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, 2015

Bureau of Fire & Police Disability & Retirement

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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, 2015

Administration Offices

Harrison Square Building
1800 SW 1st Avenue, Suite 450
Portland, Oregon 97201

FINANCIAL SECTION

FIREFIGHTER
CITY OF POR
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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, 2015, 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, 2015, 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

As discussed in Note 5, during the year the Funds implemented GASB Statement 68: Accounting and Financial Reporting for Pensions. This Statement significantly changed the financial accounting and reporting, and related footnote and Required Supplementary Information (RSI) disclosures for the Funds. Our opinion is not modified with respect to this matter.

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, the Schedule of changes in net pension liability and related ratios on page 41, the City share of Oregon Public Employees Retirement System on pages 42 through 43 and the Schedule of funding progress for city employees healthcare plan on page 44 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 45 through 52 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 45 through 48 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 45 through 48 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The supplementary data on pages 49 through 52 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 5, 2015 on our consideration of the Funds' 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 Funds' internal control over financial reporting and compliance.

James C. Lazzarotto

Eugene, Oregon
November 5, 2015

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, 2015. 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, 2014; rolling that valuation forward to June 30, 2015 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 $2.9 billion.
- 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, 2015 was $1.37 per $1,000 of real market value within the City of Portland, a decrease from $1.47 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 $21.9 million at June 30, 2015. This is an increase of $2.2 million from the restated June 30, 2014 net position of $19.7 million and reflects the City's implementation of Governmental Accounting Standards Board Statement No. 68 (Statement 68): Accounting and Financial Reporting for Pensions. Statement 68 requires FPDR to recognize its share of the City's Oregon Public Employees Retirement System (PERS) pension liability or asset. FPDR's share of the City PERS liability decreased net position on June 30, 2014, while FPDR's share of the City PERS asset increased net position on June 30, 2015. The plan's net pension liability, the total pension liability less the plan net position, is $2.9 billion on June 30, 2015.
- Benefit payments to retirees and disabled members as well as their beneficiaries increased by 3.4 percent, or $3.9 million, from the fiscal year ended June 30, 2014 to the fiscal year ended June 30, 2015. FPDR created a contingent liability of $1.3 million for a legal action, and issued $1.3 million in retroactive pension benefit adjustments. The adjustments resulted from the FPDR Board's decision to retroactively increase the July 1, 2013 and July 1, 2014 cost-of-living adjustments (COLA) for FPDR Two members, following the Oregon Supreme Court's *Moro* decision on similar adjustments for PERS members.

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.

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 fund 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 ended June 30, 2015 grew by 10.2 percent, the most robust growth since the fiscal year ended June 30, 2008. FPDR's property tax collections exceeded budget by $2.5 million for the fiscal year ended 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 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.

The FPDR Plan's net pension liability is $2.9 billion for the fiscal year ended June 30, 2015, an increase of $421.6 million from June 30, 2014. The plan's higher liability is primarily due to the combination of a lower discount rate (the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index each year) and a change in plan assumptions. Although the FPDR Board has not determined how future COLAs will be calculated for FPDR Two members following the *Moro* decision, the Board adopted the actuarial assumption that future COLAs will be a blend of 2.0 percent and 1.25 percent. The prior assumption was 1.25 percent.

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 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, 2014. At baseline assumptions, property tax revenues are expected to be sufficient to cover future benefit payments and fund expenses. Under

Financial Statements and Analysis, continued

a wide range of simulated economic scenarios in the foreseeable future, the analysis projects that there is an approximately four percent probability of the FPDR Fund levy exceeding the maximum $2.80 per $1,000 of real market value in any year through 2034. At the median (50th percentile) probability, the analysis predicts the FPDR tax rate will peak at $1.43 per $1,000 of real market value in 2030 and 2031. The current analysis encompasses all facts, decisions and conditions pertaining to the FPDR plan known at the time the analysis was completed on June 30, 2014.

However, the Oregon Supreme Court subsequently issued its *Moro* decision, invalidating reductions to the PERS COLAs as they apply to service rendered before the effective dates of the enabling legislation. By Charter, FPDR Two benefit adjustments cannot exceed the maximum PERS COLA rate. When the PERS Board retroactively increased the 2013 and 2014 COLAs to two percent in response to the *Moro* decision, the FPDR Board did the same for FPDR Two COLAs. Although no decision about future FPDR Two COLAs has been made, it is likely those adjustments will exceed the 1.25 percent assumption reflected in the June 30, 2014 tax levy adequacy analysis. Management expects that future FPDR benefit payments and PERS contributions will be closer to the amounts shown in the 2012 levy adequacy analysis than in the more recent analysis, although real market value growth since the 2012 analysis will moderate the projected levy rate increase. The 2012 levy adequacy analysis projected a five to ten percent probability of the levy exceeding the maximum rate, and a peak tax rate of $1.83 per $1,000 of real market value at the median probability. The next levy adequacy analysis is anticipated in early 2017 and will extend through 2036.

The Reserve Fund provides a reserve in case the FPDR Fund cannot meet its current obligations. At June 30, 2015, the Reserve Fund had a $750,000 net position 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 deferred outflows, and liabilities and deferred inflows, 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, 2015 and 2014:

	2015	Restated 2014	Increase (Decrease)
Cash and investments held by City Treasurer	$26,199,648	$21,751,684	$4,447,964
Receivables	7,581,654	8,356,499	(774,845)
FPDR share of City PERS pension asset	282,521	-	282,521
Capital assets	510,442	488,069	22,373
Total Assets	34,574,265	30,596,252	3,978,013
Deferred outflows of resources (City PERS pension)	94,288	89,364	4,924
Total deferred outflows	94,288	89,364	4,924
Accounts payable	9,407,566	8,925,924	481,642
FPDR share of City PERS pension liability	-	636,052	(636,052)
Other liabilities	2,819,290	1,407,716	1,411,574
Total Liabilities	12,226,856	10,969,692	1,257,164
Deferred inflows of resources (City PERS pension)	564,755	-	564,755
Total deferred inflows	564,755	-	564,755
Net Position	$21,876,942	$19,715,924	$2,161,018

The funds’ net position increased from $19.7 million at June 30, 2014 to $21.9 million at June 30, 2015, a $2.2 million or 11.0 percent increase. With the City’s implementation of Statement 68 as of June 30, 2015, the presentation now includes FPDR’s share of the City PERS (liability) asset and related deferred inflows and outflows. This resulted in a $0.6 million liability on June 30, 2014, reflected in the restatement of the fiscal year ended June 30, 2014, and a $0.3 million asset on June 30, 2015. Cash and investments increased by $4.4 million or 20.4 percent, largely as a result of property tax receipts that were $2.5 million over budget. Other liabilities doubled with the creation of a contingent liability related to litigation on a pilot restricted-duty return to work program.

Financial Statements and Analysis, continued

The following schedule displays a comparison of changes in plan net position during the fiscal years ended June 30, 2015 and 2014:

	2015	Restated 2014	Increase (Decrease)
Employer contributions: property taxes	$122,063,640	$120,013,176	$2,050,464
Employer contributions: other	836,964	662,326	174,638
Net investment income	294,799	312,468	(17,669)
Total Additions	123,195,403	120,987,970	2,207,433
Benefit payments	117,948,460	114,024,585	3,923,875
Operating and administrative expenses	3,085,925	3,585,476	(499,551)
Total Deductions	121,034,385	117,610,061	3,424,324
Net Increase / (Decrease)	2,161,018	3,377,909	(1,216,891)
Beginning Net Position	19,715,924	17,155,015	2,560,909
Ending Net Position, previously reported	$21,876,942	$20,532,924	$1,344,018
Restatement	-	(817,000)	817,000
Ending Net Position	$21,876,942	$19,715,924	$2,161,018

Additions to the plan net position include property tax revenues, investment income and other income. Other income consists 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 $122.1 million in the fiscal year ended June 30, 2015, a $2.1 million increase from the prior year. Budgeted taxes were only slightly higher than the actual receipts in the prior year, but lower than expected tax compression resulted in higher than expected collections. The imposed tax rate fell from $1.47 per $1,000 of real market value for the fiscal year ended June 30, 2014 to $1.37 for the fiscal year ended June 30, 2015. 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.

The FPDR Fund recognized net investment income of $294,799 for the fiscal year ended June 30, 2015 as compared with $312,468 in the prior year. Increases in the fund's cash balance and interest rates were offset by a swing from unrealized gains on investments of $59,893 in the prior year to unrealized losses of $3,652 in the fiscal year ended June 30, 2015. The $174,638 increase in other revenue is from pension and disability-related charges to third parties for police services; full cost

Financial Statements and Analysis, continued

recovery of police pension and disability expenses from third parties has now been fully phased in.

Deductions 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, 2015 benefits amounted to $117.9 million, an increase of $3.9 million or 3.4 percent. The increase is largely due to a $4.2 million swing in litigation-related contingent liabilities, with a $2.9 million reversal in the prior year and a $1.3 million addition in the fiscal year ended June 30, 2015. Direct pension benefits declined by $0.2 million; the prior year's number included $3.1 million in one-time payments associated with the settlement of two legal actions. Disability benefits declined by $1.2 million, despite higher than usual claim volume, while FPDR Three PERS contributions increased by $1.0 million. Operating and administrative expenses decreased by $0.5 million or 13.9 percent, to $3.1 million for the fiscal year. The largest change in this category was a decrease in legal fees as the prior year expense included $0.8 million associated with the aforementioned legal actions.

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 $510,442 on June 30, 2015.

The funds had no long-term debt activity in the fiscal year ended June 30, 2015, 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.

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

	June 30, 2015		
	FPDR Fund	Reserve Fund	Total
Assets			
Cash and investments held by City Treasurer	$ 25,449,648	$ 750,000	$ 26,199,648
Property taxes (contributions) receivable	7,398,731	-	7,398,731
Interest receivable	134,210	-	134,210
Accounts receivable, net	17,486	-	17,486
Overpayment recoveries receivable	31,227	-	31,227
FPDR share of City PERS pension asset	282,521	-	282,521
Capital assets, net	510,442	-	510,442
Total assets	33,824,265	750,000	34,574,265
Deferred outflows of resources			
Contributions to City PERS in current fiscal year	94,288	-	94,288
Total deferred outflows	94,288	-	94,288
Liabilities			
Benefits payable	9,407,566	-	9,407,566
Compensated absences	905,762	-	905,762
Bonds payable	384,259	-	384,259
Accrued interest payable	164,348	-	164,348
Contingent pension liability	1,325,000	-	1,325,000
FPDR share of City other post-employment benefits	39,921	-	39,921
Total liabilities	12,226,856	-	12,226,856
Deferred inflows of resources			
FPDR share of City PERS pension plan deferrals	564,755	-	564,755
Total deferred outflows	564,755	-	564,755
Net Position			
Restricted for pensions	21,126,942	750,000	21,876,942
Total net position	$ 21,126,942	$ 750,000	$ 21,876,942

See accompanying notes to financial statements.

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

	YEAR ENDED JUNE 30, 2015		
	FPDR Fund	Reserve Fund	Total
Additions			
Property taxes	$ 122,063,640	$ -	$122,063,640
Other	836,964	-	836,964
Total employer contributions	122,900,604	-	122,900,604
Net investment income	294,799	-	294,799
Total additions	123,195,403	-	123,195,403
Deductions			
Disability, retirement and medical benefits	117,948,460	-	117,948,460
Operating and administrative expenses	3,085,925	-	3,085,925
Total deductions	121,034,385	-	121,034,385
Change in net assets	2,161,018	-	2,161,018
Net position - beginning, previously reported	19,782,924	750,000	20,532,924
Restatement*	(817,000)	-	(817,000)
Net position - beginning, restated	18,965,924	750,000	19,715,924
Net position - ending	$ 21,126,942	$ 750,000	$ 21,876,942

*Please see Note 1, page 14 of this document for additional information.

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 the Bureau of Fire, Rescue and Emergency Services (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 provisions 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, 2015.

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. 67 (Statement 67): Financial Reporting for Pension Plans, along with other applicable Governmental Accounting Standards Board (GASB) standards. The City implemented Statement No. 68 (Statement 68): Accounting and Financial Reporting for Pensions for the fiscal year ended June 30, 2015. Statement 68 establishes the framework state and local governments must use to report pension liabilities and assets and related deferred inflows and outflows of resources.

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, 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 Monitoring Processes during the year. Bureaus are allowed to amend the budget via ordinance outside the Adopted Budget and Budget Monitoring Processes 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, 2015, minor amendments were made to the FPDR Adopted Budget as part of the routine Budget Monitoring Processes. Bureau program expenditures were increased by $222,753 as the Fire and Police Bureaus increased their expected return-to-work subsidies and Oregon 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, all of which are maintained in a cash and investment pool with other funds of the City. City Charter states that FPDR funds shall be in the care and custody of the City Treasurer; 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 for the FPDR funds' share of these pooled investments. Information about the pooled investments, as well as disclosures of the legal

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

and accounting provisions governing the City's management of cash and investments, can be found 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 on 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.

Capital assets - The FPDR Fund has one intangible capital asset, a database used to process participant-related payments and to track member and beneficiary information. GASB Statement No. 51: Accounting and Financial Reporting for Intangible Assets requires governmental entities to report and account for intangible assets. The database is stated at cost, and depreciation is calculated on a straight-line basis over ten years (the estimated useful life of the software).

Other assets - Substantially all of the employees that provide services for the FPDR 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 conformance with Statement 68, the City has recognized a PERS asset for the fiscal year ended June 30, 2015; FPDR's share of this asset and related deferred inflows and outflows are reflected in FPDR's ending plan net position for the first time in these statements.

Deferred inflows and outflows - FPDR's share of the City PERS deferred inflows and outflows are included in FPDR's Statement of Plan Net Position for the fiscal year ended June 30, 2015. PERS contributions made on behalf of FPDR employees since the PERS asset measurement date result in deferred outflows. Deferred inflows or outflows can derive from differences between the expected and actual rate of return on PERS assets for the year, as well as differences between the City's actual PERS contributions for a given fiscal year and the City's prorated share of the PERS asset. Those two differences are amortized over five years, resulting in deferred inflows for years two through five of the amortization period.

2014 Restatement - FPDR's net position for the fiscal year ended June 30, 2014 has been restated to facilitate comparisons between beginning and ending net position for the fiscal year ended June

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

30, 2015, when the City implemented Statement 68. Net position is restated to include FPDR's $636,652 share of the City's $185.2 million PERS liability on June 30, 2014. In addition, prepaid items are reduced by $270,312, to reflect the fact that under Statement 68 the unamortized balance of an excess contribution made by the City to PERS in 2000 is now included in the overall pension liability calculation. Finally, FPDR's share of City payments made to PERS after June 30, 2014 ($89,364) is recognized as deferred outflows for the fiscal year ended June 30, 2014. Please see Note 5, Employee Retirement Systems and Pension Plans, for additional information.

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 with the Internal Revenue Service.

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, 2015, 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 or long-term disability benefits	535	1,298	-	1,833
Terminated employees that are vested, but not yet receiving benefits	-	77	-	77
Active members on short-term disability	-	21	8	29
Active members:				
Vested	-	1,124	-	1,124
Non-vested	-	-	-	-
Not in FPDR pension plan	-	-	422	422
Total active members	-	1,124	422	1,546

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, 2015, there were 535 members and beneficiaries subject to the Plan as constituted prior to July 1, 1990, now called FPDR One; 2,499 members and beneficiaries were subject to the Plan as constituted after June 30, 1990, now called FPDR Two. 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.

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

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

Bureaus of Police and Fire pay the employee and employer portions of PERS contributions but are then reimbursed by FPDR through the interagency billing process; therefore, the dedicated FPDR tax levy funds FPDR Three PERS contributions as well as the FPDR Plan. FPDR Three PERS contributions are included in disability, retirement and medical benefits on FPDR's *Statement of Changes in Plan Net Position.* More information about the City's PERS asset (liability) can be found in the City's annual financial statements. FPDR Three members are covered by the FPDR Plan for disability and preretirement death benefits. As of June 30, 2015, the number of FPDR Three members was 422.

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.

FPDR One retirement 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 2.7 percent on July 1, 2014 and 2.1 percent on July 1, 2015. FPDR One Police benefits increased by 4.6 percent on July 1, 2014 (the sum of increases in first-class officer pay on August 1, 2013, January 1, 2014, and July 1, 2014) and 2.1 percent on July 1, 2015. 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 $275,597 to 10 participants for the fiscal year ending June 30, 2015.

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

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

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 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 FPDR Board granted FPDR Two members a 1.5 percent increase on July 1, 2013 and a 1.25 percent increase on July 1, 2014. However, in April 2015 the Oregon Supreme Court invalidated the reduction in annual PERS adjustments on benefits earned before October 1, 2013 *(Moro v. State of Oregon).* The PERS Board subsequently awarded all PERS retirees retroactive benefit increases to two percent for July 1, 2013 and July 1, 2014, as well as a two percent increase on July 1, 2015. The FPDR Board approved the same adjustments for FPDR Two members. FPDR Two pension benefits were increased accordingly, and retroactive payments were issued in June 2015. The FPDR Board has not yet determined how FPDR Two benefit adjustments will be calculated going forward.

Additional pension benefits are mandated by Oregon Revised Statutes for both FPDR One and FPDR Two 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, 2015, 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. The 2015 Oregon State Legislature amended the statutes so that an alternate payee, generally a former spouse, could be treated as the surviving spouse in a domestic relations order for preretirement death benefits.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

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. Previously, members who returned to active service before retirement were not eligible for these postretirement medical benefits. Now, active members who retiree on or after January 1, 2007 are eligible. Benefits paid during the fiscal year ended June 30, 2015 totaled $571,802; benefits paid to members who retired from active status were $228,390, and will continue to increase as more retirees from active service are covered.

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

Fiscal Year Ended June 30,	All Retirees	Retirees from Service
2011	$442,173	$109,719
2012	456,894	199,427
2013	814,617	320,979
2014	637,462	205,855
2015	571,802	228,390

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 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 to the FPDR Plan are made in the amount of projected current year benefit payments and administrative expenses only. Annual employer contributions to PERS for FPDR Three members are a percentage of current year wages for those members. Employer contributions to both the FPDR Plan and PERS for FPDR Three members 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 of real market value) not exempt from such levy. In the event that funding is less than the required payments 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, 2015, the actual imposed levy rate per $1,000 of real market value under the special property tax levy was $1.37, and the total revenue received from the levy (which is most of the City's employer contribution) was $122.1 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

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

assessment was as of June 30, 2014. The analysis found that, under a wide range of simulated economic scenarios in the foreseeable future, the future FPDR Fund levy has an approximately four percent probability of reaching the maximum $2.80 per $1,000 of real market value in at least one year through 2034. After the Oregon Supreme Court's *Moro* decision and the FPDR Board's approval of an assumption that future FPDR Two pension adjustments will blend 2.0 percent for service prior to October 2013 and 1.25 percent for later service, the probability of exceeding the limit will likely increase with the 2016 levy adequacy analysis to something closer to the five to ten percent probability shown in the 2012 analysis.

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 for the FPDR Plan, as measured by the most recent biennial actuarial valuation, prepared by independent actuaries as of June 30, 2014 and rolled forward to June 30, 2015. These figures do not include the pension liability for FPDR Three members, who are covered by the PERS Plan. Similar information for PERS can be found in the City's annual financial statements.

	As of June 30, 2015
Total pension liability	$ 2,896,894,767
Less plan net position	21,876,942
Net pension liability	$ 2,875,017,825
Plan net position as percentage of total pension liability	0.76%

The ratio of the net pension liability to covered payroll was 2,063 percent. Covered payroll was $139.3 million for the fiscal year ended June 30, 2015. 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, 2015 were $115.9 million. Employer contributions to the FPDR Fund were $7.0 million higher, but the $7.0 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.

The net pension liability, as calculated in accordance with Governmental Accounting Standard Board Statement 67: Financial Reporting for Pension Plans, increased by $421.6 million between June 30, 2014 and June 30, 2015. The increase is due to plan changes and a reduction in the discount rate. As discussed above, the Oregon Supreme Court's *Moro* decision invalidated

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

reductions to the PERS COLA as applied to service rendered before the effective dates of the enabling legislation. The FPDR Board has not determined how the FPDR Two annual benefit adjustment will be calculated in light of the *Moro* decision, but did approve an actuarial assumption that future adjustments will be a blend of 2.0 percent for service prior to October 2013 and 1.25 percent for subsequent service. This assumption is based on a similar approach currently under development at PERS. As the June 30, 2014 valuation assumed 1.25 percent annual FPDR Two benefit adjustments, the new assumption increased FPDR's net pension liability, by approximately $185.3 million. The other significant increase in the net pension liability derives from 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 4.29 percent on June 30, 2014 to 3.80 percent on June 30, 2015. The change in the discount rate increased the net pension liability by roughly $208.9 million.

Significant assumptions used to prepare the June 30, 2014 actuarial valuation and the June 30, 2015 roll-forward are listed below. These assumptions were applied to all periods included in the measurement.

Discount rate	3.80%
Long-term expected rate of return, net of investment expense	N/A
Municipal bond rate	3.80%
Valuation date	June 30, 2014
Measurement date	June 30, 2015
Inflation	2.75%
Projected salary increases, including inflation	3.75%
Post-retirement benefit increases	
FPDR One	3.75%
FPDR Two	Blend 2.00%/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: 95% for male, 55% for female	
Actuarial cost method	Entry Age Normal

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 20 percent, as detailed in the actuarial valuation report. It is projected that 25 percent of Fire members and 50 percent of Police members retire at age 50, and that all Police members retire by age 60 and all Fire members 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, 2013.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

The discount rate is equal to the June 30 value 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. It includes 20 general obligation bonds maturing in 20 years with an average rating of approximately Aa2 (Moody's Investor Services) or AA (Standard and Poor's). As a pay-as-you-go plan, the FPDR funds have negligible current assets, all of which are 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 4.80 percent discount rate had been used instead of 3.80 percent, the net pension liability as of June 30, 2015 would have been 13 percent lower. If a 2.80 percent discount rate had been used, the net pension liability as of June 30, 2015 would have been 16 percent higher.

	1% Decrease 2.80%	Current Discount Rate 3.80%	1% Increase 4.80%
Total pension liability	$ 3,359,278,853	$ 2,896,894,767	$ 2,525,518,979
Less plan net position	21,876,942	21,876,942	21,876,942
Net pension liability	3,337,401,911	2,875,017,825	2,503,642,037

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.

Other assets - In addition to cash and short-term investments, the FPDR Fund's assets include receivables, one capital asset, and a pension asset.

The 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, 2015 the property tax receivable is $7.4 million.

FPDR's sole capital asset is a software database with a net value of $510,442 on June 30, 2015. The database is being depreciated over 10 years.

The City PERS asset has been valued in accordance with GASB Statement No. 68 (Statement 68): Accounting and Financial Reporting for Pensions, and is equal to $82.3 million on June 30, 2015. FPDR's prorated share of that amount is 0.34%, or $282,521. The amount also includes FPDR's share of an excess contribution made by the City to PERS in the fiscal year ended June 30, 2000. In accordance with Statement 68 the excess contribution is recorded as a pension-related asset.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

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, 2015 the outstanding 42.7 million of 1999 Series D variable rate bonds and $42.6 million of 1999 Series E variable rate bonds each carried an interest rate of 0.12 percent. Interest rates on the $134.5 million of fixed rate 1999 Series C bonds ranged from 7.70 to 7.93 percent on June 30, 2015. Beginning in the fiscal year ended 2002, the debt is allocated to the FPDR Fund (for FPDR employees only), 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, as determined by the FPDR Fund's weighted average contribution to PERS in the fiscal year ended June 30, 1999, is $384,259 at June 30, 2015.

Bonds payable transactions for the year ended June 30, 2015 are as follows:

	Outstanding June 30, 2014	Bonds Allocated	Bonds Matured and Paid During Year	Outstanding June 30, 2015
Oregon Public Employees Retirement System Bonds ("PERS Pension Bonds")	$ 411,621	-	$ 27,362	$ 384,259

Future maturities of bond principal and interest at June 30, 2015 are as follows:

Fiscal Year	Principal	Interest	Total
2016	$ 31,034	$ 15,949	$ 46,983
2017	34,968	17,194	52,162
2018	39,252	16,299	55,551
2019	43,841	14,849	58,690
2020	48,841	12,767	61,608
2021-25	148,981	198,078	347,059
2026-29	37,342	293,710	331,052
	$ 384,259	$ 568,846	$ 953,105

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, 2015, rent expense was equal to $184,182.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

The minimum future obligations for this lease for the fiscal years ending June 30 are summarized below:

Year Ending June 30,	
2016	$187,866
2017	191,623
2018	15,995
	$395,484

The FPDR Fund is involved in various claims and legal actions in the normal course of business. FPDR booked a $1.3 million contingent liability on June 30, 2015 for the contract claim *John Miller, et al. v. City of Portland.* The case relates to a pilot restricted-duty return to work program for members on long-term disability. It includes six claimants seeking $800,000 each, for a total claim of $4.8 million, as well as additional ongoing pension benefits the claimants would have received had they remained on disability. FPDR prevailed at the Multnomah County Circuit Court and Oregon Court of Appeals; however, the Oregon Supreme Court remanded the case to the Multnomah County Circuit Court, Case No. 0810-14715.

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. FPDR has not booked a contingent liability for this case.

NOTE 3 - SHORT-TERM DEBT

During the year the FPDR Fund borrowed $25.5 million in publicly issued 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, 2015.

	Beginning Balance	Additions	Reductions	Ending Balance
Tax anticipation notes	$ -	$ 25,465,000	$ (25,465,000)	$ -
	$ -	$ 25,465,000	$ (25,465,000)	$ -

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-

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

employer defined benefit plan. All OPEB costs are associated with retired staff. Neither retired nor active members receive FPDR-paid medical benefits 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 the numbers below are those of the City as a whole unless specifically identified.

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). 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.

The City’s liability on July 1, 2014 was $105.3 million; FPDR’s estimated share of the liability is $99,858, or 0.095 percent. The City has elected not to pre-fund the fiscal year 2015 employer’s annual required contribution to the plan.

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

The Health Insurance Continuation “blended” premium rates for the fiscal year ended June 30, 2014, as published in the most recent valuation report, were:

All Employee Groups Except Portland Police Association (PPA)			
	Medical Only	Dental	Vision
City Health Care Plan			
Participant	$ 587.67	$ 57.97	$ 5.05
Participant and spouse	1,150.36	100.11	9.19
Kaiser			
Participant	564.81	60.74	4.07
Participant and spouse	1,103.15	121.48	8.25

Portland Police Association (PPA)			
	Medical Only	Dental	Vision
City Health Care Plan			
Participant	$ 638.32	$ 59.86	$ 4.22
Participant and spouse	1,260.85	103.41	7.68
Kaiser			
Participant	553.48	49.11	4.45
Participant and spouse	1,080.59	98.22	9.04

Annual OPEB cost and net OPEB obligation - The City's annual other postemployment benefit cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 (Statement 45): Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. 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 over a period of 30 years.

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

The following table shows the components of the City's annual OPEB cost on July 1, 2014, the amount actually contributed to the plan, and changes in the City's OPEB obligation to the plan from July 1, 2013.

	Health Insurance Continuation
Annual required contribution	$ 9,300,043
Interest on net OPEB obligation	1,367,964
Adjustment to annual required contribution	(2,125,087)
Annual OPEB cost	8,542,920
Less expected contribution	(5,582,943)
Increase in Net OPEB obligation	2,959,977
Net OPEB obligation - beginning of year	39,084,687
Net OPEB obligation - end of year	$ 42,044,664
Governmental activities	$ 38,446,448
Business-type activities	3,558,297
Fiduciary activities	39,921
Net OPEB obligation - end of year	$ 42,044,666

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last four fiscal years were as follows:

Health Insurance Continuation

Fiscal Year Ended June 30,	Annual OPEB Cost	Contribution	Percent of Annual OPEB Cost Contributions	Net OPEB Obligation
2012	$ 9,395,189	$ 5,701,106	60.68 %	$ 32,415,855
2013	9,566,141	5,582,943	58.36	36,399,053
2014	8,421,398	5,735,764	68.11	39,084,687
2015	8,542,920	5,582,943	65.35	42,044,664

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

Funded status and funding progress - The funded status of the plan as of July 1, 2014 is as follows:

	Health Insurance Continuation
Actuarial accrued liability	$ 105,266,428
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 105,266,428
Actuarial valuation method	Entry age normal
Amortization of UAAL	30 years open
Funded ratio	0%
Investment return assumption	3.5%
Inflation rate assumption	2.2%
Merit increase	0.33-2.55%
Healthcare cost trend rate	2.0-8.5%
Covered payroll (active plan members)	$ 346,483,812
UAAL as a percentage of covered payroll	30%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions **-** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the most recent 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

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

and 3.0 percent for vision. The unfunded accrued actuarial liability is amortized over an open period of 30 years using a level percentage of projected pay.

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 at 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 percent for OPSRP employees. The Oregon PERS Board of Trustees sets the employer contribution rate. It is based on the ARC of the combined participant employers. This is an amount actuarially determined in accordance with the parameters of Statement 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.

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

The City's contributions to RHIA for the last four years, which equaled the required contributions each year, are listed below:

Fiscal Year Ended June 30,	RHIA Contributions
2012	$ 1,637,795
2013	$ 1,651,130
2014	$ 1,651,401
2015	$ 1,810,227

The amount of FPDR's contributions associated with the City's RHIA obligations for the year ended June 30, 2015 is approximately $250,000 for FPDR Three members and $6,500 for staff.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

State of Oregon Public Employees Retirement System

Plan description - Civilian City employees, all sworn fire and police personnel hired after December 31, 2006 are provided pensions as participants under one or more plans currently available through Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit plan.

All the benefits of PERS are established by the Oregon Legislature pursuant to Oregon Revised Statutes (ORS) Chapters 238 and 238A. The plan complies with Internal Revenue Service rules prescribed in 401(a). The Oregon Legislature has delegated the authority to the Public Employees Retirement Board (PERB) to administer and manage the system. PERS issues a publicly available financial report that can be obtained at:
http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

There are currently two programs within PERS, with eligibility determined by the date of employment. Those employed prior to August 29, 2003 are PERS Program members, and benefits are provided based on whether a member qualifies for Tier One or Tier Two described below. Those employed on or after August 29, 2003 are Oregon Public Service Retirement Plan (OPSRP) Program members. PERS 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.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

Beginning January 1, 2004, all employees who were 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.

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 PERS instead of the City's Fire and Police Disability and Retirement (FPDR) fund for retirement purposes. They remain under the City's FPDR plan for disability payments, although the plan amendments in the November 6, 2012 measure approved by voters put employees first sworn in 2013 or later in the City's Workers' Compensation program for their first six months of sworn service.

Benefits provided under ORS 238 - Tier One / Tier Two

Pension Benefits - The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General Service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Death Benefits - Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- Member was employed by a PERS employer at the time of death,
- Member died within 120 days after termination of PERS-covered employment,
- Member died as a result of injury sustained while employed in a PERS-covered job, or
- Member was on an official leave of absence from a PERS-covered job at the time of death.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

Disability Benefits - A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Benefit Changes after Retirement - Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living adjustments (COLA). Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60,000 of annual benefit and 0.15 percent on annual benefits above $60,000. After the measurement date, the Oregon Supreme court invalidated the statutory change. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire. The blended COLA methodology blends the COLAs based on creditable service or retirement credit earned by a member when a specific COLA was in effect.

Benefits provided under Chapter 238A - OPSRP Pension Program

Pension Benefits - The ORS 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003. This portion of the OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

> *Police and Fire:* 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement. Reduced retirement benefits are available at age 50 to fire and police OPSRP members.
>
> *General Service:* 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit. Reduced retirement benefits are available at age 55 to general service OPSRP members.

A member of the OPSRP pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits - Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member if he/she had retired immediately or at his/her earliest retirement date, whichever is later.

Disability Benefits - A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes after Retirement - Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60,000 of annual benefit and 0.15 percent on annual benefits above $60,000. After the measurement date, the Oregon Supreme court invalidated the statutory change. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire. The blended COLA methodology blends the COLAs based on creditable service or retirement credit earned by a member when a specific COLA was in effect.

Funding Policy The rate of employer contributions is determined periodically by PERS based on biannual actuarial valuations. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation, as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013.

The City elected to finance its December 31, 1997 unfunded actuarial accrued liability to receive a lower employer contribution rate of covered employee's salaries. Proceeds of the 1999 Series, C, D, & E Bonds were used to finance all of the estimated UAAL of the City with PERS as of December 31, 1997. 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. Additional information regarding these limited tax pension obligation revenue bonds is available in the City's financial statements.

Contributions - The City's employer contributions for the year ended June 30, 2015 were $26,342,933, excluding amounts to fund employer specific liabilities. The contribution rates in

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

effect for the fiscal year ended June 30, 2015 for each pension program were: Tier1/Tier 2 – 9.34 percent, OPSRP general service – 7.52 percent, and OPSRP uniformed – 10.25 percent.

Pension Asset (Liability) and Related Deferred Inflows and Outflows **-** The City implemented GASB Statement No. 68 (Statement 68): Accounting and Financial Reporting for Pensions for the fiscal year ended June 30, 2015. The City recognized a net asset of $82.3 million at June 30, 2015 for the PERS plans. That amount has been prorated out to the various City funds; FPDR's share is 0.34%, or $282,521, based on the proportion of City PERS contributions made on behalf of FPDR employees. This asset is included in FPDR's total assets and ending plan net position for the fiscal year ended June 30, 2015. Beginning plan net position on July 1, 2014 has also been restated to include FPDR's $636,652 share of the City's PERS liability on that date ($185.2 million). The proportion of the City's PERS asset (liability) attributable to FPDR Three members is allocated to the City General Fund.

FPDR's share of the City PERS deferred inflows and outflows are also included in FPDR's Statement of Plan Net Position for the fiscal year ended June 30, 2015. Deferred outflows of $94,288 reflect PERS contributions made on behalf of FPDR employees since the PERS asset measurement date. Deferred inflows of $564,775 derive from a positive difference between the expected and actual rate of return on PERS assets for the year, as well as a positive difference between the City's actual PERS contributions for the fiscal year ending June 30, 2015 and the City's prorated share of the PERS asset. Those two differences are amortized over five years, resulting in deferred inflows for years two through five of the amortization period.

Actuarial Methods and Assumptions

Actuarial Valuations **-** The employer contribution rates effective July 1, 2013, through June 30, 2015, were set using the projected unit credit actuarial cost method.

For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

The total pension liability in the December 31, 2012 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	December 31, 2012 rolled forward to June 30, 2014.
Experience Study Report	2012, published September 18, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation rate	2.75 percent
Investment rate of return	7.75 percent
Projected salary increases	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service.
Mortality	Healthy 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 that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ending on December 31, 2012.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. This is the long-term expected rate of return on pension plan investments, as recommended by the plan's independent actuaries and adopted by the PERB. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Depletion Date Projection **-** GASB Statement No. 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses.

Assumed Asset Allocation -

Asset Class/Strategy	**Low Range**		**High Range**		**OIC Target**	
Cash	0.0	%	3.0	%	0.0	%
Debt Securities	15.0		25.0		20.0	
Public Equity	32.5		42.5		37.5	
Private Equity	16.0		24.0		20.0	
Real Estate	9.5		15.5		12.5	
Alternative Equity	0.0		10.0		10.0	
Opportunity Portfolio	0.0		3.0		0.0	
Total					100.0	%

Long-Term Expected Rate of Return - To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERB reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00	3.70
Intermediate-Term Bonds	3.00	4.10
High Yield Bonds	1.80	6.66
Large Cap US Equities	11.65	7.20
Mid Cap US Equities	3.88	7.30
Small Cap US Equities	2.27	7.45
Developed Foreign Equities	14.21	6.90
Emerging Foreign Equities	5.49	7.40
Private Equity	20.00	8.26
Opportunity Funds/Absolute Return	5.00	6.01
Real Estate (Property)	13.75	6.51
Real Estate (REITS)	2.50	6.76
Commodities	7.71	6.07
Assumed Inflation – Mean		2.75

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability (asset)	$174.21	$(82.27)	$(299.19)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report. The effect of PERS on the City's net position has been determined on the same basis used by PERS.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

Changes in Plan Provisions Affecting the Roll-Forward

Senate Bill 822, signed into law in May 2013, eliminated the SB 656/HB 3349 tax remedy payments for benefit recipients who are not subject to Oregon income tax, because they do not reside in Oregon, and limited the 2013 post-retirement COLA to 1.5% of annual benefit.

Senate Bill 861, signed into law in October 2013, limited post-retirement COLA for years beyond 2013 to 1.25% on the first $60,000 of annual benefit and 0.15% on annual benefits above $60,000. The decrease in the Total Pension Liability resulting from Senate Bill 861, measured as of June 30, 2014, created a ($2,423.6) million reduction in Plan pension liabilities.

Senate Bill 862, signed into law in October 2013, made targeted changes such as allowing garnishment of PERS benefits for convicted felons. These changes do not significantly affect System liabilities and were not reflected in the valuation.

Changes in Plan Provisions Subsequent to Measurement Date

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. The Court's determination was that benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a two percent increase annually. PERS will make restoration payments to those benefit recipients.

PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms subsequent to the measurement date of June 30, 2014, and will not be included in the net pension liability (asset) proportionate shares provided to employers in June 2015.

It is estimated that this change would change the City's net pension liability by approximately $178 million. This would switch the City from having a net pension asset to having a net pension liability.

PERS has also changed its assumed rate of return from 7.75 percent to 7.50 percent. Based on the sensitivity analysis provided by PERS this could increase net pension liability by another $64 million.

Changes in Assumptions

A summary of key changes implemented since the December 31, 2011 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

can be found in the 2012 Experience Study for the System, which was published on September 18, 2013, and can be found at:
http://www.oregon.gov/pers/docs/2012%20Exp%20Study%20Updated.pdf.

Changes in Actuarial Methods and Allocation Procedures

Actuarial Cost Method - The Actuarial Cost Method was changed from the Projected Unit Credit Cost Method to the Entry Age Normal Cost Method. This change will allow PERS to use the same cost method for contribution rate calculations as required for financial reporting under GASB Statements 67 and 68.

Tier 1/Tier 2 UAL Amortization - In combination with the change in cost method, the PERB chose to re-amortize the outstanding Tier 1/Tier 2 UAL as of December 31, 2013 over a closed period of 20 years as a level percentage of projected payroll. Gains and losses between subsequent rate-setting valuations will be amortized over a closed 20-year period from the valuation in which they are first recognized.

Contribution Rate Stabilization Method

The “grade-in range” over which the rate collar gradually doubles was modified so that the collar doubles as funded status (excluding side accounts) decreases from 70 to 60 percent or increases from 130 to 140 percent. Previously the ranges had been 80 to 70 and 120 to 130 percent. The modification to the grade-in range was made in combination with the change to actuarial cost method, as discussed at the July 2013 PERB public meeting.

Allocation of Liability for Service Segments

For purposes of allocating Tier 1/Tier 2 member’s actuarial accrued liability among multiple employers, the valuation uses a weighted average of the money match methodology and the full formula methodology used by PERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier 1/Tier 2 population. For the December 31, 2010 and December 31, 2011 valuations, the money match was weighted 40 percent for General Service members and 10 percent for Police and Fire members. For the December 31, 2012 and December 31, 2013 valuations, this weighting has been adjusted to 30 percent for General Service members and 5 percent for Police and Fire members, based on a projection of the proportion of liability attributable to money match benefits at those valuation dates.

Changes in Economic Assumptions

Investment Return and Interest Crediting - The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.75 percent. Previously, the

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

assumed investment return and interest crediting to regular account balances was 8.00 percent and the assumed interest crediting to variable account balances was 8.25 percent.

OPSRP Administrative Expenses **-** Assumed administrative expenses for the OPSRP System were reduced from $6.6 million per year to $5.5 million per year.

Healthcare Cost Inflation - The healthcare cost inflation for the maximum Retiree Health Insurance Premium Account (RHIPA) subsidy was updated based on analysis performed by Milliman's healthcare actuaries. This analysis includes the consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

Changes in Demographic Assumptions

Healthy Mortality - The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

Disabled Mortality - The disabled mortality assumption base was changed from the RP2000 healthy tables to the RP2000 disabled tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.

Disability, Retirement from Active Status, and Termination **-** Rates for disability, retirement from active status and termination were adjusted. Termination rates were changed from being indexed upon age to being indexed upon duration from hire date.

Changes in Salary Increase Assumptions

Merit Increases, Unused Sick Leave, and Vacation Pay **-** Assumed merit increases were lowered for School District members. Unused sick leave and vacation pay rates were adjusted.

Retiree Healthcare Participation **-** The Retiree Health Insurance Account (RHIA) participation rate for healthy retirees was reduced from 48% to 45%. The RHIPA participation rate was changed from a uniform rate of 13 percent to a service-based table of rates.

Defined Contribution Plan – Individual Account Program (IAP)

Pension Benefits - Participants in PERS defined benefit pension plans also participate in their defined contribution plan. An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the IAP may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a $200 minimum distribution limit.

Death Benefits - Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Contributions **-** The City has chosen to pay the employees' contributions to the plan. Six percent of covered payroll is paid for general service employees and nine percent of covered payroll is paid for firefighters and police officers. For fiscal year 2015 the City paid $20.6 million.

Recordkeeping - PERS contracts with VOYA Financial to maintain IAP participant records.

NOTE 6 - SUBSEQUENT EVENTS

At its July 2015 meeting, the FPDR Board adopted a new actuarial assumption for the roll-forward of the June 30, 2014 valuation to June 30, 2015. Future FPDR Two benefit adjustments are now assumed to be a service-based blend of 2.0 percent for service prior to October 2013 and 1.25 percent for subsequent service. The prior assumption was 1.25 percent.

In August 2015, tax anticipation notes were issued for $24.6 million with a true interest cost of 0.28 percent. The notes are due for repayment on June 28, 2016.

REQUIRED SUPPLEMENTARY INFORMATION


FIREFIGHTER
ORE.
PORTLAND POLICE
OFFICER

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
JUNE 30, 2015

	Fiscal Year Ending June 30, 2015	2014
Total pension liability		
Service cost	$ 58,853,250	$ 63,660,926
Interest	106,304,323	117,017,081
Effect of plan changes	185,288,710	(222,274,639)
Effect of economic/demographic gains (losses)	(25,565,616)	-
Changes of assumptions	208,943,518	106,474,383
Benefit payments	(110,900,284)	(108,003,419)
Net change in total pension liability	422,923,901	(43,125,668)
Total pension liability, beginning	2,473,970,866	2,517,096,534
Total pension liability, ending (a)	$ 2,896,894,767	$ 2,473,970,866
Plan fiduciary net position		
Contributions - employer	$ 115,852,428	$ 114,654,336
Net investment income	(522,201)	312,468
Benefit payments	(110,900,284)	(108,003,419)
Administrative expense	(3,085,925)	(3,585,476)
Net change in plan net position	1,344,018	3,377,909
Plan net position, beginning	20,532,924	17,155,015
Plan net position, ending (b)	21,876,942	20,532,924
Net pension liability, ending (a) - (b)	$ 2,875,017,825	$ 2,453,437,942
Plan fiduciary net position as a percentage of total pension liability	0.76%	0.83%
Covered-employee payroll	$ 139,346,388	$ 135,726,350
Net pension liability as a percentage of covered-employee payroll	2063.22%	1807.64%

Notes to Schedule

1. Contributions and benefit payments shown here are $7,048,176 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 increased by $421.6 million or 16.9 percent primarily as a result of plan changes and assumption changes. The $185.3 million addition to liability due to plan changes was the result of the Oregon Supreme Court's *Moro* decision, on the basis of which the FPDR Board increased the assumption for future FPDR Two benefit adjustments from 1.25 percent to a blend of 2.00 percent and 1.25 percent. The $208.9 million addition to liability due to assumption changes is primarily due to the decrease in the discount rate from 4.29% to 3.80%.

Schedule of the City Proportionate Share of the Net Pension Liability (Millions)

	Fiscal Year Ending June 30, 2015	2014
City proportion of the net pension liability (asset)	3.62934176%	3.62934176%
City proportionate share of the net pension liability (asset)	($82.3)	$185.2
City covered-employee payroll	330.5	313.1
City proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	-24.9%	59.2%
Plan fiduciary net position as a percentage of the total pension liability	103.6%	92.0%

Schedule of City Contributions (Millions)

	Fiscal Year Ending June 30, 2015	2014
Contractually required contribution	$26.3	$25.0
Contributions in relation to the contractually required contribution	26.3	25.0
Contribution deficiency (excess)	$0	$0
City covered-employee payroll	330.5	313.1
Contributions as a percentage of covered-employee payroll	8.0%	8.0%

Notes to Schedules

1. Changes in Plan Provisions Subsequent to Measurement Date

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013 that limited the post-retirement cost-of-living adjustment (COLA) on benefits accrued prior to the signing of the law were unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2 percent increase annually. The Oregon Public Employees Retirement System (PERS) will make restoration payments to those benefit recipients. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire. This is a change in benefit terms subsequent to the measurement date of June 30, 2014, and not included in the net pension liability (asset) proportionate share provided to employers in June 2015. It is estimated that this change will increase the City's share of the PERS net pension liability by $178 million.

2. Changes in Assumptions

A summary of key changes implemented since the December 31, 2011 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions can be found in the 2012 Experience Study for the System, which was published on September 18, 2013, and can be found at: http://www.oregon.gov/pers/docs/2012%20Exp%20Study%20Updated.pdf

Changes in Actuarial Methods and Allocation Procedures

The actuarial cost method was changed from the projected unit credit cost method to the entry age normal cost method. This change will allow PERS to use the same cost method for contribution rate calculations as required for financial reporting under GASB Statements 67 and 68.

continued on next page

In combination with the change in cost method, the Public Employees Retirement Board (PERB) chose to re-amortize the outstanding Tier 1/Tier 2 unfunded actuarial liability as of December 31, 2013 over a closed period of 20 years as a level percentage of projected payroll. Gains and losses between subsequent rate-setting valuations will be amortized over a closed 20- year period from the valuation in which they are first recognized.

The "grade-in range" over which the rate collar gradually doubles was modified so that the collar doubles as funded status (excluding side accounts) decreases from 70 to 60 percent or increases from 130 to 140 percent. Previously the ranges had been 80 to 70 percent and 120 to 130 percent. The modification to the grade-in range was made in combination with the change to actuarial cost method, as discussed at the July 2013 PERB public meeting.

For purposes of allocating Tier 1/Tier 2 member's actuarial accrued liability among multiple employers, the valuation uses a weighted average of the money match methodology and the full formula methodology used by PERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier 1/Tier 2 population. For the December 31, 2010 and December 31, 2011 valuations, the money match was weighted 40 percent for General Service members and 10 percent for Police and Fire members. For the December 31, 2012 and December 31, 2013 valuations, this weighting has been adjusted to 30 percent for General Service members and 5 percent for Police a Fire members, based on a projection of the proportion of liability attributable to money match benefits at those valuation dates.

Changes in Economic Assumptions
The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.75 percent. Previously, the assumed investment return and interest crediting to regular account balances was 8.00 percent and the assumed interest crediting to variable account balances was 8.25 percent.

Assumed administrative expenses for the OPSRP System were reduced from $6.6 million per year to $5.5 million per year.

The healthcare cost inflation for the maximum retirement health insurance account (RHIA) subsidy was updated based on analysis performed by Milliman's healthcare actuaries. This analysis includes the consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

Changes in Demographic Assumptions
The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

The disabled mortality assumption base was changed from the RP2000 healthy tables to the RP2000 disabled tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.
Rates for disability, retirement from active status and termination were adjusted. Termination rates were changed from being indexed upon age to being indexed upon duration from hire date.

Changes in Salary Increase Assumptions
Assumed merit increases were lowered for school district members. Unused sick leave and vacation pay rates were adjusted.

The RHIA participation rate for healthy retirees was reduced from 48 to 45 percent. The retiree health insurance premium account (RHIPA) participation rate was changed from a uniform rate of 13 percent to a service-based table of rates.

SCHEDULE OF FUNDING PROGRESS– CITY EMPLOYEES HEALTHCARE PLAN
JUNE 30, 2015

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
CITY OF PORTLAND ORE.

PORTLAND POLICE
OFFICER

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes:				
Current year property taxes	$ 118,021,535	$ 118,021,535	$ 120,600,165	$ 2,578,630
Prior year property taxes	2,300,000	2,300,000	2,214,108	(85,892)
Total taxes	120,321,535	120,321,535	122,814,273	2,492,738
Revenues other than taxes:				
Other service charges	-	-	26	26
Billings to other funds for services	657,200	879,953	796,492	(83,461)
Pension overpayment recovery	-	-	-	-
Investment earnings	255,500	255,500	298,451	42,951
Miscellaneous	51,000	51,000	50,430	(570)
Total revenues	121,285,235	121,507,988	123,959,672	2,451,684
Expenditures				
Current:				
Personnel services	1,851,231	1,851,231	1,849,884	1,347
Materials and services	121,270,847	121,448,600	117,837,094	3,611,506
General operating contingencies	11,259,064	11,259,318	-	11,259,318
Overhead charges - General Fund	137,931	137,931	137,931	-
Debt service and related costs:				
Principal	31,285,362	31,285,362	25,492,362	5,793,000
Interest	327,587	327,587	388,060	(60,473)
Debt issuance costs	23,400	23,400	28,506	(5,106)
Capital outlay	43,300	88,300	77,254	11,046
Total expenditures	166,198,722	166,421,729	145,811,091	20,610,638
Revenues over (under) expenditures	(44,913,487)	(44,913,741)	(21,851,419)	23,062,322
Other Financing Sources (Uses)				
Transfers from other funds	750,000	750,254	254	(750,000)
Transfers to other funds	(757,980)	(757,980)	(7,980)	750,000
Bonds and notes issued	31,258,000	31,258,000	25,465,000	(5,793,000)
Bonds and notes premium	-	-	350,144	350,144
Total other financing sources (uses)	31,250,020	31,250,274	25,807,418	(5,442,856)
Net change in fund balance	(13,663,467)	(13,663,467)	3,955,999	17,619,466
Fund balance - beginning	13,663,467	13,663,467	13,761,433	97,966
Fund balance - ending	$ -	$ -	17,717,432	$ 17,717,432

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	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			$ 37,924	
Deferred revenue			5,868,380	
Capital assets			510,442	
Compensated absences			(905,762)	
Bonds payable			(384,259)	
Interest payable			(164,348)	
Other post employment benefits			(39,921)	
Pension contingent liability			(1,325,000)	
Pension asset			282,521	
Deferred inflow			(564,755)	
Deferred outflow			94,288	
Fund balance - GAAP basis			$ 21,126,942	

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, 2015

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Expenditures				
Current:				
General operating contingencies	$ 750,000	$ 750,000	$ -	$ 750,000
Total expenditures	750,000	750,000	-	750,000
Revenues over (under) expenditures	(750,000)	(750,000)	-	(750,000)
Other Financing Sources (Uses)				
Transfers from other funds	750,000	750,000	-	(750,000)
Transfers to other funds	(750,000)	(750,000)	-	750,000
Total other financing sources (uses)	-	-	-	-
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	

SCHEDULE OF OPERATING AND ADMINISTRATIVE EXPENSES - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

Personnel services	$	1,849,884
Materials and services		
Actuarial		93,089
Audit		25,056
Claims investigation		116,697
Computer consulting		20,000
Legal		43,948
Medical bills processing		-
Other professional services		222,681
Other external services		13,654
Office supplies, minor equipment and tools		13,011
Education		5,900
Subscriptions, publications and dues		6,777
Travel		2,703
Space rental		184,182
Fleet		107
Enterprise Business System		29,040
Printing and distribution		38,928
Facilities		1,530
Technology		111,231
Risk management		26,045
Other fund services		354,546
Total materials and services		1,309,125
Overhead charges - General Fund		137,931
Debt service and related costs		
Principal		25,492,362
Interest		388,060
Debt issuance costs		28,506
Total debt service and related costs		25,908,928
Total administrative expenses (Budget)	$	29,205,868
Plus/(minus)		
Debt principal	$	(25,492,362)
Bond premium		(350,144)
Depreciation		73,940
Capitalized labor		(19,060)
Transfers to (from) other funds		7,980
Accrued interest		17,408
PERS pension cost		(358,742)
Change in compensated absences		(456)
Change in other post-employment benefits		1,493
Operating and administrative expenses (GAAP)	$	3,085,925

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT FUNDS
SCHEDULE OF PENSION, DISABILITY AND DEATH BENEFIT EXPENDITURES BY BUREAU
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Members		Other Beneficiaries		Total	
	Number	Amount	Number	Amount	Number	Amount
Portland Fire & Rescue:						
Nonservice benefits	2	$ 28,708	-	$ -	2	$ 28,708
Service benefits	109	484,113	-	-	109	484,113
Occupational benefits	15	675,007	1	249	16	675,256
Early return to work benefits	33	228,768	-	-	33	228,768
Claims Settlement	-	-	-	-	-	-
Pensions (FPDR 1 and 2)	629	41,203,206	239	5,745,168	868	46,948,374
PERS contributions (FPDR Three)	193	3,198,881	-	-	193	3,198,881
Medical benefits	228	1,052,848	-	-	228	1,052,848
Vocational rehabilitation benefits	-	-	-	-	-	-
Funeral benefits	23	7,535	-	-	23	7,535
	1,232	$ 46,879,066	240	$ 5,745,417	1,472	$ 52,624,483
Portland Police Bureau:						
Nonservice benefits	4	$ 130,211	-	$ -	4	$ 130,211
Service benefits	144	2,105,646	3	105,726	147	2,211,372
Occupational benefits	12	23,456	1	66,962	13	90,418
Early return to work benefits	25	224,975	-	-	25	224,975
Claims Settlement	-	-	-	-	-	-
Pensions (FPDR 1 and 2)	845	50,702,107	259	5,705,157	1,104	56,407,264
PERS contributions (FPDR Three)	239	3,753,804	-	-	239	3,753,804
Medical benefits	276	1,075,284	-	-	276	1,075,284
Vocational rehabilitation benefits	-	-	-	-	-	-
Funeral benefits	17	10,158	-	-	17	10,158
	1,562	$ 58,025,641	263	$ 5,877,845	1,825	$ 63,903,486
Combined Fire and Police:						
Nonservice benefits	6	$ 158,919	-	$ -	6	$ 158,919
Service benefits	253	2,589,759	3	105,726	256	2,695,485
Occupational benefits	27	698,463	2	67,211	29	765,674
Early return to work benefits	58	453,743	-	-	58	453,743
Claims Settlement	-	-	-	-	-	-
Pensions (FPDR 1 and 2)	1,474	91,905,313	498	11,450,325	1,972	103,355,638
PERS contributions (FPDR Three)	432	6,952,685	-	-	432	6,952,685
Medical benefits	504	2,128,132	-	-	504	2,128,132
Vocational rehabilitation benefits	-	-	-	-	-	-
Funeral benefits	40	17,693	-	-	40	17,693
	2,794	$ 104,904,707	503	$ 11,623,262	3,297	$ 116,527,969

Notes to Schedule

1. The benefits amount in the Statement of Changes in Plan Net Position schedule is $117,948,460. The difference between that amount and this schedule consists of a $1.3 million contingent liability and the PERS contribution 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, 2015

	Portland Fire & Rescue			Portland Police Bureau			Total		
	Members	Other Beneficiaries	Total	Members	Other Beneficiaries	Total	Members	Other Beneficiaries	Total
Pensions	602	179	781	824	189	1,013	1,426	368	1,794
PERS Contributions	192	-	192	230	-	230	422	-	422
Disability	24	-	24	42	2	44	66	2	68
	818	179	997	1,096	191	1,287	1,914	370	2,284

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,
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2015
Portland Fire & Rescue:											
Pension:											
FPDR 1&2 members	602	607	614	608	584	590	604	573	563	536	66
FPDR 3 members[1]	192	172	172	173	163	128	101	55	-	-	192
Other beneficiaries	179	177	189	187	193	183	181	195	200	193	(14)
Total	973	956	975	968	940	901	886	823	763	729	244
Disability:											
Members	24	27	23	23	33	34	37	52	62	64	(40)
Other beneficiaries	0	0	1	1	2	4	4	4	8	4	(4)
Total	24	27	24	24	35	38	41	56	70	68	(44)
Total Fire	997	983	999	992	975	939	927	879	833	797	200
Portland Police Bureau:											
Pension:											
FPDR 1&2 members	824	803	807	798	767	774	773	767	731	682	142
FPDR 3 members[1]	230	216	214	189	174	151	119	60	-	-	230
Other beneficiaries	189	196	198	195	194	194	186	191	190	187	2
Total	1,243	1,215	1,219	1,182	1,135	1,119	1,078	1,018	921	869	374
Disability:											
Members	42	44	42	43	59	76	78	78	106	103	(61)
Other beneficiaries	2	3	4	4	4	6	5	8	4	4	(2)
Total	44	47	46	47	63	82	83	86	110	107	(63)
Total Police	1,287	1,262	1,265	1,229	1,198	1,201	1,161	1,104	1,031	976	311
Summary of disability:											
Fire	24	27	24	24	35	38	41	56	70	68	(44)
Police	44	47	46	47	63	82	83	86	110	107	(63)
Total	68	74	70	71	98	120	124	142	180	175	(107)
Summary of pension and disability:											
Fire	997	983	999	992	975	939	927	879	833	797	200
Police	1,287	1,262	1,265	1,229	1,198	1,201	1,161	1,104	1,031	976	311
Total	2,284	2,245	2,264	2,221	2,173	2,140	2,088	1,983	1,864	1,773	511

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
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
2015	1.37	126,777,805	259,331,341	132,553,536

Notes to Schedule

The imposed levy differs from property taxes raised due to discounts and delinquencies.

AUDITOR'S REPORT UNDER GOVERNMENT AUDITING STANDARDS

FIREFIGHTER

PORTLAND POLICE

OFFICER

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, 2015, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated November 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Funds' 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 Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' 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.

MOSS ADAMS LLP

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams, LLP

Eugene, Oregon
November 5, 2015