

MOSSEY ADAMS

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND**

**INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL STATEMENTS**

**AUGUST 31, 2009 AND 2008**

## **CONTENTS**

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	<b>PAGE</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
Balance sheet	2 – 3
Statement of revenues, expenses and changes in retained earnings	4
Statement of cash flows	5
Notes to financial statements	6 – 18
<b>SUPPLEMENTAL INFORMATION</b>	
Portland Hydroelectric Project Power Generation Schedule	19

**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, 2009 and 2008 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 audits 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, 2009 and 2008 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.

The additional supplemental information, as listed in the table of contents, following the financial statements and notes to the financial statements is not a required part of the basic financial statements but is supplementary information provided for purposes of additional analysis. We did not audit or perform any other procedures on this information and express no opinion on it.



Portland, Oregon  
March 25, 2010

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
BALANCE SHEET**

	AUGUST 31,	
	2009	2008
<b>UNRESTRICTED CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 245,920	\$ 353,965
Accrued interest receivable	1,005	1,754
Total unrestricted current assets	<u>246,925</u>	<u>355,719</u>
<b>RESTRICTED CURRENT ASSETS</b>		
Renewal and replacement		
Cash and cash equivalents	168,817	170,317
Investments	3,212,843	8,815,603
Debt service		
Cash and cash equivalents	432,781	464,129
Investments	3,033,497	4,739,789
Accrued interest receivable	13,813	22,136
Power sales receivable	87,557	174,661
Total restricted current assets	<u>6,949,308</u>	<u>14,386,635</u>
<b>RESTRICTED NON-CURRENT ASSETS</b>		
Renewal and replacement		
Investments	5,549,442	-
Accrued interest receivable	14,451	-
Debt service		
Investments	1,672,716	-
Accrued interest receivable	5,469	-
Total restricted non-current assets	<u>7,242,078</u>	<u>-</u>
<b>UTILITY PLANT, net</b>	<u>25,638,340</u>	<u>26,245,258</u>
<b>OTHER</b>		
Prepaid pension asset	175,923	184,539
Total assets	<u>\$ 40,252,574</u>	<u>\$ 41,172,151</u>

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
BALANCE SHEET**

	<b>AUGUST 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS</b>		
Accounts payable	\$ -	\$ 71,949
Accrued liabilities	24,591	41,928
	24,591	41,928
Total current liabilities payable from unrestricted assets	24,591	113,877
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Interest payable	389,834	449,453
Revenue bonds payable within one year	1,841,319	1,755,147
	1,841,319	1,755,147
Total current liabilities payable from restricted assets	2,231,153	2,204,600
<b>LONG-TERM LIABILITIES, net of current portion</b>		
Long-term accrued liabilities	52,406	-
Revenue bonds	15,275,733	17,117,052
Less unamortized discount	(54,944)	(71,428)
	15,273,195	17,045,624
Total long-term liabilities	15,273,195	17,045,624
Total liabilities	17,528,939	19,364,101
<b>RETAINED EARNINGS</b>		
Reserved for bonded debt service	2,907,841	2,999,318
Unreserved retained earnings	19,815,794	18,808,732
	22,723,635	21,808,050
Total retained earnings	22,723,635	21,808,050
Total liabilities and retained earnings	\$ 40,252,574	\$ 41,172,151

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

	<b>YEAR ENDED AUGUST 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>OPERATING REVENUES</b>		
Power sales	\$ 3,175,631	\$ 3,453,145
Service charges and fees	44,480	64,030
Total operating revenues	<u>3,220,111</u>	<u>3,517,175</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages and fringe benefits	280,623	277,841
Operations and maintenance	682,571	652,621
Depreciation	606,918	602,613
Total operating expenses	<u>1,570,112</u>	<u>1,533,075</u>
<b>OPERATING INCOME</b>	<u>1,649,999</u>	<u>1,984,100</u>
Other miscellaneous expense	(1,453)	(8,616)
Investment income	244,441	519,083
Interest expense	(977,402)	(1,069,565)
Net nonoperating expenses	<u>(734,414)</u>	<u>(559,098)</u>
<b>NET INCOME</b>	915,585	1,425,002
<b>RETAINED EARNINGS, beginning of year</b>	<u>21,808,050</u>	<u>20,383,048</u>
<b>RETAINED EARNINGS, end of year</b>	<u><u>\$ 22,723,635</u></u>	<u><u>\$ 21,808,050</u></u>

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
STATEMENT OF CASH FLOWS**

	<b>YEAR ENDED AUGUST 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 1,649,999	\$ 1,984,100
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	606,918	602,613
Amortization of PERS	8,616	-
Changes in assets and liabilities		
Power sales receivable	87,104	32,010
Accounts payable	(71,949)	67,911
Accrued liabilities	35,069	3,771
Due to other funds	-	(5,047)
Net cash from operating activities	<u>2,315,757</u>	<u>2,685,358</u>
<b>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</b>		
Principal paid on bonds	(1,755,147)	(1,664,086)
Interest paid on bonds	<u>(1,020,537)</u>	<u>(1,087,371)</u>
Net cash from capital related financing activities	<u>(2,775,684)</u>	<u>(2,751,457)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	233,593	565,795
Net activity from investments	86,894	(6,034,557)
Other miscellaneous expense	<u>(1,453)</u>	<u>-</u>
Net cash from investing activities	<u>319,034</u>	<u>(5,468,762)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(140,893)	(5,534,861)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>988,411</u>	<u>6,523,272</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 847,518</u>	<u>\$ 988,411</u>

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**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 the Portland Hydroelectric Project (PHP) with 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 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 (See Note 6). The Fund utilizes 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.

**Cash equivalents** – The Fund considers all investments with original maturities of 90 days or less to be cash equivalents (See Notes 2 and 3).

**Investments** – Investments are reported at fair value (See Notes 2 and 3).

**Restricted assets and liabilities** – Assets whose uses are legally restricted for renewal and replacement, debt service, and other purposes 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 PHP Power Sales Agreement with Portland General Electric Company (See Note 6). No allowance has been deemed necessary for the years ended August 31, 2009 and 2008.

**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 (See Note 4). 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 costs, 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 evaluates utility plant for impairment and retirement obligations annually or as circumstances warrant.

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Prepaid pension asset** – Substantially all of the Fund's employees are participants in the State of Oregon Public Employees Retirement System (PERS). In the City's fiscal year ended June 30 (fiscal year) 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. The Fund's portion of the 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** – The bond discount related to redeemed 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.

**Self-insurance** – The Fund is covered through the City's self-insurance plan for workers' compensation and general liability claims and certain employee medical coverage. 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, 2009 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.

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at August 31, 2009 are as follows:

	Unrestricted Current Cash and Cash Equivalents	Restricted Current Cash and Cash		Total
		Renewal and Replacement	Debt Service	
Cash on hand and on deposit				
Cash with City Treasurer	\$ 245,920	\$ 43,760	\$ 832	\$ 290,512
Cash equivalents				
United States Government securities	-	125,057	431,949	557,006
Total cash and cash equivalents	<u>\$ 245,920</u>	<u>\$ 168,817</u>	<u>\$ 432,781</u>	<u>\$ 847,518</u>

Cash and cash equivalents at August 31, 2008 are as follows:

	Unrestricted Current Cash and Cash Equivalents	Restricted Current Cash and Cash		Total
		Renewal and Replacement	Debt Service	
Cash on hand and on deposit				
Cash with City Treasurer	\$ 353,965	\$ 43,760	\$ -	\$ 397,725
Cash equivalents				
United States Government securities	-	126,557	464,129	590,686
Total cash and cash equivalents	<u>\$ 353,965</u>	<u>\$ 170,317</u>	<u>\$ 464,129</u>	<u>\$ 988,411</u>

Most cash equivalents are invested in direct obligations of the United States and the agencies and instrumentalities of the United States or repurchase agreements collateralized by legally issued general obligations of the United States and the agencies and instrumentalities of the United States. As provided by the trust indenture, all repurchase agreements are considered direct obligations of, or obligations the principal of and interest on which, are unconditionally guaranteed by the United States of America. All repurchase agreement transactions are currently managed by U.S. Bank Corporate Trust Services as part of the trust indenture agreement for the 2006 Hydroelectric Power Revenue Refunding Bonds.

Cash with the City Treasurer is part of an investment pool. The pool is available for use by all City funds. All investment pool cash purchases and sales are part of the City's cash management activity and considered cash and cash equivalents. Interest earned from the pooled investments is allocated to each fund based on the average earnings rate and daily cash balance of each fund. The City has recorded investments at fair value. City Treasury assesses a management fee that is deducted from investment income before distributions are made to all City funds.

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 3 – DEPOSITS AND INVESTMENTS**

Cash and investments are comprised of governmental activities. The balances at August 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Deposits with financial institutions - City Treasurer	\$ 307,586	\$ 397,725
Investments - Repurchase Agreements	125,889	590,686
Investments - Government Securities	<u>13,882,541</u>	<u>13,555,392</u>
	<u>\$ 14,316,016</u>	<u>\$ 14,543,803</u>

**Deposits**

*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. 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% 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% by securities as required by and in compliance with ORS 294.035. All collateral securities are held by third parties in the City’s name, and are not exposed to custodial credit risk.

**Investments**

The Fund’s investment activity is limited to purchases of Qualified Securities as defined by the trust indenture for the 2006 Hydroelectric Power Revenue Refunding Bonds as well as all authorized investments within the parameters of the City’s investment policy.

The Fund does not invest in any form of derivatives or reverse repurchase agreements and does not leverage its investment portfolio in any manner.

**CITY OF PORTLAND, OREGON**  
**HYDROELECTRIC POWER FUND**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 3 – DEPOSITS AND INVESTMENTS** – (continued)

The following investments are permitted under the trust indenture for the 2006 Hydroelectric Power Revenue Refunding Bonds as well as the City's investment policy, ORS 294.035 and ORS 294.810:

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

***Interest rate risk*** – To minimize interest rate risk, the City's investment policy limits the Fund's 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 Fund's cash flow requirements. Investments with maturities greater than two years may be purchased only with approval of the City's Investment Advisory Committee (IAC). Because of the Fund's unique cash flow requirements, investment activity is generally restricted to investments with original maturities of 365 days or less.

***Credit risk*** – For the year ended 2009 and 2008, the Fund's investments were comprised of general obligations of the United States and the agencies and instrumentalities of the United States or repurchase agreements collateralized by legally issued general obligations of the United States and the agencies and instrumentalities of the United States.

***Concentration of credit risk*** – This is the risk that when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. 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. Of the Fund's total investments as of August 31, 2009 and 2008, all were invested in governmental securities or repurchase agreements collateralized by governmental securities, or with the FHL Bank, which are rated triple-A by Moody's and Standard & Poor's.

***Custodial credit risk*** – This is the risk that in the event of failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund's investments comply with ORS 294.035 and ORS 294.810 that lists acceptable investments. The Fund has no outstanding investments that are exposed to custodial credit risk.

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 3 – DEPOSITS AND INVESTMENTS – (continued)**

As of August 31, 2009, the Fund had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity (years)	
		Less Than 1	1 - 5
Repurchase Agreements	\$ 125,889	\$ 125,889	\$ -
Governmental Securities	13,882,541	6,660,384	7,222,158
	<u>\$ 14,008,430</u>	<u># \$ 6,786,273</u>	<u># \$ 7,222,158</u>

As of August 31, 2008, the Fund had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity (years)	
		Less Than 1	1 - 5
Repurchase Agreements	\$ 590,686	\$ 590,686	\$ -
Governmental Securities	13,555,392	13,555,392	-
	<u>\$ 14,146,078</u>	<u># \$ 14,146,078</u>	<u># \$ -</u>

**NOTE 4 – UTILITY PLANT**

Utility plant assets were as follows at August 31:

	2009	2008
Land	\$ 4,500	\$ 4,500
Hydroelectric generating plants	44,123,225	44,123,225
Total utility plant	44,127,725	44,127,725
Less accumulated depreciation	18,489,385	17,882,467
Net utility plant	<u>\$ 25,638,340</u>	<u>\$ 26,245,258</u>

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 – BONDS PAYABLE**

On April 5, 2006, the Fund, through the City, issued at par \$21,370,000 in Hydroelectric Power Revenue Refunding Bonds, Series 2006 and used available cash to advance refund all outstanding Hydroelectric Power Revenue Bonds. The Bonds were redeemed on May 25, 2006 and October 1, 2006.

The Series 2006 Bonds have a stated interest rate of 5.523% and mature October 1, 2016; however, the Bonds are subject to optional redemption prior to their maturity at the option of the City, as a whole or in part on any date, at a redemption price equal to the greater of 100% of the principal amount to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest. Annual debt service sinking fund requirements began October 1, 2006. The Series 2006 Bonds are special obligations of the City that are payable solely from amounts on deposit in accounts established under the indenture and payments made under the PHP Power Sales Agreement between the City and Portland General Electric (See Note 6). The trust indenture 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 Bonds in any future year.

Amortization of the discount on the redeemed Bonds was approximately \$16,000 for the years ended August 31, 2009 and 2008, and is recorded as interest expense.

In November 1999, the City issued \$300,848,346 of Series C, D and E Limited Tax Pension Obligation 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 were 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. This debt is allocated to the general government, enterprise funds, internal service funds and fiduciary funds.

The interest rates on the outstanding \$137.5 million fixed rate portion of the PERS Limited Tax Pension Obligation Revenue Bonds range from 7.42% to 7.93%. An additional \$150 million is outstanding in the form of auction rate securities. In fiscal year 2008-09, the City paid an average interest rate on these auction rate securities (including the broker/dealer fee) of 1.579%. For fiscal year 2009-10, the City has paid an average interest rate (including the broker/dealer fee) of 0.447% (through March 24, 2010).

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 – BONDS PAYABLE – (continued)**

Future year maturities of bond principal and interest at August 31, 2009 are as follows:

	Series 2006		PERS Bond Allocation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 1,835,000	\$ 881,057	\$ 6,319	\$ 14,119	\$ 1,841,319	\$ 895,176
2011	1,940,000	776,810	7,540	13,706	1,947,540	790,516
2012	2,045,000	666,764	8,850	13,256	2,053,850	680,020
2013	2,145,000	551,057	10,268	12,730	2,155,268	563,787
2014	2,270,000	429,137	11,792	12,120	2,281,792	441,257
Thereafter	6,635,000	513,777	202,283	132,736	6,837,283	646,513
	<u>\$ 16,870,000</u>	<u>\$ 3,818,602</u>	<u>\$ 247,052</u>	<u>\$ 198,667</u>	<u>\$ 17,117,052</u>	<u>\$ 4,017,269</u>

**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 power generation output from the Fund's PHP 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 and to maintain certain balances in the renewal and replacement and debt service reserve accounts 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. 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 \$195,000 for each of the years ended August 31, 2009 and 2008. Until all of the remaining Series 1979 Hydroelectric Power Revenue Bonds were redeemed on October 1, 2006, the entire power generating output from the PHP was restricted to use by the public in Multnomah and Clackamas counties.

Another element of the Agreement obligates the Utility to physically operate the PHP. In meeting this obligation, the Utility incurs certain operation and maintenance expenses that are paid by the Utility and not reflected in the accompanying financial statements. For the years ended August 31, 2009 and 2008, these expenses amounted to approximately \$871,120 and \$459,000, respectively.

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 6 – POWER SALES AGREEMENT – (continued)**

The Fund's Agreement with the Utility requires that the cost to the Utility for the power generated by the Fund's PHP 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 PHP is less than the cost of power generated by the Utility at its thermal generating plant, 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 PHP 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 PHP exceeds that of the accumulated cost of a like amount of power generated by the Utility at its thermal generating plant, 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 PHP. 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 PHP exceeds that of the accumulated cost of a like amount of power generated by the Utility at its thermal generating plant, 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, 2009, the total accumulated excess cost was \$22,800,828, 50% of this total was \$11,400,414 and the carrying value of the renewal and replacement assets was \$8,887,342.

**NOTE 7 – PENSION AND DEFERRED COMPENSATION PLANS**

**State of Oregon Public Employees Retirement System**

*Plan description* – All civilian City employees, and all sworn fire and police personnel hired after December 31, 2006, and 12 sworn fire and police personnel hired before January 1, 2007 are participants under one or more plans currently available through Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system administered under ORS 238 and 238A.

The 1995 Legislature created a second tier of benefits for those who became members after 1995. The second tier does not have the Tier One assumed earnings rate guarantee.

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  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7 – PENSION AND DEFERRED COMPENSATION PLANS – (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 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, telephone (503) 598-7377 or by URL: <[http://Oregon.gov/PERS/section/financial\\_reports/financials.shtml](http://Oregon.gov/PERS/section/financial_reports/financials.shtml)>.

PERS’ benefits vest after five years of continuous service or at normal retirement age. 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. Tier One 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. Tier Two members are eligible for full benefits at age 60.

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.

On November 7, 2006, voters in the City of Portland passed a measure that took effect January 1, 2007. All police officers and firefighters hired on or after January 1, 2007 will now be enrolled in the state retirement system instead of the City’s Fire and Police Disability and Retirement fund for retirement purposes. They will remain under the City’s plan for disability payments.

***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% 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% of covered members’ compensation.

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7 – PENSION AND DEFERRED COMPENSATION PLANS – (continued)**

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 \$257.9 million 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 \$60.8 million 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 \$300.8 million. 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.

***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, 2008, and was issued in November 2009. Based on the most recent actuarial valuation, the City’s contribution rate would be increasing for fiscal year 2012. The rates for fiscal years 2007 through 2009 are listed below.

***Annual pension cost*** – PERS sets the rate for the SLGRP, based on the independent actuarial study that is performed every two years. The amortization method used is a 22-year closed group, fixed term. PERS is reducing the amortization on new liabilities each year until it gets to the 20-year amortization standard it has set in policy.

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – PENSION AND DEFERRED COMPENSATION PLANS – (continued)**

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 compounded annually, (b) projected salary increases at 4% 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% 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.

Contribution rates for the last three fiscal years at June 30, expressed as a percentage of covered payroll, are as follows:

	General Service - 2007		General Service - 2008		General Service - 2009	
	PERS	OPSRP	PERS	OPSRP	PERS	OPSRP
PERS Defined Benefit Plan	8.07%	4.66%	6.66%	9.21%	6.66%	9.21%
Employee IAP *	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Total contribution rate	14.07%	10.66%	12.66%	15.21%	12.66%	15.21%

\* The City has chosen to pay the employee contribution to the IAP as an additional benefit.

The City sold bonds in 1999 and deposited the proceeds in an account with the state retirement system. The state sets rates for members of the SLGRP. On its books, the City opted to amortize the original deposit ratably over the life of the bonds.

The unamortized balance of the funds deposited with PERS at June 30 was:

	2007	2008	2009
Governmental funds	\$ 125,868,639	\$ 120,253,681	\$ 114,638,723
Internal Service funds	12,509,818	11,951,758	11,393,698
Governmental activities	138,378,457	132,205,439	126,032,421
Business-type activities	53,950,200	51,543,499	49,136,798
Fiduciary funds	393,043	375,510	357,977
Total prepaid	\$ 192,721,700	\$ 184,124,448	\$ 175,527,196

**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7 – PENSION AND DEFERRED COMPENSATION PLANS – (continued)**

The amounts contributed to PERS during the years ended June 30, 2007, 2008 and 2009 were equal to the required contribution for each year. The amounts contributed by the City were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Cash contribution during year	\$ 31,172,696	\$ 32,779,658	\$ 35,326,820
Amortization of deposit with PERS	<u>8,597,252</u>	<u>8,597,252</u>	<u>8,597,252</u>
Total	<u><u>\$ 39,769,948</u></u>	<u><u>\$ 41,376,910</u></u>	<u><u>\$ 43,924,072</u></u>

**NOTE 8 – SUBSEQUENT EVENTS**

In May 2009, the FASB issued a new standard which requires disclosure of the date through which subsequent events have been evaluated, as well as whether the date is the date of the financial statements were issued or the date the financial statements were available to be issued. The Fund has evaluated subsequent events through March 25, 2010, the date the financial statements were issued.

**SUPPLEMENTAL INFORMATION**

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**CITY OF PORTLAND, OREGON  
HYDROELECTRIC POWER FUND  
PORTLAND HYDROELECTRIC PROJECT POWER GENERATION SCHEDULE**

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**Portland Hydroelectric Project Power Generation**

Total combined capacity of both of the Project's powerhouses is 36 MW. The electric output capability of the Project in any specific year is subject to a number of constraints, such as amount of precipitation, reservoir level requirements, turbidity control and the primary emphasis on water supply for domestic purposes. Based upon standardized 40-year water flows for the period 1928 through 1968, the long-term net annual energy production from both powerhouses was projected to be approximately 100 million kilowatt-hours per year. During the most recent 20 Contract Years, however, the average annual power output from the Project was 86.822 million kilowatt-hours, reflecting the substantially lower-than-average precipitation in the Project area during many of those years. Individual annual power output at the Project for the ten Contract Years ended August 31, 2009 is shown in the following table.

**Table 4  
CITY OF PORTLAND, OREGON  
Annual Power Output of the Project**

<b>Year Ending August 31<sup>1</sup></b>	<b>Electricity Generated (Million kilowatt-hours)</b>
2000	86.414
2001	60.160
2002	97.882
2003	71.042
2004	80.041
2005	66.193
2006	83.913
2007	78.412
2008	107.960
2009	87.724

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<sup>1</sup>The amount of Project generation in the years ended August 31, 2001, 2003, 2004, 2005, and 2007 is low due to significantly lower than average precipitation at the Project during those years.

*Source:* City of Portland Project records.