of June 30, 2010

	Business-type Activities - Enterprise Funds		
	Golf Course Fund	Tennis Facility Fund	Total Nonmajor Proprietary Funds
Assets			
Current assets:			
Cash and investments	$ 6,823	$ 477,125	$ 483,948
Inventories	73,228	-	73,228
Total current assets	80,051	477,125	557,176
Noncurrent assets:			
Capital assets:			
Land	227,929	-	227,929
Buildings and improvements	1,447,456	649,659	2,097,115
Machinery and equipment	241,109	10,300	251,409
	1,916,494	659,959	2,576,453
Less accumulated depreciation	(1,096,951)	(454,848)	(1,551,799)
Total capital assets (net of accumulated depreciation)	819,543	205,111	1,024,654
Total assets	899,594	682,236	1,581,830
Liabilities			
Current liabilities:			
Accounts payable	12,367	3,964	16,331
Salaries and benefits payable	1,022	334	1,356
Compensated absences payable	17,938	4,771	22,709
Total current liabilities	31,327	9,069	40,396
Noncurrent liabilities:			
Accrued other postemployment benefit obligation	43,600	18,700	62,300
Total noncurrent liabilities	43,600	18,700	62,300
Total liabilities	74,927	27,769	102,696
Net Assets			
Invested in capital assets, net of related debt	819,543	205,111	1,024,654
Unrestricted	5,124	449,356	454,480
Total net assets	$ 824,667	$ 654,467	$ 1,479,134

City of Lake Oswego, Oregon

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Proprietary Funds,
for the fiscal year ended June 30, 2010

	Business-type Activities - Enterprise Funds		
	Golf Course Fund	Tennis Facility Fund	Total Nonmajor Proprietary Funds
Operating revenues:			
Licenses & Fees	$ -	$ 2,347	$ 2,347
Charges for sales and services	657,685	378,372	1,036,057
Miscellaneous	21,715	1,965	23,680
Total operating revenues	679,400	382,684	1,062,084
Operating expenses:			
Salaries and benefits	511,425	141,085	652,510
Operating supplies and services	238,405	137,692	376,097
Depreciation	46,345	20,240	66,585
Services performed by other funds	31,996	70,582	102,578
Total operating expenses	828,171	369,599	1,197,770
Operating income (loss)	(148,771)	13,085	(135,686)
Nonoperating revenues (expenses):			
Interest on investments	181	4,795	4,976
Loss on sale of capital assets	-	(6,682)	(6,682)
Total nonoperating revenues (expenses)	181	(1,887)	(1,706)
Net income (loss) before contributions and transfers	(148,590)	11,198	(137,392)
Capital contributions	89,202	-	89,202
Transfers in	83,000	-	83,000
Transfers out	-	(35,000)	(35,000)
Change in fund net assets	23,612	(23,802)	(190)
Total net assets - beginning	801,055	678,269	1,479,324
Total net assets - ending	$ 824,667	$ 654,467	$ 1,479,134

CITY OF LAKE OSWEGO, OREGON

Combining Statement of Cash Flows
Nonmajor Proprietary Funds
for the fiscal year ended June 30, 2010

	Business-type Activities - Enterprise Funds		
	Golf Course Fund	Tennis Facility Fund	Total
Cash flows from operating activities:			
Receipts from customers	$ 657,685	$ 387,313	$ 1,044,998
Payments to suppliers	(247,933)	(140,718)	(388,651)
Payments to employees	(497,891)	(136,281)	(634,172)
Internal activity-payments to other funds	(31,996)	(70,582)	(102,578)
Other receipts	21,715	1,965	23,680
Net cash provided by operating activities	(98,420)	41,697	(56,723)
Cash flows from noncapital financing activities:			
Transfers to/from other funds	83,000	(35,000)	48,000
Cash flows from noncapital financing activities:			
Purchases, acquisitions, and construction of capital assets	-	(16,643)	(16,643)
Cash flows from investing activities:			
Investment income	181	4,795	4,976
Net increase (decrease) in cash and cash equivalents	(15,239)	(5,151)	(20,390)
Cash and cash equivalents, June 30, 2009	22,062	482,276	504,338
Cash and cash equivalents, June 30, 2010	$ 6,823	$ 477,125	$ 483,948
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ (148,771)	$ 13,085	$ (135,686)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	46,345	20,240	66,585
Changes in assets and liabilities:			
Receivables	-	6,594	6,594
Inventories	(5,303)	-	(5,303)
Accounts payable	(4,225)	(3,026)	(7,251)
Salaries and benefits payable	635	334	969
Accrued other postemployment benefits obligation	5,400	1,000	6,400
Compensated absences payable	7,499	3,470	10,969
Net cash provided by operating activities	$ (98,420)	$ 41,697	$ (56,723)
Noncash capital and related financing activities:			
Capital assets contributed from developers and other funds	$ 89,202	$ -	$ 89,202

City of Lake Oswego, Oregon

Water Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 7,815,300	$ 7,815,300	$ 8,484,209	$ 668,909
Licenses and fees	-	-	13,735	13,735
Sales and services	5,537,000	5,537,000	5,453,017	(83,983)
Miscellaneous	105,000	105,000	99,789	(5,211)
Total resources	$ 13,457,300	$ 13,457,300	$ 14,050,750	$ 593,450
Requirements:				
Personal services	$ 1,315,000	$ 1,394,000	$ 1,385,428	$ 8,572
Materials and services	2,174,000	2,174,000	1,518,594	655,406
Debt Service	814,000	944,000	749,507	194,493
Transfers	926,000	1,116,000	978,916	137,084
Capital outlay	1,648,000	1,663,000	417,610	1,245,390
Contingency	6,580,300	6,166,300	-	6,166,300
Unappropriated ending fund balance	-	-	9,000,695	(9,000,695)
Total requirements	$ 13,457,300	$ 13,457,300	$ 14,050,750	$ (593,450)

Note: For purposes of reporting this fund is combined with the Lake Oswego - Tigard Water Partnership Fund for presentation in the proprietary fund statements.

City of Lake Oswego, Oregon

Lake Oswego - Tigard Water Partnership Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Intergovernmental	$ 3,676,000	$ 5,741,000	$ 4,848,759	$ (892,241)
Licenses and fees	-	-	474,561	474,561
Sales and services	10,000	10,000	9,540	(460)
Miscellaneous	86,000	86,000	1,381	(84,619)
Total resources	$ 3,772,000	$ 5,837,000	$ 5,334,241	$ (502,759)
Requirements:				
Personal services	$ 356,000	$ 300,000	$ 247,692	$ 52,308
Materials and services	1,052,000	175,000	65,172	109,828
Transfers	80,000	80,000	76,152	3,848
Capital outlay	-	5,082,000	3,655,849	1,426,151
Contingency	2,284,000	200,000	-	200,000
Unappropriated ending fund balance	-	-	1,289,376	(1,289,376)
Total requirements	$ 3,772,000	$ 5,837,000	$ 5,334,241	$ 502,759

Note: For purposes of reporting this fund is combined with the Water Fund for presentation in the proprietary fund statements.

City of Lake Oswego, Oregon

Wastewater Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 45,862,685	$ 57,966,185	$ 62,054,877	$ 4,088,692
Licenses and fees	-	-	669,992	669,992
Sales and services	7,816,000	7,816,000	7,723,051	(92,949)
Miscellaneous	201,000	201,000	43,131	(157,869)
Other financing sources	-	-	121,189	121,189
Total resources	$ 53,879,685	$ 65,983,185	$ 70,612,240	$ 4,629,055
Requirements:				
Personal services	$ 1,108,000	$ 1,134,000	$ 976,455	$ 157,545
Materials and services	3,499,000	3,499,000	2,453,584	1,045,416
Debt Service:	2,454,000	14,579,500	12,000,000	2,579,500
Transfers	1,003,000	1,205,000	1,044,829	160,171
Capital outlay	40,574,000	40,574,000	38,391,274	2,182,726
Contingency	5,241,685	4,991,685	-	4,991,685
Unappropriated ending fund balance	-	-	15,746,098	(15,746,098)
Total requirements	$ 53,879,685	$ 65,983,185	$ 70,612,240	$ (4,629,055)

City of Lake Oswego, Oregon

Surface Water Fund

Schedule of Resources and Requirements - Budget to Actual

for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 61,277	$ 1,350,328	$ 1,350,328	$ -
Sales and services	1,758,000	1,758,000	1,822,127	64,127
Miscellaneous	25,000	25,000	14,514	(10,486)
Total resources	$ 1,844,277	$ 3,133,328	$ 3,186,969	$ 53,641
Requirements:				
Personal services	$ 248,000	$ 270,000	$ 262,080	$ 7,920
Materials and services	274,000	386,000	279,845	106,155
Debt Service	235,000	235,000	234,526	474
Transfers	601,000	832,000	685,844	146,156
Capital outlay	342,000	342,000	161,124	180,876
Contingency	144,277	1,068,328	-	1,068,328
Unappropriated ending fund balance	-	-	1,563,550	(1,563,550)
Total requirements	$ 1,844,277	$ 3,133,328	$ 3,186,969	$ (53,641)

City of Lake Oswego, Oregon
Golf Course Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 12,998	$ 12,998	$ 24,366	$ 11,368
Sales and services	819,000	778,000	657,685	(120,315)
Miscellaneous	11,000	11,000	21,896	10,896
Transfers	-	56,000	83,000	27,000
Total resources	$ 842,998	$ 857,998	$ 786,947	$ (71,051)
Requirements:				
Personal services	$ 541,000	$ 554,000	$ 511,425	$ 42,575
Materials and services	233,000	248,000	238,405	9,595
Transfers	32,000	32,000	31,996	4
Contingency	36,998	23,998	-	23,998
Unappropriated ending fund balance	-	-	5,121	(5,121)
Total requirements	$ 842,998	$ 857,998	$ 786,947	$ 71,051

City of Lake Oswego, Oregon
Tennis Facility Fund
Schedule of Resources and Requirements - Budget to Actual
for the fiscal year ended June 30, 2010

	2009-10 Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget
Resources:				
Beginning fund balance	$ 368,013	$ 368,013	$ 462,879	$ 94,866
Licenses and fees	3,000	3,000	2,347	(653)
Sales and services	327,000	327,000	378,372	51,372
Miscellaneous	11,000	11,000	6,760	(4,240)
Total resources	$ 709,013	$ 709,013	$ 850,358	$ 141,345
Requirements:				
Personal services	$ 130,000	$ 144,000	$ 141,085	$ 2,915
Materials and services	151,000	176,000	137,692	38,308
Transfers	108,000	108,000	105,582	2,418
Capital outlay	60,000	26,000	16,642	9,358
Contingency	110,013	105,013	-	105,013
Unappropriated ending fund balance	150,000	150,000	449,357	(299,357)
Total requirements	$ 709,013	$ 709,013	$ 850,358	$ (141,345)

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OTHER FINANCIAL SCHEDULES

Schedule of Future Bond Requirements

Schedule of Property Tax Transactions and Outstanding Balances

Schedule of Accountability of Independently Elected Officials

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City of Lake Oswego
Schedule of Future Bond Requirements
as of June 30, 2010

FUTURE BOND PRINCIPAL

Fiscal year	General Obligation Bonds: Refunded Series 2003A 5/1/03	Refunded Series 2006 10/18/06	Open Space and Field Improvements 5/1/01	Parks Fields & Pathways 2/1/03	Surface Water Revenue 4/1/05	Water Revenue & Refunding 10/18/07	Full Faith & Credit: Wastewater 6/3/09	Redevelopment Agency Urban Renewal Bonds: Series 2005-A 6/23/05	Series 2005-B 6/23/05	Total
2011	$600,000	$590,000	$305,000	$945,000	$130,000	$595,000	-	-	$1,070,000	$4,235,000
2012	625,000	615,000	320,000	995,000	135,000	615,000	-	905,000	325,000	4,535,000
2013	645,000	645,000	340,000	1,035,000	140,000	645,000	1,690,000	945,000	340,000	6,425,000
2014	-	665,000	355,000	1,095,000	145,000	670,000	1,740,000	985,000	360,000	6,015,000
2015	-	695,000	375,000	815,000	150,000	700,000	1,795,000	1,025,000	380,000	5,935,000
2016	-	730,000	390,000	845,000	155,000	730,000	1,845,000	1,070,000	395,000	6,160,000
2017	-	760,000	410,000	585,000	165,000	770,000	1,900,000	1,110,000	420,000	6,120,000
2018	-	490,000	430,000	610,000	170,000	800,000	1,960,000	1,160,000	440,000	6,060,000
2019	-	510,000	455,000	640,000	180,000	840,000	2,020,000	1,205,000	465,000	6,315,000
2020	-	-	475,000	665,000	190,000	260,000	2,100,000	1,260,000	485,000	5,435,000
2021	-	-	-	635,000	200,000	270,000	2,185,000	-	-	3,290,000
2022	-	-	-	730,000	210,000	280,000	2,270,000	-	-	3,490,000
2023	-	-	-	-	220,000	290,000	2,360,000	-	-	2,870,000
2024	-	-	-	-	230,000	305,000	2,455,000	-	-	2,990,000
2025	-	-	-	-	-	315,000	2,580,000	-	-	2,895,000
2026	-	-	-	-	-	330,000	2,705,000	-	-	3,035,000
2027	-	-	-	-	-	345,000	2,845,000	-	-	3,190,000
2028	-	-	-	-	-	360,000	2,955,000	-	-	3,315,000
2029	-	-	-	-	-	-	3,075,000	-	-	3,075,000
2030	-	-	-	-	-	-	3,195,000	-	-	3,195,000
2031	-	-	-	-	-	-	3,330,000	-	-	3,330,000
2032	-	-	-	-	-	-	3,495,000	-	-	3,495,000
2033	-	-	-	-	-	-	3,670,000	-	-	3,670,000
2034	-	-	-	-	-	-	3,830,000	-	-	3,830,000
2035	-	-	-	-	-	-	4,000,000	-	-	4,000,000
	$1,870,000	$5,700,000	$3,855,000	$9,595,000	$2,420,000	$9,170,000	$60,000,000	$9,665,000	$4,680,000	$106,905,000

FUTURE BOND INTEREST

Fiscal year	General Obligation Bonds: Refunded Series 2003A 5/1/03	Refunded Series 2006 10/18/06	Open Space and Field Improvements 5/1/01	Parks Fields & Pathways 2/1/03	Surface Water Revenue 4/1/05	Water Revenue & Refunding 10/18/07	Full Faith & Credit: Wastewater 6/3/09	Redevelopment Agency Urban Renewal Bonds: Series 2005-A 6/23/05	Series 2005-B 6/23/05	Total
2011	$67,692	$228,000	$186,065	$416,433	$105,220	$362,541	$2,488,469	$425,790	$251,917	$4,532,127
2012	47,294	204,400	170,815	382,413	100,583	338,341	2,488,469	425,299	195,238	4,352,852
2013	23,542	179,800	156,415	342,612	95,420	313,141	2,463,119	384,065	177,045	4,135,159
2014	-	154,000	140,775	288,275	89,720	286,841	2,411,669	343,030	158,909	3,873,219
2015	-	127,400	124,090	244,475	83,820	259,441	2,358,644	299,609	139,411	3,636,890
2016	-	99,600	106,278	210,856	77,720	230,841	2,304,044	254,786	119,007	3,403,132
2017	-	70,400	87,557	174,944	70,495	200,841	2,247,869	206,848	97,260	3,156,214
2018	-	40,000	67,570	149,789	62,120	167,441	2,189,969	158,236	74,664	2,909,789
2019	-	20,400	46,500	123,101	53,370	132,641	2,120,169	107,085	50,827	2,654,093
2020	-	-	23,750	94,301	44,120	110,641	2,037,769	54,021	25,680	2,390,282
2021	-	-	-	64,044	34,370	100,041	1,952,069	-	-	2,150,524
2022	-	-	-	34,675	24,697	89,041	1,862,969	-	-	2,011,382
2023	-	-	-	-	15,130	77,460	1,770,369	-	-	1,862,959
2024	-	-	-	-	5,117	65,074	1,661,794	-	-	1,731,985
2025	-	-	-	-	-	51,975	1,535,919	-	-	1,587,894
2026	-	-	-	-	-	38,063	1,403,794	-	-	1,441,857
2027	-	-	-	-	-	23,297	1,279,269	-	-	1,302,566
2028	-	-	-	-	-	7,875	1,163,269	-	-	1,171,144
2029	-	-	-	-	-	-	1,042,669	-	-	1,042,669
2030	-	-	-	-	-	-	915,272	-	-	915,272
2031	-	-	-	-	-	-	766,125	-	-	766,125
2032	-	-	-	-	-	-	595,500	-	-	595,500
2033	-	-	-	-	-	-	427,844	-	-	427,844
2034	-	-	-	-	-	-	263,781	-	-	263,781
2035	-	-	-	-	-	-	90,000	-	-	90,000
	$138,528	$1,124,000	$1,109,815	$2,525,916	$861,907	$2,855,536	$39,840,828	$3,658,769	$1,289,958	$52,405,254

CITY OF LAKE OSWEGO, OREGON

Schedule of Property Tax Transactions and Outstanding Balances

as of June 30, 2010

Tax levy fiscal year	Balance June 30, 2009	Levy assessed	Add (deduct) adjustments and discounts	Deduct cash collections	Balance June 30, 2010
2009-10	$ -	$ 32,864,149	$ (549,524)	$ (30,946,450)	$ 1,368,175
2008-09	1,508,438		(185,990)	(760,270)	562,178
2007-08	417,067		(10,491)	(190,896)	215,680
2006-07	150,945		16,366	(86,959)	80,352
2005-06 & prior	115,217		(84,338)	27,313	58,192
	$ 2,191,667	$ 32,864,149	$ (813,977)	$ (31,957,262)	$ 2,284,577

CITY OF LAKE OSWEGO, OREGON

Schedule of Accountability of Independently Elected Officials

for the fiscal year ended June 30, 2010

Oregon Revised Statutes (ORS) section 297 requires a statement of accountability for each independently elected official collecting or receiving money in the municipal corporation. In compliance with ORS 297, there are no independently elected officials that collect or receive money on behalf of the City of Lake Oswego.

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CITY OF LAKE OSWEGO, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION III

STATISTICAL SECTION

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STATISTICAL SECTION

This section provides further details as a context for a better understanding of the financial statements.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how financial performance has changed over time.	117
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, property taxes.	123
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	127
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.	134
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	136

Sources: The information in these schedules is derived from the comprehensive annual financial reports for the relevant year, unless otherwise noted. The City implemented GASB Statement 34 in fiscal year 2003 and GASB Statement 44 in fiscal year 2004.

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CITY OF LAKE OSWEGO, OREGON

Net Assets by Component

for the last eight fiscal years [1]
(accrual basis of accounting)
(in thousands)

	Fiscal year							
	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities								
Invested in capital assets, net of related debt	$ 60,174	$ 64,446	$ 62,007	$ 77,320	$ 79,435	$ 82,266	$ 84,360	$ 87,117
Restricted	10,846	8,969	18,823	17,055	14,385	13,245	13,549	12,859
Unrestricted	15,626	17,377	17,033	10,177	15,800	14,487	13,514	16,121
Total governmental activities net assets	86,646	90,792	97,863	104,552	109,620	109,998	111,423	116,098
Business-type activities								
Invested in capital assets, net of related debt	66,404	66,486	63,429	67,102	70,782	71,929	77,153	79,028
Restricted	-	-	-	2,086	-	-	-	166
Unrestricted	9,040	10,950	15,585	12,046	12,696	11,878	9,110	10,545
Total business-type activities net assets	75,444	77,436	79,014	81,234	83,478	83,807	86,263	89,739
Primary government								
Invested in capital assets, net of related debt	126,578	130,932	125,436	144,422	150,217	154,195	161,513	166,145
Restricted	10,846	8,969	18,823	19,141	14,385	13,246	13,548	13,026
Unrestricted	24,666	28,327	32,618	22,223	28,496	26,365	22,624	26,666
Total primary government net assets	$ 162,090	$ 168,228	$ 176,877	$ 185,786	$ 193,098	$ 193,806	$ 197,685	$ 205,837

[1] Fiscal year 2002-03 was the first year that the new reporting requirements of GASB 34 were implemented at the City of Lake Oswego.

CITY OF LAKE OSWEGO, OREGON

Changes in Net Assets

for the last eight fiscal years [1]
(accrual basis of accounting)
(in thousands)

	Fiscal year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
Governmental activities:								
General government	$ 6,448	$ 5,206	$ 5,913	$ 5,960	$ 7,629	$ 7,369	$ 7,391	$ 9,128
Public safety	13,739	14,385	15,435	17,052	17,395	18,385	18,242	18,359
Culture and recreation	7,380	7,423	8,174	8,839	9,457	10,006	10,311	10,187
Community development	3,215	3,106	3,446	4,162	4,476	5,348	4,283	557
Highways and streets	3,364	3,495	3,653	4,112	4,160	4,323	4,673	4,413
Interest on long-term debt	1,983	2,073	2,328	2,028	3,171	2,878	2,061	1,640
Total governmental activities expenses	36,129	35,688	38,949	42,153	46,288	48,309	46,960	44,284
Business-type activities:								
Water	4,471	4,506	4,308	6,805	5,205	6,220	5,461	5,900
Sewer	3,813	3,589	4,569	4,223	4,326	6,191	6,100	5,606
Surface water	1,186	1,169	1,282	1,508	1,746	1,617	1,923	1,996
Golf course	808	821	845	689	732	919	876	828
Tennis facility	226	282	289	293	293	325	347	376
Total business-type activities expenses	10,504	10,367	11,293	13,518	12,302	15,272	14,707	14,706
Total primary government expenses	$ 46,633	$ 46,055	$ 50,242	$ 55,671	$ 58,590	$ 63,581	$ 61,667	$ 58,991
Program Revenues								
Governmental activities:								
Charges for services:								
General government	$ 3,343	$ 2,301	$ 2,284	$ 3,441	$ 3,157	$ 2,181	$ 2,240	$ 1,426
Public safety	1,830	1,909	2,123	2,090	2,201	2,265	2,444	2,503
Culture and recreation	616	644	724	926	889	990	1,047	1,046
Community development	2,885	2,331	2,670	3,138	2,975	2,493	1,515	536
Highways and streets	23	444	1,562	1,954	1,751	1,504	1,333	1,445
Operating grants and contributions	3,860	3,838	4,288	3,930	6,622	4,020	3,091	5,164
Capital grants and contributions	542	239	1,638	198	155	141	2,093	555
Total governmental activities program revenues	13,099	11,706	15,289	15,677	17,750	13,594	13,763	12,675
Business-type activities:								
Charges for services:								
Water	4,561	4,637	4,403	5,166	4,983	4,534	4,765	5,951
Sewer	4,395	4,923	5,000	4,937	5,232	5,885	7,223	8,393
Surface water	1,346	1,432	1,449	1,728	1,679	1,799	1,812	1,822
Golf course	764	723	631	642	698	726	730	658
Tennis facility	248	265	271	267	315	351	336	381
Capital grants and contributions	75	-	-	-	-	-	1,837	779
Total business-type activities program revenues	11,389	11,980	11,754	12,740	12,907	13,295	16,703	17,983
Total primary government program revenues	$ 24,488	$ 23,686	$ 27,043	$ 28,417	$ 30,657	$ 26,889	$ 30,466	$ 30,658

[1] Fiscal year 2002-03 was the first year that the new reporting requirements of GASB 34 were implemented at the City of Lake Oswego.

Continued on next page

	Fiscal year							
	2003	2004	2005	2006	2007	2008	2009	2010
Net (Expense) Revenue								
Governmental activities	$ (23,030)	$ (23,582)	$ (23,660)	$ (26,476)	$ (28,538)	$ (34,715)	$ (33,198)	$ (31,609)
Business-type activities	885	1,613	461	(778)	605	(1,977)	1,996	3,277
Total primary government expenses	$ (22,145)	$ (22,369)	$ (23,199)	$ (27,254)	$ (27,933)	$ (36,692)	$ (31,202)	$ (28,332)
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes								
Property taxes, levied for general purposes	$ 19,870	$ 20,987	$ 22,385	$ 23,530	$ 24,502	$ 23,442	$ 27,057	$ 28,565
Property taxes, levied for debt service	2,920	3,436	3,548	3,458	3,342	6,086	3,683	3,485
Franchise taxes	1,933	1,845	2,036	2,165	2,364	2,558	2,529	2,627
Hotel and motel taxes	368	410	459	532	614	733	678	716
Interest and investment earnings	560	561	980	1,735	2,200	1,329	524	455
Capital contributions	1,015	527	723	1,538	257	561	-	-
Other revenues	86	362	600	171	292	155	266	449
Transfers	148	-	-	35	35	230	(115)	(12)
Total governmental activities	26,900	28,128	30,731	33,164	33,606	35,094	34,621	36,285
Business-type activities:								
Interest and investment earnings	149	88	231	467	761	827	272	124
Capital contributions	2,820	195	853	2,494	882	1,652	-	-
Other revenues	41	97	32	73	30	60	73	63
Loss on sale of capital assets	(7)	-	-	-	-	-	-	-
Transfers	(148)	-	-	(35)	(35)	(230)	115	12
Total business-type activities	2,855	380	1,116	2,999	1,638	2,309	459	199
Total primary government	$ 29,755	$ 28,508	$ 31,847	$ 36,163	$ 35,244	$ 37,403	$ 35,080	$ 36,485
Change in Net Assets								
Governmental activities	$ 3,870	$ 4,146	$ 7,071	$ 6,688	$ 5,068	$ 379	$ 1,423	$ 4,676
Business-type activities	3,740	1,993	1,577	2,221	2,243	332	2,456	3,476
Total primary government	$ 7,610	$ 6,139	$ 8,648	$ 8,909	$ 7,311	$ 711	$ 3,879	$ 8,152

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CITY OF LAKE OSWEGO, OREGON

Governmental Activities Tax Revenues by Source

for the last eight fiscal years [1]

(modified accrual basis of accounting)

Fiscal year	Property tax	Franchise tax	Motor fuel tax[2]	Alcoholic beverage tax[2]	Total
2003	$ 22,863,038	$ 1,932,405	$ 1,447,352	$ 309,928	26,552,723
2004	24,467,913	1,845,056	1,616,831	336,032	28,265,832
2005	26,058,276	1,958,160	1,742,832	348,583	30,107,851
2006	26,981,047	2,164,721	1,743,384	375,831	31,264,983
2007	27,847,561	2,363,736	1,670,244	379,498	32,261,039
2008	29,106,537	2,557,856	1,574,305	430,649	33,669,347
2009	30,314,960	2,528,804	1,404,495	432,498	34,680,757
2010	31,963,819	2,626,633	1,404,495	432,498	36,427,445

[1] Fiscal year 2002-03 was the first year that the new reporting requirements of GASB 34 were implemented at the City of Lake Oswego.

[2] Motor fuel and alcoholic beverage taxes are not directly assessed by the City of Lake Oswego, but rather by the State of Oregon, and then a portion is allocated to the City based upon population.

CITY OF LAKE OSWEGO, OREGON

Fund Balances of Governmental Funds

for the last eight fiscal years [1]

(modified accrual basis of accounting)

(In thousands)

	Fiscal year							
	2003	2004	2005	2006	2007	2008	2009	2010
General fund								
Reserved	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,949	$ 6,078
Unreserved	4,782	4,269	4,983	4,918	3,257	3,604	14,054	16,359
Total general fund	$ 4,782	$ 4,269	$ 4,983	$ 4,918	$ 3,257	$ 3,604	$ 20,003	$ 22,437
All other governmental funds								
Reserved	$ 21,262	$ 17,304	$ 19,240	$ 17,055	$ 20,594	$ 16,727	$ 11,120	$ 10,342
Unreserved, reported in:								
Special revenue funds	10,035	11,944	15,993	12,049	13,295	11,990	1,159	1,423
Capital projects funds	658	462	356	190	250	305	101	72
Total all other governmental funds	$ 31,955	$ 29,710	$ 35,589	$ 29,294	$ 34,139	$ 29,022	$ 12,380	$ 11,837

[1] Fiscal year 2002-03 was the first year that the new reporting requirements of GASB 34 were implemented at the City of Lake Oswego.

CITY OF LAKE OSWEGO, OREGON

Changes in Fund Balances of Governmental Funds

for the last eight fiscal years [1]
(modified accrual basis of accounting)
(in thousands)

	Fiscal year							
	2003	2004	2005	2006	2007	2008	2009	2010
Revenues:								
Property taxes	$ 22,863	$ 24,468	$ 26,058	$ 26,981	$ 27,847	$ 29,106	$ 30,315	$ 31,964
Franchise fees	1,932	1,845	2,036	2,165	2,364	2,558	2,529	2,627
Intergovernmental	4,793	4,234	6,039	4,302	4,337	4,359	4,460	5,671
Licenses and fees	5,165	4,355	5,769	7,578	7,098	5,577	4,611	4,665
Fines and forfeitures	674	893	1,029	1,069	963	967	823	1,129
Sales and services	2,363	2,455	2,735	2,876	3,000	3,015	3,141	3,281
Charges for services	5,154	5,117	5,270	5,318	5,945	7,221	6,570	6,728
Special assessment - principal	139	67	46	86	28	35	61	50
Miscellaneous	1,023	1,031	1,599	2,257	5,340	1,846	88	1,606
Total revenues	44,106	44,465	50,581	52,632	56,922	54,684	52,598	57,720
Expenditures:								
Current:								
General government	7,704	8,105	8,476	8,629	9,967	9,418	10,424	14,431
Public safety	13,493	13,866	14,905	16,458	16,862	17,557	17,521	17,782
Culture and recreation	6,425	6,524	7,234	7,747	8,340	8,655	8,617	9,283
Community development	4,307	4,302	4,675	5,396	5,758	6,595	6,053	2,589
Highways and streets	1,791	1,856	1,890	2,196	2,168	2,243	2,523	2,208
Capital outlay	11,382	8,614	8,027	13,883	25,211	9,451	2,590	4,804
Debt service:								
Principal	1,995	2,595	3,145	2,770	2,740	2,935	3,161	3,375
Interest	2,054	2,274	2,372	1,950	3,285	2,840	2,004	1,273
Intergovernmental expense	-	-	-	-	-	900	-	38
Total expenditures	49,151	48,136	50,724	59,029	74,331	60,594	52,892	55,784
Deficiency of revenues under expenditures	(5,045)	(3,671)	(143)	(6,397)	(17,409)	(5,910)	(194)	1,936
Other financing sources (uses):								
Transfers in	1,220	1,018	546	3,011	1,420	2,733	19,005	1,802
Transfers out	(1,073)	(1,018)	(546)	(2,976)	(1,385)	(2,698)	(19,195)	(1,851)
Proceeds from sale of capital assets	1,256	913	1,617	2	309	1,104	142	3
Proceeds line-of-credit issued	-	-	-	-	20,157	-	-	-
Proceeds from refunding bonds issued	20,943	-	17,935	-	6,670	-	-	-
Payments to refunded bond escrow agent	(10,991)	-	(12,815)	-	(6,579)	-	-	-
Total other financing sources (uses)	11,355	913	6,737	37	20,592	1,139	(48)	(46)
Net change in fund balances	$ 6,310	$ (2,758)	$ 6,594	$ (6,360)	$ 3,183	$ (4,771)	$ (242)	$ 1,890
Debt service as a percentage of noncapital expenditures	10.7%	12.3%	12.9%	10.5%	12.3%	11.3%	10.3%	9.1%

[1] Fiscal year 2002-03 was the first year that the new reporting requirements of GASB 34 were implemented at the City of Lake Oswego.

CITY OF LAKE OSWEGO, OREGON

Assessed Value and Estimated Real Market Value of Taxable Property

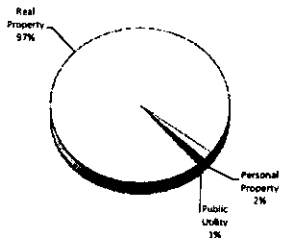
for the last ten fiscal years
(in thousands of dollars)

	Assessed value						
Fiscal year	Real property	Personal property	Public utility	Total	Total direct tax rate	Estimated real market value (RMV)	Assessed value as a percentage of RMV
2001	$ 3,431,357,950	$ 84,658,415	$ 59,372,209	$ 3,575,388,574	$ 5.4535	$ 4,691,116,668	76.2%
2002	3,674,400,559	89,277,844	64,304,914	3,827,983,317	5.4641	5,095,554,355	75.1
2003	3,859,058,979	89,336,610	67,155,851	4,015,551,440	5.8293	5,303,758,907	75.7
2004	4,011,395,332	82,195,706	69,809,322	4,163,400,360	6.0573	5,652,069,391	73.7
2005	4,181,274,462	85,442,034	75,885,019	4,342,601,515	6.2115	6,038,917,753	71.9
2006	4,360,051,208	87,775,231	65,797,150	4,513,623,589	6.1658	6,847,588,629	65.9
2007	4,581,779,113	91,639,937	64,796,580	4,738,215,630	6.0739	7,909,898,318	59.9
2008	4,836,748,746	91,410,514	67,132,080	4,995,291,340	6.0581	9,444,930,784	52.9
2009	5,070,330,976	99,718,138	65,890,930	5,235,940,044	6.0565	9,910,531,110	52.8
2010	5,283,069,817	97,869,846	91,696,150	5,472,635,813	6.0453	9,159,770,829	59.7

Sources: Clackamas, Multnomah, and Washington County Assessors' Offices

Note: Property in Oregon is assessed annually within the 3 percent limits of Measure 50. Counties assess new property at approximately 67 percent of estimated real market value for all types of real and personal property. Tax rates are per $1,000 of assessed value.

Real Market Value by Type for the fiscal year ended 2010



CITY OF LAKE OSWEGO, OREGON

Property Tax Rates - Direct and Overlapping Governments

for the last ten fiscal years
(rate per $1,000 of assessed value)

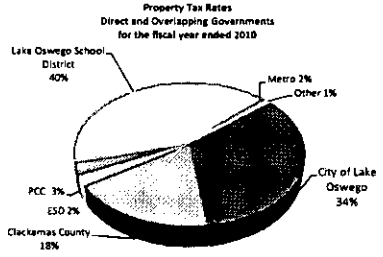
	City direct rates				Overlapping rates						
Fiscal year	Basic rate[1]	General obligation debt service	Urban renewal[2]	Total direct	Clackamas county	Education service district	Portland community college	Lake Oswego school district	Metro	Other[3]	Total direct and overlapping
2001	$ 4.7034	$ 0.7501	$ -	$ 5.4535	$ 2.57	$ 0.37	$ 0.37	$ 6.08	$ 0.34	$ 0.26	$ 15.44
2002	4.7034	0.7607	-	5.4641	2.57	0.37	0.55	7.02	0.33	0.26	16.56
2003	4.6636	0.7397	0.4260	5.8293	2.49	0.35	0.48	6.72	0.27	0.24	16.38
2004	4.7480	0.8668	0.4425	6.0573	2.49	0.35	0.50	6.71	0.27	0.22	16.60
2005	4.8116	0.8689	0.5310	6.2115	2.48	0.35	0.49	6.88	0.27	0.22	16.90
2006	4.8076	0.8084	0.5498	6.1658	2.48	0.35	0.48	7.08	0.27	0.24	17.07
2007	4.8066	0.7274	0.5399	6.0739	2.44	0.35	0.47	6.79	0.26	0.23	16.63
2008	4.8035	0.6964	0.5582	6.0581	2.70	0.35	0.48	6.62	0.41	0.22	16.84
2009	4.8055	0.6908	0.5602	6.0565	2.70	0.35	0.49	6.91	0.38	0.22	17.11
2010	4.7915	0.6247	0.6291	6.0453	3.17	0.35	0.61	6.91	0.41	0.22	17.72

Source Clackamas County Assessor's Office

[1] The City's basic rates are applied against AV. Starting in 2003, urban renewal rates are separately stated, so the City's basic rate is discounted back for the effect of the separately stated urban renewal rates.

[2] Beginning with fiscal year 2003, the urban renewal rates are stated separately.

[3] Includes Port of Portland, Tri-Met, Lake Grove Park and Vector Control taxing districts.



CITY OF LAKE OSWEGO, OREGON

Principal Property Taxpayers

current year and nine years ago

	2010			2001		
Name	Assessed value	Rank	Percent of total value	Assessed value	Rank	Percent of total value
Shorenstein Properties LLC	$ 233,086,260	1	4.26%	-		-
Prime Property Capital Inc	36,545,602	2	0.67	-		-
Property Reserve Inc.	31,050,439	3	0.57	$ 12,740,097	10	0.36%
Comcast Corporation	26,619,900	4	0.49	-		-
Gramor Development	24,825,913	5		-		
Phoenix Commercial Investments	24,565,824	6	0.45	-		-
Alliance Tax Advisors	21,726,329	7	0.40	-		-
St. Paul Properties Inc.	19,129,147	8	0.35	-		-
Portland General Elec Co.	18,332,000	9	0.33	14,629,100	7	0.41
Kruse Way Centerpointe LLC	17,771,226	10	0.32	-		-
Spieker Properties	-		-	62,217,044	1	1.74
The Kruse Development Co.	-		-	40,286,123	2	1.13
Lake Oswego Apartment Assoc.	-		-	28,009,161	3	0.55
U.S. West Communications	-		-	19,802,000	4	0.53
First American Trust	-		-	18,827,658	5	0.47
Salinas Investments USA Inc.	-		-	16,797,889	6	0.38
Riverbend on the Willamette	-		-	14,446,395	8	0.40
Light Street Partners LLP	-		-	13,620,164	9	0.40
Total	$ 453,652,640		8.29%	$ 241,375,631		6.75%

Source: Clackamas County Assessor's Office

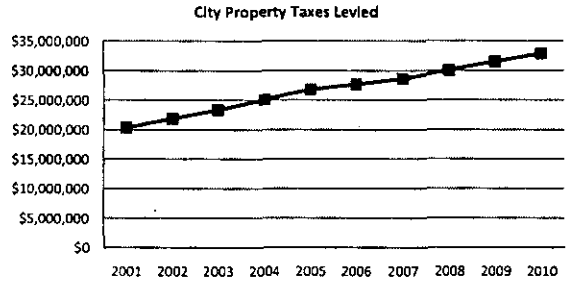
CITY OF LAKE OSWEGO, OREGON

Property Tax Levies and Collections

for the last ten fiscal years

Fiscal year	Taxes levied for the fiscal year	Collected within the fiscal year of the levy		Collections in subsequent years	Total collections to date	
		Amount	Percentage of levy		Amount	Percentage of levy
2001	$ 20,330,222	$ 19,033,203	94%	$ 742,206	$ 19,775,409	97%
2002	21,895,955	20,480,001	94	741,174	21,221,175	97
2003	23,337,918	21,916,180	94	929,088	22,845,268	98
2004	25,095,597	23,680,518	94	860,394	24,540,912	98
2005	26,794,938	25,368,373	95	665,984	26,034,357	97
2006	27,658,109	26,174,963	95	822,538	26,997,501	98
2007	28,610,074	27,182,459	95	627,898	27,810,357	97
2008	30,078,019	28,329,781	94	743,762	29,073,543	97
2009	31,529,026	29,507,399	94	719,498	30,226,897	96
2010	32,864,149	30,946,450	94	1,010,812	31,957,262	97

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



CITY OF LAKE OSWEGO, OREGON

Ratios of Outstanding Debt by Type

for the last ten fiscal years

Fiscal year	Governmental activities		Business-type activities				Total primary government	Percentage of personal income[3]	Per capita[3]
	General obligation bonds	Redevelopment agency urban renewal bonds	Water revenue bonds	Sewer bond anticipation notes[1]	Surface water revenue bonds[2]	Wastewater Full Faith & Credit bonds			
2001	$ 29,415,000	$ 6,840,000	$ 6,970,000	$ -	$ 565,000	-	$ 43,790,000	68.54%	$ 1,236
2002	27,925,000	14,635,000	6,745,000	-	535,000	-	49,840,000	76.97	1,401
2003	36,635,000	14,220,000	6,510,000	-	505,000	-	57,870,000	87.74	1,619
2004	34,675,000	13,585,000	6,265,000	-	-	-	54,525,000	77.73	1,525
2005	32,300,000	17,935,000	6,005,000	-	3,000,000	-	59,240,000	81.05	1,652
2006	30,005,000	17,460,000	5,735,000	-	2,905,000	-	56,105,000	71.36	1,555
2007	27,675,000	16,960,000	5,450,000	-	2,790,000	-	53,075,000	63.36	1,460
2008	25,665,000	16,235,000	10,205,000	12,000,000	2,670,000	-	66,775,000	76.71	1,837
2009	23,380,000	15,360,000	9,675,000	12,000,000	2,545,000	60,000,000	122,960,000	NA	3,351
2010	21,020,000	14,345,000	9,120,000	-	2,420,000	60,000,000	106,905,000	NA	2,909

Note: Details regarding the City's outstanding debt can be found in the notes to the basic financial statements.

[1] Sewer bond anticipation notes were issued in anticipation of redemption with sewer revenue bonds in fiscal year 2009. Wastewater bonds were issued in June 2009 and the BANs were redeemed in July 2009.

[2] Series 1994 Surface Water revenue bonds were paid off in fiscal year 2004. The Series 2005 Surface Water revenue bonds were issued in fiscal year 2005.

[3] Personal income and population data can be found in the demographic statistic on page 134.

CITY OF LAKE OSWEGO, OREGON

Ratios of General Bonded Debt Outstanding

for the last ten fiscal years

Fiscal year	General obligation bonds	Redevelopment agency urban renewal bonds	Less: Amounts available in debt service fund	Total	Percentage of estimated actual taxable value of property[1]	Per capita[2]
2001	$ 29,415,000	$ 6,840,000	$ 1,773,924	$ 34,481,076	0.96%	$ 973
2002	27,925,000	14,635,000	2,718,926	39,841,074	1.04	1,120
2003	36,635,000	14,220,000	2,470,305	48,384,695	1.20	1,353
2004	34,675,000	13,585,000	2,400,640	45,859,360	1.10	1,282
2005	32,300,000	17,935,000	2,294,089	47,940,911	1.10	1,337
2006	30,005,000	17,460,000	845,702	46,619,298	1.03	1,292
2007	27,875,000	16,960,000	509,586	44,325,414	0.94	1,219
2008	25,665,000	16,235,000	773,392	41,126,608	0.82	1,132
2009	23,380,000	15,360,000	1,425,502	37,314,498	0.71	1,017
2010	21,020,000	14,345,000	1,879,141	33,485,859	0.61	911

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

[1] Property value data can be found on the assessed value and estimated real market value of taxable property on page 123

[2] Population data can be found in the demographic statistic on page 134.

CITY OF LAKE OSWEGO, OREGON

Direct and Overlapping Governmental Activities Debt

as of June 30, 2010

Governmental unit	Debt outstanding	Estimated percentage applicable	Amount applicable to City of Lake Oswego
Debt repaid with property taxes:			
Lake Oswego SD #7J	$ 74,568,643	86.47%	$ 64,476,747
Metro	158,533,356	4.39	6,964,687
Portland Community College	224,025,000	5.46	12,227,060
Multnomah County SD #1J	26,316,000	0.57	151,106
Tri-Met	27,960,000	4.42	1,234,462
Other districts:			
Clackamas County	79,370,000	15.91	12,628,640
Clackamas Community College	34,840,000	0.26	91,908
Multnomah County	104,685,000	0.57	601,101
Washington County	2,715,000	0.02	543
Subtotal, overlapping debt	733,012,999		98,376,256
Direct debt outstanding:			
City of Lake Oswego, Oregon	35,365,000	100.00%	35,365,000
Total direct and overlapping debt outstanding	$ 768,377,999		$ 133,741,256

Source: Oregon State Treasury Department, Debt Management Division

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF LAKE OSWEGO, OREGON

Legal Debt Margin Information

for the last ten fiscal years

	2001	2002	2003	2004
Debt limit	$ 140,733,500	$ 152,866,631	$ 159,112,767	$ 169,562,082
Total net debt applicable to limit	27,641,076	25,206,074	34,164,695	32,274,360
Legal debt margin	$ 113,092,424	$ 127,660,557	$ 124,948,072	$ 137,287,722
Total net debt applicable to the limit as a percentage of debt limit	19.64%	16.49%	21.47%	19.03%

2005	2006	2007	2008	2009	2010
$ 181,167,533	$ 205,427,659	$ 237,296,950	$ 283,347,924	$ 297,315,933	$ 274,793,125
32,300,000	30,005,000	27,875,000	25,665,000	23,380,000	21,020,000
$ 148,867,533	$ 175,422,659	$ 209,421,950	$ 257,682,924	$ 273,935,933	$ 253,773,125
17.83%	14.61%	11.75%	9.06%	7.86%	7.65%

Legal debt margin calculation for fiscal year ended 2009-10

Total property real market value [1]	$ 9,159,770,829
	3%
Debt limit (3% of total property real market value)	274,793,125
Amount of debt applicable to debt limit:	
Total bonded debt	106,905,000
Less debt excluded from debt limit:	
Revenue bonds and refunding, Water	(9,120,000)
Wastewater Full Faith & Credit bonds	(60,000,000)
Revenue bonds, Series 2005 Surface Water	(2,420,000)
Urban renewal bonds, Series 2005-A	(9,665,000)
Urban renewal bonds, Series 2005-B	(4,680,000)
Net amount of debt applicable to limit	21,020,000
Legal debt margin - amount available for future indebtedness	$ 253,773,125

CITY OF LAKE OSWEGO, OREGON

Pledged-Revenue Coverage

for the last ten fiscal years

	Water Revenue Bonds					
Fiscal year	Utility service charges[1]	Less: operating expenses[2]	Net available revenue	Debt service requirements Principal	Debt service requirements Interest	Coverage
2001	$ 4,930,610	$ 2,284,475	$ 2,646,135	$ 215,000	$ 345,229	4.72
2002	4,947,145	2,413,102	2,534,043	225,000	335,329	4.52
2003	4,180,916	2,335,440	1,845,476	235,000	324,979	3.30
2004	4,215,585	2,292,645	1,922,940	245,000	314,179	3.44
2005	4,026,059	2,288,354	1,737,705	260,000	302,816	3.09
2006	6,879,077	4,459,749	2,419,328	270,000	290,891	4.31
2007	5,271,223	2,926,424	2,344,799	285,000	278,404	4.16
2008	4,894,161	3,764,285	1,129,876	300,000	394,083	1.63
2009	4,887,543	3,208,067	1,679,476	530,000	410,819	1.79
2010	5,566,541	3,024,106	2,542,435	555,000	386,779	2.70

Source: Annual financial statements of the City of Lake Oswego

[1] Includes operating revenue plus interest income on operating earnings

[2] Includes operating expenses except for depreciation and, starting with fiscal year 2000, transfers to the general and community development funds are excluded as well through fiscal year 2009, pursuant to bond covenants coverage requirements. Starting in fiscal year 2010 the transfers from the engineering fund have been excluded instead of the community development fund.

Continued on next page

	Surface Water Revenue Bonds					
Fiscal year	Utility service charges[1]	Less: operating expenses[2]	Net available revenue	Debt service requirements Principal	Debt service requirements Interest	Coverage
2001	$ 1,221,352	$ 622,153	$ 599,199	$ 30,000	$ 35,795	9.11
2002	1,287,083	657,880	629,203	30,000	34,190	9.80
2003	1,356,402	406,623	949,779	30,000	32,555	15.18
2004	1,442,624	343,582	1,099,042	35,000	30,890	16.68
2005	1,482,876	472,779	1,010,097	—	—	n/a
2006	1,115,201	563,365	551,836	95,000	143,272	2.32
2007	1,333,000	646,642	686,358	115,000	120,945	2.91
2008	1,384,460	528,878	855,582	120,000	117,420	3.60
2009	1,844,390	820,043	1,024,347	125,000	113,589	4.29
2010	1,836,641	607,675	1,228,966	125,000	109,526	5.24

Source: Annual financial statements of the City of Lake Oswego

[1] Includes operating revenue plus interest income on operating earnings

[2] Includes operating expenses except for depreciation and transfers to the general and community development funds are excluded as well through fiscal year 2009, pursuant to bond covenants coverage requirements. Starting in fiscal year 2010 the transfers from the engineering fund have been excluded instead of the community development fund.

[3] In 2005, surface water revenue bonds for $3,000,000 were issued and the previous bond issue was paid off.

Continued from previous page

CITY OF LAKE OSWEGO, OREGON

Demographic and Economic Statistics

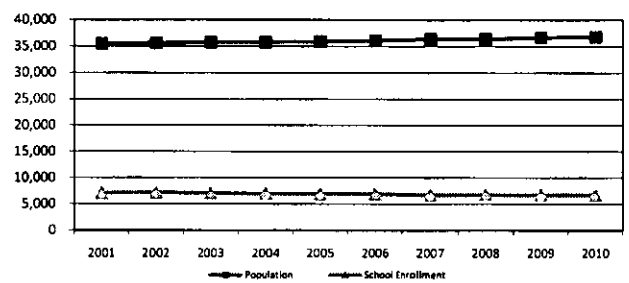
for the last ten fiscal years

Fiscal year	Population	Personal income (in millions)	Per capita personal income [4]	School enrollment	Unemployment rate
2001	35,434	$ 63,892	$ 32,326	7,080	7.6
2002	35,580	64,755	32,255	7,163	7.7
2003	35,750	65,959	32,328	7,045	9.1
2004	35,759	70,144	34,018	6,995	7.0
2005	35,860	73,087	34,921	6,916	6.2
2006	36,075	78,618	36,845	6,896	5.3
2007	36,350	83,765	38,511	6,746	4.8
2008	36,345	87,053	39,436	6,777	5.3
2009	36,698	*	38,728	6,743	11.5
2010	36,755	*	*	6,702	10.3

* Information unavailable at this time

Sources: Center for Population Research and Census, Portland State University
Bureau of Economic Analysis
[1] Beginning in 2009, the data reflects a change to the statistical area used for the metropolitan statistical area to Portland-Vancouver-Hillsboro, OR-WA (Vancouver now replaces Beaverton as a principal city based on population.)
State of Oregon Employment Division (Portland PMSA)
Lake Oswego School District

Population and School Enrollment Trends



CITY OF LAKE OSWEGO, OREGON

Principal Employers

current year and ten years ago

	2010			2000		
Employer	Employees	Rank	Percentage of total City employment	Employees	Rank	Percentage of total City employment
Lake Oswego School District	779	1	2.19%	861	1	3.02%
City of Lake Oswego	356	2	1.00	285	4	1.00
Waggener Edstrom, Inc.	312	3	0.88	253	6	0.89
Stanford's Restaurant	281	4	0.79	-	-	-
Azteca Mexican Restaurant	250	5	0.70	-	-	-
Micro Systems Engineering, Inc.	246	6	0.69	296	3	1.04
Mary's Woods at Marylhurst	200	7	0.56	-	-	-
Jacobs Engineering Group, Inc.	200	8	0.56	220	7	0.77
Otak, Inc.	199	9	0.56	-	-	-
New Seasons Market, Inc.	173	10	0.49	-	-	-
Safeco Insurance	-	-	-	360	2	1.26
Gage Industries, Inc.	-	-	-	275	5	0.96
Blackwell North America	-	-	-	200	8	0.70
Pacificare of Oregon	-	-	-	170	9	0.60
Safeway Stores	-	-	-	155	10	0.54
Total	2,996		8.42%	3,075		10.79%

Source: Chamber of Commerce and Clackamas County

CITY OF LAKE OSWEGO, OREGON

Full-time Equivalent City Government Employees by Function

for the last ten fiscal years

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government	73.5	73.0	55.9	53.6	54.1	51.3	50.3	50.8	52.2	78.2
Public safety	123.0	122.0	120.0	122.5	122.5	124.5	126.0	126.0	125.0	125.0
Culture and recreation	89.2	88.5	85.4	87.5	87.5	88.0	89.7	89.9	94.5	94.5
Community development	45.6	45.6	44.0	44.5	45.0	49.7	49.7	48.7	46.0	25.0
Highways and streets	-	-	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Water	7.0	7.0	14.2	14.2	14.2	14.2	15.2	15.2	14.7	14.7
Sewer	-	-	5.2	5.2	5.2	6.2	6.2	11.2	11.4	11.4
Surface water	-	-	3.0	3.0	3.0	3.0	3.0	3.0	3.3	3.3
Total	338.3	336.1	333.0	335.8	336.8	342.2	345.4	350.1	352.4	357.4

Source: City of Lake Oswego's Finance department

CITY OF LAKE OSWEGO, OREGON

Operating Indicators by Function

for the last eight fiscal years [1]

	Fiscal year							
Function/Program	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities:								
Public safety								
Physical arrests	1,348	1,326	1,261	1,030	1,388	1,364	1,419	1,222
Traffic violations [1]	6,287	7,580	7,358	7,141	4,333	5,617	5,456	6,329
Emergency fire and medical responses	3,283	3,143	3,177	3,302	3,531	3,615	3,835	3,517
Emergency calls (Police)	2,346	2,466	2,596	2,685	2,694	2,793	2,715	2,361
Culture and recreation								
Library volunteer hours	9,047	8,153	9,977	10,158	10,710	12,236	13,506	14,008
Library - average items circulated per capita	27	30	31	32	33	33	33	33
Community development								
Residential building permits issued	444	495	555	597	340	322	372	275
Business-type activities:								
Water								
Service connections	12,616	13,373	13,772	14,133	14,456	14,912	15,724	16,746
Average daily consumption (in thousands of gallons)	4,991	5,087	6,084	7,214	7,698	5,753	5,750	5,460
Sanitary sewer								
Service connections	11,786	11,948	11,976	12,068	12,149	12,239	12,232	12,243
Average daily sewage treatment (in thousands of gallons)	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200

[1] As of 2007, traffic violations no longer includes traffic warnings.

Source: City of Lake Oswego's Finance department

CITY OF LAKE OSWEGO, OREGON

Capital Assets Statistics by Function
for the last ten fiscal years

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities:										
Culture and recreation										
Park and open space acreage	564	573	598	598	598	603	603	603	603	603
Community development										
Value of new building construction (in thousands)	24,018	27,065	42,690	31,326	47,039	70,495	56,895	50,772	23,713	18,067
Highways and streets										
Miles of streets	178	178	179	179	179	179	179	179	179	179

Source: City of Lake Oswego's Finance department

CITY OF LAKE OSWEGO, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION IV

COMPLIANCE

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INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS

November 29, 2010

The City Council
City of Lake Oswego, Oregon
Lake Oswego, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lake Oswego, Oregon (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed the procedures to the extent we considered necessary to address the required comments and disclosures, which included, but were not limited to the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS (Continued)

COMPLIANCE (Continued)

In connection with our testing, nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-230 INTERNAL CONTROL

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements in accordance with *Government Auditing Standards* follows this report.

* * * * * * *

This report is intended solely for the information and use of the Council members, Oregon Secretary of State Audits Division, and management and is not intended to be and should not be used by anyone other than these specified parties.

Talbot, Korvola & Warwick, LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

November 29, 2010

To the City Council
City of Lake Oswego, Oregon
Lake Oswego, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Oswego, Oregon (the City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 29, 2010. 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 the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Continued)

COMPLIANCE AND OTHER MATTERS (Continued)

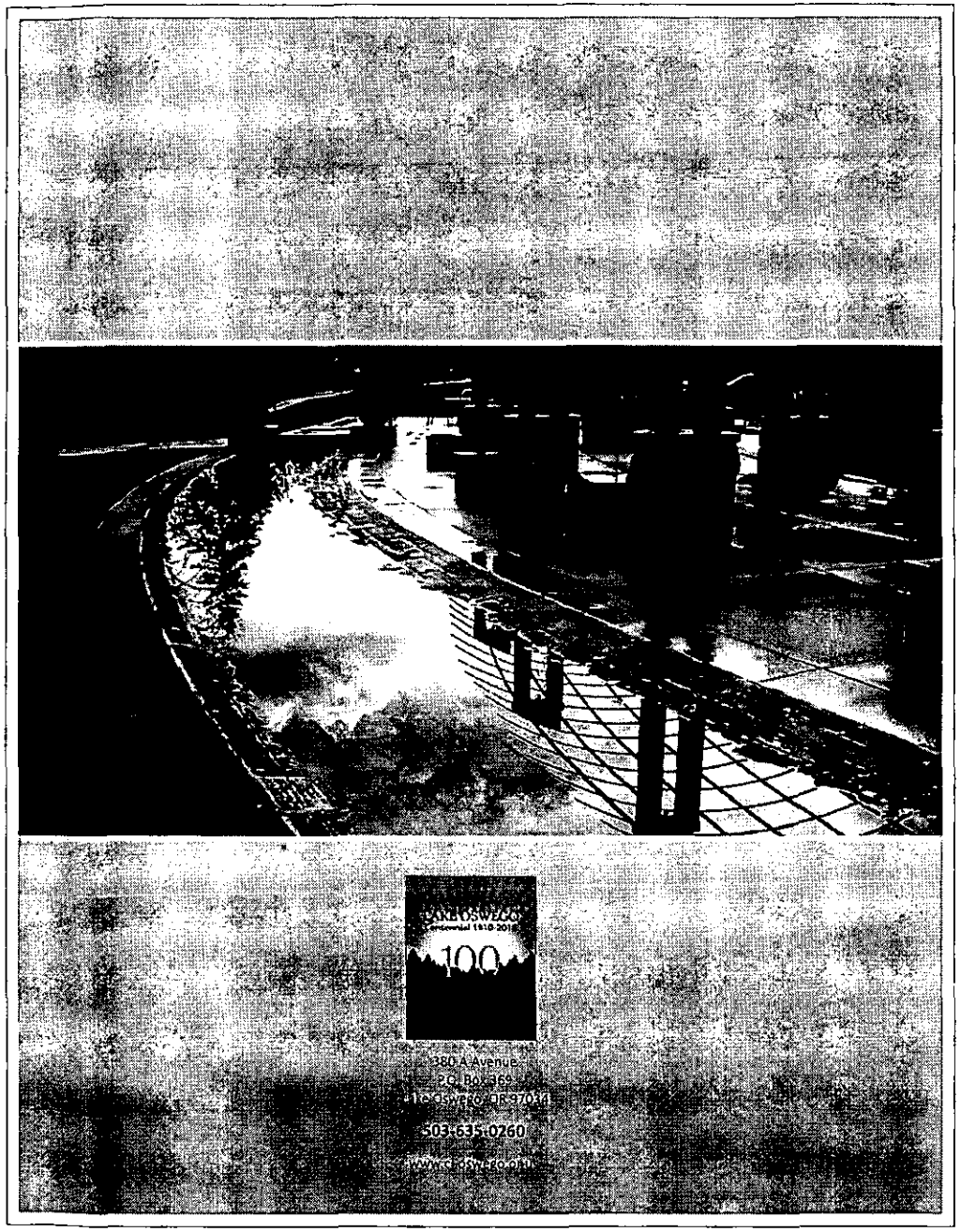
determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

* * * * * * * * *

This report is intended solely for the information and use of management and the City Council and is not intended to be and should not be used by anyone other than those specified parties.

Talbot, Korvola & Warwick, LLP

Certified Public Accountants



APPENDIX C
FORM OF LEGAL OPINION

K&L|GATES

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September 20, 2011

City of Lake Oswego
380 "A" Avenue
Lake Oswego, Oregon 97034

Fidelity Capital Markets
200 Seaport Boulevard, Mail Zone Z2H
Boston, Massachusetts 02210

Subject: $11,500,000 City of Lake Oswego, Oregon, Full Faith and Credit Obligations, Series 2011A

Ladies and Gentlemen:

We have acted as special counsel in connection with the execution and delivery of a Financing Agreement (the "Financing Agreement") between the City of Lake Oswego, Oregon (the "City"), and U.S. Bank National Association (the "Escrow Agent") in the aggregate principal amount of $11,500,000. The City has also entered into an Escrow Agreement (the "Escrow Agreement") with the Escrow Agent in which the City has instructed the Escrow Agent to issue Full Faith and Credit Obligations, Series 2011A (the "Obligations") representing proportionate interests in the financing payments (the "Financing Payments") to be made by the City under the Financing Agreement. The Financing Agreement is authorized by Oregon Revised Statutes Sections 271.390 and Resolution No. 11-42 adopted by the City Council on June 20, 2011 (the "Resolution").

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

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

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

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

1. The Financing Agreement and the Escrow Agreement have been legally authorized, executed and delivered by the City under and pursuant to the Constitution and Statutes of the State of Oregon, the City Charter, and the Resolution. The Financing Agreement and the Escrow Agreement constitute valid and legally binding obligations of the City that are enforceable in accordance with their terms.

2. The Financing Payments are payable from any and all of the City's legally available funds. The City has pledged its full faith and credit and taxing power within the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution to pay the Financing Payments.

3. The portion of the Financing Payments constituting interest (including any original issue discount properly allocable to an owner of an Obligation) ("Interest") is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations; however, Interest is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The portion of this opinion set forth in this paragraph is subject to the condition that the City and the Lake Oswego Redevelopment Agency ("LORA") comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Obligations in order that Interest be, and continue to be, excludable from gross income for federal income tax purposes. The City and LORA have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause Interest to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Obligations.

4. Interest is exempt from Oregon personal income taxes.

We note that the City has *not* designated the Financing Agreement as a "qualified tax-exempt obligation" pursuant to Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Obligations. Owners of the Obligations should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Obligations, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

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

This opinion is given as of the date hereof and is based on existing law, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur or become effective.

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

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

This opinion is given solely for your benefit in connection with the Obligations and may not be relied on in any manner or for any purpose by any person or entity other than the addressees listed above and the owners of the Obligations, nor may copies be furnished to any other person or entity, without the prior written consent of K&L Gates LLP.

We have served only as special counsel to the City in connection with the Obligations and have not represented any other party in connection with the Obligations. Therefore, no attorney-client relationship shall arise by virtue of our addressing this opinion to persons other than the City.

Respectfully submitted,

K&L GATES LLP

Lawyers

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

$11,500,00
City of Lake Oswego, Oregon
Full Faith and Credit Obligations
Series 2011A

This Continuing Disclosure Certificate (the "Certificate") is executed and delivered by the City of Lake Oswego, Oregon (the "Issuer") in connection with the issuance of the Issuer's Full Faith and Credit Obligations, Series 2011A (the "Securities").

Section 1. Purpose of Certificate. This Certificate constitutes the Issuer's written undertaking for the benefit of the holders of the Securities and to assist the underwriters of the Securities in complying with paragraph (b)(5) of the United States Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) as amended (the "Rule").

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for purposes of this Certificate, have the meanings herein specified.

"Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Securities, including persons holding Securities through nominees or depositories.

"Commission" means the United States Securities and Exchange Commission.

"MSRB" means the United States Municipal Securities Rulemaking Board or any successor to its functions.

"Official Statement" means the final official statement for the Securities dated September 8, 2011.

"Rule" means the Commission's Rule 15c2-12 under the Securities Exchange Act of 1934, as it has been and may be amended.

Section 3. Financial Information. The Issuer agrees to provide or cause to be provided to the MSRB, the Issuer's latest publicly available annual financial statements prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors) and generally of the type included in the Official Statement under the heading "Appendix B: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010."

To the extent not included in its annual financial statements, the Issuer shall also provide information, of the type set forth in the Official Statement, containing: (1) the total real market value and total assessed value of property within the Issuer (as indicated in the records of the county assessors); (2) the amount or rate of property taxes levied by the Issuer for the fiscal year, and the amount of property taxes the Issuer received during the fiscal year; (3) the aggregate tax

rate for all ad valorem property taxes levied within the boundaries of the Issuer; (4) the total principal amount of general obligation bonds and other tax-supported obligations of the Issuer which are outstanding at the end of the fiscal year; and, (5) total tax increment revenues for the most recently completed fiscal year, substantially as shown in the Table 8 of the Official Statement under the heading "*Table 8 – Redevelopment Agency Debt Service Fund.*"

Section 4. Timing. The information described in the preceding paragraph shall be provided on or before nine months after the end of the Issuer's fiscal year, commencing with information for fiscal year 2010-2011. The information described in the preceding paragraph will be provided in the form of audited financial statements if they are then available, and otherwise will be provided in the form of unaudited financial statements. The Issuer's current fiscal year ends June 30. The Issuer may adjust this fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing this annual financial information separately, the Issuer may cross-reference to other documents provided to the MSRB.

The Issuer agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information described in Section 3 on or prior to the date set forth in the preceding paragraph.

If not provided as part of the annual financial information discussed above, the Issuer shall provide the Issuer's audited annual financial statement prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors) when and if available to the MSRB.

Section 5. Material Events. The Issuer agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Securities:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the Security;

7. Modifications to the rights of Security holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of the Securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the obligated person; (Note: For the purposes of the event identified in this paragraph 12, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.);

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Section 6. Termination/Modification. The Issuer's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Securities. This Certificate, or any provision hereof, shall be null and void if the Issuer (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Securities; and (b) notifies the MSRB of such opinion and the cancellation of this Certificate.

Section 7. Amendment. Notwithstanding any other provision of this Certificate, the Issuer may amend this Certificate, and any provision 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 or 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer with respect to the Securities, or the type of business conducted;

B. The undertaking, 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 original issuance of the Securities, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The amendment or waiver either (i) is approved by the owners of the Securities or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or Beneficial Owners of the Securities.

In the event of any amendment or waiver of a provision of this Certificate, the Issuer 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 data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section 5 hereof, 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 8. Securities Owner's Remedies Under This Certificate. The right of any holder of Securities or Beneficial Owner of Securities to enforce the provisions of this Certificate shall be limited to a right to obtain specific enforcement of the Issuer's obligations hereunder, and any failure by the Issuer to comply with the provisions of this undertaking shall not be an event of default with respect to the obligations hereunder.

Section 9. Form of Information. All information required to be provided under this certificate will be provided in an electronic format as prescribed by the MSRB and with the identifying information prescribed by the MSRB.

Section 10. Submitting Information Through EMMA. So long as the MSRB continues to approve the use of the Electronic Municipal Market Access ("EMMA") continuing disclosure service, any information required to be provided to the MSRB under this Certificate may be provided through EMMA. As of the date of this Certificate, the web portal for EMMA is emma.msrb.org.

Section 11. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Dated as of the 20th day of September, 2011.

City of Lake Oswego, Oregon

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City Official

APPENDIX E
BOOK-ENTRY-ONLY SYSTEM

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 de pository, 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

of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and

corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.