

MOSSEY ADAMS

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

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

AUGUST 31, 2008 AND 2007

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance sheet	2 - 3
Statement of revenues, expenses and changes in retained earnings	4
Statement of cash flows	5
Notes to financial statements	6 - 17
SUPPLEMENTAL INFORMATION	
Portland Hydroelectric Project Power Generation Schedule	18

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, 2008 and 2007 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, 2008 and 2007 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.

Moss Adams LLP

Portland, Oregon
May 15, 2009

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

	AUGUST 31,	
	<u>2008</u>	<u>2007</u>
UNRESTRICTED CURRENT ASSETS		
Cash and cash equivalents	\$ 353,965	\$ 413,375
Accrued interest receivable	1,754	3,080
	<u>355,719</u>	<u>416,455</u>
RESTRICTED CURRENT ASSETS		
Renewal and replacement		
Cash and cash equivalents	170,317	1,063,787
Investments	8,815,603	7,520,835
Debt service		
Cash and cash equivalents	464,129	5,046,110
Investments	4,739,789	-
Accrued interest receivable	22,136	67,522
Power sales receivable	174,661	206,671
	<u>14,386,635</u>	<u>13,904,925</u>
Total restricted current assets		
	<u>26,245,258</u>	<u>26,847,871</u>
UTILITY PLANT, net		
	<u>26,245,258</u>	<u>26,847,871</u>
OTHER		
Prepaid pension asset	184,539	193,155
	<u>184,539</u>	<u>193,155</u>
Total assets	<u>\$ 41,172,151</u>	<u>\$ 41,362,406</u>

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

	AUGUST 31,	
	2008	2007
CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS		
Accounts payable	\$ 71,949	\$ 4,038
Accrued liabilities	41,928	38,157
Due to other funds	-	5,047
	113,877	47,242
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Interest payable	449,453	483,470
Revenue bonds payable within one year	1,755,147	1,664,086
	2,204,600	2,147,556
LONG-TERM DEBT, net of current portion		
Revenue bonds	17,117,052	18,872,199
Less unamortized discount	(71,428)	(87,639)
	17,045,624	18,784,560
	19,364,101	20,979,358
RETAINED EARNINGS		
Reserved for bonded debt service	2,999,318	2,898,554
Unreserved retained earnings	18,808,732	17,484,494
	21,808,050	20,383,048
	\$ 41,172,151	\$ 41,362,406

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

	YEAR ENDED AUGUST 31,	
	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Power sales	\$ 3,453,145	\$ 3,366,403
Service charges and fees	<u>64,030</u>	<u>40,321</u>
Total operating revenues	<u>3,517,175</u>	<u>3,406,724</u>
OPERATING EXPENSES		
Salaries, wages and fringe benefits	277,841	254,677
Operations and maintenance	652,621	506,781
Depreciation	<u>602,613</u>	<u>656,000</u>
Total operating expenses	<u>1,533,075</u>	<u>1,417,458</u>
OPERATING INCOME	<u>1,984,100</u>	<u>1,989,266</u>
NONOPERATING REVENUES (EXPENSES)		
Other miscellaneous expense	(8,616)	(8,616)
Investment income	519,083	748,418
Interest expense	<u>(1,069,565)</u>	<u>(1,159,229)</u>
Net nonoperating expenses	<u>(559,098)</u>	<u>(419,427)</u>
NET INCOME	1,425,002	1,569,839
RETAINED EARNINGS, beginning of year	<u>20,383,048</u>	<u>18,813,209</u>
RETAINED EARNINGS, end of year	<u><u>\$ 21,808,050</u></u>	<u><u>\$ 20,383,048</u></u>

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

	YEAR ENDED AUGUST 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 1,984,100	\$ 1,989,266
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	602,613	656,000
Changes in assets and liabilities		
Power sales receivable	32,010	198,191
Accounts payable	67,911	(12,195)
Accrued liabilities	3,771	(1,029)
Due to other funds	(5,047)	(1,379)
	<u>2,685,358</u>	<u>2,828,854</u>
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES		
Principal paid on bonds	(1,664,086)	(1,092,208)
Interest paid on bonds	(1,087,371)	(1,151,184)
	<u>(2,751,457)</u>	<u>(2,243,392)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	565,795	680,219
Net activity from investments	(6,034,557)	2,568,042
	<u>(5,468,762)</u>	<u>3,248,261</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(5,534,861)	3,833,723
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,523,272</u>	<u>2,689,549</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 988,411</u>	<u>\$ 6,523,272</u>

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

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, 2008 and 2007.

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.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Management evaluates utility plant for impairment and retirement obligations 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). In 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, 2008 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**

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents at August 31, 2008 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	\$ 413,375	\$ 43,760	\$ -	\$ -	\$ 457,135
Cash equivalents					
United States Government securities	-	1,020,027	2,135,732	2,910,378	6,066,137
Total cash and cash equivalents	\$ 413,375	\$ 1,063,787	\$ 2,135,732	\$ 2,910,378	\$ 6,523,272

Cash and cash equivalents at August 31, 2007 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	\$ 353,965	\$ 43,760	\$ -	\$ -	\$ 397,725
Cash equivalents					
United States Government securities	-	126,557	464,090	39	590,686
Total cash and cash equivalents	\$ 353,965	\$ 170,317	\$ 464,090	\$ 39	\$ 988,411

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 3.19% and 5% at August 31, 2008 and 2007, respectively.

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**

Note 3 - Deposits and Investments

Cash and investments are comprised of governmental activities. The balances at August 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Deposits with financial institutions - City Treasurer	\$ 397,725	\$ 457,135
Investments - Repurchase Agreements	590,686	3,224,286
Investments - Government Securities	<u>13,555,392</u>	<u>10,362,686</u>
	<u>\$ 14,543,803</u>	<u>\$ 14,044,107</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 were held by third parties in the City's name, and 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.

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

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

Note 3 - Deposits and Investments (Continued)

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 fiscal year end 2008 and 2007, 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, 2008 and 2007, 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.

As of August 31, 2008, 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	\$ 590,686	\$ 590,686	\$ -	-
Governmental Securities	13,555,392	13,555,392	-	0.68
	<u>\$ 14,146,078</u>	<u>\$ 14,146,078</u>	<u>\$ -</u>	

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

Note 3 - Deposits and Investments (Continued)

As of August 31, 2007, 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	\$ 3,224,286	\$ 3,224,286	\$ -	-
Governmental Securities	10,362,686	10,362,686	-	0.53
	<u>\$ 13,586,972</u>	<u>\$ 13,586,972</u>	<u>\$ -</u>	

Note 4 - Utility Plant

Utility plant assets were as follows at August 31:

	2008	2007
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	17,882,467	17,279,854
Net utility plant	<u>\$ 26,245,258</u>	<u>\$ 26,847,871</u>

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

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 and \$18,000 for the years ended August 31, 2008 and 2007, respectively, and is recorded as interest expense.

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 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 PERS Limited Tax Revenue Bonds range from 5.95% to 7.70%.

Future fiscal year maturities of bond principal and interest at August 31, 2008 are as follows:

	Series 2006		PERS Bond Allocation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 1,750,000	\$ 1,036,023	\$ 5,147	\$ 14,497	\$ 1,755,147	\$ 1,050,520
2010	1,835,000	939,784	6,319	14,119	1,841,319	953,903
2011	1,940,000	838,829	7,540	13,706	1,947,540	852,535
2012	2,045,000	732,166	8,850	13,256	2,053,850	745,422
2013	2,145,000	619,704	10,268	12,730	2,155,268	632,434
Thereafter	8,905,000	1,239,683	214,075	144,856	9,119,075	1,384,539
	<u>\$ 18,620,000</u>	<u>\$ 5,406,189</u>	<u>\$ 252,199</u>	<u>\$ 213,164</u>	<u>\$ 18,872,199</u>	<u>\$ 5,619,353</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 and \$195,000 for the years ended August 31, 2008 and 2007, respectively. 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, 2008 and 2007, these expenses amounted to approximately \$459,000 and \$454,000, 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, 2008, the total accumulated excess cost was \$23,186,416, 50% of this total was \$11,593,208 and the carrying value of the renewal and replacement assets was \$8,540,862.

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

Note 7 - Pension and Deferred Compensation Plans

State of Oregon Public Employees Retirement System

Plan description - All civilian City employees and 17 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).

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>.

PERS’ benefits vest after five years of continuous service or at age 50 (age 45 for police and fire members). 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.

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

Note 7 - Pension and Deferred Compensation Plans (Continued)

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.

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% of covered employees' salaries. This resulted in the City having an over funded Actuarial Accrued Liability of \$60,844,234 at December 31, 1999. It is the City's policy to recognize pension expenditures or expenses as currently funded.

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

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.

An 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. See the tables below for the City's rates.

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

Note 7 - Pension and Deferred Compensation Plans (Continued)

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.

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.

Rates for fiscal years 2006 and 2007, expressed as a percentage of covered payroll, were:

	General Service - FY 2006		General Service - FY 2007	
	PERS	OPSRP	PERS	OPSRP
PERS Defined Benefit Plan	8.07%	8.04% & 4.66%	8.07%	4.66%
Employee IAP *	6.00%	6.00%	6.00%	6.00%
Total contribution rate	<u>14.07%</u>	<u>14.04% & 10.66%</u>	<u>14.07%</u>	<u>10.66%</u>

For fiscal year 2008, rates changed to:

	General Service	
	PERS	OPSRP
PERS Defined Benefit Plan	6.66%	9.21%
Employee IAP *	6.00%	6.00%
Total contribution rate	<u>12.66%</u>	<u>15.21%</u>

* 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.

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

Note 7 - Pension and Deferred Compensation Plans (Continued)

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Governmental funds	\$ 131,483,597	\$ 125,868,639	\$ 120,253,681
Internal Service funds	<u>13,067,878</u>	<u>12,509,818</u>	<u>11,951,758</u>
Governmental activities	144,551,475	138,378,457	132,205,439
Business-type activities	56,356,901	53,950,200	51,543,499
Fiduciary funds	<u>410,576</u>	<u>393,043</u>	<u>375,510</u>
Total prepaid	<u><u>\$ 201,318,952</u></u>	<u><u>\$ 192,721,700</u></u>	<u><u>\$ 184,124,448</u></u>

The amounts contributed to PERS during the years ended June 30, 2006, 2007 and 2008 were equal to the required contribution for each year. The amounts contributed by the City were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Cash contribution during year	\$ 29,765,118	\$ 31,172,696	\$ 32,779,658
Amortization of deposit with PERS	<u>8,597,252</u>	<u>8,597,252</u>	<u>8,597,252</u>
Total	<u><u>\$ 38,362,370</u></u>	<u><u>\$ 39,769,948</u></u>	<u><u>\$ 41,376,910</u></u>

SUPPLEMENTAL INFORMATION

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

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 87.034 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, 2008 is shown in the following table.

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

Year Ending August 31¹	Electricity Generated (Million kilowatt-hours)
1999	100.177
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

¹The amount of Project generation in the years ending 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.