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, 2016

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, 2016

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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, 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2016, 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.

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 9, the Schedule of Changes in Net Pension Liability and Related Ratios on page 45, the City Share of Oregon Public Employees Retirement System on pages 46 through 48 and the Schedule of funding progress for city employees healthcare plan on page 49 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 50 through 57 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 50 through 53 have 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 50 through 53 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The supplementary data on pages 54 through 57 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 1, 2016 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.

Moss Adams, LLP

Eugene, Oregon
November 1, 2016

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, 2016. 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, 2016 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 $3.39 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 98.7 percent of the FPDR Fund's revenues and totaled $121.9 million for the fiscal year ended June 30, 2016.
- The imposed FPDR property tax levy for the fiscal year ended June 30, 2016 was $1.23 per $1,000 of real market value within the City of Portland, a decrease from $1.37 for the prior fiscal year. By charter the levy may not exceed $2.80 per $1,000 of real market value.
- Since future dedicated tax revenues cannot be reflected in the Fund's financial statements, the Plan's net position includes only current assets. Those assets totaled $17.4 million on June 30, 2016, a decrease of $4.5 million from the June 30, 2015 net position of $21.9 million.
- Benefit payments to retirees and disabled members as well as their beneficiaries increased by 4.2 percent, or $5.0 million. Pension benefits continue to increase as more FPDR Two members retire (with a more generous pension benefit, on average, than FPDR One members), and with higher final pay due to wage increases for active sworn employees. In addition, FPDR paid out $1.8 million in additional pension and disability benefits as part of a legal settlement for *John Miller, et al. v. City of Portland*. The settlement also included $0.9 million in legal expenses, which are classified as an administrative expense in the funds' financial statements. FPDR had previously booked a $1.3 million contingent liability for the case, which was reversed in the fiscal year ended June 30, 2016.

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, and serves as the Plan document.

The FPDR Fund is financed on a pay-as-you-go basis. Each year's benefits and expenses are paid from 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. The real market value tax levy rate for the fiscal year ended June 30, 2016 was $1.23.

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 benefit payments to retirees and survivors under FPDR's pay-as-you-go pension plan – simultaneous payments for two generations of employees – creates upward pressure on FPDR's tax levy. The levy is expected to peak in the early to mid-2030s, when most members hired before 2007 will be retired and receiving direct pension benefits, while the active workforce will be mostly enrolled in PERS, with FPDR making their PERS contributions.

The FPDR Plan's net pension liability is $3.4 billion for the fiscal year ended June 30, 2016, an increase of $499 million from June 30, 2015. The higher liability is primarily due to a lower discount rate (the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index each year), which decreased from 3.80 percent on June 30, 2015 to 2.85 percent on June 30, 2016.

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 is 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.

The next levy adequacy analysis will be presented in January 2017 with a measurement date of June 30, 2016. The analysis will extend through 2036 and will reflect higher plan benefits in three areas. First, City Council and the Portland Police Association (PPA) ratified a new collective bargaining agreement in October 2016 that provides for three percent wage increases, above and beyond inflation, each year for the next three years for most sworn police employees. This will increase pension, disability and death benefits for most active and retired FPDR police members. Second, to comply with an arbitrator's order City Council amended the Charter in October 2016 to permit the inclusion of 27 pay checks, rather than the usual 26, in final pay for PPA members. A similar arbitrator's order was received later in October 2016 for Portland Fire Fighters Association and Portland Police Commanding Officers Association members, but Council has yet to amend the Charter for these members. Final pay is used to calculate FPDR Two pensions. Based on a 2012 analysis prepared by the Fund's independent actuaries, FPDR estimates the change will increase pension benefits for FPDR Two members by \$40 million to \$59 million, in today's dollars, over the next 25 years. Finally, FPDR Two retirees and survivors will receive higher postretirement cost-of-living adjustments (COLAs) than were included in the June 30, 2014 analysis. By Charter, FPDR Two benefit adjustments cannot exceed the maximum PERS COLA rate. The Oregon Legislature reduced the PERS COLA rate to a maximum of 1.25 percent in 2013. Therefore, the June 30, 2014 levy adequacy analysis assumed future FPDR Two postretirement COLAs of 1.25 percent. However, in 2015 the Oregon Supreme Court issued its decision in *Moro et al., v. State of Oregon, et al.* invalidating the PERS COLA reduction on service credit earned before October 2013. The PERS Board subsequently altered the COLA calculation to grant adjustments of up to 2.0 percent on service before October 2013 and up to 1.25 percent on service after that date. The FPDR Board chose to use a similar calculation for the July 1, 2015 FPDR Two COLA. The June 30, 2016 valuation will reflect this higher, blended postretirement benefit adjustment amount for FPDR Two members.

As a result of these changes in plan benefits, management expects that future FPDR benefit payments and PERS contributions will be closer to the amounts shown in the 2012 levy adequacy analysis than the 2014 analysis, although real market value growth since the 2012 analysis will moderate the projected levy rate increase. Real market value in the City of Portland grew by 10.8 percent for the fiscal year ended June 30, 2016 and 10.2 percent for the fiscal year ended June 30, 2015. 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.

Financial Statements and Analysis, continued

The Reserve Fund provides a reserve in case the FPDR Fund cannot meet its current obligations. At June 30, 2016 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, 2016 and 2015:

	2016	2015	Increase (Decrease)
Cash and investments held by City Treasurer	$22,655,118	$26,199,648	($3,544,530)
Receivables	6,681,576	7,581,654	(900,078)
FPDR share of City PERS pension asset	-	282,521	(282,521)
Capital assets	496,852	510,442	(13,590)
Total Assets	29,833,546	34,574,265	(4,740,719)
Deferred outflows of resources (City PERS pension)	173,025	94,288	78,737
Total deferred outflows	173,025	94,288	78,737
Accounts payable	9,882,312	9,407,566	474,746
FPDR share of City PERS pension liability	812,094	-	812,094
Other liabilities	1,720,237	2,819,290	(1,099,053)
Total Liabilities	12,414,643	12,226,856	187,787
Deferred inflows of resources (City PERS pension)	166,575	564,755	(398,180)
Total deferred inflows	166,575	564,755	(398,180)
Net Position	$17,425,353	$21,876,942	($4,451,589)

The funds' net position decreased from $21.9 million at June 30, 2015 to $17.4 million at June 30, 2016, a $4.5 million or 20.4 percent decrease. Net position includes FPDR's share of the City PERS (liability) asset and related deferred inflows and outflows. This resulted in an additional asset worth $0.3 million on June 30, 2015, but a $0.8 million liability on June 30, 2016, causing a $1.1 million swing in net position. Cash and investments decreased by $3.5 million or 13.5 percent, primarily because of the $2.7 million legal settlement for the *Miller* case in May 2016. The property tax receivable dropped $0.9 million. Benefits payable increased slightly as pension benefits continue to grow each year; other liabilities dropped by $1.1 million following FPDR's reversal of a $1.3 million contingent liability booked on June 30, 2015 for the *Miller* case.

Financial Statements and Analysis, continued

The following schedule displays a comparison of changes in plan net position during the fiscal years ended June 30, 2016 and 2015:

	2016	2015	Increase (Decrease)
Employer contributions: property taxes	$121,873,222	$122,063,640	($190,418)
Employer contributions: other	1,139,449	836,964	302,485
Net investment income	489,153	294,799	194,354
Total Additions	123,501,824	123,195,403	306,421
Benefit payments	122,933,840	117,948,460	4,985,380
Operating and administrative expenses	5,019,573	3,085,925	1,933,648
Total Deductions	127,953,413	121,034,385	6,919,028
Net Increase / (Decrease)	(4,451,589)	2,161,018	(6,612,607)
Beginning Net Position	21,876,942	19,715,924	2,161,018
Ending Net Position	$17,425,353	$21,876,942	($4,451,589)

Additions to plan net position include property tax revenues (employer contributions), investment income and other income. Other income consists primarily of pension and disability-related charges collected from third parties for police and fire services, as well as 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. 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. Property tax revenues totaled $121.9 million in the fiscal year ended June 30, 2016, a $0.2 million decrease from the prior year. FPDR required slightly less tax revenue, despite growing benefit costs, because of a higher than anticipated ending funding balance on June 30, 2015 and because of growth in investment and other income. The imposed tax rate fell from $1.37 per $1,000 of real market value for the fiscal year ended June 30, 2015 to $1.23 for the fiscal year ended June 30, 2016, which reflects higher real market values as well as lower tax requirements.

The FPDR Fund recognized net investment income of $0.5 million for the fiscal year ended June 30, 2016 as compared with $0.3 million in the prior year, as interest rates continued to rebound. Unrealized gains on investments also increased by $67,692. The $0.3 million increase in other revenue is from pension and disability-related charges to third parties for police services; these revenues grew as transit police staffing (which is funded by TriMet, the regional transportation agency) grew.

Financial Statements and Analysis, continued

Deductions to the FPDR Fund net position result mainly from benefit payments as well as administrative and operating expenses. For the fiscal year ended June 30, 2016 benefits amounted to $122.9 million, an increase of $5.0 million or 4.2 percent. This was partly a result of the legal settlement in the *Miller* case: of the $2.7 million settlement, $1.8 million was charged to benefits. Direct pension benefits and PERS contributions made on behalf of FPDR Three members also grew as wages for the sworn workforce grew. Furthermore, direct pension benefits continue to increase as FPDR Two retirees, whose pension benefits are a higher percent of pay than FPDR One pension benefits on average, make up a growing proportion of the retiree population. Disability benefits grew by just $0.2 million despite higher claim volume. Operating and administrative expenses increased significantly, by $1.9 million or 62.7 percent. This resulted from two factors: the aforementioned $1.1 million swing in FPDR's share of the City's PERS asset/liability, and the fact $0.9 million of the $2.7 million in legal settlement costs for the *Miller* case were charged to administrative expenses.

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 $496,852 on June 30, 2016.

The funds had no long-term debt activity in the fiscal year ended June 30, 2016, 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
FOR THE YEAR ENDED JUNE 30, 2016

	June 30, 2016		
	FPDR Fund	Reserve Fund	Total
Assets			
Cash and investments held by City Treasurer	$21,905,118	$ 750,000	$22,655,118
Property taxes (contributions) receivable	6,437,733	-	6,437,733
Interest receivable	181,850	-	181,850
Accounts receivable, net	43,082	-	43,082
Overpayment recoveries receivable	18,911	-	18,911
Capital assets, net	496,852	-	496,852
Total assets	29,083,546	750,000	29,833,546
Deferred outflows of resources			
Contributions to City PERS in current fiscal year	173,025	-	173,025
Total deferred outflows	173,025	-	173,025
Liabilities			
Accounts payable	9,882,312	-	9,882,312
Compensated absences	1,144,216	-	1,144,216
Bonds payable	353,225	-	353,225
Accrued interest payable	183,160	-	183,160
FPDR share of City PERS pension liability	812,094	-	812,094
FPDR share of City other post-employment benefits	39,636	-	39,636
Total liabilities	12,414,643	-	12,414,643
Deferred inflows of resources			
FPDR share of City PERS pension plan deferrals	166,575	-	166,575
Total deferred outflows	166,575	-	166,575
Net Position			
Restricted for pensions	16,675,353	750,000	17,425,353
Total net position	$16,675,353	$ 750,000	$17,425,353

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT FUNDS
STATEMENT OF CHANGES IN PLAN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	YEAR ENDED JUNE 30, 2016		
	FPDR Fund	Reserve Fund	Total
Additions			
Property taxes (Employer contributions)	$ 121,873,222	$ -	$ 121,873,222
Other	1,139,449	-	1,139,449
Total employer contributions	123,012,671	-	123,012,671
Net investment income	489,153	-	489,153
Total additions	123,501,824	-	123,501,824
Deductions			
Disability, retirement and medical benefits	122,933,840	-	122,933,840
Operating and administrative expenses	5,019,573	-	5,019,573
Total deductions	127,953,413	-	127,953,413
Change in net assets	(4,451,589)	-	(4,451,589)
Net position - beginning	21,126,942	750,000	21,876,942
Net position - ending	$ 16,675,353	$ 750,000	$ 17,425,353

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, 2016.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2016, amendments were made to the FPDR Adopted Budget as part of the routine Budget Monitoring Processes. An additional $1.0 million in property tax revenue was recognized and used to offset higher than anticipated Oregon Public Employees Retirement System (PERS) contribution expense for FPDR Three members. In addition, $2.7 million was transferred from fund contingency to external materials and services to make legal settlement payments for the *John Miller, et al. v. City of Portland* case.

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 liability for the fiscal year ended June 30, 2016; FPDR's share of this asset and related deferred inflows and outflows are reflected in FPDR's ending plan net position.

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. Deferred inflows and outflows of resources are comprised of several sources; each source is reflected as an actuarially determined balance in FPDR's financial statements. Deferred inflow of resources derive from the net difference between projected and actual earning on PERS investments, as well as differences between the City's actual contributions and the City's proportionate share of contributions. Differences between expected and actual experience, changes in employer proportion, and City contributions made subsequent to the measurement date constitute deferred outflows. Both deferred inflows and outflows are amortized over a five-year period.

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, which serves as the Plan document, and can be found at http://www.portlandoregon.gov/citycode/?c=28210. 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. FPDR also publishes a Plan Summary, which can be found at http://www.portlandoregon.gov/fpdr/article/569617.

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, 2016, 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	500	1,354	-	1,854
Vested benefits not yet in pay status				
Surviving spouses not yet eligible	-	3	-	3
Terminated employees	-	85	-	85
	-	88	-	88
Active members on short-term disability	-	15	7	22
Active members:				
Vested	-	1,055	-	1,055
Non-vested	-	-	-	-
Not in FPDR pension plan	-	-	464	464
Total active members	-	1,055	464	1,519

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, 2016, there were 500 members and beneficiaries subject to the Plan as constituted prior to July 1, 1990, now called FPDR One; 2,497 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.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

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 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 FPDR tax levy funds FPDR Three PERS contributions as well as the FPDR Plan. FPDR Three PERS contributions are included in benefits on FPDR's *Statement of Changes in Plan Net Position.* More information about the City's PERS liability can be found in the City's annual financial statements. As of June 30, 2016, the number of FPDR Three members was 464. This does not include retired FPDR Three members, who are eligible only for disability benefits (medical costs) arising from service or occupational claims approved before their retirement, and a one-time funeral benefit upon their death. Active FPDR Three members are covered for disability and preretirement death benefits.

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.

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 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 2.1 percent on July 1, 2015, but did not increase on July 1, 2016. FPDR One Police benefits increased by 2.1 percent on July 1, 2015 and 1.0 percent on July 1, 2016. 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 $261,312 to 10 participants for the fiscal year ending June 30, 2016.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

Effective July 1, 1990, the Plan was amended to provide for the payment of FPDR Two retirement benefits upon termination of employment on or after attaining age 55, or on or after attaining age 50 if the member has 25 or more years of service. Members become 100 percent vested after five years of service. Benefits are paid to members at retirement using the following formula: 2.2 percent to 2.8 percent multiplied by years of service (30-year maximum) ; that product is multiplied by the highest one-year base pay the member received during the final three years of employment. The accrual rate of 2.2, 2.4, 2.6 or 2.8 percent is selected by the member at retirement; the rate determines the survivor benefit.

The City Charter allows the FPDR Board to grant postretirement benefit adjustments to FPDR Two members. The timing and amount of adjustments are at the Board's discretion, with the limitation that the percentage change in any one year may not exceed the highest 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. In 2013 the Oregon Legislature reduced the maximum PERS percentage increase from 2.0 percent to 1.25 percent; however, in April 2015 the Oregon Supreme Court invalidated the reduction on benefits earned before October 1, 2013 *(Moro v. State of Oregon).* On July 1, 2015 the PERS Board awarded all PERS retirees a two percent increase while they considered the implications of the *Moro* decision; the FPDR Board also awarded a two percent increase to FPDR Two retires on July 1, 2015. On July 1, 2016 the PERS Board awarded a blended percentage increase to PERS retirees, based on the percent of their service completed before and after October 1, 2013, as well as the size of their annual pension benefit. The FPDR Board awarded FPDR Two retirees a similar blended percentage increase on July 1, 2016: 1.25 percent multiplied by the percent of service completed on or after October 8, 2013, plus the consumer price index (up to a maximum of 2.0 percent, with carryover permitted from years in which the consumer price index exceeded 2.0 percent) multiplied by the percent of service completed before October 8, 2013. The calculation is the same irrespective of the size of the annual pension benefit. This formula resulted in a percentage increase of 2.0 percent for most FPDR Two retirees on July 1, 2016, although 138 FPDR Two retirees received increases ranging from 1.23 to 1.99 percent.

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, and whose pension benefits are subject to Oregon income tax. The benefits are calculated as a percentage of the Plan benefits, using the higher of 9.89 percent times the member's percent of service prior to October 1991 (when Oregon began taxing local pension benefits), or zero percent to four percent based on the member's total years of service. Surviving spouses receive the same percentage benefit as the member on their benefits, so long as the pension benefits remain subject to Oregon income tax.

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

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

provides for FPDR One members to receive a refund of contributions if they terminate employment before vesting. As of June 30, 2016, there are no unvested FPDR One or FPDR Two members.

Death benefits are paid to the surviving spouse or minor children of a member in a variety of circumstances, the most common of which is the death after retirement of an FPDR One or Two member. Death benefits are also payable to a 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 payable to a 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.

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 benefit provisions, the most significant of which defined final pay (used to calculate FPDR Two pensions) as base pay received for a 365-day or 366-day period, rather than a 12-month period. In September 2016, City Council amended the Plan to return to a final pay definition that uses a 12-month period for Portland Police Association (PPA) members, in order to comply with an April 2016 arbitrator's order. The change increases FPDR Two pension benefits for PPA members who retire in certain months, when the City's biweekly pay structure results in 27, rather than 26, pay checks over a 12-month period. Please see *Note 6, Subsequent Events* for more information.

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, 2016, the actual imposed levy rate per $1,000 of real market value under the special property tax levy was $1.23, and the total revenue received from the levy (which is most of the City's employer contribution) was $121.9 million.

The FPDR Board periodically assesses the future availability of property tax revenues by ordering projections and simulations in connection with the actuarial valuation of the funds. The most recent assessment was as of June 30, 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

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

four percent probability of reaching the maximum $2.80 per $1,000 of real market value in at least one year through 2034. The 2016 analysis is scheduled to be presented to the FPDR Board in January 2017. That analysis will reflect higher plan benefits, in the form of increased cost-of-living adjustments for FPDR Two retirees following the Oregon Supreme Court's *Moro* decision and the FPDR Board's approval of a service-blended adjustment percentage; increased pension benefits for FPDR Two Police retirees as the result of a changed definition of final pay (see *Note 6, Subsequent Events)*; and increased pension benefits for FPDR One and Two Police retirees, increased disability benefits for Police members, and increased OPSRP contributions for FPDR Three Police members as the result of wage increases over the next three years (see *Note 6, Subsequent Events)*. For these reasons, the probability of exceeding the levy limit will likely increase with the 2016 levy adequacy analysis, although some of the increase may be offset by rising real market values in the City of Portland tax base.

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, 2016. 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, 2016
Total pension liability	$ 3,391,461,315
Less plan net position	17,425,353
Net pension liability	$ 3,374,035,962
Plan net position as a percentage of total pension liability	0.51%

The ratio of the net pension liability to covered payroll was 2,425 percent. Covered payroll was $139.1 million for the fiscal year ended June 30, 2016. 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, 2016 were $114.1 million. Employer contributions to the FPDR Fund were $8.9 million higher, but the $8.7 million used for PERS contributions for FPDR Three members, as well as $0.2 million in compensated absence accruals also associated with FPDR Three members are excluded here, as those expenses are not part of the benefit payments shown in the Schedule of Changes in Net Pension Liability and Related Ratios.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

The net pension liability, as calculated in accordance with Governmental Accounting Standard Board Statement 67: Financial Reporting for Pension Plans, increased by $499 million between June 30, 2015 and June 30, 2016. The increase is primarily attributable to a change in the discount rate, the June 30 value each year of the Bond Buyer General Obligation 20-Bond Municipal Bond Index (Bond Buyer Index). The rate's drop from 3.80 percent on June 30, 2015 to 2.85 percent on June 30, 2016 increased the net pension liability by roughly $431.4 million.

Significant assumptions used to prepare the June 30, 2014 actuarial valuation and the June 30, 2016 roll-forward are listed below. These assumptions were applied to all periods included in the measurement.

Discount rate	2.85%
Long-term expected rate of return, net of investment expense	N/A
Municipal bond rate	2.85%
Valuation date	June 30, 2014
Measurement date	June 30, 2016
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.

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

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

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 3.85 percent discount rate had been used instead of 2.85 percent, the net pension liability as of June 30, 2016 would have been 14 percent lower. If a 1.85 percent discount rate had been used, the net pension liability as of June 30, 2016 would have been 17 percent higher.

	1% Decrease 1.85%	Current Discount Rate 2.85%	1% Increase 3.85%
Total pension liability	$ 3,970,833,940	$ 3,391,461,315	$ 2,930,581,556
Less plan net position	17,425,353	17,425,353	17,425,353
Net pension liability	$ 3,953,408,587	$ 3,374,035,962	$ 2,913,156,203

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 and one capital 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, 2016 the property tax receivable is $6.4 million. FPDR's sole capital asset is a software database with a net value of $496,852 on June 30, 2016. The database is being depreciated over 10 years.

Other liabilities – In addition to benefits owed on June 30 but payable on July 1, the FPDR Fund has three other liabilities. The first is the fund's share (for FPDR employees only) of the City of Portland's liability in the State of Oregon Public Employees Retirement System (PERS). The City PERS liability has been valued in accordance with GASB Statement No. 68 (Statement 68): Accounting and Financial Reporting for Pensions, and is equal to $217.1 million on June 30, 2016. FPDR's prorated share of that amount is 0.37%, or $812,094. The amount is net of 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

The second liability is FPDR's share of pension obligation bonds (Series C, D and E) issued by the City of Portland in 1999 to finance its estimated unfunded accrued actuarial liability (UAAL) with PERS 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, 2016 the outstanding $33.78 million of 1999 Series D variable rate bonds and $33.75 million of 1999 Series E variable rate bonds carried interest rates of 0.59 percent and 0.53 percent, respectively. 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, 2016. 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 $353,225 at June 30, 2016.

Bonds payable transactions for the year ended June 30, 2016 are as follows:

	Outstanding June 30, 2015	Bonds Allocated	Bonds Matured and Paid During Year	Outstanding June 30, 2016
Oregon Public Employees Retirement System Bonds ("PERS Pension Bonds")	$ 384,259	-	$ 31,034	$ 353,225

Future maturities of bond principal and interest at June 30, 2016 are as follows:

Fiscal Year	Principal	Interest	Total
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	55,066	9,006	64,072
2022-26	103,797	257,151	360,948
2027-29	27,460	225,631	253,091
	$ 353,225	$ 552,897	$ 906,122

Finally, as of June 30, 2016 FPDR has booked $1.1 million for employee leaves payable. This includes leave earned but not yet paid for FPDR employees, as well as the future PERS contributions payable on leave earned but not yet paid by FPDR Three members at the Fire and Police Bureaus.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

Commitments and contingencies - The FPDR Fund leases its office space under a noncancellable operating lease with a third party. The lease agreement expires on July 31, 2017. In the fiscal year ended June 30, 2016, rent expense was equal to $191,476.

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

Year Ending June 30,	
2017	191,623
2018	15,995
	$207,618

The FPDR Fund is involved in various claims and legal actions in the normal course of business. Currently, there are no claims again the Fund for $50,000 or more, and no claims involving lesser amounts that might exceed $50,000 in the aggregate.

For the fiscal year ending June 30, 2015 FPDR booked a $1.3 million contingent for the contract claim *John Miller, et al. v. City of Portland.* The case related to a pilot restricted-duty return to work program for members on long-term disability. FPDR settled the case for $2.7 million in May 2016 and reversed the contingent liability.

NOTE 3 - SHORT-TERM DEBT

During the year the FPDR Fund borrowed $24.4 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, 2016.

	Beginning Balance	Additions	Reductions	Ending Balance
Tax anticipation notes	$ -	$ 24,370,000	$ (24,370,000)	$ -
	$ -	$ 24,370,000	$ (24,370,000)	$ -

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS

Other postemployment benefits (OPEB) for the FPDR Fund consist of two components: an implicit rate subsidy for its retired staff's Health Insurance Continuation premiums and a contribution to the State of Oregon's Public Employees Retirement System (PERS) cost-sharing, multiple-employer defined benefit plan. All OPEB costs are associated with retired staff. 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, 776 retirees and 277 spouses were participating in the plan.

The City's liability on July 1, 2015 was $79.2 million; FPDR's estimated share of the liability is $72,830, or 0.092 percent. The City has elected not to pre-fund the fiscal year 2016 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, 2016, 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	$ 627.49	$ 56.83	$ 5.10
Participant and spouse	1,226.28	98.19	9.29
Kaiser			
Participant	572.42	66.61	5.40
Participant and spouse	1,144.80	133.22	10.80

Portland Police Association (PPA)			
	Medical Only	Dental	Vision
City Health Care Plan			
Participant	$ 648.67	$ 56.83	$ 4.27
Participant and spouse	1,308.55	98.19	7.77
Kaiser			
Participant	576.34	62.17	5.85
Participant and spouse	1,152.67	124.34	11.70

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 for the year , the amount actually contributed to the plan, and changes in the City's OPEB obligation to the plan.

	Health Insurance Continuation
Annual required contribution	$ 6,787,517
Interest on net OPEB obligation	1,471,563
Adjustment to annual required contribution	(2,286,025)
Annual OPEB cost	5,973,055
Less expected contribution	(4,914,945)
Increase in Net OPEB obligation	1,058,110
Net OPEB obligation - beginning of year	42,044,664
Net OPEB obligation - end of year	$ 43,102,774
Governmental activities	$ 39,525,479
Business-type activities	3,537,659
Fiduciary activities	39,636
Net OPEB obligation - end of year	$ 43,102,774

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2016, 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
2016	5,973,055	4,914,945	82.29	43,102,774

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

Funded status and funding progress - The funded status of the plan as of July 1, 2015 is as follows:

	Health Insurance Continuation
Actuarial accrued liability	$ 79,200,156
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 79,200,156

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	0.52-2.71%
Healthcare cost trend rate	2.0-8.5%
Covered payroll (active plan members)	$ 427,939,469
UAAL as a percentage of covered payroll	19%

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 schedules 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 July 1, 2015 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

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

trend rate of 2 to 8.5 percent for health insurance, a range of a decrease of 4.2 to an increase of 4.5 percent for dental insurance and 3 percent for vision. The UAAL is amortized over an open period of 30 years using the 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 reside 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 by URL: 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 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 0.53 percent of annual covered payroll for Tier One and Two employees, and 0.45 percent for OPSRP employees. The Oregon PERS Board of Trustees sets the employer contribution rate. It is based on the annual required contribution of the combined participant employers. This is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a closed period not to exceed 30 years.

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

The City's contributions to RHIA equaled the required contributions each year and were:

Fiscal Year Ended June 30,	RHIA Contributions
2014	$ 1,651,401
2015	$ 1,810,227
2016	$ 1,651,293

The amount of FPDR’s contributions associated with the City’s RHIA obligations for the year ended June 30, 2016 is approximately $260,000 for FPDR Three members and $8,000 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 (OPERS), a cost-sharing multiple-employer defined benefit plan in accordance with Oregon Revised Statutes Chapter 238, Chapter 23A, and Internal Revenue Service Code Section 401(a).

OPERS prepares their financial statements in accordance with Governmental Accounting Standards Board (GASB) Statements and generally accepted accounting principles. The accrual basis of accounting is used for all funds. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefits are recognized in the month they are earned, and withdrawals are recognized in the month they are due and payable. Investments are recognized at fair value, the amount at which financial instruments could be exchanged in a current transaction between willing parties other than in a forced or liquidation sales. OPERS 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 OPERS, with eligibility determined by the date of employment. Those employed prior to August 29, 2003 are OPERS 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. OPSRP is a hybrid retirement plan with two components: 1) the Pension Program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan), and 2) the Individual Account Program (IAP) (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan).

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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

Beginning January 1, 2004, all employees who were active members of OPERS became members of the OPSRP IAP Program. OPERS plan member contributions (the employee contribution, whether made by the employee or "picked-up" by the employer) go into the IAP portion of OPSRP. OPERS plan members retain their existing OPERS accounts; however, member contributions after January 1, 2004 are deposited in the member's IAP, not into the member's OPERS 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 OPERS 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.

Benefits provided under ORS 238 - Tier One / Tier Two

Pension Benefits – The OPERS 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 (two 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.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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.

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 a cost-of-living adjustment (COLA). The COLA for fiscal year 2015 was capped at 1.5 percent for all benefit recipients. As a result of the Moro Decision (Everice Moro et al v. State of Oregon et al) the cap on the COLA was restored to 2.0 percent for fiscal year 2016.

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.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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.

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 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. The surviving spouse or other person may elect to delay payment of the death benefit, but payment must commence no later than December 31 of the calendar year in which the member would have reached 70½ years.

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 a cost-of-living adjustment (COLA). The cap on the COLA was restored to 2.0 percent for fiscal year 2016 as a result of the Moro Decision (Everice Moro et al v State of Oregon et al).

Funding Policy – PERS funding policy provides for monthly employer contributions at actuarially determined rates. 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 OPERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

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 OPERS 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 obligate of the general government. These limited tax pension obligation revenue bonds are discussed further in Note III.I. Long-term debt.

Contributions **–** The City's employer contributions for the year ended June 30, 2016 were $33.7 million, 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, 2016 for each pension program were: Tier1/Tier 2 – 13.34 percent, OPSRP general service – 7.53 percent, and OPSRP uniformed – 11.64 percent. Pension expense for the year was $165.1 million.

Pension Asset (Liability) and Related Deferred Inflows and Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013 and rolled forward to June 30, 2015. The City's proportion of the set was based on the City's projected long-term contribution effort as compared to the total projected net pension a long-term contribution effort of all employers. References to the City of Portland, as the Reporting entity, include the City's fiduciary fund and component unit. At June 30, 2016, the City's proportion of OPERS net pension liability was 3.78054215 percent.

The City's net pension liability as the Reporting entity, was allocated based on contributions by activity:

City of Portland:	Net Pension Liability	Allocation
Governmental activities	$ 157,287,919	72.4%
Business-type activities	54,819,287	25.3%
Government-wide	212,107,206	97.7%
Fiduciary Fund: Fire and Police Disability and Retirement Fund	812,094	0.4%
Component Unit: Portland Development Commission	4,139,065	1.9%
	$ 217,058,365	100.00%

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

For the year ended June 30, 2016, the Reporting entity recognized pension expense of $165.1 million. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 11,704,886	$ -
Net difference between projected and actual earnings on investments	-	45,500,354
Differences between City contributions and proportionate share of contributions	-	10,066,072
Changes in employer proportion	2,595,987	-
Total (prior to post-measurement date contributions)	14,300,873	55,566,426
City contributions made subsequent to measurement date	33,729,765	-
Net deferred outflow / (inflows) of resources	$ 48,030,638	$ 55,566,426

$33.7 million reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported by the City as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in subsequent years as follows:

	Deferred Outflow of Resources			Deferred Inflow of Resources		
Fiscal Year Ending June 30,	Differences between Expected and Actual Experience	Changes in Employer Proportion	Total Deferred Outflow of Resources	Differences between Projected and Actual Investment Earnings	Differences between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflow of Resources
2017	2,660,201	589,997	3,250,198	21,709,770	2,287,744	23,997,514
2018	2,660,201	589,997	3,250,198	21,709,770	2,287,744	23,997,514
2019	2,660,201	589,997	3,250,198	21,709,770	2,287,744	23,997,514
2020	2,660,201	589,997	3,250,198	(19,628,956)	2,287,744	(17,341,212)
2021	1,064,082	235,999	1,300,081	-	915,096	915,096
	11,704,886	2,595,987	14,300,873	45,500,354	10,066,072	55,566,426

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

Actuarial Methods and Assumptions

Actuarial Valuations - The employer contribution rates effective July 1, 2014, through June 30, 2016, were set using the entry age normal actuarial cost method.

For the Tier One/Tier Two component of the OPERS 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 OPERS 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, 2013 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	December 31, 2013
Measurement date	June 30, 2015
Experience study	2014, published September 2015
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	2.75 percent
Long-term expected rate of return	7.75 percent
Discount rate	7.75 percent
Projected salary increases	3.75 percent
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with Moro decision; blend 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 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. 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

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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 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 PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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.

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 Reporting entity'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)	$ 523,862,165	$ 217,061,718	$ (41,495,231)

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

Pension Plan Fiduciary Net Position

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

Changes in Plan Provisions Affecting the Roll-Forward

The Oregon Supreme Court decision in Moro v. State of Oregon (issued on April 30, 2015) occurred after the December 31, 2013 valuation date but affected the plan provisions reflected for financial reporting purposes. The Moro decision modified the COLA-related changes of Senate Bills 822 and 861, creating a blended COLA for members who earned service both before and after the effective dates of the legislation. Due to the timing of the Supreme Court decision, this means the COLA change due to Moro is reflected in the June 30, 2015 Total Pension Liability.

Changes in Assumptions

A summary of key changes implemented since the December 31, 2013 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions can be found in the 2014 Experience Study for the System, which was published on September 23, 2015, and can be found at:
mailto:https://www.oregon.gov/pers/docs/2014_experience_study_9-23-15.pdf

Allocation of Liability for Service Segments

For purposes of allocating Tier One/Tier Two 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 One/Tier Two population. For the December 31, 2012 and December 31, 2013 valuations, the Money Match was weighted 30 percent for General Service members and 5 percent for Police & Fire members. For the December 31, 2014 and December 31, 2015 valuations, this weighting has been adjusted to 25 percent for General Service members and zero percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

Changes in Economic Assumptions

Inflation. The inflation rate was lowered to 2.5 percent based on a combination of historical and market data and expert forecasts.

Payroll Growth. The payroll growth, which is the sum of inflation and real wage growth, was reduced from 3.75 percent to 3.5 percent.

Investment Return and Interest Crediting. The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.5 percent. Previously, the assumed investment return and interest crediting to both regular and variable account balances was 7.75 percent.

Tier One/Tier Two Administrative Expenses. Recently implemented GASB statements No. 67 and 68 necessitated an explicit Tier 1/Tier 2 administrative expense assumption. The administrative expense for December 31, 2014 and December 31, 2015 is $33 million per year.

Healthcare Cost Inflation. The healthcare cost inflation for the maximum 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 static tables to the RP2000 generational 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.

Changes in Salary Increase Assumptions

Merit Increases, Unused Sick Leave, and Vacation Pay. Unused sick leave and vacation pay rates were adjusted.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

Retiree Healthcare Participation. The RHIA participation rate for healthy retirees was reduced from 45 percent to 38 percent. 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 OPERS 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 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 OPSRP Individual Account Program (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 2016 the City paid $21.5 million.

Recordkeeping. OPERS contracts with VOYA Financial to maintain IAP participant records.

SUBSEQUENT EVENTS NOTE:
Changes in OPERS Pension Plan Provisions Subsequent to Measurement Date

At its July 31, 2015 meeting, the PERS Board lowered the “assumed rate” to 7.5 percent effective, January 1, 2016. The assumed rate is the rate of investment return (including inflation) that PERS Fund’s plans are expected to earn over the long term. Oregon Administrative Rule 459-007-0001(2) states that the assumed rate “means the actuarial assumed rate of return on investments as adopted by the Board for the most recent actuarial valuation.” Based on the sensitivity analysis provided by OPERS, it is estimated that this could increase net pension liability by another $77 million.

NOTE 6 - SUBSEQUENT EVENTS

In July 2016, FPDR issued tax anticipation notes for $29.1 million with a true interest cost of 0.64 percent. The notes are due for repayment on June 28, 2017.

Also in July 2016, City Council amended Chapter 5 of the City Charter (the FPDR Plan document) to allow for a reversionary benefit when an alternate payee predeceases a member. Section 5-403 of the City Charter gives the Council the authority to amend the FPDR Plan "if the City of Portland is required by law to extend to the Members additional benefits…" The amendment was made to comply with an arbitrator's order that the City increase members' pension benefits by the amount of their deceased former spouse's monthly pension benefits (in cases where the former spouses had been assigned a portion of the member's pension). As of this document's publication, three members are impacted and have now been granted reversionary benefit increases ranging from $1,225 to $3,247 per month.

In September 2016, the FPDR Board authorized a three-year extension of FPDR's office lease, though July 31, 2020. The lease also permits up to three six month extensions. Rent will increase 6.7 percent in the first year, with three percent increases each year thereafter. Please see "Commitments and Contingencies" under *Note 2, Plan Features and Other Information* for additional information about FPDR's office lease.

In October 2016, City Council again amended Chapter 5 of the City Charter to comply with an arbitrator's order received in March. This amendment changed the definition of final pay used to calculate FPDR Two pension benefits for Portland Police Association (PPA) members only. Prior to January 1, 2013, final pay was defined as pay received during a 12-month period. The City's biweekly pay structure occasionally creates 27 (rather than 26) pay checks in a 12-month period, resulting in higher final pay and thus higher pensions for members who retire the month after one of these periods. In 2012 City of Portland voters changed the definition of final pay to include 365 or 366 (in a leap year) days of pay, which is equivalent to 26.07 or 26.14 pay checks. In compliance with the arbitrator's order, Council amended the City Charter to define final pay for FPDR Two PPA members as the greater of the two methods, either pay received during a 12-month period or pay received for 365-366 days. The change was retroactive to January 1, 2013. A similar arbitrator's order was received for Portland Fire Fighters Association and Portland Police Commanding Officers Association members later in October 2016, but Council has yet to amend the City Charter for those members. The cost of the change in final pay definition has been estimated at approximately $40 million to $59 million over the life of the plan, in today's dollars, if applied to all FPDR members.

Also in October 2016, City Council and the PPA ratified a new labor contract that provides for three percent wage increases on January 1, 2017, January 1, 2018, and January 1, 2019 for police officers, sergeants, detectives, and criminalists. This will result in a cumulative 9.27 percent wage increase above previously projected levels, which included only annual cost of living adjustments. The wage increases will in turn increase FPDR One pension benefits (which receive

NOTE 6 - SUBSEQUENT EVENTS, continued

cost of living adjustments equal to increases in active police office pay); future FPDR Two pension benefits (which will now be based on higher final pay); contributions made by FPDR to the Oregon Public Employee Retirement System on behalf of FPDR Three members (which are a percent of pay); and disability and funeral benefits for FPDR Two and FPDR Three member (which are a percent of pay). FPDR has estimated the resulting benefit cost increases at more than $6.3 million through FY 2020-21; costs will continue to grow in real terms for the nest 15 - 20 years as the entire FPDR Two population retires and the entire active workforce becomes FPDR Three.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
JUNE 30, 2016

	Fiscal Year Ending June 30,			
	2016	2015	2014	2013
Total pension liability				
Service cost	$ 66,693,061	$ 58,853,250	$ 63,660,926	N/A
Interest	110,470,511	106,304,323	117,017,081	N/A
Effect of plan changes	-	185,288,710	(222,274,639)	N/A
Effect of economic/demographic gains (losses)	-	(25,565,616)	-	N/A
Changes of assumptions	431,404,102	208,943,518	106,474,383	N/A
Benefit payments	(114,001,126)	(110,900,284)	(108,003,419)	N/A
Net change in total pension liability	494,566,548	422,923,901	(43,125,668)	N/A
Total pension liability, beginning	2,896,894,767	2,473,970,866	2,517,096,534	N/A
Total pension liability, ending (a)	$ 3,391,461,315	$ 2,896,894,767	$ 2,473,970,866	$ 2,517,096,534
Plan fiduciary net position				
Contributions - employer	$ 114,079,956	$ 115,852,428	$ 114,654,336	N/A
Net investment income	489,154	(522,201)	312,468	N/A
Benefit payments	(114,001,126)	(110,900,284)	(108,003,419)	N/A
Administrative expense	(5,019,573)	(3,085,925)	(3,585,476)	N/A
Net change in plan net position	(4,451,589)	1,344,018	3,377,909	N/A
Plan net position, beginning	21,876,942	20,532,924	17,155,015	N/A
Plan net position, ending (b)	17,425,353	21,876,942	20,532,924	17,155,015
Net pension liability, ending (a) - (b)	$ 3,374,035,962	$ 2,875,017,825	$ 2,453,437,942	$ 2,499,941,519
Plan fiduciary net position as a percentage of total pension liability	0.51%	0.76%	0.83%	0.68%
Covered-employee payroll	$ 139,108,113	$ 139,346,388	$ 135,726,350	$ 135,372,631
Net pension liability as a percentage of covered-employee payroll	2425.48%	2063.22%	1807.64%	1846.71%

Notes to Schedule

1. Contributions and benefit payments shown here are $8,932,715 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 $499 million (17.4 percent) primarily as a result of a decrease in the discount rate, which dropped from 3.80% in 2015 to 2.85% in 2016. The decrease resulted in a $431.4 million addition to the liability.

Schedule of the City's Proportionate Share of the Net Pension Liability (Millions)
Oregon Public Employees Retirement System

	Fiscal Year Ending June 30,		
	2016	2015	2014
City proportion of the net pension liability (asset)	3.62934176%	3.62934176%	N/A
City proportionate share of the net pension liability (asset)	($82.3)	$185.2	N/A
City covered-employee payroll	330.5	313.1	N/A
City proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	-24.9%	59.2%	N/A
Plan fiduciary net position as a percentage of the total pension liability	103.6%	92.0%	N/A

*Schedule is based on measurement date data, which is derived from prior year information.

Schedule of City Contributions (Millions)

	Fiscal Year Ending June 30,		
	2016	2015	2014
Contractually required contribution	$33.7	$26.3	$25.0
Contributions in relation to the contractually required contribution	33.7	26.3	25.0
Contribution deficiency (excess)	$0	$0	$0
City covered-employee payroll	343.6	330.5	313.1
Contributions as a percentage of covered-employee payroll	9.8%	8.0%	8.0%

Changes in Plan Provisions Subsequent to Measurement Date:

At its July 31, 2015 meeting, the PERS Board lowered the “assumed rate” to 7.5 percent effective, January 1, 2016. Based on the sensitivity analysis provided by OPERS, this could increase net pension liability by an additional $77 million.

Changes in Assumptions:

A summary of key changes implemented since the December 31, 2013 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions can be found in the 2014 Experience Study for the system, which was published on September 23, 2015, and can be found at: https://www.oregon.gov/pers/docs/2014_experience_study_9-23-15.pdf

Changes in Actuarial Methods and Allocation Procedures:

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, 2012 and December 31, 2013 valuations, the Money Match was weighted 30 percent for General Service members and five percent for Police & Fire members. For the December 31, 2014 and December 31, 2015 valuations, this weighting has been adjusted to 25 percent for General Service members and zero percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

Changes in Economic Assumptions

Inflation - The inflation rate was lowered to 2.5 percent based on a combination of historical and market data and expert forecasts.

Payroll Growth - The payroll growth, which is the sum of inflation and real wage growth, was reduced from 3.75 percent to 3.5 percent.

Investment Return and Interest Crediting - The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.5 percent. Previously, the assumed investment return and interest crediting to both regular and variable account balances was 7.75 percent.

Tier 1/Tier 2 Administrative Expenses - Recently implemented GASB statements No. 67 and 68 necessitated an explicit Tier 1/Tier 2 administrative expense assumption. The administrative expense for December 31, 2014 and December 31, 2015 is $33 million per year.

Healthcare Cost Inflation - The healthcare cost inflation for the maximum Retiree Healthcare 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 static tables to the RP2000 generational 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.

Changes in Salary Increase Assumptions

Merit Increases, Unused Sick Leave, and Vacation Pay - Unused sick leave and vacation pay rates were adjusted.

Retiree Healthcare Participation - The Retirement Health Insurance Account (RHIA) participation rate for healthy retirees was reduced from 45% to 38%. The 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 Heathcare Plan

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, 2013	-	$103,990,506	$103,990,506	0%	$343,450,043	30.28%
July 1, 2014	-	105,266,428	105,266,428	0%	346,483,812	30.38%
July 1, 2015	-	79,200,156	79,200,156	0%	427,939,469	18.51%

SUPPLEMENTARY INFORMATION

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes:				
Current year property taxes	$ 118,759,002	$ 119,658,820	$ 120,505,934	$ 847,114
Prior year property taxes	2,400,000	2,400,000	2,258,779	(141,221)
Total taxes	121,159,002	122,058,820	122,764,713	705,893
Revenues other than taxes:				
Other service charges	-	-	44	44
Billings to other funds for services	952,200	1,037,200	1,076,739	39,539
Pension overpayment recovery	-	-	-	-
Investment earnings	234,000	234,000	421,462	187,462
Miscellaneous	62,200	62,200	74,222	12,022
Total revenues	122,407,402	123,392,220	124,337,180	944,960
Expenditures				
Current:				
Personnel services	1,953,000	2,003,000	1,948,783	54,217
Materials and services	125,581,306	129,195,242	126,181,537	3,013,705
General operating contingencies	12,761,000	10,081,882	-	10,081,882
Overhead charges - General Fund	104,127	104,127	104,127	-
Debt service and related costs:				
Principal	31,916,034	31,916,034	24,401,034	7,515,000
Interest	334,275	334,275	340,253	(5,978)
Debt issuance costs	27,000	27,000	20,714	6,286
Capital outlay	72,400	72,400	53,770	18,630
Total expenditures	172,749,142	173,733,960	153,050,218	20,683,742
Revenues over (under) expenditures	(50,341,740)	(50,341,740)	(28,713,038)	21,628,702
Other Financing Sources (Uses)				
Transfers from other funds	750,000	750,000	-	(750,000)
Transfers to other funds	(758,299)	(758,299)	(8,299)	750,000
Bonds and notes issued	31,885,000	31,885,000	24,370,000	(7,515,000)
Bonds and notes premium	-	-	267,339	267,339
Total other financing sources (uses)	31,876,701	31,876,701	24,629,040	(7,247,661)
Net change in fund balance	(18,465,039)	(18,465,039)	(4,083,998)	14,381,041
Fund balance - beginning	18,465,039	18,465,039	17,717,432	(747,607)
Fund balance - ending	$ -	$ -	$ 13,633,434	$ 13,633,434

continued on next page

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Adjustment to generally accepted accounting principles (GAAP) basis:				
Unrealized gain (loss) on investments			$ 105,616	
Deferred revenue			4,965,332	
Capital assets			496,852	
Compensated absences			(1,144,216)	
Bonds payable			(353,225)	
Interest payable			(183,160)	
Other post employment benefits			(39,636)	
Pension contingent liability			(812,094)	
Pension asset			-	
Deferred inflow			(166,575)	
Deferred outflow			173,025	
Fund balance - GAAP basis			$ 16,675,353	

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, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget - Positive (Negative)
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, 2016

Personnel services	$ 1,948,783
Materials and services	
Actuarial	33,002
Audit	29,314
Claims investigation	175,480
Computer consulting	5,000
Legal	82,045
Other professional services	130,415
Other external services	882,866
Office supplies, minor equipment and tools	18,455
Education	3,740
Subscriptions, publications and dues	6,098
Travel	1,750
Facilities operating lease	191,476
Fleet	223
Enterprise Business System	34,820
Printing and distribution	39,859
Facilities	2,320
Technology	104,226
Risk management	30,604
Other fund services	384,217
Total materials and services	2,155,910
Overhead charges - General Fund	104,127
Debt service and related costs	
Principal	24,401,034
Interest	340,253
Debt issuance costs	20,714
Total debt service and related costs	24,762,001
Total administrative expenses (Budget)	$ 28,970,821
Plus/(minus)	
Debt principal	$ (24,401,034)
Bond premium	(267,339)
Depreciation	85,679
Capitalized labor	(18,319)
Transfers to (from) other funds	8,299
Accreted interest	18,812
PERS pension cost	617,698
Change in compensated absences	5,241
Change in other post-employment benefits	(285)
Operating and administrative expenses (GAAP)	$ 5,019,573

SCHEDULE OF PENSION, DISABILITY AND DEATH BENEFIT EXPENDITURES BY BUREAU
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Members		Other Beneficiaries		Total	
	Number	Amount	Number	Amount	Number	Amount
Portland Fire & Rescue:						
Nonservice benefits	1	$ 18,420	-	$ -	1	$ 18,420
Service benefits	96	946,100	-	-	96	946,100
Occupational benefits	16	91,755	-	0	16	91,755
Early return to work benefits	20	143,650	-	-	20	143,650
Claims Settlement	6	2,679,118	-	-	6	2,679,118
Pensions (FPDR 1 and 2)	628	42,433,009	240	5,887,454	868	48,320,463
PERS contributions (FPDR Three)	225	4,117,409	-	-	225	4,117,409
Medical benefits	222	827,555	-	-	222	827,555
Vocational rehabilitation benefits	-	-	-	-	-	-
Funeral benefits	20	17,044	-	-	20	17,044
	1,234	$ 51,274,060	240	$ 5,887,454	1,474	$ 57,161,514
Portland Police Bureau:						
Nonservice benefits	5	$ 148,500	-	$ -	5	$ 148,500
Service benefits	163	2,367,188	1	50,300	164	2,417,488
Occupational benefits	14	54,990	1	67,964	15	122,954
Early return to work benefits	43	265,934	-	-	43	265,934
Claims Settlement	-	-	-	-	-	-
Pensions (FPDR 1 and 2)	860	53,084,413	253	5,670,023	1,113	58,754,436
PERS contributions (FPDR Three)	252	4,582,092	-	-	252	4,582,092
Medical benefits	292	1,395,315	-	-	292	1,395,315
Vocational rehabilitation benefits	2	2,486	-	-	2	2,486
Funeral benefits	15	23,305	-	-	15	23,305
	1,646	$ 61,924,223	255	$ 5,788,287	1,901	$ 67,712,510
Combined Fire and Police:						
Nonservice benefits	6	$ 166,920	-	$ -	6	$ 166,920
Service benefits	259	3,313,288	1	50,300	260	3,363,588
Occupational benefits	30	146,745	1	67,964	31	214,709
Early return to work benefits	63	409,584	-	-	63	409,584
Claims Settlement	6	2,679,118	-	-	6	2,679,118
Pensions (FPDR 1 and 2)	1,488	95,517,422	493	11,557,477	1,981	107,074,899
PERS contributions (FPDR Three)	477	8,699,501	-	-	477	8,699,501
Medical benefits	514	2,222,870	-	-	514	2,222,870
Vocational rehabilitation benefits	2	2,486	-	-	2	2,486
Funeral benefits	35	40,349	-	-	35	40,349
	2,880	$ 113,198,283	495	$ 11,675,741	3,375	$ 124,874,024

Notes to Schedule

1. The benefits amount in the Statement of Changes in Plan Net Position is $122,933,840. The difference between that amount and this schedule consists of the PERS contribution portion of the compensated absence liability associated with Police and Fire FPDR Three members totaling $1,091,787, and $848,397 of a legal settlement that was classified as an administrative expense in the Statement of Changes in Plan Net Position.
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.

SCHEDULE OF NUMBER OF PENSIONERS AND BENEFICIARIES BY BUREAU
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Portland Fire & Rescue			Portland Police Bureau			Total		
	Members	Other Beneficiaries	Total	Members	Other Beneficiaries	Total	Members	Other Beneficiaries	Total
Pensions	610	176	786	845	185	1,030	1,455	361	1,816
PERS Contributions	224	-	224	240	-	240	464	-	464
Disability	18	-	18	40	2	42	58	2	60
	852	176	1,028	1,125	187	1,312	1,977	363	2,340

COMPARATIVE SCHEDULE OF NUMBER OF PENSIONERS AND BENEFICIARES BY BUREAU

							June 30,				Increase (decrease) Ten years ended June 30,
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2016
Portland Fire & Rescue:											
Pension:											
FPDR 1&2 members	610	602	607	614	608	584	590	604	573	563	47
FPDR 3 members[1]	224	192	172	172	173	163	128	101	55	-	224
Other beneficiaries	176	179	177	189	187	193	183	181	195	200	(24)
Total	1010	973	956	975	968	940	901	886	823	763	247
Disability:											
Members	18	24	27	23	23	33	34	37	52	62	(44)
Other beneficiaries	0	0	0	1	1	2	4	4	4	8	(8)
Total	18	24	27	24	24	35	38	41	56	70	(52)
Total Fire	1028	997	983	999	992	975	939	927	879	833	195
Portland Police Bureau:											
Pension:											
FPDR 1&2 members	845	824	803	807	798	767	774	773	767	731	114
FPDR 3 members[1]	240	230	216	214	189	174	151	119	60	-	240
Other beneficiaries	185	189	196	198	195	194	194	186	191	190	(5)
Total	1,270	1,243	1,215	1,219	1,182	1,135	1,119	1,078	1,018	921	349
Disability:											
Members	40	42	44	42	43	59	76	78	78	106	(66)
Other beneficiaries	2	2	3	4	4	4	6	5	8	4	(2)
Total	42	44	47	46	47	63	82	83	86	110	(68)
Total Police	1,312	1,287	1,262	1,265	1,229	1,198	1,201	1,161	1,104	1,031	281
Summary of disability:											
Fire	18	24	27	24	24	35	38	41	56	70	(52)
Police	42	44	47	46	47	63	82	83	86	110	(68)
Total	60	68	74	70	71	98	120	124	142	180	(120)
Summary of pension and disability:											
Fire	1028	997	983	999	992	975	939	927	879	833	195
Police	1,312	1,287	1,262	1,265	1,229	1,198	1,201	1,161	1,104	1,031	281
Total	2,340	2,284	2,245	2,264	2,221	2,173	2,140	2,088	1,983	1,864	476

Notes to Schedule
FPDR Three members are enrolled in the Oregon Public Employees Retirement Systems (PERS). 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
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
2016	1.23	126,376,817	287,358,793	160,981,976

Notes to Schedule

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

AUDITOR'S REPORT UNDER GOVERNMENT AUDITING STANDARDS

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, 2016, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated November 1, 2016.

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 1, 2016