## I. Summary of significant accounting policies:

## A. Reporting entity:

The territory of Oregon incorporated the City of Portland (City) in 1851: eight years prior to the year Oregon was granted statehood in 1859. The State of Oregon granted a new charter to the City of Portland in 1903. Voters approved an extensive revision to the City Charter, which established a commission form of government in 1913. The City Council, composed of an elected mayor and four commissioners, forms the legislative branch of the City government. The Council and an elected City Auditor manage City departments.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

- Appointment by the City of a majority of voting members of the governing body of an organization, and ability to impose its will on the daily operations of an organization, such as power to remove appointed members at will; to modify or approve budgets, rates or fees; or to make other substantive decisions; or provision by the organization of specific financial benefits to the City; or imposition by an organization of specific financial burdens on the City, such as assumption of deficits or provision of support; or
- Fiscal dependency by the organization on the City such as lack of authority to determine a budget, approve rates or issue its own bonded debt without City approval.

Although *blended component units* are legally separate entities, in substance they are part of the government's operations and their sole purpose is to provide services entirely to or exclusively for the City or the City Council is the governing body. The *discretely presented component unit* is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City, its governing body is not substantially the same as the City's governing body and it does not provide services entirely or exclusively to the City government.

## Blended component unit - Fire and Police Disability and Retirement Fund

The Fire and Police Disability and Retirement Fund (FPD&R) was established by adoption of Chapter 5 of the City Charter by voters in a general election held on November 2, 1948. Voters have made six subsequent amendments, the last one being November 7, 2000. The FPD&R provides "for the benefit of the members employed by the Bureau of Fire, Rescue, and Emergency Services or by the Bureau of Police of the City of Portland and for the benefit of the surviving spouses and dependent minor children of deceased members" (Section 5-101).

The FPD&R's Board of Trustees also administer a reserve fund and a supplemental reserve fund authorized under a provision of Chapter 5 (Section 5-104) of the Charter of the City of Portland. The reserve fund provides for advances to the Fire and Police Disability and Retirement Fund in the event the latter is depleted to the extent it cannot meet its obligations. Under provisions of the City Charter, the reserve fund maximum is established at \$750,000 (Section 5-103). The supplemental reserve fund provides for supplemental retirement benefits to certain members of the Fire and Police Bureaus. The FPD&R is reported as a pension trust fund, fiduciary fund type.

Complete financial statements may be obtained from the administrative office at: Fire and Police Disability and Retirement Fund Board, 1800 SW First Ave., Suite 450, Portland, Oregon 97201, e-mail: <a href="mailto:fpdr@ci.portland.or.us">fpdr@ci.portland.or.us</a>, or by telephone: (503) 823-6823.

#### I. Summary of significant accounting policies, Continued:

#### B. Government-wide and fund financial statements:

Discretely presented component unit - Portland Development Commission

The Portland Development Commission (PDC) is organized under Chapter 15 of the Charter of the City of Portland, Oregon, and is the City's urban renewal and redevelopment agency. The Department of Development and Civic Promotion has been administered by the PDC since May 16, 1958. Its principal activities are business retention, employment creation, and real estate acquisition to remove or prevent blight, construction improvements, and rehabilitation/restoration lending.

Based upon criteria established by the Governmental Accounting Standards Board (GASB), assets, liabilities, revenues and expenses related to PDC are included in the component unit column of the City's government-wide financial statements. Unless noted otherwise in this report, accounting policies of the component unit are consistent with those described for the primary government. The City is financially accountable for operations of PDC through budgetary authority and fiscal management. PDC prepares a separate Comprehensive Annual Financial Report (CAFR), and it may be obtained from their administrative offices at 222 NW Fifth Ave., Portland, Oregon 97209-3859, URL: http://www.pdc.us/pubs/, or by telephone: (503) 823-3200.

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, though agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

#### I. Summary of significant accounting policies, Continued:

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the City considers revenues to be available if they are collected within *sixty days* of the end of the current fiscal period, with the exception of federal and state grants.

Significant revenues, measurable and available for the fiscal year ended June 30, 2005, under the modified accrual basis of accounting were as follows:

- Federal and state grants (to the extent that revenues are earned as eligible expenditures are incurred)
- State, county and local shared revenues of business license taxes, liquor taxes and other taxes
- Property taxes collected within sixty days following year-end

Expenditures generally are recorded when a liability is incurred. Exceptions are:

- Claims and judgments
- Interfund transactions for services which are recorded on the accrual basis
- Interest expenditures on general long-term debt which are recorded when due
- Earned but unpaid vacations which are recorded as expenditures to the extent they are expected to be liquidated with expendable, available financial resources

The City reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Transportation Operating Fund** accounts for activities associated with the City's transportation system.

The City reports the following major proprietary funds:

The **Sewage Disposal Fund** accounts for the activities associated with waste water collection and treatment.

The Water Fund accounts for activities associated with the water distribution system.

Additionally the City reports the following fund types:

Internal service funds account for goods and services provided by one City bureau to another City bureau, or to other governments on a cost reimbursement basis. Internal service funds account for the activities of health insurance, facilities, fleet, printing and distribution, communications, liability insurance, workers compensation insurance, and information technology.

Pension trust funds account for pension and benefits for members of the Fire and Police Bureaus, their widows and surviving children.

## I. Summary of significant accounting policies, Continued:

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

Agency funds account for resources received and held by the City in a custodial capacity, on behalf of other organizations. The City maintains two types of agency funds: trustee and clearing. Trustee funds are used to account for resources collected on behalf of other governments. Clearing funds are used to account for amounts previously expensed to operating funds and transferred to the clearing funds until paid.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between enterprise functions and various other City functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Indirect expenses include general government, support services, and administration costs. These indirect expenses are allocated based on a full-cost allocation approach, thereby allocating indirect expenses among functions with the objective of allocating all expenses. This allocation is done through the General Fund and is included in direct program expenses for the various functional activities within individual funds.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Taxes and other items not properly included as program revenues are reported instead as *general revenues*.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods or services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including water and sewer charges, printing fees, telecommunication charges, vehicle use and maintenance fees, insurance fees, facility rents and information system support charges. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

#### 1. Deposits and investments

The City maintains a cash and investment pool that is available for use by all funds including its component units. Cash and investments are presented on the balance sheet in the basic financial statements at fair value in accordance with GASB Statement No. 31.

#### I. Summary of significant accounting policies, Continued:

## D. Assets, liabilities, and net assets or equity, Continued:

All investment pool cash purchases and sales are part of the City's cash management activity and considered cash and cash equivalents. Activities undertaken by the pool on behalf of the proprietary funds are not part of operating, capital, investing, or financing activities of the proprietary funds, and details of these transactions are not reported in the Statement of Cash Flows. In general, interest earned from pooled investments is allocated to each fund based on the average earnings rate and daily cash balance of each fund.

State statutes authorize the City and component units to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade commercial paper and the State Treasurer's Local Government Investment Pool (LGIP).

#### 2. Receivables

Uncollected property taxes in governmental funds are shown on the balance sheet as receivables. Property is valued as of January 1. Taxes are assessed and become property liens on July 1, annually. Property tax statements are mailed no later than October 25th, and taxes are due in three installments on November 15, February 15, and May 15. Discounts, less than or equal to three percent, are offered to those paying early. Taxes outstanding on May 16 are considered delinquent. Property tax receivables are deemed to be substantially collectible or recoverable through foreclosure. Accordingly, no allowance for doubtful tax accounts is deemed necessary. All other receivables are shown net of an allowance for uncollectibles.

Proprietary fund receivables are recorded as revenue when earned, including services earned but not billed. The receivables of proprietary funds include billing for residential and commercial customers utilizing the City's water, sewer and storm water management services. These receivables are reported net of an allowance for doubtful accounts.

The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts, the aging of the accounts receivable, historical experience, and other currently available evidence.

Local Improvement District (LID) project expenditures are recognized as accounts receivable when incurred. Upon completion of LID projects, City Council assesses a lien upon the benefited properties at which point accounts receivable are reclassified as assessments receivable.

Contracts and mortgages receivable consist primarily of loans for restoration and rehabilitation of property within the City. Federal and state grants, shared revenues, and interest are recorded as revenue when earned and are included in accounts and grants receivable. Advances receivable are primarily monies paid to third parties prior to services performed. As services are rendered these advances are reduced from future payments.

## 3. <u>Inventories and property held for resale</u>

Inventories are stated at average cost. Inventories of governmental funds are offset by a reservation of fund balance. Expenditures are recognized in governmental funds when inventories are purchased. Inventories of proprietary funds are expensed as used. Property held for resale is recorded at the lower of cost or estimated market value.

- I. Summary of significant accounting policies, Continued:
- D. Assets, liabilities, and net assets or equity, Continued:

#### 4. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Amortization of Public Employees Retirement System (PERS) expenditures applicable to future accounting periods are recorded as noncurrent prepaid expense in both the government-wide and proprietary fund financial statements.

#### Restricted assets

Certain assets are classified on the statement of net assets as restricted assets because their use is limited by applicable bond indentures or other legal provisions. All restricted assets are from the Hydroelectric Power Fund and are legally restricted for renewal and replacement, debt service and other purposes by the hydroelectric power revenue bond ordinances and trust agreements and are segregated as restricted assets.

#### 6. Capital assets

Capital assets, which include land, buildings, improvements to land, equipment, infrastructure, construction in progress, and capital leases, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

All land and buildings are capital assets with no minimum cost threshold. Infrastructure and land improvements are capitalized with total costs of \$10,000 or more. Equipment with a cost of \$5,000 or greater are capitalized. Dollar thresholds for capital lease assets are the same amount as the purchased capital asset counterpart.

Capital assets are recorded at historical cost or estimated historical cost when actual cost is not available. Items acquired through donations are capitalized on the basis of fair value at the date of transfer, plus ancillary costs necessary to place them in service. Donated items are capitalized if the fair value and any ancillary charges necessary to place the asset into use meet the capitalization threshold for that class of asset. The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized.

Upon disposal of capital assets, historical cost or estimated historical cost is removed. Proceeds from sales are generally recorded as revenue in the fund that originally acquired the assets.

Depreciation and amortization of capital assets are computed on the straight-line method over their estimated useful lives. Depreciation and amortization are not taken during the year of acquisition.

The estimated useful lives of capital assets are:

- Buildings 10 to 50 years
- Improvements to land 20 to 50 years
- Equipment 3 to 30 years
- Infrastructure 10 to 100 years

Works of art and historical treasures held for public exhibit rather than financial gain are not capitalized. These items are owned by the City but protected and maintained by the Regional Arts and Culture Council, a nonprofit corporation.

## I. Summary of significant accounting policies, Continued:

## D. Assets, liabilities, and net assets or equity, Continued:

#### 7. Capitalized interest

Interest costs of tax exempt borrowing, less interest earned on investments acquired with these proceeds, are capitalized in proprietary funds from the date of borrowing, after the date of actual expenditure, until the constructed assets are ready for their intended use. Total interest costs incurred in business-type activities in fiscal year 2005 were \$81.4 million, of which \$13.6 million was capitalized for a net interest expense of \$67.8 million.

#### 8. Leases

In accordance with Financial Accounting Standards Board (FASB) Statement No. 13, some leases are classified as capital lease obligations and are recorded at the lesser of present value of minimum lease payments or fair value of the leased property at inception. Leases not meeting the criteria of a capital lease are classified as operating leases.

#### 9. Compensated absences

City employees accumulate earned but unused vacation and sick leave benefits in accordance with applicable bargaining agreements. Vacation leave is recorded in government-wide, proprietary, and fiduciary fund financial statements when earned by employees. Compensated absences are reported in governmental funds only if they have matured. Collective bargaining agreements for Fire and Police Bureau employees require they be paid for accrued sick leave upon retirement. Sick leave for these employees is accrued when earned. Sick leave for other City employees does not vest and is expended in all funds when leave is taken. Historically, compensated absences are paid by the individual funds as they become due.

## 10. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts 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 expensed when bonds are issued.

In the governmental fund financial statements, bond premiums and discounts as well as debt issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### 11. Fund equity

In the fund financial statements, governmental funds report 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. A portion of retained earnings for proprietary funds has been segregated from unreserved retained earnings for amounts legally required to be set aside to pay bonded debt service, in accordance with revenue bond and general obligation water bond ordinances. Other reservations for petty cash, inventories, debt service and the parks endowments have been segregated from unreserved fund balance to indicate that this amount does not represent available expendable resources.

## I. Summary of significant accounting policies, Continued:

## D. Assets, liabilities, and net assets or equity, Continued:

#### 12. Statement of cash flows

In the statement of cash flows for proprietary funds, cash and cash equivalents include all assets in the cash and investment pool. This pool is similar to a demand deposit account for enterprise and internal service funds in that they may deposit and withdraw cash at any time without prior notice or penalty. This treatment is in conformity with GASB Statement No. 9, which states that deposits in cash management pools that have the general characteristics of demand deposit accounts are appropriately classified as cash.

## 13. Use of estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP), 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### 14. Prior period adjustment

The City's beginning net assets have been restated to establish the accounts receivable for franchise fees. Franchise fee revenues were previously accounted for on the cash basis of accounting, a method of accounting not in conformity with GAAP. This adjustment reflects a change in beginning net assets of \$12,179,250, resulting in \$80,215,400 as restated beginning net assets for the General Fund. If the prior year statement of activities had been restated the impact would have been an increase to revenue approximately \$612,000. The impact of this adjustment is considered immaterial to the change in net assets.

## E. Implementation of recently issued accounting pronouncements:

For the fiscal year ended June 30, 2005, the City implemented GASB Statement No. 40, *Deposit and Investments Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements)*, and Repurchase Agreements.

The purpose of GASB Statement No. 40 is to provide expanded information to the user related to risk exposure that potentially could lead to losses that may affect a government's ability to provide services and meet its obligations as they become due. GASB Statement No. 40 addresses common deposits and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The new statement eliminated portions of GASB Statement No. 3 including custodial credit risk disclosures generally referred to as category 1 and 2 deposits and investments, and maintains, with modification, the level of detail disclosure requirements.

#### F. Future GASB pronouncements issued:

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2005:

Statement No. 42	Accounting and Financial Reporting for Impairment of Capital Assets and for							
	Insurance Recoveries							
Statement No. 43	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans							
Statement No. 44	Economic Condition Reporting: The Statistical Section							
Statement No. 45	Accounting and Financial Reporting by Employers for Postemployment Benefits Other							
	Than Pensions							
Statement No. 46	Net Assets Restricted by Enabling Legislation							
Statement No. 47	Accounting for Termination Benefits							
	č							

#### I. Summary of significant accounting policies, Continued:

#### F. Future GASB pronouncements issued, Continued:

The City of Portland will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The City has not yet determined if the above listed new GASB pronouncements will have a significant financial impact to the City or in issuing its financial statements.

#### II. Stewardship, compliance, and accountability:

#### A. Budgetary information:

Except for certain fiduciary funds, state law requires the City to budget all funds. State law further requires that total resources in each fund equal total expenditures and requirements for that fund. Appropriations lapse at fiscal year end.

The City legally adopts its budget annually for all funds prior to July 1 through passage of an ordinance. The annual budget ordinance authorizes positions and establishes appropriations for the fiscal year for each fund by organization unit and major object category (personal services, external and internal materials and services, capital outlay, and other expenditures). The General Fund is adopted by bureau appropriation units and all other funds at the fund level.

Budgets may be modified during the fiscal year through different means. Bureau managers, without City Council's approval, may transfer appropriations between line items within major object categories, provided transfers do not affect total appropriations. In addition, bureaus may transfer appropriations between major object categories with the permission of their commissioner-in-charge, provided the adjustments do not affect total appropriations.

#### B. Expenditures in excess of appropriations:

State law requires a supplemental budget to increase appropriations when unexpected additional resources become available. A supplemental budget is also required when cumulative transfers from a fund's operating contingency during a fiscal year reach 15 percent or more of a fund's authorized appropriations. The supplemental budget process requires a public hearing, advance notice by newspaper publication, and City Council approval. If the supplemental budget is greater than 10 percent of a fund's expenditures, as defined by Oregon Revised Statutes (ORS) 294, or includes contingency transfers that have reached more than 15 percent of the fund's authorized appropriations, the supplemental budget also requires certification by the Tax Supervising and Conservation Commission and a more extensive public notification process. The City adopted two supplemental budgets and made a number of appropriation transfers requiring approval by the City Council during the year ended June 30, 2005.

Oregon state law requires disclosure of fund expenditures in excess of budgeted appropriations. However, Local budget law exempts reporting of over appropriations that result from bond refundings. For the fiscal year ended June 30, 2005, the following funds had expenditures in excess of budgeted appropriations:

## II. Stewardship, compliance, and accountability, Continued:

# B. Excess of expenditures over appropriations, Continued:

# **Primary Government**

<u>Sovernment</u>	
General Fund:	
Community Development:	
Office of Neighborhood Involvement	
Materials and services	\$ 8,052
Special Appropriations: Clean & Safe	,
Materials and services	235
Special Appropriations: Employee Transit Program	
Materials and services	81,099
Special Appropriations: Downtown Services	,
Materials and services	238,683
Legislative/Admin/Support Services:	,
Bureau of Purchases and Stores	
Materials and services	501
Inventory Stores Stock	
Materials and services	13,016
Debt Service and related costs:	109,736
Special Revenue Funds:	
Public Safety:	
Emergency Communication:	
Overhead charges - General Fund	1
Community Development:	-
Housing and Community Development:	
Debt service and related costs	11,004
Enterprise Funds:	
Environmental Services:	
Sewer System Construction:	0.40.0=0
Materials and services	243,076
Motor Sports:	
Portland International Raceway:	
Materials and services	74,353
Internal Service Funds:	
CityFleet Operating:	
Materials and services	252,842
Printing & Distribution Services Operating:	
Debt service and related costs	16,543

All expenditures in excess of budgeted appropriations in the fiscal year ended June 30, 2005 were funded by additional revenue or available fund balance.

904,349

Insurance and Claims Operating:
Materials and services

## II. Stewardship, compliance, and accountability, Continued:

#### C. Deficit Fund Equity:

Oregon state law requires fund disclosure of deficit fund balances/total net assets. At June 30, 2005, one fund in the component unit had a deficit balance:

#### Component Unit - Portland Development Commission

The North Macadam Urban Renewal Fund had a deficit fund balance of \$1.7 million as of June 30, 2005. The fund incurred construction costs for the River Place Streetcar project that will be reimbursed from the City of Portland in fiscal year 2006.

Future resources will be used to clear this fund deficit.

## III. <u>Detailed notes</u>:

#### A. Deposits and investments:

Cash and investments for the primary government are comprised of governmental and business-type activities. The balances at June 30, 2005 are:

		Primary	(	Component
		Government		Unit (PDC)
Cash on hand	\$	4,939	\$	1,000
Deposits with financial institutions		21,740,846		268,149
Private Lender Program security deposits		-		12,589
Investments		532,846,308		92,728,892
To	otal \$	554,592,093	\$	93,010,630

Cash and investments for the primary government are comprised of \$554.6 million for City operations and \$51.8 million for the City's fiduciary operations. PDC's cash and investments are comprised of \$93 million for its operations and \$93,822 for its fiduciary operations. The table below excludes fiduciary operations.

					Total		
	(	Sovernmental	E	Business-type	Primary	(	Component
		Activities		Activities	Government		Unit (PDC)
Unrestricted	\$	312,608,845	\$	228,029,838	540,638,683	\$	93,010,630
Restricted		-		13,953,410	13,953,410		-
Total	\$	312,608,845	\$	241,983,248	\$ 554,592,093	\$	93,010,630

The restricted cash and investments are comprised entirely of Hydroelectric Power Funds; \$9 million for renewal and replacement, and \$4.9 million for bond redemption in accordance with the agreement with Portland General Electric.

#### III. Detailed notes, Continued:

#### A. Deposits and investments, Continued:

#### **Deposits**

#### Primary government

Custodial credit risk—deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy is in accordance with ORS 295.015 that governs investment of public funds. All deposits were covered by federal depository insurance up to \$100,000 and collateralized with eligible securities in amounts equal to at least 25 percent of the book value of deposits as required by ORS 294.035. As of June 30, 2005, the book value of all the City's deposits was \$120 million. All collateral securities were held by third parties in the City's name, and consequently were not exposed to custodial credit risk.

#### Component Unit - Portland Development Commission

Total deposits for PDC were \$268,149 of which \$177,589 was covered by federal depository insurance and the remaining \$103,149 was collateralized by securities held by the Federal Home Loan Bank of Seattle or the City Treasurer. The PDC cash includes Private Lender Program security deposits of \$12,589.

#### Investments

#### Primary government

All investment pool cash purchases and sales are part of the City's cash management activity and considered cash and cash equivalents. Activities undertaken by the pool on behalf of the proprietary funds are not part of operating, capital, investing, or financing activities of the proprietary funds, and details of these transactions are not reported in the Statement of Cash Flows.

Interest earned from the pooled investments is allocated to each fund based on the average earnings rate and daily cash balance of each fund. The City has recorded investments at fair value.

City Treasury assesses a management fee that is deducted from investment income before distributions are made to all City funds. This fee is based on City Treasury's net operating expenses and totaled \$567,232 for fiscal year ended June 30, 2005.

The City's investment policy, developed by the Office of Management and Finance in consultation with the City's Investment Advisory Committee (IAC), is adopted annually by the City Council and forwarded to the Oregon Short-Term Fund Board for review as required. The IAC is established pursuant to City Code section 3.88.010 and is comprised of the City Treasurer and three to four citizens who are not employed with the City and who have industry experience in areas of finance, investment or economics. These citizens are appointed by the Mayor and approved by City Council. The Oregon Short-Term Fund Board consists of the State Treasurer and six members appointed by the Governor and the State Treasurer.

The City does not invest in any form of derivatives or reverse repurchase agreements and does not leverage its investment portfolio in any manner. The City purchases investments only through member banks of the Federal Reserve System or broker/dealers approved by Chief Administrative Officer or designee in consultation with the City Treasurer and the IAC.

#### III. Detailed notes, Continued:

#### A. Deposits and investments, Continued:

Investments in the LGIP are included in the Oregon Short-Term Fund, which is not registered with the U.S. Securities and Exchange Commission as an investment company. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board.

The following investments are permitted under the City's investment policy as well as by ORS 294.035 and ORS 294.810:

- United States Treasury Debt Obligations
- United States Agency Debt Obligations
- Bankers' Acceptances
- Commercial Paper Issued by United States Corporations
- Interest Bearing Deposits in State of Oregon Financial Institutions
- State of Oregon Local Government Investment Pool
- Repurchase Agreements Secured by United States Treasury Debt Obligations

Interest rate risk. As of June 30, 2005, the weighted average maturity of the City's investment portfolio was .42 years. To minimize interest rate risk, the City's investment policy limits the portfolio to a maximum weighted average maturity of eighteen months. In addition, no more than 50% of the projected lowest cash balance may be invested in securities with a maturity range beyond two years. All other funds must be invested in less than two-year maturities and must meet the City's cash flow requirements. Investments with maturities greater than two years may be purchased only with the approval of the IAC.

Credit risk. The City's investments in Federal Farm Credit Banks (FFCB), Federal Home Loan Banks (FHLB), and Federal Home Loan Mortgage Corporation (FHLMC) Coupon Notes were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services. The City's investments in Federal National Mortgage Association (FNMA) Coupon Notes were rated AAA by both Standard & Poor's and Fitch. The City's investments in FHLMC and FNMA have a short-term credit rating of A-1+ by Standard & Poor's and F1+ by Fitch. All of the City's Commercial Paper investments had a minimum credit rating of A-1 by Standard & Poor's and P-1 by Moody's. The City's investments in Bank of America Banker's Acceptances have a short-term credit rating of A-1+ by Standard & Poor's, F1+ by Fitch, and P-1 by Moody's. As of June 30, 2005, the LGIP was not rated.

Concentration of credit risk. Of the City's total investments as of June 30, 2005, 9.68% were FHLMC Notes or short-term investments, 19.38% were FHLB Notes, and 9.72% were Bank of America Banker's Acceptances. All other investments not explicitly guaranteed by the U.S. Government were less than 5% of the City's total investments.

Custodial credit risk-investments. For an investment, this 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 or collateral securities that are in the possession of an outside party. The City's investment policy complies with ORS 294.035 and ORS 294.810 that lists acceptable investments that are identified below. At June 30, 2005, the City has no investments that are held by either a counterparty or the counterparty's trust department or agent. Therefore, the City has no outstanding investments that were exposed to custodial credit risk.

## III. <u>Detailed notes</u>, Continued:

# A. Deposits and investments, Continued:

As of June 30, 2005, the City had the following investments and maturities:

			Non			Investment Ma	y (in years)	Weighted		
	Fair			Maturity -		Less			Average	
Investment Type		Value		Rated		Than 1		1 - 5	Maturity (Years)	
U.S. Treasuries	\$	89,987,604	\$	-	\$	-	\$	89,987,604	1.10	
U.S. agencies		245,823,186		-		129,508,502		116,314,684	0.70	
Bankers' acceptances		64,852,208		-		64,852,208		-	0.04	
Commerical paper		118,301,139		-		118,301,139		-	0.02	
Time/interest bearing deposits		119,950,000		-		119,950,000		-	0.01	
Local government pool		28,337,927		28,337,927		-		-	0.00	
Total fair value	\$	667,252,064	\$	28,337,927	\$	432,611,849	\$	206,302,288		

Portfolio weighted average maturity

0.42

## B. Receivables and payables:

The City reports the General, Transportation Operating, Sewage Disposal and Water Funds as major funds. Special assessments in the Transportation, other Nonmajor Governmental and Sewage Disposal Funds are not expected to be collected within one year.

Receivables as of June 30, 2005, were as follows:

		Gov	vernmental Activ	/ities			Business-type Activites			
		Trans-	Nonmajor	Internal		Sewage		Nonmajor		
	General	portation	Funds	Service	Total	Disposal	Water	Funds	Total	
Taxes	\$ 13,991,052	\$ -	\$ 4,848,679	\$ -	\$ 18,839,731	\$ -	\$ -	\$ -	\$ -	
Accounts	15,909,890	13,844,646	3,660,312	874,964	34,289,812	23,042,192	7,774,730	2,112,696	32,929,618	
Assessments	4,011,158	959,998	28,860,980	-	33,832,136	2,794,022	-	-	2,794,022	
Contracts	-	-	-	-	-	-	-	482,130	482,130	
Grants	-	-	16,504,841	-	16,504,841	-	-	-	-	
Advances	57,770	-	725,512	-	783,282	-	-	60,000	60,000	
Interest	492,779	35,368	551,765	426,215	1,506,127	790,747	239,772	134,642	1,165,161	
Total receivables	34,462,649	14,840,012	55,152,089	1,301,179	105,755,929	26,626,961	8,014,502	2,789,468	37,430,931	
Allowance for										
doubtful accounts	(25,675)	(1,439)	-	(46,092)	(73,206)	(7,207,925)	(2,020,672)	-	(9,228,597)	
		, , ,		, , ,			,		, , , , , ,	
Receivables, net	\$ 34,436,974	\$14,838,573	\$ 55,152,089	\$ 1,255,087	\$ 105,682,723	\$ 19,419,036	\$ 5,993,830	\$ 2,789,468	\$ 28,202,334	
Not scheduled for collection during the										
subsequent year	\$ -	\$ 653,810	\$ 25,195,461	\$ -	\$ 25,849,271	\$ 2,542,270	\$ -	\$ -	\$ 2,542,270	

## III. <u>Detailed notes</u>, Continued:

# B. Receivables and payables, Continued:

Payables at June 30, 2005, were as follows:

			Governme	ental Activities	Business-type Activites						
		Trans-	Nonmajor	Internal	Unallocated		Sewage		Nonmajor		
	General	portation	Funds	Service	Governmental	Total	Disposal	Water	Funds	Total	
Accounts to vendors and contractors	\$ 8,305,822	\$ 4,052,659	\$ 5,939,986	\$ 4,597,164	\$ 4,785,770	\$ 27,681,401	\$25,832,370	\$ 5,227,724	\$ 564,040	\$ 31,624,134	
Compensated absences	-	-	-	1,654,736	46,487,378	48,142,114	2,618,021	2,265,316	301,451	5,184,788	
Interest on bonds and notes		31,260	-	1,483,158	24,907,731	26,422,149	6,037,874	3,915,409	1,312,117	11,265,400	
Total payables	\$ 8,305,822	\$ 4,083,919	\$ 5,939,986	\$7,735,058	\$ 76,180,879	\$ 102,245,664	\$34,488,265	\$ 11,408,449	\$2,177,608	\$ 48,074,322	

#### C. Unearned revenue:

The City recognizes revenues when earned. Amounts received in advance of the period in which services are rendered are recorded as a liability, "Unearned Revenue."

As of June 30, 2005, all unearned revenue for the primary government is attributed to the following:

		Gove	ernmental Activi	Business-type Activites					
		Trans-	Nonmajor	Internal		Sewage		Nonmajor	
	General	portation	Funds	Service	Total	Disposal	Water	Funds	Total
Taxes	\$ 6,462,222	\$ -	\$ 3,402,478	\$ -	\$ 9,864,700	\$ -	\$ -	\$ -	\$ -
Accounts	49,794	5,053,088	24,012,953	174,765	29,290,600	8,444	790,227	-	798,671
Assessments	4,011,158	959,998	30,018,972	-	34,990,128	-	-	-	-
License tax									
prepayments	17,307,893	-	-	-	17,307,893	-	-	-	-
Grants	-	-	2,305,115	-	2,305,115	-	-	-	-
Total fund level deferred revenue  Eliminiations of deferred items at fund level not deferred at government-wide	27,831,067	6,013,086	59,739,518	174,765	93,758,436	8,444	790,227	-	798,671
level	(10,523,175)	(5,682,305)	(33,550,191)		(49,755,671)				<u>-</u> _
Net government- wide deferred revenue	\$ 17,307,892	\$ 330,781	\$ 26,189,327	\$ 174,765	\$ 44,002,765	\$ 8,444	\$ 790,227	\$ -	\$ 798,671

# III. <u>Detailed notes</u>, Continued:

# D. Capital assets:

Capital asset activity for the primary government for the year ended June 30, 2005, was as follows:

		Beginning Balance		Increases		Decreases	Rec	lassifications	Ending Balances
Governmental activities:									
Capital assets, not being depreciated:									
Land	\$	67,568,840	\$	14,002,477	\$	(1,283,018)	\$	(28,515) \$	80,259,784
Construction in progress		45,876,646		25,848,744		=		(17,865,492)	53,859,898
Total capital assets, not being depreciated		113,445,486		39,851,221		(1,283,018)		(17,894,007)	134,119,682
Capital assets, being depreciated:									
Buildings		235,974,647		636,906		(51,163)		15,351,331	251,911,721
Improvements to land		118,359,350		1,301,250		(926,270)		(8,378,418)	110,355,912
Equipment Infrastructure		116,977,912 4,006,996,221		16,369,005 32,705,065		(5,080,202)		(20,961) 8,766,528	128,245,754 4,048,467,814
Capital leases		1,856,552		825,096		-		6,700,326	2,681,648
Total capital assets, being depreciated		4,480,164,682		51,837,322		(6,057,635)		15,718,480	4,541,662,849
						, , , ,			
Less accumulated depreciation for: Buildings		(46,713,170)		(5,171,838)		2.859		(5,906,950)	(57,789,099)
Improvements to land		(41,019,931)		(4,050,439)		2,659 812,547		6,880,649	(37,377,174)
Equipment		(63,318,640)		(7,742,959)		4,255,107		(37,118)	(66,843,610)
Infrastructure		(1,866,537,166)		(137,165,729)		-		-	(2,003,702,895)
Capital leases		(679,724)		(805,710)		-		-	(1,485,434)
Total accumulated depreciation		(2,018,268,631)		(154,936,675)		5,070,513		936,581	(2,167,198,212)
Total capital assets, being depreciated, net		2,461,896,051		(103,099,353)		(987,122)		16,655,061	2,374,464,637
Governmental activities capital assets, net	_	2,575,341,537	\$	(63,248,132)	\$	(2,270,140)	\$	(1,238,946) \$	2,508,584,319
Business-type activities:									
Capital Assets, not being depreciated									
Land		71,257,639	\$	1,277,358	\$	(400,000)	\$	518,396 \$	72,653,393
Construction in progress		331,115,234		155,284,671		(172,354)		(32,557,188)	453,670,363
Total capital assets, not being depreciated		402,372,873		156,562,029		(572,354)		(32,038,792)	526,323,756
Capital asssets, being depreciated									
Buildings		172,261,716		513,290		(108,436)		990,300	173,656,870
Improvements to land		22,474,797		189,310		(787,934)		878,935	22,755,108
Equipment		41,894,268		4,133,052		(1,419,535)		25,214	44,632,999
Infrastructure		2,004,386,273		37,037,724		(1,765,336)		32,319,870	2,071,978,531
Capital leases		7,541,000		306,728				-	7,847,728
Total capital assets being depreciated		2,248,558,054		42,180,104		(4,081,241)		34,214,319	2,320,871,236
Less accumulated depreciation for:									
Buildings		(47,103,046)		(4,387,320)		41,625		(481,667)	(51,930,408)
Improvements to land		(5,401,581)		(653,547)		384,050		(432,221)	(6,103,299)
Equipment		(19,984,599)		(2,858,226)		1,021,823		(22,693)	(21,843,695)
Infrastructure Capital leases		(349,806,753) (3,995,930)		(30,723,835) (317,079)		1,613,057		-	(378,917,531) (4,313,009)
Ομρικαί Ισάοσο		(0,990,900)		(317,079)		-		<u> </u>	(4,313,009)
Total accumulated depreciation		(426,291,909)		(38,940,007)		3,060,555		(936,581)	(463,107,942)
Total capital assets, being depreciated, net		1,822,266,145		3,240,097		(1,020,686)		33,277,738	1,857,763,294
Business-type activities capital assets, net		2,224,639,018	\$	159,802,126	\$	(1,593,040)	\$	1,238,946 \$	2,384,087,050
NA comment of the second second second	_	, ,,-	_	-, , ==	_	, , , ,	•	,, <del>T</del>	, , , ,

# III. <u>Detailed notes</u>, Continued:

# D. Capital assets, Continued:

In the governmental activities column of the statement of activities, capital asset reclassification or transfers between governmental funds have been eliminated. In a like manner, capital asset transfers between enterprise funds have been eliminated in the business-type activities column. The remaining transfers shown on the statement of activities consist of \$1,238,946 in capital asset transfers from governmental funds to enterprise funds.

Depreciation and amortization expense was charged to functions/programs of the primary government as follows:

	Amount
Governmental activities:  Public safety Parks, recreation and culture Community development Transportation and metered parking Legislative/ Admin/ Support services	\$ 2,734,522 4,760,373 21,649 138,488,605 52,627
Total governmental funds	146,057,776
Internal service funds	8,878,899
Total depreciation and amortization expense - governmental activities	\$154,936,675
Business-type activities:	
Environmental services	\$ 17,482,252
Water	16,452,937
Hydroelectric power	656,000
Parking facilities	1,047,573
Golf	737,464
Motor sports	39,629
Spectator facilities	2,524,152
Total depreciation and amortization expense - business-type activities	\$ 38,940,007

## Construction commitments

The City has active construction projects as of June 30, 2005. These include building, remodeling and retrofitting fire facilities, parks improvements, plus sewer, transportation and water infrastructure upgrades. Golf projects have been postponed to the subsequent year.

# III. <u>Detailed notes</u>, Continued:

# **D.** Capital assets, Continued:

At year end the City's contractual commitments to complete the various projects are as follows:

Projects	Spent to date	Remaining ommitments	Financing Source					
Fire facilities	\$ 4,009,350	\$ 2,450,106	General obligation bonds / Intergovernmental cost sharing					
Parks	13,094,554	545,137	Local option levy / Tax increment / Grants / General Fund discretionary					
Transportation Golf Sewer Water	32,257,425 551,649 313,386,194 31,319,990	30,618,530 - 79,983,267 9,744,167	Intergovernmental cost sharing / Grants / System development charges / Local improvement districts / Transportation revenues Greens fees Revenue bonds / Sewer rate revenues Revenue bonds / Water rate revenues / Project reimbursements					
Total	\$ 394,619,162	\$ 123,341,207						
Governmental activities Business-type activities	\$ 49,361,329 345,257,833	\$ 33,613,773 89,727,434						
	\$ 394,619,162	\$ 123,341,207						

## Component Unit - Portland Development Commission:

Activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 9,063,004	\$ 20,116	\$ (633,302)	\$ 8,449,818
Construction in progress	1,633,778		(1,633,778)	
Total capital assets, not being depreciated	10,696,782	20,116	(2,267,080)	8,449,818
Capital assets, being depreciated:				
Buildings and improvements	2,707,441	-	-	2,707,441
Leasehold improvements	363,315	3,445,892	(363,315)	3,445,892
Furniture, vehicles and equipment	1,910,060	31,349	(363,160)	1,578,249
Total capital assets, being depreciated	4,980,816	3,477,241	(726,475)	7,731,582
Less accumulated depreciation:				_
Buildings and improvements	(866,382)	(54,148)	_	(920,530)
Leasehold improvements	(242,205)	-	242,205	-
Furniture and equipment	(1,387,300)	(346,728)	337,231	(1,396,797)
Total accumulated depreciation	(2,495,887)	(400,876)	579,436	(2,317,327)
Total capital assets, being depreciated, net	2,484,929	3,076,365	(147,039)	5,414,255
Governmental activities capital assets, net	\$ 13,181,711	\$ 3,096,481	\$ (2,414,119)	\$ 13,864,073

#### III. Detailed notes, Continued:

#### E. Interfund receivables, payables, and transfers

## Due to/from other funds

The City records "due to" and "due from" transactions between individual funds and component units. Repayment of these transactions is required. The General Fund due to internal service funds represents accruals for insurance and technology services. The General Fund due to the Sewage Disposal Fund represents an accrual for a third party financial commitment to pay for environmental remediation. The General Fund due to the fiduciary fund represents employer contributions to pay pension benefits. Nonmajor governmental funds due to other funds represent federal, state, and private grants receivable not yet transferred to benefiting bureaus or component unit. Repayment of these interfund balances outstanding at June 30, 2005, are expected to be repaid within one year.

The amount due from PDC to the City is \$23,848,649 and the amount due from the City to PDC is \$281,783, netting to \$23,566,866 as shown below. PDC due to the City's nonmajor governmental funds are primarily made up of \$18,316,866 in grants; \$18,598,649 in grants due from PDC to the City are offset by grants due from the City to PDC of \$281,783. The remaining liability due from PDC to the City consists of \$5,250,000 for the Streetcar line of credit.

The composition of due to and due from other funds as of June 30, 2005 is:

			nsportation		Nonmajor		nternal	Sewage			onmajor isiness-		Total Due to
	General	C	Operating	Go	vernmental	S	Service	Disposal		Water	type	Fiduciary	Other Funds
General fund	\$ -	\$	-	\$	-	\$	-	\$ 19,360	\$	-	\$ -	\$ 4,785,770	\$ 4,805,130
Nonmajor governmental funds	8,223,415		2,614,614		458,271		4,883	1,144,284	2	2,523,877	7,120	-	14,976,464
Water enterprise fund	-		-		-		-	-		-	-	-	
Total Due From Other Funds	\$ 8,223,415	\$	2,614,614	\$	458,271	\$	4,883	\$ 1,163,644	\$ 2	2,523,877	\$ 7,120	\$ 4,785,770	\$19,781,594

#### Component Unit:

Portland Development Commission

\$ 23,566,866

#### Interfund transfers

Transfers between funds provide support for various City programs in accordance with budgetary authorizations and resources for payment of debt services. General Fund transfers to the Transportation Operating Fund are for street lighting. General Fund transfers to nonmajor governmental funds are for various programs including: emergency communications, nuisance control and other neighborhood programs, the General Fund's portion of the PERS debt, capital construction in the parks program, facilities debt service for City Hall, and various borrowings. General Fund transfers to internal service funds represent financial commitments to fund operating improvements. The Transportation Operating Fund transfers debt service payments to nonmajor governmental funds. Nonmajor governmental fund transfers represent federal, state, and private grants receivable, not yet transferred to benefiting bureaus or component units. Transfers from internal service and nonmajor enterprise funds are primarily overhead charges.

## III. Detailed notes, Continued:

## E. Interfund receivables, payables, and transfers, Continued:

In the governmental activities column of the statement of activities, transfers between governmental funds have been eliminated. In a like manner, transfers between enterprise funds have been eliminated in the business-type activities column. The remaining transfers shown on the Statement of Activities consist of \$1,324,436 in transfers from enterprise funds to governmental funds. An additional adjustment of \$2,605,815 was made to balance internal service funds' credits for operations allocated to business-type activities.

Interfund transfers and the reconciliation to the Statement of Activities for the fiscal year ended June 30, 2005 consist of the following:

noide of the following.						
_		Transportation	Nonmajor	Internal	Nonmajor	Total Transfers
	General	Operating	Governmental	Service	Business-type	Out
General	\$ -	\$ 6,542,610	\$ 18,203,008	\$ 10,170,442	\$ -	\$ 34,916,060
Transportation operating	170,919	-	3,985,694	-	-	4,156,613
Nonmajor governmental	17,945,029	-	2,203,456	-	-	20,148,485
Internal service	266,072	-	-	-	-	266,072
Nonmajor business-type	1,324,436	-	-	-	-	1,324,436
Total transfers In	\$ 19,706,456	\$ 6,542,610	\$ 24,392,158	\$ 10,170,442	\$ -	60,811,666
•						
		Reconciliation:				
		Water			\$ 1,291,210	
		Nonmajor busin	ess-type		1,314,605	2,605,815
						_
		Total governme	ntal funds			(59,487,230)
		Total transfers	per Statement of	Activities		\$ 3,930,251

## Interfund loans

The City's Transportation Operating Fund borrowed \$3,200,000 from the City's Sewage Disposal Fund to provide interim financing for the Portland Streetcar Gibbs Extension Project. The loan will be repaid in fiscal year 2006.

#### F. Leases:

#### Capital leases

The City has entered into capital lease agreements for the purpose of acquiring and financing buildings and equipment. All of these agreements provide the City the right to purchase the asset at a nominal price at the end of the lease term. Leases range from five to thirteen years in length. These lease agreements have been recorded at the lesser of present value of minimum lease payments or fair value of the leased property at inception as described in Note I.D.8.

# III. <u>Detailed notes</u>, Continued:

# **F.** Leases, Continued:

The assets acquired through capital leases are as follows:

	Governmental Activities		Вι	usiness-type Activities	Total
Assets: Building leaseholds Less: accumulated amortization Building leaseholds, net	\$	-	\$	6,235,096 (3,655,833) 2,579,263	\$ 6,235,096 (3,655,833) 2,579,263
Equipment Less: accumulated amortization Equipment, net		2,681,648 (1,485,434) 1,196,214		1,612,632 (657,176) 955,456	 4,294,280 (2,142,610) 2,151,670
Total	\$	1,196,214	\$	3,534,719	\$ 4,730,933

The net present values of these minimum lease payments as of June 30, 2005 were as follows:

Year Ending June 30.	 rernmental activities	siness-type Activities		Total
	 		_	
2006	\$ 464,910	\$ 717,823	\$	1,182,733
2007	364,227	674,986		1,039,213
2008	29,590	448,977		478,567
2009	-	54,356		54,356
2010	-	84,774		84,774
Total minimum lease payments	858,727	1,980,916		2,839,643
Less amount representing interest				
(range: 4.95% to 10.887%)	(50,507)	 (204,106)		(254,613)
Present value				
(capital lease obligations)	\$ 808,220	\$ 1,776,810	\$	2,585,030

## III. <u>Detailed notes</u>, Continued:

## **F.** Leases, Continued:

## Operating leases

The City leases land, buildings and equipment under non-cancelable operating leases. Operating leases for governmental activities were \$2.1 million and for business-type activities, \$1.3 million. Total costs for such leases were \$3.4 million for the year ended June 30, 2005.

The future minimum lease payments for these leases are as follows:

Year Ending	G	overnmental		Business-type		
June 30,		Activities	_		Activities	Total
2006	\$	1,769,774		\$	681,860	\$ 2,451,634
2007		1,309,271			503,741	1,813,012
2008		1,218,767			383,107	1,601,874
2009		1,081,841			387,823	1,469,664
2010		868,356			392,683	1,261,039
2011-2015		3,573,277			653,553	4,226,830
2016-2020		3,687,832				3,687,832
			-			
Total	\$	13,509,118		\$	3,002,767	\$ 16,511,885

The City acts as lessor for operating leases that arise primarily from leasing office or retail space. Future minimum rents to be received from non-cancelable operating leases are contractually due as follows as of June 30, 2005:

Year Ending	Governmental	Business-type	
June 30,	Activities	Activities	Total
2006	\$ 1,368,104	\$ 1,509,250	\$ 2,877,354
2007	1,039,777	1,099,628	2,139,405
2008	995,702	558,244	1,553,946
2009	963,226	414,070	1,377,296
2010	923,194	332,927	1,256,121
2011-2015	1,229,682	1,221,789	2,451,471
2016-2020	899,706	158,281	1,057,987
	\$ 7,419,391	\$ 5,294,189	\$ 12,713,580

#### III. Detailed notes, Continued:

## G. Long-term debt:

The City issues a variety of debt types for the purpose of carrying out its capital financing activities. The various types of debt are discussed below. Outstanding debt amounts are as of June 30, 2005.

## General obligation bonds

The City has \$71.2 million of outstanding self-supporting general obligation bonds for governmental activities. These bonds were originally issued for park system improvements and emergency facilities. The City is authorized to levy an unlimited ad valorem tax to pay these bonds.

The City's general obligation bonds are used for the acquisition and construction of capital improvements of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The City originally issued \$129.3 million of governmental bonds for governmental activities and \$23.2 million for business-type activities.

Business-type activities include \$7.5 million of outstanding self-supporting general obligation water bonds. While the City has the authority to levy an unlimited ad valorem tax to pay these bonds, the City has chosen to pay these bonds entirely from revenues of the water system.

The City's general obligation water bonds issued in 2004 are non-callable while the Series 1993C bonds are subject to optional redemption anytime at 100 percent of face value. The City is in compliance with its bond covenants as of and for fiscal year ended June 30, 2005.

The City has an agreement with certain water districts which provides for the districts to make payments to the City in amounts equal to 90 percent of the principal and interest, when due on the General Obligation Water Bonds, Series 1993C. These were issued to finance City water supply improvements affecting these districts. Total principal payments to be made to the City over the bond repayment period, starting in 1987 and extending through 2005, are approximately \$17.9 million. Payments received by the City during fiscal year 2005 totaled \$1.8 million. The \$1.98 million liability was liquidated in August 2005. In addition, the City has \$2,155 of annexed water bonds outstanding as of June 30, 2005.

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	Interest Rates	<u>Amount</u>
Governmental activities	2.00 - 5.50%	\$ 71,220,000
Business-type activities	3.00 - 4.50	 7,542,155
Total		\$ 78,762,155

## III. <u>Detailed notes</u>, Continued:

## G. Long-term debt, Continued:

#### General obligation bonds, Continued:

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

Year Ending	Governmenta	l Activities	Business-type	Activities
June 30,	Principal	Interest	Principal	Interest
2006	\$ 4,640,000\$	3,154,483 \$	57,155\$	234,876
2007	4,810,000	2,975,054	1,405,000	212,925
2008	5,000,000	2,782,611	1,450,000	170,100
2009	5,310,000	2,581,411	1,495,000	125,925
2010	5,535,000	2,360,844	1,545,000	78,780
2011-2015	31,505,000	7,876,349	1,590,000	27,030
2016-2020	10,705,000	2,145,994	-	-
2021-2025	3,715,000	397,903	-	-
Total	\$ 71,220,000 \$	24,274,649 \$	7,542,155 \$	849,636

#### Limited tax improvement bonds

The City has \$19.4 million of outstanding limited tax improvement bonds. These bonds were issued for the purpose of financing local improvement projects. These bonds are expected to be fully self-supporting from assessment payments received from property owners benefiting from the improvement projects. In addition, the City has pledged its full faith and credit to pay the bonds. Interest rates on the outstanding bonds range from 3 to 5.75 percent.

Annual debt service requirements to maturity for limited tax improvement bonds are as follows:

Year Ending	١.	Governmental Activities				
June 30,	_	Principal	Interest			
2006	\$	1,070,000 \$	809,848			
2007		1,100,000	777,747			
2008		1,065,000	744,748			
2009		-	710,135			
2010		-	710,135			
2011-2015		2,015,000	3,413,655			
2016-2020		4,065,000	2,806,129			
2021-2025		10,040,000	1,310,220			
Total	\$	19,355,000 \$	11,282,617			

## <u>Urban renewal and redevelopment bonds</u>

The City issues urban renewal and redevelopment bonds to finance capital projects to stimulate job creation and growth in designated target areas. The City has urban renewal and redevelopment bonds outstanding that are secured solely by the tax increment revenues generated from the respective urban renewal areas.

#### III. Detailed notes, Continued:

## G. Long-term debt, Continued

The City has issued long-term urban renewal and redevelopment bonds for six of its urban renewal districts including Airport Way, Oregon Convention Center, South Park Blocks, Downtown Waterfront, Interstate Corridor and River District. The \$295.6 million outstanding balances on these bonds are paid from tax increment revenues generated from the respective urban renewal areas. No additional City revenues are pledged to the repayment of these bonds. Interest rates on the outstanding bonds range from 1.8 to 7.75 percent.

In December 2004, the City issued \$32.3 million urban renewal and redevelopment bonds for the Interstate Corridor urban renewal district. These bonds were issued to pay the City's Limited Tax Revenue Refunding bonds for the Interstate MAX light rail project. The bonds are secured by and payable from the tax revenue from the Interstate Corridor defined area.

Annual debt service requirements for urban renewal and redevelopment bonds are as follows:

Year Ending		Governmental Activities				
June 30,		Principal	Interest			
2006	\$	11,210,000 \$	15,891,686			
2007		12,620,000	15,439,625			
2008		13,315,000	14,933,710			
2009		12,760,000	14,349,405			
2010		16,035,000	13,669,939			
2011-2015		88,910,000	53,877,748			
2016-2020		116,870,000	25,913,749			
2021-2025	_	23,925,000	2,932,787			
Total	\$_	295,645,000 \$	157,008,649			

#### Limited tax and limited tax revenue bonds

The City has issued limited tax and limited tax revenue bonds to finance local and public improvement projects and to finance the City's December 31, 1997 unfunded actuarial accrued pension liability with the State of Oregon Public Employees Retirement System (PERS). These bond issues include non self-supporting General Fund obligations and self-supporting General Fund obligations.

## Non self-supporting general fund obligations

Limited Tax Revenue Bonds/Full Faith and Credit Obligations. As of June 30, 2005, the City had \$75.2 million of outstanding limited tax revenue bonds, which are paid primarily from General Fund resources. These limited tax revenue bonds were issued to satisfy a variety of capital financing requirements. The interest rates on the outstanding bonds range from 2 to 5.875 percent.

#### III. Detailed notes, Continued:

# G. Long-term debt, Continued:

Limited Tax Pension Obligation Revenue Bonds. The City issued \$300.8 million of Limited Tax Pension Obligation Revenue Bonds in November 1999 to finance the City's December 31, 1997 PERS unfunded actuarial accrued pension liability with the State of Oregon Public Employees Retirement System. The bonds are secured by available general funds, defined as revenues, which are legally available to pay the bonds and not prohibited for such use under the charter and ordinances of the City and Oregon laws. Revenues include all taxes and other legally available general funds of the City. Interest rates on the outstanding bonds range from a variable rate at June 30, 2005 of 3 percent on the \$75 million 1999 Series D, and 3.15 percent on the \$75 million 1999 Series E, to 7.7 percent on the \$150.8 million 1999 Series C. In accordance with GAAP, in fiscal year 2002, the City allocated the PERS bond liability to all funds that have employees who are PERS members. The \$300.8 million liability has been distributed as follows:

Governmental activities \$228.1 million
Business-type activities 72.2 million
Fiduciary funds .5 million

Approximately 40 percent of the debt service on these bonds is expected to be paid from resources of the General Fund. The remaining 60 percent is expected to be paid by non-General Fund bureaus of the City, (see "Self-supporting General Fund Obligations" below). As of June 30, 2005, approximately \$111.7 million of outstanding principal remained on the portion of the bonds projected to be repaid with General Fund resources.

Limited Tax Revenue Bonds (Headwaters Apartment Project). In April 2005, the City issued \$11.7 million limited tax revenue bonds to finance all or part of a 100-unit rental housing development known as the Headwaters Apartments located in southwest Portland. These bonds, although secured by the City's General Fund and a subordinate pledge of funds from the City's component unit, the Portland Development Commission, are expected to be repaid with revenues from the Headwaters Apartment Project. The interest rates range from 3 to 5 percent.

Limited Tax Revenue Bonds (Housing Opportunity Program). The City, in April 2005, issued \$10.1 million limited tax revenue bonds to provide grants for various housing projects for low-income seniors, people with disabilities, and low-income adults. These bonds are secured by and paid from the City's General Fund. The interest rates range from 3.25 to 5 percent.

#### Self-supporting general fund obligations

Limited Tax Pension Obligation Revenue Bonds. Of the total outstanding Limited Tax Pension Obligation Revenue Bonds described above, approximately \$189.2 million is expected to be fully self-supporting and paid from non-General Fund bureaus of the City. In fiscal year 2002, \$72.2 million of the total outstanding Limited Tax Pension Obligation Revenue Bonds was allocated to enterprise funds. The City expects these funds to pay the debt service on their allocated share from operating revenues.

Limited Tax Revenue Bonds (Central City Streetcar Project). The City has \$25.8 million outstanding limited tax revenue bonds for the Central City Streetcar Project. These bonds are ultimately secured by the City's General Fund but the City expects to pay the debt service on these bonds with revenues from the City's parking facilities and parking meter revenues. Interest rates on the outstanding bonds range from 4 to 5 percent.

## III. Detailed notes, Continued:

#### G. Long-term debt, Continued:

Limited Tax Revenue Bonds (Visitor Development Initiative). The City has issued bonds pursuant to an intergovernmental agreement known as the Visitor Development Initiative for various projects. While ultimately secured by the City's General Fund, these bonds are expected to be repaid, in whole or in part, with revenues generated from surcharges on the transient lodging and the motor vehicle rental tax. As of June 30, 2005, the City had \$98.9 million of outstanding limited tax revenue bonds for the Oregon Convention Center Completion Project, \$31.8 million of outstanding bonds for the Civic Stadium Project, and \$1.8 million of outstanding bonds for the Portland Center for Performing Arts (PCPA) Project. The interest rates on the \$98.9 million outstanding limited tax revenue bonds for the Oregon Convention Center Completion Project range from 4.52 to 5.5 percent. For the other bonds issued listed above, Civic Stadium Project and the PCPA, the interest rates range from 4.1 to 7 percent.

*Arena Limited Tax Revenue Bonds.* In March 2005, the City issued \$28.4 million Arena Limited Tax Revenue Bonds. The proceeds were used to pay the cost of issuance and to refund:

\$8.7 million outstanding Arena Limited Tax Revenue Bonds, \$7.6 million outstanding Arena Limited Tax Bonds; and, \$11.6 million outstanding Arena Gas Tax Revenue Bonds.

The above refunded bonds were originally issued to finance certain public improvements relating to the Oregon Arena Project. The Arena Limited Tax Revenue bonds are ultimately secured by the City's General Fund and by a subordinate pledge of available City parking meter revenues and City gas tax revenues. The interest rates on the \$27.2 million outstanding bonds range from 3.25 to 5 percent.

Annual debt service requirements to maturity for limited tax and limited tax revenue bonds are as follows:

Year Ending	_	Governmenta	l Activities	 Business-type	Activities
June 30,		Principal	Interest	 Principal	Interest
2006	\$	9,530,000 \$	21,578,000	\$ 3,090,000 \$	8,767,131
2007		12,138,732	21,300,833	3,946,775	8,619,330
2008		14,215,532	20,740,202	4,826,154	8,415,403
2009		13,186,985	20,031,986	5,392,542	8,149,567
2010		13,821,735	19,968,458	6,020,133	7,846,780
2010-2014		84,950,280	90,763,869	42,180,458	33,646,294
2016-2020		113,827,037	72,411,689	47,604,423	20,406,126
2021-2025		99,194,734	107,506,877	38,704,774	29,602,237
2026-2030		61,700,180	135,430,268	5,125,758	40,314,837
2031-2035		3,305,000	503,405	-	
Total	\$	425,870,215 \$	510,235,587	\$ 156,891,017 \$	165,767,705

#### III. Detailed notes, Continued:

#### G. Long-term debt, Continued

#### Revenue bonds

The City issues revenue bonds to satisfy a variety of capital financing requirements backed solely by the fees derived from the provision of certain services. Types of revenue bonds outstanding include; sewer system facilities, water system facilities, parking system facilities, golf facilities, environmental remediation activities, road improvements, and hydroelectric generation facilities. Fees and charges are collected for the individual services provided, generally on the basis of usage. During fiscal year 2005, the City issued \$401.4 million Sewer System Revenue bonds to refund the outstanding sewer System Revenue Bonds, series 2000A and to fund capital improvements to the City's Sewer System. The City also issued \$4.4 million Gas Tax Revenue Bonds to pay the costs of issuance and to refund the outstanding \$4.1 million 1996A Gas Tax Revenue Bonds.

Ordinances for revenue bonds generally require the City to maintain restricted reserve accounts to provide for the payment of annual debt service, and in certain cases, to maintain amounts sufficient to pay the maximum annual debt service in any one year. The ordinances also require maintenance of operating income in particular enterprise funds and to maintain adequate insurance on the facilities. Revenue bonds may be redeemed at dates earlier than normal maturity at call rates varying from 100 to 103 percent of face value dependent upon the call date. The City is in compliance with its bond covenants as of and for fiscal year ended June 30, 2005.

The City has an agreement with a private utility company to sell power generated from the City's hydroelectric power plant. Plant construction was financed by \$55 million of hydroelectric revenue bonds. Bonds are payable solely from revenue generated by the plant. The agreement provides that the utility company will pay the City power generation revenues, comprised of the annual debt service on the bonds plus the cost of the amount of power delivered and certain other factors.

Revenue bonds outstanding at June 30, 2005 are as follows:

Durnage	Interest Rates	Principal <u>Outstanding</u>
Purpose Gas Tax Revenue Bonds Public street improvements	2.75 – 5.25%	\$ 6,935,000
Sewage Disposal Sewer improvement and maintenance	2.30 - 6.00%	1,002,240,000
Water Operating Water lines improvement and maintenance	3.00 - 5.00%	145,145,000
Hydroelectric Power Electrical power generating plant	6.40 – 7.00%	23,915,000
Golf Operations Golf courses improvement and maintenance	2.89 - 5.26%	5,247,000
Parking Facilities City owned parking structures and maintenance	3.75 – 4.25%	5,900,000
Total		\$1,189,382,000

#### III. Detailed notes, Continued:

## G. Long-term debt, Continued

Revenue bond debt service requirements to maturity are as follows:

Year Ending		Governmental	Activities	Business-type Activities		
June 30,		Principal	Interest	Principal	Interest	
2006	\$	485,000 \$	271,847 \$	42,956,000 \$	55,507,407	
2007		510,000	247,745	44,870,000	56,749,456	
2008		525,000	224,935	47,013,000	53,728,174	
2009		550,000	208,187	49,319,000	52,144,132	
2010		570,000	190,038	51,788,000	48,927,981	
2011-2015		3,140,000	630,088	298,971,000	203,806,045	
2016-2020		1,155,000	86,562	369,440,000	120,784,294	
2021-2025		-	-	278,090,000	27,875,736	
Tota	۱\$	6,935,000 \$	1,859,402 \$	1,182,447,000 \$	619,523,225	

#### Advance and current refundings

On March 3, 2005 the City issued \$10.6 million of Arena Limited Tax Revenue Refunding Bonds, 2005 Series A. \$10.6 million of the proceeds and a cash contribution of \$4.7 million from the Spectator Facilities Fund were placed in an irrevocable escrow held by an independent escrow agent and invested in U.S. Government obligations maturing in amounts sufficient to pay the principal and interest on the \$7.6 million of outstanding Limited Tax Revenue Bonds, Series 1996 and on the \$6.6 million of outstanding Limited Tax Revenue Bonds, 1996 Series A. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$6.5 million over the next 11 years and resulted in an economic gain of \$1.8 million.

On March 3, 2005, the City issued \$17.8 million of Tax Revenue Refunding Bonds, 2005 Series B. The proceeds were placed into an irrevocable escrow held by an independent escrow agent and invested in U.S. Government obligations maturing in amounts sufficient to pay the principal and interest on the:

\$2.1 million outstanding on the Arena Limited Tax Revenue Bonds, 1996 Series B, and \$11.6 million outstanding Arena Gas Tax Revenue Bonds, 1996 Series A.

This advance refunding was undertaken to reduce total debt service payments by \$3.6 million over the next 15 years and resulted in an economic gain of \$3.6 million.

On March 17, 2005, the City issued \$4.4 million of Gas Tax Revenue Refunding Bonds, 2005 Series A. The proceeds including a premium of \$9,787 were placed into an irrevocable escrow held by an independent escrow agent and invested in U.S. Government obligations maturing in amounts sufficient to pay the principal and interest on the remaining \$4.1 million outstanding on the Gas Tax Revenue Bonds, 1996 Series A. This advance refunding was undertaken to reduce total debt service payments by \$375,372 over the next 11 years and resulted in an economic gain of \$378,305.

#### III. Detailed notes, Continued:

## G. Long-term debt, Continued

On November 30, 2004, the City issued \$93.1 million First Lien Sewer System Revenue Refunding Bonds, 2004 Series B. \$101.9 million of the proceeds and a cash contribution of \$2.6 million from the Sewage Disposal Fund were placed in an irrevocable escrow held by an independent escrow agent and invested in U.S. Government obligations maturing in amounts sufficient to pay the principal and interest on the \$97.5 million of outstanding Sewer System Revenue Bonds, 1996 Series A. This advance refunding was undertaken to reduce total debt service payments by \$10.7 million over the next twelve years and resulted in an economic gain of \$8.1 million.

On June 16, 2005, the City issued \$144.8 million First Lien Sewer System Revenue Refunding Bonds, 2005 Series A. \$161.5 million of the proceeds and a cash contribution of \$2.7 million from the Sewage Disposal Fund were placed in an irrevocable escrow held by an independent escrow agent and invested in U.S. Government obligations maturing in amounts sufficient to pay the principal and interest on the \$1.5 million of outstanding Sewer System Revenue Bonds, 2000 Series A. This advanced refunding was undertaken to reduce total debt service payments by \$16 million over the next fifteen years and resulted in an economic gain of \$13.3 million.

The discussion above explains that refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column and the business type activities column of the statement of net assets. The net proceeds from the refunding bonds combined with any escrow earnings equaled the debt service of the refunded bonds.

#### Conduit debt

The City has issued Economic Development Revenue Bonds, which have not been recorded as a liability for GAAP presentation purposes. Private developers use the proceeds of these bond sales to finance capital expansion. The Economic Development Revenue Bonds have not been recognized as a liability of the City because the bonds are secured solely by the specific project and the developers make the payments. The bonds shall not be payable from a charge upon any of the City's resources or assets, nor shall the City be subject to any liability thereon. No holder or holders of the bonds shall ever have the right to compel an exercise of the taxing power of the City to pay the bonds or the interest thereon, nor to enforce payment thereof against any property of the City except the specific project. Upon completion of the project, the developer owns the assets constructed. Since the City does not own any of the assets constructed or assume any of the liabilities associated with repayment, this does not require balance sheet disclosure or recognition of revenues and expenditures according to GAAP. The total outstanding principal of these bonds as of June 30, 2005, is \$156.4 million.

The City has made a limited, subject-to-appropriation, pledge of its General Fund to restore reserve fund balances on six Housing Authority of Portland revenue bond issues. The original par amount of these issues is \$38.2 million, of which \$35.7 million remains outstanding.

## Notes, lines of credit and loans payable

Notes payable. The City issues Notes to finance equipment acquisitions and improvements, improving streets and sidewalks, and to provide interim financing of urban renewal plans. \$1,776,724 is included in the Local Improvement District Construction Fund. Sewage Disposal Fund's \$524,908 note payable with the State of Oregon is for flood storage, water quality and habitat improvements to the Johnson Creek flood plain. Interest rates on the \$2.3 million of notes outstanding on June 30, 2005 ranged from 1.6 to 5 percent.

#### III. Detailed notes, Continued:

## G. Long-term debt, Continued

Lines of credit. As of June 30, 2005, the City has issued \$46.7 million of lines of credit to:

Provide interim financing for urban renewal district projects, and	\$30.0 million
Finance various City backed projects, including:	
Acquiring idle school property for future community center and park	3.4 million
Extending the Portland Central City Streetcar line,	5.4 million
Capital improvements for various uses including smart meters, and	7.3 million
City of Portland's share of a local government joint project to	
temporarily house children in protective custody.	.6 million

The outstanding lines of credit are secured by the General Fund. The City expects to retire the lines of credit from the proceeds of long-term bonds secured by tax increment revenues. Interest rates on the outstanding lines of credit on June 30, 2005 ranged from 2.64 to 4.23 percent.

Loans Payable. The City has entered into various loan arrangements for the purpose of financing energy, sewer system improvements and housing renovations. The principal balance of these loans on June 30, 2005, is \$10.6 million. Interest rates vary from 1 to 6.1 percent with maturities to fiscal year 2024.

Details for the activity of notes, lines of credit and loans payable can be found in the changes in long-term liabilities schedule at the end of this Note. Annual debt service requirements to maturity for notes payable, lines of credit and loans payable are as follows:

Year Ending		Governmental	Activities	Business-ty	pe Activities
June 30,	_	Principal	Interest	Principal	Interest
2006	\$	3,827,392 \$	1,922,412 \$	30,124	\$ 44,756
2007		7,431,375	1,607,479	124,900	43,401
2008		35,332,728	1,016,508	125,143	41,075
2009		10,547,264	349,363	130,403	38,706
2010		-	-	130,681	36,058
2011-2015		-	-	683,322	137,190
2016-2020		-	-	623,655	58,189
2021-2025		-	-	472,725	18,909
2026-2030		<u> </u>	<u> </u>	94,546	945
Tota	I \$ <u></u>	57,138,759 \$	4,895,762 \$	2,415,499	\$ 419,229

## Compensated Absences

The City's policy relating to compensated absences is described in Note I.D.9. As shown in the changes in long-term liabilities schedule below, the long-term portion of compensated absences for governmental activities and business-type activities is \$14.8 million and \$108.9 thousand respectively at June 30, 2005. The long-term portions of these liabilities are expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the governmental and enterprise funds for which the employees who earned the compensated absences were assigned. The total amount outstanding at June 30, 2005 was \$48.1 million for governmental activities and \$5.2 million for business-type activities.

## III. <u>Detailed notes</u>, Continued:

## G. Long-term debt, Continued:

#### Changes in long-term liabilities

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the totals below for governmental activities. At June 30, 2005, internal service funds had \$80.3 million bonds outstanding. When debt service payments become due, cash is transferred from the applicable governmental fund and enterprise operating fund to the disbursing debt service fund within five days prior to the payment date.

For fiscal year 2005, there were no governmental funds used to liquidate other long-term liabilities. The governmental funds and internal service funds, which committed to a long-term liability such as a capital lease, paid the debt service obligations from current resources.

Overnight bonds, as presented in the short-term debt Note III.H., are also included below in the urban renewal and redevelopment activity for reconciliation purposes. Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	ı	Reductions	Ending Balance	Due Within One Year
Government Activities:						
Bonds payable						
General obligation	\$ 75,460,000	\$ -	\$	4,240,000	\$ 71,220,000	\$ 4,640,000
Local tax improvement						
payable from assessment payments	23,770,000	-		4,415,000	19,355,000	1,070,000
Urban renewal and redevelopment	273,075,000	66,910,000		44,340,000	295,645,000	11,210,000
Limited tax and limited tax revenue	448,630,215	21,885,000		44,645,000	425,870,215	9,530,000
Revenue bonds	7,120,000	4,400,000		4,585,000	6,935,000	485,000
Unamortized premium and discounts	7,425,514	1,521,457		1,279,948	7,667,023	-
Total bonds payable	 835,480,729	94,716,457		103,504,948	826,692,238	 26,935,000
Notes, loans and lines of credit payable	34,113,729	25,274,952		2,249,922	57,138,759	3,827,392
Self insurance claims	25,298,083	36,697,909		36,209,200	25,786,792	9,666,242
Compensated absences	42,612,695	33,751,242		28,221,823	48,142,114	33,324,322
Capital leases	1,019,069	208,884		419,733	808,220	427,244
Governmental activities long-term liabilities	\$ 938,524,305	\$ 190,649,444	\$	170,605,626	\$ 958,568,123	\$ 74,180,200
Business-type Activities: Bonds payable						
General obligation	\$ 9,624,399	\$ -	\$	2,082,244	\$ 7,542,155	\$ 2,155
Limited tax and limited tax revenue	147,831,017	28,365,000		19,305,000	156,891,017	3,090,000
Revenue bonds	1,073,105,102	401,430,000		292,088,102	1,182,447,000	43,008,845
Unamortized premium and discounts	1,168,714	38,627,324		464,874	39,331,164	-
Total bonds payable	 1,231,729,232	468,422,324		313,940,220	1,386,211,336	 46,101,000
Notes and loans payable	554,504	1,890,901		29,906	2,415,499	30,124
Compensated absences	5,064,497	5,078,326		4,958,035	5,184,788	5,075,838
Capital leases	 2,163,592	306,728		693,510	1,776,810	 609,539
Business-type activities long-term liabilities	\$ 1,239,511,825	\$ 475,698,279	\$	319,621,671	\$ 1,395,588,433	\$ 51,816,501

#### III. <u>Detailed notes</u>, Continued:

#### H. Short-term debt:

The City issues overnight bonds to permit the City's component unit, PDC, to access tax increment revenues deposited into debt service funds established for each urban renewal district. Under Oregon law, tax increment collections may only be spent to pay principal and interest on indebtedness. Tax increment collections are expected to be sufficient to meet debt service requirements for outstanding long-term debt. The City issues overnight debt to release excess collections to PDC for capital projects. The City issued \$34.6 million overnight bonds in fiscal year 2005 and paid the issued amounts off within five days. At June 30, 2005, there were no outstanding overnight bonds.

At the beginning of the fiscal year, the City issued \$15.96 million Tax Anticipation Notes in advance of property tax collections, depositing the proceeds in the Fire and Police Disability and Retirement (fiduciary) Fund. The notes are issued to meet current operating expenses of the Fire and Police Disability and Retirement Fund.

Short-term debt activity of the fiscal year ended June 30, 2005 was as follows:

	Beg	inning			Er	nding
	Balance		Issued	Redeemed	Ba	lance
Overnight bonds	\$	-	\$ 34,600,000	\$ 34,600,000	\$	-
Tax anticipation notes		-	15,960,000	15,960,000		
	\$		\$ 50,560,000	\$ 50,560,000	\$	

#### IV. Other information:

#### A. Risk management:

The City of Portland is self-insured for workers' compensation, general liability claims and certain employees' medical coverage in internal service funds. Per ORS 30.270(1)(b)(c), general and fleet liability claims are limited to \$100,000 per person, an additional \$100,000 per person under special circumstances and \$500,000 aggregate per occurrence. Claims under federal jurisdiction are not subject to such limitations. The City estimates liability for incurred losses for reported and unreported claims for workers' compensation, general and fleet liability and employee medical coverage (included in accrued self insurance claims in the combined statement of net assets). Workers' compensation, general and fleet liability estimates are primarily based on individual case estimates for reported claims and through historical data for unreported claims as determined by the City's Risk Management Division and independent actuarial studies. Liabilities are based on estimated ultimate cost of settling claims, including effects of inflation and other societal and economic factors. Estimated liability is then discounted by the City's expected rate of return and anticipated timing of cash outlays to determine present value of the liability. For fiscal year ended June 30, 2005, the expected rate of return was 2.17 percent. The Bureau of Human Resources and the employee benefits consultant determines relevant employees' medical coverage estimates.

The City provides insurance coverage deemed as adequate, appropriate, and actuarially sound. It meets all the City's anticipated settlements, obligations and outstanding liabilities. Furthermore, current levels of accrued claims and retained earnings are viewed as reasonable provisions for expected future losses. An excess liability coverage insurance policy covers individual claims in excess of \$1,000,000, and an excess workers' compensation coverage insurance policy covers claims in excess of \$1,500,000. Settlements have not exceeded coverages for each of the past three fiscal years.

## IV. Other information, Continued:

#### A. Risk management, Continued:

Liabilities are reported in the applicable fund when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year ended	Year ended
	June 30, 2005	June 30, 2004
Balance, beginning of fiscal year	\$ 25,298,083	\$ 25,440,330
Incurred claims and adjustments	36,697,909	32,862,277
Claims payments	(36,209,200)	(33,004,524)
Unpaid claims, end of fiscal year	\$ 25,786,792	\$ 25,298,083

#### B. Commitments and contingent liabilities

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. Claims covered by the City's self insurance internal service funds are reviewed and losses, discounted to reflect the time value of money, and are accrued based on the judgment of City management. According to City management, based on advice of legal counsel with respect to such litigation and claims, ultimate disposition of these matters will not have a material adverse effect on the financial position or results of City operations. Claims not covered by the City's self insurance program are recognized in proprietary funds when it appears probable that the loss has been incurred and the amount in question can be reasonably estimated. Claims against governmental funds are recognized when due.

#### **Bonds**

The City has a contingent liability against its full faith and credit for liabilities recorded in enterprise funds for general obligation water district bonds in the amount of \$7.5 million at June 30, 2005. General credit of the City is obligated on these bonds only to the extent cash, generated from income in the Water Fund, is insufficient to pay debt service on the bonds.

The City's general credit is obligated on limited tax improvement bonds aggregating \$19.4 million at June 30, 2005, only to the extent that liens foreclosed against properties involved in the assessment districts and collections of related assessments and interest are insufficient to retire outstanding bonds and pay bond interest.

#### IV. Other information, Continued:

## B. Commitments and contingent liabilities, Continued

#### Labor agreements

There are eight labor agreements between the City and its employees, two of which have expired. The labor agreements with the Portland Fire Fighters' Association (PFFA) expired June 30, 2005. The PFFA contract has been settled and ratified by City Council on September 28, 2005. The contract between the City and Laborer's Local 483 Municipal Employees covering certain Seasonal Maintenance Workers of the Parks Bureau expired on June 30, 2005. Negotiations continue between Local 483 and the City is honoring the expired contract as required by the Public Employee Collective Bargaining Act.

## Contractual commitments

Contractual commitments at June 30, 2005 amounted to:

 Governmental activities
 \$ 124,326,886

 Business-type activities
 110,436,133

 Total
 \$ 234,763,019

The majority of these amounts represent incomplete multi-year construction contracts. Also included in these amounts are uncompleted balances of professional service contracts and intergovernmental agreements.

## Hydroelectric Power Fund

The Hydroelectric Power Fund's (Hydro) agreement with a private utility (the utility) requires that the cost to the utility for the power generated by Hydro's plant be measured against the cost of power generated by the utility at one of its generating plants. The agreement specifies that to the extent the cost of power generated by Hydro's plant is less than the cost of power generated by the utility, 50 percent of the cost savings is to be paid by the utility to Hydro. To date, there have been no such payments, as the cost of power generated by Hydro's plant has been greater than that of the utility's designated plants on a cumulative contract basis.

The agreement states that, upon expiration of the term of the agreement, if the accumulated cost of power generated at Hydro's plant exceeds that of the accumulated cost of a like amount of power generated by the utility, then the carrying value of the renewal and replacement assets shall be paid to the utility to offset up to 50% of the "excess cost" incurred by the utility to generate power at Hydro's plant. The balance of the assets, if any, shall be divided equally between Hydro and the utility. In the event the accumulated cost of power generated at Hydro's plant exceeds that of the accumulated cost of a like amount of power generated by the utility, and the carrying value of the renewal and replacement assets is less than 50 percent of the excess cost, no further amounts would be required to be paid to the utility. At August 31, 2005, the total accumulated excess cost was \$24,431,598, 50 percent of this total was \$12,215,799, and the carrying value of the renewal and replacement assets was \$9,076,281.

## Portland Harbor

In 1997, Department of Environmental Quality (DEQ) and the U.S. Environmental Protection Agency (EPA) conducted a study of sediments in the Portland Harbor. Portland Harbor was listed as a federal Superfund site in December of 2000. Sixty-nine businesses, property owners and dischargers to the Willamette River, including the City, were notified by EPA that they were potentially responsible for further investigation and clean up of contaminated sediments in the Portland Harbor.

#### IV. Other information, Continued:

## B. Commitments and contingent liabilities, Continued

#### Portland Harbor, Continued:

The City has been working with DEQ and the EPA from the beginning, focused on concerns for the environmental health of the Portland Harbor and to work toward developing a sediment management plan and to implement that plan once final. Accordingly, the City of Portland and nine other potentially responsible parties have entered into an Administrative Order on Consent (AOC) with EPA to finance a Remedial Investigation and Feasibility Study (RI/FS) of the Portland Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

The signatories to the AOC have agreed upon a cost allocation plan to fund the RI/FS. The City's share is 25 percent. The allocation for funding RI/FS costs is voluntary and bears no relationship to the liability for clean up at the site. The City's costs for this phase of the work are being financed primarily from user fees generated by the City's sanitary sewer and storm water utility, which is managed by the City's Bureau of Environmental Services (BES). The City's estimated future costs associated with the RI/FS activities is expected to range between \$1.92 million and \$9 million through FY 2010. The minimum amount of this range, \$1.92 million has been accrued at fiscal year end June 30, 2005. The City believes that an estimate of the maximum exposure of the Portland Harbor clean up cannot be made but could be material to the period in which it is recorded.

Costs of cleaning up the site and restoration of natural resources will be estimated at the completion of the RI/FS. Additional parties that contributed to the contamination may be discovered during the investigation. After selection of a remedial action, allocation of liability for clean up will be determined. Under CERCLA, responsible parties that fail to enter into agreements to remediate and restore Superfund sites become subject to legal action by EPA to recover their full share of liability for clean up and restoration activity, including imposition of fines and other financially punitive measures. The City's ultimate liability is undeterminable at this time. However, it is expected to be a material amount.

## C. Employee retirement systems and pension plans:

## State of Oregon Public Employees Retirement System

*Plan description.* Substantially all civilian City employees and 51 fire and police personnel are participants under one or more plans currently available through Oregon Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system under the authority of ORS 238.600.

There are currently two programs with eligibility determined by the date of employment. Those employed prior to August 29, 2003 are PERS Program members. Those employed on or after August 29, 2003 are Oregon Public Service Retirement Plan (OPSRP) Program members.

OPSRP is a hybrid retirement plan with two components: 1) the Pension Program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan), and 2) the Individual Account Program (IAP) (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan).

#### IV. Other information, Continued:

## C. Employee retirement systems and pension plans, Continued:

State of Oregon Public Employees Retirement System, Continued:

Beginning January 1, 2004, all employees who are active members of PERS became members of the OPSRP IAP Program. PERS plan member contributions (the six percent employee contribution, whether made by the employee or "picked-up" by the employer) go into the IAP portion of OPSRP. PERS plan members retain their existing PERS accounts, but any future member contributions will be deposited in the member's IAP, not into the member's PERS account.

Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700, URL: <a href="http://Oregon.gov/PERS/">http://Oregon.gov/PERS/</a>, or by telephone (503) 598-7377.

PERS' benefits vest after five years of continuous service or at age 50. General service employees may retire after reaching age 55. Employees with 30 years of service (25 years for fire and 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. Fire and police personnel benefits are reduced if retirement occurs prior to age 55 with less than 25 years of service.

Retirement benefits are based on final average salary and length of service and are calculated under either a money match, full formula or a formula plus annuity computation if a greater benefit results. Fire and police personnel may purchase increased benefits payable between the date of retirement and age 65. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statutes.

Funding policy. The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two years. Beginning in fiscal year 1999-2000, PERS began passing costs on to employers due to the Oregon State Legislature increasing retiree benefits in 1995 by a maximum 9.89 percent benefit increase on benefits earned before October 1991 after a Court decision mandating taxation of state PERS benefits for retirees, and because the interpretation of PERS statutes by the PERS Board increased benefits beyond those foreseen by the legislature. The impact on the City to recover the higher PERS costs would have raised its employer contribution rate from 10.48 to 17.4 percent of covered members' compensation. Proceeds of the 1999 Series C, D & E Bonds (the "Bonds") were used to finance all of the estimated unfunded actuarial accrued liability (UAAL) of the City of Portland with PERS as of December 31, 1997. The City elected to finance its December 31, 1997, UAAL of \$257,917,529 to receive a lower employer contribution rate of 8.56 percent of covered employees' salaries. This resulted in the City having an over funded Actuarial Accrued Liability of \$60,844,234 at December 31, 1999. It is the City's policy to recognize pension expenditures or expenses as currently funded.

In addition to paying PERS the City's estimated UAAL, proceeds of the bond were also used to pay costs related to financing of the UAAL, including capitalized interest and costs of issuance. Full faith and credit of the City secures the bonds. Total bonds issued for fiscal year 2000 equaled \$300,848,346. The City is not authorized to levy additional taxes to pay these obligations. The liability will be financed by various city-wide bureaus based upon those bureaus' contributions to PERS for participating employees. The debt is recorded on the government-wide statements and is allocated to both governmental and business-type activities. Ultimately this debt is viewed as being an obligation of the general government.

#### IV. Other information, Continued:

#### C. Employee retirement systems and pension plans, Continued:

State of Oregon Public Employees Retirement System, Continued:

Risk pooling and revised PERS contribution rates. Effective January 1, 2000, the City elected to participate in the Local Government Rate Pool (LGRP). The LGRP was created by legislative act of the State of Oregon and provided local governments the option to pool their PERS related assets and liabilities with others that elected to participate in the pool, whereby contribution rates are determined based on the overall experience of the pool versus the potentially more volatile experience of individual employers. The LGRP was expanded and replaced by the State and Local Government Rate Pool (the SLGRP). The City made the election to join the SLGRP as of January 1, 2002.

The most recent actuarial valuation was prepared for the period ending December 31, 2003. In February 2005, the City was notified by the PERS actuarial firm that based on the most recent actuarial valuation the City's contribution rate would be changing. Due to higher than expected rate increases system-wide, the PERS Board has decided to phase in the rate increases in two steps. The first increase, effective July 1, 2005, will be to 8.07 percent, with the second effective July 1, 2007, expected to be 12.29 percent.

Annual pension cost. The net pension obligation is determined in accordance with GASB Statement 27. PERS sets the rate for the City, based on the independent actuarial study that is performed every two years. This rate establishes the annual required contribution for the City. For fiscal 2005, the City's annual pension cost of \$20,277,777 was equal to the City's required and actual contributions. The required contribution was determined as part of the independent actuarial valuation for the City at December 31, 2003, using the entry age actuarial cost method. The amortization method used is a 24-year closed group, fixed term. Significant economic assumptions used in the actuarial valuation include: (a) rate of return on the investment of present and future assets of eight percent per annum compounded annually, (b) projected salary increases at four percent per year compounded annually, (c) increases due to promotions and longevity that vary by age and service, (d) pre and post-mortality life expectancies of employees, based upon several mortality tables, (e) rates of withdrawal from active service before retirement for reasons other than death, rates of disabilities, and expected retirement ages developed on the basis of actual plan experience, (f) consumer price inflation at three percent per year, and (g) a factor for unused sick leave that is used to calculate retirement benefits under the Full Formula and Formula Plus Annuity benefit calculations.

The City's schedules of employer contributions, schedule of funding progress and net pension assets are as follows:

#### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Contribution	Percentage of APC Coontributed	Pension Assets
2003 2004	\$ 36,330,124 27,390,839	\$ 27,750,405 18,811,120	76% 69%	\$ 226,647,534 218,067,815
2005	28,857,496	20,277,777	70%	209,488,096

#### IV. Other information, Continued:

## C. Employee retirement systems and pension plans, Continued:

State of Oregon Public Employees Retirement System, Continued:

#### SCHEDULE OF FUNDING PROGRESS

Actuarial		Actuarial Accrued				UAAL as a Percentage
Valuation	Actuarial Value of	Liability (AAL)	Unfunded AAL	Funded	Covered	of Covered
Date	Assets	Attained Age	(UAAL)	Ratio	Payroll	Payroll
12/31/1999	\$1,344,029,254	\$1,283,185,019	\$ (60,844,234)	105%	\$185,197,179	(33)%
12/31/2001	1,259,495,765	997,071,885	(262,423,880)	126%	198,403,067	(132)%
12/31/2003	1,187,442,653	1,159,201,902	(28,240,751)	102%	201,036,519	(14)%

#### **NET PENSION ASSETS**

HET I ENGION ACCE			
			Fiscal Year
			Ending
		J	une 30, 2005
Net pension asset (obligation), beginning of year		\$	218,067,815
Annual Required Contribution	\$ (20,277,777)		
Interest on pension asset (obligation)	17,445,425		
Adjustment to Annual Required Contribution	 (26,025,144)		
Annual Pension Cost	 (28,857,496)		
Contributions made	 20,277,777		
Change in pension asset (obligation)			(8,579,719)
Net pension asset (obligation), end of year		\$	209,488,096

#### Fire and Police Disability and Retirement Plan

Description of plan. Fire and Police Disability and Retirement Plan (the Plan), a single employer defined benefit plan, is administered by the Fire and Police Disability and Retirement Board (the Board). The Authority for the Plan's vesting and benefit provisions is contained in the Charter of the City of Portland, Oregon. The Plan issues a publicly available financial report including financial statements and required supplementary information. See *The Fire and Police Disability and Retirement Fund*, (Note I.A.) for information on obtaining financial statements.

There are 1,215 vested and 375 non-vested active working fire and police personnel that are participants in the Fire and Police Disability and Retirement Plan. Of these members, 30 are on short-term disability at June 30, 2005. In addition, there are 1,714 retirees and beneficiaries currently receiving pension and long-term disability benefits and 36 terminated employees who are vested but not yet receiving benefits under the Plan. Fire and police personnel generally become eligible for membership in the Plan immediately upon employment. The Plan provides for service connected disability benefits at 75 percent of salary for the first year of disability with 25 to 75 percent of salary in later years, depending on the medical status and ability to obtain other employment. The Plan also provides for non-service connected disability benefits at reduced rates of base pay.

#### IV. Other information, Continued:

#### C. Employee retirement systems and pension plans, Continued:

Fire and Police Disability and Retirement Plan, Continued:

Effective July 1, 1990, the Plan was amended to provide for payment of benefits upon termination of employment on or after attaining age 55 or on or after attaining age 50 if the member has 25 or more years of service. Members become 100 percent vested after five years of service. Benefits are paid to members at retirement using the following formula: 2.2 to 2.8 percent (as selected by the member based on the amount of benefits to be paid to the surviving spouse) multiplied by number of years of service (up to 30 years) incurred by the member. The product is multiplied by the highest one-year base pay the member received during the final three years of the member's employment.

Death benefits are paid to the surviving spouse or minor children if the member dies from a service connected or occupational death, regardless of vesting, based on a percentage of base pay or salary as defined in the Plan. Death benefits are also paid to the surviving spouse or minor children in accordance with terms of the Plan from a non-service connected death and for death after retirement.

The City has created an independent Citizen Review Committee to oversee a comprehensive analysis of the Portland FPD&R system. This committee is expected to present recommendations to the City Council no later than January 1, 2006. These recommendations, if adopted, may have significant impact on the operations of the FPD&R fund.

Summary of significant accounting policies. The Plan is reported as a Pension Trust Fund, included within the fiduciary funds, and is maintained on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Cash and investments held by the City Treasurer in the City of Portland investment pool are stated at fair value. The Pension Trust Fund's cash and investments are maintained in a cash and investment pool with other funds of the City. Interest earned on pooled investments is allocated monthly based on average participation of the Pension Trust Fund in relation to total investments in the pool.

Funding policy and reserves. The Pension Trust Fund was established by adoption of Chapter 5 of the City Charter by the voters at the general election held November 2, 1948. Six subsequent amendments have been made by voters with the last one being November 7, 2000.

The Board of Trustees of the Pension Trust Fund also administers a Reserve Fund, authorized under provisions of Chapter 5 (Section 5-104) of the City of Portland's Charter. The Reserve Fund's purpose is to provide a reserve from which advances can be made to the Fire and Police Disability and Retirement Fund in the event the latter is depleted to the extent it cannot meet its current obligations. Under provisions of the City Charter, the Reserve Fund maximum is established at \$750,000 and is fully funded at June 30, 2005.

In accordance with Charter provisions, there are no requirements to finance the Plan using actuarial techniques. As required by Charter, the Pension Trust Fund's Board of Trustees prepares an estimate of the amount required to pay and discharge all requirements of the Pension Trust Fund, exclusive of any loans or advances, for the next succeeding fiscal year and submits this estimate to the City Council.

#### IV. Other information, Continued:

## C. Employee retirement systems and pension plans, Continued:

Fire and Police Disability and Retirement Plan, Continued:

The Council is required by Charter to levy a tax sufficient to provide amounts necessary to meet estimates provided by the Board of Trustees. Funding for the Plan is accomplished by imposition of a special property tax levy which cannot exceed two and eight-tenths mills on each dollar of valuation of property (\$2.80 per \$1,000 of real market value) not exempt from such levy and is recognized in the Fire and Police Disability and Retirement Fund (FPD&R). Prior to July 1, 1990, effective date of the charter revision, the City had no legal liability to pay for obligations in excess of current year revenues available to the plan. Benefits and claims, if a deficiency occurred, would have been required to be paid on a pro rata basis. Effective July 1, 1990, in the event that funding for the Plan is less than the required payment of benefits to be made in any particular year, the FPD&R could receive advances from the FPD&R first, and other City funds second, to make up the difference. Repayment of advances, if any, would be made from the special property tax levy in the succeeding year. In the event that the special property tax levy is insufficient to pay benefits because benefits paid exceed the two and eight-tenth mills limit, then other City funds would be required to make up the difference from the Reserve Fund. For fiscal year ended June 30, 2005, the weighted levy rate per \$1,000 of real market value under the special property tax levy was \$1.42.

Prior to July 1, 1990, members were required to contribute 7 percent of a member's base salary into the Plan. Effective July 1, 1990, members are no longer required to make contributions into the Plan, except those opting to remain in the old plan.

Members enrolled in the Plan prior to July 1, 1990, were required to make an election as to whether they wished to fall under provisions of the Plan as constituted prior to July 1, 1990, or become subject to the new Plan provisions after June 30, 1990. As of June 30, 2005, there were 920 members and beneficiaries that fall under the provisions of the Plan as constituted prior to July 1, 1990, and 2,420 members and beneficiaries were subject to the new Plan as constituted after June 30, 1990.

Recognizing that the economic conditions have changed significantly over the past few years, the City reviewed the discount rate and assumptions utilized in the calculations of the actuarial valuation, actuarial accrued pension liabilities, and net pension obligation, and determined they should be revised to more closely match the funding and investment returns that could be achieved by the City under existing law, and further assuming that it could collect funds to pay pension liabilities in advance of when they come due. As a result, the City revised the discount rate used to value the Fund liabilities and cost to 6.63% from 8%. The impact of this change in estimate increased the NPO by \$12 million.

Total actual contributions to the Plan for fiscal year ended June 30, 2005, consisted of the special property tax levy of \$80,577,364, which is 69.99 percent of the annual covered payroll of \$103,179,263. The City has recognized a NPO of \$616,551,895. This is an increase from fiscal year ending June 30, 2004 of \$67.8 million NPO. This NPO was determined in accordance with GASB Statement 25. No expenditure or liability is reported for the NPO in the governmental fund financial statements, because such amounts normally are not expected to be liquidated with available financial resources. Instead, expenditures are reported in the governmental funds only when the amounts in question are, in fact, funded. In the interim, the liability for the NPO is reported in the government-wide statement of net assets.

## IV. Other information, Continued:

# C. Employee retirement systems and pension plans, Continued:

Fire and Police Disability and Retirement Plan, Continued:

The Plan's schedule of funding progress, annual pension cost and net pension obligation are as follows:

## **SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2003	\$ 5,687,271	\$1,264,489,000	\$1,258,801,729	0.45%	\$100,293,760	1255.11%
6/30/2004	14,351,075	1,288,704,000	1,274,352,925	1.11%	103,179,263	1235.09%
6/30/2005	15,121,840	1,684,459,000	1,669,337,160	0.90%	115,134,912	1449.90%

## **SCHEDULE OF ANNUAL PENSION COST**

Fiscal				
Year			Percentage of	
Ending	<b>Annual Pension</b>		APC	Net Pension
June 30,	Cost (APC)	Contribution	Coontributed	Obligation
2003	\$ 116,831,706	\$ 69,700,210	59.66%	\$ 512,270,991
2004	121,766,496	85,253,135	70.01%	548,784,351
2005	148,344,908	80,577,364	54.32%	616,551,895

## **NET PENSION OBLIGATION**

		Fiscal Year Ending June 30, 2005
Net pension asset (obligation), beginning of year		\$ (548,784,351)
Annual Required Contribution	\$ (151,904,573)	
Interest on pension asset (obligation)	(36,384,402)	
Adjustment to Annual Required Contribution	39,944,067	
Annual Pension Cost	(148,344,908)	
Contributions made	80,577,364	
Change in pension asset (obligation)		(67,767,544)
Net pension asset (obligation), end of year		\$ (616,551,895)

## IV. Other information, Continued:

## C. Employee retirement systems and pension plans, Continued:

Fire and Police Disability and Retirement Plan, Continued:

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2004
Actual cost method	Attained age
Amortization method	30-year level dollar
Remaining amortization period	30 years open
Asset valuation method	Per open market
Actuarial assumption methods:	•
Investment rate of return	6.63%
Projected salary increases	3.5%
Includes inflation at cost of living adjustments	3.5%
Post-retirement benefit increases:	
Per Old Plan	3.5%
Per New Plan	2.0%

## D. Subsequent events

Subsequent to fiscal year-end, the City annexed the following:

On July 1, 2005, the City assumed the Powell Valley Road Water District operations. In accordance with its intergovernmental agreement with the Powell Valley Road Water District dated May 23, 1993, and as amended February 1, 1994, that upon the dissolution of the District, its water service responsibilities were transitioned to the City.

Subsequent to fiscal year-end, the City issued the following debt:

	Origination			
Bonds and Terms:	Date	Principal	Years	Rate
Airport Way Urban Renewal and Redevelopment Refunding Bonds,				
Series A, Tax Exempt. Beginning December 15, 2005,				
interest payable semi-annually on June 15 and December 15.	9/29/2005	\$ 45,370,000	16	3.00 - 5.00%

# IV. Other information, Continued:

# **D.** Subsequent events, Continued:

Subsequent to fiscal year-end, the City increased existing debt instruments with the following:

Notes and Loans:	Or	igination Date	Maxim Cred		Drav Date		Princi	pal	Length in Years	Interest Rate
Tax Anticipation Note, Series 2005, (Fire and Police Disability Retirement Fund)					7/6/20	005 \$ 1	15,945	5,000	1	4.00%
State of Oregon, Department of Environmental Qual Southwest Interceptor 3 Project	•	1/5/2004	\$ 4,272,	068	7/6/20	005	4,272	2,068	20	4.00%
State of Oregon, Department of Environmental Qual Wastewater Treatment Disinfection Program	•	/10/2003	3,652,	129	10/8/20	005	617	7,124	20	1.00%
U.S. Department of Housing and Urban Developmer Section 108, Economic Development Initiative (EDI)		1/7/2003	11,457,	000	11/2/20	005	1,344	1,000	2	Variable
Draws on Open Lines of Credit	Originat Date		ximum Credit		raw ate	Princi	pal	Len in Ye	_	Interest Rate
S. Waterfront Central District TIF Non-Revolving Taxable Credit Facility	6/23/20	05 \$30	,800,000	8/31	/2005	\$ 850	,000	4		Variable
S. Waterfront Central District TIF Non-Revolving Tax-Exempt Credit Facility	6/23/20	05 30	,800,000	8/31	/2005	1,476	,776	4		Variable
S. Waterfront Central District TIF Non-Revolving Tax-Exempt Credit Facility	6/23/20	05 30	,800,000	9/12	2/2005	6,000	,000	4		Variable
Gibbs Extension Non-Revolving Tax-Exempt Credit Facility	9/15/20	05 11	,050,000	6/15	5/2005	10,007	,525	2	!	Variable
Oregon Convention Center Taxable Credit Facility	6/5/200	)2 10	,000,000	9/30	)/2005	4,250	,000	2		Variable
Tram Non-Revolving Tax-Exempt Credit Facility	8/25/20	05 21	,020,000	9/30	)/2005	1,168	,929	4		Variable
Local Improvement District Non-Revolving Tax Credit Facility	6/26/19	97 12	,125,000	12/1	/2005	765	,509	Renev	wable	Variable
Land purchase Non-Revolving Tax-Exempt Credit Facility	12/22/20	004 4	,000,000	12/1	/2005	46	,288	20	0	1.00%

# IV. Other information, Continued:

# **D.** Subsequent events, Continued:

Subsequent to fiscal year-end, the City redeemed the following debt:

	Event	
Debt Redeemed:	Date	Principal
Airport Way Urban Renewal and Redevelopment Refunding Bonds, 2000 Series A Tax Exempt, defeased. Estimated economic gain \$2.4 million.	9/29/2005	\$ 44,385,000
Wells Fargo Tax-Exempt LID line of credit repayment.	9/30/2005	1,157,991