CITY OF PORTLAND, OREGON HYDROELECTRIC POWER FUND

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

AUGUST 31, 2004 AND 2003

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council Members City of Portland, Oregon

We have audited the accompanying balance sheets of the City of Portland, Oregon Hydroelectric Power Fund (the Fund) as of August 31, 2004 and 2003 and the related statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the City of Portland, Oregon Hydroelectric Power Fund prepares its financial statements in accordance with the accounting requirements as set forth in the Power Sales Agreement with Portland General Electric Company, dated April 12, 1979, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial statements present only the City of Portland, Oregon Hydroelectric Power Fund and are not intended to present the financial position of the City of Portland, Oregon, or the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Portland, Oregon Hydroelectric Power Fund as of August 31, 2004 and 2003 and the results of its operations and cash flows for the years then ended in conformity with the basis of accounting described in Note 1.

Vancouver, Washington

Moss Adams LLP

January 11, 2005

CITY OF PORTLAND, OREGON HYDROELECTRIC POWER FUND BALANCE SHEET

	AUGU	JST 31,
	AUGUST 31,	2003
UNRESTRICTED CURRENT ASSETS		
Cash and cash equivalents	\$ 344,849	\$ 371,846
Accrued interest receivable	959	819
Total unrestricted current assets	345,808	372,665
RESTRICTED CURRENT ASSETS		
Renewal and replacement		
Cash and cash equivalents	150,946	8,505,427
Investments	8,529,365	-
Accrued interest receivable	5,803	-
Debt service		
Cash and cash equivalents	37	381,963
Investments	2,593,177	2,192,064
Accrued interest receivable	17,261	16,962
Power sales receivable	412,675	364,424
Total restricted current assets	11,709,264	11,460,840
RESTRICTED NONCURRENT ASSETS		
Debt service		
Cash and cash equivalents	165	1,178
Investments	2,919,375	2,923,933
Total restricted noncurrent assets	2,919,540	2,925,111
UTILITY PLANT	28,815,870	29,492,366
OTHER		
Prepaid pension asset	219,003	226,181
Total assets	\$ 44,009,485	\$ 44,477,163

CITY OF PORTLAND, OREGON HYDROELECTRIC POWER FUND BALANCE SHEET

		AUGU			
		2004		2003	
CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS					
Accounts payable	\$	9,547	\$	10,815	
Accrued liabilities		36,791		35,598	
Due to other funds		6,463		8,026	
Total current liabilities payable from unrestricted assets		52,801		54,439	
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS					
Interest payable		752,358		806,133	
Revenue bonds payable within one year		1,970,000		1,855,000	
Total current liabilities payable from restricted assets		2,722,358		2,661,133	
LONG-TERM DEBT, net of current portion					
Revenue bonds	2	4,173,493		26,143,493	
Less unamortized discount		(150,099)		(177,943)	
Total long-term debt	2	4,023,394		25,965,550	
Total liabilities	2	6,798,553		28,681,122	
RETAINED EARNINGS					
Reserved for bonded debt service		3,700,675		3,787,473	
Unreserved retained earnings	1	3,510,257		12,008,568	
Total retained earnings	1	7,210,932		15,796,041	
Total liabilities and retained earnings	\$ 4	4,009,485	\$ 4	14,477,163	

CITY OF PORTLAND, OREGON HYDROELECTRIC POWER FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

	YEAR ENDED AUGUST					
	2004	2003				
OPERATING REVENUES						
Power sales	\$ 4,543,358	\$ 4,665,893				
Service charges and fees	34,016	25,510				
Service changes and rees		20,010				
Total operating revenues	4,577,374	4,691,403				
OPERATING EXPENSES						
Salaries, wages and fringe benefits	195,555	209,260				
Operations and maintenance	585,429	649,201				
Depreciation	676,496	697,598				
Total operating expenses	1,457,480	1,556,059				
OPERATING INCOME	3,119,894	3,135,344				
NONOPERATING REVENUES (EXPENSES)						
Other miscellaneous expense	(8,616)	(8,616)				
Investment income	141,284	200,371				
Interest expense	(1,837,671)	(1,972,814)				
Net nonoperating expenses	(1,705,003)	(1,781,059)				
NET INCOME	1,414,891	1,354,285				
RETAINED EARNINGS, beginning of year	15,796,041	14,441,756				
RETAINED EARNINGS, end of year	\$ 17,210,932	\$ 15,796,041				

	YEAR ENDED AUGUST 31,						
	2004	2003					
CASH FLOWS FROM OPERATING ACTIVITIES							
Operating income	\$ 3,119,894	\$ 3,135,344					
Adjustments to reconcile operating income to net cash							
provided by operating activities							
Depreciation	676,496	697,598					
Amortization of prepaid pension asset	7,178	10,672					
Changes in assets and liabilities							
Power sales receivable	(48,251)	33,850					
Accounts payable	(1,268)	(40,123)					
Accrued liabilities	1,193	2,604					
Due to other funds and miscellaneous	(10,179)	(8,666)					
Net cash from operating activities	3,745,063	3,831,279					
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES							
Principal paid on bonds	(1,855,000)	(1,750,000)					
Interest paid on bonds	(1,863,602)	(1,983,224)					
Net cash from capital related financing activities	(3,718,602)	(3,733,224)					
CASH FLOWS FROM INVESTING ACTIVITIES							
Investment income	135,042	187,425					
Purchases of investments	(14,041,917)	(5,115,997)					
Proceeds from maturities and sales of investments	5,115,997	2,483,325					
Net cash from investing activities	(8,790,878)	(2,445,247)					
CHANGE IN CASH AND CASH EQUIVALENTS	(8,764,417)	(2,347,192)					
CASH AND CASH EQUIVALENTS, beginning of year	9,260,414	11,607,606					
CASH AND CASH EQUIVALENTS, end of year	\$ 495,997	\$ 9,260,414					

Note 1 - Summary of Significant Accounting Policies

Organization and basis of accounting and presentation - The City of Portland, Oregon Hydroelectric Power Fund (the Fund) operates generating facilities at Bull Run Dam Nos. 1 and 2 which are part of the City of Portland, Oregon (the City) water supply system. The Fund is managed by the Bureau of Hydroelectric Power, City of Portland, Oregon and is accounted for by the City as an enterprise fund on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded at the time they are earned and expenses are recognized at the time liabilities are incurred.

The accounts are kept in accordance with the requirements set forth in the Power Sales Agreement (See Note 6) with Portland General Electric Company, which principally requires the Fund to utilize the Uniform System of Accounts for electric utilities prescribed by the Federal Energy Regulatory Commission (FERC).

The financial statements present only the Fund and are not intended to present fairly the financial position of the City and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

Concentration of credit risk - Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and receivables.

The Fund maintains cash in deposit accounts which, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. See Note 2.

Power sales receivable is from one customer, Portland General Electric Company. See Note 6.

Cash and cash equivalents - The Fund considers cash on hand, deposits in banks, certificates of deposit and repurchase agreements including restricted funds with original maturities of 90 days or less to be cash and cash equivalents.

Investments - Investments are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools.

Restricted assets and liabilities - Assets whose uses are legally restricted for renewal and replacement, debt service and other purposes by the hydroelectric power revenue bond ordinances and trust agreements and related liabilities are segregated as restricted current or noncurrent assets and liabilities on the balance sheets.

Revenue recognition and power sales receivable - The Fund recognizes revenue in accordance with the Power Sales Agreement with Portland General Electric Company. See Note 6.

Note 1 - Summary of Significant Accounting Policies (Continued)

Utility plant and depreciation - Utility plant is stated at the original cost of contracted services, direct labor and material, interest capitalized during construction and indirect charges for engineering, supervision and similar overhead items. Costs of repairs and minor replacements are charged to appropriate operating expense accounts. Costs of significant renewals, betterments and additions are capitalized. The cost of plant retired and removal cost, less salvage, are charged to accumulated depreciation when property is removed from service, except that losses on early plant retirements, due to causes which are not factors related to depreciation, are recognized in operations. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which range from 10 to 100 years.

Management has evaluated the impact of Statement of Financial Accounting Standard (SFAS) 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and SFAS 143, *Accounting for Asset Retirement Obligations*, and has concluded the impact of these standards is not material. Management will continue to assess the impact of these standards annually or as circumstances warrant.

Prepaid pension asset - Substantially all of the Fund's employees are participants in the State of Oregon Public Employees Retirement System (PERS). Contributions to PERS are made by the City and have historically been made based on the annual required contribution. Such contributions were allocated to the Fund and charged to expense as funded. In fiscal 2000, the City contributed an amount in excess of the annual required contribution to finance the estimated Unfunded Accumulated Actuarial Liability (UAAL) of the City with PERS. Beginning in fiscal 2001-2002, the financing of the UAAL is allocated to the Fund, as well as the general government, enterprise funds and internal service funds, for those funds to recognize their appropriate share of the financing. The allocation was based on the Fund's weighted average contribution to PERS in fiscal 1999. In accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, amounts contributed in excess of the annual required contributions are recorded as a pension related asset and amortized on a straight line basis over 30 years, beginning with fiscal year 2000.

Vacation and sick pay - Vacation pay is recorded as an expense when earned. Employees may not accumulate more than the vacation earned in a two-year period. Sick pay, which does not vest, is recorded as an expense when leave is taken.

Revenue bond discount - Revenue bond discount resulting from hydroelectric power revenue bond issues is amortized over the related debt repayment period using the effective interest method.

Retained earnings reserved for bonded debt service - A portion of retained earnings has been segregated for amounts legally required to be set aside to pay bonded debt service in accordance with revenue bond ordinances and trust agreements.

Income taxes - As a governmental unit, the Fund is generally not subject to federal or state income taxes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Self-insurance - The Fund is covered through the City's self-insurance activities for workers' compensation and general liability claims and certain employee medical coverage based on experience of employees of the Fund. The liability for estimated losses is recorded in the City's internal service funds. See Note IV A in the City of Portland, Oregon Comprehensive Annual Financial Report as of June 30, 2004 for more complete information.

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications have been made to prior year balances in order to conform to current year financial statement presentation.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents at August 31, 2004 are as follows:

			Restricted Current Cash and Cash Equivalents				Restricted Noncurrent Cash and Cash Equivalents				
	Unrestricted current cash investments		Renewal and replacement		Debt service		Debt service reserve			Total	Category
Cash on hand and on deposit Cash with City Treasurer Cash equivalents United States Government securities held under bank	\$	344,849	\$	43,760	\$	-	\$	-		388,609	1
repurchase agreements		-		107,186		37		165		107,388	2
	\$	344,849	\$	150,946	\$	37	\$	165	\$	495,997	

Note 2 - Cash and Cash Equivalents (Continued)

Cash and cash equivalents at August 31, 2003 are as follows:

			Restricted Current Cash and Cash Equivalents				Noncurrent Cash and Cash Equivalents					
	Unrestricted current cash investments			Renewal and replacement		Debt service		Debt service reserve		Total	Category	
Cash on hand and on deposit Cash with City Treasurer Cash equivalents United States Government securities held under bank	\$	371,846	\$	43,760	\$	-	\$	-	\$	415,606	1	
repurchase agreements		-		8,461,667		381,963		1,178		8,844,808	2	
	\$	371,846	\$	8,505,427	\$	381,963	\$	1,178	\$	9,260,414		

The Fund's deposits and repurchase agreements are categorized above to give an indication of the level of risk assumed by the Fund. Category 1 includes deposits and repurchase agreements that are insured or for which the deposits and repurchase agreements are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured deposits and repurchase agreements for which the deposits and repurchase agreements are held in the Fund's name by the trust department of the custodian or the financial institution.

Most cash equivalents are managed by First Trust National Association as part of the amended trust indenture agreement for the hydroelectric power revenue bonds. The market yield rate was 1.23% and 0.97% at August 31, 2004 and 2003, respectively.

Cash with the City Treasurer is part of an investment pool. The pool is available for use by all City funds.

Note 3 - Investments

State statutes authorize the Fund to invest primarily in general obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain high grade commercial paper and the State Treasurer's investment pool, among others.

As previously discussed, the Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at August 31, 2004 and 2003:

	2004										
		Category									
	1	2	3	Fair value							
Government Securities	\$ 14,041,917	\$ -	\$ -	\$ 14,041,917							
			002								
		2003									
		Category									
	1	2	3	Fair value							
Government Securities	\$ 5,115,997	\$ -	\$ -	\$ 5,115,997							

The types of investments owned at August 31, 2004 are representative of the investments made by the Fund during the fiscal years presented.

Note 4 - Utility Plant

Utility plant assets were as follows at August 31:

	2004	2003
Land	\$ 4,500	\$ 4,500
Hydroelectric generating plants	44,123,225	44,123,225
	44,127,725	44,127,725
Less accumulated depreciation	15,311,855	14,635,359
	\$ 28,815,870	\$ 29,492,366

Note 5 - Bonds Payable

On October 1, 1993, the Fund, through the City, issued \$7,980,000 in Hydroelectric Series 1993 Revenue Bonds and used \$2,195,681 of available cash to advance refund \$8,925,000 of outstanding Series B Revenue Bonds. The net proceeds were deposited in an irrevocable trust and were used to redeem the Series B Revenue Bonds on October 1, 1993.

Interest rates on the Series A and Series 1993 Bonds range from 6.1% to 7%. The trust indentures for the Bonds require the Fund to maintain certain restricted accounts including a debt service reserve account in an amount sufficient to pay the maximum annual debt service on the Series A Bonds.

The Series A Bonds are subject to early redemption on any interest payment date, in whole or in part, in inverse order of maturity.

The Series 1993 Bonds shall be subject to redemption prior to maturity in whole or in part at any time, at par plus accrued interest.

Amortization of the discount on the Revenue Bonds was approximately \$28,000 and \$31,000 for the years ended August 31, 2004 and 2003, respectively.

In November 1999, the City issued \$300,848,346 of Series C, D and E Limited Tax Revenue Bonds to finance the City's unfunded actuarial accrued pension liability (UAAL) with the Oregon Public Employees Retirement System (PERS) as of December 31, 1997. The proceeds from the PERS Bonds was used to pay \$257,917,529 for the UAAL as of December 31, 1997 and other costs including capitalized interest and costs of issuance. The Bonds had been recorded in the City's General Long-Term Debt Account Group. Beginning in fiscal year 2001-2002, this debt is allocated to the general government, enterprise funds, internal service funds and fiduciary funds. At August 31, 2004 the Fund's

Note 5 - Bonds Payable (Continued)

share of this indebtedness is \$258,493. The interest rates on the PERS Limited Tax Revenue Bonds range from 5.95% to 7.70%.

Future fiscal year maturities of bond principal and interest at August 31, 2004, are as follows:

	Series A		Series	1993	PERS Bon	d Allocation	Total			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2005	1,225,000	1,602,650	745,000	128,025	-	14,955	1,970,000	1,745,630		
2006	-	1,561,000	790,000	78,905	-	14,955	790,000	1,654,860		
2007	-	1,561,000	825,000	26,813	2,208	14,955	827,208	1,602,768		
2008	-	1,561,000	-	-	4,086	14,795	4,086	1,575,795		
2009	-	1,561,000	-	-	5,147	14,497	5,147	1,575,497		
Thereafter	22,300,000	5,463,500	-		247,052	198,667	22,547,052	5,662,167		
Less unamortized	23,525,000	13,310,150	2,360,000	233,743	258,493	272,824	26,143,493	13,816,717		
discounts	136,252		13,847				150,099			
	\$ 23,388,748	\$ 13,310,150	\$ 2,346,153	\$ 233,743	\$ 258,493	\$ 272,824	\$ 25,993,394	\$ 13,816,717		

Note 6 - Power Sales Agreement

On April 12, 1979, the City entered into a Power Sales Agreement (the Agreement) with Portland General Electric Company (the Utility) to sell 100% of the Fund's output through August 31, 2017. The Agreement requires the Utility to pay all costs related to debt service, administration, water quality testing and control, permits and licenses and insurance regardless of whether any power is generated. In addition, the Utility pays a power production payment, which is dependent on the amount of power generated and, in some years, may pay a share of the savings element which is dependent on a number of factors. Power generating output is restricted to use by the public in Multnomah and Clackamas counties. The amount payable to the City, as the power production payment, is reduced by the amount needed to reimburse the Utility for debt service paid by the Utility related to surplus construction funds used by the City. The reduction amounted to approximately \$198,000 for each of the years ended August 31, 2004 and 2003.

The Fund's Agreement with the Utility requires that the cost to the Utility for the power generated by the Fund's plant be measured against the cost of power generated by the Utility at one of its specified thermal generating plants. The Agreement specifies that to the extent the cost of power generated by the Fund's plant is less than the cost of power generated by the Utility, 50% of the cost savings is to be paid by the Utility to the Fund. There have been no such payments, as the cost of power generated by the Fund's plant has been greater than that of the Utility's designated plants on a cumulative contract basis.

The Agreement states that on expiration of the term of the Agreement, if the accumulated cost of power generated at the Fund'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 the Fund's plant.

Note 6 - Power Sales Agreement (Continued)

The balance of the assets, if any, shall be divided equally between the Fund and the Utility. In the event the accumulated cost of power generated at the Fund'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 are less than 50% of the excess cost, no further amounts would be required to be paid to the Utility. At August 31, 2004, the total accumulated excess cost was \$22,602,678, 50% of this total was \$11,301,339, and the carrying value of the Renewal and Replacement assets was \$8,703,419.

Note 7 - Pension and Deferred Compensation Plans

State of Oregon Public Employees Retirement System

Overview - All employees of the Fund, after six months of employment, are participants along with other City employees in the State of Oregon Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system. The State of Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 73, Portland, Oregon 97207-0073 or by calling 1-503-229-5824.

PERS benefits vest after five years of continuous service. General service employees may retire after reaching age 55. Fire and police personnel are eligible after reaching age 50. 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 or a formula plus annuity computation if a greater benefit results. Fire and police personnel may purchase increased benefits that are 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 statues.

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% on benefits earned before October 1991. The impact on the City to recover the higher PERS costs would have its employer contribution rate increase from 10.48% to 17.4% of covered members' compensation. Proceeds of the 1999 Series C, D and E Bonds (the Bonds) were used to finance all of the estimated unfunded actuarial accrued liability (UAAL) of the City of Portland, Oregon with PERS as of December 31, 1997. The City elected to fund its December 31, 1997 UAAL of \$257,917,529 to receive a lower employer contribution rate of 8.56% of covered employees' salaries. This resulted in the City having an over funded Actuarial Accrued Liability of \$60,844,234 at

Note 7 - Pension and Deferred Compensation Plans (Continued)

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 Bonds were also used to pay costs related to the financing of the UAAL, including capitalized interest and costs of issuance. The full faith and credit of the City secure 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 funded by various City-wide bureaus, including the Fund, based upon those bureaus' and Funds' contributions to PERS for participating employees. The debt was originally recorded in the General Long-Term Debt Accounts Group of the City. In fiscal year 2002 the debt was allocated to both general government and enterprise activities. The Hydroelectric Power Fund's share was \$258,493.

Risk pooling and revised PERS contribution rates - A new actuarial valuation has been prepared for the period ending December 31, 2001. There has been a major change with respect to employer contribution rates since the 1999 actuarial valuation. Effective January 1, 2000, the City elected to participate in the Local Government Rate Pool (LGRP). The LGRP was created by a 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 this pool as of January 1, 2002.

In December 2002, the City was notified by the PERS actuarial firm that, based on the most recent actuarial valuation as of December 31, 2001, the City's contribution rate is expected to increase from current rates to approximately 10.42% effective July 1, 2003. Based on December 31, 2001 covered payroll levels, this rate increase is expected to cost the City approximately \$4.3 million in additional PERS contribution costs. The revised rate is subject to further changes as a result of certain legal matters, as reported by PERS. The impact of these contributions has been included in the employer contribution rate. The City has an over funded Actuarial Accrued Liability of \$7,003,525 at December 31, 2001.

The Fund's payroll for employees covered by PERS for the years ended August 31, 2004 and 2003 was approximately \$157,000 and \$154,000, respectively.

Annual pension cost - The net pension obligation is determined in accordance with GASB Statement No. 27. PERS sets the rate for the City, which is based on the independent actuarial study that is performed every two years. This rate establishes the annual required contribution for the City. For fiscal 2004, the City's annual pension cost of \$18,811,120 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, 2001 using the entry age actuarial cost method. The amortization method used is a 28-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 8% per annum

Note 7 - Pension and Deferred Compensation Plans (Continued)

compounded annually, (b) projected salary increases at 4.25% 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 3.25% 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.

2003 Actuarial Valuation of Assets - The 2003 valuation of assets has been delayed by the inability of the PERS to implement all of the 2003 legislative changes on the funds aging computer system. The fund is working to transfer information to a new system while also implementing new individual accounts and updated demographics, and implementation of the settlement of a lawsuit. The fund actuary, Milliman USA, felt confident that the 2003 valuation would be completed by the end of calendar year 2004 and new rates would be issued to employers in January 2005 to begin July 1, 2005.

Schedule of employer contributions - The following supplementary information is for the City and is not separately available for the Fund:

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Pension Assets
ended	Cost (APC)	Contributed	Pension Assets
2002	\$ 35,865,635	76%	\$ 235,227,253
2003	36,330,124	76%	\$ 226,647,534
2004	27,390,839	69%	\$ 218,067,815

Schedule of funding progress -

Actuarial Valuation Date	A	ctuarial Vale of Assets		ctuarial Accrued Liability (AAL- Entry Age)	U	nfunded AAL (UAAL)	Funded Ratio	C	overed Payroll	UAAL As A Percentage Of Covered Payroll
December 31,	¢	444 527 512	¢	702 445 042	ф	257 017 520	<i>(20)</i>	¢	175 507 170	1.470/
	\$	444,527,513	Э	702,445,042	Э	257,917,529	63%	\$,,	147%
1999		1,344,029,254		1,283,185,019		(60,844,234)	105%		185,197,179	-33%
2001		Pooled		Pooled		(7,003,525)	Pooled		198,403,067	-4%