CITY OF PORTLAND, OREGON

FIRE AND POLICE DISABILITY AND RETIREMENT FUNDS

Trust Funds of the City of Portland, Oregon

REPORT OF INDEPENDENT AUDITORS

AND

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2014

Bureau of Fire & Police Disability & Retirement

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PORTLAND POLICE
OFFICER

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INTRODUCTORY SECTION

CITY OF PORTLAND, OREGON

Fire and Police Disability
and Retirement Funds
Trust Funds of the City of Portland, Oregon

JUNE 30, 2014

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PORTLAND POLICE

OFFICER

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
City of Portland, Oregon Fire and Police
Disability and Retirement Fund and Reserve Fund
Portland, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of plan net position of the City of Portland, Oregon, Fire and Police Disability and Retirement Fund and the City of Portland, Oregon, Fire and Police Disability and Retirement Reserve Fund (the "Funds"), component units of the City of Portland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 opinions on these financial statements based on our audit. We conducted our audit 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the year, the Funds implemented GASB Statement 67: Financial Reporting for Pension Plans. This Statement significantly changed the footnote and Required Supplementary Information (RSI) disclosures for the Funds. These changes do not modify our opinion with respect to the matter emphasized.

MOSS ADAMS LLP

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedule of changes in net pension liability and related ratios and funding progress on pages 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Portland, Oregon, Fire and Police Disability and Retirement Fund and the City of Portland, Oregon, Fire and Police Disability and Retirement Reserve Fund's basic financial statements. The supplementary information included on pages 34 through 41 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The budgetary comparison schedules on pages 34 through 36 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules on pages 34 through 36 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The supplementary data on pages 37 through 41 has not been subjected to the auditing procedures applied in the audit of the basic 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 November 21, 2014 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 the Fund's internal control over financial reporting and compliance.

Moss Adams, LLP

Eugene, Oregon
November 21, 2014

City of Portland, Oregon
Fire and Police Disability and Retirement Funds
(Trust Funds of the City of Portland, Oregon)

Management Discussion and Analysis

As management of the City of Portland, Oregon's Fire and Police Disability and Retirement Fund (FPDR Fund) and Fire and Police Disability and Retirement Reserve Fund (Reserve Fund), we offer readers this narrative overview and analysis of the financial activities of the funds for the fiscal year ended June 30, 2014. For more detailed information regarding the funds' financial activities, the reader should also review the actual financial statements, including the notes and supplementary schedules.

Financial Highlights

- An independent actuary conducts biennial valuations of FPDR's obligations. The most recent valuation available is as of June 30, 2012; rolling that valuation forward to June 30, 2014 yields a total pension liability (the actuarial present value of the plan's projected benefit payments that are attributed to past periods of member service) of $2.5 billion. This liability is calculated according to Statement 67 of the Governmental Accounting Standards Board (GASB) which FPDR implemented as of June 30, 2014.
- The FPDR Fund is financed on a pay-as-you-go basis. The Portland City Charter provides for annual employer contributions equal to current year benefits and expenses, funded by a dedicated property tax levy.
- Employer contributions account for 99 percent of the FPDR Fund's revenues. The imposed FPDR property tax levy for the fiscal year ended June 30, 2014 was $1.47 per $1,000 of real market value within the City of Portland, an increase from $1.45 for the prior fiscal year. By charter the levy may not exceed $2.80 per $1,000 of real market value.
- The funds' assets exceeded liabilities, resulting in a net position of $20.5 million at June 30, 2014. This is an increase of $3.4 million from June 30, 2013. The plan's net pension liability, the total pension liability less the plan net position, is $2.5 billion.
- Benefit payments to retirees and disabled members as well as their beneficiaries increased by one percent, or $1.1 million, from the fiscal year ended June 30, 2013 to the fiscal year ended June 30, 2014. Benefit payments related to the resolution of two legal actions are included in the 2014 figures. FPDR had created a contingent liability of $3.2 million for these payments; the contingent liability was accordingly reversed in the fiscal year ended June 30, 2014.

Financial Statements and Analysis

The FPDR Fund provides disability, death and retirement benefits to the sworn employees of Portland Fire and Rescue and the Portland Police Bureau and their survivors. Chapter 5 of the Portland City Charter establishes the level of benefits and the method of administering benefits.

Financial Statements and Analysis, continued

The FPDR Fund is financed on a pay-as-you-go basis. Each year's benefits and expenses are paid for with employer contributions derived from dedicated property tax revenue received during that year. No assets are accumulated in the current year to pay for benefit payments in future years. Although the City Charter provides FPDR with dedicated property tax levy authority of up to $2.80 per $1,000 of real market value, the Oregon state constitution caps each property's general government taxes at $10 per $1,000 of real market value. After reaching this point all levies, including the FPDR levy, are subject to compression to fit under the $10 limit. For this reason it is unlikely that FPDR could collect the full $2.80 per $1,000 of real market value on each property, although compression has eased recently. Real market value used for tax assessments in the fiscal year ending June 30, 2014 grew by 5.2 percent, the first growth since the fiscal year ended June 30, 2009. Real market value used for tax assessments in the fiscal year ending June 30, 2015 has grown by approximately 10.0 percent. FPDR projects property tax collections will exceed budget by at least $1.0 million for the fiscal year ending June 30, 2015, primarily because of reduced compression arising from increasing real market values.

Sworn members of the Fire and Police Bureaus hired after 2006 are enrolled in the prefunded Oregon Public Employees Retirement System (PERS) pension plan. The FPDR Fund pays the employee and employer portions of PERS contributions for these members, as well as their FPDR disability and death benefits. Members of the FPDR plan prior to 2007 remain covered by the FPDR plan for both their retirement and disability benefits. The payment of both PERS contributions for members hired since 2006 and current benefits to members of FPDR's pay-as-you-go pension plan – simultaneous payments for two generations of members – creates upward pressure on FPDR's tax levy.

FPDR implemented GASB Statement 67: Financial Reporting for Pension Plans (Statement 67), as of June 30, 2014; Statement 67 amends Statements 25 and 50. Under Statements 25 and 50, FPDR reported an unfunded actuarial accrued liability of $3.0 billion as of June 30, 2013. Statement 67's required supplementary information is the Schedule of Changes in Net Pension Liability and Related Ratios. The net pension liability reported there is $2.5 billion for the fiscal year ended June 30, 2014. Although these are somewhat different calculations, the plan's lower liability is primarily due to the combination of a higher discount rate and a benefit-reducing plan change. The net pension liability as of June 30, 2014 uses a discount rate of 4.29 percent compared to 3.50 percent used as of June 30, 2013. Statement 67 establishes criteria the discount rate must satisfy, while previously the rate was selected solely at management discretion. FPDR's rate under Statement 67 is the June 30, 2014 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index. This index meets Statement 67's requirement of a tax-exempt, high-quality municipal bond rate. A change made by the Oregon Legislature in October 2013 also reduced annual benefit adjustment rates for some FPDR members, which will lower future benefit payments.

Because of the FPDR plan's pay-as-you-go funding basis, the net pension liability does not reflect the value of dedicated future revenues from the property tax levy. Management assesses the plan's

Financial Statements and Analysis, continued

long-term financial condition in part by projecting the future availability of revenues from the dedicated property tax, which are the source of employer contributions under the Charter. The most recent levy adequacy analysis, completed by an independent actuary in connection with the actuarial valuation of the fund, was as of June 30, 2012. At baseline assumptions, property tax revenues are expected to be sufficient to cover future benefit payments and fund expenses. Under a wide range of simulated economic scenarios in the foreseeable future, the analysis projects that there is a five to ten percent probability of the FPDR Fund levy reaching the maximum $2.80 per $1,000 of real market value beginning in 2028. At the median (50^{th} percentile) probability, the analysis predicts the FPDR tax rate will peak at $1.83 per $1,000 of real market value in 2030. The current analysis extends through 2032 and encompasses all facts, decisions and conditions pertaining to the FPDR plan known at the time the analysis was completed. Management expects future benefit payments to decrease as a result of changes made by the Oregon Legislature in 2013. Provided they survive pending legal challenges, the changes will reduce annual benefit adjustments for FPDR Two members, eliminate the additional state tax offset pension benefit for some FPDR One and Two members and reduce contributions FPDR makes to PERS on behalf of FPDR Three members. All together, these changes reduced benefit expenditures for the fiscal year ended June 30, 2014 by $2.4 million and budgeted benefit expenses for the fiscal year ending June 30, 2015 by $3.3 million. Please see Note Two, Plan Features and Other Information, for an explanation of FPDR tiers One, Two and Three and more information about these changes. The next levy adequacy analysis is anticipated in early 2015 and will extend through 2034.

The Reserve Fund provides a reserve in case the FPDR Fund cannot meet its current obligations. At June 30, 2014, the Reserve Fund had $750,000 in net assets and generated no income or expenses. Interest earned on the Reserve Fund balance is credited directly to the FPDR Fund. The following statements present the combined totals of the FPDR Fund and the Reserve Fund.

The *Statement of Plan Net Position* presents information on all of the funds' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the funds is improving or deteriorating, but due to the pay-as-you-go nature of the plan, management's goal is to meet current obligations, not to achieve a certain level of fund balance.

The *Statement of Changes in Plan Net Position* presents information showing how the funds' net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Thus, some changes to assets and liabilities reported in this statement will not result in changes to cash flows until future fiscal periods.

Financial Statements and Analysis, continued

The following schedule compares total plan assets, liabilities, net position and changes in net position for the fiscal years ended June 30, 2014 and 2013:

	2014	2013	Increase (Decrease)
Cash and investments held by City Treasurer	$21,751,684	$21,796,998	($45,314)
Receivables and prepaid items	8,626,811	8,553,032	73,779
Capital assets	488,069	309,082	178,987
Total Assets	30,866,564	30,659,112	207,452
Benefits payable	8,925,924	8,970,625	(44,701)
Other liabilities	1,407,716	4,533,472	(3,125,756)
Total Liabilities	10,333,640	13,504,097	(3,170,457)
Net Position	$20,532,924	$17,155,015	$3,377,909

The funds' net position increased from $17.2 million at June 30, 2013 to $20.5 million at June 30, 2014, a $3.4 million or 20 percent increase. The most significant change is the $3.1 million or 69 percent reduction in other liabilities due to the reversal of contingent liabilities related to litigation on the pension overpayment recovery and the inclusion of apparatus operator pay in the benefit calculation for FPDR One Fire participants. Both legal actions were resolved in the fiscal year ending June 30, 2014. The value of FPDR's sole capital asset, a software database, increased by $178,987 as a result of enhancements to the database and the capitalization of staff time that had not been capitalized during the development phase.

Financial Statements and Analysis, continued

The following schedule displays a comparison of changes in plan net position during the fiscal years ended June 30, 2014 and 2013:

	2014	2013	Increase (Decrease)
Employer contributions: property taxes	$120,013,176	$112,542,969	$7,470,207
Employer contributions: other	662,326	455,590	206,736
Net investment income	312,468	119,685	192,783
Transfers in	-	1,500,000	(1,500,000)
Total Additions	120,987,970	114,618,244	6,369,726
Benefit payments	114,024,585	112,930,888	1,093,697
Refunds	-	48,719	(48,719)
Operating and administrative expenses	3,585,476	3,425,724	159,752
Transfers out	-	1,500,000	(1,500,000)
Total Deductions	117,610,061	117,905,331	(295,270)
Net Increase / (Decrease)	3,377,909	(3,287,087)	6,664,996
Beginning Net Position	17,155,015	20,442,102	(3,287,087)
Ending Net Position	$20,532,924	$17,155,015	$3,377,909

Increases to the plan net position include property tax revenues, investment income and other income consisting primarily of pension and disability-related charges collected from third parties for police and fire services and subrogation revenue recovered from third parties for accidents involving members. The primary funding source for the FPDR Fund is employer contributions derived from the dedicated property tax. These revenues totaled $120.0 million in the fiscal year ended June 30, 2014, a $7.5 million increase from the prior year. Higher tax collections were required by a lower beginning fund balance and increasing pension expenses as FPDR continues to fund two generations of pensions simultaneously. The tax rate rose from $1.45 per $1,000 of real market value for the fiscal year ended June 30, 2013 to $1.47 for the fiscal year ended June 30, 2014. The FPDR Board determines the tax revenue required in any given year by approving the annual budget and subtracting other anticipated revenues. This amount is then forwarded to the City Economist, who calculates the tax levy amount and resulting rate after factoring in delinquencies, discounts and compression losses. The City Charter caps the FPDR tax rate at $2.80 per $1,000 of real market value.

Financial Statements and Analysis, continued

The FPDR Fund recognized net investment income of $312,468 for the fiscal year ended June 30, 2014 as compared with $119,685 in the prior year, as the fund's cash balance increased and interest rates began to increase. The $206,736 increase in other revenue is from pension and disability-related charges to third parties for police services; full cost recovery of police pension and disability expenses from third parties is being phased in over several years, with the result that this revenue source will continue to grow in the short run.

Decreases to the FPDR Fund net position result mainly from retirement, death and disability benefit payments as well as administrative and operating expenses. For the fiscal year ended June 30, 2014 retirement, death and disability benefits amounted to $114.0 million, an increase of $1.1 million or one percent. Disability and death benefit payments, which have been declining, increased by $0.7 million due to a higher than normal claim volume. Direct pension benefits increased by $4.1 million, PERS contributions for members hired since 2006 increased by $0.7 million, and contingent pension liabilities related to two lawsuits totaling $3.2 million were reversed. Operating and administrative expenses, which would have declined but for legal expenses associated with the resolution of two lawsuits, increased by $159,752 or five percent, to $3.6 million for the fiscal year.

Transfers in and out represent transfers to or from the FPDR Reserve Fund to the FPDR Fund to maintain a positive cash balance in the FPDR Fund. There were no transfers in the fiscal year ended June 30, 2014. FPDR's tax anticipation notes are sized based on projected cash flow, and actual revenue and expense in the months leading up to the November tax turnovers can vary enough from the projection to require the transfer in some years.

Capital Asset and Long-Term Debt Activity

FPDR owns an intangible capital asset, a database to process all participant-related payments and to track member and beneficiary information. The database has a net book value of $488,069 on June 30, 2014, which includes $5,035 as construction in progress.

The funds had no long-term debt activity in the fiscal year ended June 30, 2014, other than FPDR's prorated share of payments on pension obligation bonds issued by the City of Portland in 1999 to reduce the City's liability with PERS.

Requests for Information

This financial report is designed to provide a general overview of the funds' finances for interested readers. All currently known facts, decisions and conditions that will have a significant effect on the funds' future financial position or operations have been discussed above. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Financial Manager, Fire and Police Disability and Retirement Fund, 1800 SW First Ave., Suite 450, Portland, OR 97201.

STATEMENT OF PLAN NET POSITION

	June 30, 2014		
	FPDR Fund	Reserve Fund	Total
Assets			
Cash and investments held by City Treasurer	$ 21,001,684	$ 750,000	$ 21,751,684
Property taxes receivable	8,231,915	-	8,231,915
Interest receivable	81,686	-	81,686
Accounts receivable, net	700	-	700
Pension overpayment recovery receivable	42,198	-	42,198
Prepaid expenses	270,312	-	270,312
Capital assets, net	488,069	-	488,069
Total assets	30,116,564	750,000	30,866,564
Liabilities			
Benefits payable	8,925,924	-	8,925,924
Compensated absences	810,727	-	810,727
Bonds payable	411,621	-	411,621
Accrued interest payable	146,940	-	146,940
Contingent pension liability	-	-	-
Other post-employment benefits	38,428	-	38,428
Total liabilities	10,333,640	-	10,333,640
Net Position			
Restricted for pensions	19,782,924	750,000	20,532,924
Total net position	$ 19,782,924	$ 750,000	$ 20,532,924

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT FUNDS
STATEMENT OF CHANGES IN PLAN NET POSITION

	YEAR ENDED JUNE 30, 2014		
	FPDR Fund	Reserve Fund	Total
Additions			
Property taxes	$ 120,013,176	$ -	$120,013,176
Other	662,326	-	662,326
Total employer contributions	120,675,502	-	120,675,502
Net investment income	312,468	-	312,468
Total additions	120,987,970	-	120,987,970
Deductions			
Disability, retirement and medical benefits	114,024,585	-	114,024,585
Operating and administrative expenses	3,585,476	-	3,585,476
Total deductions	117,610,061	-	117,610,061
Net increase	3,377,909	-	3,377,909
Net position - beginning	16,405,015	750,000	17,155,015
Net position - ending	$ 19,782,924	$ 750,000	$ 20,532,924

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund descriptions - The Fire and Police Disability and Retirement Fund (the FPDR Fund), a Trust Fund of the City of Portland, Oregon (the City), was established by adoption of Chapter 5 of the Charter of the City by the voters at the general election held November 2, 1948. The purpose of the FPDR Fund is to provide "for the benefit of the sworn employees of Portland Fire and Rescue (hereinafter Bureau of Fire) and the Bureau of Police of the City of Portland (hereinafter Bureau of Police) and for the benefit of the Surviving Spouses and Dependent Minor Children of deceased sworn employees" (Charter Section 5-101). The plan may only be amended by voters in the City of Portland, with some exceptions. Ten revisions have been passed by the voters since the creation of the plan in 1948. The most recent revision, comprised of eleven different plan amendments, was passed November 6, 2012.

The Fire and Police Disability and Retirement Reserve Fund (the Reserve Fund), a Trust Fund of the City of Portland, Oregon, is authorized under the provision of Chapter 5, Section 5-104 of the Charter of the City. The purpose of the Reserve Fund is to provide a reserve from which advances can be made to the Fire and Police Disability and Retirement Fund in the event the latter fund is depleted to the extent it cannot meet its current obligations. The Reserve Fund maximum is established at $750,000 by the Charter and was fully funded at June 30, 2014.

The funds are presented as a blended component unit of the City of Portland, as required by accounting principles generally accepted in the United States of America. A blended component unit, although a legally separate entity, is in substance part of the City's operations. The City is considered to be financially accountable for the funds.

The funds are reported as pension trust funds in the Comprehensive Annual Financial Report of the City of Portland, Oregon.

Basis of accounting - Financial reporting for the funds is in accordance with the provisions of Governmental Accounting Standard Statement No. 25 (Statement 25): Financial Reporting for Defined Benefit Pension Plans, as amended by Statement No. 67 (Statement 67): Financial Reporting for Pension Plans, along with other applicable Governmental Accounting Standards Board (GASB) standards. FPDR implemented Statement 67 for the fiscal year ended June 30, 2014. Statement 67 establishes the financial reporting framework for defined benefit pension plans and specifies the approach to measuring the plan's liability and the information to be disclosed.

The funds' accounts are maintained on the accrual basis of accounting. Property tax revenues are recognized when levied; other revenues are recognized in the period in which they are due. Expenses are reported in the period in which they are incurred.

Use of estimates - In preparing the funds' financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Budget - The funds' budget is developed as part of the budgeting process at the City, which is required by state law to budget all funds. State law further requires that total resources in each fund equal total expenditures and requirements for that fund. Appropriations lapse at fiscal year end. The City legally adopts its budget annually for all funds prior to July 1 through passage of an ordinance. The budget ordinance authorizes positions and establishes appropriations for the fiscal year by bureau, fund, and major categories of expenditures. The legal level of appropriation is established for bureau program expenses, interfund cash transfers, total debt service and related expenditures, contingencies for each fund, and for the General Fund at the business area level. Bureau program expenses include the major object categories: personnel services, materials and services, General Fund overhead, and capital outlay. The City budgets on the modified accrual basis of accounting.

Budgets may be modified during the fiscal year through different means. Bureau managers, without City Council's approval, may request a transfer of appropriations between line items within major object categories, provided transfers do not affect total appropriations. In addition, bureaus may transfer appropriations between major object categories with the permission of their commissioner-in-charge, provided the adjustments do not affect total appropriations. However, most appropriation transfers happen during one of three supplemental budget processes during the year (Budget Monitoring Process). Bureaus are allowed to amend the budget via ordinance outside the Adopted Budget and Budget Monitoring Process with City Council approval. State law requires a supplemental budget to increase appropriations when additional spending requiring additional resources is needed. A supplemental budget is also required to transfer appropriations from a fund's operating contingency during the fiscal year. The supplemental budget process requires a public hearing, advance notice by newspaper publication, and City Council approval. Budgets may also be reduced. For the fiscal year ended June 30, 2014, minor amendments were made to the FPDR Adopted Budget as part of the routine budget monitoring processes. Budget authority was moved between expenditures categories to better align the budget with projected spending. The net change to bureau program expenditures was a decrease of $527,371 as the Fire and Police Bureaus reduced their expected Public Employees Retirement System (PERS) contribution expense for FPDR Three members.

Cash and investments - As the FPDR Plan is funded on a pay-as-you-go basis, the funds have limited cash and investment assets. The funds' cash and investments are maintained in a cash and investment pool with other funds of the City; FPDR does not have separate investments or its own investment policy**.** The funds' cash and cash equivalents are represented by participation in the City pool rather than specific, identifiable securities. Interest earned on pooled investments is allocated monthly based on the average participation of the funds in relation to total investments in the pool. It is not practical to determine the investment risk, collateral or insurance coverage

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

for the FPDR funds' share of these pooled investments. Information about the pooled investments is included in the City's annual financial statements.

The City accounts for cash and investments in accordance with the provisions of GASB Statement No. 31: Accounting and Financial Reporting for Certain Investments and External Investment Pools, which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and to recognize the corresponding change in the fair value of investments in the year in which the change occurred. Disclosures regarding risks associated with cash and investments required by GASB Statement No. 3: Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements and GASB Statement No. 40: Deposit and Investment Risk Disclosures are included in the City's financial statements.

Property taxes - Property taxes are recognized as receivables and revenues when levied. Property taxes become a lien against the property as of July 1 each year. Property taxes are levied on July 1 and are due in three installments on November 15, February 15 and May 15 following the lien date. Property taxes are due from property owners within the City of Portland.

Equipment and other fixed/intangible assets - Equipment and other fixed or intangible assets are stated at cost. Depreciation is calculated on a straight-line basis over the useful life of the equipment and other fixed assets, generally three to 15 years. FPDR assets are generally classified as equipment or software, which are capitalized if their cost exceeds $5,000 and their useful life exceeds a year. GASB Statement No. 51: Accounting and Financial Reporting for Intangible Assets requires governmental entities to report and account for intangible assets. The FPDR Fund has one intangible asset, a database used to process participant-related payments and to track member and beneficiary information.

Other assets - Substantially all of the employees that provide services for the fund are employees of the City of Portland and therefore are participants in 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 FPDR Fund and charged to expense as funded. In the fiscal year ended June 30, 2000, the City contributed an amount in excess of the annual required contribution to finance the estimated unfunded actuarial accrued liability (UAAL) of the City with PERS. Beginning in the fiscal year ended June 30, 2002, the financing of the UAAL is allocated to the FPDR Fund, as well as the City's general government, enterprise and internal service funds, for those funds to recognize their appropriate share of the liability. The allocation was based on the FPDR Fund's weighted average contribution to PERS in the fiscal year ended June 30, 1999. In accordance with GASB Statement No. 27: Accounting for Pensions by State and Local Government Employers, amounts contributed in excess of annual required contributions are recorded as pension-related assets and amortized on a straight-line basis over 30 years, beginning in this case with the fiscal year ended June 30, 2000.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION

Plan description - The City of Portland Fire and Police Disability, Retirement and Death Benefit Plan (the FPDR Plan or the Plan) is a single-employer, defined benefit plan for sworn employees of the Portland Police Bureau and Portland Fire and Rescue and their survivors. The plan is governed by the Board of Trustees (the FPDR Board), composed of the Mayor or Mayor's designee, two active members of the Fire and Police Bureaus and two citizens appointed by the Mayor and confirmed by the City Council. The Fire and Police member trustees are elected by the active members of the Fire Bureau and Police Bureau, respectively. The citizen trustees must have relevant experience in pension or disability matters. The Plan is administered by the Bureau of Fire and Police Disability and Retirement, led by the Fund Administrator.

The Plan's authority for vesting and benefit provisions is provided by Chapter 5 of the City Charter. Amendments require approval of the voters in the City of Portland. City Council may provide by ordinance any additional benefits that the City of Portland is required by law to extend to the members and may also change benefits by ordinance to maintain the Plan's tax-qualified status.

A special property tax levy was approved by Portland voters as the resource for annual employer contributions. Under the Charter, employer contributions equal projected current-year expenses. Therefore, the FPDR plan is not prefunded on an actuarial basis. The special property tax levy cannot exceed two and eight-tenths mills on each dollar valuation ($2.80 per $1,000 of real market value) not exempt from such levy. As required by the Charter, the FPDR Board of Trustees estimates the amount of money required to pay and discharge all requirements of the FPDR Fund, exclusive of any loans, advances or revenues from other sources (such as interagency revenue and interest), for the succeeding fiscal year and submits this estimate to the City Council. The Council is required by Charter to annually levy a tax sufficient to fund the estimated benefits for the upcoming year provided by the FPDR Board. While the FPDR Fund has not experienced any funding shortfalls to date, future funding is dependent on the availability of property tax revenues and, in the absence of sufficient property tax revenues, City funds.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

Participation and benefits - As of June 30, 2014, membership data related to the Plan was as follows:

	FPDR One	FPDR Two	FPDR Three	Total
Retirees, beneficiaries and participants with disabilities currently receiving pension and long-term disability benefits	573	1,256	-	1,829
Terminated employees that are vested, but not yet receiving benefits	-	73	-	73
Active members on short-term disability	-	22	6	28
Active members:				
Vested	-	1,173	-	1,173
Non-vested	-	-	-	-
Not in FPDR pension plan	-	-	388	388
Total active members	-	1,173	388	1,561

The FPDR Plan consists of three tiers, two of which are now closed to new employees. Fire and police personnel hired before January 1, 2013 generally became eligible for membership in the Plan immediately upon employment. Sworn personnel initially hired on or after January 1, 2013 are not eligible for membership until they have completed six months of service.

FPDR One, the original tier, and FPDR Two, the tier in which most active fire and police personnel hired before January 1, 2007 participate, are part of a single-employer, defined-benefit plan administered by the FPDR Board of Trustees. FPDR One and FPDR Two are both closed to new entrants. As of June 30, 2014, there were 573 members and beneficiaries subject to the Plan as constituted prior to July 1, 1990, now called FPDR One; 2,502 members and beneficiaries were subject to the Plan as constituted after June 30, 1990, now called FPDR Two.

On November 7, 2006, voters in the City of Portland passed a measure that changed the retirement plan for new police officers and firefighters. Members hired after 2006 are FPDR Three members and enrolled in the Oregon Public Employees Retirement System (PERS), predominantly in the Oregon Public Service Retirement Plan (OPSRP), for retirement benefits. New employees do not become members of PERS for six months unless they were previously members of PERS. The FPDR Fund pays the employee and employer portions of the PERS contributions. FPDR Three members are covered by the FPDR Plan for disability and preretirement death benefits. As of June 30, 2014, the number of FPDR Three members was 388.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

The Plan provides for service-connected and occupational disability benefits for FPDR Two and Three members at 75 percent of the member's base pay, reduced by 50 percent of any wages earned in other employment, for the first year. After the first year, if the member is medically stationary and capable of substantial gainful activity, benefits are reduced to 50 percent of the member's base pay, and then reduced by 25 percent of any wages earned in other employment. The minimum benefit is 25 percent of the member's base pay. The Plan also provides for nonservice-connected disability benefits at reduced rates of base pay after 10 years of service.

FPDR One service-connected and occupational disability benefits are paid at 60 percent of top-step pay for a police officer or firefighter. Nonservice-connected disability benefits for FPDR One members are paid in the amount of the member's maximum earned pension, defined below, with a minimum payment of 20 percent of top-step pay for a police officer or firefighter.

Active members enrolled in the Plan prior to July 1, 1990 were required to make an election as to whether they wished to fall under the provisions of the Plan as constituted prior to July 1, 1990 or become subject to the new Plan provisions after June 30, 1990. Under the old provisions, now called FPDR One, benefits are provided upon termination of employment on or after attaining age 50 (with 25 or more years of service) or 55 (with 20 years or more of service). Retirement benefits are paid to members at two percent of current top-step pay for a police officer or firefighter for each year of active service (up to 60 percent). Therefore, FPDR One members receive post-retirement benefit increases equal to increases in current top-step police officer or firefighter pay. FPDR One retirement benefits are increased, as necessary, on July 1 of each year. If increases in police officer or firefighter pay occur after July 1 in any given year, FPDR One beneficiaries receive the corresponding increase to their benefit on the following July 1. FPDR One Fire benefits increased by 1.8 percent on July 1, 2013 and 2.7 percent on July 1, 2014. FPDR One Police benefits increased by 4.6 percent on July 1, 2014. There was no FPDR One police benefit increase on July 1, 2013. High-ranking FPDR One participants also receive a supplemental retirement benefit; such benefits are paid from the FPDR Fund but are not part of the Plan. The supplemental benefit payments totaled $317,297 to 11 participants for the fiscal year ending June 30, 2014.

Effective July 1, 1990, the Plan was amended to provide for the payment of FPDR Two retirement benefits upon termination of employment on or after attaining age 55, or on or after attaining age 50 if the member has 25 or more years of service. Members become 100 percent vested after five years of service. Benefits are paid to members at retirement using the following formula: 2.2 percent to 2.8 percent multiplied by years of service (30-year maximum); that product is multiplied by the highest one-year base pay the member received during the final three years of employment. The accrual rate of 2.2, 2.4, 2.6 or 2.8 percent is selected by the member at retirement; the rate determines the survivor benefit. The City Charter allows the FPDR Board to grant postretirement benefit adjustments to FPDR Two members. The timing and amount of adjustments are at the Board's discretion, with the limitation that the percentage change in any one year may not exceed the percentage change granted to police and fire members of PERS for the same period. Historically the Board has granted a percentage increase each July 1 equal to the

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

PERS percentage increase. Since the FPDR Two tier was created the maximum PERS percentage increase has been two percent, but was reduced to 1.5 percent for July 1, 2013, and to 1.25 percent for adjustments in 2014 and beyond. The Board granted FPDR Two members a 1.5 percent increase on July 1, 2013 and a 1.25 percent increase on July 1, 2014.

Additional pension benefits are mandated by Oregon Revised Statutes for members whose service began prior to July 14, 1995. The benefits were defined in 1995 but made retroactive to 1991, when the State of Oregon began taxing local pension benefits. The benefits are calculated as a percentage of the Plan benefits, using the higher of 9.89 percent times the member's percentage of creditable service prior to October 1991 or zero percent to four percent based on the member's years of service. The 2013 Oregon State Legislature amended the statutes so that retired members not subject to Oregon income tax are no longer eligible for the additional benefit, effective January 1, 2014.

The Charter provides that, upon termination of employment before attaining five years of service, FPDR Two members shall be entitled to a lump-sum payment consisting of seven percent of base pay received by the member, excluding the first six months of membership. The Charter also provides for FPDR One members to receive a refund of contributions if they terminate employment before vesting. As of June 30, 2014, there are no unvested FPDR One or FPDR Two members.

Death benefits are paid to the surviving spouse or minor children if the member dies from a service-connected or occupational death, regardless of vesting, based on a percentage of base pay or salary as defined in the Plan. Death benefits are also paid to the surviving spouse or minor children in the case of a nonservice-connected death if the member has sufficient service time as defined by the Plan, and for death after retirement of FPDR One and Two members.

On November 6, 2007, voters in the City of Portland passed a measure that expanded the types of members who are eligible under the Plan for postretirement medical treatment required as a result of the member's claim, approved before retirement, for a job-related injury or illness or for an occupational disability. The change was effective for retirees from active service after January 1, 2007. For the fiscal year ending June 30, 2014, postretirement medical expenses for retirees from active service totaled $205,855.

On November 6, 2012 voters approved 11 plan amendments referred to them by the Portland City Council. These amendments made a number of changes to plan benefits provisions, the most significant of which was a revision that defined final pay (used to calculate FPDR Two pensions) as base pay received for a 365-day period, or 366-days in leap years.

Contributions - Under the charter, annual employer contributions are made in the amount of projected current year expenses only. Employer contributions are funded by a special property tax levy, which cannot exceed two and eight-tenths mills on each dollar valuation ($2.80 per $1,000

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

of real market value) not exempt from such levy. In the event that funding for the Plan is less than the required payment of benefits to be made in any particular year, the FPDR Fund could receive advances from the Reserve Fund first and other City funds second, to make up the difference. Repayment of advances, if any, would be made from the FPDR property tax levy in the succeeding year. In the event that the special property tax levy is insufficient to pay benefits because benefits paid exceed the two and eight-tenths mills limit, other City funds would be required to make up the difference. For the year ended June 30, 2014, the actual imposed levy rate per $1,000 of real market value under the special property tax levy was $1.47, and the total revenue received from the levy (which equals the City's employer contribution) was $120.0 million.

The FPDR Board periodically assesses the future availability of property tax revenues by ordering projections and simulations in connection with the actuarial valuation of the funds. The most recent assessment was as of June 30, 2012. The analysis found that, under a wide range of simulated economic scenarios in the foreseeable future, the future FPDR Fund levy has a five to ten percent probability of reaching the maximum $2.80 per $1,000 of real market value.

Employees do not contribute to the Plan. Prior to July 1, 1990, members were required to contribute seven percent of their base salary into the Plan. Effective July 1, 1990, members were no longer required to make contributions into the Plan, except those members opting to remain in FPDR One. All FPDR One members are now receiving retirement or long-term disability benefits and are no longer contributing.

Funding status - The following table shows the funds' total pension liability and net pension liability, as measured by the most recent biennial actuarial valuation, prepared by independent actuaries as of June 30, 2012 and rolled forward to June 30, 2014.

	As of June 30, 2014
Total pension liability	$ 2,473,970,866
Less plan net position	20,532,924
Net pension liability	$ 2,453,437,942
Plan net position as percentage of total pension liability	0.83%

The ratio of the net pension liability to covered payroll was 1,808 percent. Covered payroll was $135.7 million for the fiscal year ended June 30, 2014. The plan net positon is the net position of the FPDR Fund and the Reserve Fund, reported at approximate fair value. Employer contributions to the Plan for the year ended June 30, 2014 were $114.7 million. Employer contributions to the FPDR Fund were $6.0 million higher, but the $6.0 million used for PERS contributions for FPDR Three members and compensated absence accruals also associated with FPDR Three members are excluded here, as those expenses are not part of the benefit payments shown in the Schedule of Changes in Net Pension Liability and Related Ratios.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

The net pension liability, as calculated in accordance with Governmental Accounting Standard Board Statement 67: Financial Reporting for Pension Plans, decreased by $46.5 million between June 30, 2013 and June 30, 2014. The decrease is due to plan changes, partially offset by a reduction in the discount rate. In 2013, the Oregon Legislature reduced the PERS cost-of-living adjustment rate. Per charter the FPDR Two benefit adjustment rate cannot exceed the PERS rate, so the FPDR Two adjustment rate was reduced, thereby reducing future benefit expenses. The 2013 PERS rate was a flat 1.50 percent, but as of June 30, 2013 the long-term maximum rate was expected to remain 2.00 percent, even though PERS was moving to a tiered rate. Further legislation reduced the maximum rate from 2.00 percent to 1.25 percent, and this additional reduction was incorporated into the June 30, 2014 pension liability calculation. Partly offsetting these reductions in the Plan's long-term liability was a decline in the discount rate, the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index (Bond Buyer Index), from 4.63 percent on June 30, 2013 to 4.29 percent on June 30, 2014.

Significant assumptions used to prepare the June 30, 2012 actuarial valuation and the June 30, 2014 roll-forward are listed below. These assumptions were applied to all periods included in the measurement.

Discount rate	4.29%
Long-term expected rate of return, net of investment expense	N/A
Municipal bond rate	4.29%
Valuation date	June 30, 2012
Measurement date	June 30, 2014
Inflation	2.75%
Projected salary increases, including inflation	
Police	3.75%
Fire	4.25%
Post-retirement benefit increases	
FPDR One	3.75%
FPDR Two	1.25%
Mortality	
Retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation	
Active members: Mortality rates are a percentage of healthy retiree rates: 70% for male, 50% for female	
Actuarial cost method	Entry Age Normal

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

The projected salary increases above are for members with more than seven years of service. Those with less than seven years have projected salary increases ranging up to 14 percent, as detailed in the actuarial valuation report. It is projected that 25 percent of Fire members and 60 percent of Police members retire at age 50, and that all members retire by age 65. Most assumptions used in the actuarial valuation are based on the experience study of the FPDR Plan completed as of June 30, 2008. An experience study has been completed as of June 30, 2013 and will be used for the valuation as of June 30, 2014, which will be the basis of financial reporting for the fiscal years ending June 30, 2015 and June 30, 2016.

As noted above, a 3.50 percent discount rate was used in the June 30, 2012 valuation. When the valuation was rolled forward to June 30, 2013 and June 30, 2014, the discount rate was changed to equal the June 30 value in each year of the Bond Buyer Index. The Bond Buyer Index is used to approximate a low-risk rate of return in accordance with Statement 67 requirements. The Bond Buyer Index includes 20 general obligation bonds maturing in 20 years with an average rating of approximately Moody's Investor Services Aa2 rating and Standard and Poor's AA rating, and had a rate of 4.63 percent on June 30, 2013 and 4.29 percent on June 30, 2014. These are the discount rates used in the June 30, 2013 and June 30, 2014 roll forwards. As a pay-as-you-go plan, the FPDR funds have negligible current assets, all cash or short-term investments. It was therefore determined that the discount rate should be based exclusively on a high-quality municipal bond index rather than a blended discount rate that would include the bond rate as well as the long-term expected rate of return on the funds' assets.

The following table illustrates the net pension liability's sensitivity to the discount rate assumption. If a 5.29 percent discount rate had been used instead of 4.29 percent, the net pension liability as of June 30, 2014 would have been 12 percent lower. If a 3.29 percent discount rate had been used, the net pension liability as of June 30, 2014 would have been 15 percent higher.

	1% Decrease 3.29%	Current Discount Rate 4.29%	1% Increase 5.29%
Total pension liability	$ 2,834,426,086	$ 2,473,970,866	$ 2,180,395,227
Less plan net position	20,532,924	20,532,924	20,532,924
Net pension liability	$ 2,813,893,162	$ 2,453,437,942	$ 2,159,862,303

It should be noted that the net pension liability, plan net position as a percentage of total pension liability and the ratio of the net pension liability to covered payroll are measures typically used to gauge the financial health of prefunded plans. Since the FPDR plan is a pay-as-you-go plan funded with a dedicated property tax, the critical measure of the plan's financial health is whether this property tax will ever be insufficient to fully cover plan expenditures, as discussed above in the Contributions section.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

Disability-related medical expenses after retirement - The FPDR Fund pays medical and hospital expenses associated with approved service-connected injuries or illnesses or occupational disabilities for certain retired members. All those who retired on a disability retirement are covered, as are those who retired with a service retirement after 2006. Benefits paid during the fiscal year ended June 30, 2014 totaled $637,462.

FPDR's annual disability-related medical expenses after retirement were as follows for the last five fiscal years:

Fiscal Year Ended June 30,	FPDR Disability-Related Medical Expenses After Retirement
2010	$767,366
2011	442,173
2012	456,894
2013	814,617
2014	637,462

Other assets - The FPDR Fund's largest receivable is property taxes due but not received at the close of the fiscal year. For the fiscal year ended June 30, 2014 the property tax receivable is $8.2 million.

Another significant FPDR asset is the FPDR Fund's share of the unamortized balance of an excess contribution made to PERS by the City of Portland on behalf of its covered employees. The City made a contribution in excess of the annual required contribution in the fiscal year ended June 30, 2000. In accordance with GASB Statement Number 27: Accounting for Pensions by State and Local Government Employers, this amount is recorded as a pension-related asset and amortized on a straight-line basis over 30 years. The FPDR Fund's share of this excess contribution is $270,312 for the fiscal year ended June 30, 2014.

In prior years, FPDR's financial statements included a receivable for pension overpayments resulting from a system-wide miscalculation of additional pension benefits mandated by the Oregon Revised Statutes to fully or partially offset state income taxes. The overpayments were made between February 1997 and December 2008 and totaled $2.9 million to 984 individuals. FPDR implemented a recovery plan approved by the Internal Revenue Service (IRS) in May 2011.

The plan allowed for several methods of recoupment. All overpaid beneficiaries had the option to make a lump-sum payment. FPDR One beneficiaries who did not elect lump-sum payments had an actuarial reduction applied to their benefits beginning in May 2011; that is, their benefits were adjusted down by an amount that would allow for full recovery over the remainder of their

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

expected lives. FPDR Two beneficiaries who did not elect lump-sum payments had their annual benefit adjustments held back until their individual overpayment was recovered. FPDR did not seek recovery of deceased payees' overpayments. The recovery was subsequently challenged in a class action lawsuit, *Tim Anderson, et al. v. City of Portland, by and through the Bureau of Fire and Police Disability and Retirement Fund*. The Court and the IRS approved a settlement between FPDR and the plaintiffs in October 2013. FPDR agreed to recover only 60 percent of each overpayment unless recovery was authorized by the beneficiary prior to August 29, 2012. FPDR issued refunds to beneficiaries whose recovery exceeded 60 percent in November 2013, and completed recovery for those FPDR Two beneficiaries whose recovery had not yet reached 60 percent in March 2014. The remainder of the receivable was written off in the fiscal year ending June 30, 2014. As summarized in the table below, FPDR recovered $1.6 million or 56.66 percent of the $2.8 million in FPDR Two overpayments for which recovery was sought. FPDR also agreed to pay $227,363 in plaintiffs' legal expenses.

Final recovery, state tax offset benefit overpayment

Total tax offset overpayment	$	2,890,492
Less recovery not sought due to payee death before recovery began		(71,053)
Less actuarial reduction recovery (FPDR One only)		(46,859)
Tax offset overpayment receivable	$	2,772,580
Overpayments recovered in FYE11		163,495
Overpayments recovered in FYE12, ignoring accruals		771,564
Overpayments recovered in FYE13, ignoring accruals		1,339,040
Overpayments recovered in FYE14, ignoring accruals		215,985
Total overpayment recovery	$	2,490,084
Less refunds for recoveries in excess of 60%		(898,601)
Less recoveries not sought due to payee death after recovery began		(20,494)
Total overpayment recovery, net	$	1,570,989
Overpayment recovery percent, net		56.66%

While FPDR's assets at June 30, 2014 no longer include a receivable for recovery of the system-wide overpayment discussed above, they do include $42,198 in unrelated receivables for the recovery of benefit overpayments made to seven beneficiaries. These overpayments were individual in nature and occurred because FPDR did not receive immediate notice of a beneficiary death or as the result of administrative or clerical error. Since these seven overpayments had not been recovered at fiscal year-end, receivables were booked.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

FPDR's other assets include a capital asset with a net value of $488,069 on June 30, 2014. The only capital asset FPDR owns is a software database, which is being depreciated over 15 years.

Other liabilities - The City of Portland issued Series C, D and E Bonds in 1999 to finance the estimated unfunded accrued actuarial liability (UAAL) of the City of Portland with the State of Oregon Public Employees Retirement System and to pay costs related to the financing of the UAAL, including capitalized interest and costs of issuance. Total bonds issued were $300.9 million. At June 30, 2014 interest rates on the outstanding bonds, $50.5 million of 1999 Series D variable rate bonds and $50.5 million of 1999 Series E variable rate bonds, were 0.08 percent and 0.11 percent respectively. Interest rates on the fixed rate $134.5 million of 1999 Series C bonds ranged from 7.70 to 7.93 percent on June 30, 2014. Beginning in the fiscal year ended 2002, the debt is allocated to the FPDR Fund, as well as to the general government, enterprise and internal service funds, for these funds to recognize their appropriate share of the indebtedness. The FPDR Fund's share of this indebtedness is $411,621 at June 30, 2014.

Bonds payable transactions for the year ended June 30, 2014 are as follows:

	Outstanding June 30, 2013	Bonds Allocated	Bonds Matured and Paid During Year	Outstanding June 30, 2014
Oregon Public Employees Retirement System Bonds ("PERS Pension Bonds")	$ 435,618	-	$ 23,997	$ 411,621

Future maturities of bond principal and interest at June 30, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
2015	$ 27,362	$ 23,266	$ 50,628
2016	31,034	21,638	52,672
2017	34,968	19,792	54,760
2018	39,252	17,711	56,963
2019	43,841	15,376	59,217
2020-24	187,551	146,154	333,705
2025-29	47,613	358,399	406,012
	$ 411,621	$ 602,336	$ 1,013,957

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

Commitments and contingencies - The FPDR Fund leases its office space under a noncancellable operating lease with a third party. The lease agreement expires on July 31, 2017. In the fiscal year ended June 30, 2014, rent expense was equal to $163,707. The minimum future obligations for this lease for the fiscal years ending June 30 are summarized below:

Year Ending June 30,	
2015	$184,182
2016	187,866
2017	191,623
2018	15,995
	$579,666

The FPDR Fund is involved in various claims and legal actions in the normal course of business. As of June 30, 2013, FPDR had booked two contingent liabilities related to litigation; both cases were settled in the fiscal year ended June 30, 2014 and their contingent liabilities reversed. The first was $2.1 million for *Joseph Gray, et al v. City of Portland and Fire and Police Disability and Retirement Fund* and related suits. The suits concerned whether apparatus operator pay, which was added in the Portland Fire Fighters Association contract effective July 1, 2007, should be included in determining FPDR One Fire members' benefits. The second contingent liability was $1.1 million for *Tim Anderson, et al. v. City of Portland, by and through the Bureau of Fire and Police Disability and Retirement Fund*, Multnomah County Circuit Court Case No. 1108-11052. The case disputed the authority of the FPDR Board of Trustees to hold back annual benefit adjustments for FPDR Two beneficiaries in order to recoup $2.8 million in pension overpayments made between February 1997 and December 2008.

The contract claim *John Miller, et al. v. City of Portland* includes six claimants seeking $800,000 each, for a total claim of $4.8 million, related to a pilot restricted-duty return to work program for members on long-term disability. FPDR prevailed at the Multnomah County Circuit Court and Oregon Court of Appeals; plaintiffs have appealed to the Oregon Supreme Court, Case No. S061421. Another contract claim related to the return to work program is *Thomas Hurley v. City of Portland*, which seeks $2.0 million. This case is currently with the Multnomah County Circuit Court, Case No. 0905-07088.

Challenges to the 2013 legislative changes to the Public Employees Retirement System (PERS) have been made in *Moro, et al. v. State of Oregon et al.*, Supreme Court for the State of Oregon, Case No. S061421 (Control). The legislative changes involving reductions to the annual PERS cost-of-living adjustment and the elimination of state tax offset benefits for out-of-state retirees also affect FPDR benefits.

NOTE 3 - SHORT-TERM DEBT

During the year the FPDR Fund borrowed $26.7 million in tax anticipation notes. These notes were borrowed to cover fund expenditures from the beginning of the fiscal year until property taxes were collected. There was no outstanding balance as of June 30, 2014.

	Beginning Balance	Additions	Reductions	Ending Balance
Tax anticipation notes	$ -	$ 26,685,000	$ (26,685,000)	$ -
	$ -	$ 26,685,000	$ (26,685,000)	$ -

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS

Other postemployment benefits (OPEB) for the FPDR Fund consist of two components: an implicit rate subsidy for its retired staff's Health Insurance Continuation premiums and a contribution to the State of Oregon's Public Employees Retirement System (PERS) cost-sharing, multiple-employer defined benefit plan. All OPEB costs are associated with retired staff. Retired members do not receive FPDR-paid medical benefits after retirement, other than those associated with an approved preretirement disability claim (see Note 2, Plan Features and Other Information). Since numbers are not available for the FPDR Fund as a separate entity for each plan, unless specifically identified, the numbers below are those of the City as a whole.

Health Insurance Continuation

Plan description - As part of the City of Portland, the FPDR Fund has a Health Insurance Continuation option available for most groups of retirees. It is a substantive postemployment benefits plan offered under Oregon Revised Statutes (ORS) 243. ORS 243.303 requires the City provide retirees with an opportunity to participate in group health and dental insurance from the date of retirement to age 65, and the rate to be calculated using claims experience from retirees and active employees for health plan rating purposes. Providing the same rate to retirees as provided to current employees constitutes an implicit rate subsidy for OPEB. This single-employer "plan" is not a stand-alone plan and therefore does not issue its own financial statements.

Funding policy - In order to fund the Health Insurance Continuation option, the City collects insurance premiums from participating retirees each month. The premiums are either deposited in the City's self-insurance fund or paid directly to a third-party health insurance provider, depending upon the plan. At the date of the latest actuarial report, 866 retirees and 296 spouses were participating in the plan.

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

In the July 1, 2013 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.5 percent investment rate of return and an annual healthcare cost trend rate of 2.0 to 8.5 percent for health insurance, -10.0 to 5.0 percent for dental insurance and 3.0 percent for vision. The UAAL is amortized over an open period of 30 years using the level percentage of projected pay.

The City's liability is $104.0 million; FPDR's share of the liability is $104,000, or 0.1 percent. The City has elected not to pre-fund the fiscal year 2014 employer's annual required contribution to the plan.

Please see the City of Portland's Comprehensive Annual Financial Report for the year ended June 30, 2014 for additional information regarding this plan.

PERS Retirement Health Insurance Account

Plan description - The City contributes to the PERS Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing, multiple-employer defined benefit other postemployment benefit plan administered by PERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. ORS 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA resides with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700, telephone (503) 598-7377, or http://Oregon.gov/PERS/section/financial_reports/financials.shtml.

Funding policy - Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to $60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the RHIA established by the employer, and any monthly cost in excess of $60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is also eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating cities are contractually required to contribute to RHIA at a rate assessed each year by PERS, currently 0.59 percent of annual covered payroll for PERS Tier 1 and 2 employees and 0.49

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

percent for OPSRP employees. The Oregon PERS Board of Trustees sets the employer contribution rate. It is based on the annual required contribution of the combined participant employers. This is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a closed period not to exceed 30 years. The City's contributions to RHIA were $1,651,401 for the year ended June 30, 2014, $1,651,130 for the year ended June 30, 2013, and $1,637,795 for the year ended June 30, 2012, which equaled the required contributions each year. The amount of FPDR's PERS and OPSRP contributions associated with the City's RHIA obligations for the year ended June 30, 2014 is approximately $166,000 for FPDR Three members and $6,000 for staff.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

State of Oregon Public Employees Retirement System

Plan description - All civilian City employees, all sworn fire and police personnel hired after December 31, 2006 and four 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.

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. PERS is a defined benefit pension program. 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).

The 1995 Legislature created a second tier of benefits for those who became PERS Program members after 1995 but before August 29, 2003. The second tier does not have the Tier One assumed earnings rate guarantee.

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; however, member contributions after January 1, 2004 are deposited in the member's IAP, not into the member's PERS account.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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 with 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 service (age 55 for fire and police personnel with less than 25 years 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. Similar to Tier One, Tier Two general service employee 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 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 under either money match or full formula methods, whichever produces 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 full formula. Tier One and Two fire and police personnel may purchase increased benefits payable between the date of retirement and age 65. This benefit is not available in OPSRP. 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 are now enrolled in the state retirement system instead of the FPDR Plan for retirement purposes. After six months of sworn employment, they are members of the FPDR Plan for disability benefits.

Funding policy - The rate of employer contributions to PERS is determined periodically by PERS based on biannual actuarial valuations. Beginning in the fiscal year ended June 30, 2000, PERS began passing additional costs on to employers. The additional costs arose when the Oregon State Legislature increased retiree benefits to fully or partially offset income taxes on state PERS benefits (which became taxable following a 1991 court decision), as well as the interpretation of PERS statutes by the PERS Board that further increased benefits.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

The impact on the City to recover the higher PERS costs would have raised its employer contribution rate from 10.48 to 17.4 percent of covered members' compensation. The City elected to finance its December 31, 1997 UAAL of $257.9 million to receive a lower employer contribution rate of 8.56 percent of covered employees' salaries. Proceeds of the 1999 Series C, D & 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 of $60.8 million at December 31, 1999. It is the City's policy to recognize pension expenditures or expenses as currently funded.

In addition to paying PERS the City's estimated UAAL, proceeds of the bond were also used to pay costs related to financing of the UAAL, including capitalized interest and costs of issuance. Full faith and credit of the City secures the bonds. Total bonds issued for fiscal year ended June 30, 2000 equaled $300.8 million. The City is not authorized to levy additional taxes to pay these obligations. Bond payments are financed by various city-wide bureaus based upon those bureaus' contributions to PERS for participating employees. The debt is recorded on the government-wide statements and is allocated to both governmental and business-type activities. Ultimately this debt is viewed as being an obligation of the general government.

Risk pooling and revised PERS contribution rates - Effective January 1, 2000, the City elected to participate in the Local Government Rate Pool (LGRP). The LGRP was created by legislative act of the State of Oregon and provided local governments the option to pool their PERS-related assets and liabilities with others that elected to participate in the pool, whereby contribution rates are determined based on the overall experience of the pool versus the potentially more volatile experience of individual employers. The LGRP was expanded and replaced by the State and Local Government Rate Pool (the SLGRP). The City made the election to join the SLGRP as of January 1, 2002.

The most recent actuarial valuation used to set employer contribution rates was prepared for the period ending December 31, 2013 and was issued September 2014. Based on that valuation, the City's contribution rates will increase for the fiscal years ending June 30, 2016 and 2017. The rates for fiscal years ended June 30, 2012 through 2014 are listed below.

Annual pension cost - PERS sets the rate for the SLGRP based on the independent actuarial study that is performed every other year. The actuarial study is done based 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 most recent actuarial valuation include: (a) rate of return on the investment of present and future assets of 7.75 percent per annum compounded annually, (b) projected salary increases (inflation plus real wage growth) at 3.75 percent per year compounded annually, (c) increases due to promotions and longevity that vary by age and service, (d) pre- and post-retirement life expectancies of employees, based upon several mortality tables, (e) rates of withdrawal from active service before retirement for reasons other than death,

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

rates of disabilities, and expected retirement ages developed on the basis of actual plan experience, (f) consumer price inflation at 2.75 percent per year, and (g) a factor for unused sick leave that is used to calculate retirement benefits under the full formula and formula plus annuity benefit calculations.

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

	General Service					
	2012		2013		2014	
	PERS	OPSRP	PERS	OPSRP	PERS	OPSRP
Defined Benefit Plan	9.30%	7.69%	9.30%	7.69%	9.34%	7.52%
Employee IAP*	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Total contribution rate	15.30%	13.69%	15.30%	13.69%	15.34%	13.52%

	Firefighters & Police Officers					
	2012		2013		2014	
	PERS	OPSRP	PERS	OPSRP	PERS	OPSRP
Defined Benefit Plan	9.30%	10.40%	9.30%	10.40%	9.34%	10.25%
Employee IAP*	6%/ 9%**	9.00%	6%/ 9%**	9.00%	6%/ 9%**	9.00%
Total contribution rate	15.30% - 18.30%	19.40%	15.30% - 18.30%	19.40%	15.34% - 18.34%	19.25%

* The City has chosen to pay the employee contribution to the IAP as an additional benefit.
** The City pays 6% for firefighters and police officers in this tier who were hired before 1/1/07. 9% is paid for those who were hired since then.

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

FPDR's share of the unamortized balance of the funds deposited with PERS at June 30 was:

2012	2013	2014
$305,378	$287,845	$270,312

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

The amounts contributed to PERS during the years ended June 30, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the FPDR Fund were as follows:

	2012	2013	2014
Cash contribution during year:			
Employees of the fund	$ 174,885	$ 166,097	$ 180,784
On behalf of sworn members	4,735,637	5,265,815	5,998,321
Amortization of deposit with PERS	17,533	17,533	17,533
Total	$ 4,928,055	$ 5,449,445	$ 6,196,638

NOTE 6 - SUBSEQUENT EVENTS

In August 2014, tax anticipation notes were issued for $25.8 million with a true interest cost of 0.11 percent. The notes are due for repayment on June 24, 2015.

Also in August 2014, the Internal Revenue Service issued a new favorable determination letter for the plan, reaffirming the plan’s tax-qualified status.

In October 2014, the Oregon Supreme Court ruled on *John Miller, et al. v. City of Portland*, Case No. S061421. The judgment of the Multnomah County Circuit Court was reversed, and the case remanded to the Circuit Court for further proceedings.

FIREFIGHTER

CITY OF POR

ORE.

CITY OF PORTLAND, OREGON

1851

PORTLAND POLICE

OFFICER

REQUIRED SUPPLEMENTARY INFORMATION

FIREFIGHTER

CITY OF POR

ORE.

CITY OF PORTLAND, OREGON

1851

PORTLAND POLICE

OFFICER

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
JUNE 30, 2014

	Fiscal Year Ending June 30, 2014	2013
Total pension liability		
Service cost	$ 63,660,926	N/A
Interest	117,017,081	N/A
Effect of plan changes	(222,274,639)	N/A
Effect of economic/demographic gains (losses)	-	N/A
Changes of assumptions	106,474,383	N/A
Benefit payments	(108,003,419)	N/A
Net change in total pension liability	(43,125,668)	N/A
Total pension liability, beginning	2,517,096,534	N/A
Total pension liability, ending (a)	$ 2,473,970,866	$ 2,517,096,534
Plan fiduciary net position		
Contributions - employer	$ 114,654,336	N/A
Net investment income	312,468	N/A
Benefit payments	(108,003,419)	N/A
Administrative expense	(3,585,476)	N/A
Net change in plan net position	3,377,909	N/A
Plan net position, beginning	17,155,015	N/A
Plan net position, ending (b)	20,532,924	17,155,015
Net pension liability, ending (a) - (b)	$ 2,453,437,942	$ 2,499,941,519
Plan fiduciary net position as a percentage of total pension liability	0.83%	0.68%
Covered-employee payroll	$ 135,726,350	$ 135,372,631
Net pension liability as a percentage of covered-employee payroll	1807.64%	1846.71%

Notes to Schedule

1. Contributions and benefit payments shown here are $6,021,166 less than the comparable numbers in the Statement of Changes in Plan Net Position. The difference is due to contributions made to the Oregon Public Employees Retirement System for FPDR Three members, as well as some compensated absence accruals also related to FPDR Three members.
2. The net pension liability decreased by $46.5 million or 1.9 percent as a result of plan changes and higher plan net position of $3.4 million. The $222.3 million reduction in liability due to plan changes was the result of Senate Bill 861 which reduced the FPDR Two benefit adjustment from a maximum of 2.00 percent to 1.25 percent.

SCHEDULE OF FUNDING PROGRESS– CITY EMPLOYEES HEALTHCARE PLAN
JUNE 30, 2014

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL) - entry age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll[1]	UAAL as a percentage of covered payroll
July 1, 2009 [2]	-	$ 113,446,149	$ 113,446,149	0%	N/A	N/A
July 1, 2011	-	104,946,292	104,946,292	0%	$ 326,480,413	32.14%
July 1, 2013	-	103,990,506	103,990,506	0%	343,450,043	30.28%

Notes to Schedule

1. Covered payroll figures were not calculated for the July 1, 2009 valuation.
2. July 1, 2009 results have been restated to reflect the impact of the high cost coverage excise tax under the Affordable Care Act.

SUPPLEMENTARY INFORMATION

FIREFIGHTER

PORTLAND POLICE

OFFICER

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes:				
Current year property taxes	$ 116,418,232	$ 116,418,232	$ 117,127,200	$ 708,968
Prior year property taxes	2,200,000	2,200,000	2,251,697	51,697
Total taxes	118,618,232	118,618,232	119,378,897	760,665
Revenues other than taxes:				
Other service charges	-	-	34	34
Billings to other funds for services	542,200	542,200	542,200	-
Pension overpayment recovery	200,000	200,000	215,985	15,985
Investment earnings	180,000	180,000	252,575	72,575
Miscellaneous	50,000	50,000	111,046	61,046
Total revenues	119,590,432	119,590,432	120,500,737	910,305
Expenditures				
Current:				
Personnel services	1,848,432	1,848,432	1,757,833	90,599
Materials and services	120,048,753	119,456,382	118,909,214	547,168
General operating contingencies	11,727,000	12,254,417	-	12,254,417
Overhead charges - General Fund	102,158	102,158	102,158	-
Debt service and related costs:				
Principal	28,029,997	28,029,997	26,708,997	1,321,000
Interest	288,889	288,889	300,180	(11,291)
Debt issuance costs	21,000	21,000	23,099	(2,099)
Capital outlay	30,000	95,000	69,040	25,960
Total expenditures	162,096,229	162,096,275	147,870,521	14,225,754
Revenues over (under) expenditures	(42,505,797)	(42,505,843)	(27,369,784)	15,136,059
Other Financing Sources (Uses)				
Transfers from other funds	759,000	759,046	9,046	(750,000)
Transfers to other funds	(7,541)	(7,541)	(7,541)	-
Bonds and notes issued	28,000,000	28,000,000	26,685,000	(1,315,000)
Bonds and notes premium	-	-	245,235	245,235
Total other financing sources (uses)	28,751,459	28,751,505	26,931,740	(1,819,765)
Net change in fund balance	(13,754,338)	(13,754,338)	(438,044)	13,316,294
Fund balance - beginning	13,754,338	13,754,338	14,199,476	445,138
Fund balance - ending	$ -	$ -	13,761,432	$ 13,761,432

continued on next page

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Adjustment to generally accepted accounting principles (GAAP) basis:				
Unrealized gain (loss) on investments			$ 41,576	
Deferred revenue			6,629,251	
Capital assets			488,069	
Prepaid expense			270,312	
Compensated absences			(810,727)	
Bonds payable			(411,621)	
Interest payable			(146,940)	
Other post employment benefits			(38,428)	
Fund balance - GAAP basis			$ 19,782,924	

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT RESERVE FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Expenditures				
Current:				
General operating contingencies	$ -	$ -	$ -	$ -
Total expenditures	-	-	-	-
Revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers from other funds	-	-	-	
Transfers to other funds	(750,000)	(750,000)	-	750,000
Total other financing sources (uses)	(750,000)	(750,000)	-	750,000
Net change in fund balances	(750,000)	(750,000)	-	750,000
Fund balance - beginning	750,000	750,000	750,000	-
Fund balance - ending	$ -	$ -	$ 750,000	$ 750,000
Adjustments to generally accepted accounting principles (GAAP) basis:			-	
Fund balance - GAAP basis			$ 750,000	

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT FUND
SCHEDULE OF OPERATING AND ADMINISTRATIVE EXPENSES - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Personnel services	$ 1,757,833
Materials and services	
Actuarial	52,571
Audit	26,864
Claims investigation	162,479
Computer consulting	25,000
Legal	826,228
Other professional services	151,504
Other external services	8,238
Office supplies, minor equipment and tools	11,600
Education	6,749
Subscriptions, publications and dues	4,717
Travel	3,617
Space rental	163,707
Fleet	246
Enterprise Business System	28,757
Printing and distribution	39,754
Facilities	2,237
Technology	91,962
Risk management	27,165
Other fund services	359,824
Total materials and services	1,993,219
Overhead charges - General Fund	102,158
Debt service and related costs	
Principal	26,708,997
Interest	300,180
Debt issuance costs	23,099
Total debt service and related costs	27,032,276
Total administrative expenses (Budget)	$ 30,885,486
Plus/(minus)	
Debt principal	$ (26,708,997)
Bond premium	(245,235)
Depreciation	53,670
Capitalized labor	(163,617)
Transfers to (from) other funds	-
Accrued interest	16,106
Bad debt expense	(50,556)
Contingent legal expenses	(242,459)
Change in compensated absences	22,390
Change in other post-employment benefits	1,155
Amortization of prepaid PERS	17,533
Operating and administrative expenses (GAAP)	$ 3,585,476

SCHEDULE OF PENSION, DISABILITY AND DEATH BENEFIT EXPENDITURES BY BUREAU
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Members		Other Beneficiaries		Total	
	Number	Amount	Number	Amount	Number	Amount
Portland Fire & Rescue:						
Nonservice benefits	4	$ 18,969	-	$ -	4	$ 18,969
Service benefits	127	1,471,713	-	-	127	1,471,713
Occupational benefits	14	90,843	1	49,956	15	140,799
Early return to work benefits	29	176,360	-	-	29	176,360
Claims Settlement	-	-	-	-	-	-
Pensions (FPDR 1 and 2)	709	41,807,331	309	6,157,938	1,018	47,965,269
PERS contributions (FPDR Three)	172	2,693,705	-	-	172	2,693,705
Medical benefits	246	1,150,135	-	-	246	1,150,135
Vocational rehabilitation benefits	-	-	-	-	-	-
Funeral benefits	24	27,109	-	-	24	27,109
	1,325	$ 47,436,165	310	$ 6,207,894	1,635	$ 53,644,059
Portland Police Bureau:						
Nonservice benefits	6	$ 143,434	-	$ -	6	$ 143,434
Service benefits	130	2,035,419	3	156,635	133	2,192,054
Occupational benefits	9	23,785	1	64,999	10	88,784
Early return to work benefits	26	148,856	-	-	26	148,856
Claims Settlement	-	0	-	-	-	-
Pensions (FPDR 1 and 2)	829	49,885,972	259	5,627,821	1,088	55,541,427
PERS contributions (FPDR Three)	222	3,304,616	-	-	222	3,304,616
Medical benefits	282	1,831,754	-	-	282	1,831,754
Vocational rehabilitation benefits	1	720	-	-	1	720
Funeral benefits	24	20,290	-	-	24	20,290
	1,529	$ 57,394,846	263	$ 5,849,455	1,792	$ 63,271,935
Combined Fire and Police:						
Nonservice benefits	10	$ 162,403	-	$ -	10	$ 162,403
Service benefits	257	3,507,132	3	156,635	260	3,663,767
Occupational benefits	23	114,628	2	114,955	25	229,583
Early return to work benefits	55	325,216	-	-	55	325,216
Claims Settlement	-	-	-	-	-	-
Pensions (FPDR 1 and 2)	1,538	91,693,303	568	11,785,759	2,106	103,506,696
PERS contributions (FPDR Three)	394	5,998,321	-	-	394	5,998,321
Medical benefits	528	2,981,889	-	-	528	2,981,889
Vocational rehabilitation benefits	1	720	-	-	1	720
Funeral benefits	48	47,399	-	-	48	47,399
	2,854	$ 104,831,011	573	$ 12,057,349	3,427	$ 116,915,994

Notes to Schedule

1. The benefits amount in the Statement of Changes in Plan Net Position schedule is $114,024,585. The difference between that amount and this schedule is the reversal of two contingent pension liabilities and the PERS portion of the compensated absence liability associated with Police and Fire FPDR Three members.

2. Counts presented here represent the number of members or beneficiaries for whom a given expense was incurred during the year. Individuals may be included in multiple lines.

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT FUNDS
SCHEDULE OF NUMBER OF PENSIONERS AND BENEFICIARIES BY BUREAU
JUNE 30, 2014

	Portland Fire & Rescue			Portland Police Bureau			Total		
	Members	Other Beneficiaries	Total	Members	Other Beneficiaries	Total	Members	Other Beneficiaries	Total
Pensions	607	177	784	803	196	999	1,410	373	1,783
PERS Contributions	172	-	172	216	-	216	388	-	388
Disability	27	-	27	44	3	47	71	3	74
	806	177	983	1,063	199	1,262	1,869	376	2,245

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT FUNDS
COMPARATIVE SCHEDULE OF NUMBER OF PENSIONERS AND BENEFICIARIES BY BUREAU

	June 30,										Increase (decrease) Ten years ended June 30,
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2014
Portland Fire & Rescue:											
Pension:											
FPDR 1&2 members	607	614	608	584	590	604	573	563	536	520	87
FPDR 3 members[1]	172	172	173	163	128	101	55	-	-	-	172
Other beneficiaries	177	189	187	193	183	181	195	200	193	190	(13)
Total	956	975	968	940	901	886	823	763	729	710	246
Disability:											
Members	27	23	23	33	34	37	52	62	64	66	(39)
Other beneficiaries	-	1	1	2	4	4	4	8	4	5	(5)
Total	27	24	24	35	38	41	56	70	68	71	(44)
Total Fire	983	999	992	975	939	927	879	833	797	781	202
Portland Police Bureau:											
Pension:											
FPDR 1&2 members	803	807	798	767	774	773	767	731	682	661	142
FPDR 3 members[1]	216	214	189	174	151	119	60	-	-	-	216
Other beneficiaries	196	198	195	194	194	186	191	190	187	183	13
Total	1,215	1,219	1,182	1,135	1,119	1,078	1,018	921	869	844	371
Disability:											
Members	44	42	43	59	76	78	78	106	103	114	(70)
Other beneficiaries	3	4	4	4	6	5	8	4	4	5	(2)
Total	47	46	47	63	82	83	86	110	107	119	(72)
Total Police	1,262	1,265	1,229	1,198	1,201	1,161	1,104	1,031	976	963	299
Summary of disability:											
Fire	27	24	24	35	38	41	56	70	68	71	(44)
Police	47	46	47	63	82	83	86	110	107	119	(72)
Total	74	70	71	98	120	124	142	180	175	190	(116)
Summary of pension and disability:											
Fire	983	999	992	975	939	927	879	833	797	781	202
Police	1,262	1,265	1,229	1,198	1,201	1,161	1,104	1,031	976	963	299
Total	2,245	2,264	2,221	2,173	2,140	2,088	1,983	1,864	1,773	1,744	501

Notes to Schedule

1. FPDR Three members are enrolled in the Public Employees Retirement System. FPDR makes contributions to PERS on their behalf.

SCHEDULE OF IMPOSED TAX LEVIES COMPARED WITH MAXIMUM LEVIES AUTHORIZED

Year ended June 30,	Imposed levy rate per $1,000 value	Imposed levy	Maximum levy authorized ($2.80/$1,000)	Imposed levy under authorized levy
2005	$ 1.42	$ 83,376,300	$ 164,657,773	$ 81,281,473
2006	1.29	83,963,419	182,865,705	98,902,286
2007	1.15	84,180,663	204,130,325	119,949,662
2008	1.10	92,819,416	236,014,742	143,195,326
2009	1.19	107,869,880	253,003,644	145,133,764
2010	1.25	111,376,678	249,261,909	137,885,231
2011	1.32	114,217,070	241,849,105	127,632,035
2012	1.34	108,666,428	227,257,618	118,591,190
2013	1.45	115,752,880	223,709,460	107,956,580
2014	1.47	123,304,615	235,325,707	112,021,092

Notes to Schedule
The imposed levy differs from property taxes raised due to discounts and delinquencies. The real market value used to calculate the other columns includes value dedicated to tax increment financing. Hence, the maximum levy authorized and the amount by which the imposed levy is under the authorized levy are overstated, and the imposed levy rate is understated. The over- and understatements have been estimated at ten percent.

AUDITOR'S REPORT UNDER GOVERNMENT AUDITING STANDARDS

FIREFIGHTER
CITY OF POR
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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

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 Board of Trustees
City of Portland, Oregon Fire and Police
Disability and Retirement Fund and Reserve Fund
Portland, Oregon
(A component Unit of the City of Portland)

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 Fire and Police Disability and Retirement Fund and the City of Portland, Oregon, Fire and Police Disability and Retirement Reserve Fund (the "Fund's"), component units of the City of Portland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated November 21, 2014.

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.

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*.

MOSS ADAMS LLP

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.

Moss Adams, LLP

Eugene, Oregon
November 21, 2014