

City of Portland, Oregon
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

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 seven subsequent amendments, the last one being November 7, 2006. 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 administers the FPD&R 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 Office of Management and Finance administers the Fire and Police Supplemental Reserve Fund under a provision in City Ordinance No. 138016. 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: fpdr@ci.portland.or.us, URL: <http://www.portlandonline.com/auditor/index.cfm?c=41134> or by telephone: (503) 823-6823.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

I. Summary of significant accounting policies, Continued:

A. Reporting entity, Continued:

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.

B. Government-wide and fund financial statements:

The government-wide financial statements, which include 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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

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, 2006, 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, liability insurance, workers' compensation insurance, communication and technology.

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

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

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.

Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs for the benefit of the City and its citizenry.

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.

The Parks Endowment Fund, the City's only permanent fund, accounts for gifts, donations, and endowments of a permanent nature. The principal is invested and earnings are available to support Parks and Recreation programs and activities. Any income not used under the terms and conditions of the original donation shall apply to increase the trust reserve.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

I. Summary of significant accounting policies, Continued:

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

Specific fund changes

To improve the financial management and accounting of the City through proper tracking of activity, several changes were made to individual funds. Two internal service funds were merged, the Information Technology Fund and the Communications Services Operating Fund and renamed as the Technology Services Fund. The Communications Services Fund was closed.

The Planning and Development Review Fund, a special revenue fund, was renamed the Development Services Fund. The Parks Construction Fund, a capital projects fund, was renamed as the Parks Capital Construction and Maintenance Fund.

Two new funds were established during the fiscal year ending June 30, 2006. The Campaign Finance Fund, a special revenue fund, was established to provide for the financing of campaigns of certified candidates for City office and the payment of related administrative and enforcement activities. The Willamette Industrial Urban Renewal Area Debt Service Fund was established to achieve a proper matching of revenues and expenses related to the newly created Willamette Industrial Urban Renewal Area and to achieve compliance with Oregon Revised Statutes 457.440 (6)(b) which require that a separate fund be created for each urban renewal area. Though a budget was established for this fund, property taxes were not assessed, therefore no current year activity was initiated.

The Washington County Supply Bond Redemption Fund was established to pay the debt service for a special bond issue that financed the Washington County Gravity Supply Line and the debt service has been terminated. This fund was closed effective June 30, 2005 and is no longer reported.

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.

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).

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

I. Summary of significant accounting policies, Continued:

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

2. Receivables and Payables

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.

Accounts payable to vendors and contractors include general accounts payable, retainage payable, deposits payable and other accrued contingent liabilities not included in short-term or long-term liabilities.

3. Inventories and property held for resale

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 fair market value.

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 items in both the government-wide and proprietary fund financial statements.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

I. Summary of significant accounting policies, Continued:

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

5. Restricted amounts

Certain assets are classified as restricted assets because their use is limited by parties external to the City. Parties external to the City include citizens, creditors, grantors, public interest groups, other governments, and the courts. Restrictions may also be imposed by laws through constitutional provisions or legally enforceable enabling legislation. 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.

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 & building improvements – 10 to 50 years
- Improvements to land – 20 to 50 years
- Equipment – 3 to 20 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.

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 2006 were \$63.4 million, of which \$19.6 million was capitalized for a net interest expense of \$43.8 million.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

I. Summary of significant accounting policies, Continued:

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

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.

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.

City of Portland, Oregon
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

I. Summary of significant accounting policies, Continued:

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

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. Annexation of Powell Valley Road Water District

On July 1, 2005 the City of Portland's Bureau of Water Works assumed Powell Valley Road Water District (PVRWD) operations. In accordance with its intergovernmental agreement with the PVRWD dated May 23, 1991, and as amended February 1, 1994, upon the dissolution of the District, its water service responsibilities were transitioned to the City. This annexation resulted in the Bureau of Water Works adding about 11,000 retail customer accounts. In accordance with *Accounting Principles Bulletin 16: Business Combinations*, the City combined PVRWD's net assets with the City of Portland's Water Fund, a major business-type activity. Beginning balances for the Water Fund have been restated to reflect this combination. Minor adjustments were made to reclassify utility plant in service items to the appropriate City capital asset classifications. The net effect of the PVRWD annexation increases the City's net assets in the Water Fund by \$19,551,283.

The final statement of net assets for the Powell Valley Road Water District for fiscal year ending June 30, 2005 is as follows:

POWELL VALLEY ROAD WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 782,404
Accounts receivable	116,405
Other receivables	7,533
Inventories	69,241
	975,583
TOTAL CURRENT ASSETS	
RESTRICTED ASSETS:	
Expendable Trust Fund	
Deferred compensation benefits funded	473,380
Construction Fund:	
Cash and cash equivalents	330,952
Bond Debt Service Fund:	
Cash and cash equivalents	651,841
	1,456,173
TOTAL RESTRICTED ASSETS	

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

I. Summary of significant accounting policies, Continued:

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

14. Annexation of Powell Valley Road Water District, Continued:

UTILITY PLANT IN SERVICE	
Land	592,862
Water distribution system	18,491,750
Office building	4,027,735
Equipment	800,394
Utility plant in service	23,912,741
Less accumulated depreciation	<u>(6,939,829)</u>
UTILITY PLANT IN SERVICE, NET	<u>16,972,912</u>
CONSTRUCTION IN PROGRESS	<u>722,162</u>
TOTAL ASSETS	<u>\$ 20,126,830</u>
LIABILITIES & NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	<u>\$ 8,722</u>
TOTAL CURRENT LIABILITIES	<u>8,722</u>
CURRENT LIABILITIES (Payable from Restricted Assets):	
General Fund:	
Expendable Trust Fund	
Deferred compensation benefits funded	473,380
Construction Fund:	
Accounts payable	<u>9,472</u>
TOTAL CURRENT LIABILITIES (Payable from Restricted Assets)	<u>482,852</u>
TOTAL CURRENT LIABILITIES	<u>491,574</u>
ESTIMATED SICK LEAVE LIABILITY	<u>83,975</u>
TOTAL LIABILITIES	<u>575,549</u>
NET ASSETS:	
Invested in capital assets, net of related debt	17,695,074
Restricted	973,321
Unrestricted	<u>882,886</u>
TOTAL NET ASSETS	<u>19,551,281</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,126,830</u>

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

I. Summary of significant accounting policies, Continued:

E. Adoption of new GASB pronouncements:

For the fiscal year ended June 30, 2006, the City implemented the following GASB Pronouncements:

GASB Statement No. 42: Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The changes that result from implementing this statement improve financial reporting for several reasons, including: 1) reporting when the impairments occur rather than as part of ongoing depreciation expense or when disposed of; 2) users will better understand when impairments have occurred and what the financial impact is; and 3) it enhances comparability between governments. These changes have been incorporated in the Capital Assets section of the Notes to the Basic Financial Statements (Note III.E.).

GASB Statement No. 44: Economic Condition Reporting: The Statistical Section, an Amendment of NCGA Statement 1

Statement No. 44 enhances and updates the statistical section of the Comprehensive Annual Financial Report (CAFR). The statistical schedules provide a more comprehensive government-wide look at financial information contained in the CAFR. The changes to the required statistical schedules will standardize reporting for all governments, increase comparability and consistent application, make use of the new information available as a result of GASB Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments*, and will assist users with understanding the information provided in the financial statements, notes, and required supplementary information. The primary changes aid in the assessment of the economic condition through additional historic detail, and include: financial trends, revenue capacity, debt capacity, economic and demographic information, and operating indicators. These changes have been incorporated into the Statistical Section.

GASB Statement No. 46: Net Assets Restricted by Enabling Legislation, an Amendment of GASB Statement No. 34

Statement No. 46 clarifies the definitions of restricted net assets and enabling legislation, and specifies the accounting and financial reporting requirement of such. Net assets can be considered restricted if the restrictions are imposed by legally enforceable legislation that requires a government to honor, from external parties such as citizens, public interest groups, or the judiciary. Enabling legislation must give the government authorization to raise resources, and there must be a legally enforceable requirement that those resources be used for the purpose to which the resources were raised. Reserved or designated assets or resources, by the City or within the City, do not qualify as restricted. These changes have been incorporated in the Restricted Net Assets section of the Notes to the Basic Financial Statements (Note III.D.).

GASB Statement No. 47: Accounting for Termination Benefits

Statement No. 47 establishes accounting standards for voluntary and involuntary termination benefits. An example of voluntary termination benefits is an early-retirement incentive, where the offer has been accepted and the amount can be estimated. An example of involuntary termination benefits would be severance benefits (specific plan definitions are required). Benefits can include health care-related and non health care-related benefits and will be measured using discounted present values on projected total claim costs and expected future benefit payments, respectively. Though the City of Portland has a formal targeted severance program process in place when needed, as of June 30, 2006, this program was not being utilized.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

I. Summary of significant accounting policies, Continued:

F. Future adoption of GASB pronouncements:

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2006:

- GASB Statement No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*

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. 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.

Intrafund activity has been eliminated from the Schedules of Revenues and Expenditures – Budget and Actual. The City has plans to discontinue budgeting these since they are neither resources nor requirements for purposes of local budget law.

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, 2006.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

II. Stewardship, compliance, and accountability, Continued:

B. Expenditures in excess of appropriations, Continued:

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. Funds reported with a negative variance for total expenditures that are a result from bond refundings include: Airport Way Debt Service Fund, Bancroft Bond Interest and Sinking Fund, and Hydroelectric Power Operating Fund.

For the fiscal year ended June 30, 2006, the following funds had total expenditures in excess of budgeted appropriations:

Primary Government

General Fund:

Legislative/Admin/Support Services:	
Commissioner of Public Utilities	\$ 3,949

Enterprise Funds:

Environmental Services:	
Environmental Remediation	564,551

All expenditures in excess of budgeted appropriations in the fiscal year ended June 30, 2006 were funded by additional revenue or available fund balance.

Component Unit - Portland Development Commission

For the fiscal year ended June 30, 2006, expenditures exceeded appropriations in the Housing Acquisitions Fund, a special revenue fund, in the amount of \$522,530. These were expenditures incurred for the City Lights Housing Program being reimbursed by the City.

C. Deficit Fund Equity:

Oregon state law requires fund disclosure of deficit fund balances/total net assets. Future resources will be used to clear these deficits.

Primary Government

At June 30, 2006, the Environmental Remediation Fund, an enterprise fund, had a deficit balance of \$992,675 in the Schedule of Revenues and Expenditures - Budget and Actual. The activity for this fund is reported in the environmental services fund on the statement of activities. This deficit was the result of expenditures for the Portland Harbor, a superfund site.

Additionally, the Insurance and Claims Operating Fund, an internal service fund, had a deficit GAAP fund balance of \$523,918. This was the result of an increase in the claims accrual for reserves per the Actuarial Analysis of the Liability Program as of June 30, 2006. Note IV. A. Risk Management provides additional information on unpaid claims balances.

Component Unit - Portland Development Commission

The Housing Acquisitions Fund, a special revenue fund, had a deficit Budgetary/GAAP fund balance of \$3,790 as of June 30, 2006. The fund incurred construction costs for the City Lights Housing Program that will be reimbursed from the City of Portland in fiscal year 2007.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes:

A. Cash and investments:

Cash and investments for the primary government are comprised of governmental and business-type activities. The balances at June 30, 2006 are:

	Primary Government	Component Unit (PDC)	Total
Cash on hand	\$ 3,261	\$ 1,000	\$ 4,261
Deposits with financial institutions	31,612,565	223,850	31,836,415
Investments	716,548,971	94,688,501	811,237,472
Total primary government	748,164,797	94,913,351	843,078,148
Fiduciary	60,596,617	82,373	60,678,990
Total Government	<u>\$ 808,761,414</u>	<u>\$ 94,995,724</u>	<u>\$ 903,757,138</u>

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Activities	Total Government	Component Unit (PDC)
Unrestricted	\$ 266,361,280	\$ 135,762,936	402,124,216	\$ 60,596,617	\$ 462,720,833	\$ 94,913,351
Restricted	85,159,299	260,881,282	346,040,581	-	346,040,581	-
Total	<u>\$ 351,520,579</u>	<u>\$ 396,644,218</u>	<u>\$ 748,164,797</u>	<u>\$ 60,596,617</u>	<u>\$ 808,761,414</u>	<u>\$ 94,913,351</u>

Restricted cash and investments

Cash and investments at June 30, 2006 that are restricted by legal or contractual requirements are comprised of the following:

Governmental activities	
Nonmajor governmental funds	
Debt service	\$ 32,379,271
Federal and state grants	2,447,272
Voter approved special operations	21,004,398
Capital projects	29,162,289
Permanent endowment	166,069
Total governmental activities	<u>85,159,299</u>
Business-type activities	
Sewer operations enterprise funds	
Reserved for capital projects	<u>249,163,164</u>
Hydroelectric power enterprise funds	
Debt service	3,631,102
Renewal and replacement	8,087,016
Total hydroelectric power enterprise funds	<u>11,718,118</u>
Total business-type activities	<u>260,881,282</u>
Total restricted cash and investments	<u>\$ 346,040,581</u>

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

A. Cash 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, all deposits are collateralized with eligible securities in amounts equal to at least 25 percent of the book value of the deposits. The City's deposit policy also requires that all deposits were covered by federal depository insurance and/or were collateralized at no less than 25 percent by securities as required by and in compliance with ORS 294.035. As of June 30, 2006, the book value of all the City's deposits was \$255 million. All collateral securities were held by third parties in the City's name, and were not exposed to custodial credit risk.

Component Unit - Portland Development Commission:

Total deposits for PDC were \$223,850 of which \$115,000 was covered by federal depository insurance and the remaining \$108,850 was collateralized by securities held by the Federal Home Loan Bank of Seattle.

Investments

Primary government

All investment pool 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 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 \$377,886 for fiscal year ended June 30, 2006.

The City's investment policy, developed annually by the Office of Management and Finance after consulting 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. 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, approved by City Council and serve two-year terms. 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 the Chief Administrative Officer or designee in consultation with the City Treasurer and the IAC.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

A. Cash and investments, Continued:

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 U.S. Corporations
- Interest Bearing Deposits in State of Oregon Financial Institutions Collateralized 25% by Securities as required by Oregon Revised Statutes
- State of Oregon Local Government Investment Pool
- Repurchase Agreements Secured by United States Treasury Debt Obligations

Interest rate risk. As of June 30, 2006, the weighted average maturity of the City's investment portfolio was .33 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 FFCB, FHLB, FNMA and FHLMC Coupon Notes were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services. The City's investments in FFCB have a short-term rating of P-1 by Moody's Investor Services. 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. As of June 30, 2006, the LGIP was not rated.

Concentration of credit risk. Of the City's total investments as of June 30, 2006, 16.87% were FHLMC Notes or short-term investments, 16.69% were FHLB Notes. All other investments not explicitly guaranteed by the U.S. Government were less than 5% of the City's total investments. The City's investment policy addresses credit risk concentration by limiting both the types and amounts of securities that may be held in the portfolio. These portfolio restrictions vary based upon the investment type and issuer. These restrictions as well as other information contained in the City's investment policy located at: <http://www.portlandonline.com/auditor/index.cfm?a-8811&c=27440>.

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, 2006, the City has no investments that are held by either a counterparty or the counterparty's trust department agent. Therefore, the City has no outstanding investments that were exposed to custodial credit risk.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

A. Cash and investments, Continued:

Investments, Continued:

As of June 30, 2006, the City had the following investments and maturities:

Investment Type	Fair Value	Non Maturity Rated	Investment Maturity (Years)		Weighted Average Maturity (Years)
			Less Than 1	1 - 5	
U.S. Treasuries	\$ 59,786,719	\$ -	\$ 59,786,719	\$ -	0.15
U.S. agencies	367,987,740	-	298,443,217	69,544,523	0.73
Bankers' acceptances	-	-	-	-	0.00
Commercial paper	165,016,834	-	165,016,834	-	0.02
Time/interest bearing deposits	254,975,000	-	254,975,000	-	0.02
Local government pool	12,438,008	12,438,008	-	-	0.00
Total fair value	\$ 860,204,301	\$ 12,438,008	\$ 778,221,770	\$ 69,544,523	

Portfolio weighted average maturity

0.33

B. Receivables and payables:

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, 2006, were as follows:

	Governmental Activities					Business-type Activities			
	General	Trans- portation	Nonmajor Funds	Internal Service	Total	Sewage Disposal	Water	Nonmajor Funds	Total
Taxes	\$ 13,220,703	\$ -	\$ 4,927,138	\$ -	\$ 18,147,841	\$ -	\$ -	\$ -	\$ -
Accounts	19,000,428	24,981,365	24,132,041	1,520,821	69,634,655	24,634,823	9,515,629	1,556,799	35,707,251
Assessments	3,746,001	1,287,515	26,088,312	-	31,121,828	3,461,867	-	-	3,461,867
Contracts	-	-	-	-	-	-	-	449,988	449,988
Grants	-	-	18,031,977	4,076	18,036,053	-	-	-	-
Advances	252,226	-	986,206	-	1,238,432	-	-	60,000	60,000
Interest	905,314	37,856	917,315	638,154	2,498,639	1,676,337	245,704	201,851	2,123,892
Total receivables	37,124,672	26,306,736	75,082,989	2,163,051	140,677,448	29,773,027	9,761,333	2,268,638	41,802,998
Allowance for doubtful accounts	(26,265)	(20,872)	-	(55,882)	(103,019)	(5,559,303)	(1,854,806)	-	(7,414,108)
Receivables, net	\$ 37,098,407	\$ 26,285,864	\$ 75,082,989	\$ 2,107,169	\$ 140,574,429	\$ 24,213,724	\$ 7,906,527	\$ 2,268,638	\$ 34,388,890
Not scheduled for collection during the subsequent year	\$ -	\$ 887,533	\$ 22,316,618	\$ -	\$ 23,204,151	\$ 3,235,772	\$ -	\$ -	\$ 3,235,772

Payables at June 30, 2006, were as follows:

	Governmental Activities					Business-type Activities				
	General	Trans- portation	Nonmajor Funds	Internal Service	Unallocated Governmental	Total	Sewage Disposal	Water	Nonmajor Funds	Total
Accounts to vendors and contractors	\$ 9,992,208	\$ 10,506,090	\$ 6,037,081	\$ 5,771,589	\$ 4,488,226	\$ 36,795,194	\$ 30,606,036	\$ 5,043,965	\$ 3,144,754	\$ 38,794,755
Interest on bonds and notes	-	-	-	1,542,879	31,361,747	32,904,626	9,822,050	4,424,094	1,208,171	15,454,315
Total payables	\$ 9,992,208	\$ 10,506,090	\$ 6,037,081	\$ 7,314,468	\$ 35,849,973	\$ 69,699,820	\$ 40,428,086	\$ 9,468,059	\$ 4,352,925	\$ 54,249,070

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

C. Deferred and 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." Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Governmental Activities			Total
	General	Transportation Operating	Nonmajor Funds	
Due from component unit	\$ -	\$ -	\$ 5,250,000	\$ 5,250,000
Accounts	10,166	-	-	10,166
Liens - LID	-	-	21,020,454	21,020,454
Liens	3,746,000	1,287,515	26,088,311	31,121,826
Taxes	6,306,027	-	3,568,040	9,874,067
Total fund level deferred revenue	\$ 10,062,193	\$ 1,287,515	\$ 55,926,805	\$ 67,276,513

	Governmental Activities				Business-type Activities			
	General	Transportation Operating	Nonmajor Funds	Internal Service	Total	Sewage Disposal	Water	Total
Grants	\$ -	\$ -	\$ 20,087,738	\$ -	\$ 20,087,738	\$ -	\$ -	\$ -
Accounts	254,494	4,636,574	244,386	174,722	5,310,176	731,650	206,363	938,013
License Tax Prepayments	17,925,039	-	-	-	17,925,039	-	-	-
Total unearned revenue	\$ 18,179,533	\$ 4,636,574	\$ 20,332,124	\$ 174,722	\$ 43,322,953	\$ 731,650	\$ 206,363	\$ 938,013

D. 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. As summarized below, the government-wide statement of net assets reports \$102.7 million of restricted net assets, of which \$167,006 is restricted by a permanent endowment and the remaining \$102,520,780 is restricted by enabling legislation.

Governmental activities	\$ 92,280,515
Business-type activities	10,407,271
	<u>\$ 102,687,786</u>

E. Capital assets:

In the governmental activities column of the statement of activities, capital asset reclassification or transfers between governmental funds and internal service 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 \$433,983 in capital asset transfers from governmental activities to business-type activities.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

E. Capital assets, Continued:

In 2006, during the course of the City's strategic review of operations, the City recorded a permanent impairment write-down in public safety, a governmental activity in the amount of \$850,986, net of accumulated depreciation. This impairment was the result of technological obsolescence of the emergency response software and is being replaced with new Homeland Security compliant technology.

Business type-activities beginning capital asset balances were increased by \$17.6 million net of accumulated depreciation to reflect the acquisition of capital assets related to a prior annexation of Powell Valley Road Water District (PVRWD). A detailed statement of net assets for PVRWD is provided in Note I.D. 14. Capital asset activity for the primary government, which excludes fiduciary activities, for the year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Reclassifications	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 80,259,784	\$ 19,511,623	\$ (8,773)	\$ 19,490	\$ 99,782,124
Construction in progress	53,859,898	57,492,397	-	(26,623,631)	84,728,664
Total capital assets, not being depreciated	134,119,682	77,004,020	(8,773)	(26,604,141)	184,510,788
Capital assets, being depreciated:					
Buildings	251,911,721	5,209,377	(97,985)	2,331,845	259,354,958
Improvements to land	110,355,912	2,703,399	(3,156)	8,001,758	121,057,913
Equipment	128,245,754	12,389,379	(8,814,541)	226,214	132,046,806
Infrastructure	4,048,467,814	37,749,316	-	15,559,712	4,101,776,842
Capital leases	2,681,648	-	-	(81,183)	2,600,465
Total capital assets being depreciated	4,541,662,849	58,051,471	(8,915,682)	26,038,346	4,616,836,984
Less Accumulated depreciation for:					
Buildings	(57,789,099)	(5,384,383)	57,808	117,865	(62,997,809)
Improvements to land	(37,377,174)	(3,970,865)	1,220	81,174	(41,265,645)
Equipment	(66,843,610)	(7,887,498)	7,330,057	(148,410)	(67,549,461)
Infrastructure	(2,003,702,895)	(138,457,599)	-	-	(2,142,160,494)
Capital leases	(1,485,434)	(468,084)	-	81,183	(1,872,335)
Total accumulated depreciation	(2,167,198,212)	(156,168,429)	7,389,085	131,812	(2,315,845,744)
Total capital assets, being depreciated, net	2,374,464,637	(98,116,958)	(1,526,597)	26,170,158	2,300,991,240
Governmental activities capital assets, net	\$ 2,508,584,319	\$ (21,112,938)	\$ (1,535,370)	\$ (433,983)	\$ 2,485,502,028
	Beginning Balance as Restated	Increases	Decreases	Reclassifications	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 73,246,019	\$ 2,277,152	\$ -	\$ 107,696	\$ 75,630,867
Construction in progress	454,392,525	170,147,296	(30,564)	(45,617,695)	578,891,562
Total capital assets, not being depreciated	527,638,544	172,424,448	(30,564)	(45,509,999)	654,522,429

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

E. Capital assets, Continued:

	Beginning Balance as Restated	Increases	Decreases	Reclassifications	Ending Balance
Business-type activities, continued:					
Capital assets, being depreciated:					
Buildings	177,680,776	970,371	-	4,077,821	182,728,968
Improvements to land	22,768,877	104,310	-	(1,427,298)	21,445,889
Equipment	45,433,392	9,427,917	(3,066,117)	6,417,018	58,212,210
Infrastructure	2,090,443,526	32,851,341	(1,203,320)	37,578,772	2,159,670,319
Capital leases	7,847,728	-	-	(570,519)	7,277,209
Total capital assets being depreciated	2,344,174,299	43,353,939	(4,269,437)	46,075,794	2,429,334,595
Less accumulated depreciation for:					
Buildings	(52,483,845)	(4,438,612)	-	(1,066,309)	(57,988,766)
Improvements to land	(6,114,057)	(638,202)	-	867,270	(5,884,989)
Equipment	(22,446,713)	(3,140,270)	2,073,658	(503,292)	(24,016,617)
Infrastructure	(384,681,599)	(31,994,951)	1,203,320	-	(415,473,230)
Capital leases	(4,313,009)	(372,289)	-	570,519	(4,114,779)
Total accumulated depreciation	(470,039,223)	(40,584,324)	3,276,978	(131,812)	(507,478,381)
Total capital assets, being depreciated, net	1,874,135,076	2,769,615	(992,459)	45,943,982	1,921,856,214
Business-type activities capital assets, net	\$ 2,401,773,620	\$ 175,194,063	\$ (1,023,023)	\$ 433,983	\$ 2,576,378,643
	Beginning Balance as Restated	Increases	Decreases	Reclassifications	Ending Balance
Total:					
Capital assets, not being depreciated:					
Land	\$ 153,505,803	\$ 21,788,775	\$ (8,773)	\$ 127,186	\$ 175,412,991
Construction in progress	508,252,423	227,639,693	(30,564)	(72,241,326)	663,620,226
Total capital assets, not being depreciated	661,758,226	249,428,468	(39,337)	(72,114,140)	839,033,217
Capital assets, being depreciated:					
Buildings	429,592,497	6,179,748	(97,985)	6,409,666	442,083,926
Improvements to land	133,124,789	2,807,709	(3,156)	6,574,460	142,503,802
Equipment	173,679,146	21,817,296	(11,880,658)	6,643,232	190,259,016
Infrastructure	6,138,911,340	70,600,657	(1,203,320)	53,138,484	6,261,447,161
Capital leases	10,529,376	-	-	(651,702)	9,877,674
Total capital assets being depreciated	6,885,837,148	101,405,410	(13,185,118)	72,114,140	7,046,171,579

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

E. Capital assets, Continued:

	Beginning Balance as Restated	Increases	Decreases	Reclassifications	Ending Balance
Total, Continued:					
Less accumulated depreciation for:					
Buildings	(110,272,944)	(9,822,995)	57,808	(948,444)	(120,986,575)
Improvements to land	(43,491,231)	(4,609,067)	1,220	948,444	(47,150,634)
Equipment	(89,290,323)	(11,027,768)	9,403,715	(651,702)	(91,566,078)
Infrastructure	(2,388,384,494)	(170,452,550)	1,203,320	-	(2,557,633,724)
Capital leases	(5,798,443)	(840,373)	-	651,702	(5,987,114)
Total accumulated depreciation	(2,637,237,435)	(196,752,753)	10,666,062	-	(2,823,324,125)
Total capital assets, being depreciated, net	4,248,599,713	(95,347,343)	(2,519,056)	72,114,140	4,222,847,454
Total capital assets, net	\$ 4,910,357,939	154,081,125	\$ (2,558,393)	\$ -	\$ 5,061,880,671

Depreciation and amortization

Fully depreciated capital assets at June 30, 2006, totaled \$87.2 million, of which \$45.9 million pertains to governmental activities, and \$41.3 to business-type activities. Remaining salvage values were \$6.0 million, \$4.6 million and \$1.4 million respectively. Capital assets held by the City's internal service funds were billed according to interagency agreements to the various functions based on usage of the assets. Depreciation and amortization expenses were charged to the internal service fund that owns and bills for the use of the assets. Depreciation and amortization expenses of the primary government are as follows:

	Amount
Governmental activities:	
Public safety	\$ 2,463,927
Parks, recreation and culture	4,769,809
Community development	19,216
Transportation and metered parking	139,542,512
Legislative/ Admin/ Support services	48,317
Total governmental funds	146,843,781
Internal service funds - Legislative/ Admin/ Support services	9,324,648
Total governmental activities	\$ 156,168,429
Business-type activities:	
Environmental services	\$ 18,097,183
Water	17,508,387
Hydroelectric power	656,000
Parking facilities	1,022,120
Golf	724,225
Motor sports	31,271
Spectator facilities	2,545,138
Total business-type activities	\$ 40,584,324

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

E. Capital assets, Continued:

Construction commitments

The City has active construction projects as of June 30, 2006. These include building, remodeling and retrofitting fire facilities, park improvements, plus sewer, transportation and water infrastructure upgrades. At year end the City's contractual commitments to complete the various projects were as follows:

Projects	Spent to date	Remaining Commitments	Financing Source
Governmental activities:			
Fire facilities	\$ 2,740,765	\$ 2,243,015	General obligation bonds / Intergovernmental cost sharing
Parks	9,434,394	4,836,927	Local option levy / Tax increment / Grants / General Fund discretionary
Transportation	<u>79,988,202</u>	<u>49,579,198</u>	Intergovernmental cost sharing / Grants / System development charges / Local improvement districts / Transportation revenues
Total governmental activities	<u>92,163,361</u>	<u>56,659,140</u>	
Business-type activities:			
Sewer	406,046,381	521,011,480	Revenue bonds / Sewer rate revenues
Water	<u>9,453,648</u>	<u>17,470,590</u>	Revenue bonds / Water rate revenues / Project reimbursements
Total business-type activities	<u>415,500,029</u>	<u>538,482,070</u>	
Total construction commitments	<u>\$ 507,663,390</u>	<u>\$ 595,141,210</u>	

Component Unit - Portland Development Commission:

Activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	<u>\$ 8,449,818</u>	<u>\$ 6,640</u>	<u>\$ (21,842)</u>	<u>\$ 8,434,616</u>
Capital assets, being depreciated:				
Buildings and improvements	2,707,441	-	-	2,707,441
Leasehold improvements	3,445,892	30,580	-	3,476,472
Furniture, vehicles and equipment	<u>1,578,249</u>	<u>41,936</u>	-	<u>1,620,185</u>
Total capital assets, being depreciated	<u>7,731,582</u>	<u>72,516</u>	-	<u>7,804,098</u>
Less accumulated depreciation for:				
Buildings and improvements	(920,530)	(54,149)	-	(974,679)
Leasehold improvements	-	(579,412)	-	(579,412)
Furniture, vehicles and equipment	<u>(1,396,797)</u>	<u>(99,173)</u>	-	<u>(1,495,970)</u>
Total accumulated depreciation	<u>(2,317,327)</u>	<u>(732,734)</u>	-	<u>(3,050,061)</u>
Total capital assets, being depreciated, net	<u>5,414,255</u>	<u>(660,218)</u>	-	<u>4,754,037</u>
Governmental activities capital assets, net	<u>\$13,864,073</u>	<u>\$ (653,578)</u>	<u>\$ (21,842)</u>	<u>\$ 13,188,653</u>

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

F. Interfund receivables, payables, and transfers

Due to/from other funds

Primary government

Transactions between individual funds and the component unit are recorded as “due to” and “due from”. Repayment of these transactions is required. 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 City bureaus or component unit. Repayment of these interfund balances outstanding at June 30, 2006, are expected to be repaid within one year. The composition of due to and due from other funds as of June 30, 2006 is:

	General fund	Transportation operating	Nonmajor governmental	Internal service	Sewage disposal	Water	Fiduciary Fund	Total Due To Other Funds
General fund	\$ -	\$ -	\$ -	\$ -	\$ 19,360	\$ -	\$ 4,488,226	\$ 4,507,586
Nonmajor governmental funds	8,196,748	5,001,529	121,075	198,376	2,020,277	3,066,913	-	\$ 18,604,918
Total Due From Other Funds	<u>\$ 8,196,748</u>	<u>\$ 5,001,529</u>	<u>\$ 121,075</u>	<u>\$ 198,376</u>	<u>\$ 2,039,637</u>	<u>\$ 3,066,913</u>	<u>\$ 4,488,226</u>	<u>\$ 23,112,504</u>

Component unit – Portland Development Commission

The amount due from PDC to the City is \$22,822,483, which includes \$17,572,483 loan principal and interest receivable on contracts through PDC for Community Development Block Grants program. The remaining \$5,250,000 due from PDC consists of the Streetcar line of credit for the Portland Streetcar from Portland State University to the River Place Project. This line of credit is secured by PDC's property in the South Waterfront Development Lots 3 and 8 in the North Macadam Urban Renewal Area. The properties are to be sold by PDC for amounts expected to be sufficient to cover the funds advanced by the City to PDC.

The amount due from the City to PDC is \$1,606,650, for various grant revenues under various grant programs and other intergovernmental agreements.

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 the component unit. Transfers from internal service and nonmajor enterprise funds are primarily overhead charges.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

F. 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.

Interfund transfers and the reconciliation to the Statement of Activities for the fiscal year ended June 30, 2006 consist of the following:

	General	Transportation Operating	Nonmajor Governmental	Internal Service	Total Transfers Out
General	\$ -	\$ 6,044,233	\$ 24,016,407	\$ 5,102,109	\$ 35,162,749
Transportation Operating	-	-	4,048,254	-	4,048,254
Nonmajor governmental	18,643,636	28,329,637	4,329,082	291,937	51,594,292
Internal Service	324,567	-	117,908	-	442,475
Sewage Disposal	-	-	275,598	-	275,598
Water	-	-	122,108	-	122,108
Nonmajor business-type	1,881,688	700,000	32,192	-	2,613,880
Total Transfers In	<u>\$ 20,849,891</u>	<u>\$ 35,073,870</u>	<u>\$ 32,941,549</u>	<u>\$ 5,394,046</u>	94,259,356
<u>Reconciliation:</u>					
					(76,055)
					(91,244,845)
					<u>\$ 2,938,456</u>

Interfund loans

The Transportation Operating Fund repaid \$3.2 million to the Sewage Disposal Fund for the Portland Streetcar Gibbs Extension Project. The Transportation Operating Fund borrowed \$6 million to cover on-going capital projects costs for street improvements. The Transportation Operating Fund will bill other agencies such as Portland Development Commission and Oregon Department of Transportation and reimburse the Sewage Disposal Fund after receiving payments from the other agencies. The Insurance and Claims Operating Fund borrowed \$2.3 million from the Parking Facilities Fund in order to meet cash flow needs for operations. Both loans are budgeted to be repaid in the subsequent fiscal year.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

G. Leases:

Capital leases

The City has entered into capital lease agreements for the purpose of acquiring and financing equipment and buildings. 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. The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities	Total
<u>Assets:</u>			
Building leaseholds	\$ -	\$ 6,235,096	\$ 6,235,096
Less: accumulated amortization	-	(3,823,509)	(3,823,509)
Building leaseholds, net	-	2,411,587	2,411,587
Equipment	2,600,465	1,042,113	3,642,578
Less: accumulated amortization	(1,872,335)	(291,270)	(2,163,605)
Equipment, net	728,130	750,843	1,478,973
Total	<u>\$ 728,130</u>	<u>\$ 3,162,430</u>	<u>\$ 3,890,560</u>

The net present values of these minimum lease payments as of June 30, 2006, were as follows:

Year Ending June 30,	Governmental Activities	Business-type Activities	Total
2007	\$ 460,368	\$ 674,986	\$ 1,135,354
2008	29,590	450,161	479,751
2009	-	54,356	54,356
2010	-	84,774	84,774
2011	-	-	-
Total minimum lease payments	489,958	1,264,277	1,754,235
Less amount representing interest (range: 4.95% to 10.887%)	(17,875)	(97,006)	(114,881)
Present value (capital lease obligations)	<u>\$ 472,083</u>	<u>\$ 1,167,271</u>	<u>\$ 1,639,354</u>

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

G. Leases, Continued:

Operating leases

The City leases land, buildings and equipment under non-cancelable operating leases. Operating lease payments for governmental activities were \$2.5 million and for business-type activities, \$1.8 million. Total costs for such leases were \$4.3 million for the year ended June 30, 2006. Future minimum payments for these non-cancelable operating leases are as follows:

Year Ending June 30,	Governmental Activities	Business-type Activities	Total
2007	\$ 2,353,313	\$ 1,096,401	\$ 3,449,714
2008	2,082,413	885,446	2,967,859
2009	1,576,279	869,888	2,446,167
2010	866,439	868,601	1,735,040
2011	641,222	839,545	1,480,767
2012-2016	2,362,538	1,257,011	3,619,549
2017-2021	1,953,486	-	1,953,486
Total	<u>\$ 11,835,690</u>	<u>\$ 5,816,892</u>	<u>\$ 17,652,582</u>

The City acts as lessor for operating leases that arise primarily from leasing office or retail space. Operating lease revenues for governmental activities were \$1.9 million and for business-type activities, \$1.8 million. Future minimum rents to be received from non-cancelable operating leases are contractually due as follows as of June 30, 2006:

Year Ending June 30,	Governmental Activities	Business-type Activities	Total
2007	\$ 1,409,018	\$ 1,409,069	\$ 2,818,087
2008	1,065,492	643,243	1,708,735
2009	931,899	483,854	1,415,753
2010	866,138	388,309	1,254,447
2011	866,399	311,546	1,177,945
2012-2016	1,248,847	1,084,843	2,333,690
2017-2021	851,259	32,918	884,177
	<u>\$ 7,239,052</u>	<u>\$ 4,353,782</u>	<u>\$ 11,592,834</u>

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

H. 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, 2006.

General obligation bonds

The City has \$66.6 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 \$77.5 million of governmental bonds for governmental activities and \$7.6 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. The City is in compliance with its bond covenants as of and for fiscal year ended June 30, 2006.

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	2.00 – 5.125%	\$ 66,580,000
Business-type activities	3.00 – 3.40	7,485,000
Total		<u>\$ 74,065,000</u>

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	2,360,843	1,545,000	78,780
2011	5,755,000	2,126,656	1,590,000	27,030
2012-2016	28,045,000	6,408,955	-	-
2017-2021	9,280,000	1,640,844	-	-
2022-2026	2,845,000	243,792	-	-
Total	<u>\$ 66,580,000</u>	<u>\$ 21,120,166</u>	<u>\$ 7,485,000</u>	<u>\$ 614,760</u>

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

H. Long-term debt, Continued:

Limited tax improvement bonds

The City has \$15.8 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 5.55 percent.

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

Year Ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,100,000	\$ 665,107
2008	1,065,000	632,108
2009	-	597,495
2010	-	597,495
2011	-	597,495
2012-2016	810,000	2,904,855
2017-2021	2,340,000	2,603,100
2022-2026	10,480,000	911,760
Total	\$ <u>15,795,000</u>	\$ <u>9,509,415</u>

Urban renewal and redevelopment bonds

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.

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 \$284.6 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 September 2005, the City issued \$45.4 million urban renewal and redevelopment bonds for the Airport Way urban renewal district. These bonds were issued to refund certain maturities of the City's outstanding Airport Way Urban Renewal and Redevelopment Bonds, Series A. The bonds are secured by and payable from the tax increment revenues from the Airport Way defined area.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

H. Long-term debt, Continued:

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

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2007	\$ 12,865,000	\$ 14,954,320
2008	13,565,000	14,441,055
2009	13,020,000	13,849,251
2010	15,085,000	13,161,983
2011	15,980,000	12,334,512
2012-2016	94,510,000	47,062,897
2017-2021	101,745,000	18,778,966
2022-2026	17,825,000	1,767,706
Total	\$ 284,595,000	\$ 136,350,690

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, 2006, the City had \$67.1 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.

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, 2006 of 5.25 percent on the \$75 million 1999 Series D, and 5.20 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	0.5 million

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

H. Long-term debt, Continued:

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, 2006, approximately \$111.7 million of outstanding principal remained on the portion of the bonds projected to be repaid with General Fund resources.

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 \$24.9 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.

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, 2006, the City had \$97.9 million of outstanding limited tax revenue bonds for the Oregon Convention Center Completion Project, \$30.8 million of outstanding bonds for the Civic Stadium Project, and \$1.7 million of outstanding bonds for the Portland Center for Performing Arts (PCPA) Project. The interest rates on the \$97.9 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. Annual debt service requirements to maturity for limited tax and limited tax revenue bonds are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
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
2011	15,218,074	19,350,207	6,910,922	7,518,300
2012-2016	90,933,058	87,713,821	46,344,378	31,378,884
2017-2021	121,413,871	66,091,992	51,633,079	17,444,069
2022-2026	82,872,842	129,543,642	24,957,756	36,657,997
2027-2031	49,844,386	103,577,212	3,769,278	30,970,244
2035-2036	2,695,000	339,235	-	-
Total	\$ 416,340,215	\$ 488,657,588	\$ 153,801,017	\$ 157,000,574

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

H. 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 2006, the City issued \$265 million Sewer System Revenue bonds to fund capital improvements to the City's Sewer System. The City also issued \$21.4 million Hydroelectric Power Revenue Refunding Bonds to refund the outstanding \$22.3 million 1979A and \$1.6 million 1993 Hydroelectric Power 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, 2006.

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, 2006 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Principal Outstanding</u>
Gas Tax Revenue Bonds --- Public street improvements	2.85 – 5.25%	\$ 6,450,000
Sewage Disposal --- Sewer improvement and maintenance	3.00 – 6.00%	1,233,200,000
Water Operating --- Water lines improvement and maintenance	3.00 – 5.50%	139,640,000
Hydroelectric Power --- Electrical power generating plant	5.523%	21,370,000
Golf Operations --- Golf courses improvement and maintenance	2.49 – 5.26%	4,681,000
Parking Facilities --- City owned parking structures and maintenance	3.75 – 4.25%	<u>5,150,000</u>
Total		<u>\$1,410,491,000</u>

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

H. Long-term debt, Continued:

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 510,000	\$ 247,745	\$ 48,690,000	\$ 69,827,177
2008	525,000	224,935	53,083,000	65,919,066
2009	550,000	208,187	55,674,000	64,053,857
2010	570,000	190,038	58,438,000	60,543,956
2011	580,000	170,377	61,845,000	58,331,174
2012-2016	3,255,000	511,273	352,131,000	240,153,064
2017-2021	460,000	35,000	436,060,000	141,755,378
2022-2026	-	-	257,660,000	44,033,386
2027-2031	-	-	80,460,000	11,261,900
Total	\$ 6,450,000	\$ 1,587,555	\$ 1,404,041,000	\$ 755,878,958

Advance and current refundings

On September 29, 2005 the City issued \$45.4 million of Airport Way Urban Renewal and Redevelopment Refunding Bonds, 2005 Series A. The proceeds and a cash contributions 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 \$44.4 million of outstanding Airport Way Urban Renewal and Redevelopment Bonds, 2000 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 \$4.9 million over the next 16 years and resulted in an economic gain of \$2.4 million.

On April 5, 2006 the City issued \$21.4 million of Hydroelectric Power Revenue Refunding Bonds, Series 2006. \$21.4 million of the proceeds and a cash contribution of \$.4 million from the Hydropower Redemption 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 \$21 million of outstanding Hydroelectric Power Revenue Bonds, Series 1979 and on the \$.8 million of outstanding Hydroelectric Power Revenue Refunding Bonds, Series 1993. 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 \$2.2 million over the next 11 years and resulted in an economic gain of \$551 thousand.

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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

H. Long-term debt, Continued:

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, 2006, is \$189.3 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 \$31.3 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. Sewage Disposal Fund's \$494,474 note payable with the State of Oregon is for flood storage, water quality and habitat improvements to the Johnson Creek flood plain. The interest rate on the note outstanding on June 30, 2006 was 5 percent.

Lines of credit. As of June 30, 2006, the City has issued \$131.5 million of lines of credit to:

Provide interim financing for urban renewal district projects, and	\$112.5 million
Finance various City backed projects, including:	
Acquiring idle school property for future community center and park	3.5 million
Extending the Portland Central City Streetcar line,	5.5 million
Capital improvements for various uses including smart meters, and	9.6 million
City of Portland's share of a local government joint project to temporarily house children in protective custody.	.4 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, 2006 ranged from 2.6 to 5.77 percent.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

H. Long-term debt, Continued:

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, 2006, is \$23 million. Interest rates vary from 1 to 6.1 percent with maturities to fiscal year 2026.

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 June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 17,723,018	\$ 6,612,367	\$ 294,370	\$ 127,422
2008	68,186,175	4,388,944	483,314	96,625
2009	51,459,939	2,376,735	493,215	89,561
2010	-	190,723	498,185	84,166
2011	4,565,790	98,235	461,795	77,624
2012-2016	-	-	2,201,691	297,986
2017-2021	-	-	2,183,240	144,281
2022-2026	-	-	6,444,940	35,636
Total	\$ 141,934,922	\$ 13,667,004	\$ 13,060,750	\$ 953,301

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 \$16.1 million and \$342.2 thousand respectively at June 30, 2006. 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, 2006 was \$50.7 million for governmental activities and \$5.7 million for business-type activities.

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, 2006, internal service funds had \$74.6 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 2006, 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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

H. Long-term debt, Continued:

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, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable					
General obligation	\$ 71,220,000	\$ -	\$ 4,640,000	\$ 66,580,000	\$ 4,810,000
Local tax improvement payable from assessment payments	19,355,000	-	3,560,000	15,795,000	1,100,000
Urban renewal and redevelopment	295,645,000	78,865,000	89,915,000	284,595,000	12,865,000
Limited tax and limited tax revenue	425,870,215	-	9,530,000	416,340,215	12,138,732
Revenue bonds	6,935,000	-	485,000	6,450,000	510,000
Unamortized premium and discounts	7,667,023	2,974,854	1,235,960	9,405,917	-
Total bonds payable	<u>826,692,238</u>	<u>81,839,854</u>	<u>109,365,960</u>	<u>799,166,132</u>	<u>31,423,732</u>
Notes, loans and lines of credit payable	57,138,759	88,021,633	3,225,470	141,934,922	17,723,017
Self insurance claims	25,786,792	41,766,282	37,599,499	29,953,575	12,392,694
Compensated absences	48,142,114	34,806,116	32,206,899	50,741,331	38,891,306
Capital leases	808,220	-	336,137	472,083	442,617
Governmental activities long-term liabilities	<u>\$ 958,568,123</u>	<u>\$ 246,433,885</u>	<u>\$ 182,733,965</u>	<u>\$ 1,022,268,043</u>	<u>\$ 100,873,366</u>
Business-type Activities:					
Bonds payable					
General obligation	\$ 7,542,155	\$ -	\$ 57,155	\$ 7,485,000	\$ 1,405,000
Limited tax and limited tax revenue	156,891,017	-	3,090,000	153,801,017	3,946,775
Revenue bonds	1,182,447,000	286,350,000	64,756,000	1,404,041,000	48,690,000
Unamortized premium and discounts	39,331,164	5,017,847	2,440,019	41,908,992	-
Total bonds payable	<u>1,386,211,336</u>	<u>291,367,847</u>	<u>70,343,174</u>	<u>1,607,236,009</u>	<u>54,041,775</u>
Notes and loans payable	2,415,499	10,712,796	67,545	13,060,750	294,370
Compensated absences	5,184,789	5,660,753	5,075,998	5,769,544	5,426,370
Capital leases	1,776,810	-	609,539	1,167,271	604,814
Business-type activities long-term liabilities	<u>\$ 1,395,588,434</u>	<u>\$ 307,741,396</u>	<u>\$ 76,096,256</u>	<u>\$ 1,627,233,574</u>	<u>\$ 60,367,329</u>

I. 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 2006 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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

III. Detailed notes, Continued:

I. Short-term debt, Continued:

Short-term debt activity of the fiscal year ended June 30, 2006 was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Overnight bonds	\$ -	\$ 34,600,000	\$ 34,600,000	\$ -
Tax anticipation notes	-	15,960,000	15,960,000	-
	<u>\$ -</u>	<u>\$ 50,560,000</u>	<u>\$ 50,560,000</u>	<u>\$ -</u>

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, 2006, the expected rate of return was 3.75 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.

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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

IV. Other information, Continued:

A. Risk management, Continued:

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

	Year ended <u>June 30, 2006</u>	Year ended <u>June 30, 2005</u>
Balance, beginning of fiscal year	\$ 25,786,792	\$ 25,298,083
Incurred claims and adjustments	41,766,372	36,697,909
Claims payments	<u>(37,599,589)</u>	<u>(36,209,200)</u>
Unpaid claims, end of fiscal year	<u>\$ 29,953,575</u>	<u>\$ 25,786,792</u>

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, 2006. 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 \$15.8 million at June 30, 2006, 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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

IV. Other information, Continued:

B. Commitments and contingent liabilities, Continued

Labor agreements

There are eight labor agreements between the City and its employees, three of which were to expire on June 30, 2006, and one of which expired June 30, 2005. All contracts have been settled and ratified by City Council prior to June 30, 2006.

	<u>Effective Dates</u>	
The City of Portland Professional Employees Association (COPPEA)	7/1/2004	6/30/2007
Laborers', Local 483 - Recreation Employees	7/1/2004	6/30/2007
Laborers', Local 483 - Seasonal Maintenance Workers	7/1/2005	6/30/2007
The Portland Fire Fighters' Association - Local 43 (PFFA)	7/1/2005	6/30/2007
The Portland Police Commanding Officers Association (PPCOA)	7/1/2006	6/30/2010
Portland Police Association (PPA)	7/1/2006	6/30/2010
The District Council of Trade Unions (DCTU)	7/1/2006	6/30/2010
Bureau of Emergency Communications - Oregon AFSCME Council 75, Local 189-2 (BOEC)	7/1/2006	6/30/2010

Contractual commitments

Contractual commitments at June 30, 2006 amounted to:

Governmental activities	\$ 197,479,112
Business-type activities	<u>22,111,352</u>
Total	<u>\$ 219,590,464</u>

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, 2006, the total accumulated excess cost was \$25,310,864, 50 percent of this total was \$12,655,432, and the carrying value of the renewal and replacement assets was \$8,100,413.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

IV. Other information, Continued:

B. Commitments and contingent liabilities, Continued

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 entities and property owners along 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. 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) under the Portland Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

The signatories to the AOC have agreed upon a cost sharing plan to fund the RI/FS. The City's share is 25 percent. The City's share of the RI/FS costs bears no relationship to the City's potential 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), and funds in the City's Environmental Remediation Fund. The City's estimated costs associated with the RI/FS activities, through FY 2010 is expected to range between \$1.9 million and \$9 million. The minimum amount of this range, \$1.9 million has been accrued at fiscal year end June 30, 2006. 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 33 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).

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

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: <http://Oregon.gov/PERS/>, 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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

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, was 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.

PERS has not provided updated information to the City as of the publication date of the financial statements. The City's schedules of employer contributions, schedule of funding progress and net pension assets through June 30, 2005 are as follows:

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

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 Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Attained Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered 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

	Fiscal Year Ending June 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	<u>(26,025,144)</u>
Annual Pension Cost	(28,857,496)
Contributions made	<u>20,277,777</u>
Change in pension asset (obligation)	<u>(8,579,719)</u>
Net pension asset (obligation), end of year	<u><u>\$ 209,488,096</u></u>

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 1,230 vested and 374 non-vested active working fire and police personnel that are participants in the Fire and Police Disability and Retirement Plan. Of these members, 21 are on short-term disability at June 30, 2006. In addition, there are 1,754 retirees and beneficiaries currently receiving pension and long-term disability benefits and 37 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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

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 in 2005 to oversee a comprehensive analysis of the Portland FPD&R system. This committee presented their recommendations to the City Council in January, 2006. Recommendations were ultimately referred to the ballot and resulted in adoption of a Charter amendment which required significant changes to the structure and operations of the FPD&R Plan. Changes to the pension portion of the fund will require that sworn police officers or firefighters hired after January 1, 2007 be enrolled in the appropriate program of the State of Oregon Public Employees Retirement System rather than in the FPD&R Plan.

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. Seven subsequent amendments have been made by voters with the last one being November 7, 2006.

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, 2006.

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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

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, 2006, the weighted levy rate per \$1,000 of real market value under the special property tax levy was \$1.29.

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, 2006, there were 888 members and beneficiaries that fall under the provisions of the Plan as constituted prior to July 1, 1990, and 2,507 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 actually be achieved under existing investment. As a result, the City continued to monitor the discount rate used to value the Fund liabilities throughout the fiscal year; as a result revised 2005's rate from 6.63% to 6.04%. The impact of this change in estimate increased the net pension obligation by \$362,344.

Total actual contributions to the Plan for fiscal year ended June 30, 2006, consisted of the special property tax levy of \$81,353,857, which is 69.20 percent of the annual covered payroll of \$117,568,114. The City has recognized a net pension obligation of \$702,651,000. The net pension obligation (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.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

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
6/30/2004	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%
6/30/2006	15,266,971	1,817,661,314	1,802,394,343	0.84%	117,568,114	1533.06%

SCHEDULE OF ANNUAL PENSION COST

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Contribution	Percentage of APC Contributed	Net Pension Obligation
2004	121,766,496	85,253,135	70.01%	548,784,351
2005	148,344,908	80,577,364	54.32%	616,551,895
2006	167,452,962	81,353,857	48.58%	702,651,000

NET PENSION OBLIGATION

	Fiscal Year Ending June 30, 2006
Net pension asset (obligation), beginning of year	<u>\$ (616,551,895)</u>
Annual Required Contribution	\$ (172,617,172)
Interest on pension asset (obligation)	(37,239,734)
Adjustment to Annual Required Contribution	<u>42,403,945</u>
Annual Pension Cost	(167,452,962)
Contributions made	<u>81,353,857</u>
Change in pension asset (obligation)	<u>(86,099,105)</u>
Net pension asset (obligation), end of year	<u><u>\$ (702,651,000)</u></u>

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

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, 2006
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	6.04%
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

Fire and Police Disability and Retirement Plan

On November 7, 2006, voters in the City of Portland passed a ballot measure that will change the structure of the Fire and Police Disability and Retirement Plan (FPD&R). The change will take effect January 1, 2007. Under the new structure, the number of members on the board of trustees will be reduced from the current eleven members to five. The five members will include two citizen members with expertise in disability or retirement, one City representative, and two member representatives. In addition, the FPD&R Board will no longer decide claims. A qualified administrator will deny or approve claims. Appeals will be made to independent hearings officers with disability experience.

All police and firefighters hired on or after January 1, 2007 will be members of the Oregon Public Employee Retirement System (PERS) rather than joining the existing plan. The FPD&R Plan will pay the employee and employer portion of the PERS contributions. This move is expected to increase property taxes for 35 years. The maximum property tax that can be levied for the benefit of the FPD&R Plan continues to be two and eight-tenth mills on each dollar of valuation of property (\$2.80 per \$1,000) of property not exempt from taxation. Performance audits will be implemented to assess the implementation of the reforms in the FPD&R Plan.

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

IV. Other information, Continued:

D. Subsequent events, Continued:

Debt activity

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

Bonds and Terms:	Origination Date	Principal	Length in Years	Interest Rate
Second Lien Water System Revenue Bonds, 2006 Series A Series A, Tax Exempt. Beginning April 1, 2007, interest payable semi-annually on April 1 and October 1.	9/21/2006	\$ 68,970,000	25	4.25 - 5.00%
First Lien Water System Revenue Refunding Bonds, 2006 Series B Series A, Tax Exempt. Beginning April 1, 2007, interest payable semi-annually on April 1 and October 1.	9/21/2006	\$ 44,000,000	15	4.00 - 5.00%

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

Notes and Loans:	Origination Date	Maximum Credit	Draw Date	Principal	Length in Years	Interest Rate
Tax Anticipation Note, Series 2006, (Fire and Police Disability Retirement Fund)			7/11/2006	\$ 15,430,000	1	4.50%
State of Oregon, Department of Environmental Quality, Habitat Restoration/Watershed Revegetation Program	9/10/2003	\$ 2,326,248	10/30/2006	202,691	20	1.00%

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

Debt Redeemed:	Event Date	Principal
Water System Revenue Bonds 1997 Series A Tax Exempt, defeased. Estimated economic gain \$1.8 million.	9/21/2006	\$ 21,460,000
Water System Revenue Bonds 2000 Series A Tax Exempt, defeased. Estimated economic gain \$1.4 million.	9/21/2006	22,290,000
Streetcar Gibbs Extension Line of Credit	11/30/2006	10,291,644

City of Portland, Oregon
Notes to the Financial Statements, Continued
For the Fiscal Year Ended June 30, 2006

IV. Other information, Continued:

D. Subsequent events, Continued:

Draws on Open Lines of Credit	Origination Date	Maximum Credit	Draw Date	Principal	Length in Years	Interest Rate
Interstate Corridor Non-Revolving Tax Credit Facility	11/11/2002	10,000,000	7/21/2006	6,400,000	5	Variable
Central District LID Non-Revolving Tax-Exempt Credit Facility	8/25/2005	21,020,000	7/26/2006	3,452,353	3	Variable
Central District LID Non-Revolving Tax-Exempt Credit Facility	8/25/2005	21,020,000	8/24/2006	3,319,232	3	Variable
Central District LID Non-Revolving Tax-Exempt Credit Facility	8/25/2005	21,020,000	9/15/2006	2,439,779	3	Variable
Central District LID Non-Revolving Tax-Exempt Credit Facility	8/25/2005	21,020,000	10/20/2006	2,586,112	3	Variable
Central District LID Non-Revolving Tax-Exempt Credit Facility	8/25/2005	21,020,000	12/1/2006	477,443	3	Variable
River District Urban Renewal Area Non-Revolving Taxable Credit Facility	6/27/2002	40,000,000	10/20/2006	1,976,032	5	Variable
Local Improvement District Revolving Tax-Exempt Credit Facility	1/5/2006	10,000,000	11/9/2006	292,893	5	Variable
Local Improvement District Revolving Tax-Exempt Credit Facility	1/5/2006	10,000,000	12/7/2006	213,184	5	Variable
Convention Center URA Non-Revolving Taxable Credit Facility	6/27/2002	10,000,000	9/28/2006	7,427,408	5	Variable
Central District URA Non-Revolving Taxable Credit Facility	6/23/2005	30,800,000	11/30/2006	7,043,898	4	Variable
Parks Land Acquisition Non-Revolving Tax-Exempt Credit Facility	12/22/2004	4,000,000	12/1/2006	67,937	3	Variable
NMI LOC Non-Revolving Taxable Credit Facility	11/20/2006	2,500,000	11/20/2006	2,500,000	10	5.75%