



Report of Independent Auditors
and Financial Statements
with Supplemental Information for

City of Portland, Oregon
Hydroelectric Power Fund

August 31, 2011 and 2010

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
FINANCIAL STATEMENTS	
Balance sheets	3-4
Statements of revenues, expenses, and changes in retained earnings	5
Statements of cash flows	6
Notes to financial statements	7-18
SUPPLEMENTAL INFORMATION	
Portland Hydroelectric Project Power Generation Schedule	19

REPORT OF INDEPENDENT AUDITORS

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, 2011 and 2010 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, 2011 and 2010 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.

REPORT OF INDEPENDENT AUDITORS
(continued)

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
March 14, 2012

This page intentionally left blank.

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

	August 31,	
	<u>2011</u>	<u>2010</u>
UNRESTRICTED CURRENT ASSETS		
Cash and cash equivalents	\$ -	\$ 115,020
Accrued interest receivable	3,505	1,108
	<u>3,505</u>	<u>1,108</u>
Total unrestricted current assets	<u>3,505</u>	<u>116,128</u>
RESTRICTED CURRENT ASSETS		
Renewal and replacement		
Cash and cash equivalents	159,021	68,879
Investments	9,401,716	9,299,713
Accrued interest receivable	21,389	55,109
Debt service		
Cash and cash equivalents	692,767	686,624
Investments	4,224,091	4,265,758
Accrued interest receivable	32,389	38,119
Power sales receivable	564,375	279,374
	<u>15,095,748</u>	<u>14,693,576</u>
Total restricted current assets	<u>15,095,748</u>	<u>14,693,576</u>
UTILITY PLANT, net	<u>24,423,557</u>	<u>25,030,948</u>
OTHER		
Prepaid pension asset	<u>158,692</u>	<u>167,307</u>
TOTAL ASSETS	<u><u>\$ 39,681,502</u></u>	<u><u>\$ 40,007,959</u></u>

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

	August 31,	
	2011	2010
CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS		
Checks issued in excess of treasury balance	\$ 11,287	\$ -
Accrued liabilities	25,172	22,667
Total current liabilities payable from unrestricted assets	36,459	22,667
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Interest payable	302,919	347,561
Revenue bonds payable within one year	2,053,850	1,947,540
Total current liabilities payable from restricted assets	2,356,769	2,295,101
LONG-TERM LIABILITIES, net of current portion		
Long-term accrued liabilities	61,527	48,941
Revenue bonds	11,274,343	13,328,193
Less unamortized discount	(21,979)	(38,463)
Total long-term liabilities	11,313,891	13,338,671
Total liabilities	13,707,119	15,656,439
RETAINED EARNINGS		
Reserved for bonded debt service	2,574,353	2,657,281
Unreserved retained earnings	23,400,030	21,694,239
Total retained earnings	25,974,383	24,351,520
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 39,681,502	\$ 40,007,959

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

	Years Ended August 31,	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Power sales	\$ 3,810,398	\$ 3,861,073
Service charges and fees	<u>65,752</u>	<u>50,279</u>
Total operating revenues	<u>3,876,150</u>	<u>3,911,352</u>
OPERATING EXPENSES		
Salaries, wages, and fringe benefits	247,736	247,935
Operations and maintenance	669,030	696,099
Depreciation	<u>607,392</u>	<u>607,392</u>
Total operating expenses	<u>1,524,158</u>	<u>1,551,426</u>
OPERATING INCOME	<u>2,351,992</u>	<u>2,359,926</u>
Other miscellaneous expense	(1,638)	(621)
Investment income	41,390	136,503
Interest and debt expense	<u>(768,881)</u>	<u>(867,923)</u>
Net nonoperating expenses	<u>(729,129)</u>	<u>(732,041)</u>
NET INCOME	1,622,863	1,627,885
RETAINED EARNINGS, beginning of year	<u>24,351,520</u>	<u>22,723,635</u>
RETAINED EARNINGS, end of year	<u>\$ 25,974,383</u>	<u>\$ 24,351,520</u>

CITY OF PORTLAND, OREGON
HYDROELECTRIC POWER FUND
STATEMENTS OF CASH FLOWS

	Years Ended August 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 2,351,992	\$ 2,359,926
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	607,392	607,392
Amortization of prepaid pension asset	8,615	8,616
Changes in assets and liabilities		
Power sales receivable	(285,001)	(191,817)
Accrued liabilities	15,091	(5,389)
	<u>2,698,089</u>	<u>2,778,728</u>
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES		
Principal paid on bonds	(1,947,540)	(1,841,319)
Interest paid on bonds	(797,040)	(893,715)
	<u>(2,744,580)</u>	<u>(2,735,034)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	78,443	76,905
Net activity from investments	(60,336)	(96,973)
Other miscellaneous expense	(1,638)	(621)
	<u>16,469</u>	<u>(20,689)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(30,022)	23,005
CASH AND CASH EQUIVALENTS, beginning of year	<u>870,523</u>	<u>847,518</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 840,501</u>	<u>\$ 870,523</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.

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 (the Utility), dated April 12, 1979. As such, the Fund prepares their financial statements on an accrual basis of accounting; however, does not present expenses the Utility incurs for certain operation and maintenance activities (see Note 6). The notes to the financial statements are provided for the purpose of providing additional detail on the accounts in the financial statements. 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, 2011 and 2010.

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**

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, 2011 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, 2011 are as follows:

	Unrestricted Current Cash and Cash Equivalents	Restricted Current Cash and Cash Equivalents		Total
		Renewal and Replacement	Debt Service	
Cash on hand and on deposit				
Cash with City Treasurer	\$ (11,483)	\$ 44,030	\$ (527)	\$ 32,020
Cash equivalents				
United States Government, agencies and corporate securities, and money market instruments	196	114,991	693,294	808,481
Total cash and cash equivalents	<u>\$ (11,287)</u>	<u>\$ 159,021</u>	<u>\$ 692,767</u>	<u>\$ 840,501</u>

Cash and cash equivalents at August 31, 2010 are as follows:

	Unrestricted Current Cash and Cash Equivalents	Restricted Current Cash and Cash Equivalents		Total
		Renewal and Replacement	Debt Service	
Cash on hand and on deposit				
Cash with City Treasurer	\$ 114,825	\$ (9,939)	\$ (523)	\$ 104,363
Cash equivalents				
United States Government, agencies and corporate securities, and money market instruments	195	78,818	687,147	766,160
Total cash and cash equivalents	<u>\$ 115,020</u>	<u>\$ 68,879</u>	<u>\$ 686,624</u>	<u>\$ 870,523</u>

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, agency and corporate securities and money market instruments. The balances at August 31, 2011 and 2010 are as follows:

	2011	2010
Deposits with financial institutions – City Treasurer	\$ 32,020	\$ 104,363
Investments – money market instruments	346,983	311,608
Investments – government, agencies, and corporate securities	14,087,305	14,020,023
	\$ 14,466,308	\$ 14,435,994

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 to it. The City’s deposit policy is in accordance with ORS 295. All deposits are collateralized with eligible securities in amounts determined by the Office of the State Treasurer (OST). The City’s deposit policy requires that all deposits are covered by the Federal Depository Insurance Corporation (FDIC), and/or are collateralized as required by and in compliance with ORS 295. The OST’s custodian, Federal Home Loan Bank of Seattle, is the agent of the depository bank. The securities pledged are designated as subject to the Pledge Agreement between the Depository Bank, Custodian Bank and OST and are held for the benefit of OST on behalf of the public depositors.

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 the City’s investment policy, ORS 294.035 and ORS 294.810.

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. 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 years ended 2011 and 2010, the Fund’s investments were comprised of general obligations of the United States and the agencies and instrumentalities of the United States, bankers’ acceptances, and commercial paper.

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, 2011 and 2010, all were invested in governmental securities, commercial paper, bankers’ acceptances, or with the FHLB, FHLMC or FNMA, 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, 2011, the Fund had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity (years)	
		Less Than 1	1 – 5
Money market instruments	\$ 346,983	\$ 346,983	\$ -
Government, agencies and corporate securities	14,087,305	14,087,305	-
	<u>\$ 14,434,288</u>	<u>\$ 14,434,288</u>	<u>\$ -</u>

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

Note 3 - Deposits and Investments (continued)

As of August 31, 2010, the Fund had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity (years)	
		Less Than 1	1 - 5
Money market instruments	\$ 311,608	\$ 311,608	\$ -
Government, agencies and corporate securities	14,020,023	14,020,023	-
	<u>\$ 14,331,631</u>	<u>\$ 14,331,631</u>	<u>\$ -</u>

Note 4 - Utility Plant

Utility plant assets were as follows at August 31:

	2011	2010
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	19,704,168	19,096,777
Net utility plant	<u>\$ 24,423,557</u>	<u>\$ 25,030,948</u>

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 refund all of the City's outstanding Hydroelectric Power Revenue Bonds, including the Hydroelectric Power Revenue Bonds, Series 1979 and Series 1993 (the "Refunded Bonds"). The Refunded 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. The Bonds are subject to mandatory sinking fund redemption annually on October 1 through the October 1, 2016 maturity date. In addition, 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.

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

Note 5 – Bonds Payable (continued)

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 was approximately \$16,000 for the years ended August 31, 2011 and 2010, and is recorded as a component of interest and debt 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 UAAL with 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. This debt is allocated to the general government, enterprise funds, internal service funds, and fiduciary funds.

The interest rates on the outstanding \$134.5 million fixed rate portion of the Limited Tax Pension Obligation Revenue Bonds, 1999 Series C range from 7.701% to 7.930%. Interest rates on the outstanding \$136.9 million variable rate Limited Tax Pension Obligation Revenue Bonds, 1999 Series D and E range from 0.045% to 0.362% plus a 0.250% broker/dealer fee for an all in range from 0.295% to 0.612% for fiscal year 2011.

Future year maturities of bond principal and interest at August 31, 2011 are as follows:

	Series 2006		PERS Bond Allocation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 2,045,000	\$ 723,237	\$ 8,850	\$ 13,256	\$ 2,053,850	\$ 736,493
2013	2,145,000	610,292	10,268	12,730	2,155,268	623,022
2014	2,270,000	491,823	11,792	12,120	2,281,792	503,943
2015	2,390,000	366,451	13,446	11,418	2,403,446	377,869
2016	2,505,000	234,451	15,250	10,618	2,520,250	245,069
Thereafter	1,740,000	96,100	173,587	110,700	1,913,587	206,800
	<u>\$ 13,095,000</u>	<u>\$ 2,522,354</u>	<u>\$ 233,193</u>	<u>\$ 170,842</u>	<u>\$ 13,328,193</u>	<u>\$ 2,693,196</u>

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

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 the year ended August 31, 2010. That represented the last of this type of reductions that were due to the Utility and no such reduction amount was given to the Utility for the year ended August 31, 2011.

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, 2011 and 2010, these expenses amounted to approximately \$396,267 and \$509,284, 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, 2011, the total accumulated excess cost was \$20,946,756, 50% of this total was \$10,473,378, and the carrying value of the renewal and replacement assets was \$9,516,707.

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 all sworn fire and police personnel hired after December 31, 2006, and nine 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 normal retirement age. For Tiers One and Two, vesting also occurs upon attaining age 50 regardless of time worked. Tier One general service employees may retire with unreduced benefits after reaching age 55 and 30 years of service (age 50 for fire and police personnel with 25 years of service), or they can retire at age 58 with less than 30 years of service (age 55 for fire and police personnel with less than 25 years of service). 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 or at age 55 with 30 years of service. Police and fire personnel are eligible for retirement with full benefits at age 55 or at age 50 with 25 years of service.

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

Note 7 – Pension and Deferred Compensation Plans (continued)

Similar to Tier One, Tier Two general service and benefits are reduced when retirement occurs before age 60 with less than 30 years of service and benefits are reduced for fire and police retirements at age 55 or earlier with less than 25 years of service. OPSRP general service members are eligible for full benefits at age 58 with 30 years of service or age 65 with less than 30 years. OPSRP fire and police members are eligible for full benefits at age 53 with 25 years of service or at age 60 with less than 25 years.

Tier one retirement benefits are based on final average salary and length of service and are calculated by either money match or full formula methods, whichever provides the greatest benefit. For members hired before August 21, 1981 there is a third calculation method available, formula plus annuity. Tier Two uses the money match and full formula methods. OPSRP only uses the full formula method. Tier One and Two fire and police personnel may purchase increased benefits that are payable between the date of retirement and age 65. This benefit is not available in the OPSRP program. 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 annually. 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 due to the interpretation of PERS statutes by the PERS Board increasing 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 17.40% of covered members' compensation. 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. Proceeds of the 1999 Series C, D, and E Bonds (the "Bonds") were used to finance all of the estimated UAAL of the City with PERS as of December 31, 1997. This resulted in the City having an over funded Actuarial Accrued Liability (AAL) 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 Bonds were also used to pay costs related to financing of the UAAL, including capitalized interest and costs of issuance. The 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.

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

Note 7 – Pension and Deferred Compensation Plans (continued)

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, 2009 and was issued October 2010. Based on that valuation, the City’s contribution rates are increasing for fiscal year 2012.

Annual pension cost – PERS sets the rate for the SLGRP based on the independent actuarial study that is performed every year. The study is done on the projected unit credit actuarial cost method and the UAAL is amortized as a level percentage of payroll over 20 years.

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 3.75% 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 2.75% 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 – 2009		General Service – 2010		General Service – 2011	
	PERS	OPSRP	PERS	OPSRP	PERS	OPSRP
PERS Defined Benefit Plan	6.66%	9.21%	4.30%	5.04%	4.30%	5.04%
Employee IAP *	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Total contribution rate	<u>12.66%</u>	<u>15.21%</u>	<u>10.30%</u>	<u>11.04%</u>	<u>10.30%</u>	<u>11.04%</u>

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

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

Note 7 – Pension and Deferred Compensation Plans (continued)

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:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental funds	\$ 114,638,723	\$ 109,023,765	\$ 103,408,807
Internal service funds	<u>11,393,698</u>	<u>10,835,638</u>	<u>10,277,578</u>
Governmental activities	126,032,421	119,859,403	113,686,385
Business-type activities	49,136,798	46,730,097	44,323,396
Fiduciary funds	<u>357,977</u>	<u>340,444</u>	<u>322,911</u>
Total prepaid	<u><u>\$ 175,527,196</u></u>	<u><u>\$ 166,929,944</u></u>	<u><u>\$ 158,332,692</u></u>

The amounts contributed to PERS during the years ended June 30, 2009, 2010, and 2011 were equal to the required contribution for each year. The amounts contributed by the City were as follows:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Cash contribution during year	\$ 35,326,820	\$ 32,598,608	\$ 33,622,080
Amortization of deposit with PERS	<u>8,597,252</u>	<u>8,597,252</u>	<u>8,597,252</u>
Total	<u><u>\$ 43,924,072</u></u>	<u><u>\$ 41,195,860</u></u>	<u><u>\$ 42,219,332</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 86.738 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, 2011 is shown in the following table:

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

Year Ending August 31 ¹	Electricity Generated (Million kilowatt-hours)
2002	97.882
2003	71.042
2004	88.041
2005	66.193
2006	83.913
2007	78.412
2008	107.960
2009	87.724
2010	87.404
2011	104.027

¹The 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.