

**City of West Linn
Clackamas County, Oregon**

\$4,915,000

**General Obligation Refunding Bonds,
Series 2009A**

\$4,035,000

**Full Faith and Credit Obligations,
Series 2009B**

DATED: Date of Delivery (January 21, 2009)

DUE: June 1 and December 1, as shown on the inside cover

SERIES 2009A BONDS — The \$4,915,000 General Obligation Refunding Bonds, Series 2009A (the “Series 2009A Bonds”) are general obligations of the City of West Linn, Oregon (the “City”).

SERIES 2009B OBLIGATIONS — The \$4,035,000 Full Faith and Credit Obligations, Series 2009B (the “Series 2009B Obligations”) evidence and represent undivided proportionate interests in the payments of principal and interest (the “Financing Payments”) to be made by the City pursuant to the terms of a tax-exempt financing agreement between the City and U.S. Bank, National Association (the “Financing Agreement”).

STANDARD & POOR’S RATING — “AA-”, underlying. See “RATING” herein.

BANK QUALIFIED— The City has designated the Series 2009A Bonds and the Financing Agreement as “qualified tax-exempt obligations” for purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended (the “Code”).

BOOK-ENTRY ONLY SYSTEM— The Series 2009A Bonds and Series 2009B Obligations (collectively with the Financing Agreement, the “Securities”) will be issued, executed and delivered in fully registered form under a book-entry only system and registered in the name of Cede & Co., as owner of the Securities and nominee for The Depository Trust Company (“DTC”). DTC will act as initial securities depository for the Securities. Individual purchases of the Securities will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Securities purchased.

PRINCIPAL AND INTEREST PAYMENTS—Interest on the Securities will be paid on December 1, 2009 and semiannually thereafter on June 1 and December 1 of each year to the maturity or earlier redemption of the Securities. Principal of and interest on the Securities will be payable through the City’s Paying Agent and Escrow Agent (the “Paying Agent”) currently U.S. Bank National Association, to DTC which, in turn, will remit such principal and interest to the DTC participants for subsequent disbursement to the Beneficial Owners (as defined herein) of the Securities at the address appearing upon the registration books on the 15th day of the month preceding a payment date (the “Record Date”).

PURPOSE—*Series 2009A Bonds.* The Series 2009A Bonds are being issued to refinance all or a portion of the City’s outstanding General Obligation Bonds, Series 1998, and General Obligation Bonds, Series 1999. *Series 2009B Obligations.* The Series 2009B Obligations are being issued to finance the costs of land acquisition, capital construction and improvements. See “PURPOSE AND USE OF PROCEEDS” herein.

MATURITY SCHEDULES— SEE INSIDE COVER

REDEMPTION PROVISIONS—The Series 2009A Bonds are not subject to redemption prior to their stated maturities. The Series 2009B Obligations are subject to redemption prior to their stated maturities as further described herein.

SECURITY— The Securities do not constitute a debt or indebtedness of Clackamas County, the State of Oregon, or any political subdivision thereof other than the City. The registered Beneficial Owners (as defined herein) of the Securities do not have a lien or security interest on the property financed with the proceeds of the Securities.

Series 2009A Bonds. The Series 2009A Bonds are general obligations of the City. The City has covenanted and is obligated by law to levy annually *ad valorem* taxes without limitation as to rate or amount on all taxable property in the City sufficient to pay the principal of and interest on the Series 2009A Bonds. *Ad valorem* taxes assessed and collected for the Series 2009A Bonds are not subject to the limitations of Article XI, Sections 11 and 11b of the Oregon Constitution.

Series 2009B Obligations. In the Financing Agreement, the City has covenanted to pay the Financing Payments from any and all of its legally available taxes, revenues and other funds. The City 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 and other amounts due under the Financing Agreement. The obligation of the City to make payments is not subject to appropriation.

TAX MATTERS—*In the opinion of K&L Gates LLP, Bond Counsel for the Series 2009A Bonds and Special Counsel for the Series 2009B Obligations (“Bond Counsel”), assuming compliance with certain covenants of the City, the portion of the payments made under the Financing Agreement designated as and constituting interest received by the holders of the Series 2009B Obligations (“Interest on the 2009B Obligations”) and interest on the Series 2009A Bonds (together with the Interest on the 2009B Obligations, the “Interest on the Securities”) is excludable from gross income for federal income tax purposes under existing law. Interest on the Securities is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Securities may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See “Tax Matters” herein for a discussion of the opinion of Bond Counsel. In the opinion of Bond Counsel, Interest on the Securities is exempt from Oregon personal income tax under existing law.*

DELIVERY—The Securities are offered for sale to the original purchaser subject to the final approving legal opinion of Bond Counsel. It is expected that the Securities will be available for delivery to the Paying Agent for Fast Automated Securities Transfer on behalf of DTC, on January 21, 2009 (the “Date of Delivery”).

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

City of West Linn

Clackamas County, Oregon

DATED: Date of Delivery

DUE: June 1 and December 1, as shown below

MATURITY SCHEDULE—

\$4,915,000 General Obligation Refunding Bonds, Series 2009A

Due June 1	Amounts	Interest Rates	Yields	CUSIP 954039	Due June 1	Amounts	Interest Rates	Yields	CUSIP 954039
2010	\$ 405,000	3.00%	1.25%	HS5	2017	\$ 570,000	3.50%	3.03%	JA2
2011	470,000	3.00	1.89	HT3	2018	590,000	3.50	3.21	JB0
2012	490,000	3.00	2.05	HU0					
2013	505,000	3.00	2.23	HV8					
2014	515,000	3.00	2.43	HW6					
2015	535,000	3.00	2.62	HY2					
2016	555,000	3.25	2.81	HZ9					
					Due December 1	Amounts	Interest Rates	Yields	CUSIP 954039
					2018	\$ 280,000	4.00%	3.21%	HX4

\$4,035,000 Full Faith and Credit Obligations, Series 2009B

Due June 1	Amounts	Interest Rates	Yields	CUSIP 954039	Due June 1	Amounts	Interest Rates	Yields	CUSIP 954039
2010	\$ 90,000	3.00%	1.31%	JL8	2015	\$ 170,000	3.00%	2.67%	JR5
2011	150,000	3.00	1.94	JM6	2016	175,000	3.25	2.86	JS3
2012	155,000	3.00	2.10	JN4	2017	180,000	3.50	3.08	JT1
2013	160,000	3.00	2.28	JP9	2018	185,000	4.00	3.31	JU8
2014	165,000	3.00	2.48	JQ7					
\$390,000 4.00% Term Bond due June 1, 2020 @ 3.81% Yield ⁽¹⁾ ; CUSIP No. 954039JW4 \$425,000 4.00% Term Bond due June 1, 2022 @ 4.03% Yield; CUSIP No. 954039JY0 \$460,000 4.05% Term Bond due June 1, 2024 @ 4.15% Yield; CUSIP No. 954039KA0 \$500,000 4.20% Term Bond due June 1, 2026 @ 4.30% Yield; CUSIP No. 954039KC6 \$830,000 4.35% Term Bond due June 1, 2029 @ 4.45% Yield; CUSIP No. 954039KF9									

(1) Priced to the June 1, 2018 call date.

This Official Statement does not constitute an offer to sell the Securities in any jurisdiction in which or to a person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the City or Seattle-Northwest Securities Corporation (the "Underwriter") to give any information or to make any representations, other than those contained herein, in connection with the offering of the Securities and, if given or made, such information or representations must not be relied upon. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no change in the affairs of the City since the date hereof.

The CUSIP numbers are included in the Maturity Schedule on this inside cover page for convenience of the holders and potential holders of the Securities. No assurance can be given that the CUSIP numbers for the Securities will remain the same after the date of issuance and delivery of the Securities.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

In connection with this offering, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the Securities at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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Table of Contents

	<u>Page</u>
Description of Common Features of the Securities	1
Principal Amount, Date, Interest Rates and Maturities	1
Paying Agent and Registration Features	1
Description of the Securities	2
Authorization and Purpose	2
Redemption Provisions	2
Estimated Sources and Uses of Funds	3
Description of the Series 2009A Bonds	4
Use of Proceeds	4
Refunding Procedure	4
Series 2009A Bond Verification of Mathematical Calculations	4
Security	5
Description of the Series 2009B Obligations	5
Use of Proceeds	5
Security	5
Bonded Indebtedness	6
Debt Limitation	6
Outstanding Long-Term Debt	7
Projected Debt Service Requirements - General Obligation Bonds	8
Projected Debt Service Requirements - Full Faith and Credit Obligations	9
Summary of Overlapping Debt	9
Debt Ratios	10
Short-Term Borrowing	10
Debt Payment Record	10
Future Financings	11
Revenue Sources	11
Property Taxes	11
Taxable Property Values	13
Fiscal Year 2009 Representative Levy Rate	14
Major Taxpayers	15
Local Government Revenues	15
The City	15
General Description	15
The City Council	16
Staff	16
Financial Factors	17
Financial Reporting and Accounting Policies	17
Auditing	17
Fund Structure	18
General Fund Balance Sheet	19
General Fund Statement of Revenues, Expenditures and Changes in Fund Balance	20
Parks Fund, Library Fund and Police Fund Statement of Revenues, Expenditures and Changes in Fund Balance	21
Budgetary Process	21
General Fund Adopted Budget	22
Investments	22
Pension System	23
Other Postemployment Benefits	24
Risk Management	25
Demographic Information	25
Economic Overview	25
The Initiative and Referendum Process	29
Referendum	29
Initiatives	29
City Charter	30
Legal Matters and Litigation	31
Legal Matters	31
Litigation	31
Tax Matters	31
Tax Exemption	31
Qualified Tax-Exempt Obligations	33
Oregon State Tax Exemption	33
Continuing Disclosure	33
Rating	33
Underwriting	34
Concluding Statement	34
Form of Bond Counsel Opinions	Appendix A
Financial Statements	Appendix B
Book-Entry Only System	Appendix C
Form of Continuing Disclosure Certificate	Appendix D
Form of Bond Declaration	Appendix E
Form of Financing Agreement and Form of Escrow Agreement	Appendix F

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OFFICIAL STATEMENT

City of West Linn Clackamas County, Oregon

\$4,915,000 General Obligation Refunding Bonds, Series 2009A **\$4,035,000 Full Faith and Credit Obligations, Series 2009B**

City of West Linn of Clackamas County, Oregon (the "City"), a municipal corporation 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 \$4,915,000 aggregate principal amount of General Obligation Refunding Bonds, Series 2009A (the "Series 2009A Bonds") and \$4,035,000 aggregate principal amount of Full Faith and Credit Obligations, Series 2009B (the "Series 2009B Obligations"). The Series 2009A Bonds and the Series 2009B Obligations (collectively, the "Securities") are dated their Date of Delivery.

This Official Statement, which includes the cover page, inside cover page, and appendices, provides information concerning the City and the Securities.

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

Description of Common Features of the Securities

Principal Amount, Date, Interest Rates and Maturities

The Securities will be issued in the aggregate principal amount posted on the cover of this Official Statement and will be dated and bear interest from the Date of Delivery. The Securities will mature on the dates and in the principal amounts and will bear interest, payable semiannually, until the maturity or earlier redemption of the Securities as set forth on the inside cover of this Official Statement. Interest on the Securities will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Paying Agent and Registration Features

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

Paying Agent. The principal of and interest on the Securities will be payable by the Paying Agent to DTC, which, in turn, is obligated to remit such principal and interest to its participants ("DTC Participants") for subsequent disbursement to the persons in whose names such Securities are registered (the "Beneficial Owners") of the Securities, as further described in Appendix C attached hereto. Interest on the Securities shall be credited to the Beneficial Owners by the DTC Participants. The Paying Agent will perform the duties of the Escrow Agent for the 2009B Obligations as defined in the Escrow Agreement. The form of the Escrow Agreement is attached to this Official Statement as Appendix F.

Procedure in the Event of Revisions of Book-Entry Transfer System. If DTC ceases to act as Depository for the Securities the City will follow the procedures outlined in the Bond Declaration for the Series 2009A Bonds and the Escrow Agreement for the Series 2009B Obligations.

Description of the Securities

Authorization and Purpose

The Series 2009A Bonds. The City previously issued \$4,400,000 General Obligation Bonds, Series 1998 (the "Series 1998 Bonds"), and \$3,600,000 General Obligation Bonds, Series 1999 (the "Series 1999 Bonds"). The Series 1998 Bonds were issued to finance a portion of the acquisition and development of property for parks and recreational purposes and to pay the costs of issuance of the Series 1998 Bonds. The Series 1999 Bonds were issued to finance the balance of the cost of acquisition and development of property for parks and recreation and to pay the costs of issuance of the Series 1999 Bonds.

Proceeds of the Series 2009A Bonds will be used to refinance all or a portion of the City's outstanding Series 1998 Bonds and Series 1999 Bonds (the "Refunded Bonds"), and to pay the costs of issuance of the Series 2009A Bonds. The 2009A Bonds are being issued so that the City can obtain a benefit of a savings in total debt service requirements.

The Series 2009A Bonds are being issued pursuant to Resolution No. 08-06 adopted by the City Council on February 11, 2008 (the "Series 2009A Bonds Resolution") and a Bond Declaration, a form of which is attached hereto as Appendix E.

The Series 2009B Obligations. Proceeds of the Series 2009B Obligations will be used to finance the costs of land acquisition, capital construction and improvements and to pay the costs of issuance of the Series 2009B Obligations (see "DESCRIPTION OF THE 2009B OBLIGATIONS – USE OF PROCEEDS" herein).

The Series 2009B Obligations are being issued pursuant to Resolution 08-45 (the "Series 2009B Obligations Resolution;" collectively, the "Resolutions") adopted by the City Council on November 24, 2008 and a Financing Agreement and Escrow Agreement, forms of which are attached hereto as Appendix F.

The Securities may be issued without a vote of the people.

Redemption Provisions

Optional Redemption of the Series 2009A Bonds. The Series 2009A Bonds are not subject to optional redemption prior to maturity.

Optional Prepayment of the Series 2009B Obligations. The Series 2009B Obligations coming due in years 2010 through 2018, inclusive, are not subject to prepayment prior to their respective payment dates. The Series 2009B Obligations maturing on June 1, 2020 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, 2018, as a whole or in part, and if in part, with maturities to be selected by the City and by DTC or by lot within a maturity at a price of par, plus accrued interest, if any, to the date of prepayment. A Series 2009B Term Obligation subject to optional prepayment and redeemed in part will have the principal amount within the respective mandatory prepayment dates selected by the City.

Mandatory Prepayment of the Series 2009B Obligations. If not previously redeemed under the provisions for optional prepayment, the Series 2009B Term Obligations maturing on June 1 in the years 2020, 2022, 2024, 2026 and 2029 are subject to mandatory prepayment (in such manner as the Paying Agent and DTC will determine or by lot by the Paying Agent, as defined below) on June 1 of the following years in the following principal amounts, at a price of par plus accrued interest to the date of prepayment.

2020 Term Obligation	
Due June 1	Amount
2019	\$ 190,000
2020 ⁽¹⁾	200,000
	<u>\$ 390,000</u>

2022 Term Obligation	
Due June 1	Amount
2021	\$ 210,000
2022 ⁽¹⁾	215,000
	<u>\$ 425,000</u>

2024 Term Obligation	
Due June 1	Amount
2023	\$ 225,000
2024 ⁽¹⁾	235,000
	<u>\$ 460,000</u>

2026 Term Obligation	
Due June 1	Amount
2025	\$ 245,000
2026 ⁽¹⁾	255,000
	<u>\$ 500,000</u>

2029 Term Obligation	
Due June 1	Amount
2027	\$ 265,000
2028	275,000
2029 ⁽¹⁾	290,000
	<u>\$ 830,000</u>

(1) Maturity.

For as long as the Securities are in book-entry only form, if fewer than all of the Securities of a maturity are called for redemption or prepayment, the selection of Securities within a maturity to be redeemed or prepaid shall be made by The Depository Trust Company, New York, New York ("DTC") in accordance with its operational procedures then in effect and in accordance with the Bond Declaration for the 2009A Bonds and the Escrow Agreement for the 2009B Obligations. See Appendix C attached hereto.

Notice of Redemption or Prepayment (Book-Entry). So long as the Securities are in book-entry only form, the Paying Agent shall notify DTC of an early redemption or prepayment not less than 30 days prior to the date fixed for redemption or prepayment, and shall provide such information as required by a letter of representation submitted to DTC in connection with the issuance of the Securities.

Estimated Sources and Uses of Funds

The proceeds from the Securities are estimated to be applied as follows:

Estimated Sources and Uses of Funds

Sources of Funds	Series 2009A	Series 2009B
	Bonds	Obligations
Principal Amount	\$ 4,915,000	\$ 4,035,000
Net Original Issue Premium	147,147	24,770
Total Available Proceeds	<u>\$ 5,062,147</u>	<u>\$ 4,059,770</u>
Uses of Funds		
Project Requirements	\$ 0	\$ 4,000,000
Escrow Requirements	4,992,519	0
Issuance Costs, Underwriter's Discount and Contingency	69,628	59,770
Total Uses of Funds	<u>\$ 5,062,147</u>	<u>\$ 4,059,770</u>

Description of the Series 2009A Bonds

Use of Proceeds

Proceeds of the Series 2009A Bonds will be used to refinance all or a portion of the City's outstanding Series 1998 Bonds, and Series 1999 Bonds and to pay the costs of issuance of the Series 2009A Bonds.

Refunding Procedure

A portion of the proceeds of the Series 2009A Bonds will be used to provide funds to establish an irrevocable trust escrow pursuant to an escrow deposit agreement between the City and the Paying Agent, serving in its role as the "Escrow Deposit Agent," to refinance the Refunded Bonds in the following tables.

Refunded Bonds

Refunded Bonds	Total Amount Outstanding	Amount Refunded	Call Date	Call Price ⁽¹⁾
Series 1998 Bonds	\$ 2,785,000	\$ 2,555,000	06/01/09	100%
Series 1999 Bonds	2,365,000	2,365,000	02/20/09	100%
Total	\$ 5,150,000	\$ 4,920,000		

Series 1998 Bonds				Series 1999 Bonds			
Outstanding Maturities	Maturity Amount	Amount Refunded	CUSIP 954039	Outstanding Maturities	Maturity Amount	Amount Refunded	CUSIP 954039
6/1/09	\$ 230,000	\$ 0	ET6	1/1/10	180,000	180,000	FN8
6/1/10	240,000	240,000	EU3	1/1/11	190,000	190,000	FP3
6/1/11	250,000	250,000	EV1	1/1/12	205,000	205,000	FQ1
6/1/12	260,000	260,000	EW9	1/1/13	215,000	215,000	FR9
6/1/13	270,000	270,000	EX7	1/1/14	225,000	225,000	FS7
6/1/14	280,000	280,000	EY5	1/1/15	240,000	240,000	FT5
6/1/15	295,000	295,000	EZ2	1/1/16	255,000	255,000	FU2
6/1/16	305,000	305,000	FA6	1/1/17	270,000	270,000	FV0
6/1/17	320,000	320,000	FB4	1/1/19 Term	585,000	585,000	FX6
6/1/18	335,000	335,000	FC2				

(1) Call price is expressed as a percentage of the principal amount.

From the proceeds of the Series 2009A Bonds the City will purchase certain direct United States government obligations (referred to herein as "Government Obligations"). These Government Obligations will be deposited in the custody of the Escrow Deposit Agent. The maturing principal of the Government Obligations, interest earned thereon, and necessary cash balance, if any, will provide payment of interest on the Refunded Bonds and provide funds sufficient to redeem all remaining principal on the call dates shown in the preceding tables.

The Government Obligations, interest earned thereon, and necessary cash balance, if any, will irrevocably be pledged to and held in trust for the benefit of the owners of the Refunded Bonds by the Escrow Deposit Agent, pursuant to the escrow deposit agreement.

Series 2009A Bond Verification of Mathematical Calculations

Grant Thornton LLP, a firm of independent public accountants (the "Verification Agent"), will deliver to the City, on or before the Date of Delivery, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Government Obligations, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Securities and (b) the mathematical computations of yield used by

Bond Counsel to support its opinion that interest on the Securities will be excluded from gross income for federal income tax purposes.

The verification performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the City and its representatives. The Verification Agent has restricted its procedures to recalculating the computations provided by the City and its representatives and has not evaluated or examined the assumptions or information used in the computations.

Security

The Series 2009A Bonds are general obligations of the City and the full faith, credit and taxing powers of the City are pledged to the successive owners of each of the Series 2009A Bonds for the punctual payment of the principal of and the interest on the Series 2009A Bonds. The Series 2009A Bonds are secured by *ad valorem* taxes to be levied against all taxable property within the City without limitation as to rate or amount, and outside of the limitations of Article XI, Section 11 and Article XI, Section 11b of the Oregon Constitution (“Article XI, Section 11b,” collectively, “Article XI, Sections 11 and 11b”) (see “REVENUE SOURCES” herein), after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes. More specifically, for the purpose of paying the principal of and interest on the Series 2009A Bonds as the same will become due, the City will levy on all taxable property located within the City, in addition to all other taxes, direct annual taxes sufficient in amount to provide for the payment of principal of and interest on the Series 2009A Bonds. The taxes, when collected, are required to be applied solely for the purpose of payment of principal and interest on the Series 2009A Bonds and for no other purpose until the Series 2009A Bonds have been fully paid, satisfied and discharged.

The City may, subject to applicable laws, apply other funds available to make payments with respect to the Series 2009A Bonds and thereby reduce the amount of future tax levies for such purpose.

The Series 2009A Bonds do not constitute a debt or indebtedness of Clackamas County (the “County”), the State of Oregon, or any political subdivision thereof other than the City.

Description of the Series 2009B Obligations

Use of Proceeds

Proceeds of the Series 2009B Obligations will be used to finance street maintenance projects, police facility land acquisition and preliminary design costs, and park facility improvements, and to pay costs of issuance of the Series 2009B Obligations.

Security

The Series 2009B Obligations represent undivided ownership interests in the installment payments of principal and interest due (the “Financing Payments”) from the City under the Financing Agreement between the City and U.S. Bank National Association, as Escrow Agent (the “Financing Agreement”). The obligation to pay the Financing Payments is a full faith and credit obligation of the City. The City has also entered into an Escrow Agreement with the Escrow Agent, in which the Escrow Agent agrees to issue the Series 2009B Obligations and to distribute the Financing Payments among the Owners of the Series 2009B Obligations. The forms of the Financing Agreement and the Escrow Agreement are attached to this Official Statement as Appendix F.

In the Financing Agreement, the City has covenanted to pay the Financing Payments from any and all of its legally available taxes, revenues and other funds. The City 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 and other amounts due under the Financing Agreement.

The Series 2009B Obligations are not general obligations of the City, Clackamas County, the State of Oregon or any other political subdivision or municipal corporation. The Series 2009B 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 SHALL NOT BE SUBJECT TO ANNUAL APPROPRIATION. THE REGISTERED OWNERS OF THE SERIES 2009B OBLIGATIONS DO NOT HAVE A LIEN OR SECURITY INTEREST IN THE PROJECTS FINANCED WITH THE PROCEEDS OF THE SERIES 2009B 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 nonavailability of the Projects; 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.

Each Obligation owner is entitled proportionately to the principal component of Financing Payments due on the Payment Date, which is the same as the maturity date of the Series 2009B Obligations. In addition, each Obligation owner is entitled proportionately to receipt of an amount of the interest component of Financing Payments on each Payment Date attributable to the interest accruing on the principal component attributable to such Series 2009B Obligations at the interest rate set forth for said principal component.

Bonded Indebtedness

Debt Limitation

General Obligation Bonds. ORS 287A.050 (formerly 287.004) establishes a limit on bonded indebtedness for cities. Cities may not have outstanding an aggregate principal amount of general obligation debt in excess of three percent of all the Real Market Value of all taxable properties within the city as reflected in the last certified assessment roll per ORS 308.207. A lower limit may be applied by an individual city’s charter. The statutory limitation does not apply to general obligation bonds issued for water, sanitary or storm sewers, sewage disposal plants, hospitals, infirmaries, gas power, or lighting purposes, or the acquisition, establishment, or reconstruction of any off-street motor vehicle parking facility nor to bonds issued pursuant to application to pay assessments for improvements in installments under statutory or charter authority which are completely self-supporting. **The Series 2009A Bonds are general obligation bonds and are subject to this debt limitation, as shown below.**

The following table shows the general obligation debt capacity of the City.

Real Market Value (Fiscal Year 2009) ⁽¹⁾	<u>\$ 4,507,161,484</u>
General Obligation Debt Capacity:	
(3.0% of Real Market Value)	\$ 135,214,845
Less: Outstanding Debt subject to limit	<u>(8,460,000)⁽²⁾</u>
Remaining Legal General Obligation Debt Capacity	<u>\$ 126,754,845</u>
Percent of Capacity Issued	6.26%

(1) Fiscal years are from July 1 through June 30 (the “Fiscal Year”). *Source: Clackamas County Department of Assessment and Taxation.*

(2) Represents voter-approved, unlimited-tax general obligations of the City subject to the statutory limitation.

Limited Tax Obligations. Under Oregon Revised Statutes there are currently no restrictions on the amount of debt an Oregon city may incur for payment of financing agreements, lease-purchase agreements or other contracts of purchase for any real or personal property, so long as such city has sufficient resources available to it within the limitations of Article XI, Section 11 and Section 11b of the Oregon Constitution. **The Financing**

Agreement is a limited tax obligation, which does not require voter approval and is not subject to statutory debt limitations.

Outstanding Long-Term Debt

Governmental Activities.

Governmental Activities⁽¹⁾	Date of Issue	Date of Maturity	Amount Issued	Amount Outstanding
<i>General Obligation Bonds:</i>				
Series 1998 Bonds	12/01/98	06/01/09 ⁽²⁾	\$ 4,400,000	\$ 2,785,000
Less: Refunded Bonds				(2,555,000)
Series 1999 Bonds	10/01/99	01/01/09 ⁽²⁾	3,600,000	2,365,000
Less: Refunded Bonds				(2,365,000)
Series 2000 Bonds	11/01/00	06/01/21	3,900,000	3,315,000
Series 2009A Bonds ⁽³⁾	01/21/09	12/01/18	4,915,000	4,915,000
Total General Obligation Bonds				<u>8,460,000</u>
<i>Full Faith and Credit Obligations:</i>				
Series 2000	11/01/00	12/01/20	4,300,000	3,055,000
Series 2009B Obligations ⁽³⁾	01/21/09	06/01/29	4,035,000	4,035,000
Total Full Faith and Credit Obligations				<u>7,090,000</u>
Total Long-Term Debt				<u><u>\$ 15,550,000</u></u>

(1) Outstanding long-term tax-supported and limited-tax-supported debt.

(2) Final maturity following redemption of the Refunded Bonds and Refunded Obligations.

(3) This issue.

Source: Audited Financial Report for the Year Ended June 30, 2007.

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**Projected Debt Service Requirements - General Obligation Bonds
(Fiscal Year ending 6/30)**

Fiscal Year	Outstanding Bonds		Less: Refunded Bonds		2009A Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2009	\$ 525,000	\$ 427,488	\$ 0	\$ 57,146	\$ 0	\$ 0	\$ 895,341
2010	560,000	403,333	420,000	237,850	405,000	214,290	924,772
2011	595,000	377,673	440,000	218,770	470,000	145,288	929,190
2012	640,000	349,983	465,000	198,520	490,000	131,188	947,650
2013	680,000	319,919	485,000	176,988	505,000	116,488	959,419
2014	725,000	287,351	505,000	154,170	515,000	101,338	969,519
2015	775,000	252,191	535,000	130,010	535,000	85,888	983,069
2016	830,000	213,989	560,000	104,108	555,000	69,838	1,004,719
2017	885,000	172,794	590,000	76,818	570,000	51,800	1,012,776
2018	945,000	128,116	620,000	47,628	590,000	31,850	1,027,339
2019	655,000	79,614	300,000	16,350	280,000	5,600	703,864
2020	390,000	44,183	0	0	0	0	434,183
2021	430,000	23,220	0	0	0	0	453,220
	<u>\$ 8,635,000</u>	<u>\$ 3,079,851</u>	<u>\$ 4,920,000</u>	<u>\$ 1,418,356</u>	<u>\$ 4,915,000</u>	<u>\$ 953,565</u>	<u>\$ 11,245,060</u>

(Levy Year ending 7/1)

Levy Year	Outstanding Bonds		Less: Refunded Bonds		2009A Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2009	\$ 525,000	\$ 423,365	\$ 0	\$ 118,925	\$ 0	\$ 0	\$ 829,440
2010	560,000	398,833	420,000	233,350	405,000	214,290	924,772
2011	595,000	372,923	440,000	214,020	470,000	145,288	929,190
2012	640,000	344,806	465,000	193,344	490,000	131,188	947,650
2013	680,000	314,383	485,000	171,451	505,000	116,488	959,419
2014	725,000	281,501	505,000	148,320	515,000	101,338	969,519
2015	775,000	245,951	535,000	123,770	535,000	85,888	983,069
2016	830,000	207,359	560,000	97,478	555,000	69,838	1,004,719
2017	885,000	165,639	590,000	69,663	570,000	51,800	1,012,776
2018	945,000	120,350	620,000	39,861	590,000	31,850	1,027,339
2019	655,000	71,439	300,000	8,175	280,000	5,600	703,864
2020	390,000	44,183	0	0	0	0	434,183
2021	430,000	23,220	0	0	0	0	453,220
	<u>\$ 8,635,000</u>	<u>\$ 3,013,950</u>	<u>\$ 4,920,000</u>	<u>\$ 1,418,356</u>	<u>\$ 4,915,000</u>	<u>\$ 953,565</u>	<u>\$ 11,179,159</u>

Projected Debt Service Requirements - Full Faith and Credit Obligations

Fiscal Year	Outstanding Obligations		2009B Obligations		Total Debt Service
	Principal	Interest	Principal	Interest	
2009	\$ 180,000	\$ 159,838	\$ 0	\$ 0	\$ 339,838
2010	190,000	151,095	90,000	210,186	641,281
2011	200,000	141,783	150,000	151,723	643,505
2012	210,000	131,890	155,000	147,223	644,113
2013	220,000	121,408	160,000	142,573	643,980
2014	230,000	110,268	165,000	137,773	643,040
2015	245,000	98,331	170,000	132,823	646,154
2016	255,000	85,579	175,000	127,723	643,301
2017	270,000	71,925	180,000	122,035	643,960
2018	285,000	57,356	185,000	115,735	643,091
2019	300,000	42,000	190,000	108,335	640,335
2020	315,000	25,856	200,000	100,735	641,591
2021	335,000	8,794	210,000	92,735	646,529
2022	0	0	215,000	84,335	299,335
2023	0	0	225,000	75,735	300,735
2024	0	0	235,000	66,623	301,623
2025	0	0	245,000	57,105	302,105
2026	0	0	255,000	46,815	301,815
2027	0	0	265,000	36,105	301,105
2028	0	0	275,000	24,578	299,578
2029	0	0	290,000	12,615	302,615
	<u>\$ 3,235,000</u>	<u>\$ 1,206,121</u>	<u>\$ 4,035,000</u>	<u>\$ 1,993,506</u>	<u>\$ 10,469,627</u>

**Summary of Overlapping Debt
(As of June 19, 2008)**

Overlapping Issuer Name	Real Market Value	Percent Overlapping	Gross Direct Debt ⁽¹⁾	Net Direct Debt ⁽²⁾
West-Linn-Wilsonville School District No. 3J	\$ 8,988,924,034	49.1946%	\$ 77,251,381	\$ 56,501,099
Clackamas Community College	41,295,048,861	10.7085%	10,042,967	4,305,352
Clackamas Education Service District	54,635,149,794	8.1712%	2,234,823	0
Clackamas County	57,192,695,090	7.8058%	6,027,248	3,807,279
Tualatin Valley Fire and Rescue	63,977,940,375	6.9779%	1,428,725	102,924
Tri-Met	206,303,713,216	2.1640%	960,708	960,708
Metro	207,515,773,322	2.1513%	6,025,935	4,423,647
Port of Portland	228,449,245,812	1.9542%	1,428,443	0
Lake Oswego School District No. 7J	10,406,873,745	0.4063%	497,116	313,172
Portland Community College	163,395,899,788	0.0259%	62,221	11,501
			<u>\$ 105,959,567</u>	<u>\$ 70,425,682</u>

(1) Gross Direct Debt includes all limited and unlimited tax supported debt, excluding pension obligations and self-supporting utility debt.

(2) Net Debt includes all tax-supported bonds. Self-supporting debt and limited-tax debt, such as capital leases and certificates of participation, are excluded.

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

Debt Ratios

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

Debt Ratios

Real Market Value	\$ 4,507,161,484	
Estimated Population	24,180	
Per Capita Real Market Value	\$ 186,400	
	Gross Direct Debt⁽¹⁾	Net Direct Debt⁽²⁾
Debt Information		
City Direct Debt	\$ 15,550,000	\$ 8,460,000
Overlapping Direct Debt	105,959,567	70,425,682
Total Direct Debt	<u>\$ 121,509,567</u>	<u>\$ 78,885,682</u>
Bonded Debt Ratios		
City Direct Debt to Real Market Value	0.35%	0.19%
Total Direct Debt to Real Market Value	2.70%	1.75%
Per Capita City Direct Debt	\$ 643	\$ 350
Per Capita Total Direct Debt	\$ 5,025	\$ 3,262

- (1) Gross Direct Debt includes all limited and unlimited tax supported debt, excluding pension obligations and self-supporting utility debt.
- (2) Net Debt includes all tax-supported bonds. Self-supporting debt and limited-tax debt, such as capital leases and certificates of participation, are excluded.

Sources: Debt Management Division, The Office of the State Treasurer, Clackamas County Department of Assessment and Taxation, City of West Linn Audited Financial Reports, City Finance Staff, and these Securities.

Short-Term Borrowing

ORS 287A.180(3)(b) (formerly ORS 288.165(3)) requires that obligations issued in anticipation of taxes or other revenues (except grant revenues) shall not be issued in an amount greater than 80 percent of the amount budgeted to be received in the Fiscal Year in which the obligations are issued.

The City issued a \$175,000 13 month taxable loan in June 2008 to fund working capital for its building inspection program. The loan will be repaid from building permit fees.

Debt Payment Record

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

Future Financings

Capital Projects. Other than the Securities, the City has no authorized but unissued bonds outstanding, nor does it anticipate issuing additional long-term debt within calendar year 2009.

Short-term Notes. The City does not anticipate issuing additional short-term debt within calendar year 2009.

Revenue Sources

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

The City receives funds from a variety of sources including taxes, intergovernmental revenues and charges for services. General governmental activities, such as City administration, are primarily supported by property taxes. Enterprises, such as water and sewer utilities, are primarily supported by charges for services. See the "Changes in Net Assets" table herein for a detailed breakdown of historic revenues.

Property Taxes

Most local governments, school districts, education service districts and community college districts ("local governments") have permanent authority to levy property taxes for operations at a maximum rate (the "Operating Tax Rate Limit"). All cities have this authority. Local governments that have never levied property taxes may request that the voters approve a new Operating Tax Rate Limit.

Local governments with Operating Tax Rate Limits may not increase the rate on a permanent basis; rather they may only request that voters approve limited term levies for operations or capital expenditures ("Local Option Levies") and general obligation bond levies. All property tax levies that exceed the Operating Tax Rate Limit require voter approval at a general election in an even numbered year, or at another election at which a majority of registered voters cast ballots.

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. Levies to pay general obligation bonds are limited by the principal amount of the bonds which is stated in the ballot that approves the bonds. See "BONDED INDEBTEDNESS – GENERAL OBLIGATION DEBT CAPACITY" herein.

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

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

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

Valuation of Property – Assessment. Property taxes are imposed on the assessed value of property. The assessed value of each parcel cannot exceed its Taxable Real Market Value, and ordinarily is less than its Taxable Real Market Value. The assessed value of property was initially established as a result of the enactment of a constitutional amendment in 1997. That amendment (now Article XI, Section 11, often called “Measure 50”) assigned each property a value that was in most cases less than its Taxable Real Market Value in Fiscal Year 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.

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

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

Tax Rate Limitation – Real Market Value. A tax rate limitation was established as a result of the enactment of a constitutional amendment in 1990. That amendment (now Article XI, Section 11b, often called “Measure 5”) separates property taxes into two categories: one to fund the public school system (kindergarten through grade twelve school districts, education service districts and community college districts) 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 Taxable Real Market Value of the property. Other government operations taxes are limited to \$10 per \$1,000 of the Taxable Real Market Value of property. In Fiscal Year 2008, there was no compression in the City due to the tax rate limitation. 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 Oregon Constitution; and (2) general obligation bonded indebtedness incurred for capital construction or improvements approved by the electors of the issuer and bonds issued to refund such bonds. **The City is authorized to levy an additional ad valorem property tax each year which is sufficient to pay the Series 2009A Bonds; those levies are not subject to the limitations of Article XI, Sections 11 and 11b. The City is not permitted to levy additional ad valorem property taxes to pay the Series 2009B Obligations; ad valorem taxes that are used to pay the Financing Payments must be collected within the limitations of Article XI, Sections 11 and 11b.**

In 2007 the Oregon Supreme Court determined that taxes levied by general purpose governments (such as cities and counties) may be subject to the \$5 per \$1,000 limit if those taxes are used for educational services provided by public schools.

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

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

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

The following tables represent historic tax information for the City.

Taxable Property Values

Fiscal Year	Real Market Value ⁽¹⁾	AV Used to Calculate Rates ⁽²⁾
2009	\$ 4,507,161,484	\$ 2,655,549,376
2008	4,464,348,037	2,516,737,956
2007	3,807,332,655	2,369,462,477
2006	3,186,256,026	2,266,911,704
2005	2,895,041,280	2,173,835,372

- (1) Value represents the Real Market Value of taxable properties, including the reduction in Real Market Value of specially assessed properties such as farm and forestland. This value is also commonly referred to as the Measure 5 Real Market Value by county assessors.
- (2) Assessed value of property in the City on which the permanent rate is applied to derive *ad valorem* property taxes, excluding urban renewal and any other offsets.

Source: Clackamas County Department of Assessment and Taxation.

The following table presents the Fiscal Year 2009 tax rates for the City and other taxing jurisdictions within Clackamas County that overlap the City. The City's Operating Tax Rate Limit is \$2.1200 per \$1,000 of assessed property value. The Operating Tax Rate Limit was calculated in conjunction with the implementation of Measure 50 in 1997. After the Oregon Supreme Court ruling in *Shilo Inn v. Multnomah County* the county assessor began to report billing rates. The permanent rates shown in the following table are the rates that are actually applied to the assessed value of the taxing district. The permanent rates may be different from the Operating Tax Rate Limit of the taxing district due to the decision by the taxing district to levy less than its Operating Tax Rate Limit.

**Fiscal Year 2009 Representative Levy Rate
(Rates Per \$1,000 of Assessed Value)**

General Government	Billing Rate	Bond Levy Rate	Local Option Rate⁽¹⁾	Consolidated Rate	Urban Renewal Portion of the Cons. Rate⁽²⁾
City of West Linn	\$ 2.1200	\$ 0.3784	\$ 0.0000	\$ 2.4984	\$ 0.0000
Clackamas County	2.4042	0.0000	0.2480	2.6522	0.0000
County Soil Conservation District	0.0500	0.0000	0.0000	0.0500	0.0008
Tualatin Valley Fire and Rescue	1.5252	0.0682	0.2500	1.8434	0.0000
Port of Portland	0.0701	0.0000	0.0000	0.0701	0.0012
Metro	0.0966	0.3018	0.0000	0.3984	0.0052
County Urban Renewal Special Levy	0.0736	0.0000	0.0000	0.0736	0.0000
Vector Control	0.0065	0.0000	0.0250	0.0315	0.0000
Tri-Met	0.0000	0.0803	0.0000	0.0803	0.0017
Total General Government	6.3462	0.8287	0.5230	7.6979	0.0089
Education					
Clackamas Community College	0.5582	0.2002	0.0000	0.7584	0.0161
Clackamas ESD	0.3687	0.0000	0.0000	0.3687	0.0076
West Linn-Wilsonville School District	4.8684	2.6839	1.5000	9.0523	0.0000
Total Education	5.7953	2.8841	1.5000	10.1794	0.0237
Total Tax Rate	\$ 12.1415	\$ 3.7128	\$ 2.0230	\$ 17.8773	\$ 0.0326

NOTE: County assessors report levy rates by tax code. Levy rates apply to the assessed property value. Tax rate limitations are based on the Taxable Real Market Value and are only reported in total dollar amount of compression, if any, for each taxing jurisdiction (see "TAX RATE LIMITATION – REAL MARKET VALUE" herein).

- (1) Local Option Levies are voter-approved serial levies. They are limited by ORS 280.060 to five years for operations or ten years for capital construction. Local Option Levy rates compress to zero before there is any compression of district billing rates (see "TAX RATE LIMITATION – REAL MARKET VALUE" herein).
- (2) A portion of the taxing districts' consolidated rate is contributed to the Clackamas County Urban Renewal Agency through tax increment financing.

Source: Clackamas County Department of Assessment and Taxation. Note that there are 2 tax codes in Clackamas County that overlap the City and Tax Code 003-02 has the highest property value of these tax codes. Total tax levies in the City are \$15.7218 and \$17.8773 per \$1,000 of assessed property value.

**Clackamas County
Tax Collection Record⁽¹⁾**

Fiscal Year	Percent Collected as of Levy Year⁽²⁾	6/30/2008⁽³⁾
2008	96.56%	96.56%
2007	97.28%	99.08%
2006	97.59%	99.60%
2005	97.32%	99.86%
2004	96.92%	99.94%

- (1) Percentage of total tax levy collection in Clackamas County. Pre-payment discounts are considered to be collected when outstanding taxes are calculated. The tax rates are before offsets.
- (2) The percentage of taxes collected in the "year of the levy" represents taxes collected in a single levy year, beginning July 1 and ending June 30.
- (3) The percentage of taxes shown in the column represents taxes collected cumulatively from July 1 of a given levy year through June 30, 2007.

Source: Clackamas County Department of Assessment and Taxation.

Major Taxpayers
(As of Fiscal Year 2009)
City of West Linn

Taxpayer	Business/Service	Tax	Assessed Value ⁽¹⁾	Percent of Value
Portland General Electric ⁽²⁾	Electrical utility	\$ 933,371	\$ 59,828,000	2.25%
West Linn Paper Company	Paper mill	454,176	28,967,604	1.09%
Blackhawk Nevada LLC	Commercial office building	408,930	22,874,274	0.86%
Simpson Realty Group	Commercial Real Estate	407,346	22,869,388	0.86%
West Linn Shopping Center Association	Retail shopping center	308,900	17,278,887	0.65%
Cascade Summit Retail LLC	Safeway shopping center	274,104	15,332,521	0.58%
Summerlinn Apartments LLC	Apartments	209,931	11,878,586	0.45%
Northwest Natural	Natural gas utility	192,816	12,363,700	0.47%
VPC-OR West Linn Limited Partnership	Willamette Marketplace	146,471	8,193,130	0.31%
Renaissance Custom Homes LLC	Residential contractor	141,395	7,909,209	0.30%
Subtotal - ten of City's largest taxpayers			207,495,299	7.81%
All other City taxpayers			2,448,054,077	92.19%
Total City			<u>\$ 2,655,549,376</u>	<u>100.00%</u>

Clackamas County

Taxpayer	Business/Service	Tax	Assessed Value ⁽¹⁾	Percent of Value
Portland General Electric ⁽²⁾	Electrical utility	\$ 6,699,383	\$ 487,614,650	1.49%
Shorenstein Properties LLC	Kruse Way properties	3,855,351	225,387,963	0.69%
General Growth Properties Inc.	Town Center Mall	3,362,072	214,878,097	0.66%
Northwest Natural	Natural gas utility	2,739,674	183,865,400	0.56%
Fred Meyer Stores Inc.	Commercial/Retail	2,730,161	176,131,042	0.54%
PCC Structurals Inc.	Manufacturing/ Aerospace	1,427,075	86,512,010	0.26%
Xerox Corporation	Printing/Manufacturing	1,232,993	71,919,769	0.22%
Verizon Northwest Inc.	Telecommunications	1,086,060	73,145,900	0.22%
Qwest Corporation	Telecommunications	1,024,403	64,660,500	0.20%
Mentor Graphics Corporation	Printing/Manufacturing	937,453	52,779,827	0.16%
Subtotal - ten of County's largest taxpayers			1,636,895,158	5.01%
All other County's taxpayers			31,019,075,522	94.99%
Total County			<u>\$ 32,655,970,680</u>	<u>100.00%</u>

(1) Assessed value does not exclude offsets such as urban renewal and farm tax credits.

(2) Portland General Electric is an electrical utility company whose service area covers about 4,000 square miles and a population of about 1,508,000 people. The company generates electricity using hydropower, coal and gas combustion, and wind power. *Source: www.portlandgeneral.com.*

Source: Clackamas County Department of Assessment and Taxation.

Local Government Revenues

In addition to property tax revenue, Oregon cities generally have broad authority to impose and collect fees for services, receive revenues from the State and Federal Government. These revenues are all subject to State and Federal legislative changes and restrictions.

The City

General Description

The City was incorporated in 1913 and operates under the provision of its own charter and applicable State law with a Manager-Council form of government. The City Charter was amended in May 2008 to change the term of office of the Mayor from two to four years. The Mayor chairs City Council meetings. The mayor and Council vote on all ordinances and legislative matters. The five Council members are part-time elected

officials who exercise the legislative powers of the City and determine matters of policy. The City Manager is appointed by the City Council. Other City department heads are appointed by the City Manager.

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

The City Council

The City operates under a city charter with a council-manager form of government. The policies of the City are established by an elected five-member City Council. The current members of the City Council follow:

City Council

Name	Position	Occupation	Service Began	Term Expires
Patti Galle	Mayor	Retired professional	Jan. 1, 2009	Dec. 31, 2012
Jody Carson	Councilor	Healthcare contract manager	Jan. 1, 2006	Dec. 31, 2010
Teri Cummings	Councilor	Retired professional	Jan. 1, 2009	Dec. 31, 2012
Scott Burgess	Councilor	Consultant	Jan. 1, 2005	Dec. 31, 2010
John Kovash	Councilor	Retired professional	Jan. 1, 2009	Dec. 31, 2012

Key Administrative Officials

The City Manager is the City's chief administrative officer, who is appointed by the City Council for an indefinite term and serves at the pleasure of the Council. The City Manager appoints all other key administrative officials.

Chris Jordan, City Manager. Mr. Jordan began his tenure as City Manager in October 2005. For the previous 10 years, Mr. Jordan worked for the City of Lake Oswego where he was the Assistant City Manager overseeing several departments including Finance and Parks and Recreation. Prior to his work in local government, Mr. Jordan worked in Washington D.C. where he spent nine years with the White House's Office of Management and Budget. He is currently a member of the League of Oregon Cities Committee on Finance and Taxation. Mr. Jordan is a graduate of Cornell University in Ithaca, New York.

Richard Seals, Finance Director. Mr. Seals joined the City in October 2008 following nearly ten years as Finance Director for the City of Lake Oswego, Oregon. Prior to joining the City of Lake Oswego, Mr. Seals was the Controller for the Oregon State Lottery. He received undergraduate degrees in Accounting and Information Systems Management as well as a Masters in Business Administration from California State University East Bay. After completing his graduate program in 1986, Mr. Seals was employed by the accounting firm PriceWaterhouse. He obtained his California CPA designation in 1989 and his Oregon CPA designation in 1990. Mr. Seals holds three professional licenses: Certified Public Accountant, Certified Management Accountant, and Certified in Financial Management.

Staff

The City has 111 full-time employees and 36 part-time employees.

Bargaining Units

Bargaining Unit	No. Employees	Contract Expires
Clackamas County Peach Officers Association	24	3 years; June 30, 2010
American Federation of State, County and Municipal Employees	67	5 years; June 30, 2009

Financial Factors

Financial Reporting and Accounting Policies

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

GASB 34. The City has implemented the financial reporting model required by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The City follows the "governmental activities" and "business-type activities" reporting requirements of GASB-34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments that provides a comprehensive two-column look at the City's financial activities. In addition, the City provides financial statements by funds, divided into two categories: governmental funds and proprietary funds. The General Fund is a governmental fund.

Additional information on the City's accounting methods is available in the City's audited financial statements. A copy of the City's audited financial report for Fiscal Year 2007 is attached hereto as Appendix B.

Auditing

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

Previous City management suspended annual auditing of its financial statements for Fiscal Years 2003 through 2005. Subsequent to a change in elected officials and management, auditing was resumed in early 2005. The Fiscal Year 2003 audit was completed in 2005 by the City's former auditor. During the Fiscal Year 2004 audit in 2006 the City's former auditor was terminated when the City discovered that its former Finance Director embezzled approximately \$1,420,000 over a five-year period. The City and its forensic auditors determined that the funds were embezzled from the General Fund although specific accounts could not be identified.

In Fiscal Year 2007, the former Finance Director admitted to the embezzlement in an agreement with legal authorities. The agreement entitles the City to restitution of the \$1,420,000 plus statutory 9% per annum. The former Finance Director has agreed to transfer to the City 75% of the equity in her personal residence (estimated to be \$100,000) and her Public Employee Retirement System personal retirement account (estimated to be worth \$175,000). The City received \$100,000 from its insurance carrier during Fiscal Year 2007 and \$100,692 from the proceeds of her personal residence during Fiscal Year 2008, related to the embezzlement.

The City is in mediation with its former auditor and their insurance carrier to recover a portion of the embezzled funds. The amount of recovery, if any, cannot be determined at this time.

In early 2007, following the conclusion of the forensic audit, the City selected Talbot, Korvola & Warwick LLP, CPAs and Consultants, Portland, Oregon to be the City's new auditor (the "Auditor"). Since early 2007 the City has completed audits for Fiscal Years 2004 through 2007. Audited financial statements for fiscal year 2008 are anticipated to be completed prior to January 31, 2009. The Auditor was not requested to review this Official Statement.

The City does not maintain adequate capital asset records to support amounts recorded in the financial statements and the Auditor was unable to perform adequate alternative procedures to determine the cost and accumulated depreciation of capital assets. The audit report for Fiscal Year 2007 indicates the financial statements, in all material respects except for such adjustments discussed above, fairly present the City's financial position of the governmental activities, the business-type activities, each major fund and the

aggregate remaining fund information and the respective budgetary comparison for the General, 911 Emergency Communication Public Safety, Building Inspection, System Development and Park Bond Construction Funds are in conformance with GAAP.

The audited financial report of the City as of June 30, 2007 is attached to this Official Statement as Appendix B. Future financial statements may be ordered by contacting the individual nationally recognized municipal securities information repositories ("NRMSIR") at the addresses below, or by accessing the NRMSIR website, located at: www.sec.gov/info/municipal/nrmsir.htm (this inactive textual reference to the website is not a hyperlink and the website, by such reference, is not incorporated herein).

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Phone: 609-279-3225
FAX: 609-279-5962
E-Mail: [Munis@Bloomberg.com](mailto: Munis@Bloomberg.com)

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: 201-346-0701
FAX: 201-947-0107
E-Mail: [nrmsir@dpcdata.com](mailto: nrmsir@dpcdata.com)

Interactive Data Pricing and Reference Data, Inc.
Attn.: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: 212-771-6999; 800-689-8466
FAX: 212-771-7391
E-Mail: [NRMSIR@interactivedata.com](mailto: NRMSIR@interactivedata.com)

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, NY 10041
Phone: 212-438-4595
FAX: 212-438-3975
E-Mail: [nrmsir_repository@sandp.com](mailto: nrmsir_repository@sandp.com)

Fund Structure

Beginning in Fiscal Year 2007, the City changed its fund structure, creating and consolidating special revenue funds for the significant service operations of the City, including Police, Parks and Recreation, Library, and Planning. These activities were previously accounted for in several special revenue funds that captured specific revenue resources, in addition to activity reported in the general fund. As a result of this change, property taxes are now directly allocated to the Police Fund, Parks and Recreation Fund and Library Fund. The City's permanent rate generated \$4,872,229 in fiscal year 2007 within the three funds (\$2,130,000 in the Parks and Recreation Fund, \$3,629,720 in the Police Fund, and \$850,000 in the Library Fund).

The City's public safety Local Option Levy expired in Fiscal Year 2006. The City reallocated property tax revenue from its permanent rate, increasing the amount to the Police Fund, and reducing the amount to the Parks and Recreation Fund, while maintaining the amount to the Library Fund. Franchise fee revenue was also reallocated, increasing the amount to the Police Fund, and reducing the amount to the Street Fund. Effective Fiscal Year 2008, the City implemented a street fee to replace the reduction in franchise fee revenue to the Street Fund.

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

General Fund Balance Sheet
(Fiscal Years)

Assets	2007	2006	2005	2004
Cash and investments	\$ 1,917,067	\$ 2,176,323	\$ 1,120,509	\$ 1,172,849
Cash held by County Treasurer	0	0	24,870	28,291
Property taxes receivable	0	0	172,182	233,471
Accounts receivable	3,255	45,725	139,682	65,597
Interfund loan	0	0	110,001	26,778
Other assets	104,342	130,834	96,788	79,834
Total Assets	<u>\$ 2,024,664</u>	<u>\$ 2,352,882</u>	<u>\$ 1,664,032</u>	<u>\$ 1,606,820</u>
Liabilities, Equity and Other Credits				
Liabilities:				
Accounts payable	\$ 279,107	\$ 298,649	\$ 209,331	\$ 292,217
Accrued salaries and payroll taxes	250,367	278,510	292,904	263,104
Accrued vacation payable	0	0	88,966	88,966
Deposits payable	619,114	0	425,620	120,883
Deferred revenue	0	0	137,951	197,143
Other liabilities	28,735	543,066	69,918	0
Total Liabilities:	<u>1,177,323</u>	<u>1,120,225</u>	<u>1,224,690</u>	<u>962,313</u>
Fund Balance:				
Reserved for prepaid expense	104,342	0	0	0
Unreserved	742,999	1,232,657	439,342	644,507
Total Fund Equity	<u>847,341</u>	<u>1,232,657</u>	<u>439,342</u>	<u>644,507</u>
Total Liabilities and Fund Equity	<u>\$ 2,024,664</u>	<u>\$ 2,352,882</u>	<u>\$ 1,664,032</u>	<u>\$ 1,606,820</u>

Source: City of West Linn Audited Financial Statements.

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

Revenues	2007⁽¹⁾	2006	2005	2004
Property Taxes	\$ 0	\$ 4,641,720	\$ 4,473,366	\$ 4,308,348
Intergovernmental revenues	2,789	358,183	728,642	277,967
Franchise fees	0	1,299,088	1,557,784	1,685,735
Licenses and permits	50,023	291,987	342,929	228,256
Fines and forfeitures	476,079	513,503	463,254	314,451
Charges for services	91,040	1,277,475	1,152,919	1,137,629
Interest	52,487	2,478	45,717	17,572
Miscellaneous	199,295	99,207	150,340	125,730
Total Revenues	<u>871,713</u>	<u>8,483,641</u>	<u>8,914,951</u>	<u>8,095,688</u>
Expenditures				
Current:				
General government	3,216,021	3,628,433	3,163,816	2,967,186
Cultural and recreation	0	2,658,448	3,292,443	2,562,872
Public safety	0	2,396,475	2,471,825	2,122,875
Capital outlay	26,786	0	0	0
Debt service:				
Principal	165,000	160,000	249,887	236,092
Interest	176,000	183,435	190,450	205,845
Total Expenditures	<u>3,583,807</u>	<u>9,026,791</u>	<u>9,368,421</u>	<u>8,094,870</u>
Excess (deficiency) of revenues over expenditures	<u>(2,712,094)</u>	<u>(543,150)</u>	<u>(453,470)</u>	<u>818</u>
Other Financing Sources (Uses)				
Operating transfers in	2,643,900	1,597,064	913,156	775,445
Operating transfers out	<u>(317,062)</u>	<u>(260,598)</u>	<u>(664,851)</u>	<u>(1,073,530)</u>
Total Other Financing Sources (Uses)	<u>2,326,838</u>	<u>1,336,466</u>	<u>248,305</u>	<u>(298,085)</u>
Change in fund balance	<u>(385,256)</u>	<u>793,316</u>	<u>(205,165)</u>	<u>(297,267)</u>
Fund balance at beginning of year	1,232,658	439,342	644,507	620,683
Restatement	0	0	0	321,091
Ending fund balance	<u>\$ 847,402</u>	<u>\$ 1,232,658</u>	<u>\$ 439,342</u>	<u>\$ 644,507</u>

(1) Significant differences in Fiscal Year 2007 are the result of the restructuring of City funds. See "Financial Factors – Fund Structure" herein.

Source: City of West Linn Audited Financial Statements.

Parks Fund, Library Fund and Police Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
(Fiscal Year 2007)

	Parks Fund	Library Fund	Public Safety Fund	Total
Property Taxes	\$ 2,130,000	\$ 850,000	\$ 3,629,720	\$ 6,609,720
Intergovernmental revenues	40,000	514,826	473,282	1,028,108
Franchise fees	0	0	1,186,248	1,186,248
Licenses and permits	48,025	0	55,946	103,971
Fines and forfeitures	0	64,610	26,530	91,140
Charges for services	347,496	0	1,008	348,504
Interest	42,704	19,990	113,961	176,655
Miscellaneous	3,173	5,922	33,055	42,150
Total Revenues	<u>2,611,398</u>	<u>1,455,348</u>	<u>5,519,751</u>	<u>9,586,497</u>
Expenditures				
Current:				
Cultural and recreation	1,728,853	1,121,355	0	2,850,208
Public safety	0	0	3,978,579	3,978,579
Capital outlay	118,622	0	134,593	253,215
Total Expenditures	<u>1,847,475</u>	<u>1,121,355</u>	<u>4,113,172</u>	<u>7,082,002</u>
Excess (deficiency) of revenues over expenditures	<u>763,923</u>	<u>333,993</u>	<u>1,406,579</u>	<u>2,504,495</u>
Other Financing Sources (Uses)				
Operating transfers in	0	0	0	0
Operating transfers out	<u>(455,883)</u>	<u>(242,100)</u>	<u>(927,704)</u>	<u>(1,625,687)</u>
Total Other Financing Sources (Uses)	<u>(455,883)</u>	<u>(242,100)</u>	<u>(927,704)</u>	<u>(1,625,687)</u>
Change in fund balance	308,040	91,893	478,875	878,808
Fund balance at beginning of year	0	220,685	565,483	786,168
Ending fund balance	<u>\$ 308,040</u>	<u>\$ 312,578</u>	<u>\$ 1,044,358</u>	<u>\$ 1,664,976</u>

Source: City of West Linn Audited Financial Statements for Fiscal Year 2007.

Budgetary Process

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

The City's administrative staff evaluates the budget requests of the various departments of the City to determine the funding levels of the operating programs. The budget is presented to the public through public hearings held by a budget committee consisting of Board members and lay members. After giving due consideration to the input received from the citizens, the City Council adopts the budget, authorizes the levying of taxes and sets appropriations. The budget must be adopted not later than June 30 of each Fiscal Year.

The budget may be amended during the applicable Fiscal Year through the adoption of a supplemental budget. Supplemental budgets may be adopted by the Board pursuant to ORS 294.480.

General Fund Adopted Budget
(Years Ended June 30)

Resources	2009	2008
Fees and charges	\$ 132,000	\$ 132,100
Fines and forfeits	479,000	450,000
Interest	44,000	40,000
Miscellaneous	500,000	487,400
Reimbursement charges	4,670,000	3,473,070
Beginning fund balance	741,873	709,203
Total Resources	<u>\$ 6,566,873</u>	<u>\$ 5,291,773</u>
Expenditures		
City council	\$ 50,000	\$ 50,800
City managers office	770,300	863,429
Human resources	281,100	281,755
Finance	801,900	875,806
Municipal court	227,200	233,879
Information services	854,500	985,842
Facility services	580,300	546,689
Public works operations	1,261,500	0
Vehicle maintenance	361,800	0
Non-departmental:		
Transfers to other funds	350,000	400,000
General services	51,500	71,800
Debt service	339,838	343,200
Reserves	636,935	638,573
Total Expenditures	<u>\$ 6,566,873</u>	<u>\$ 5,291,773</u>

Source: City of West Linn Adopted Budget.

Investments

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

Municipalities are also authorized to invest approximately \$42.2 million (adjusted for inflation) in the Local Government Investment Pool of the Oregon Short-Term Fund, which is managed by the State Treasurer's office. Such investments are managed in accordance with the "prudent person rule" (ORS 293.726) and administrative regulations of the State Treasurer which may change from time to time. Eligible investments presently include all of those listed above, as well as repurchase agreements and reverse repurchase agreements. A listing of investments held by the Oregon Short-Term Fund is available on the Oregon State Treasury website under "OTHER OSTF REPORTS – OSTF DETAILED MONTHLY REPORTS" at www.ost.state.or.us/about/boards/OSTF/About.htm (this inactive textual reference to the website is not a hyperlink and the website, by such reference, is not incorporated herein).

Pension System

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

Employees hired before August 29, 2003 participate in the “Tier 1” and “Tier 2” pension programs (the “T1/T2 Pension Programs”). The T1/T2 Pension Programs are defined benefit pension plans that 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.

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

Actuarial Valuation. Oregon statutes require an actuarial valuation of the System at least once every two years. Based on the biennial actuarial valuations as of December 31 of odd-numbered years, such as 2005 and 2007, 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 below. Actuarial valuations have been performed annually as of December 31 of each year, with the valuations as of December 31 of even-numbered years (such as 2006) used for advisory purposes only.

Current employer contribution rates are based on the December 31, 2005 actuarial valuation (the “2005 Valuation”). Contribution rates effective July 1, 2009 will be based on the December 31, 2007 actuarial valuation (the “2007 Valuation”).

Valuation	Rates Effective
December 31, 2005	July 1, 2007 – June 30, 2009
December 31, 2006	Advisory only
December 31, 2007	July 1, 2009 – June 30, 2011

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.

According to the 2007 Valuation, the City’s T1/T2 Pension Programs UAL is a surplus of \$2,929,780.

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. According to the 2007 Valuation, the City’s allocated share of OPSRP’s assets and liabilities results in an allocated OPSRP surplus of \$62,377.

According to the 2007 Valuation, the City’s total pension UAL is a surplus of \$2,992,157 as shown in the table below.

	2007 Valuation	2005 Valuation
T1/T2 UAL	\$ (2,929,780)	\$ 930,684
Allocated OPSRP UAL	(62,377)	0
Net unfunded pension actuarial accrued liability	<u>\$ (2,992,157)</u>	<u>\$ 930,684</u>

The funded status of the PERS and of the City as reported by Mercer, the PERS actuary, will change over time depending on the market performance of the securities that the Oregon Public Employees’ Retirement Fund (the “OPERF”) is invested, future changes in compensation and benefits of covered employees, demographic

characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS. No assurance can be given that the UAL of PERS and of the City will not materially increase.

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 20 years (fixed) for the T1/T2 Pension Programs and 16 years (fixed) for OPSRP.

Employer Contribution Rates. Employer contribution rates are calculated as a percent of covered payroll. The rates are based on the current and projected cost of benefits and the anticipated level of funding available from the OPERF, including anticipated investment performance of the fund. Contribution rates are subject to future adjustment based on factors such as the result of subsequent actuarial valuations and changes in benefits resulting from legislative modifications. Employees are required to contribute six 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.

City Contribution Rates. The City's current contribution rates are based on the 2005 Valuation and are effective through June 30, 2009. Contribution rates for the City effective July 1, 2009 through June 30, 2011 are based on the 2007 Valuation. The following table shows the City's current employer contribution rates (2005 Valuation) and the rates effective beginning July 1, 2009 (2007 Valuation):

	<u>2007 Valuation</u>			<u>2005 Valuation</u>		
	T1/T2	OPSRP General	OPSRP P&F	T1/T2	ORSRP General	OPSRP P&F
Normal cost rate	7.48%	5.81%	8.52%	5.46%	5.82%	9.09%
UAL rate	3.12	3.12	3.12	8.22	8.22	8.22
Retiree Healthcare rate (RHIA)	<u>0.29</u>	<u>0.19</u>	<u>0.19</u>	<u>0.37</u>	<u>0.26</u>	<u>0.26</u>
Total net contribution rate	<u>10.89%</u>	<u>9.12%</u>	<u>11.83%</u>	<u>14.05%</u>	<u>14.30%</u>	<u>17.57%</u>

The employer contribution rate to fund RHIA benefits for T1/T2 employees is 0.37 percent of T1/T2 payroll and 0.26 percent of OPSRP payroll through June 30, 2009. Effective July 1, 2009 contribution rates for RHIA benefits will be 0.29 percent of T1/T2 payroll and 0.19 percent of OPSRP payroll. These RHIA program contribution rates are included in the total City employer contribution rates shown above and are not part of the City's pension cost but considered other post-employment benefits instead as described below.

Other Postemployment Benefits

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

The City has adopted early implementation of GASB 45 and will implement this pronouncement for the fiscal year ended June 30, 2008. The City's actuary for its non-PERS post employment benefits ("OPEB"), Milliman, has completed an actuarial valuation as of August 1, 2006. The actuarial report indicates that based solely on the implicit subsidy, the City's UAL for its non-PERS OPEB is approximately \$1,449,903 (other than RHIA, as described below, the City has no explicit OPEB benefits) with an annual required contribution as of June 30, 2008 of approximately \$227,671. The City currently pays \$45,975 on a "pay-as-you-go" basis. The City currently plans to continue to pay its non-PERS OPEB on a "pay-as-you-go" basis.

Retirement Health Insurance Account. PERS retirees who receive benefits through the Tier 1 and Tier 2 plans and are enrolled in certain PERS administered health insurance programs, may receive a subsidy towards the

payment of health insurance premiums. Under ORS 238.420, retirees may receive a subsidy for Medicare supplemental health insurance of up to \$60 per month towards the cost of their health insurance premium under the RHIA plan. The RHIA program’s assets and liabilities are pooled on a system-wide basis and are not tracked or calculated on an employer basis. According to the 2007 System Valuation, this program had a UAL of approximately \$248.8 million. The City’s allocated share of the RHIA program’s assets and liabilities is based on the City’s proportionate share of the program’s pooled payroll. According to the 2007 Valuation, the City’s allocated share of the RHIA program’s UAL is \$215,412.

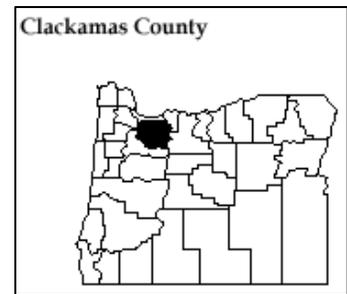
Risk Management

The City is exposed to various risks of loss. A description of the risks is provided in the City’s audited financial statements. The audited financial statement for Fiscal Year 2007 is attached hereto as Appendix B.

Demographic Information

General

The City is located 12 miles south of Portland, Oregon in the County. The City covers 7.5 miles and is bordered by the Willamette and Tualatin River. The City is part of the Portland-Vancouver Metropolitan Statistical Area (the “Portland PMSA”), which includes Clackamas, Columbia, Multnomah, Washington and Yamhill Counties in Oregon, and Clark and Skamania Counties in Washington.



This section will focus on the County and the City. To the extent information is not available at the local level, information will be provided for the Portland PMSA.

Population

The City’s estimated population is currently 24,180. The following table shows the historic population for the State, County and the City:

Population
State of Oregon, Clackamas County and the City of West Linn

July 1	State of Oregon	Clackamas County	City of West Linn
2007	3,745,455	372,270	24,180
2006	3,690,505	367,040	24,180
2005	3,631,440	361,300	24,080
2004	3,582,600	356,250	23,970
2003	3,541,500	353,450	23,820
April 1⁽¹⁾			
2000	3,421,399	338,391	22,261
1990	2,842,321	278,850	16,389

(1) U.S. Census Count on April 1.

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

Economic Overview

Portland PMSA. The economy of the Portland metropolitan area is broad and widely diversified. The Portland PMSA includes the State’s largest employers, including Intel, Providence Health System, Safeway, Oregon Health & Sciences University, Fred Meyer, Kaiser Foundation Health Plan, Legacy Health System, and Nike.

Currently, manufacturing accounts for 12 percent of the total non-farm employment in the Portland PMSA, while trade, transportation and utilities accounts for 20 percent, government jobs 14 percent, professional and business services 13 percent, education and health services 13 percent, and leisure and hospitality 9 percent.

Major employers in the City include the West Linn-Wilsonville School District, Tanner Spring Assisted Living, West Linn Paper Company, Safeway, and ESP Technologies.

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

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

Gross Farm Sales (\$ in thousands)				
Year	Harvested Acreage	Crop Sales	Animal Products Sales	Total Gross Farm Sales
2007	43,027	\$ 353,421	\$ 56,492	\$ 409,914
2006	45,576	341,004	53,552	394,556
2005	45,886	312,329	49,589	361,918
2004	46,994	308,280	47,076	355,356
2003	51,791	297,749	43,430	341,179

**Top Commodities in
Clackamas County (2007)**

Rank	Commodity	Sales
1	Nursery Crops	\$ 198,557,000
2	Christmas Trees	32,433,000
3	Greenhouse Crops	27,670,000
4	Chicken Eggs	27,050,760
5	Farm Forest Products	20,590,000

Source: Oregon State University Extension Service's Oregon Agriculture Information Network, Harvested Acreage Summary Report, Gross Farm Sales Reports, Commodity Report; January 23, 2008.

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

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

Year	Clackamas County				State of Oregon			
	Personal Income (\$000 Omitted)	Dividends, Interest, Rent (\$000 Omitted)	Per Capita Income	Per Capita Dividends, Interest, Rent	Personal Income (\$000 Omitted)	Dividends, Interest, Rent (\$000 Omitted)	Per Capita Income	Per Capita Dividends, Interest, Rent
2007	N/A	N/A	N/A	N/A	\$ 130,353,173	\$ 25,772,723	\$34,784	\$ 6,877
2006	\$ 15,371,418	\$ 2,972,562	\$ 41,378	\$ 8,002	122,909,475	23,881,696	33,299	6,470
2005	14,327,255	2,669,207	39,116	7,287	114,703,242	21,480,584	31,599	5,918
2004	13,599,941	2,563,010	37,631	7,092	109,717,646	21,023,881	30,621	5,868
2003	12,813,995	2,229,676	35,973	6,259	105,160,987	19,799,945	29,565	5,567
2002	12,430,074	2,161,378	35,316	6,141	101,881,884	19,502,101	28,931	5,538

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 24, 2008.

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

**Portland PMSA
Labor Force Summary ⁽¹⁾
(by place of residence)**

	2008 ⁽²⁾	2007	2006	2005	2004	2003	2007 Change from			
							2006	2005	2004	2003
Civilian Labor Force	1,157,600	1,147,853	1,126,232	1,106,334	1,094,611	1,092,887	21,621	41,519	53,242	54,966
Unemployment	61,417	55,959	57,245	64,717	76,984	90,272	-1,286	-8,758	-21,025	-34,313
Percent of Labor Force	5.3%	4.9%	5.1%	5.8%	7.0%	8.3%	xx	xx	xx	xx
Total Employment	1,096,183	1,091,894	1,068,987	1,041,617	1,017,627	1,002,615	22,907	50,277	74,267	89,279

Non-Agricultural Wage & Salary Employment ⁽³⁾

	2008 ⁽²⁾	2007	2006	2005	2004	2003	2007 Change from			
							2006	2005	2004	2003
Total Nonfarm Payroll Employment	1,039,667	1,036,900	1,015,300	983,600	954,100	934,300	21,600	53,300	82,800	102,600
Total Private	891,583	894,500	876,400	846,000	817,900	800,800	18,100	48,500	76,600	93,700
Natural resources and mining	1,583	1,600	1,700	1,800	1,700	1,700	-100	-200	-100	-100
Construction	63,300	65,700	63,200	58,500	53,900	50,100	2,500	7,200	11,800	15,600
Manufacturing	124,850	126,000	126,600	123,400	120,100	118,100	-600	2,600	5,900	7,900
Trade, transportation, and utilities	204,383	206,600	202,600	198,000	193,400	190,900	4,000	8,600	13,200	15,700
Information	24,933	24,700	24,000	23,100	22,500	22,500	700	1,600	2,200	2,200
Financial activities	70,250	71,500	70,600	68,200	66,100	66,400	900	3,300	5,400	5,100
Professional and business services	135,833	136,300	134,700	128,500	122,100	117,900	1,600	7,800	14,200	18,400
Educational and health services	131,017	127,500	123,200	119,800	115,700	113,600	4,300	7,700	11,800	13,900
Leisure and hospitality	98,517	97,800	94,100	90,100	87,700	85,600	3,700	7,700	10,100	12,200
Other services	36,833	36,600	35,700	34,500	34,700	34,000	900	2,100	1,900	2,600
Government	148,083	142,400	138,900	137,600	136,200	133,500	3,500	4,800	6,200	8,900

(1) Civilian labor force includes employed and unemployed individuals 16 years and older by place of residence. Employed includes nonfarm payroll employment, self-employed, unpaid family workers, domestics, agriculture and labor disputants. Data are adjusted for multiple job-holding and commuting.

(2) Data as of second quarter 2008.

(3) Nonfarm payroll data are based on the 1987 Standard Industrial Classification manual. The data are by place of work. Persons working multiple jobs are counted more than once. The data excludes the self-employed, volunteers, unpaid family workers, and domestics.

Source: State of Oregon Employment Department, September 2008.

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**Major Employers in the City of West Linn
(2007-08)**

Company	Service	No. Employees
West Linn-Wilsonville School District	Education	750
Tanner Spring Assisted Living	Assisted living	250
West Linn Paper Sales Co	Paper mill	250
Safeway	Grocery	170
Technocom Inc (ESP Technologies)	Electrical contractors	140
City of West Linn	Government	130
Albertsons	Grocery	100
Rose Linn Vintage Place	Nursing Care Facilities	80
Oregon Golf Club	Golf Club	80
Pond Maintenance Services	Landscape maintenance services	75
Zupan's Market	Grocery	70
Laidlaw Transit Inc	School buses	70
Elton Enterprises IV Inc	Restaurant	70

Source: Harris Infosource, February 6, 2008.

Building Permits. Residential building permits are an indicator of growth within a region. The number and valuation of new single-family residential building permits in the City are listed below. No multi-family residential building permits have been issued in the past six years.

**City of West Linn
Residential Building Permits**

Year	New Single Family	
	Number	Construction Cost
2008 ⁽¹⁾	61	\$ 19,919,391
2007	89	31,181,746
2006	63	22,324,694
2005	76	24,112,159
2004	47	15,630,003
2003	85	27,646,961

(1) As of October 1, 2008.

Source: U.S. Census Bureau, November 24, 2008.

Transportation. The City is served by Highway 43, and Interstate 205. The Port of Portland (the "Port"), which provides commercial aviation services, is located approximately 20 miles from the city center. Bus service is provided by Tri-Met, the Portland Metropolitan Area's transportation authority, and Greyhound.

Commercial air transportation is available at Portland International Airport ("PDX"). PDX, operated by the Port, is served by 17 scheduled passenger air carriers and three charter services. Fourteen cargo carriers service PDX. The Port also operates three general aviation airports in Troutdale, Hillsboro and Mulino.

Higher Education. Institutions of higher learning in the area include independent institutions such as Reed College, Lewis and Clark College, Pacific University, and church-affiliated institutions such as the University of Portland, Warner Pacific College, and Columbia Pacific College. Portland State University, which is part of the Oregon University System of Higher Education, and the Oregon Health and Science University are located in the area. Portland Community College, Mt. Hood Community College, and Clackamas Community College are part of the State's community college system.

Healthcare. Healthcare services are available at the Legacy Meridian Park Hospital in Tualatin, 8 miles from the City; Oregon Health and Sciences University (12.5 miles from the City); and Willamette Falls Hospital (4 miles from the City).

The Initiative and Referendum Process

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

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

Referendum

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

In Oregon, both houses of the Legislative Assembly must vote to refer a statute or constitutional amendment for a popular vote. Such referrals cannot be vetoed by the governor. Any change to the Oregon Constitution passed by the Legislative Assembly requires referral to voters. In the case of a referendum by petition, proponents of the referendum must obtain a specified number of signatures from qualified voters. The required number of signatures is equal to four percent of the votes cast for all candidates for governor at the preceding gubernatorial election.

The 2007 Legislative Assembly referred nine measures to voters. The measures appeared on the ballot at the November 6, 2007 special election, May 20, 2008 primary election, and November 4, 2008 general election. Eight of the nine measures were approved, and one was rejected.

Among the measures approved at the November 4, 2008 election was a constitutional change providing that May and November property tax elections are decided by majority of voters voting (Measure 56) and a statutory change to increase sentences for drug trafficking, theft against elderly and specified repeat property and identity theft crimes, and require addiction treatment for certain offenders (Measure 57).

The Financial Estimate Statement for Measure 57 estimates the measure would require additional State spending of approximately \$9 million in the first year, \$74 million in the second year, \$79 million in the third year, \$106 million in the fourth year, and \$143 million each year thereafter. The State may also need to borrow an estimated \$314 million from 2010 to 2017 to build new prison space.

Initiatives

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

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

Once the ballot title has been certified and the Secretary of State has authorized the petitioners, the proponents of the initiative may start gathering initiative petition signatures from qualified voters. The number of

signatures required is determined by a fixed percentage of the votes cast for all candidates for governor at the preceding gubernatorial election. The signature requirements are eight percent for a constitutional measure (110,358 signatures for November 2010) and six percent for a statutory initiative (82,769 signatures for November 2010).

The initiative petition must be filed with the Secretary of State not less than four months prior to the general election at which the proposed measure is to be voted upon. As a practical matter, proponents of an initiative have approximately two years in which to gather the necessary number of signatures. State law permits persons circulating initiative petitions to pay money to persons obtaining signatures for the petition. If the person obtaining signatures is being paid, the signature sheet must contain a notice of such payment.

Historical Initiative Petitions. The number of initiatives that have been approved in general elections since 1998 are as follows:

Historic Initiative Petitions

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

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, Initiative, Referendum and Referral Log, Elections Division.*

Land Use Measures On November 6, 2007, Oregon voters approved Measure 49 (“Measure 49”), which modifies a previous measure approved by the voters in 2004 (“Measure 37”). Measure 37 entitled landowners to compensation for reduction in or release from a land use regulation when the land use regulation restricts the use of the property and reduces its market value if it was enacted after the owner or a family member purchased the property. Property owners seeking compensation or release from regulations under both Measure 49 and Measure 37 must file a claim with the governmental entity which enacted or enforced the regulation.

For claims filed before June 28, 2007, Measure 49 replaced the remedies of Measure 37 with an approval for claimants to establish a specific number of homesites as a form of compensation.

All claims filed after June 28, 2007 are treated as Measure 49 claims. Measure 49 claims may only be filed for regulations enacted after January 1, 2007, and Measure 49 claims may only be filed for land use regulations that limit residential uses of property or restrict farming or forest practices. Under Measure 49, claimants must demonstrate the reduction in value of the property, and may only be exempted from regulation to the extent necessary to allow additional residential development of a value comparable to the value lost as a result of the regulation

City Charter

In addition to statutory and constitutional changes by the Legislative Assembly and the initiative and referendum process, the independent basis of legislative authority has been granted to cities in Oregon by municipal charters. A copy of the City Charter is available on the City’s website at: www.ci.west-linn.or.us.

Legal Matters and Litigation

Legal Matters

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

Litigation

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

Challenge to Tort Claims Act Limits. On December 28, 2007, the Oregon Supreme Court decided a case, *Clarke v. Oregon Health Sciences University* ("OHSU"), challenging the constitutionality of parts of the Oregon Tort Claims Act ("OTCA") as applied. Under the OTCA, the State's common law sovereign immunity from suit is lifted and claims may be brought against a public body in Oregon, including the City. The liability of public bodies, however, is capped at \$200,000 for individual personal injury claims. In addition, the public body has to be substituted as a defendant in lieu of individual employees of the public body, thereby limiting recovery for claims against individual employees to the limits applicable to public bodies. In *Clarke*, the plaintiff was severely disabled as a result of the negligence of health professionals employed at OHSU, which is a public body under the OTCA. The damages alleged amounted to approximately \$12 million.

Article I, Section 10 of the Oregon Constitution provides the right to a remedy to persons who are injured in their person, property or reputation. The *Clarke* court concluded that the \$200,000 cap on the amount of potential recovery, did not provide a substantial remedy to plaintiff in lieu of what plaintiff would have been able to claim at common law from individual government employees who were admittedly negligent. Therefore, the substitution of OHSU for the individual plaintiffs, under the facts at issue in *Clarke*, violated Article I, Section 10 of the Oregon Constitution.

Under the OTCA, the City currently indemnifies its employees for liability that they incur due to negligence within the scope of their work. Accordingly, the decision may result in the City paying more to indemnify its employees who are no longer protected by the damage cap. These increased payments may result from higher insurance premiums imposed on Oregon public bodies or because of increased damages in litigation. The City cannot predict the amount or impact of such potential payments on its finances.

Tax Matters

Tax Exemption

In the opinion of Bond Counsel, the portion of the payments made under the Financing Agreement designated as and constituting interest received by the holders of the Series 2009B Obligations (the "Interest") and the interest on the Series 2009A Bonds (together with the Interest, the "Interest on the Securities") 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 on the Securities is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

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

Bond Counsel's opinion is subject to the condition that the City comply with the above-referenced covenants and, in addition, will rely on representations by the City and its advisors with respect to matters solely within

the knowledge of the City and its advisors, respectively, which Bond Counsel has not independently verified. If the City fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, Interest on the Securities could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Securities, regardless of the date on which the event causing taxability occurs. In rendering its opinion, Bond Counsel has relied on the report of the Verification Agent with respect to the accuracy of certain mathematical calculations.

Except as expressly stated in this Tax Matters section, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Securities. Holders of the Securities should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Securities, 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 Securities should be aware that ownership of the Securities 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 Securities. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the Securities should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations such as the Securities, 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.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the City's compliance with its 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. Bond Counsel cannot predict whether the IRS will commence an audit of the Securities. Holders of the Securities are advised that, if the IRS does audit the Securities, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the City as the taxpayer, and the holders of the Securities may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the Securities until the audit is concluded, regardless of the ultimate outcome.

Premium

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

Original Issue Discount

The initial public offering price of certain Securities (the "Original Issue Discount Security") 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 Security and (ii) the initial public offering price of that Original Issue Discount Security constitutes original issue discount with respect to that Original Issue Discount Security in the hands of the owner who purchased that Original Issue Discount Security at the initial public offering price in the initial public offering of the Securities. 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 Security equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Security continues to be owned by the initial owner.

In the event of the redemption, sale or other taxable disposition of an Original Issue Discount Security prior to its stated maturity, however, the amount realized by the initial owner in excess of the basis of the Original Issue Discount Security in the hands of its initial owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Security was held by the initial owner) is includable in gross income. Purchasers of Original Issue Discount Securities 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 Securities.

Qualified Tax-Exempt Obligations

The City has designated the Securities as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended.

Oregon State Tax Exemption

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

Continuing Disclosure

The Securities and Exchange Commission has published amendments to Rule 15c2-12 (the “Rule”) that require at least annual disclosure of current financial information and timely disclosure of certain events with respect to the Securities, if material. Pursuant to the Rule, the City has agreed to provide to each nationally recognized municipal securities information repository and to the appropriate state information depository, if any, audited financial information of the City and certain financial information or operating data. In addition, the City has agreed to provide to the Municipal Securities Rulemaking Board and to any state information repository, notice of certain events, pursuant to the requirements of Section (b)(5)(i) of the Rule.

The City failed to comply with its prior undertakings under the Rule. See “Financial Factors - Auditing” herein. The City filed its audited financial statements for Fiscal Years 2001 through 2006 on June 20, 2008, expects to file its audited financial statements for Fiscal Year 2007 in December 2008, and expects to file its audited financial statements for Fiscal Year 2008 within the time required by the Continuing Disclosure Certificate for the Securities.

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

Rating

As noted on the cover page of this Official Statement, Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, has assigned its underlying rating of “AA-” to the Securities. The rating reflects only the views of the rating agency and an explanation of the significance of the rating may be obtained from the rating agency. There is no assurance that the rating will be retained for any given period of time or that the rating will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating will be likely to have an adverse effect on the market price of the Securities.

Underwriting

The Series 2009A Bonds are being purchased by the Underwriter. The purchase contract provides that the Underwriter will purchase all of the Series 2009A Bonds, if any are purchased, at a price of 102.225 percent of the par value of the Series 2009A Bonds, plus accrued interest. The purchase contract provides that the Series 2009A Bonds will be reoffered at an average price of 102.994 percent of the par value of the Series 2009A Bonds. After the initial public offering, the public offering prices may be varied from time to time.

The Series 2009B Obligations are being purchased by the Underwriter. The purchase contract provides that the Underwriter will purchase all of the Series 2009B Obligations, if any are purchased, at a price of 99.720 percent of the par value of the Series 2009B Obligations, plus accrued interest. The purchase contract provides that the Series 2009B Obligations will be reoffered at an average price of 100.614 percent of the par value of the Series 2009B Obligations. After the initial public offering, the public offering prices may be varied from time to time.

Concluding Statement

The information contained herein should not be construed as representing all conditions affecting the City or the Securities. Additional information may be obtained from the City. The statements relating to the Resolutions, Financing Agreement and escrow agreement are in summarized form, and in all respects are subject to and qualified in their entirety by express reference to the provisions of such document in its complete form.

The information assembled herein is not to be construed as a contract with Owners of the Securities.

Appendix A

Form of Bond Counsel Opinions

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January 21, 2009

City of West Linn
22500 Salamo Road
West Linn, Oregon 97068

Seattle-Northwest Securities Corporation
1000 SW Broadway Ste 1800
Portland, OR 97205

Subject: \$4,915,000 City of West Linn, Oregon General Obligation Refunding Bonds
Series 2009A

We have acted as bond counsel in connection with the issuance by the City of West Linn, Oregon (the "City") of its General Obligation Refunding Bonds, Series 2009A (the "Bonds"), in the aggregate principal amount of \$4,915,000. The Bonds are issued pursuant to Resolution No. 08-06 of the City adopted on February 11, 2008, and a Bond Declaration dated the date of delivery of the Bonds (collectively, the "Resolution").

We have examined the law, a duly certified transcript of proceedings of the City, prepared in part by us, relating to the issuance and sale of the Bonds, and other documents which 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 material relating to the Bonds, except to the extent, if any, stated in the official statement, and we express no opinion relating thereto, excepting only the matters set forth as our opinion in the official statement.

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

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

1. The Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon, the City Charter and the Resolution. The Bonds constitute valid and legally binding general obligations of the City enforceable in accordance with their terms.
2. The City has pledged its full faith and credit to the payment of the Bonds. The Bonds are payable from ad valorem taxes which may be levied without limitation as to rate or amount on all taxable property within the boundaries of the City.
3. Interest on the Bonds 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 on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the City 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 Bonds in order that the interest on the Bonds be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all applicable requirements. Failure to comply with these covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.
4. Interest on the Bonds is exempt from Oregon personal income tax.

We note that the City has designated the Bonds as "qualified tax-exempt obligations" within the meaning of 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 Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

This opinion is based on existing law and we assume no obligation to update 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.

The portion of this opinion that is set forth in paragraph 1, above, is qualified only to the extent that enforceability of the Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other 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; and (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

This opinion is 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 above referenced bond financing 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 Bonds, nor may copies be furnished to any other person or entity, without the prior written consent of this firm.

We have served only as bond counsel to the City in connection with the Bonds and have not represented any other party in connection with the Bonds. 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

January 21, 2009

City of West Linn
22500 Salamo Road
West Linn, Oregon 97068

Seattle-Northwest Securities Corporation
1000 S.W. Broadway, Suite 1800
Portland, Oregon 97205

Subject: \$4,035,000 City of West Linn, Oregon, Full Faith and Credit Obligations,
Series 2009B

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 West Linn, Oregon (the "City"), and U.S. Bank National Association (the "Escrow Agent") in the principal amount of \$4,035,000. The City has also entered into an Escrow Agreement with U.S. Bank National Association (the "Escrow Agreement") in which the City has instructed the Escrow Agent to issue Full Faith and Credit Obligations, Series 2009B (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 Section 271.390, and Resolution No. 08-45 adopted on November 24, 2008 (the "Resolution").

We have examined the law, a duly certified transcript of proceedings of the City, prepared in part by us, relating to the issuance and sale of the Obligations, and other documents which 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 material relating to the Obligations, except to the extent, if any, stated in the official statement, 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 our examination, 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 and Resolution of the City, and constitute valid and legally binding obligations of the City that are enforceable against the City in accordance with their terms.
2. The Financing Payments are payable from any and all of the City's legally available taxes, revenues and other 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 interest component of the Financing Payments that is paid to owners of the Obligations ("Interest") is excludable from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, Interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the City 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 the Interest be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply

with all applicable requirements. Failure to comply with certain of such covenants may cause the 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 tax.

We note that the City has 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.

This opinion is based on existing law and we assume no obligation to update 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.

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 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 speaks as of its date only, and we disclaim any undertaking or obligation to advise you of any changes that hereafter may be brought to your attention.

This opinion is given solely for your benefit in connection with the subject financing 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 this firm.

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 B

Financial Statements

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CITY OF WEST LINN, OREGON

Annual Financial Report

Year Ended June 30, 2007

Prepared by:
City Finance Department

CITY OF WEST LINN, OREGON

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION:</u>	
City Councilors	i
<u>FINANCIAL SECTION:</u>	
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Governmental Fund Financial Statements:	
Balance Sheet	15
Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance, Governmental Funds to Statement of Activities	17
Proprietary Fund Financial Statements:	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund	21
Street Fund	22
Parks Fund	23
Library Fund	24
Public Safety Fund	25
System Development Fund	26
NOTES TO BASIC FINANCIAL STATEMENTS	27
SUPPLEMENTARY INFORMATION:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	45
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	47
Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)	48

CITY OF WEST LINN, OREGON

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION (Continued):</u>	
SUPPLEMENTARY INFORMATION (Continued):	
Nonmajor Special Revenue Funds (Continued):	
Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
Cable TV/Public Access Fund	49
Public Works Support Services Fund	50
Building Inspection Fund	51
Planning Fund	52
Debt Service Fund:	
Schedule of Expenditures and Changes in Fund Balance – Budget and Actual:	
Debt Service Fund	54
Capital Projects Fund:	
Schedule of Expenditures and Changes in Fund Balance – Budget and Actual:	
Parks Bond Construction Fund	55
Enterprise Funds:	
Schedule of Expenditures and Changes in Fund Balance – Budget and Actual:	
Water Fund	57
Environmental Service Fund	58
Internal Service Fund:	
Schedule of Expenditures and Changes in Fund Balance – Budget and Actual:	
Vehicle/Equipment Maintenance Fund	60
Other Financial Schedules	
Schedule of Property Tax Transactions	61
Legal Debt Margin Information	62
AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS	63

CITY OF WEST LINN, OREGON

CITY COUNCILORS AS OF JUNE 30, 2007

<u>NAME</u>	<u>TERM EXPIRES</u>
Norm King, Mayor 22500 Salamo Road West Linn, OR 97068	December 31, 2008
Scott Burgess, Council President 22500 Salamo Road West Linn, OR 97068	December 31, 2010
Michele Eberle, Councilor 22500 Salamo Road West Linn, OR 97068	December 31, 2008
Mike Gates, Councilor 22500 Salamo Road West Linn, OR 97068	December 31, 2008
Jody Carson, Councilor 22500 Salamo Road West Linn, OR 97068	December 31, 2010

Chris Jordan, City Manager

Administrative Offices
22500 Salamo Road
West Linn, Oregon 97068

Legal Counsel:

Ramis, Crew, Corrigan and Bachrach, LLP
1727 NW Hoyt Street
Portland, Oregon 97209



4800 S.W. Macadam, Suite 400 • Portland, Oregon 97239-3973
503/274-2849 • Fax 503/274-2853

INDEPENDENT AUDITOR'S REPORT

December 11, 2008

Honorable Mayor and City Councilors
City of West Linn
West Linn, 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 West Linn, Oregon, (the City) as of and for the year ended June 30, 2007, 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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.

The City does not maintain adequate capital asset records to support amounts recorded in the financial statements and we were unable to perform adequate alternative procedures to determine the cost and accumulated depreciation of capital assets.

In our opinion, except for the effects of such adjustment, if any, as might have been necessary had we been able to examine evidence regarding the cost and accumulated depreciation of capital assets, 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, 2007, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General, Street, Parks, Library, Public Safety, System Development and Park Bond Construction Funds, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 12 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Honorable Mayor and City Councilors
City of West Linn
West Linn, Oregon
December 11, 2008
Page 2

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 nonmajor fund financial statements and other 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.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By 

Robert G. Moody, Jr., Partner

CITY OF WEST LINN, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

Management's Discussion and Analysis (MD&A) is presented to facilitate financial analysis and provide an overview of the financial activities of the City of West Linn (the City) for the fiscal year ended June 30, 2007. Information in the MD&A is based on currently known facts, decisions and conditions. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The City's assets totaled \$297.4 million at June 30, 2007, consisting of \$276.7 million in capital assets, \$11.7 million in unrestricted cash and investments, and \$9.0 million in investment in joint venture and other assets. Total assets increased by \$226.7 million including \$222.7 for the recognition of infrastructure not previously reflected in the financial statements. Capital assets increased due primarily to cost containment to rebuild working capital and decisions related to revenue restructuring.
- The City's liabilities totaled \$17.2 million at June 30, 2007 consisting of \$14.0 million in long-term debt and \$3.2 million in accounts payable and other liabilities.
- The assets of the City exceeded its liabilities by \$280.2 million at the close of fiscal year 2007. Unrestricted net assets totaled \$13.9 million with the remainder of the City's net assets invested in capital assets net of related debt (\$262.7 million) and restricted for capital projects (\$3.5 million).
- For its governmental activities, the City generated \$3.5 million in charges for services and received \$2.4 million in grants and contributions. Direct expenses, including unallocated depreciation for governmental activities were \$14.4 million for the year, resulting in a net expense of \$8.5 million. \$11.5 million of general revenues were received resulting in a net change in net assets of \$3.0 million.
- Fund balance in the City's governmental funds was \$7.6 million at June 30, 2007, up by \$1.45 million from June 30, 2006.
- For its business-type activities, the City generated \$5.2 million in charges for services to fund direct expenses of \$3.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this discussion and analysis, the financial section of this annual report contains the *basic financial statements* and *supplementary information*, including 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. Chart 1 on the following page, illustrates how the various sections of this annual report are arranged relative to one another.

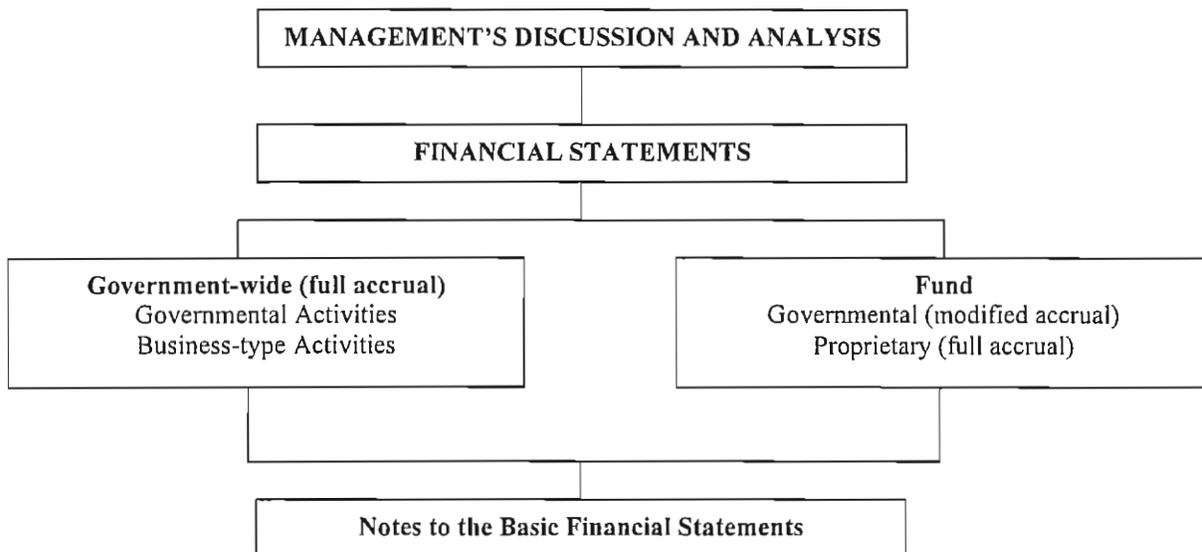
CITY OF WEST LINN, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Chart 1
Required Elements of the
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 City'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, parks and recreation, library, community development, and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.

CITY OF WEST LINN, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-wide Statements (Continued)

- Business-type activities—The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and environmental services including sanitary sewer and surface water management systems are included here.

Statement of Net Assets as of June 30, 2007

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 \$280 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (94 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), 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 either cannot or are not expected to be used or liquidated to repay these liabilities.

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

	Government activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 9.9	\$ 7.7	\$ 10.9	\$ 2.9	\$ 20.8	\$ 10.6
Capital assets	254.5	31.1	22.1	28.9	276.6	60.0
Total assets	<u>264.4</u>	<u>38.8</u>	<u>33.0</u>	<u>31.8</u>	<u>297.4</u>	<u>70.6</u>
Current liabilities	3.0	2.5	0.9	0.9	3.9	3.4
Long-term liabilities	11.9	12.5	1.4	1.5	13.3	14.0
Total liabilities	<u>14.9</u>	<u>15.0</u>	<u>2.3</u>	<u>2.4</u>	<u>17.2</u>	<u>17.4</u>
Net assets:						
Invested in capital assets, net of related debt	242.0	18.0	20.7	21.1	262.7	39.1
Restricted	3.5	2.8	-	-	3.5	2.8
Unrestricted	4.0	3.0	10.0	8.4	14.0	11.4
Total net assets	<u>\$ 249.5</u>	<u>\$ 23.8</u>	<u>\$ 30.7</u>	<u>\$ 29.5</u>	<u>\$ 280.2</u>	<u>\$ 53.3</u>

CITY OF WEST LINN, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Statement of Net Assets as of June 30, 2007 (Continued)

An additional portion of the City's net assets (\$3.5 million or less than 1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$13.9 million or 5 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

As of June 30, 2007, 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 \$3.4 million during the current fiscal year, exclusive of the impact of reporting the net assets of general government infrastructure for streets and sidewalks, right-of-way, and parks. The total adjustment to net assets, recognized and reported in fiscal year 2007, is \$222.7 million. Of this amount, \$187 million or 84 percent, is the estimated historical value of land owned and controlled by the City for right-of-way and parks. The remaining adjustment is the net asset value of streets and sidewalks, \$24.4 million, and parks, \$11.3 million.

Statement of Activities for the fiscal year ended June 30, 2007

As with the statement of net assets, the City reports governmental 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	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$ 3.5	\$ 4.0	\$ 5.2	\$ 4.4	\$ 8.7	\$ 8.4
Grants and contributions	2.4	2.4	-	-	2.4	2.4
General revenues						
Property taxes	7.6	6.6	-	-	7.6	6.6
Franchise and hotel/motel taxes	2.1	1.5	-	-	2.1	1.5
Other	0.8	0.6	0.8	0.5	1.6	1.1
Transfers	1.1	-	-	1.9	1.1	1.9
Total revenues	17.5	15.1	6.0	6.8	23.5	21.9

CITY OF WEST LINN, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Statement of Activities for the fiscal year ended June 30, 2007

Table 2 (Continued)
Changes in Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Expenses						
Governmental activities						
General government	\$ 4.7	\$ 4.1	\$ -	\$ -	\$ 4.7	\$ 4.1
Public safety	4.5	4.4	-	-	4.5	4.4
Culture and recreation	3.0	2.9	-	-	3.0	2.9
Highways and streets	1.0	1.4	-	-	1.0	1.4
Interest on long-term debt	0.6	0.6	-	-	0.6	0.6
Depreciation	0.6	1.5	-	-	0.6	1.5
Business-type activities						
Water	-	-	2.3	2.7	2.3	2.7
Environmental Services	-	-	1.4	2.1	1.4	2.1
Transfers	-	1.9	1.1	-	1.1	1.9
Total expenses	<u>14.5</u>	<u>16.8</u>	<u>4.8</u>	<u>4.8</u>	<u>19.3</u>	<u>23.5</u>
Change in net assets	<u>\$ 3.0</u>	<u>\$ (1.7)</u>	<u>\$ 1.2</u>	<u>\$ 2.0</u>	<u>\$ 4.2</u>	<u>\$ (1.6)</u>

Governmental Activities

Governmental activities increased the City's net assets by \$3 million, amounting to 72 percent of the total growth in the net assets of the City. Key elements of this increase are illustrated in Table 2 above.

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.

CITY OF WEST LINN, OREGON

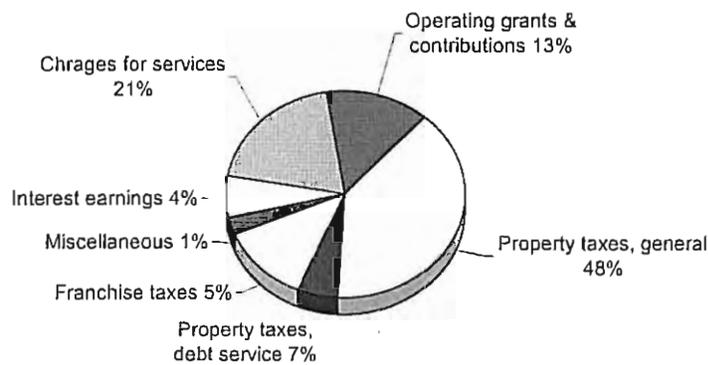
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2007

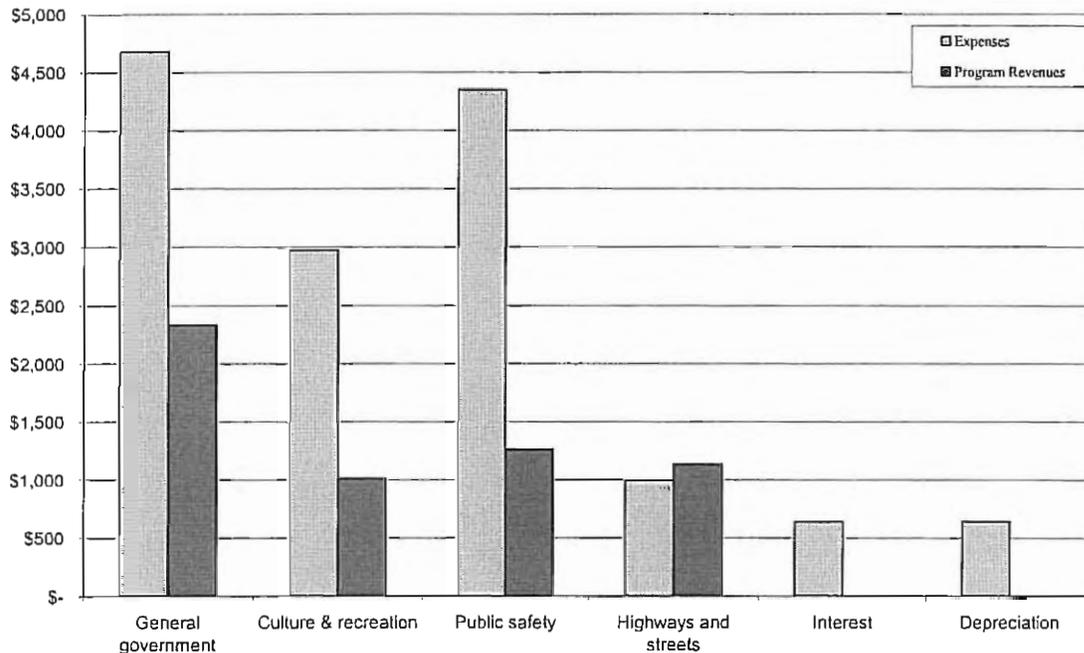
OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Governmental Activities

Revenues by Source - Governmental Activities



Expenses and Program Revenues (in thousands) - Governmental Activities



CITY OF WEST LINN, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2007

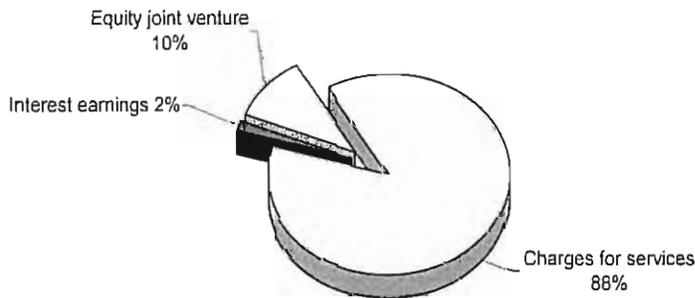
OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Business-type Activities

The Water Fund revenues represent approximately 57 percent of all utility revenues for the City. The City continued to realize improved operating results increasing funds available for planned significant capital investment. Additionally, the City's fifty percent equity investment in the South Fork Water Board, provided a return of \$620,000 in fiscal year 2007.

The Environmental Services Fund revenues represent approximately 43 percent of all utility revenues for the City. The fund provides wastewater collection services and surface water management services. Overall the Fund continues to realize improved operating results. The wastewater operations realized a positive margin while the surface water management operation has a negative margin. Given the rate limitation included in the City Charter the above results are expected to continue.

Revenues by Source - Business-type Activities



General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the General Fund netted to an increase in expenditures appropriations of \$167,000 from contingency. Contingency decreased by \$167,000 to support additional non-departmental expenditures, building facility, payouts of accrued leave for employees leaving the City in the city manager and human resources departments, and additional audit and consulting costs in the finance department.

CITY OF WEST LINN, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2007, the City had invested \$254.5 million in governmental capital assets, net of depreciation as reflected in the following table. This represents a net increase (additions, deductions and depreciation) of \$311,693 in fiscal year 2007. Governmental capital assets totaled \$254.5 million while business-type capital assets totaled \$22.2 million. During fiscal year 2007, the City implemented reporting of infrastructure capital assets, which includes the reporting of land, street and sidewalk and park improvements. This increased the value of capital assets by \$222.7 million as reported in June 30, 2006, including land valued at \$187 million.

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

	Governmental		Business-type		Total	
	Activities		Activities			
	FY06-07	FY05-06	FY06-07	FY05-06	FY06-07	FY05-06
Land	\$ 207.6	\$ 20.5	\$ 0.3	\$ 0.3	\$ 207.9	\$ 20.8
Buildings and improvements	21.0	9.2	1.4	1.2	22.4	10.4
Machinery and equipment	0.6	0.4	0.5	0.3	1.1	0.7
Infrastructure	25.3	1.0	19.9	20.4	45.2	21.4
Construction in progress	-	-	0.1	0.4	0.1	0.4
Gross capital assets	\$ 254.5	\$ 31.1	\$ 22.2	\$ 22.6	\$ 276.7	\$ 53.7

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 assets 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 general revenues on the Statement of Activities.

Table 4
Change in Capital Assets
(in millions)

	Governmental		Business-type		Total	
	Activities		Activities			
	FY06-07	FY05-06	FY06-07	FY05-06	FY06-07	FY05-06
Beginning balance	\$ 31.1	\$ 31.3	\$ 22.6	\$ 21.7	\$ 53.7	\$ 53.0
Adjustments	222.7	-	-	-	222.7	-
Additions	1.3	1.3	0.7	1.7	2.0	3.0
Reductions	-	-	(0.3)	(0.1)	(0.3)	(0.1)
Depreciation	(0.6)	(1.5)	(0.8)	(0.7)	(1.4)	(2.2)
Ending balance	\$ 254.5	\$ 31.1	\$ 22.2	\$ 22.6	\$ 276.7	\$ 53.7

CITY OF WEST LINN, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Assets utilized in governmental activities increased a net \$.7 million and include land, building, machinery and equipment, and sidewalk improvements, excluding the adjustment to include reporting of street and sidewalk improvements, park improvements, and related land for parks and right-of-way (net addition reported of \$222.7 million as of June 30, 2007). More detailed information about the City's capital assets is presented in Note 5 to the basic financial statements.

Debt Outstanding

As of the end of the fiscal year, the City had \$14 million in bonds outstanding—a decrease of 5 percent from last year—as shown in Table 5. More detailed information about the City's long-term debt is presented in Note 6 to the financial statements.

Bond Ratings

In July 2008, the City's credit rating for its general obligation bonds was restored to AA- by Standard & Poor's.

During the fiscal year ended June 30, 2007, the City did not sell any new bonds.

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 \$9.1 million is significantly below the 3 percent limit of \$133.8 million.

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

	June 30,	
	2007	2006
Governmental:		
General obligation bonds	\$ 9.1	\$ 9.6
Full faith and credit bonds	3.4	3.6
Subtotal	<u>12.5</u>	<u>13.2</u>
Business-type:		
Water revenue bonds	1.5	1.5
Total	<u>\$ 14.0</u>	<u>\$ 14.7</u>

CITY OF WEST LINN, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Economic Factors

The City of West Linn is predominantly residential in nature, with commercial property representing less than five percent of the City's taxable assessed value. Therefore the City receives a significant share of its revenue directly from local residents in the form of property taxes and charges for services. The state of Oregon does not have a sales tax, making property taxes a primary funding source for general government, public safety, and culture and recreation services provided by the City. The underlying taxable assessed value is significantly below real market values (62.3 %), therefore, real market values would have to decrease by over 37 percent before the City's property tax levy would be negatively impacted.

Property tax revenue provided 44% of the resources used for governmental activities. A special tax levy of approximately \$1.8 million (24% of total levy) that provided public safety funding expired as of June 30, 2007. To maintain service levels and reduce the reliance on property taxes requiring a vote no less than each five years, the City implemented fees for parks and street maintenance to offset the foregone property tax revenue.

The next largest resource, at 20%, 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 and investment earnings were up due to an increase in interest rates and account balances.

The business-type activities are funded with utility fees and charges. After several years in which the City decided to defer utility rate increases, effective July 1, 2006, and January 1, 2007 the City increased utility rates by 5 percent each. The rate increases are limited by a Charter provision limiting annual utility rate increases to 5 percent. The rate increases are consistent with financial proformas prepared with the issuance of revenue bonds in 1999. Similar rate increases are anticipated over the next several years to generate sufficient revenue to fund operations and provide adequate funds for anticipated capital replacement projects.

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 West Linn, West Linn, Oregon 97068 or e-mail rseals@westlinnoregon.gov.

CITY OF WEST LINN, OREGON

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments	\$ 9,322,076	\$ 2,341,505	\$ 11,663,581
Cash held by fiscal agent	4,634	-	4,634
Property taxes receivable	366,643	-	366,643
Accounts receivable, net	52,214	1,500,083	1,552,297
Other assets	104,342	-	104,342
Capital assets, net of accumulated depreciation	254,526,696	22,173,420	276,700,116
Investment in joint venture	-	6,972,697	6,972,697
TOTAL ASSETS	264,376,605	32,987,705	297,364,310
LIABILITIES:			
Current liabilities:			
Accounts payable	581,264	757,182	1,338,446
Accrued salaries and payroll taxes payable	381,399	21,596	402,995
Accrued vacation payable	351,341	75,753	427,094
Accrued interest payable	41,938	21,087	63,025
Deposits payable	944,359	-	944,359
Other liabilities	28,735	-	28,735
Current portion of bonds payable	670,000	70,000	740,000
Total current liabilities	2,999,036	945,618	3,944,654
Non-current liabilities:			
Bonds payable	11,870,000	1,380,000	13,250,000
TOTAL LIABILITIES	14,869,036	2,325,618	17,194,654
NET ASSETS:			
Invested in capital assets, net of related debt	241,986,696	20,723,420	262,710,116
Restricted for capital projects	3,525,429	-	3,525,429
Unrestricted	3,995,444	9,938,667	13,934,111
TOTAL NET ASSETS	\$ 249,507,569	\$ 30,662,087	\$ 280,169,656

See notes to basic financial statements.

CITY OF WEST LINN, OREGON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

FUNCTION / PROGRAM	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES:						
General government	\$ 4,695,751	\$ 2,283,782	\$ 204,773	\$ (2,207,196)	\$ -	\$ (2,207,196)
Culture and recreation	2,973,587	460,131	554,826	(1,958,630)	-	(1,958,630)
Public safety	4,489,727	779,421	484,967	(3,225,339)	-	(3,225,339)
Highways and streets	994,334	3,793	1,129,618	139,077	-	139,077
Interest on long-term debt	639,505	-	-	(639,505)	-	(639,505)
Unallocated depreciation	643,851	-	-	(643,851)	-	(643,851)
TOTAL GOVERNMENTAL ACTIVITIES	14,436,755	3,527,127	2,374,184	(8,535,444)	-	(8,535,444)
BUSINESS-TYPE ACTIVITIES:						
Water	2,269,609	2,958,130	-	-	688,521	688,521
Environmental services	1,409,384	2,243,810	-	-	834,426	834,426
TOTAL BUSINESS-TYPE ACTIVITIES	3,678,993	5,201,940	-	-	1,522,947	1,522,947
TOTAL ACTIVITIES	\$ 18,115,748	\$ 8,729,067	\$ 2,374,184	(8,535,444)	1,522,947	(7,012,497)
GENERAL REVENUES:						
Property taxes levied for:						
Culture and recreation				3,009,326	-	3,009,326
Public safety				3,665,440	-	3,665,440
Debt service				930,892	-	930,892
Franchise fees				2,098,041	-	2,098,041
Equity in joint venture				-	620,460	620,460
Earnings on investments				468,348	109,918	578,266
Transfers in/(out)				1,092,116	(1,092,116)	-
Miscellaneous				279,634	-	279,634
TOTAL GENERAL REVENUES				11,543,797	(361,738)	11,182,059
CHANGE IN NET ASSETS				3,008,353	1,161,209	4,169,562
NET ASSETS, July 1, 2006, as previously stated				23,800,772	29,500,878	53,301,650
RESTATEMENT, Note 11				222,698,444	-	222,698,444
NET ASSETS, July 1, 2006, as restated				246,499,216	-	276,000,094
NET ASSETS, June 30, 2007				\$ 249,507,569	\$ 30,662,087	\$ 280,169,656

See notes to basic financial statements.

CITY OF WEST LINN, OREGON

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	General Fund	Street Fund	Parks and Recreation Fund	Library Fund	Public Safety Fund	System Development Fund	Park Bond Construction Fund	Nonmajor Funds	Total Governmental Funds
ASSETS:									
Cash and Investments	\$ 1,917,067	\$ 465,742	\$ 416,721	\$ 338,394	\$ 1,078,007	\$ 2,524,095	\$ 1,006,494	\$ 1,504,070	\$ 9,250,590
Cash held by fiscal agent	-	-	-	-	-	-	-	4,634	4,634
Property taxes receivable	-	-	-	-	320,605	-	-	48,038	366,643
Accounts receivable	3,255	-	-	-	-	-	-	48,959	52,214
Prepaid expenses	104,342	-	-	-	-	-	-	-	104,342
Interfund loan	-	-	-	-	-	250,000	-	-	250,000
TOTAL ASSETS	\$ 2,024,664	\$ 465,742	\$ 416,721	\$ 338,394	\$ 1,398,612	\$ 2,774,095	\$ 1,006,494	\$ 1,603,701	\$ 10,028,423
LIABILITIES:									
Accounts payable	\$ 279,107	\$ 50,258	\$ 83,690	\$ 10,302	\$ 41,728	\$ 5,160	\$ -	\$ 101,477	\$ 571,722
Accrued salaries and payroll taxes	250,367	6,856	24,991	15,512	57,415	-	-	23,613	378,754
Deposits payable	619,114	138,165	-	-	-	-	-	187,080	944,359
Deferred revenue	-	-	-	-	255,111	-	-	36,634	291,745
Interfund loan	-	-	-	-	-	-	-	250,000	250,000
Other liabilities	28,735	-	-	-	-	-	-	-	28,735
TOTAL LIABILITIES	1,177,323	195,279	108,681	25,814	354,254	5,160	-	598,804	2,465,315
FUND BALANCE:									
Reserved for interfund loan	-	-	-	-	-	250,000	-	-	250,000
Reserved for prepaid expenses	104,342	-	-	-	-	-	-	-	104,342
Reserved for debt service	-	-	-	-	-	-	-	272,710	272,710
Unreserved, reported in:									
General Fund	742,999	-	-	-	-	-	-	-	742,999
Special Revenue Funds	-	270,463	308,040	312,580	1,044,358	-	-	732,187	2,667,628
Capital Project Funds	-	-	-	-	-	2,518,935	1,006,494	-	3,525,429
TOTAL FUND BALANCE	847,341	270,463	308,040	312,580	1,044,358	2,768,935	1,006,494	1,004,897	7,563,108
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,024,664	\$ 465,742	\$ 416,721	\$ 338,394	\$ 1,398,612	\$ 2,774,095	\$ 1,006,494	\$ 1,603,701	\$ 10,028,423
Total fund balances									\$ 7,563,108
Amounts 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 funds.									254,526,696
Long-term taxes receivable are not available to pay for current-period expenditures and therefore, are deferred in the funds.									291,745
The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.									52,525
Long-term liabilities, including bonds payable, capital leases and accrued vacation, are not due and payable in the current period and therefore are not reported in the funds.									(12,884,567)
Bond interest is not accrued as a liability in the government funds.									(41,938)
Net assets of governmental activities									\$ 249,507,569

CITY OF WEST LINN, OREGON

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2007

	General Fund	Street Fund	Parks Fund	Library Fund	Public Safety Fund	System Development Fund	Park Bond Construction Fund	Nonmajor Funds	Total Governmental Funds
REVENUES:									
Taxes	\$ -	\$ -	\$2,130,000	\$ 850,000	\$ 3,629,720	\$ -	\$ -	\$ 921,820	\$7,531,540
Intergovernmental	2,789	1,129,618	40,000	514,826	473,282	-	-	213,669	2,374,184
Franchise fees	-	550,503	-	-	1,186,248	-	-	361,290	2,058,041
Licenses and permits	50,023	-	48,025	-	55,947	-	-	1,001,025	1,155,020
Fines and forfeitures	476,019	-	-	64,610	26,530	-	-	-	567,159
Charges for services	91,040	-	347,496	-	1,008	-	-	13,200	452,744
Systems development fees	-	3,793	-	-	-	1,205,789	-	-	1,209,582
Interest	52,487	6,235	42,704	19,992	113,961	130,037	51,167	50,620	467,203
Miscellaneous	199,295	28,072	3,173	5,922	33,055	-	-	10,117	279,634
TOTAL REVENUES	871,653	1,718,221	2,611,398	1,455,350	5,519,751	1,335,826	51,167	2,571,741	16,135,107
EXPENDITURES:									
Current:									
General government	3,233,083	-	-	-	-	50	-	1,231,150	4,464,283
Cultural and recreation	-	-	1,728,853	1,121,355	-	10,565	-	112,814	2,973,587
Public safety	-	-	-	-	4,117,083	-	-	428,050	4,545,133
Highways and streets	-	994,334	-	-	-	-	-	49,609	1,043,943
Capital outlay	26,786	142,290	118,622	-	134,593	941,689	-	-	1,363,980
Debt service:									
Principal	165,000	-	-	-	-	-	-	460,000	625,000
Interest	176,000	-	-	-	-	-	-	463,505	639,505
TOTAL EXPENDITURES	3,600,869	1,136,624	1,847,475	1,121,355	4,251,676	952,304	-	2,745,128	15,655,431
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,729,216)	581,597	763,923	333,995	1,268,075	383,522	51,167	(173,387)	479,676
OTHER FINANCING SOURCES (USES):									
Transfers from other funds	2,643,900	-	-	-	-	-	-	1,264,492	3,908,392
Transfers to other funds	(300,000)	(457,856)	(455,883)	(242,100)	(789,200)	(216,692)	-	(476,173)	(2,937,904)
TOTAL OTHER FINANCING SOURCES (USES)	2,343,900	(457,856)	(455,883)	(242,100)	(789,200)	(216,692)	-	788,319	970,488
CHANGE IN FUND BALANCE	(385,316)	123,741	308,040	91,895	478,875	166,830	51,167	614,932	1,450,164
FUND BALANCE, July 1, 2006	1,232,657	146,722	-	220,685	555,483	2,602,105	955,327	389,965	6,112,944
FUND BALANCE, June 30, 2007	\$ 847,341	\$ 270,463	\$ 308,040	\$ 312,580	\$ 1,044,358	\$ 2,768,935	\$ 1,006,494	\$ 1,004,897	\$7,563,108

See notes to basic financial statements.

CITY OF WEST LINN, OREGON

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

YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCE	\$ 1,450,164
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay was greater than depreciation.	769,738
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	74,118
Internal service funds are used to account for all costs arising from the operations of the City's central services activities and insurance programs. The primary funding sources are charges to the other funds. This is the net income of the fund for the year.	14,875
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments exceed proceeds:	
Principal payments	625,000
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.	
Accrued vacation payable	131,691
Amount of capital assets by governmental funds transferred to enterprise funds	<u>(57,233)</u>
CHANGE IN NET ASSETS	<u><u>\$ 3,008,353</u></u>

CITY OF WEST LINN, OREGON

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Business-Type Activities - Enterprise Funds			Governmental Type Activity
	Water Fund	Environmental Service Fund	Total	Internal Service Funds
ASSETS:				
Current assets:				
Cash and investments	\$ 460,811	\$ 1,880,694	\$ 2,341,505	\$ 71,486
Accounts receivable, net of allowance for doubtful accounts	692,184	807,899	1,500,083	-
TOTAL CURRENT ASSETS	1,152,995	2,688,593	3,841,588	71,486
Capital assets not being depreciated	355,032	22,708	377,740	-
Capital assets, net	12,595,910	9,199,770	21,795,680	-
Investment in joint venture	6,972,697	-	6,972,697	-
TOTAL ASSETS	21,076,634	11,911,071	32,987,705	71,486
LIABILITIES:				
Current liabilities:				
Accounts payable	185,709	571,473	757,182	9,542
Accrued payroll payable	8,372	13,224	21,596	2,645
Accrued vacation payable	32,562	43,191	75,753	6,774
Accrued interest payable	21,087	-	21,087	-
Bonds payable - due within one year	70,000	-	70,000	-
TOTAL CURRENT LIABILITIES	317,730	627,888	945,618	18,961
Long-term liabilities:				
Bonds payable	1,380,000	-	1,380,000	-
TOTAL LIABILITIES	1,697,730	627,888	2,325,618	18,961
NET ASSETS:				
Invested in capital assets, net of related debt	11,500,942	9,222,478	20,723,420	-
Unrestricted	7,877,962	2,060,705	9,938,667	52,525
TOTAL NET ASSETS	\$ 19,378,904	\$ 11,283,183	\$ 30,662,087	\$ 52,525

See notes to basic financial statements.

CITY OF WEST LINN, OREGON

PROPRIETARY FUNDS

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

YEAR ENDED JUNE 30, 2007

	Business-Type Activities - Enterprise Funds			Governmental Type Activity
	Water Fund	Environmental Service Fund	Total	Internal Service Funds
OPERATING REVENUES:				
Charges for services	\$ 2,869,342	\$ 2,147,373	\$ 5,016,715	\$ 142,622
Connection fees	46,953	-	46,953	-
Licenses and permits	-	35,576	35,576	-
Other operating revenues	41,835	60,861	102,696	-
TOTAL OPERATING REVENUES	2,958,130	2,243,810	5,201,940	142,622
OPERATING EXPENSES:				
Salaries and wages	580,662	795,833	1,376,495	159,682
Materials and supplies	1,206,197	265,704	1,471,901	148,071
Depreciation	397,769	347,847	745,616	-
TOTAL OPERATING EXPENSES	2,184,628	1,409,384	3,594,012	307,753
OPERATING INCOME (LOSS)	773,502	834,426	1,607,928	(165,131)
NONOPERATING INCOME (EXPENSE):				
Interest income	19,754	90,164	109,918	1,145
Net income from equity in joint venture	620,460	-	620,460	-
Interest expense	(84,981)	-	(84,981)	-
TOTAL NONOPERATING INCOME (EXPENSE)	555,233	90,164	645,397	1,145
INCOME (LOSS) BEFORE TRANSFERS	1,328,735	924,590	2,253,325	(163,986)
TRANSFERS IN (OUT):				
Transfers from other funds	79,992	106,500	186,492	258,861
Transfers to other funds	(560,505)	(775,336)	(1,335,841)	(80,000)
Transfers of capital assets from governmental funds	47,179	10,054	57,233	-
TOTAL TRANSFERS IN (OUT)	(433,334)	(658,782)	(1,092,116)	178,861
CHANGE IN NET ASSETS	895,401	265,808	1,161,209	14,875
NET ASSETS, July 1, 2006	18,483,503	11,017,375	29,500,878	37,650
NET ASSETS, June 30, 2007	\$ 19,378,904	\$ 11,283,183	\$ 30,662,087	\$ 52,525

See notes to basic financial statements.

CITY OF WEST LINN, OREGON

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007

	Business-Type Activities - Enterprise Funds			Governmental Type Activity
	Water Fund	Environmental Service Fund	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received for services	\$ 2,661,479	\$ 1,903,857	\$ 4,565,336	\$ 142,622
Cash paid to suppliers for goods and services	(1,331,601)	(95,957)	(1,427,558)	(138,760)
Cash paid to employees for services	(585,236)	(783,981)	(1,369,217)	(161,030)
NET CASH FROM OPERATING ACTIVITIES	744,642	1,023,919	1,768,561	(157,168)
CASH FLOWS FROM NONCAPITAL AND RELATED ACTIVITY				
Transfers from other funds	79,992	106,500	186,492	258,861
Transfers to other funds	(560,505)	(775,336)	(1,335,841)	(80,000)
NET CASH FROM NONCAPITAL AND RELATED ACTIVITIES	(480,513)	(668,836)	(1,149,349)	178,861
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Bond principal paid	(65,000)	-	(65,000)	-
Interest paid	(86,102)	-	(86,102)	-
Acquisition of capital assets	(8,600)	(278,971)	(287,571)	-
Transfer of restricted cash	180,760	-	180,760	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	21,058	(278,971)	(257,913)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received on investments	19,754	90,164	109,918	1,145
NET CHANGE IN CASH AND INVESTMENTS	304,941	166,276	471,217	22,838
CASH AND INVESTMENTS, July 1, 2006	155,870	1,714,418	1,870,288	48,648
CASH AND INVESTMENTS, June 30, 2007	\$ 460,811	\$ 1,880,694	\$ 2,341,506	\$ 71,486
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:				
Operating income	\$ 773,502	\$ 834,426	\$ 1,607,928	\$ 93,730
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation	397,769	347,847	745,616	-
Change in assets and liabilities:				
Accounts receivable	(296,651)	(339,953)	(636,604)	-
Accounts payable	(17,519)	169,747	152,228	9,311
Accrued payroll payable	(3,178)	(2,087)	(5,265)	(926)
Accrued vacation payable	(1,396)	13,939	12,543	(422)
Other liabilities	(107,885)	-	(107,885)	-
Total adjustments	(28,860)	189,493	160,633	7,963
NET CASH FROM OPERATING ACTIVITIES	\$ 744,642	\$ 1,023,919	\$ 1,768,561	\$ 101,693
NON-CASH TRANSACTIONS:				
Net income from equity in joint venture	\$ 620,460	\$ -	\$ 620,460	\$ -
Capital assets transferred from governmental funds	\$ 47,179	\$ 10,054	\$ 57,233	\$ -

See notes to basic financial statements.

CITY OF WEST LINN, OREGON

GENERAL FUND

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

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 2,789	\$ 2,789
Licenses and permits	38,000	38,000	50,023	12,023
Fines and forfeitures	400,000	400,000	476,019	76,019
Charges for services	65,100	65,100	91,040	25,940
Interest earnings	24,000	24,000	52,487	28,487
Miscellaneous	516,000	516,000	199,295	(316,705)
TOTAL REVENUES	<u>1,043,100</u>	<u>1,043,100</u>	<u>871,653</u>	<u>(171,447)</u>
EXPENDITURES:				
City Council	66,500	71,500	71,430	70
City Manager	487,800	527,800	525,827	1,973
Human Resources	367,500	392,500	390,131	2,369
Community Services	417,123	417,123	416,701	422
Finance	823,900	840,900	837,144	3,756
Information Services	392,700	392,700	385,265	7,435
Municipal Court	258,700	258,700	257,714	986
General facility services	294,800	351,800	349,138	2,662
Nondepartmental:				
General services department	4,100	27,100	26,519	581
Debt service	341,000	341,000	341,000	-
Contingency	504,162	337,162	-	337,162
TOTAL EXPENDITURES	<u>3,958,285</u>	<u>3,958,285</u>	<u>3,600,869</u>	<u>357,416</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(2,915,185)</u>	<u>(2,915,185)</u>	<u>(2,729,216)</u>	<u>185,969</u>
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	2,637,300	2,637,300	2,643,900	6,600
Transfers to other funds	(300,000)	(300,000)	(300,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,337,300</u>	<u>2,337,300</u>	<u>2,343,900</u>	<u>6,600</u>
NET CHANGE IN FUND BALANCE	(577,885)	(577,885)	(385,316)	192,569
FUND BALANCE, July 1, 2006	<u>577,885</u>	<u>577,885</u>	<u>1,232,657</u>	<u>654,772</u>
FUND BALANCE, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 847,341</u>	<u>\$ 847,341</u>

See notes to basic financial statements.

CITY OF WEST LINN, OREGON

STREET FUND

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

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Intergovernmental	\$ 1,200,000	\$ 1,200,000	\$ 1,129,618	\$ (70,382)
Franchise fees	568,000	568,000	550,503	(17,497)
Interest	2,500	2,500	6,235	3,735
System development charges	10,000	10,000	3,793	(6,207)
Miscellaneous	9,000	9,000	28,072	19,072
TOTAL REVENUES	1,789,500	1,789,500	1,718,221	(71,279)
EXPENDITURES:				
Personal services	420,000	444,000	439,725	4,275
Materials and services	729,300	729,300	554,609	174,691
Capital outlay	173,000	173,000	142,290	30,710
Contingency	76,264	52,264	-	52,264
TOTAL EXPENDITURES	1,398,564	1,398,564	1,136,624	261,940
EXCESS OF REVENUES OVER EXPENDITURES	390,936	390,936	581,597	190,661
OTHER FINANCING USES:				
Transfers to other funds	(458,000)	(458,000)	(457,856)	144
NET CHANGE IN FUND BALANCE	(67,064)	(67,064)	123,741	190,805
FUND BALANCE, July 1, 2006	67,064	67,064	146,722	79,658
FUND BALANCE, June 30, 2007	\$ -	\$ -	\$ 270,463	\$ 270,463

See notes to basic financial statements.

CITY OF WEST LINN, OREGON

PARKS FUND

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

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Property taxes	\$ 2,130,000	\$ 2,130,000	\$ 2,130,000	\$ -
Intergovernmental	142,000	142,000	40,000	(102,000)
Licenses and permits	52,500	52,500	48,025	(4,475)
Charges for services	370,000	370,000	347,496	(22,504)
Interest	2,000	2,000	42,704	40,704
Miscellaneous	-	-	3,173	3,173
TOTAL REVENUES	<u>2,696,500</u>	<u>2,696,500</u>	<u>2,611,398</u>	<u>(85,102)</u>
EXPENDITURES:				
Personal services	1,202,800	1,202,800	1,124,034	78,766
Materials and services	647,500	647,500	604,819	42,681
Capital outlay	300,000	300,000	118,622	181,378
Contingency	90,300	90,300	-	90,300
TOTAL EXPENDITURES	<u>2,240,600</u>	<u>2,240,600</u>	<u>1,847,475</u>	<u>393,125</u>
EXCESS OF REVENUES OVER EXPENDITURES	455,900	455,900	763,923	308,023
OTHER FINANCING USES:				
Transfers to other funds	(455,900)	(455,900)	(455,883)	17
NET CHANGE IN FUND BALANCE	-	-	308,040	308,040
FUND BALANCE, July 1, 2006	-	-	-	-
FUND BALANCE, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 308,040</u>	<u>\$ 308,040</u>

CITY OF WEST LINN, OREGON

LIBRARY FUND

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

YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Property taxes	\$ 850,000	\$ 850,000	\$ -
Intergovernmental	514,000	514,826	826
Fines and forfeitures	60,000	64,610	4,610
Interest	-	19,992	19,992
Miscellaneous	5,000	5,922	922
TOTAL REVENUES	1,429,000	1,455,350	26,350
EXPENDITURES:			
Personal services	956,600	914,844	41,756
Materials and services	223,000	206,511	16,489
Contingency	65,650	-	65,650
Other requirements	154,000	-	154,000
TOTAL EXPENDITURES	1,399,250	1,121,355	277,895
EXCESS OF REVENUES OVER EXPENDITURES	29,750	333,995	304,245
OTHER FINANCING USES:			
Transfers to other funds	(242,100)	(242,100)	-
NET CHANGE IN FUND BALANCE	(212,350)	91,895	304,245
FUND BALANCE, July 1, 2006	212,350	220,685	8,335
FUND BALANCE, June 30, 2007	\$ -	\$ 312,580	\$ 312,580

See notes to basic financial statements.

CITY OF WEST LINN, OREGON

PUBLIC SAFETY FUND

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

YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Property taxes	\$ 3,609,000	\$ 3,629,720	\$ 20,720
Intergovernmental	396,000	473,282	77,282
Franchise fees	1,168,000	1,186,248	18,248
Licenses and permits	64,000	55,947	(8,053)
Charges for services	800	1,008	208
Fines and forfeitures	20,000	26,530	6,530
Interest	30,000	113,961	83,961
Miscellaneous	15,000	33,055	18,055
TOTAL REVENUES	5,302,800	5,519,751	216,951
EXPENDITURES:			
Personal services	3,458,000	3,215,160	242,840
Materials and services	998,200	901,923	96,277
Capital outlay	156,400	134,593	21,807
Contingency	578,787	578,787	578,787
TOTAL EXPENDITURES	5,191,387	4,251,676	939,711
EXCESS OF REVENUES OVER EXPENDITURES	111,413	1,268,075	1,156,662
OTHER FINANCING USES:			
Transfers to other funds	(789,200)	(789,200)	-
NET CHANGE IN FUND BALANCE	(677,787)	478,875	1,156,662
FUND BALANCE, July 1, 2006	677,787	565,483	(112,304)
FUND BALANCE, June 30, 2007	\$ -	\$ 1,044,358	\$ 1,044,358

See notes to basic financial statements.

CITY OF WEST LINN, OREGON

SYSTEM DEVELOPMENT FUND

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

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual		
			Street	Storm Drain	Water
REVENUES:					
System development fees:					
Street	\$ 8,000	\$ 8,000	\$ 254,375	\$ -	\$ -
Storm drain	40,000	40,000	-	36,494	-
Water	290,000	290,000	-	-	325,030
Sewer	140,000	140,000	-	-	-
Parks	550,000	550,000	-	-	-
Interest	58,000	58,000	4,139	40,193	26,414
TOTAL REVENUES	1,086,000	1,086,000	258,514	76,687	351,444
EXPENDITURES:					
Materials and services	-	16,000	-	-	50
Capital outlay	561,000	1,054,000	-	10,054	47,179
Contingency	2,711,191	2,202,191	-	-	-
TOTAL EXPENDITURES	3,272,191	3,272,191	-	10,054	47,229
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,186,191)	(2,186,191)	258,514	66,633	304,215
OTHER FINANCING USES:					
Transfers to other funds	(238,000)	(238,000)	-	(108,500)	(91,592)
NET CHANGE IN FUND BALANCE	(2,424,191)	(2,424,191)	258,514	(41,867)	212,623
FUND BALANCE, July 1, 2006	2,424,191	2,424,191	15,986	401,290	576,959
FUND BALANCE, June 30, 2007	\$ -	\$ -	\$ 274,500	359,423	\$ 789,582
RECONCILIATION TO GAAP BASIS:					
Adjustment for loan to other fund				250,000	
FUND BALANCE GAAP BASIS, June 30, 2007				\$ 609,423	

Actual			Variance
Sewer	Parks	Total	Positive (Negative)
\$ -	\$ -	\$ 254,375	\$ 246,375
-	-	36,494	(3,506)
-	-	325,030	35,030
154,276	-	154,276	14,276
-	435,614	435,614	(114,386)
35,609	23,682	130,037	72,037
<u>189,885</u>	<u>459,296</u>	<u>1,335,826</u>	<u>249,826</u>
-	10,565	10,615	5,385
-	884,456	941,689	112,311
-	-	-	2,202,191
<u>-</u>	<u>895,021</u>	<u>952,304</u>	<u>2,319,887</u>
189,885	(435,725)	383,522	2,569,713
(5,600)	(11,000)	(216,692)	21,308
184,285	(446,725)	166,830	2,591,021
691,403	666,467	2,352,105	(72,086)
<u>\$ 875,688</u>	<u>\$ 219,742</u>	<u>2,518,935</u>	<u>\$ 2,518,935</u>
		<u>250,000</u>	
		<u>\$ 2,768,935</u>	

Notes to Basic Financial Statements

CITY OF WEST LINN, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

1. Summary of Significant Accounting Policies

Reporting Entity

The City of West Linn, Oregon (the City) operates under its own charter with a council - manager form of government. The Councilors, composed of the Mayor and four council members, comprise the legislative branch of the government. Individual departments are under the direction of the City Manager who is appointed by the Council.

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

As required by accounting principles generally accepted in the United States of America (GAAP), these basic financial statements present all operations of the City.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City. These statements include the financial activities of the overall City. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities are financed through charges for services, property taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed primarily by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each activity of its governmental and business-type programs. Direct expenses are those that are specifically associated with an activity and, therefore, are clearly identifiable to that activity. Program revenues include fees, fines, and charges paid by the recipients of goods or services and grants and contributions that are restricted to meeting operational requirements. Revenues that are not classified as program revenues, including property taxes and interest earnings, are presented as general revenues. The effect of interfund activity such as transfers is eliminated. Net assets are reported as restricted when constraints placed on their use are either externally restricted, imposed by creditors (such as through grantors, contributors or laws), or through constitutional provisions or enabling resolutions.

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements

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

The City reports the following major funds:

Governmental

General Fund - The General Fund accounts for the City's legislative, administrative, financial, information technology, building services and related debt service, and municipal court operations. The primary revenue sources are reimbursement charges for services to other funds, fines and forfeitures, charges for services and miscellaneous income.

Street Fund – Accounts for the operation and maintenance of the City's street and sidewalk systems including medians. The primary revenue sources are state gas tax and franchise fees.

Parks Fund – Accounts for the operation and maintenance of the City's parks and recreation programs. The primary sources of revenue include an allocation of the City's property tax levy, intergovernmental grants, and program fees.

Library Fund – Accounts for the operation of the City's library facility. The primary sources of revenue include an allocation of the City's property tax levy, intergovernmental funding, and fees.

Public Safety Fund – Accounts for the activities of the City's police department. The primary revenues are an allocation of the City's property tax levy, a special property tax levy dedicated to police funding, intergovernmental revenue and fines and fees.

System Development Fund – Accounts for the receipt and expenditures of system development funds dedicated to streets, parks, storm drain, water and sewer.

Park Bond Construction Fund – Accounts for the expenditures of bond proceeds for the acquisition of park land and improvements.

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Proprietary (Enterprise)

Water Fund – This fund accounts for the operation and maintenance of water service and distribution facilities.

Environmental Services Fund – This fund accounts for the operation and maintenance of the sewer service and collection system.

Non-major

The City also reports the following non-major fund types:

Special Revenue Funds – These funds account for the receipt and expenditures of dedicated revenue sources.

Debt Service Fund – This fund accounts for the accumulation of resources for the payment of general obligation bond principal and interest.

Internal Service Fund – This fund accounts for fleet maintenance, motor vehicle use and insurance activities.

Measurement Focus and Basis of Accounting

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

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

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

The proprietary fund types distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the funds' ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

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

Cash and Investments

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

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Cash and Investments (Continued)

Investments consist of investments in the Oregon State Treasurer's Local Government Investment Pool (LGIP). The individual funds' portion of the pool's fair value is presented as "Cash and Investments" in the basic financial statements.

The LGIP is administered by the Oregon State Treasury. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State who by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

Receivables

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

All accounts, property taxes, grants and other receivables are shown net of an allowance for uncollectible accounts.

Investment in Joint Ventures

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

Capital Assets

Purchased or constructed capital assets are recorded at estimated historical cost with subsequent additions at cost. Donated capital assets are recorded at their estimated fair value at the time of donation. Infrastructure (bridges, roads, and drainage systems) acquired during the year have been recorded at cost or fair value if donated by developers. The City defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life of more than five years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

	<u>Years</u>
Buildings and structures	25-50
Improvements other than buildings	10-20
Machinery and equipment	5-30
Utility system	25-50
Vehicles	5-10
Infrastructure	20 to 50

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability reported for unpaid accumulated sick leave since the City by policy does not pay out sick leave banks when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of termination or retirement.

Long-term Debt

In the government-wide financial statements, long-term debt issued for construction and acquisition of capital assets is reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the governmental fund financial statements, bond premiums and discounts are recognized when incurred and not deferred. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Pension Plan

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Budget

The City is required by state law to budget all funds. Budgets for all funds are prepared on the modified accrual basis of accounting. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. The resolution established the level of budgetary control at the department level for the General Fund. All remaining funds of the City establish the levels of budgetary control at the category level (personal services, materials and services, capital outlay, transfers, contingency, debt service and reserves).

All annual appropriations lapse at fiscal year end. The City did not incur any over expenditures of its appropriations during the fiscal year.

The detail budget document is required to contain more specific, detailed information for the aforementioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations ordinance. Supplemental budgets less than 10% of the fund's original budget may be adopted by the Board of Councilors at a regular meeting. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publication in newspapers and approval by the Board of Councilors. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the Board of Councilors for the City. The City adjusted budget includes several appropriation transfers during the year ended June 30, 2007.

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Fund Balance Deficit

The Building Inspection Fund has a GAAP basis deficit fund balance of \$58,443. An interfund loan of \$250,000 payable with interest of five percent (5%) from the System Development Fund provides a positive budget basis fund balance of \$191,557. The interfund loan was repaid in fiscal year 2008.

2. Cash and Investments

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

At June 30, 2007, the City's cash and investments were comprised of the following:

Cash on hand	\$	2,875
Deposits with financial institutions		272,283
Investments:		
Oregon State Treasurer's Local Government Investment Pool		11,368,413
Certificate of deposit		20,010
Total pooled cash and investments		\$ 11,663,581

	Government Activities	Business-Type Activities	Total
Cash and investments	\$ 9,322,076	\$ 2,341,505	\$ 11,663,581

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

2. Cash and Investments (Continued)

Deposits

The total balance as shown on the bank statements at June 30, 2007, was \$395,160. Of these deposits, \$100,000 was covered by Federal depository insurance, \$295,160 was collateralized with securities held in the pledging bank's trust department in the City's name.

Oregon Revised Statutes require the depository institution to maintain on deposit, with a collateral pool manager, securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with state statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager.

Interest Rate Risk

The City does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Currently, all of the City's investments are held in the Oregon State Treasurer's Local Government Investment Pool, with weighted average maturity of the underlying investments of less than one year.

Credit Risk

As mentioned above, Oregon Revised Statutes limits the investments that the City may have. The City is in compliance with these Statutes at June 30, 2007.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. At June 30, 2007, the City does not have investments exposed to custodial credit risk.

3. Accounts Receivable

As of June 30, 2007, accounts receivable consisted of the following:

Accounts, contracts and grants	\$ 1,562,197
Allowance for uncollectible accounts	<u>(9,900)</u>
Total	<u>\$ 1,552,297</u>

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

3. Accounts Receivable (Continued)

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

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

Accounts receivable - governmental activities	\$ 52,214
Accounts receivable - business-type activities	<u>1,500,083</u>
Total	<u>\$ 1,552,297</u>

4. Joint Venture

The South Fork Water Board (SFWB) operates a water distribution system jointly with the City and the City of Oregon City, each party owning 50%. Revenues earned by SFWB are expended for the continued operation and maintenance of facilities within the municipal boundaries of these cities. Upon dissolution of the SFWB, the net assets will be shared 50 percent to each city. The SFWB is governed by a five-member board composed of three appointees from Oregon City and two from West Linn. The City's net investment and its share of the operating results of the SFWB are reported in the City's Water Fund. Net Assets of the City's Water Fund were increased \$620,460 from net income of the joint venture in fiscal year 2007. Complete financial statements for the SFWB can be obtained from the City of Oregon City Finance Department, 320 Warner-Milne Road, Oregon City, Oregon 97045. The investment in South Fork Water Board is accounted for using the equity method.

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

5. Capital Assets

Capital asset activity for year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Adjustments	Increases/ (Decreases)	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land and easements	\$ 20,543,728	\$ 186,978,462	\$ 26,422	\$ 207,548,612
Capital assets being depreciated:				
Buildings and improvements	11,898,139	16,414,785	987,557	29,300,481
Vehicles and equipment	4,197,274	-	325,056	4,522,330
Infrastructure	1,083,465	52,228,463	17,320	53,329,248
Total capital assets being depreciated	17,178,878	68,643,248	1,329,933	87,152,059
Less accumulated depreciation for:				
Buildings and improvements	(2,659,853)	(5,120,259)	(486,604)	(8,266,716)
Vehicles and equipment	(3,753,237)	-	(121,313)	(3,874,550)
Infrastructure	(193,768)	(27,803,007)	(35,934)	(28,032,709)
Total accumulated depreciation	(6,606,858)	(32,923,266)	(643,851)	(40,173,975)
Total capital assets being depreciated, net	10,572,020	35,719,982	686,082	46,978,084
Total capital assets, net	\$ 31,115,748	\$ 222,698,444	\$ 712,504	\$ 254,526,696
	Balance July 1, 2006	Adjustments	Increases/ (Decreases)	Balance June 30, 2007
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 334,742	\$ (19,429)	\$ -	\$ 315,313
Construction in progress	388,229	19,429	(345,231)	62,427
Total capital assets not being depreciated	722,971	-	(345,231)	377,740
Capital assets being depreciated:				
Buildings and improvements	2,278,566	59,943	-	2,338,509
Vehicles and equipment	1,940,732	(2,947)	262,191	2,199,976
Utility system	28,904,857	(43,234)	427,844	29,289,467
Total capital assets being depreciated	33,124,155	13,762	690,035	33,827,952
Less accumulated depreciation for:				
Buildings and improvements	(1,049,770)	113,464	(51,262)	(987,568)
Vehicles and equipment	(1,593,227)	13,285	(118,565)	(1,698,507)
Utility system	(8,629,897)	(140,511)	(575,789)	(9,346,197)
Total accumulated depreciation	(11,272,894)	(13,762)	(745,616)	(12,032,272)
Total capital assets being depreciated, net	21,851,261	-	(55,581)	21,795,680
Total capital assets, net	\$ 22,574,232	\$ -	\$ (400,812)	\$ 22,173,420

Depreciation expense of \$397,769 and \$347,847 was charged to the Water and Environmental Services Funds, respectively. Additionally, \$643,851 of depreciation was charged to the governmental activities.

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

6. Long-term Debt

Bonds Payable

Bonds payable transactions for the year are as follows:

	Original Amount	Outstanding July 1, 2006	Redeemed	Outstanding June 30, 2007
Governmental activities:				
General obligation				
interest 2.6%-5.4%	\$ 13,315,000	\$ 9,590,000	\$ 460,000	\$ 9,130,000
Full Faith and credit bonds, interest 4.3% - 5.25%	4,300,000	3,575,000	165,000	3,410,000
	<u>\$ 17,615,000</u>	<u>\$ 13,165,000</u>	<u>\$ 625,000</u>	<u>12,540,000</u>
Current portion				670,000
Long-term portion				<u>\$ 11,870,000</u>
Business-type activities:				
2000 Water System Revenue and refunding				
bonds interest 4.7% - 6%	\$ 1,800,000	\$ 1,515,000	\$ 65,000	\$ 1,450,000
Current portion				70,000
Long-term portion				<u>\$ 1,380,000</u>

Future maturities of bond principal and interest at June 30, 2007, are as follows:

Year	Governmental Activities		Enterprise Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 670,000	\$ 618,064	\$ 70,000	\$ 82,440	\$ 740,000	\$ 700,504
2009	705,000	587,325	75,000	78,470	780,000	665,795
2010	750,000	554,428	80,000	74,188	830,000	628,616
2011	795,000	519,454	80,000	69,728	875,000	589,182
2012	850,000	468,165	85,000	65,044	935,000	533,209
2013-2017	5,115,000	1,733,678	515,000	242,562	5,630,000	1,976,240
2018-2021	3,655,000	422,744	545,000	63,449	4,200,000	486,193
	<u>\$ 12,540,000</u>	<u>\$ 4,903,858</u>	<u>\$ 1,450,000</u>	<u>\$ 675,881</u>	<u>\$ 13,990,000</u>	<u>\$ 5,579,739</u>

The City did not meet its bond covenant related to timely completion of audits.

Changes in Accrued Compensated Absences Liability

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. A liability for these amounts is reported in governmental funds only when it has matured, for example, as a result of employee resignations or retirements.

CITY OF WEST LINN, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

6. Long-term Debt (Continued)

Changes in Accrued Compensated Absences Liability (Continued)

	Balance June 30, 2006	Accrued	Taken	Balance June 30, 2007
Accrued compensated absences liability	\$ 546,242	\$ 219,302	\$ (338,450)	\$ 427,094

7. Transfers to/from Other Funds

Transfers to/from other funds consisted of the following:

Amount	Description
\$ 433,000	Nonmajor funds to General Fund for general government
300,000	General Fund to nonmajor funds for general government
229,000	Street Fund to General Fund for general government
25,000	Street Fund to Planning Fund for general government
203,856	Street Fund to nonmajor funds for general government
373,000	Parks Fund to General Fund for general government
82,883	Parks Fund to nonmajor funds for general government
242,100	Library Fund to General Fund for general government
789,200	Public Safety Fund to General Fund for general government
9,600	System Development Charge Fund to General Fund for general government
186,492	System Development Charge Fund to Enterprise funds for general government
20,600	System Development Charge Fund to nonmajor funds for general government
43,172	Nonmajor funds to nonmajor funds for general government
568,000	Enterprise funds to General Fund for general government
767,842	Enterprise funds to nonmajor funds for general government

8. Pension Plan Description

Substantially all City employees, after six months of employment, are participants in the State of Oregon Public Employees Retirement System (PERS). The City's policy is to fund pension costs as determined by actuarial valuations.

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

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

8. Pension Plan Description (Continued)

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

Benefits generally vest after five years of continuous service. General Service employees may retire after reaching age 55; police personnel are eligible after reaching age 50. PERS Tier One and Tier Two employees with 30 years of service (25 years for police personnel at age 50) receive unreduced benefits. General Service employee benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service (age 60 for Tier Two). OPSRP General Service employees receive full benefits if they are 58 years of age and have 30 years of service or are age 65. OPSRP police officer personnel receive full benefits if they are 53 years of age and have 25 years of service or are age 60.

Retirement benefits are based on final average salary and length of service. PERS retirement benefits are calculated using three methods: Full Formula, Formula Plus Annuity, and Money Match. PERS will use the method that produces the highest benefit amount. OPSRP pension benefits are calculated as follows: general service members – 1.5 percent of final average salary multiplied by the number of years of retirement credit attributable to service; police – 1.8 percent of final average salary multiplied by the number of years of retirement credit attributable to service. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statutes.

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

Funding Policy

Members of PERS and OPSRP are required to contribute 6% and 8.04%, respectively, of their salary covered under the plan. The City is required by ORS 238.225 to contribute at an actuarially determined rate. The current rate is 14.05% for PERS, 11.65% for OPSRP general service, and 17.75% for OPSRP police and fire salary covered under the plan. The contribution requirements for plan members and the City are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

8. Pension Plan Description (Continued)

Annual Pension Cost

For the years ended June 30, 2007, 2006, and 2005 the City's annual pension costs were approximately \$1,107,500, \$1,115,600, and \$781,900 respectively, and were equal to the City's required and actual contributions. Approximately \$261,857 of the annual pension costs incurred in 2007 was funding of the Unfunded Actuarial Accrued Liability (UAL).

The required contribution was determined as part of the actuarial valuation at December 31, 2005, using the projected unit credit actuarial cost method. The fair market value method is used to determine the actuarial value of the plan's assets. Significant actuarial assumptions used in the valuation include: (i) consumer price inflation of 2.75% per year; (ii) health care cost inflation assumed at 9.0% in 2008, then declining by .5% per year until the rate of 5.0% is reached in 2013; (iii) a rate of return on the future investment earnings of the assets of the System are assumed to accrue at an annual rate of 8.0% compounded annually; (iv) a rate of return on the future investment earnings of the Variable Accounts are assumed to accrue at an annual rate of 8.5%, compounded annually; (v) projected annual rate of wage inflation of 3.75%, compounded annually, excluding merit or longevity increases; (vi) unfunded actuarial liability is amortized on a level percentage of combined annual payroll on a closed group fixed term basis over twenty (20) years.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (Asset)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability (Asset) as a Percent of Covered Payroll
12/31/2005	\$ 35,196,000	\$ 36,127,000	\$ (931,000)	97 %	\$ 6,342,000	15 %
12/31/2003	26,970,000	32,807,000	(5,837,000)	82	5,626,000	104
12/31/2001	26,727,000	25,058,000	(1,669,000)	107	5,367,000	21

9. Other Information

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Except for unemployment compensation, the City purchases commercial insurance to minimize its exposure to these risks. There has been no reduction in commercial

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

9. Other Information (Continued)

Risk Management (Continued)

insurance coverage from fiscal year 2006 to 2007. Workers compensation claims are insured through incurred loss retrospective policies. Settled claims have not exceeded this commercial coverage for any of the past three years. The City is self-insured for unemployment compensation claims.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Deferred Compensation Plan

The City has a deferred compensation plan created in accordance with the Internal Revenue Code Section 457(g). The Plan is administered by independent plan administrators through administrative service agreements. The Plan is available to all employees of the City. Employees may defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Plan's assets are held in a custodial account for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of the City's creditors, nor can they be used by the City for any purpose other than the payment of benefits to the Plan participants. Accordingly, these Plan assets and related liability are not recorded in the City's basic financial statements.

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 \$2.12 per \$1,000 assessed value. Assessed values can only grow by a maximum of 3 percent, exclusive of new construction and annexations.

CITY OF WEST LINN, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2007

10. Commitments and Contingencies

The City has agreements with the Tri-City Service District to treat sewage wastewater. Pertinent terms of this agreement are as follows:

- The City will process and review all permit applications for hookup and inspection thereof; operate and maintain local collections facilities; bill and collect user charges, and bill and collect connection charges.
- Should the District fail to perform services outlined in this agreement, the City can terminate the agreement upon 30 days written notice.

11. Restatement

Effective with the City's reporting for fiscal year ended June 30, 2007, the City completed its implementation of GASB Statement No. 34 by recording governmental infrastructure, net of related depreciation in the Statement of Net Assets. The effect was to increase total assets by \$222.7 million, with an offsetting increase to net assets invested in capital assets, net of related debt.

12. Subsequent Events

In fiscal 2006, the City discovered that its former Finance Director had embezzled approximately \$1,420,000 over a five-year period. The City and its forensic auditors determined that the funds were embezzled from the General Fund although specific accounts could not be identified.

In fiscal 2007, the former Finance Director admitted to the embezzlement in an agreement with legal authorities. The agreement entitles the City to restitution of the \$1,420,000 plus statutory interest of 9% per annum. The former Finance Director agreed to transfer to the City, 75% of the equity in her personal residence (estimated to be \$100,000) and her Public Employee Retirement System personal retirement account (estimated to be worth \$175,000). The City received \$100,000 from its insurance carrier during fiscal 2007 and \$100,692 from the proceeds of her personal residence during fiscal year 2008, related to the embezzlement. The PERS account balance is expected to be received in fiscal year 2009.

The City is in mediation with its former auditors and their insurance carrier to recover a portion of the embezzled funds. The amount of recovery, if any, cannot be determined at this time.

Supplementary Information

Governmental Funds

CITY OF WEST LINN, OREGON
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007

	Special Revenue Funds	Debt Service Fund	Total
ASSETS:			
Cash and investments	\$ 1,245,398	\$ 258,672	\$ 1,504,070
Cash held by fiscal agent	-	4,634	4,634
Property taxes receivable	-	46,038	46,038
Accounts receivable	48,959	-	48,959
TOTAL ASSETS	\$ 1,294,357	\$ 309,344	\$ 1,603,701
LIABILITIES AND FUND BALANCE:			
Accounts payable	\$ 101,477	\$ -	\$ 101,477
Accrued salaries and payroll taxes	23,613	-	23,613
Deposits payable	187,080	-	187,080
Deferred revenue	-	36,634	36,634
Interfund loan	250,000	-	250,000
TOTAL LIABILITIES	562,170	36,634	598,804
FUND BALANCE:			
Unreserved:			
Designated for debt service	-	272,710	272,710
Undesignated	732,187	-	732,187
TOTAL FUND BALANCE	732,187	272,710	1,004,897
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,294,357	\$ 309,344	\$ 1,603,701

CITY OF WEST LINN, OREGON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2007

	Special Revenue Funds	Debt Service Fund	Total Governmental Funds
REVENUES:			
Property taxes	\$ -	\$ 921,820	\$ 921,820
Charges for services	13,200	-	13,200
Licenses, permits and fees	1,001,025	-	1,001,025
Franchise fees	361,290	-	361,290
Intergovernmental	213,669	-	213,669
Interest	27,680	22,940	50,620
Miscellaneous	10,117	-	10,117
TOTAL REVENUES	<u>1,626,981</u>	<u>944,760</u>	<u>2,571,741</u>
EXPENDITURES:			
Program:			
General government	1,231,150	-	1,231,150
Cultural and recreation	112,814	-	112,814
Public safety	428,050	-	428,050
Capital outlay	49,609	-	49,609
Debt service:			
Bond principal	-	460,000	460,000
Bond interest	-	463,505	463,505
TOTAL EXPENDITURES	<u>1,821,623</u>	<u>923,505</u>	<u>2,745,128</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(194,642)</u>	<u>21,255</u>	<u>(173,387)</u>
OTHER FINANCING SOURCES (USES):			
Transfers from other funds	1,264,492	-	1,264,492
Transfers to other funds	(476,173)	-	(476,173)
TOTAL OTHER FINANCING SOURCES (USES)	<u>788,319</u>	<u>-</u>	<u>788,319</u>
NET CHANGE IN FUND BALANCE	593,677	21,255	614,932
FUND BALANCES, July 1, 2006	<u>138,510</u>	<u>251,455</u>	<u>389,965</u>
FUND BALANCES, June 30, 2007	<u>\$ 732,187</u>	<u>\$ 272,710</u>	<u>\$ 1,004,897</u>

Nonmajor Special Revenue Funds

Cable TV/Public Access Fund – this fund accounts for the receipt and expenditure of funds received from cable TV franchise fees for public access television.

Public Works Support Services Fund – accounts for the professional and administrative support services provide by public works administrative and engineering staff.

Building Inspection Fund – accounts for the City's building inspection activities. The primary revenue source is permit fees.

Planning Fund – accounts for the City's planning activities. Primary revenue sources are planning fees and charges, intergovernmental grants, franchise fees, and transfer from the general fund.

CITY OF WEST LINN, OREGON

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2007

	Cable TV/ Public Access Fund	Public Works Support Services Fund	Building Inspection Fund	Planning Fund	Totals
ASSETS:					
Cash and investments	\$ 454,051	\$ 193,336	\$ 243,432	\$ 354,579	\$ 1,245,398
Accounts receivable	-	-	-	48,959	48,959
TOTAL ASSETS	<u>\$ 454,051</u>	<u>\$ 193,336</u>	<u>\$ 243,432</u>	<u>\$ 403,538</u>	<u>\$ 1,294,357</u>
LIABILITIES AND FUND BALANCE (DEFICIT):					
Liabilities:					
Accounts payable	\$ 28,465	\$ 24,407	44,559	4,046	\$ 101,477
Accrued salaries and payroll taxes	-	10,374	6,333	6,906	23,613
Deposits payable	-	-	983	186,097	187,080
Interfund loan	-	-	250,000	-	250,000
TOTAL LIABILITIES	28,465	34,781	301,875	197,049	562,170
FUND BALANCE (DEFICIT):					
Undesignated	<u>425,586</u>	<u>158,555</u>	<u>(58,443)</u>	<u>206,489</u>	<u>732,187</u>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u>\$ 454,051</u>	<u>\$ 193,336</u>	<u>\$ 243,432</u>	<u>\$ 403,538</u>	<u>\$ 1,294,357</u>

CITY OF WEST LINN, OREGON

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (DEFICIT)

YEAR ENDED JUNE 30, 2007

	Cable TV/ Public Access Fund	Public Works Support Services Fund	Building Inspection Fund	Planning Fund	Totals
REVENUES:					
Charges for services	\$ -	\$ 13,200	\$ -	\$ -	\$ 13,200
Licenses, permits and fees	-	66,743	695,936	238,346	1,001,025
Franchise fees	231,780	-	-	129,510	361,290
Intergovernmental	-	-	11,685	201,984	213,669
Interest	17,456	6,773	3,451	-	27,680
Miscellaneous	-	8,044	133	1,940	10,117
TOTAL REVENUES	249,236	94,760	711,205	571,780	1,626,981
EXPENDITURES:					
General government	-	645,267	-	585,883	1,231,150
Cultural and recreation	112,814	-	-	-	112,814
Public safety	-	-	428,050	-	428,050
Capital outlay	25,220	24,389	-	-	49,609
TOTAL EXPENDITURES	138,034	669,656	428,050	585,883	1,821,623
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	111,202	(574,896)	283,155	(14,103)	(194,642)
OTHER FINANCING SOURCES (USES):					
Transfers from other funds	-	850,900	-	413,592	1,264,492
Transfers to other funds	(3,000)	(139,000)	(141,173)	(193,000)	(476,173)
TOTAL OTHER FINANCING SOURCES (USES)	(3,000)	711,900	(141,173)	220,592	788,319
NET CHANGE IN FUND BALANCE	108,202	137,004	141,982	206,489	593,677
FUND BALANCE (DEFICIT), July 1, 2006	317,384	21,551	(200,425)	-	138,510
FUND BALANCE (DEFICIT), June 30, 2007	\$ 425,586	\$ 158,555	\$ (58,443)	\$ 206,489	\$ 732,187

CITY OF WEST LINN, OREGON

CABLE TV/PUBLIC ACCESS FUND

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

YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Franchise fees	\$ 98,000	\$ 231,780	\$ 133,780
Interest	10,000	17,456	7,456
TOTAL REVENUES	<u>108,000</u>	<u>249,236</u>	<u>141,236</u>
EXPENDITURES:			
Materials and services	116,900	112,814	4,086
Capital outlay	44,700	25,220	19,480
Contingency	256,197	-	256,197
TOTAL EXPENDITURES	<u>417,797</u>	<u>138,034</u>	<u>279,763</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(309,797)	111,202	420,999
OTHER FINANCING USES:			
Transfers to other funds	(3,000)	(3,000)	-
NET CHANGE IN FUND BALANCE	(312,797)	108,202	420,999
FUND BALANCE, July 1, 2006	<u>312,797</u>	<u>317,384</u>	<u>4,587</u>
FUND BALANCE, June 30, 2007	<u>\$ -</u>	<u>\$ 425,586</u>	<u>\$ 425,586</u>

CITY OF WEST LINN, OREGON

PUBLIC WORKS SUPPORT SERVICES FUND

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

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Charges for services	\$ 864,100	\$ 864,100	\$ 13,200	\$ (850,900)
Licenses and permits	87,600	87,600	66,743	(20,857)
Interest	-	-	6,773	6,773
Miscellaneous	3,000	3,000	8,044	5,044
TOTAL REVENUES	<u>954,700</u>	<u>954,700</u>	<u>94,760</u>	<u>(859,940)</u>
EXPENDITURES:				
Personal services	579,600	579,600	521,580	58,020
Materials and services	149,100	187,100	123,687	63,413
Capital outlay	29,000	43,000	24,389	18,611
Contingency	63,833	7,833	-	7,833
TOTAL EXPENDITURES	<u>821,533</u>	<u>817,533</u>	<u>669,656</u>	<u>147,877</u>
EXCESS OF REVENUES OVER EXPENDITURES	133,167	137,167	(574,896)	(712,063)
OTHER FINANCING USES:				
Transfers from other funds	-	-	850,900	850,900
Transfers to other funds	(135,000)	(139,000)	(139,000)	-
TOTAL OTHER FINANCING USES	<u>(135,000)</u>	<u>(139,000)</u>	<u>711,900</u>	<u>850,900</u>
NET CHANGE IN FUND BALANCE	(1,833)	(1,833)	137,004	138,837
FUND BALANCE, July 1, 2006	<u>1,833</u>	<u>1,833</u>	<u>21,551</u>	<u>19,718</u>
FUND BALANCE, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 158,555</u>	<u>\$ 158,555</u>

CITY OF WEST LINN, OREGON

BUILDING INSPECTION FUND

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

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Licenses and fees	\$ 566,000	\$ 566,000	\$ 695,936	\$ 129,936
Intergovernmental	-	-	11,685	11,685
Interest	1,000	1,000	3,451	2,451
Miscellaneous	500	500	133	(367)
TOTAL REVENUES	567,500	567,500	711,205	143,705
EXPENDITURES:				
Personal services	383,800	383,800	377,050	6,750
Materials and services	29,400	43,400	38,500	4,900
Debt service	12,500	12,500	12,500	-
Contingency	38,605	24,605	-	24,605
TOTAL EXPENDITURES	464,305	464,305	428,050	36,255
EXCESS OF REVENUES OVER EXPENDITURES	103,195	103,195	283,155	179,960
OTHER FINANCING USES:				
Transfers to other funds	(141,400)	(141,400)	(141,173)	227
NET CHANGE IN FUND BALANCE	(38,205)	(38,205)	141,982	180,187
FUND BALANCE, July 1, 2006	38,205	38,205	49,575	11,370
FUND BALANCE, June 30, 2007	\$ -	\$ -	191,557	\$ 191,557
RECONCILIATION TO GAAP BASIS:				
Adjustment for loan from other fund			(250,000)	
FUND BALANCE (DEFICIT) GAAP BASIS, June 30, 2007			\$ (58,443)	

CITY OF WEST LINN, OREGON

PLANNING FUND

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

YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Franchise fees	\$ 125,000	\$ 129,510	\$ 4,510
Intergovernmental	427,000	201,984	(225,016)
Licenses and permits	190,000	238,346	48,346
Miscellaneous	-	1,940	1,940
TOTAL REVENUES	<u>742,000</u>	<u>571,780</u>	<u>(170,220)</u>
EXPENDITURES:			
Personal services	490,000	441,773	48,227
Material and services	445,400	144,110	301,290
Contingency	27,200	-	27,200
TOTAL EXPENDITURES	<u>962,600</u>	<u>585,883</u>	<u>376,717</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(220,600)</u>	<u>(14,103)</u>	<u>206,497</u>
OTHER FINANCING SOURCES (USES):			
Transfers from other funds	413,600	413,592	(8)
Transfers to other funds	(193,000)	(193,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>220,600</u>	<u>220,592</u>	<u>(8)</u>
NET CHANGE IN FUND BALANCE	-	206,489	206,489
FUND BALANCE, July 1, 2006	-	-	-
FUND BALANCE, June 30, 2007	<u>\$ -</u>	<u>\$ 206,489</u>	<u>\$ 206,489</u>

Debt Service Fund

Debt Service Fund – accounts for the payment of general obligation bond principal and interest. The principal source of revenue is property taxes, which for general obligation debt is exempt from tax limitation.

CITY OF WEST LINN, OREGON

DEBT SERVICE FUND

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

YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Property taxes	\$ 875,245	\$ 921,820	\$ 46,575
Interest	-	22,940	22,940
TOTAL REVENUES	<u>875,245</u>	<u>944,760</u>	<u>69,515</u>
EXPENDITURES:			
Debt service:			
Principal	460,000	460,000	-
Interest	470,469	463,505	6,964
Reserve for future debt service	164,000	-	164,000
TOTAL EXPENDITURES	<u>1,094,469</u>	<u>923,505</u>	<u>170,964</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCE	(219,224)	21,255	240,479
FUND BALANCE, July 1, 2006	<u>219,224</u>	<u>251,455</u>	<u>32,231</u>
FUND BALANCE, June 30, 2007	<u>\$ -</u>	<u>\$ 272,710</u>	<u>\$ 272,710</u>

CITY OF WEST LINN, OREGON

PARK BOND CONSTRUCTION FUND

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

YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Interest	\$ 1,500	\$ 51,167	\$ 49,667
EXPENDITURES:			
Capital outlay	958,204	-	958,204
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCE	(956,704)	51,167	1,007,871
FUND BALANCE, July 1, 2006	956,704	955,327	(1,377)
FUND BALANCE, June 30, 2007	\$ -	\$ 1,006,494	\$ 1,006,494

Enterprise Funds

Water Fund – accounts for the City's water utility operations. It includes the Water Fund and Water Bond Construction Fund. The Water Bond Construction Fund was closed, with the remaining balance transferred to the Water Fund as of June 30, 2006.

Environmental Services Fund – accounts for the City's wastewater and stormwater operations. It includes the Environmental Services Fund and the Sewer Fund. The Sewer Fund was closed, with the remaining balance transferred to the Environmental Services Fund as of June 30, 2006.

CITY OF WEST LINN, OREGON

WATER FUND

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

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Water sales	\$ 2,701,500	\$ 2,701,500	\$ 2,869,342	\$ 167,842
Water connection fees	40,000	40,000	46,953	6,953
Interest	15,000	15,000	19,754	4,754
Miscellaneous	30,500	30,500	31,955	1,455
System development charges	12,000	12,000	9,880	(2,120)
TOTAL REVENUES	<u>2,799,000</u>	<u>2,799,000</u>	<u>2,977,884</u>	<u>178,884</u>
EXPENDITURES:				
Personal services	650,600	668,600	580,662	87,938
Materials and services	1,430,400	1,430,400	1,206,197	224,203
Capital outlay	15,000	24,000	8,600	15,400
Debt service	163,603	163,603	149,981	13,622
Contingency	169,228	142,228	-	142,228
Reserve for debt service	151,103	151,103	-	151,103
TOTAL EXPENDITURES	<u>2,579,934</u>	<u>2,579,934</u>	<u>1,945,440</u>	<u>634,494</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>219,066</u>	<u>219,066</u>	<u>1,032,444</u>	<u>813,378</u>
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	80,000	80,000	79,992	(8)
Transfers to other funds	(561,000)	(561,000)	(560,505)	495
TOTAL OTHER FINANCING SOURCES (USES)	<u>(481,000)</u>	<u>(481,000)</u>	<u>(480,513)</u>	<u>487</u>
NET CHANGE IN FUND BALANCE	<u>(261,934)</u>	<u>(261,934)</u>	<u>551,931</u>	<u>813,865</u>
FUND BALANCE, July 1, 2006	<u>261,934</u>	<u>261,934</u>	<u>655,018</u>	<u>393,084</u>
FUND BALANCE, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,206,949</u>	<u>\$ 1,206,949</u>

CITY OF WEST LINN, OREGON

ENVIRONMENTAL SERVICE FUND

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

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Licenses and permits	\$ 40,000	\$ 40,000	\$ 35,576	\$ (4,424)
Sewer charges	1,415,000	1,415,000	1,586,689	171,689
Storm drain charges	504,000	504,000	560,684	56,684
Interest	40,000	40,000	90,164	50,164
Miscellaneous	25,000	25,000	17,825	(7,175)
System development charges	39,000	39,000	43,036	4,036
TOTAL REVENUES	2,063,000	2,063,000	2,333,974	270,974
EXPENDITURES:				
Personal services	854,800	854,800	795,833	58,967
Materials and services	373,300	373,300	265,704	107,596
Capital outlay	292,500	292,500	278,971	13,529
Contingency	1,066,346	1,066,346	-	1,066,346
TOTAL EXPENDITURES	2,586,946	2,586,946	1,340,508	1,246,438
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(523,946)	(523,946)	993,466	1,517,412
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	106,500	106,500	106,500	-
Transfers to other funds	(778,000)	(778,000)	(775,336)	2,664
TOTAL OTHER FINANCING SOURCES (USES)	(671,500)	(671,500)	(668,836)	2,664
NET CHANGE IN FUND BALANCE	(1,195,446)	(1,195,446)	324,630	1,520,076
FUND BALANCE, July 1, 2006	1,195,446	1,195,446	1,719,421	523,975
FUND BALANCE, June 30, 2007	\$ -	\$ -	\$ 2,044,051	\$ 2,044,051

Internal Service Fund

Vehicle/Equipment Maintenance Fund – accounts for the maintenance of the City's vehicles and equipment. Charges are made to the various City operations to recover the costs of providing services.

CITY OF WEST LINN, OREGON

VEHICLE/EQUIPMENT MAINTENANCE FUND

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

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Charges for services	\$ 427,500	\$ 427,500	\$ 142,622	\$ (284,878)
Interest income	-	-	1,145	1,145
TOTAL REVENUES	<u>427,500</u>	<u>427,500</u>	<u>143,767</u>	<u>(283,733)</u>
EXPENDITURES:				
Personal services	189,500	189,500	159,682	29,818
Materials and services	145,400	145,400	140,604	4,796
Capital outlay	7,500	7,500	7,467	33
Contingency	6,699	6,699	-	6,699
TOTAL EXPENDITURES	<u>349,099</u>	<u>349,099</u>	<u>307,753</u>	<u>41,346</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>78,401</u>	<u>78,401</u>	<u>(163,986)</u>	<u>(242,387)</u>
OTHER FINANCING USES:				
Transfers from other funds	-	-	258,861	258,861
Transfers to other funds	(80,000)	(80,000)	(80,000)	-
TOTAL OTHER FINANCING USES	<u>(80,000)</u>	<u>(80,000)</u>	<u>178,861</u>	<u>258,861</u>
NET CHANGE IN FUND BALANCE	<u>(1,599)</u>	<u>(1,599)</u>	<u>14,875</u>	<u>16,474</u>
FUND BALANCE, July 1, 2006	<u>1,599</u>	<u>1,599</u>	<u>37,650</u>	<u>36,051</u>
FUND BALANCE, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,525</u>	<u>\$ 52,525</u>

Other Financial Schedules

CITY OF WEST LINN, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2007

Tax Year	Property Taxes Uncollected July 1, 2006	Add Levy Extended by Assessor	Discounts Allowed	Cancellation Adjustments	Interest	Collections	Property Taxes Uncollected June 30, 2007
2006-07	\$ -	\$ 7,759,907	\$ (187,488)	\$ (13,419)	\$ 2,292	\$ (7,310,877)	\$ 250,415
2005-06	165,663	-	(1)	(1,199)	5,411	(112,288)	57,586
2004-05	50,095	-	13	(1,397)	3,126	(25,721)	26,116
2003-04	36,602	-	3	(1,284)	3,476	(20,301)	18,496
2002-03	19,992	-	1	(5,635)	1,998	(10,057)	6,299
2001-02	5,003	-	1	(891)	286	(1,256)	3,143
2000-01 & prior	4,801	-	4	(384)	390	(223)	4,588
Total prior	<u>282,156</u>	<u>-</u>	<u>21</u>	<u>(10,790)</u>	<u>14,687</u>	<u>(169,846)</u>	<u>116,228</u>
Grand total	<u>\$ 282,156</u>	<u>\$ 7,759,907</u>	<u>\$ (187,467)</u>	<u>\$ (24,209)</u>	<u>\$ 16,979</u>	<u>\$ (7,480,723)</u>	<u>\$ 366,643</u>
Public Safety Fund							\$ 320,605
Debt Service Fund							<u>46,038</u>
							<u>\$ 366,643</u>

CITY OF WEST LINN, OREGON
 LEGAL DEBT MARGIN INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2007

Real market value		\$ 4,461,258,037
General obligation debt limit at 3% of real market value		<u>\$ 133,837,741</u>
General obligation debt subject to limit per ORS 287.001(1)	\$ 9,130,000	
Less: Funds applicable to the payment of principal thereof per ORS 287.004(2)		
Debt service fund	<u>(272,710)</u>	
Net debt subject to 3% limitation		<u>8,857,290</u>
Legal debt margin		<u>\$ 124,980,451</u>
Debt capacity percentage		93.4%

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, and comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth in the following pages.



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AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

December 11, 2008

Honorable Mayor and City Councilors
City of West Linn
West Linn, 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 West Linn, Oregon (the City), as of June 30, 2007, and have issued our report dated December 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Minimum Standards for Audits of Oregon Municipal Corporations*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on internal control over financial reporting. We have issued under separate cover, required communications in accordance with Statement on Auditing Standards No. 112, dated December 11, 2008.

ADEQUACY OF ACCOUNTING RECORDS

The City's accounting records were adequate to support our opinions on the audit of the financial statements except with regards to capital assets.

ADEQUACY OF COLLATERAL SECURING DEPOSITORY BALANCES

Oregon Revised Statutes (ORS) Chapter 295 requires that each depository throughout the period of its possession of public funds deposits shall maintain on deposit with its custodians, at its own expense, securities having a value of not less than 25% of the certificates of participation issued by the pool manager for funds in excess of those insured by the Federal Deposit Insurance Corporation. Our review of adequacy of collateral securing depository balances indicated the collateral was sufficient during the year ended June 30, 2007.

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS (Continued)**

Page 2

INVESTMENTS

Our review of deposit and investment balances indicated that, during the year ended June 30, 2007, the City was in compliance with ORS 294 as it pertains to investment of public funds.

LEGAL REQUIREMENTS RELATING TO DEBT

We noted the indebtedness of the City was in compliance with ORS 287.004 during the year ended June 30, 2007. We noted no defaults in principal, interest, sinking fund or redemption provisions with respect to any of the City's bonded debt, and no breach of the bond agreements, at June 30, 2007. The City did not meet its bond covenant related to timely completion of audits or the City's minimum required debt ratio.

BUDGET COMPLIANCE

The City appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget and tax levy for the year ended June 30, 2007, and the preparation and adoption of its budget for the year ending June 30, 2008, except as noted below:

1. The City has an interfund loan between the System Development Fund and the Building Inspection Fund, with a repayment term of five years. Repayment in full was not budgeted for the 2007-2008 fiscal year. ORS 294.460(a) requires repayment of non-capital interfund loans within the ensuing fiscal year.
2. The budget document for the year ended June 30, 2007, did not contain the required statement of outstanding indebtedness.
3. We were unable to verify that the budget hearing related to the budget for the year ended June 30, 2007, was publicized as required by Local Budget Law.
4. The interfund loan of Systems Development Funds to the Building Inspection Fund is inconsistent with the restricted use of those monies, and violates ORS 24.460(d).

INSURANCE POLICIES AND FIDELITY BONDS

We have reviewed the City's insurance and fidelity bond coverage at June 30, 2007. We ascertained that such policies appeared to be in force and in compliance with legal requirements relating to insurance and fidelity bond coverage. The City's fidelity bond may be inadequate to cover the misappropriation of cash. We are not competent by training to comment on the adequacy of the insurance policies covering City-owned property at June 30, 2007.

PUBLIC CONTRACTS

The City's procedures for awarding public contracts were reviewed and found to be in accordance with ORS Chapter 279.

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS (Continued)**

Page 3

HIGHWAY FUNDS

The City's procedures for utilizing gas tax funds were reviewed and found to be in accordance with ORS Chapter 294.

OTHER

The following audit comments and disclosures do not apply to the City:

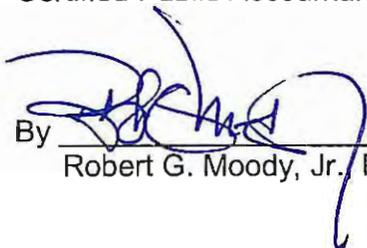
- Programs funded from outside sources.
- Financial reporting requirements.

* * * * *

This report is intended solely for the information and use of the Board of Councilors, management, and the Oregon Secretary of State Audits Division 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

By  _____
Robert G. Moody, Jr., Partner

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Appendix C

Book Entry Only System

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**SAMPLE OFFERING DOCUMENT LANGUAGE
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE**

(Prepared by DTC--bracketed material may apply only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial

Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

Appendix D

Form of Continuing Disclosure Certificate

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CONTINUING DISCLOSURE CERTIFICATE

\$4,915,000
General Obligation Refunding Bonds
Series 2009A

\$4,035,000
Full Faith and Credit Obligations
Series 2009B

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the City of West Linn, Oregon (the “Issuer”) in connection with the issuance of its General Obligation Refunding Bonds, Series 2009A and its Full Faith and Credit Obligations, Series 2009B captioned above (collectively, the “Obligations”).

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the Issuer for the benefit of the holders of the Obligations and to assist the underwriter(s) of the Obligations in complying with paragraph (b)(5) of the United States Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the “Rule”). This Certificate constitutes the Issuer’s written undertaking for the benefit of the owners of the Obligations as required by Section (b)(5) of 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 Obligations, including persons holding Obligations 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.

“NRMSIR” means a nationally recognized municipal securities information repository.

“Official Statement” means the final official statement for the Obligations dated January 8, 2009.

“Rule” means the Commission’s Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

“SID” means a state information depository for the State of Oregon (if one is created).

Section 3. Financial Information. The Issuer agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with 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

for the Obligations under the heading "Financial Statements (Appendix B)." To the extent not included in its annual financial statements, the Issuer shall also provide a 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; and, (4) the total principal amount of general obligation bonds and other tax-supported bonds of the Issuer which are outstanding at the end of the fiscal year.

Section 4. Timing. The information described in the preceding paragraph shall be provided on or before nine months after the end of the Issuer's fiscal year, commencing with information for fiscal year 2008-2009. 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 each then existing NRMSIR and the SID, if any. In lieu of providing this annual financial information separately, the Issuer may cross-reference to other documents provided to the NRMSIR, the SID or to the Commission. If the cross-referenced document is a final official statement within the meaning of the Rule, it shall be available from the MSRB.

The Issuer agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB, and to the appropriate SID, if any, 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) when and if available to each then existing NRMSIR and the SID, if any.

Section 5. Material Events. The Issuer agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Obligations, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves for the Obligations reflecting financial difficulties;
4. Unscheduled draws on credit enhancements for the Obligations reflecting financial difficulties;
5. Substitution of credit or liquidity providers or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Obligations;
7. Modifications to the rights of Obligation owners;
8. Bond calls;

9. Defeasance of the Obligations;
10. Release, substitution or sale of property securing repayment of the Obligations; and
11. Rating changes.

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 Obligations. 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 Obligations; and (b) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this Certificate.

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 Obligations, 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 Obligations, 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 Obligations or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or Beneficial Owners of the Obligations.

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 7. Obligation Owner's Remedies Under This Certificate. The right of any Obligation Owner or Beneficial Owner of Obligations 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 8. DisclosureUSA. Any filing required to be made with any NRMSIR or SID under this Certificate may be made by transmitting such filing solely to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 9. 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 21st day of January, 2009.

City of West Linn, Oregon

City Official

Appendix E

Form of Bond Declaration

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BOND DECLARATION

City of West Linn, Oregon

General Obligation Refunding Bonds, Series 2009A

Executed on behalf of the City of West Linn, Oregon

as of the 21st day of January, 2009

Table of contents

<i>Section 1.</i>	<i>Definitions.</i>	<i>1</i>
<i>Section 2.</i>	<i>Bond Authorized.</i>	<i>2</i>
<i>Section 3.</i>	<i>Security for Bonds.</i>	<i>2</i>
<i>Section 4.</i>	<i>Tax Covenants.</i>	<i>3</i>
<i>Section 5.</i>	<i>Book Entry System.</i>	<i>3</i>
<i>Section 6.</i>	<i>Redemption of Bonds.</i>	<i>4</i>
<i>Section 7.</i>	<i>Authentication, Registration and Transfer.</i>	<i>4</i>
<i>Section 8.</i>	<i>Amendment of Bond Declaration.</i>	<i>5</i>
<i>Section 9.</i>	<i>Default and Remedies.</i>	<i>6</i>
<i>Section 10.</i>	<i>Defeasance.</i>	<i>7</i>
<i>Section 11.</i>	<i>Form of Bond.</i>	<i>7</i>
<i>Section 12.</i>	<i>Rules of Construction.</i>	<i>7</i>
<i>Exhibit A – Form of Bond</i>		

BOND DECLARATION

THIS BOND DECLARATION is executed as of January 21, 2009, on behalf of the City of West Linn, Oregon by its Finance Director, an authorized City Official pursuant to and as defined in City Resolution No. 08-06 which was adopted by the City Council on February 11, 2008 (the “Resolution”). The Resolution authorizes the City Official to execute a bond declaration which contains the terms of the City’s General Obligation Refunding Bonds, Series 2009A and the covenants of the City relating to those Bonds.

Section 1. Definitions.

Unless the context clearly requires otherwise, the following terms shall have the following meanings:

“BEO” means “book-entry-only” and refers to a system for clearance and settlement of securities transactions through electronic book-entry changes, which eliminates the need for physical movement of securities.

“Bond Declaration” means this Bond Declaration, including any amendments made in accordance with Section 8 of this Bond Declaration.

“Bonds” means the City’s General Obligation Refunding Bonds, Series 2009A, that are described in Section 2 of this Bond Declaration.

“Business Day” means any day except a Saturday, a Sunday, a legal holiday, a day on which the Paying Agent or offices of banks in Oregon or New York are authorized or required by law or executive order to remain closed, or a day on which the New York Stock Exchange is closed.

“City” means the City of West Linn, Oregon.

“City Official” means the City’s Finance Director or City Manager acting behalf of the City pursuant to the Resolution.

“Code” means the Internal Revenue Code of 1986, as amended.

“Event of Default” refers to an Event of Default listed in Section 9(1) of this Bond Declaration.

“Government Obligations” means direct noncallable obligations of the United States, or obligations the principal of and interest on which are fully and unconditionally guaranteed by the United States.

“Outstanding” refers to all Bonds authorized and delivered pursuant to this Bond Declaration except Bonds which have been paid, canceled, or defeased pursuant to Section 10 of this Bond Declaration, and Bonds which have matured but have not been presented for payment for the payment of which adequate money has been transferred to the Paying Agent.

“Owner” means the person shown on the Bond register maintained by the Paying Agent as the registered owner of a Bond.

“Paying Agent” means the registrar and paying agent for the Bonds, which, at the time of execution of this Bond Declaration, is U.S. Bank National Association.

“Resolution” means City Resolution No. 08-06 which was adopted by the City Council on February 11, 2008, and which authorizes the execution of this Bond Declaration and the issuance and sale of the Bonds.

Section 2. Bond Authorized.

- (1) Pursuant to Oregon Revised Statutes Section 287A.360 and the Resolution, the City hereby authorizes the issuance, sale and delivery of the Bonds in accordance with this Bond Declaration and in a principal amount of \$4,915,000. The Bonds shall be dated January 21, 2009, shall bear interest which is payable on June 1 and December 1 of each year, commencing December 1, 2009. The Bonds shall mature on the following dates in the following principal amounts:

Maturity Date (June 1)	Principal Amount (\$)	Interest Rate (%)	CUSIP Number (Base954039)
2010	405,000	3.00	HS5
2011	470,000	3.00	HT3
2012	490,000	3.00	HU0
2013	505,000	3.00	HV8
2014	515,000	3.00	HW6
2015	535,000	3.00	HY2
2016	555,000	3.25	HZ9
2017	570,000	3.50	JA2
2018	590,000	3.50	JB0
2018*	280,000	4.00	HX4

*December 1 Maturity Date

- (2) Bond proceeds will be used to refund all or a portion of the City’s outstanding General Obligation Bonds, Series 1998, and General Obligation Bonds, Series 1999 and to pay the costs of issuance of the Bonds.

Section 3. Security for Bonds.

- (1) The Bonds are general obligations of the City. The City hereby pledges its full faith and credit to pay the Bonds when due. The City covenants for the benefit of the Owners that the City shall levy, annually, as provided by law, in addition to its other ad valorem property taxes and outside the limitations of Section 11 and 11b of Article IX of the Oregon Constitution, a direct ad valorem tax upon all of the taxable property within the City in sufficient amount, after considering discounts taken and delinquencies that may occur in the payment of taxes, to pay the Bonds promptly as they mature. The City

covenants with the Owners of the Bonds to levy such a tax annually during each year that any of the Bond are outstanding.

- (2) This Bond Declaration shall constitute a contract with the Owners.

Section 4. Tax Covenants.

The City intends for the interest on the Bonds to be excluded from gross income for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Code, and the applicable Income Tax Regulations (the “Regulations”). The City covenants not to take any action, or knowingly omit to take any action within its control, that if taken or omitted would cause the interest on the Bonds to be includable in gross income for federal income tax purposes.

Section 5. Book Entry System.

The Bonds shall be initially issued in BEO form and shall be governed by this Section 5. While the Bonds are in BEO form no physical Bonds shall be provided to the Owners. An official of the City has executed and delivered a blanket letter of representations to The Depository Trust Company (“DTC”). While the Bonds are in BEO form, registration and transfer of beneficial interests in the Bonds shall be governed by that letter and the operational arrangements of DTC, as they may be amended from time to time, as provided in the blanket issuer letter of representations. So long as the Bonds are in BEO form:

- (1) DTC shall be treated as the Owner for all purposes, including payment and the giving of notices to the Owners of the Bonds. Bond payments shall be made, and notices shall be given, to DTC in accordance with the letter of representations. Any failure of DTC to advise any of its participants, or of any participant to notify the beneficial owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice.
- (2) The City may discontinue maintaining the Bonds in the BEO form at any time. The City shall discontinue maintaining the Bonds in BEO form if DTC determines not to continue to act as securities depository for the Bonds, or fails to perform satisfactorily as depository, and a satisfactory substitute depository cannot reasonably be found.
- (3) If the City discontinues maintaining the Bonds in book-entry only form, the City shall cause the Paying Agent to authenticate and deliver replacement Bonds in fully registered form in authorized denominations in the names of the beneficial owners or their nominees; thereafter the provisions set forth in Section 7 below, regarding registration, transfer and exchange of Bonds shall apply.
- (4) The City and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of DTC or to any beneficial owner on behalf of which such participants or correspondents act as agent for the beneficial owner with respect to:

the accuracy of the records of DTC, the nominee or any participant or correspondent with respect to any beneficial owner's interest in the Bonds;

the delivery to any participant or correspondent or any other person of any notice with respect to the Bonds, including any notice of prepayment;

the selection by DTC of the beneficial interest in Bonds to be redeemed prior to maturity; or

the payment to any participant, correspondent, or any other person other than the registered owner of the Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal, any premium or interest on the Bonds.

The provisions of this Section 5 may be modified without the consent of the beneficial owners in order to conform this Section to the standard practices of DTC or any successor depository for bonds issued in book-entry only form.

Section 6. Redemption of Bonds.

- (1) Optional Redemption. The Bonds are not subject to redemption prior to their stated maturity dates.,
- (2) 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 Bonds so called for redemption shall cease on the redemption date designated in the notice. The Paying Agent will notify The Depository Trust Company of any Bonds called for redemption not less than 30 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 the next sentence. If the book-entry-only system is discontinued, the Paying Agent and the City shall, amend this Bond Declaration to provide for an alternative system of providing notice of redemption and such other matters as need to be updated for the Bonds that is of general acceptance in the municipal bond markets.

Section 7. Authentication, Registration and Transfer.

- (1) No Bond shall be entitled to any right or benefit under this Bond Declaration unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all Bonds to be delivered at the closing of the Bonds, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Bond Declaration.
- (2) The ownership of all Bonds shall be entered in the Bond register maintained by the Paying Agent, and the City and the Paying Agent may treat the person listed as Owner in the Bond register as the Owner of the Bond for all purposes.
- (3) While the Bonds are in book-entry only form, the Paying Agent shall transfer Bond principal and interest payments in the manner required by DTC.
- (4) If the Bonds cease to be in book-entry only form, the Paying Agent shall mail each interest payment on the interest payment date (or the next Business Day if the payment

date is not a Business Day) to the name and address of the Owners as they appear on the Bond register as of the record date for the Bonds. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.

- (5) Bonds may be exchanged for an equal principal amount of Bonds of the same maturity which are in different denominations, and Bonds may be transferred to other Owners if the Owner submits the following to the Paying Agent:

written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the Owner or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent, and the Bonds to be exchanged or transferred.

- (6) The Paying Agent shall not be required to exchange or transfer any Bonds submitted to it during any period beginning with a record date and ending on the next following payment date; however, such Bonds shall be exchanged or transferred promptly following that payment date.
- (7) The Paying Agent shall note the date of authentication on each Bond. The date of authentication shall be the date on which the Owner's name is listed on the Bond register.
- (8) For purposes of this Section 7, Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 7(5), above.
- (9) The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

Section 8. Amendment of Bond Declaration.

- (1) The City may amend this Bond Declaration without the consent of any Owner for any one or more of the following purposes:

To cure any ambiguity or formal defect or omission in this Bond Declaration;

To add to the covenants and agreements of the City in this Bond Declaration other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Bond Declaration as theretofore in effect;

To confirm, as further assurance, any security interest or pledge created under this Bond Declaration or any Supplemental Bond Declaration;

To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the Owners.

- (2) This Bond Declaration may be amended for any other purpose only upon consent of Owners representing not less than fifty-one percent (51%) in aggregate principal amount

of the adversely affected Bonds then Outstanding. However, no amendment shall be valid which:

Extends the maturity of any Bonds, reduces the rate of interest upon any Bonds, extends the time of payment of interest on any Bonds, reduces the amount of principal payable on any Bonds, or reduces any premium payable on any Bonds, without the consent of the affected Owner; or

Reduces the percent of Owners required to approve amendments to this Bond Declaration.

Section 9. Default and Remedies.

- (1) The occurrence of one or more of the following shall constitute an Event of Default under this Bond Declaration:

Failure by the City to pay Bond principal, interest or premium when due (whether at maturity, or upon redemption after a Bond has been properly called for redemption);

Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed for the benefit of Owners of Bonds, for a period of 60 days after written notice to the City by the Owners of ten percent or more of the principal amount of Bonds then Outstanding specifying such failure and requesting that it be remedied; provided however, that if the failure stated in the notice cannot be corrected within such 60 day period, it shall not constitute an Event of Default so long as corrective action is instituted by the City within the 60 day period and diligently pursued, and the default is corrected as promptly as practicable after the written notice referred to in this Section; or,

The City is adjudged insolvent by a court of competent jurisdiction, admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy, or consents to the appointment of a receiver for the installment payments.

- (2) The Owners of ten percent or more of the principal amount of Bonds then Outstanding may waive any Event of Default and its consequences, except an Event of Default described in this Section.
- (3) Upon the occurrence and continuance of any Event of Default hereunder the Owners of ten percent or more of the principal amount of Bonds then Outstanding may take whatever action may appear necessary or desirable to enforce or to protect any of the rights of the Owners of Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Bond Declaration or in aid of the exercise of any power granted in this Bond Declaration or for the enforcement of any other legal or equitable right vested in the Owners of Bonds by this Bond Declaration or by law. However, the Bonds shall not be subject to acceleration.
- (4) No remedy in this Bond Declaration conferred upon or reserved to Owners of Bonds is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Bond Declaration or now or hereafter

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

Section 10. Defeasance.

The City shall be obligated to pay Bonds which are defeased pursuant to this Section solely from the money and Government Obligations deposited with an escrow agent or independent trustee, and the City shall have no further obligation to pay the defeased Bonds from any source except the amounts deposited in the escrow. Bonds shall be deemed defeased if the City:

- (1) irrevocably deposits money or noncallable Government Obligations in escrow with an independent trustee or escrow agent which are calculated to be sufficient for the payment of the Bonds which are to be defeased without reinvestment; and
- (2) files with the escrow agent or trustee a verification from an independent, certified public accountant to the effect that calculation, described above, is correct; and
- (3) files with the escrow agent or trustee an opinion of nationally recognized bond counsel that the proposed defeasance will not cause the interest component of the Bonds to be includable in gross income under the Code.

Section 11. Form of Bond.

The Bonds shall be issued in substantially the form attached to the Resolution as Exhibit A, with any changes that are approved by the City Official. The Bonds shall be executed on behalf of the City with the facsimile or manual signature of the City Official.

Section 12. Rules of Construction.

In determining the meaning of provisions of this Bond Declaration, the following rules shall apply unless the context clearly requires application of a different meaning:

- (1) References to section numbers shall be construed as references to sections of this Bond Declaration.
- (2) References to one gender shall include all genders.
- (3) References to the singular shall include the plural, and references to the plural shall include the singular.

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

Dated as of the 21st day of January, 2009.

City of West Linn, Oregon

By: _____
Richard Seals, Finance Director

Exhibit A
Form of Series 2009A Bond

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America
State of Oregon
County of Clackamas
City of West Linn
General Obligation Refunding Bonds
Series 2009A

Dated Date: January 21, 2009

Interest Rate Per Annum: «CouponRate»%

Maturity Date: [June 1, «MaturityYear»/December 1, 2018]

CUSIP Number: 954039«CUSIPNumbr»

Registered Owner: -----Cede & Co.-----

Principal Amount: -----«PrincipalAmtSpelled» Dollars-----

The City of West Linn, Oregon (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, the Principal Amount indicated above on the Maturity Date indicated above together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above, computed on the basis of a 360-day year of twelve 30-day months. Interest is payable semiannually on the first day of June and the first day of December in each year until maturity or prior redemption, commencing December 1, 2009. Payment of each installment of interest shall be made on the payment date to the Registered Owner hereof whose name appears on the registration books of the City maintained by the City's paying agent and registrar, which is currently U.S. Bank National Association (the "Registrar"), as the Registered Owners appear on the registration books as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding the applicable interest payment date. For so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be paid on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance of this Bond, the securities depository for the Bonds is The Depository Trust Company, New York, New York, and Cede & Co. is the nominee of The Depository Trust Company. Such payments shall be made payable to the order of "Cede & Co."

This bond is one of a duly authorized series of bonds aggregating \$4,915,000 in principal amount designated as General Obligation Refunding Bonds, Series 2009A (the "Bonds"). The Bonds are issued to refund all or a portion of the City's outstanding General Obligation Bonds, Series 1998 and General Obligation Bonds, Series 1999. The Bonds are issued under and pursuant to Resolution No. 08-06 of the City adopted on February 11, 2008 and a Bond Declaration executed pursuant to that resolution (the "Declaration"). The Bonds are issued in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the Charter of the City.

The Bonds constitute valid and legally binding obligations of the City. The City has pledged its full faith and credit to pay the Bonds when due. The City covenanted for the benefit of the owners that the City will levy, annually, as provided by law, in addition to its other ad valorem property taxes and outside the limitations of Section 11 and 11b of Article IX of the Oregon Constitution, a direct ad valorem tax upon all of the taxable property within the City in sufficient amount, after considering discounts taken and delinquencies that may occur in the payment of taxes, to pay the Bonds promptly as they mature. The City covenanted with the owners of the Bonds to levy such a tax annually during each year that any of the Bonds are outstanding. The Bonds do not constitute a debt or indebtedness of Clackamas County, the State of Oregon, or any political subdivision thereof other than the City.

The rights and obligations of the City and the Registered Owners with respect to the Bonds are subject to the terms of the Declaration.

The Bonds are initially issued as a book-entry-only security issue with no certificates provided to the beneficial owners. Records of ownership of beneficial interests in the Bonds will be maintained by The Depository Trust Company and its participants.

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

The Bonds are not subject to redemption prior to their stated maturity dates.

Any exchange or transfer of this Bond must be registered, as provided in the Declaration, upon the bond register kept for that purpose by the Registrar. The exchange or transfer of this Bond may be registered only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Registrar and which is executed by the registered owner or duly authorized attorney. Upon registration, a new registered Bond or Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Declaration. The City and the Registrar may treat the person in whose name this Bond is registered on the bond register as its absolute owner for all purposes, as provided in the Declaration.

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

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

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this Bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon and the Charter of the City; and that the issue of which this Bond is a part, and all other obligations of the City, are within every debt limitation and other limit prescribed by such Constitution and Statutes and City Charter; and that the City has covenanted to levy a tax upon all taxable property within the City in an amount sufficient, with other available funds, to pay when due the interest on and the principal of the Bonds.

IN WITNESS WHEREOF, the Council of the City of West Linn, Oregon, has authorized this Bond to be signed by the facsimile signature of its City Official as of the 21st day of January, 2009.

City of West Linn, Oregon

Mayor

Finance Director

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

This Bond is one of a series of \$4,915,000 aggregate principal amount of City of West Linn, Oregon, General Obligation Refunding Bonds, Series 2009A, issued pursuant to the Declaration described herein.

Date of authentication: January 21, 2009.

U.S. Bank National Association, as Registrar

Authorized Officer

ASSIGNMENT

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

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

this Bond and does hereby irrevocably constitute and appoint _____ as attorney to transfer this Bond on the books kept for registration thereof with the full power of substitution in the premises.

Dated: _____

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

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

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

- TEN COM -- tenants in common
- TEN ENT -- as tenants by the entireties
- JT TEN -- as joint tenants with right of survivorship and not as tenants in common
- OREGON CUSTODIANS use the following
_____ CUST UL OREG _____ MIN
as custodian for (name of minor)
- OR UNIF TRANS MIN ACT
under the Oregon Uniform Transfer to Minors Act

Additional abbreviations may also be used though not in the list above.

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Appendix F

Form of Financing Agreement and Escrow Agreement

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FINANCING AGREEMENT

by and between

U.S. Bank National Association
as Escrow Agent

and

City of West Linn, Oregon
as Borrower

Dated as of January 21, 2009

\$4,035,000

City of West Linn, Oregon
Full Faith and Credit Obligations
Series 2009B

Table of Contents

Page

1.	RECITALS, DEFINITIONS AND RULES OF CONSTRUCTION.....	1
1.1	RECITALS.....	1
1.2	DEFINITIONS.....	1
1.3	RULES OF CONSTRUCTION.....	2
2.	REPRESENTATIONS, WARRANTIES AND COVENANTS.....	2
2.1	REPRESENTATIONS, WARRANTIES AND COVENANTS OF CITY.....	2
2.2	REPRESENTATIONS, WARRANTIES AND COVENANTS OF ESCROW AGENT.....	2
2.3	TAX COVENANTS.....	3
3.	THE LOAN AND THE FINANCING PAYMENTS.....	3
3.1	THE LOAN.....	3
3.2	THE FINANCING PAYMENTS AND ADDITIONAL CHARGES.....	3
3.3	PREPAYMENT.....	4
3.4	OBLIGATION TO PAY FINANCING PAYMENTS IS UNCONDITIONAL; PLEDGE OF FULL FAITH AND CREDIT....	5
3.5	ESTOPPEL.....	6
4.	TITLE AND ASSIGNMENT.....	6
4.1	TITLE.....	6
4.2	ASSIGNMENT BY THE ESCROW AGENT.....	6
4.3	ASSIGNMENT BY THE CITY.....	6
5.	FINANCING DEFAULTS AND REMEDIES.....	7
5.1	FINANCING DEFAULTS DEFINED.....	7
5.2	FORCE MAJEURE.....	7
5.3	REMEDIES ON FINANCING DEFAULT.....	7
6.	MISCELLANEOUS.....	8
6.1	NOTICES.....	8
6.2	BINDING EFFECT.....	8
6.3	SEVERABILITY.....	8
6.4	AMENDMENTS.....	8
6.5	EXECUTION IN COUNTERPARTS.....	9
6.6	APPLICABLE LAW.....	9
6.7	HEADINGS.....	9

EXHIBIT A: Financing Payments Schedule

FINANCING AGREEMENT

This Financing Agreement is dated as of January 21, 2009, and is entered into by and between the U.S. Bank National Association, as Escrow Agent, and the City of West Linn, 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 real and personal property by Financing Agreement pursuant to ORS 271.390, and executes this Financing Agreement to finance 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 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 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.

“Escrow Agreement” means the Escrow Agreement relating to the City's Full Faith and Credit Obligations, Series 2009B which is dated as of January 21, 2009, 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 \$4,035,000.

“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 2009B 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) of this Financing Agreement, 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 authorized by Resolution No. 08-45 adopted by the Council on November 24, 2008, including neighborhood street projects, retrofitting the wading pools and park bathrooms located at Hammerle and Sunset Parks, and acquisition of land and architectural fees and design costs for a new police station, and costs related to the financing.

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.

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 that exclusion.

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 11.1 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 December 1, 2009, 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 two Business Days 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) above 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;
- (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.

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 2010 through 2018, inclusive, are not subject to prepayment prior to their respective payment dates. The principal component of Financing Payments coming due on June 1, 2020 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, 2018, 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. Term Obligations subject to optional prepayment and redeemed in part will have the principal amount within the respective mandatory prepayment dates selected by the City.

3.3(B) Mandatory Prepayment. If not previously redeemed under the provisions for optional prepayment, the principal component of Financing Payments maturing on June 1 in the years

2020, 2022, 2024, 2026 and 2029 are subject to mandatory prepayment (in such manner as the Paying Agent and the Depository Trust Company will determine or by lot by the Paying Agent) on June 1 of the following years in the following principal amounts, at a price of par plus accrued interest to the date of prepayment.

2020 Term Obligation

Due June 1	Amount
2019	\$190,000
2020*	<u>\$200,000</u>
	<u>\$390,000</u>

2022 Term Obligation

Due June 1	Amount
2021	\$210,000
2022*	<u>\$215,000</u>
	<u>\$425,000</u>

2024 Term Obligation

Due June 1	Amount
2023	\$225,000
2024*	<u>\$235,000</u>
	<u>\$460,000</u>

2026 Term Obligation

Due June 1	Amount
2025	\$245,000
2026*	<u>\$255,000</u>
	<u>\$500,000</u>

2029 Term Obligation

Due June 1	Amount
2027	\$265,000
2028	\$275,000
2029*	<u>\$290,000</u>
	<u>\$830,000</u>

*Maturity

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. 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 the 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 nonavailability of the Projects, 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, and the Escrow Agent and the Owners shall have no lien on, or security interest in, the Projects.

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 or of the cities 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 shall have the right, at its sole option without any further demand or notice, to exercise any remedy available at law or in equity; however, the Financing Amount and the Financing Payments shall not be subject to acceleration.

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 by facsimile or mailed by registered mail or certified form (return receipt requested), postage prepaid:

To the Escrow Agent at:

U.S. Bank National Association
Corporate Trust Services
555 S.W. Oak St., PD-OR-P6TD
Portland, Oregon 97204
Fax #: 503-275-5738

To the City at:

City of West Linn
Attn: Finance Department
22500 Salamo Road
West Linn, Oregon 97068
Fax #: 503-650-9041

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 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 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.

U.S. Bank National Association,
as Escrow Agent

Cheryl Nelson, Vice President

City of West Linn, Oregon

Richard Seals, Finance Director

EXHIBIT A
The Financing Payments*

Financing Amount: \$4,035,000

Interest Accrual Date: January 21, 2009

Period Ending	Principal	Coupon	Interest	Debt Service
12/01/2009	-	-	132,974.93	132,974.93
06/01/2010	90,000	3.000%	77,211.25	167,211.25
12/01/2010	-	-	75,861.25	75,861.25
06/01/2011	150,000	3.000%	75,861.25	225,861.25
12/01/2011	-	-	73,611.25	73,611.25
06/01/2012	155,000	3.000%	73,611.25	228,611.25
12/01/2012	-	-	71,286.25	71,286.25
06/01/2013	160,000	3.000%	71,286.25	231,286.25
12/01/2013	-	-	68,886.25	68,886.25
06/01/2014	165,000	3.000%	68,886.25	233,886.25
12/01/2014	-	-	66,411.25	66,411.25
06/01/2015	170,000	3.000%	66,411.25	236,411.25
12/01/2015	-	-	63,861.25	63,861.25
06/01/2016	175,000	3.250%	63,861.25	238,861.25
12/01/2016	-	-	61,017.50	61,017.50
06/01/2017	180,000	3.500%	61,017.50	241,017.50
12/01/2017	-	-	57,867.50	57,867.50
06/01/2018	185,000	4.000%	57,867.50	242,867.50
12/01/2018	-	-	54,167.50	54,167.50
06/01/2019	190,000	4.000%	54,167.50	244,167.50
12/01/2019	-	-	50,367.50	50,367.50
06/01/2020	200,000	4.000%	50,367.50	250,367.50
12/01/2020	-	-	46,367.50	46,367.50
06/01/2021	210,000	4.000%	46,367.50	256,367.50
12/01/2021	-	-	42,167.50	42,167.50
06/01/2022	215,000	4.000%	42,167.50	257,167.50
12/01/2022	-	-	37,867.50	37,867.50
06/01/2023	225,000	4.050%	37,867.50	262,867.50
12/01/2023	-	-	33,311.25	33,311.25
06/01/2024	235,000	4.050%	33,311.25	268,311.25
12/01/2024	-	-	28,552.50	28,552.50
06/01/2025	245,000	4.200%	28,552.50	273,552.50
12/01/2025	-	-	23,407.50	23,407.50
06/01/2026	255,000	4.200%	23,407.50	278,407.50
12/01/2026	-	-	18,052.50	18,052.50
06/01/2027	265,000	4.350%	18,052.50	283,052.50
12/01/2027	-	-	12,288.75	12,288.75
06/01/2028	275,000	4.350%	12,288.75	287,288.75
12/01/2028	-	-	6,307.50	6,307.50
06/01/2029	290,000	4.350%	6,307.50	296,307.50
	4,035,000		1,993,506.18	6,028,506.18

*Please see the mandatory prepayment schedules in Section 3.3(B)

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ESCROW AGREEMENT

by and between

U.S. Bank National Association

as Escrow Agent

and

City of West Linn, Oregon

Dated as of January 21, 2009

\$4,035,000

Full Faith and Credit Obligations

Series 2009B

Evidencing interests in the Financing Payments due from
the City of West Linn, Oregon

Table of Contents

Page

1. DEFINITIONS; RULES OF CONSTRUCTION, RECITALS; AND TRANSFER OF RIGHTS.....	1
1.1 DEFINITIONS.....	1
1.2 RULES OF CONSTRUCTION.....	3
1.3 RECITALS.....	3
1.4 RIGHTS UNDER FINANCING AGREEMENT HELD FOR BENEFIT OF OWNERS.....	3
2. THE FULL FAITH AND CREDIT OBLIGATIONS, SERIES 2009B.....	4
2.1 PREPARATION AND DELIVERY OF OBLIGATIONS.....	4
2.2 PAYMENT OF OBLIGATIONS.....	4
2.3 BOOK-ENTRY ONLY SYSTEM.....	4
2.4 FORM OF OBLIGATIONS.....	5
2.5 EXECUTION.....	5
2.6 EXECUTION OF DOCUMENTS.....	5
2.7 OBLIGATION REGISTER.....	6
2.8 REDEMPTION.....	6
2.9 NOTICE OF REDEMPTION.....	7
3. ACCOUNTS.....	7
3.1 PAYMENT ACCOUNT.....	7
3.2 ADDITIONAL CHARGES.....	8
3.3 DEPOSITS AT CLOSING.....	8
4. PAYMENT ACCOUNT HELD IN TRUST; INVESTMENT.....	8
4.1 MONEYS AND INVESTMENTS HELD IN TRUST.....	8
4.2 INVESTMENTS AUTHORIZED.....	8
4.3 ACCOUNTING.....	9
4.4 ALLOCATION OF EARNINGS.....	9
4.5 DISPOSITION OF INVESTMENTS.....	9
4.6 DEPOSIT AND INVESTMENT OF MONEYS IN ACCOUNTS.....	10
5. THE ESCROW AGENT.....	10
5.1 COMPENSATION OF THE ESCROW AGENT.....	10
5.2 REMOVAL OF ESCROW AGENT.....	10
5.3 RESIGNATION OF ESCROW AGENT.....	11
5.4 MERGER OR CONSOLIDATION.....	11
5.5 ACCEPTANCE OF APPOINTMENT BY SUCCESSOR ESCROW AGENT.....	11
5.6 DUTIES AND RESPONSIBILITIES OF THE ESCROW AGENT PRIOR TO AND DURING DEFAULT.....	11
5.7 PROTECTION AND RIGHTS OF THE ESCROW AGENT.....	12
5.8 INDEMNIFICATION.....	13
6. CONCERNING THE OBLIGATION OWNERS.....	14
6.1 EVIDENCE OF ACTION TAKEN BY OWNERS.....	14
6.2 ACTION TAKEN BY OWNERS IRREVOCABLE.....	14
6.3 CERTAIN OBLIGATIONS DISREGARDED.....	14
7. MODIFICATION OF ESCROW AGREEMENT AND FINANCING AGREEMENT.....	15
7.1 LIMITATIONS.....	15
7.2 SUPPLEMENTAL ESCROW AGREEMENT WITHOUT CONSENT OF OWNERS.....	15
7.3 SUPPLEMENTAL ESCROW AGREEMENT WITH CONSENT OF THE OWNERS.....	15
7.4 EFFECT OF SUPPLEMENTAL ESCROW AGREEMENT.....	16

Table of Contents

	Page
7.5	AMENDMENTS TO FINANCING AGREEMENT NOT REQUIRING CONSENT OF OWNERS.16
7.6	AMENDMENTS TO FINANCING AGREEMENT REQUIRING CONSENT OF THE OWNERS.17
8.	COVENANTS18
8.1	COMPLIANCE WITH AND ENFORCEMENT OF FINANCING AGREEMENT.18
8.2	NOTICE OF DEFAULT.18
8.3	TAX COVENANTS.18
8.4	FURTHER ASSURANCES.18
9.	EVENTS OF DEFAULT18
9.1	EVENTS OF DEFAULT.18
9.2	REMEDIES ON ESCROW DEFAULT.19
9.3	NO REMEDY EXCLUSIVE.19
9.4	AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES.19
9.5	NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER.20
9.6	APPLICATION OF MONEYS UPON DEFAULT.20
9.7	ACTION BY OWNERS.20
10.	LIMITATION OF LIABILITY21
10.1	LIMITED LIABILITY OF CITY.21
10.2	NO LIABILITY OF CITY FOR ESCROW AGENT PERFORMANCE.21
10.3	NO LIABILITY OF ESCROW AGENT FOR THE FINANCING PAYMENT BY CITY.21
10.4	OPINION OF COUNSEL; EXPERTS.21
10.5	LIMITATION OF RIGHTS TO PARTIES AND OWNERS.21
12.	MISCELLANEOUS22
12.1	DEFEASANCE.22
12.2	NOTICES.22
12.3	GOVERNING LAW.23
12.4	PARTIAL INVALIDITY.23
12.5	BINDING EFFECT; SUCCESSORS.23
12.6	EXECUTION IN COUNTERPARTS.23
12.7	DESTRUCTION OF CANCELED OBLIGATIONS.23
12.8	HEADINGS.24

Exhibit A: Maturity Schedule

Exhibit B: Form of Obligation

ESCROW AGREEMENT

\$4,035,000

City of West Linn, Oregon

Full Faith and Credit Obligations

Series 2009B

THIS ESCROW AGREEMENT is dated as of January 21, 2009, is entered into by and between U.S. Bank National Association, an organization having a corporate trust office, as Escrow Agent, and the City of West Linn, 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 the City of West Linn, Oregon, or its successors.

“City Official” means the City Manager or the City Finance Director.

“Closing Date” means the day on which the Obligations are delivered to their original 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 U.S. 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.

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

“Financing Agreement” means the Financing Agreement for the Projects which is dated as of January 21, 2009 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).

“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 2009B, 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 authorized by Resolution No. 08-45 adopted by the Council on November 24, 2008, including neighborhood street projects, retrofitting the wading pools and park bathrooms located at Hammerle and Sunset Parks, and acquisition of land and architectural fees and design costs for a new police station, and costs related to the financing.

“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 any real or personal property that its City Council determines is needed.

(2) The City Council has determined in Resolution No. 08-45 adopted on November 24, 2008, that the Projects are needed, and has authorized execution of the Financing Agreement and this Escrow Agreement to finance 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 Full Faith and Credit Obligations, Series 2009B 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 2009B.

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 \$4,035,000. 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 DTC 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 2010 through 2018, inclusive, are not subject to prepayment prior to their respective payment dates. The Obligations maturing on June 1, 2020 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, 2018, 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. Term Obligations subject to optional prepayment and redeemed in part will have the principal amount within the respective mandatory prepayment dates selected by the City.

Mandatory Redemption. If not previously redeemed under the provisions for optional prepayment, the Obligations maturing on June 1 in the years 2020, 2022, 2024, 2026 and 2029 are subject to mandatory prepayment (in such manner as the Escrow Agent and The Depository Trust Company will determine or by lot by the Escrow Agent) on June 1 of the following years in the following principal amounts, at a price of par plus accrued interest to the date of prepayment.

2020 Term Obligations	
Due June 1	Amount
2019	\$190,000
2020*	<u>\$200,000</u>
	<u>\$390,000</u>

2022 Term Obligations	
Due June 1	Amount
2021	\$210,000
2022*	<u>\$215,000</u>
	<u>\$425,000</u>

2024 Term Obligations	
Due June 1	Amount
2023	\$225,000
2024*	<u>\$235,000</u>
	<u>\$460,000</u>

2026 Term Obligations	
Due June 1	Amount
2025	\$245,000
2026*	<u>\$255,000</u>
	<u>\$500,000</u>

2029 Term Obligations	
Due June 1	Amount
2027	\$265,000
2028	\$275,000
2029*	<u>\$290,000</u>
	<u>\$830,000</u>

*Maturity

2.9 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. The Escrow Agent will notify The Depository Trust Company of any Obligations called for redemption not less than 30 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) of this Escrow Agreement.

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, two Business Days 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.

3.2 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 balance of the proceeds of the Obligations shall be transferred by the original purchaser of the Obligations pursuant to the Closing Memorandum prepared by Seattle-Northwest Securities Corporation.

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, the Escrow Agent shall invest any uninvested funds in: a) a U.S. Bank Money Market interest-bearing deposit

account so long as the Escrow Agent is a Qualified Institution; b) otherwise 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 Escrow Agent upon its request for all reasonable expenses, disbursements and advances made by the Escrow Agent in accordance with the provisions of this Escrow Agreement (including the reasonable expenses and disbursements of its counsel), except any such expense, disbursement or advance as may arise from its negligence or bad faith. Fees for the Escrow Agent's services shall be those specified in the contract between the City and the Escrow Agent.

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 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.

5.7 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.

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.

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, 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 Sections 7.3(A)(1), 7.3(A)(2), 7.3(A)(3), or 7.3(A)(4) below;

(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 below, 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 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 Outstanding given as provided in this Section 7.6 above. 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 above with respect to supplemental Escrow Agreements. Such notice shall briefly set forth the nature of such proposed amendment, change or modification, and shall state that copies of the instrument embodying the same are on file at the principal office of the Escrow Agent for inspection by all Owners. The City may enter into, and the Escrow Agent may consent to, any such proposed amendment, change or modification subject to the same conditions and with the same effect as provided in Section 7.3 above hereof with respect to supplemental Escrow Agreements, provided the City has obtained the opinion of Special Counsel which is described in Section 7.5 above.

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.

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 that exclusion.

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.

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 Agreement to Pay Attorneys' Fees and Expenses.

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

9.5 No Additional Waiver Implied by One Waiver.

If any agreement contained in this Escrow Agreement should be breached by a party and thereafter waived by another party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

9.6 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:

9.6(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;

9.6(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;

9.6(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,

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

9.7 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 by facsimile or by 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:

U.S. Bank National Association
Corporate Trust Services
555 S.W. Oak St., PD-OR-P6TD
Portland, Oregon 97204
Fax #: 503-275-5738

To the City at:

City of West Linn
Attn: Finance Department
22500 Salamo Road
West Linn, Oregon 97068
Fax #: 503-650-9041

11.2(B) Any such notice shall be deemed given if sent by facsimile or deposited in the United States mail in registered or certified form (return receipt requested), with postage fully 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 21st day of January, 2009.

U.S. Bank National Association, as Escrow Agent

Cheryl Nelson, Vice President

City of West Linn, Oregon

Richard Seals, Finance Director

EXHIBIT A

Aggregate original principal amount of Obligations: \$4,035,000

Date of Obligations: January 21, 2009

Obligation interest is payable on June 1 and December 1 of each year, commencing December 1, 2009.

	Maturity Date	Principal Amount (\$)	Interest Rate (%)
Series 2009B - 2010-2018 Serials:			
	06/01/2010	90,000.00	3.000%
	06/01/2011	150,000.00	3.000%
	06/01/2012	155,000.00	3.000%
	06/01/2013	160,000.00	3.000%
	06/01/2014	165,000.00	3.000%
	06/01/2015	170,000.00	3.000%
	06/01/2016	175,000.00	3.250%
	06/01/2017	180,000.00	3.500%
	06/01/2018	185,000.00	4.000%
Series 2009B - 2020 Term Bond:			
	06/01/2019	190,000.00	4.000%
	06/01/2020	200,000.00	4.000%
Series 2009B - 2022 Term Bond:			
	06/01/2021	210,000.00	4.000%
	06/01/2022	215,000.00	4.000%
Series 2009B - 2024 Term Bond:			
	06/01/2023	225,000.00	4.050%
	06/01/2024	235,000.00	4.050%
Series 2009B - 2026 Term Bond:			
	06/01/2025	245,000.00	4.200%
	06/01/2026	255,000.00	4.200%
Series 2009B - 2029 Term Bond:			
	06/01/2027	265,000.00	4.350%
	06/01/2028	275,000.00	4.350%
	06/01/2029	290,000.00	4.350%

EXHIBIT B
(Form of Full Faith and Credit Obligation, Series 2009B)

No. R-__

\$_____

Full Faith and Credit Obligation
Series 2009B

Evidencing a Proportionate Interest of the Owner Hereof
in Financing Payments to be Made Under a Financing Agreement Between
City of West Linn, Oregon, as Borrower
and
U.S. Bank National Association, as Escrow Agent

Dated Date: January 21, 2009

Interest Rate Per Annum: ___%

Maturity Date: June 1, _____

CUSIP Number: 954039____

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 January 21, 2009, relating to this Obligation (the "Financing Agreement") by and between U.S. Bank National Association (the "Escrow Agent") and the City of West Linn, Oregon (the "City"). Interest on this Obligation is payable on June 1 and December 1 of each year until maturity, commencing December 1, 2009, 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 2009B (the "Obligations"), executed and delivered by the Escrow Agent pursuant to an Escrow Agreement dated as of January 21, 2009, (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. 08-45 of the City adopted November 24, 2008. The City has entered into the Financing Agreement for the purpose of financing the costs of neighborhood street projects, retrofitting the wading pools and park bathrooms located at Hammerle and Sunset Parks, and acquisition of land and architectural fees and design

costs for a new police station, including 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 are subject to maturity and redemption as described in the Financing Agreement and Escrow Agreement.

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. Interest on any Obligations so called for redemption shall cease on the redemption date designated in the notice. The Escrow Agent will notify The Depository Trust Company of any Obligations called for redemption not less than 30 days prior to the date fixed for redemption.

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 U.S. Bank National Association, as Escrow Agent, acting pursuant to the Escrow Agreement.

U.S. 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 \$4,035,000 aggregate principal amount of the City of West Linn, Oregon, Full Faith and Credit Obligations, Series 2009B, issued in accordance with the Escrow Agreement described herein.

Date of authentication: January 21, 2009.

U.S. 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.

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