

REPORT OF INDEPENDENT AUDITORS

The Honorable Mayor and Council Members
City of Portland, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements the City of Portland, Oregon Hydroelectric Power Fund (the Fund), which comprise the balance sheets as of August 31, 2015 and 2014, and the related statements of revenues, expenditures and changes in retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

REPORT OF INDEPENDENT AUDITORS (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of August 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended 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

Emphasis of Matter

As discussed in Note 1, 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, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial statements present only the 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Portland Hydroelectric Project Power Generation Schedule is presented for purposes of additional analysis and is not a required part of the financial statements. The Portland Hydroelectric Project Power Generation Schedule has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2016 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fund's internal control over financial reporting and compliance.

Moss Adams LLP

Portland, Oregon
March 2, 2016

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

| | AUGUST 31, | |
|------------------------------------|----------------------|----------------------|
| | 2015 | 2014 |
| UNRESTRICTED CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 215,739 | \$ 149,914 |
| Accrued interest receivable | 5,436 | 7,130 |
| Total unrestricted current assets | <u>221,175</u> | <u>157,044</u> |
| RESTRICTED CURRENT ASSETS | | |
| Renewal and Replacement | | |
| Cash and cash equivalents | 10,870,417 | 569,664 |
| Investments | - | 9,995,857 |
| Accrued interest receivable | 15,537 | 2,948 |
| Debt Service | | |
| Cash and cash equivalents | 4,466,346 | 4,856,369 |
| Investments | - | 255,697 |
| Accrued interest receivable | 61 | 9,735 |
| Power sales receivable | 257,223 | 530,761 |
| Total restricted current assets | <u>15,609,584</u> | <u>16,221,031</u> |
| Total current assets | <u>15,830,759</u> | <u>16,378,075</u> |
| NON-CURRENT ASSETS | | |
| Utility plant, net | 21,993,990 | 22,601,381 |
| Prepaid pension expense | 124,232 | 132,847 |
| Total non-current assets | <u>22,118,222</u> | <u>22,734,228</u> |
| Total assets | <u>\$ 37,948,981</u> | <u>\$ 39,112,303</u> |

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

| | AUGUST 31, | |
|---|-------------------|---------------|
| | 2015 | 2014 |
| CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS | | |
| Accrued liabilities | \$ 37,290 | \$ 36,196 |
| Total current liabilities payable from unrestricted assets | 37,290 | 36,196 |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | | |
| Interest payable | 99,258 | 154,258 |
| Revenue bonds payable within one year | 2,520,251 | 2,403,447 |
| Total current liabilities payable from restricted assets | 2,619,509 | 2,557,705 |
| LONG-TERM LIABILITIES, net of current portion | | |
| Long-term liabilities | 81,617 | 80,101 |
| Revenue bonds | 1,913,585 | 4,433,836 |
| Total long-term liabilities | 1,995,202 | 4,513,937 |
| Total liabilities | 4,652,001 | 7,107,838 |
| RETAINED EARNINGS | | |
| Reserved for bonded debt service | 1,843,602 | 2,561,003 |
| Unreserved retained earnings | 31,453,378 | 29,443,462 |
| Total retained earnings | 33,296,980 | 32,004,465 |
| Total liabilities and retained earnings | \$ 37,948,981 | \$ 39,112,303 |

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

| | YEAR ENDED AUGUST 31, | |
|--|------------------------------|----------------------|
| | 2015 | 2014 |
| OPERATING REVENUES | | |
| Power sales | \$ 2,915,577 | \$ 4,102,736 |
| Service charges and fees | 78,812 | 63,263 |
| Total operating revenues | <u>2,994,389</u> | <u>4,165,999</u> |
| OPERATING EXPENSES | | |
| Salaries, wages and fringe benefits | 288,668 | 276,767 |
| Operations and maintenance | 596,771 | 633,309 |
| Depreciation | 607,392 | 607,392 |
| Total operating expenses | <u>1,492,831</u> | <u>1,517,468</u> |
| Operating income | <u>1,501,558</u> | <u>2,648,531</u> |
| NON OPERATING REVENUES (EXPENSES) | | |
| Investment earnings | 51,292 | 42,295 |
| Interest expense | (260,335) | (391,282) |
| Net nonoperating expenses | <u>(209,043)</u> | <u>(348,987)</u> |
| NET INCOME | <u>1,292,515</u> | <u>2,299,544</u> |
| RETAINED EARNINGS, beginning | <u>32,004,465</u> | <u>29,704,921</u> |
| RETAINED EARNINGS, end of year | <u>\$ 33,296,980</u> | <u>\$ 32,004,465</u> |

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

| | YEAR ENDED AUGUST 31, | |
|--|------------------------------|----------------------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating income | \$ 1,501,558 | \$ 2,648,531 |
| Adjustments to reconcile operating income to net cash from operating activities | | |
| Depreciation | 607,392 | 607,392 |
| Amortization of PERS contribution | 8,615 | 8,615 |
| Changes in assets and liabilities | | |
| Power sales receivable | 273,538 | (82,466) |
| Accrued liabilities | 1,094 | 688 |
| Long-term liabilities | 1,516 | 5,590 |
| Net cash from operating activities | <u>2,393,713</u> | <u>3,188,350</u> |
| CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES | | |
| Principal paid on bonds | (2,403,447) | (2,281,793) |
| Interest paid on bonds | <u>(315,335)</u> | <u>(443,519)</u> |
| Net cash from capital related financing activities | <u>(2,718,782)</u> | <u>(2,725,312)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income | 50,070 | 49,631 |
| Proceeds from sale of investments | 10,251,554 | 15,030,538 |
| Purchases of investments | <u>-</u> | <u>(24,671,530)</u> |
| Net cash from investing activities | <u>10,301,624</u> | <u>(9,591,361)</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | <u>9,976,555</u> | <u>(9,128,323)</u> |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>5,575,947</u> | <u>14,704,270</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u><u>\$ 15,552,502</u></u> | <u><u>\$ 5,575,947</u></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, which is considered to be an other comprehensive basis of accounting. 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 and liabilities 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, 2015 and 2014.

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

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

from 10 to 100 years. Management evaluates utility plant for impairment and retirement obligations annually or as circumstances warrant.

Note 1 – Summary of Significant Accounting Policies (continued):

Other assets – Substantially all of the Fund’s employees are participants in the State of Oregon Public Employees Retirement System (PERS). Contributions to PERS are made by the City and have historically been made based on the annual required contribution. Such contributions are proportionally allocated to the Fund and charged to expense as funded.

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.

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 the Risk Management section of Note IV in the City of Portland, Oregon Comprehensive Annual Financial Report as of June 30, 2015 for more complete information. <https://www.portlandoregon.gov/brfs/article/555505>

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, 2015 are as follows:

| | Unrestricted Current Cash and Cash Equivalents | Restricted Current Cash and Cash Equivalents | | Total |
|--|--|---|----------------------------|----------------------|
| | | Debt Service | Renewal and Replacement | |
| Cash on hand and on deposit: | | | | |
| Cash with City Treasury | \$ 215,544 | \$ (539) | \$ 43,760 | \$ 258,765 |
| Cash equivalents: | | | | |
| Government, agency, corporate securities and money market instruments | 195 | 4,466,885 | 10,826,657 | 15,293,737 |
| Total cash and investments | <u>\$ 215,739</u> | <u>\$4,466,346</u> | <u>\$ 10,870,417</u> | <u>\$ 15,552,502</u> |

Cash and cash equivalents at August 31, 2014 are as follows:

| | Unrestricted Current Cash and Cash Equivalents | Restricted Current Cash and Cash Equivalents | | Total |
|--|--|---|----------------------------|---------------------|
| | | Debt Service | Renewal and Replacement | |
| Cash on hand and on deposit: | | | | |
| Cash with City Treasury | \$ 149,719 | \$ (536) | \$ 43,760 | \$ 192,943 |
| Cash equivalents: | | | | |
| Government, agency, corporate securities and money market instruments | 195 | 4,856,905 | 525,904 | 5,383,004 |
| Total cash and investments | <u>\$ 149,914</u> | <u>\$4,856,369</u> | <u>\$ 569,664</u> | <u>\$ 5,575,947</u> |

Cash with the City Treasury 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. 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 cash with City Treasury, governmental, agency and corporate securities and money market instruments. The balances at August 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|--|---------------|---------------|
| Cash with City Treasury | \$ 258,765 | \$ 192,943 |
| Investments - money market instruments | 10,727,174 | 371,598 |
| Investments - government, agency and corporate securities | 4,566,563 | 15,262,960 |
| | \$ 15,552,502 | \$ 15,827,501 |

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 Des Moines, 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 24 months. In addition, no more than 50 percent 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 remaining maturities of 365 days or less.

Credit risk – For the years ended 2015 and 2014, 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, 2015 and 2014, all were invested in governmental securities, commercial paper, bankers’ acceptances, or with the FHLB, FNMA, FFCB or FHLMC, which are rated Aaa and AA+ by Moody’s and Standard & Poor’s, respectively.

Custodial credit risk-investments – 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. All trades are executed by delivery vs. payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. The Fund’s investments comply with ORS 294.035 and ORS 294.810 that lists acceptable investments. As of August 31, 2015, the Fund had no investments that were held by either counterparty or the counterparty’s trust department agent. Therefore, the Fund has no outstanding investments that are exposed to custodial credit risk.

As of August 31, 2015, the Fund had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturity (years) | |
|--|----------------------|-----------------------------|-------------|
| | | Less Than 1 | 1-5 |
| Money market instruments | \$ 10,727,174 | \$ 10,727,174 | \$ - |
| Government agency and corporate securities | 4,566,563 | 4,566,563 | - |
| | <u>\$ 15,293,737</u> | <u>\$ 15,293,737</u> | <u>\$ -</u> |

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

Note 3 – Deposits and Investments (continued):

As of August 31, 2014, the Fund had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturity (years) | |
|--|----------------------|-----------------------------|-------------|
| | | Less Than 1 | 1-5 |
| Money market instruments | \$ 371,598 | \$ 371,598 | \$ - |
| Government agency and corporate securities | 15,262,960 | 15,262,960 | - |
| | <u>\$ 15,634,558</u> | <u>\$ 15,634,558</u> | <u>\$ -</u> |

Note 4 – Utility Plant:

Utility plant assets were as follows at August 31:

| | 2015 | 2014 |
|---------------------------------|----------------------|----------------------|
| 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 | 22,133,735 | 21,526,344 |
| Net utility plant | <u>\$ 21,993,990</u> | <u>\$ 22,601,381</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 percent 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 percent 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.

In November 1999, the City issued \$300.8 million of Limited Tax Pension Obligation Revenue Bonds to finance the City’s December 31, 1997 Public Employees Retirement System (PERS) unfunded actuarial accrued pension liability with the State of Oregon PERS. The bonds are secured by available general funds, defined as revenues that are legally available to pay the bonds, and not prohibited for such use under the charter and ordinances of the City and Oregon laws. This debt is allocated to the general government, enterprise funds, internal service funds, and fiduciary funds. The portion of debt service payments of the 1999 Series C, D and E Limited Tax Pension Obligation Revenue Bonds allocated to the Fund is 0.10 percent.

At August 31, 2015, interest rates of the outstanding bonds, \$42.7 million of 1999 Series D variable rate bonds and \$42.6 million of 1999 Series E variable rate bonds were 0.21 and 0.23 percent respectively. Interest rates on the fixed rate \$134.5 million of 1999 Series C bonds ranges from 7.701 to 7.93 percent.

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

| | Series 2006 | | PERS Bond Allocation | | Total | |
|------------|---------------------|-------------------|----------------------|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$ 2,505,000 | \$ 165,276 | \$ 15,251 | \$ 7,739 | \$ 2,520,251 | \$ 173,015 |
| 2017 | 1,740,000 | 48,050 | 17,184 | 8,450 | 1,757,184 | 56,500 |
| 2018 | - | - | 19,289 | 8,009 | 19,289 | 8,009 |
| 2019 | - | - | 21,545 | 7,297 | 21,545 | 7,297 |
| 2020 | - | - | 24,002 | 5,350 | 24,002 | |
| Thereafter | - | - | 91,565 | 239,465 | 91,565 | 239,465 |
| | <u>\$ 4,245,000</u> | <u>\$ 213,326</u> | <u>\$ 188,836</u> | <u>\$ 276,310</u> | <u>\$ 4,433,836</u> | <u>\$ 484,286</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 percent 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.

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, 2015 and 2014, these expenses amounted to \$828,130 and \$951,332, 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 percent 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 percent 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 percent of the excess cost, no further amounts would be required to be paid to the Utility. At August 31, 2015, the total accumulated excess cost was \$21,011,356, 50 percent of this total was \$10,505,678, and the carrying value of the renewal and replacement assets was \$10,870,417.

SUPPLEMENTARY 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 87.132 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, 2015 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) |
|---------------------------------------|---|
| 2006 | 83.913 |
| 2007 | 78.412 |
| 2008 | 107.960 |
| 2009 | 87.724 |
| 2010 | 87.404 |
| 2011 | 104.027 |
| 2012 | 103.100 |
| 2013 | 55.196 |
| 2014 | 87.785 |
| 2015 | 68.922 |

¹The amount of Project generation in the years ended August 31, 2007, and 2015 is low due to significantly lower than average precipitation at the Project during those years. The amount of Project generation in the year ended August 31, 2013 is low due to construction work that kept one of the Project's powerhouses off-line during the entire fiscal year.

Source: City of Portland Project records.

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Council Members
City of Portland, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Portland, Oregon Hydroelectric Power Fund (the Fund) as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the Fund's financial statements, and have issued our report thereon dated March 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS (continued)***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Miss Adams UP

Portland, Oregon
March 2, 2016