

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

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

**AUGUST 31, 2006 AND 2005**

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**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, 2006 and 2005 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, 2006 and 2005 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.

Moss Adams LLP

Vancouver, Washington  
December 28, 2006

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

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	AUGUST 31,	
	2006	2005
<b>UNRESTRICTED CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 437,664	\$ 339,684
Accrued interest receivable	2,403	1,653
	<u>440,067</u>	<u>341,337</u>
<b>RESTRICTED CURRENT ASSETS</b>		
Renewal and replacement		
Cash and cash equivalents	148,177	9,061,178
Investments	7,952,237	-
Debt service		
Cash and cash equivalents	1,404,114	2,694,389
Power sales receivable	404,862	362,706
	<u>9,909,390</u>	<u>12,118,273</u>
<b>RESTRICTED NONCURRENT ASSETS</b>		
Debt service		
Cash and cash equivalents	699,594	2,969,048
Investments	2,136,640	-
	<u>2,836,234</u>	<u>2,969,048</u>
<b>UTILITY PLANT, net</b>	<u>27,503,871</u>	<u>28,159,871</u>
<b>OTHER</b>		
Prepaid pension asset	<u>201,771</u>	<u>210,387</u>
<b>Total assets</b>	<u><u>\$ 40,891,333</u></u>	<u><u>\$ 43,798,916</u></u>

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

	AUGUST 31,	
	2006	2005
<b>CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS</b>		
Accounts payable	\$ 16,233	\$ 9,050
Accrued liabilities	39,186	41,859
Due to other funds	6,426	10,020
	61,845	60,929
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Interest payable	493,016	701,730
Revenue bonds payable within one year	1,092,208	2,115,000
	1,585,224	2,816,730
<b>LONG-TERM DEBT, net of current portion</b>		
Revenue bonds	20,536,285	22,058,493
Less unamortized discount	(105,230)	(125,963)
	20,431,055	21,932,530
	22,078,124	24,810,189
<b>RETAINED EARNINGS</b>		
Reserved for bonded debt service	2,655,124	2,846,707
Unreserved retained earnings	16,158,085	16,142,020
	18,813,209	18,988,727
	\$ 40,891,333	\$ 43,798,916

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

	<u>YEAR ENDED AUGUST 31,</u>	
	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Power sales	\$ 4,214,190	\$ 4,488,407
Service charges and fees	45,111	103,740
	<u>4,259,301</u>	<u>4,592,147</u>
OPERATING EXPENSES		
Salaries, wages and fringe benefits	211,880	215,574
Operations and maintenance	561,038	533,014
Depreciation	656,000	655,999
	<u>1,428,918</u>	<u>1,404,587</u>
OPERATING INCOME	<u>2,830,383</u>	<u>3,187,560</u>
NONOPERATING REVENUES (EXPENSES)		
Other miscellaneous expense	(8,616)	(8,616)
Investment income	601,748	314,180
Interest expense	(2,305,480)	(1,715,329)
Renewal and replacement transfers	(1,293,553)	-
	<u>(3,005,901)</u>	<u>(1,409,765)</u>
NET INCOME (LOSS)	(175,518)	1,777,795
RETAINED EARNINGS, beginning of year	<u>18,988,727</u>	<u>17,210,932</u>
RETAINED EARNINGS, end of year	<u><u>\$ 18,813,209</u></u>	<u><u>\$ 18,988,727</u></u>

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

	YEAR ENDED AUGUST 31,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 2,830,383	\$ 3,187,560
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	656,000	655,999
Changes in assets and liabilities		
Power sales receivable	(42,156)	49,969
Accounts payable	7,183	(497)
Accrued liabilities	(2,673)	5,068
Due to other funds	(3,594)	3,557
	3,445,143	3,901,656
<b>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</b>		
Bonds issued	21,370,000	-
Bond issuance costs	(649,530)	-
Principal paid on bonds	(23,915,000)	(1,970,000)
Interest paid on bonds	(1,843,931)	(1,741,821)
Renewal and replacement transfers	(1,293,553)	-
	(6,332,014)	(3,711,821)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	600,998	336,550
Net activity from investments	(10,088,877)	14,041,917
	(9,487,879)	14,378,467
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(12,374,750)	14,568,302
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	15,064,299	495,997
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 2,689,549	\$ 15,064,299

*See accompanying notes.*

**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 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.

**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.

**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 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. 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** - Bond discount related to redeemed hydroelectric power revenue bond issues 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, 2006 for more complete information.

**Renewal and replacement transfers** - Represents one-time transfers from the renewal and replacement account to Portland General Electric Company and the City as provided for in the 2006 Amendment to the PHP Power Sales Agreement. These transfers were needed to enact a mutually agreed upon one-time reduction in the overall size of the renewal and replacement account.

**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** - Prior year retained earnings balances have been reclassified to conform to current year presentation.

**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, 2006 are as follows:

	Unrestricted Current Cash and Cash Equivalents	Restricted Current Cash and Cash Equivalents		Restricted Noncurrent Cash and Cash Equivalents	Total
		Renewal and Replacement	Debt Service	Debt Service Reserve	
Cash on hand and on deposit					
Cash with City Treasurer	\$ 437,664	\$ 43,760	\$ -	\$ -	\$ 481,424
Cash equivalents					
United States Government securities	-	104,417	1,404,114	699,594	2,208,125
Total cash and cash equivalents	\$ 437,664	\$ 148,177	\$ 1,404,114	\$ 699,594	\$ 2,689,549

Cash and cash equivalents at August 31, 2005 are as follows:

	Unrestricted Current Cash and Cash Equivalents	Restricted Current Cash and Cash Equivalents		Restricted Noncurrent Cash and Cash Equivalents	Total
		Renewal and Replacement	Debt Service	Debt Service Reserve	
Cash on hand and on deposit					
Cash with City Treasurer	\$ 339,684	\$ 43,760	\$ -	\$ -	\$ 383,444
Cash equivalents					
United States Government securities held under bank repurchase agreements	-	9,017,418	2,694,389	2,969,048	14,680,855
Total cash and cash equivalents	\$ 339,684	\$ 9,061,178	\$ 2,694,389	\$ 2,969,048	\$ 15,064,299

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. The market yield rate average was approximately 5.05% and 3.14% at August 31, 2006 and 2005, respectively.

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

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**Note 2 - Cash and Cash Equivalents (Continued)**

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.

**Note 3 - Deposits and Investments**

Cash and investments are comprised of governmental activities. The balances at August 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Deposits with financial institutions - City Treasurer	\$ 481,424	\$ 383,444
Investments - Repurchase Agreements	42,514	14,680,855
Investments - Government Securities	<u>12,254,488</u>	<u>-</u>
	<u>\$ 12,778,426</u>	<u>\$ 15,064,299</u>

**Deposits**

*Custodial credit risk* - This is the risk that in the event of a bank failure, the Fund's deposits may not be returned. The Fund's deposit policy is in accordance with the City's Investment Policy and ORS 295.015 that governs investment of public funds. For fiscal years 2006 and 2005, the Fund's exposure to bank deposits were limited to the Fund's cash with the City Treasurer. All deposits were covered by federal depository insurance up to \$100,000 and collateralized with eligible securities in amounts equal to at least 25 percent of the book value of deposits as required by ORS 294.035. All collateral securities were held by third parties in the Fund's name and consequently were 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
- 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 Funds unique cash flow requirements, investment activity is generally restricted to investments with original maturities of 365 days or less.

*Credit risk* - For fiscal year end 2006 and 2005, 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, 2006 and 2005, all were invested in governmental securities or repurchase agreements collateralized by governmental securities.

*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**

**Note 3 - Deposits and Investments (Continued)**

As of August 31, 2006, the Fund had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity (years)		Weighted Average Maturity (years)
		Less Than 1	1 - 5	
Repurchase Agreements	\$ 42,514	\$ 42,514	\$ -	-
Governmental Securities	12,254,488	12,254,488	-	0.42
	<u>\$ 12,297,002</u>	<u>\$ 12,297,002</u>	<u>\$ -</u>	

As of August 31, 2005, the Fund had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity (years)		Weighted Average Maturity (years)
		Less Than 1	1 - 5	
Repurchase Agreements	<u>\$ 14,680,855</u>	<u>\$ 14,680,855</u>	<u>\$ -</u>	-

**Note 4 - Utility Plant**

Utility plant assets were as follows at August 31:

	2006	2005
Land	\$ 4,500	\$ 4,500
Hydroelectric generating plants	<u>44,123,225</u>	<u>44,123,225</u>
Total utility plant	44,127,725	44,127,725
Less accumulated depreciation	<u>16,623,854</u>	<u>15,967,854</u>
Net utility plant	<u>\$ 27,503,871</u>	<u>\$ 28,159,871</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 begin 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 \$21,000 and \$24,000 for the years ended August 31, 2006 and 2005, respectively, and is recorded as interest expense. Also included in interest expense for the year ended August 31, 2006 is \$649,530 of debt issuance costs related to the Series 2006 Bonds.

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. This debt is allocated to the general government, enterprise funds, internal service funds and fiduciary funds. 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, 2006 are as follows:

	Series 2006		PERS Bond Allocation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,090,000	\$ 1,137,051	\$ 2,208	\$ 14,955	\$ 1,092,208	\$ 1,152,006
2008	1,660,000	1,074,224	4,086	14,795	1,664,086	1,089,019
2009	1,750,000	980,056	5,147	14,497	1,755,147	994,553
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
Thereafter	13,095,000	2,160,736	233,193	170,842	13,328,193	2,331,578
	<u>\$ 21,370,000</u>	<u>\$ 7,009,934</u>	<u>\$ 258,493</u>	<u>\$ 242,914</u>	<u>\$ 21,628,493</u>	<u>\$ 7,252,848</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 \$194,000 and \$198,000 for the years ended August 31, 2006 and 2005, respectfully. 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, 2006 and 2005, these expenses amounted to approximately \$426,000 and \$365,000, respectively.

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, 2006, the total accumulated excess cost was \$25,071,914, 50% of this total was \$12,535,957 and the carrying value of the Renewal and Replacement assets was \$8,100,414.

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

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**Note 7 - Pension and Deferred Compensation Plans**

**State of Oregon Public Employees Retirement System**

**Overview** - 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).

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, P.O. Box 23700, Tigard, Oregon 97281-3700, or by telephone (503) 598-7377. URL: <http://Oregon.gov/PERS/>

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.



**Note 7 - Pension and Deferred Compensation Plans (Continued)**

**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 Bonds 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. The Hydroelectric Power Fund's share was \$258,493.

**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.

The Fund's payroll for employees covered by PERS for the years ended August 31, 2006 and 2005 was approximately \$161,000 and \$164,000, respectively.

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

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**Note 7 - Pension and Deferred Compensation Plans (Continued)**

**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, funding progress and net pension assets through June 30, 2005 are as follows (not separately available for the Fund):

**Schedule of Employer Contributions**

<u>Fiscal year ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Pension Assets</u>
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

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Attained Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL As A Percentage Of Covered Payroll</u>
12/31/1999	\$ 1,344,029,254	\$ 1,283,185,019	\$ (60,844,235)	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%

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

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**Note 7 - Pension and Deferred Compensation Plans (Continued)**

**Net Pension Asset**

		<u>Year Ended June 30, 2005</u>
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>\$ 209,488,096</u>