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, 2017

Bureau of Fire & Police Disability & Retirement

Table of Contents

INTRODUCTORY SECTION

CITY OF PORTLAND, OREGON

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

JUNE 30, 2017

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FINANCIAL SECTION

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, Oregon as of June 30, 2017 and the related statements of changes in plan net position for the year then ended, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2017, 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.

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, Schedule of Changes in Net Pension Liability and Related Ratios on page 46, the City Share of Oregon Public Employees Retirement System on pages 47 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.

Other 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules on pages 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 October 24, 2017 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 solely 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 the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

Moss Adams, LLP

Eugene, Oregon
October 24, 2017

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, 2017. 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, 2016; rolling that valuation forward to June 30, 2017 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 $3.37 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. Employer contributions accounted for 99.7 percent of the FPDR Fund's revenues for the fiscal year ended June 30, 2017. Employer contributions are financed almost entirely by a dedicated property tax levy, which provided $129.1 million of the $130.5 million in total employer contributions for the year.
- The imposed FPDR property tax levy for the fiscal year ended June 30, 2017 was $1.10 per $1,000 of real market value within the City of Portland, a decrease from $1.23 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 reflects only current assets. Net position was $14.2 million on June 30, 2017, a decrease from the June 30, 2016 net position of $17.4 million.
- Cash and short-term investments declined by $13.0 million during the fiscal year ended June 30, 2017. This is attributable to several factors. First, the June pension benefit was paid on June 30 in 2017, but July 1 in 2016. Second, the fund was required to pay unanticipated benefit expenses resulting from plan amendments enacted by City Council and an increase in police salaries negotiated during the fiscal year. Finally, management lowered the Fund's operating contingency reserve from ten to eight percent of planned expenditures for the fiscal year ending June 30, 2017.
- Benefit payments to retirees and disabled members as well as their beneficiaries increased by 5.9 percent, or $7.2 million. Pension benefits continue to increase as more FPDR Two members retire with a more generous pension benefit, on average, than FPDR One members. Wage increases have also resulted in higher final pay (one component of the pension calculation). Greater longevity in the retiree population has also played a role.

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 almost entirely from dedicated property tax revenue received during that year. No assets are accumulated 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 (RMV), the Oregon state constitution caps each property's general government taxes at $10 per $1,000 of RMV. 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 RMV levy rate for the fiscal year ended June 30, 2017 was $1.10.

Sworn members of the Fire and Police Bureaus hired after 2006 are enrolled in the prefunded Oregon Public Employee Retirement System (PERS) pension plan. The FPDR Fund pays the employee and employer portions of PERS contributions for these members, as well as their FPDR disability, funeral and death before retirement benefits. Members of the FPDR plan prior to 2007 remain covered by the FPDR plan for their retirement, disability and death benefits. The payment of both PERS contributions for members hired since 2006 and current benefit payments to retirees hired before 2007 and their 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, 2017, a slight decrease of $21.1 million from June 30, 2016. The lower liability is primarily due to a higher discount rate (the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index each year), which increased from 2.85 percent on June 30, 2016 to 3.58 percent on June 30, 2017. This decrease more than offset liability increases associated with the benefit increases mentioned above in "Financial Highlights" and discussed in more detail below.

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, 2016. 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 2.6 percent probability of the FPDR Fund levy reaching the maximum $2.80 per $1,000 of real market value in any year through 2036. At the median (50th percentile) probability, the analysis predicts the FPDR tax rate will peak at $1.37 per $1,000 of real market value in 2030 and 2031. The prior analysis, completed as of June 30, 2014, estimated a 4.0 percent probability of reaching the FPDR levy cap, and a peak FPDR tax rate of $1.43 at the median probability. The tax levy analysis encompasses all facts, decisions and conditions pertaining to the FPDR plan known at the time the analysis was completed. As compared with the prior tax levy analysis as of June 30, 2014, the current analysis reflects higher plan benefits, longer projected participant lives, and stronger than previously anticipated growth in Portland real market value.

Plan benefits increased for the June 30, 2016 tax levy analysis in three areas. First, City Council and the Portland Police Association (PPA) ratified a new collective bargaining agreement in fall 2016 that provides for three percent wage increases, above and beyond inflation, on January 1, 2017, 2018 and 2019. Higher pay increases pension, disability and death benefits for most active and retired FPDR police members. Second, to comply with labor arbitrators' orders, City Council amended the Charter in fall 2016 to again permit the inclusion of 27 pay checks, rather than the usual 26, in final pay for FPDR Two members retiring in certain months who are also covered by a collective bargaining agreement at retirement. Since final pay is used to calculate FPDR Two pensions, this increases pension benefits for FPDR Two retirees. Finally, FPDR Two retirees and survivors are receiving higher postretirement cost-of-living adjustments (COLAs) than were expected 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, 2016 and July 1, 2017 FPDR Two COLA. The June 30, 2016 tax levy analysis reflects this higher, blended postretirement benefit adjustment amount for FPDR Two members and beneficiaries. In addition to higher benefits, the current analysis uses updated mortality assumptions that project longer lives for FPDR beneficiaries, particularly male retirees. All of these factors increased projected future tax levy rates. On the other hand, real market value in the City of Portland grew by 22.1 percent, or $18.6 billion, between June 30, 2014 and June 30, 2016. This robust RMV growth lowered the projected RMV tax rate for the FPDR levy by more than enough to offset growth caused by higher benefits and greater participant longevity.

The FPDR Reserve Fund provides a reserve in case the FPDR Fund cannot meet its current obligations. At June 30, 2017 the Reserve Fund had a $750,000 net position and generated no

Financial Statements and Analysis, continued

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 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 and maintain a reasonable contingency for the current year, not to achieve a certain level of fund balance or prefund benefits.

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.

The following schedule compares total plan assets, liabilities, net position and changes in net position for the fiscal years ended June 30, 2017 and 2016:

	2017	2016	Increase (Decrease)
Cash and investments held by City Treasurer	$9,666,080	$22,655,118	($12,989,038)
Receivables	7,631,952	6,681,576	950,376
Capital assets	474,360	496,852	($22,492)
Total Assets	17,772,392	29,833,546	(12,061,154)
Deferred outflows of resources (City PERS pension)	1,042,944	173,025	869,919
Total deferred outflows	1,042,944	173,025	869,919
Accounts payable	801,081	9,882,312	(9,081,231)
FPDR share of City PERS pension liability	2,073,029	812,094	1,260,935
Other liabilities	1,740,159	1,720,237	19,922
Total Liabilities	4,614,269	12,414,643	(7,800,374)
Deferred inflows of resources (City PERS pension)	50,980	166,575	(115,595)
Total deferred inflows	50,980	166,575	(115,595)
Net Position	$14,150,087	$17,425,353	($3,275,266)

Financial Statements and Analysis, continued

The funds' net position declined from $17.4 million at June 30, 2016 to $14.2 million at June 30, 2017, an 18.8 percent decrease. Cash and other short-term investments decreased by $13.0 million, or 57.3 percent, for the reasons discussed above in "Financial Highlights." The property tax receivable increased by $0.9 million, reflecting continued annual growth in the FPDR property tax levy. Accounts payable, which is primarily benefits payable, is $9.1 million less than the prior fiscal year. This is because the June pension benefit, which is normally payable on July 1, was instead paid on June 30, 2017 because July 1 was not a banking day. Net position also reflects FPDR's share of the City PERS liability, which more than doubled between June 30, 2016 and June 30, 2017.

The following schedule displays changes in employer contributions, benefit payments, administrative expenses and plan net position during the fiscal years ended June 30, 2017 and 2016:

	2017	2016	Increase (Decrease)
Employer contributions: property taxes	$129,111,813	$121,873,222	$7,238,591
Employer contributions: other	1,398,352	1,139,449	258,903
Net investment income	462,195	489,153	(26,958)
Total Additions	130,972,360	123,501,824	7,470,536
Benefit payments	130,161,981	122,933,840	7,228,141
Operating and administrative expenses	4,085,645	5,019,573	(933,928)
Total Deductions	134,247,626	127,953,413	6,294,213
Net Increase / (Decrease)	(3,275,266)	(4,451,589)	1,176,323
Beginning Net Position	17,425,353	21,876,942	(4,451,589)
Ending Net Position	$14,150,087	$17,425,353	($3,275,266)

Additions to plan net position include property tax revenues, other employer contributions, and investment income. 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 and existing fund balance. 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 $129.1 million in the fiscal year ended June 30, 2017, a $7.2 million increase from the prior year. The increase mirrored the change in benefit payments, which also grew by $7.2 million. The imposed tax rate fell from $1.23 per $1,000 of RMV for the fiscal year ended June 30, 2016 to $1.10 for the fiscal year ended June 30, 2017. The rate dropped even

Financial Statements and Analysis, continued

as total property taxes collected grew because of rising real market values in the City. RMV grew 17.7 percent from June 30, 2016 to June 30, 2017.

Non-property tax employer contributions consist primarily of pension and disability overhead charges collected from third parties for police and fire services, and subrogation revenue recovered from third parties at fault for member disability claims. This funding source grew $0.3 million, or 22.7 percent, in the fiscal year ended June 30, 2017. The growth resulted from the Police Bureau's provision of security at more private events than in the prior year, and thus the collection of more pension and disability overhead charges from third parties. The FPDR Fund recognized net investment income of $0.5 million for the fiscal year ended June 30, 2017, essentially unchanged from the fiscal year ended June 30, 2016. The fund had less cash on hand than in the prior fiscal year, but interest rates rose as compared with the fiscal year ended June 30, 2016.

Deductions to the FPDR Fund net position include benefit payments as well as administrative and operating expenses. For the fiscal year ended June 30, 2017, benefits amounted to $130.2 million, an increase of $7.2 million or 5.9 percent. Direct pension benefits, PERS contributions made on behalf of members hired after 2006, and disability benefits all grew as wages for active Police members grew. The fall 2016 change to the final pay calculation for FPDR Two members also increased ongoing direct pension benefits and, because the change was made retroactive to January 1, 2013, required $0.2 million in retroactive payments in the fiscal year ended June 30, 2017. In addition, direct pension benefits continue to increase as FPDR Two retirees, whose pension benefits are generally higher than FPDR One retirees, comprise a growing proportion of the retiree population. Finally, PERS contributions made on behalf of members hired after December 31, 2006 continue to climb as that population of active employees grows, and as PERS contribution rates themselves grow. On the other hand, operating and administrative expenses decreased from the prior year by $0.9 million or 18.6 percent. This is because administrative expenses in the fiscal year ended June 30, 2016 included $0.9 million in legal settlement costs for a return to work disability case.

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 had a net book value of $474,360 on June 30, 2017.

The funds had no long-term debt activity in the fiscal year ended June 30, 2017, other than FPDR's prorated share of payments on pension obligation bonds issued by the City in 1999 to reduce the City's liability with PERS.

Financial Statements and Analysis, continued

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, 2017

	June 30, 2017		
	FPDR Fund	Reserve Fund	Total
Assets			
Cash and investments held by City Treasurer	$ 8,916,080	$ 750,000	$ 9,666,080
Property taxes (contributions) receivable	7,330,183	-	7,330,183
Interest receivable	176,052	-	176,052
Accounts receivable, net	2,815	-	2,815
Overpayment recoveries receivable	122,902	-	122,902
Capital assets, net	474,360	-	474,360
Total assets	17,022,392	750,000	17,772,392
Deferred outflows of resources			
Contributions to City PERS in current fiscal year	1,042,944	-	1,042,944
Total deferred outflows	1,042,944	-	1,042,944
Liabilities			
Accounts payable	801,081	-	801,081
Compensated absences	1,179,091	-	1,179,091
Bonds payable	318,258	-	318,258
Accrued interest payable	203,503	-	203,503
FPDR share of City PERS pension liability	2,073,029	-	2,073,029
FPDR share of City other post-employment benefits	39,307	-	39,307
Total liabilities	4,614,269	-	4,614,269
Deferred inflows of resources			
FPDR share of City PERS pension plan deferrals	50,980	-	50,980
Total deferred outflows	50,980	-	50,980
Net Position			
Restricted for pensions	13,400,087	750,000	14,150,087
Total net position	$13,400,087	$ 750,000	$14,150,087

See accompanying notes to financial statements.

CITY OF PORTLAND, OREGON
FIRE AND POLICE DISABILITY AND RETIREMENT FUNDS
STATEMENT OF CHANGES IN PLAN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	YEAR ENDED JUNE 30, 2017		
	FPDR Fund	Reserve Fund	Total
Additions			
Contributions - funded by property taxes	$ 129,111,813	$ -	$ 129,111,813
Other	1,398,352	-	1,398,352
Total employer contributions	130,510,165	-	130,510,165
Net investment income	462,195	-	462,195
Total additions	130,972,360	-	130,972,360
Deductions			
Disability, retirement and medical benefits	130,161,981	-	130,161,981
Operating and administrative expenses	4,085,645	-	4,085,645
Total deductions	134,247,626	-	134,247,626
Change in net position	(3,275,266)	-	(3,275,266)
Net position - beginning	16,675,353	750,000	17,425,353
Net position - ending	$ 13,400,087	$ 750,000	$ 14,150,087

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 voter 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, 2017.

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. Contributions are recognized as revenues within the Plan when the dedicated property tax that funds employer contributions is 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 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 via one of the two supplemental Budget Monitoring Process ordinances approved by City Council each year, or the over-expenditure ordinance generally approved by City Council each June. Increases or decreases in total appropriations, including increases funded by a draw on fund contingency, and changes in total positions can only be approved by City Council. Bureaus are allowed to amend the budget via ordinance outside the Adopted Budget, Budget Monitoring, and over-expenditure processes with City Council approval. In addition, Oregon state law requires a formal supplemental budget to increase appropriations or transfer appropriations from a fund's operating contingency during the fiscal year. The supplemental budget process requires a public hearing and advance notice by newspaper publication prior to City Council approval. For the fiscal year ended June 30, 2017, amendments were made to the FPDR Adopted Budget as part of the routine Budget Monitoring Processes. A payment of $156,364 from the FPDR Fund to the General Fund was added to the budget, to reimburse alternate payee reversionary benefits paid by the Fire Bureau before the FPDR Plan was amended to allow FPDR to pay the benefits. In addition, $1.3 million was withdrawn from fund contingency to cover unbudgeted benefit expenses resulting from FPDR Plan amendments approved by City Council in the fall of 2016 (see Note 2, Plan Features and Other Information), as well as higher than anticipated Oregon Public Employee Retirement System (PERS) contributions for FPDR 3 members.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 and accounting provisions governing the City's management of cash and investments, can be found in the City's annual financial statements.

FPDR 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.

Contributions funded with 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. 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).

PERS liability – 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, 2017; FPDR's share of this liability and related deferred inflows and outflows are reflected in FPDR's ending plan net position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 represent an acquisition of net position that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that future period. Likewise, deferred outflows represent a consumption of net position that that applies to a future period, and so will not be recognized as an outflow of resources (expense) until that future period. Deferred inflows and outflows of resources for PERS are comprised of several sources; each source is reflected as an actuarially determined balance in FPDR's financial statements. Deferred inflows derive from differences between the City's actual PERS contributions and the City's proportionate share of PERS contributions. Differences between expected and actual experience, differences between projected and actual earnings, changes in assumptions and employer proportion, and City contributions made subsequent to the measurement date constitute deferred outflows. Both deferred inflows and outflows for PERS 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.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

A special property tax levy was approved by Portland voters as the resource for annual employer contributions. Under the Charter, the dedicated property tax must be set at a rate that will fund current year benefit payments and administrative expenses only. Therefore, the FPDR plan is not prefunded on an actuarial basis. City Charter specifies that 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 expenses 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, 2017, 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	465	1,417	-	1,882
Vested beneficiaries not yet in pay status				
Surviving spouses not yet eligible	-	2	-	2
Terminated employees	-	82	-	82
	-	84	-	84
Active members on short-term disability	-	10	7	17
Active members:				
Vested	-	989	-	989
Non-vested	-	-	-	-
Not in FPDR pension plan	-	-	535	535
Total active members	-	989	535	1,524

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, created in 1990, are part of a single-employer, defined-benefit plan administered by the FPDR Board of Trustees. Active members (those not already retired or on long-term disability) enrolled in the Plan on 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 (FPDR One) or become subject to the new Plan provisions after June 30, 1990 (FPDR Two). FPDR One and FPDR Two are both closed to new entrants; FPDR Two closed to new entrants on January 1, 2007. As of June 30, 2017, there were 465 FPDR One members and 2,490 FPDR Two members and beneficiaries.

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) tier, 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 the FPDR Fund through the interagency billing process; therefore, the dedicated FPDR tax levy funds FPDR Three PERS contributions as well as the FPDR Plan. FPDR Three PERS contributions are included in disability, retirement and medical benefits on FPDR's *Statement of Changes in Plan Net Position.* More information about the City's PERS liability can be found in the City's annual financial statements. FPDR Three members are covered by the FPDR Plan for disability, funeral and preretirement death benefits. As of June 30, 2017, the number of FPDR Three members was 535. 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 pension benefits increased by 2.1 percent on July 1, 2015, but have not increased since then because active

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

fire fighters have not received a wage increase since July 1, 2015. FPDR One Police pension benefits increased by 1.0 percent on July 1, 2016 and 5.27 percent on July 1, 2017. High-ranking FPDR One participants also receive a supplemental retirement benefit; these benefits are paid from the FPDR Fund, but are authorized by a City ordinance and are not part of the Plan. The supplemental benefit payments totaled $264,912 to 10 participants for the fiscal year ending June 30, 2017.

Effective July 1, 1990, the Plan was amended to provide a new tier. FPDR Two retirement benefits are payable 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. Following legislative changes to the PERS methodology in 2013, and the invalidation of some of those changes by the Oregon Supreme Court in 2015, the PERS Board now awards a blended percentage increase to PERS retirees each year, based on the percent of their service completed before and after October 1, 2013, as well as the size of their annual pension benefit. Since July 1, 2016 the FPDR Board has chosen to award FPDR Two retirees a similar blended percentage increase: 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. (PERS applies a third, lower rate to benefit amounts over a certain threshold.) This approach resulted in a percentage increase of 2.0 percent for most FPDR Two retirees on July 1, 2016 and July 1, 2017, although 131 retirees on July 1, 2016 and 170 retirees on July 1, 2017 received smaller 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

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

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 provides for FPDR One members to receive a refund of contributions if they terminate employment before vesting. There are no longer 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, primarily the death after retirement of an FPDR One or Two member. Death benefits calculated as a percentage of base pay are also payable to a surviving spouse or minor children if the member dies from a service-connected or occupational injury or illness before retirement, regardless of vesting. Death benefits are also payable to a surviving spouse or minor children in the case of a nonservice-connected death before retirement 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 2016, labor arbitrators found that this change harmed some members of the Portland Police Association (PPA), Portland Fire Fighters Association (PFFA), and the Portland Police Commanding Officers Association (PPCOA), and directed the City of Portland to make those members whole. In response City Council enacted a Plan amendment to change the definition of final pay used to calculate FPDR Two pensions, such that FPDR Two members who retire as members of a collective bargaining unit now receive the higher of two final pay definitions: either base pay received for a period of 365 days (366 in a leap year), or base pay received for a period of 12 months. The change increases FPDR Two pension benefits for members who retire in certain months, when the City's biweekly pay structure results in 27, rather than 26, pay checks during a 12-month period.

In addition, Council amended the Plan to comply with additional labor arbitrators' orders requiring PPA, PPFA, and PPCOA members to be made whole after the FPDR Board revoked an administrative rule providing a reversionary benefit when a member's former spouse predeceases the member, and the former spouse has been granted a portion of the member's pension via a domestic relations order. Council amended the Plan to provide the reversionary benefit as an explicit plan benefit.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

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 FPDR 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. For the year ended June 30, 2017, the actual imposed levy rate per $1,000 of real market value under the special property tax levy was $1.10, and the total revenue received from the levy (which is most of the City's employer contribution) was $129.1 million.

The FPDR Board periodically assesses the future availability of property tax revenues by ordering projections and simulations in connection with the actuarial valuation of the funds. The most recent assessment was as of June 30, 2016. The analysis found that, under a wide range of simulated economic scenarios in the foreseeable future, the future FPDR Fund levy has an approximately 2.6 percent probability of reaching the maximum $2.80 per $1,000 of real market value (RMV) in at least one year through 2036. This is a decrease from the prior analysis, which calculated a 4.0 percent probability of reaching the maximum levy rate in at least one year through 2034. The probability dropped despite inclusion in the June 30, 2016 analysis of higher FPDR Two pension benefits (from changes to the final pay definition, larger postretirement benefit adjustments, and larger salary increases than anticipated for PPA members); higher OPSRP contributions for FPDR Three members (resulting from contribution rate increases and larger salary increases than anticipated for PPA members); and higher FPDR One Police pension benefits (caused by higher FPDR One Police postretirement benefit adjustments than expected). These increases in Plan benefits were more than offset by robust RMV growth in the City, which increased the amount of taxes that can be levied under the $2.80 cap. Annual RMV growth has exceeded ten percent in each of the last three fiscal years.

Approximately 99 percent of employer contributions to the Plan are funded by property taxes. The remaining one percent is funded from pension and disability overhead charges assessed when third parties hire Portland police or fire services, subrogation revenue from disability claims, and other miscellaneous revenue, such as overpayment recoveries.

Employees do not contribute to the Plan. FPDR One members were required to contribute seven percent of their base salary into the Plan. Effective July 1, 1990, members choosing to join the new FPDR Two tier were no longer required to make contributions into the Plan. All FPDR One

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

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, 2016 and rolled forward to June 30, 2017. 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, 2017
Total pension liability	$ 3,367,105,729
Less plan net position	14,150,087
Net pension liability	$ 3,352,955,642
Plan net position as a percentage of total pension liability	0.42%

The ratio of the net pension liability to covered payroll was 2,436 percent. Covered payroll was $137.6 million for the fiscal year ended June 30, 2017. The plan net position 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, 2017 were $120.7 million. Employer contributions to the FPDR Fund were $9.8 million higher, but the $9.7 million used for PERS contributions for FPDR Three members, as well as $0.1 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.

The net pension liability, as calculated in accordance with Governmental Accounting Standard Board Statement 67: Financial Reporting for Pension Plans, decreased by $21.1 million between June 30, 2016 and June 30, 2017. The decrease is primarily attributable to a change in the discount rate, the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index (Bond Buyer Index), which increased from 2.85 percent on June 30, 2016 to 3.58 percent on June 30, 2017. This dropped the net pension liability by roughly $215.4 million, although much of the decrease was offset by increases in the net pension liability associated with higher benefits (discussed above) and updated mortality assumptions to reflect greater longevity among retirees.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

Significant assumptions used to prepare the June 30, 2016 actuarial valuation and the June 30, 2017 roll-forward are listed below. These assumptions were applied to all periods included in the measurement.

Discount rate	3.58%
Long-term expected rate of return, net of investment expense	N/A
Municipal bond rate	3.58%
Valuation date	June 30, 2016
Measurement date	June 30, 2017
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 with projection scales, with collar adjustments and set-backs as described in the valuation	
Active members: Mortality rates are a percentage of healthy retiree rates, as described in the valuation	
Actuarial cost method	Entry Age Normal

The projected salary increases above are for members who have reached the top pay step of their job classification, which occurs after no more than five years in the Fire Bureau and no more than eight years in the Police Bureau. Those who have not reached the final pay step of their position 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 Fire members retire by age 60 and all Police 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 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

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

high-quality municipal bond index rather than a blended discount rate that would include the bond rate as well as the long-term expected rate of return on the funds' assets.

The following table illustrates the net pension liability's sensitivity to the discount rate assumption. If a 4.58 percent discount rate had been used instead of 3.58 percent, the net pension liability as of June 30, 2017 would have been $447.1 million, or 13 percent, lower. If a 2.58 percent discount rate had been used, the net pension liability as of June 30, 2017 would have been $562.2 million, or 17 percent, higher.

	1% Decrease 2.58%	Current Discount Rate 3.58%	1% Increase 4.58%
Total pension liability	$ 3,929,313,694	$ 3,367,105,729	$2,920,000,602
Less plan net position	14,150,087	14,150,087	14,150,087
Net pension liability	3,915,163,607	3,352,955,642	2,905,850,515

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, 2017 contributions receivable from property taxes are $7.3 million. FPDR's sole capital asset is a software database with a net value of $474,360 on June 30, 2017. The database is being depreciated over 10 years.

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

Other liabilities – Typically the FPDR Fund’s primary liability at fiscal year end is pension benefits owed on June 30 but payable on July 1. However, the June pension benefit was paid on June 30 this year because July 1 was not a banking day. In addition to $0.8 million in miscellaneous accounts payable – comprised mostly of disability benefits owed on June 30 but payable on July 11 and medical bills received on June 30 but not yet paid – the FPDR Fund has three other significant liabilities.

The first is the fund’s share (for FPDR employees only) of the City of Portland’s liability in Oregon 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 $568.0 million on June 30, 2017. FPDR’s prorated share of that amount is 0.36%, or $2.1 million. In the fiscal year ended June 30, 2000, the City issued pension obligation bonds and deposited the proceeds, which were in excess of the City’s annual required contribution, with the PERS plan. In compliance with GASB 68, these excess contributions reduce the City’s proportional share of the PERS liability.

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, 2017 the outstanding $23.78 million of 1999 Series D variable rate bonds and $23.75 million of 1999 Series E variable rate bonds carried interest rates of 1.45 percent and 1.41 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, 2017. 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 $318,258 at June 30, 2017.

Bonds payable transactions for the year ended June 30, 2017 are as follows:

	Outstanding June 30, 2016	Bonds Allocated	Bonds Matured and Paid During Year	Outstanding June 30, 2017
Oregon Public Employees Retirement System Bonds ("PERS Pension Bonds")	$ 353,225	-	$ 34,967	$ 318,258

NOTE 2 - PLAN FEATURES AND OTHER INFORMATION, continued

Future maturities of bond principal and interest at June 30, 2017 are as follows:

Fiscal Year	Principal	Interest	Total
2018	39,252	15,260	54,512
2019	43,841	14,959	58,800
2020	48,842	12,767	61,609
2021	55,066	9,006	64,072
2022-26	103,798	257,151	360,949
2027-29	27,458	225,630	253,088
	$318,257	$534,773	$853,030

Finally, as of June 30, 2017, FPDR has booked $1.2 million for compensated absences 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 for FPDR Three members at the Fire and Police Bureaus.

Commitments and contingencies - The FPDR Fund leases its office space under a noncancelable operating lease with a third party. The lease agreement expires on October 31, 2020 but includes options to extend for an additional six to 18 months. In the fiscal year ended June 30, 2017, rent expense was equal to $194,818.

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

Year Ending June 30,	
2018	187,664
2019	210,354
2020	216,665
2021	74,026
	$688,709

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

NOTE 3 - SHORT-TERM DEBT

During the year the FPDR Fund borrowed $28.8 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, 2017.

	Beginning Balance	Additions	Reductions	Ending Balance
Tax anticipation notes	$ -	$ 28,770,000	$ (28,770,000)	$ -
	$ -	$ 28,770,000	$ (28,770,000)	$ -

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.

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

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, 2016 was $79.5 million; FPDR's estimated share of the liability is $70,713, or 0.089 percent. The City has elected not to pre-fund the fiscal year 2017 employer's annual required contribution to the plan.

The Health Insurance Continuation "blended" premium rates for the fiscal year ended June 30, 2017, 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

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

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.

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	$ 6,875,674
Interest on net OPEB obligation	1,508,595
Adjustment to annual required contribution	(2,343,555)
Annual OPEB cost	6,040,714
Less expected contribution	(4,949,560)
Increase in Net OPEB obligation	1,091,154
Net OPEB obligation - beginning of year	43,102,774
Net OPEB obligation - end of year	$ 44,193,928
Governmental activities	$ 40,640,789
Business-type activities	3,513,832
Fiduciary activities	39,307
Net OPEB obligation - end of year	$ 44,193,928

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

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, 2017, were as follows:

Health Insurance Continuation

Fiscal Year Ended June 30,	Annual OPEB Cost	Contribution	Percent of Annual OPEB Cost Contributions	Net OPEB Obligation
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
2017	6,040,716	4,949,560	81.94	44,193,928

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	$ 79,452,502
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 79,452,502
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	0.29-5.17%
Healthcare cost trend rate	5.0-8.0%
Covered payroll (active plan members)	$ 432,312,186
UAAL as a percentage of covered payroll	18%

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

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

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

In the 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 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://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx.

NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS, continued

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

Fiscal Year Ended June 30,	RHIA Contributions
2015	$ 1,810,227
2016	$ 1,651,293
2017	$ 1,740,874

The amount of FPDR's contributions associated with the City's RHIA obligations for the year ended June 30, 2017 is approximately $242,000 for FPDR Three members and $7,300 for staff.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

State of Oregon Public Employees Retirement System

Plan description - Civilian City employees and all sworn fire and police personnel hired after December 31, 2006 are provided pensions as participants under one or more plans currently

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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 and withdrawals are recognized when they are currently due and payable in accordance with the terms of the plan. Investments are recognized at fair value, the amount that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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).

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.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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.

***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.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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.
>
> *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.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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 238.360 monthly benefits are adjusted annually through a cost-of-living adjustment (COLA). The COLA is capped at 2.0 percent.

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

Contributions - PERS' funding policy provides for periodic member and employer contributions at rates established by the Public Employees Retirement Board, subject to limits set in statute. The rates established for member and employer contributions were approved based on the recommendations of the System's third-party actuary.

The City's employer contributions for the year ended June 30, 2017 were $35.6 million, excluding amounts to fund employer specific liabilities. The contribution rates in effect for the fiscal year ended June 30, 2017 for each pension program were: Tier1/Tier 2 – 11.64 percent, OPSRP general service – 8.91 percent, and OPSRP uniformed – 11.64 percent. Pension expense for the year was $98.0 million.

Pension Asset (Liability) and Related Deferred Inflows and Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014 and rolled forward to June 30, 2016. The City's proportion of the asset was based on the City's projected long-term contribution effort as compared

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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, 2017, the City's proportion of OPERS net pension liability was 3.78332893 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	$ 411,888,040	72.5%
Business-type activities	142,959,076	25.2%
Government-wide	554,847,116	97.7%
Fiduciary Fund: Fire and Police Disability and Retirement Fund	2,073,029	0.4%
Component Unit: Portland Development Commission	11,045,372	1.9%
	$ 567,965,517	100.00%

For the year ended June 30, 2017, the Reporting entity recognized pension expense of $98.0 million. At June 30, 2017, 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	$ 18,790,781	$ -
Changes of assumptions	121,133,397	-
Net difference between projected and actual earnings on investments	112,206,156	-
Changes in proportionate share	2,156,015	-
Differences between City contributions and proportionate share of contributions	-	14,362,573
Total (prior to post-measurement date contributions)	254,286,349	14,362,573
City contributions made subsequent to measurement date	36,310,641	-
Net deferred outflow / (inflows) of resources	$ 290,596,990	$ 14,362,573

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

$36.3 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, 2018. 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 Inflows of Resources	
Fiscal Year Ending June 30,	Differences between Expected and Actual Experience	Changes of Assumptions	Difference between Projected and Actual Earnings on Investments	Changes in Proportionate Share	Total Deferred Outflow of Resources	Differences between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflow of Resources
2018	4,927,145	28,170,557	12,277,796	501,399	45,876,897	3,340,133	3,340,133
2019	4,927,145	28,170,557	12,277,796	501,399	45,876,897	3,340,133	3,340,133
2020	4,927,145	28,170,557	53,646,995	501,399	87,246,096	3,340,133	3,340,133
2021	3,329,850	28,170,557	34,003,569	501,399	66,005,375	3,340,133	3,340,133
2022	679,496	8,451,169	-	150,419	9,281,084	1,002,041	1,002,041
	18,790,781	121,133,397	112,206,156	2,156,015	254,286,349	14,362,573	14,362,573

Actuarial Methods and Assumptions

Actuarial Valuations - The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the entry age normal actuarial cost method. Under this cost method, each active member's entry age present value of projected benefits is allocated over the member's service from their date of entry until their assumed date of exit, taking into consideration expected future compensation increases.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	December 31, 2014
Measurement date	June 30, 2016
Experience study	2014, published September 2015
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	2.50 percent
Long-term expected rate of return	7.50 percent
Discount rate	7.50 percent
Projected salary increases	3.50 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 BB, 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 (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.

The actuarial valuation calculations are based on the benefits provided under the terms of the plan in effect at the time of each valuation and on the patter of sharing of costs between the employer and plan members . 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.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

***Discount Rate* -** The discount rate used to measure the total pension liability was 7.50 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 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	- %	3.0 %	- %
Debt Securities	15.0	25.0	20.0
Public Equity	32.5	42.5	37.5
Private Equity	13.5	21.5	17.5
Real Estate	9.5	15.5	12.5
Alternative Equity	-	12.5	12.5
Opportunity Portfolio	-	3.0	-
Total			100.0 %

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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 2015 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. 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	8.00%	4.00%
Short-Term Bonds	8.00	3.61
Intermediate-Term Bonds	3.00	5.42
High Yield Bonds	1.00	6.20
Large/Mid Cap US Equities	15.75	6.70
Small Cap US Equities	1.31	6.99
Micro Cap US Equities	1.31	7.01
Developed Foreign Equities	13.13	6.73
Emerging Market Equities	4.12	7.25
Non-US Small Cap Equities	1.88	7.22
Private Equity	17.50	7.97
Real Estate (Property)	10.00	5.84
Real Estate (REITS)	2.50	6.69
Hedge Fund of Funds - Diversified	2.50	4.64
Hedge Fund - Event-driven	0.63	6.72
Timber	1.88	5.85
Farmland	1.88	6.37
Infrastructure	3.75	7.13
Commodities	1.88	4.58
Assumed Inflation - Mean		2.50%

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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

The following presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent) or one percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability (asset)	$ 917,074,934	$ 567,965,517	$ 276,171,126

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 Assumptions

A summary of key changes implemented since the December 31, 2014 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: http://www.oregon.gov/PERS/Documents/Financials/Actuarial/2015/Experience-Study.pdf

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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.

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 consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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 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.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS, continued

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 2017 the City paid $23 million.

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

NOTE 6 - SUBSEQUENT EVENTS

In July 2017, FPDR issued tax anticipation notes for $36.2 million with a true interest cost of 0.91 percent. The notes are due for repayment on June 27, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2017

	Fiscal Year Ending June 30,			
	2017	2016	2015	2014
Total pension liability				
Service cost	$ 82,420,266	$ 66,693,061	$ 58,853,250	$ 63,660,926
Interest	97,302,658	110,470,511	106,304,323	117,017,081
Effect of plan changes	36,063,138	-	185,288,710	(222,274,639)
Effect of economic/demographic gains (losses)	95,578,193	-	(25,565,616)	-
Changes of assumptions	(215,367,868)	431,404,102	208,943,518	106,474,383
Benefit payments	(120,351,973)	(114,001,126)	(110,900,284)	(108,003,419)
Net change in total pension liability	(24,355,586)	494,566,548	422,923,901	(43,125,668)
Total pension liability, beginning	3,391,461,315	2,896,894,767	2,473,970,866	2,517,096,534
Total pension liability, ending (a)	$3,367,105,729	$3,391,461,315	$ 2,896,894,767	$ 2,473,970,866
Plan fiduciary net position				
Contributions - employer	$ 120,700,158	$ 114,079,956	$ 115,852,428	$ 114,654,336
Net investment income	462,193	489,154	(522,201)	312,468
Benefit payments	(120,351,973)	(114,001,126)	(110,900,284)	(108,003,419)
Administrative expense	(4,085,644)	(5,019,573)	(3,085,925)	(3,585,476)
Net change in plan net position	(3,275,266)	(4,451,589)	1,344,018	3,377,909
Plan net position, beginning	17,425,353	21,876,942	20,532,924	17,155,015
Plan net position, ending (b)	14,150,087	17,425,353	21,876,942	20,532,924
Net pension liability, ending (a) - (b)	$3,352,955,642	$3,374,035,962	$ 2,875,017,825	$ 2,453,437,942
Plan fiduciary net position as a percentage of total pension liability	0.42%	0.51%	0.76%	0.83%
Covered-employee payroll	$ 137,619,298	$ 139,108,113	$ 139,346,388	$ 135,726,350
Net pension liability as a percentage of covered-employee payroll	2436.40%	2425.48%	2063.22%	1807.64%

Notes to Schedule

1. Contributions and benefit payments shown here are $9,810,006 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 (PERS) for FPDR Three members, as well as compensated absence accruals also related to FPDR Three members. These are employer contributions and benefit expenses to a pension plan, but not the FPDR plan.

2. The net pension liability increased by $499 million (17.4 percent) between the fiscal years ending June 30, 2015 and 2016, but then dropped $21 million (0.6 percent) for the fiscal year ended June 30, 2017. Both changes were primarily the result of movement in the discount rate, which fell from 3.80% at June 30, 2015 to 2.85% on June 30, 2016, and then rose again to 3.58% on June 30, 2017. Because FPDR is not a prefunded plan, the discount rate is a single rate designed to approximate the risk-free rate. The liability did not fall in direct proportion to the discount rate increase for the year ended June 30, 2017 because the June 30, 2017 calculation also reflects higher plan benefits for FPDR One and Two retirees and survivors resulting from changes to the final pay definition and postretirement cost of living adjustment calculations.

Schedule of the City's Proportionate Share of the Net Pension Liability (Millions)
Oregon Public Employees Retirement System
Fiscal Year Ending June 30,

	2017	2016	2015	2014	2013 and Prior
City proportion of the net pension liability (asset)	3.78332893%	3.78054215%	3.62934176%	3.62934176%	N/A
City proportionate share of the net pension liability (asset)	$568.0	$217.1	($82.3)	$185.2	N/A
City covered-employee payroll	359.9	343.6	330.5	313.1	N/A
City proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	157.8%	63.1%	-24.9%	59.2%	N/A
Plan fiduciary net position as a percentage of the total pension liability	80.5%	91.9%	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,

	2017	2016	2015	2014	2013 and Prior
Contractually required contribution	$35.6	$33.7	$26.3	$25.0	N/A
Contributions in relation to the contractually required contribution	35.6	33.7	26.3	25	N/A
Contribution deficiency (excess)	$0	$0	$0	$0	N/A
City covered-employee payroll	360	343.6	330.5	313.1	N/A
Contributions as a percentage of covered-employee payroll	9.9%	9.8%	8.0%	8.0%	N/A

Changes in Assumptions:

A summary of key changes implemented since the December 31, 2014 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: http://www.oregon.gov/PERS/Documents/Financials/Actuarial/2015/Experience-Study.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 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 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 percent to 38 percent. 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	UAAL as a percentage of covered payroll
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%
July 1, 2016	-	79,452,502	79,452,502	0%	432,312,186	18.38%

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, 2017

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes:				
Current year property taxes	$ 125,621,818	$ 125,621,818	$ 126,592,495	$ 970,677
Prior year property taxes	2,450,000	2,450,000	1,605,057	(844,943)
Total taxes	128,071,818	128,071,818	128,197,552	125,734
Revenues other than taxes:				
Other service charges	-	-	44	44
Billings to other funds for services	905,200	905,200	1,193,483	288,283
Pension overpayment recovery	-	-	-	-
Investment earnings	379,000	379,000	593,831	214,831
Miscellaneous	64,200	64,200	100,834	36,634
Total revenues	129,420,218	129,420,218	130,085,744	665,526
Expenditures				
Current:				
Personnel services	2,086,912	2,086,912	1,973,764	113,148
Materials and services	131,630,588	132,774,224	131,349,283	1,424,941
General operating contingencies	7,668,111	6,338,111	-	6,338,111
Overhead charges - General Fund	144,937	144,937	144,937	-
Debt service and related costs:				
Principal	34,510,968	34,510,968	28,804,968	5,706,000
Interest	359,769	359,769	541,181	(181,412)
Debt issuance costs	28,300	28,300	24,858	3,442
Capital outlay	46,000	76,000	54,760	21,240
Total expenditures	176,475,585	176,319,221	162,893,751	13,425,470
Revenues over (under) expenditures	(47,055,367)	(46,899,003)	(32,808,007)	14,090,996
Other Financing Sources (Uses)				
Transfers from other funds	750,000	750,000	-	(750,000)
Transfers to other funds	(758,727)	(915,091)	(165,091)	750,000
Bonds and notes issued	34,476,000	34,476,000	28,770,000	(5,706,000)
Bonds and notes premium	-	-	359,050	359,050
Total other financing sources (uses)	34,467,273	34,310,909	28,963,959	(5,346,950)
Net change in fund balance	(12,588,094)	(12,588,094)	(3,844,048)	8,744,046
Fund balance - beginning	12,588,094	12,588,094	13,633,435	1,045,341
Fund balance - ending	$ -	$ -	9,789,387	$ 9,789,387

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			$ (26,020)	
Deferred revenue			5,983,583	
Capital assets			474,360	
Compensated absences			(1,179,091)	
Bonds payable			(318,258)	
Interest payable			(203,503)	
Other post employment benefits			(39,307)	
Pension contingent liability			(2,073,029)	
Pension asset			-	
Deferred inflow			(50,979)	
Deferred outflow			1,042,944	
Fund balance - GAAP basis			$ 13,400,087	

	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, 2017

Personnel services	$ 1,973,764
Materials and services	
Actuarial	67,922
Audit	24,780
Claims investigation	114,610
Computer consulting	22,500
Legal	22,034
Other professional services	147,752
Other external services	19,779
Office and computer supplies and minor equipment	21,451
Education	4,080
Subscriptions, publications and dues	6,697
Travel	96
Facilities operating lease	194,818
Fleet	268
Enterprise Business System	31,427
Printing and distribution	40,975
Facilities	3,269
Technology	143,439
Risk management	35,104
City Attorney's Office	242,173
Police and Fire liaisons	119,945
Other fund services	61,496
Total materials and services	1,324,615
Overhead charges - General Fund	144,937
Debt service and related costs	
Principal	28,804,968
Interest	541,181
Debt issuance costs	24,858
Total debt service and related costs	29,371,007
Total administrative expenses (Budget)	$ 32,814,323
Plus/(minus)	
Debt principal	$ (28,804,968)
Bond premium	(359,050)
Depreciation	89,812
Capitalized labor	(12,560)
Transfers to (from) other funds	165,091
Accreted interest	20,343
PERS pension cost	275,420
Change in compensated absences	(102,438)
Change in other post-employment benefits	(329)
Operating and administrative expenses (GAAP)	$ 4,085,644

SCHEDULE OF PENSION, DISABILITY AND DEATH BENEFITS EXPENDITURES BY BUREAU
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Members		Other Beneficiaries		Total	
	Number	Amount	Number	Amount	Number	Amount
Portland Fire & Rescue:						
Nonservice disability benefits	1	$ 97	-	$ -	1	$ 97
Service disability benefits	100	837,874	-	-	100	837,874
Occupational disability benefits	11	76,330	-	0	11	76,330
Early return to work benefits	15	102,834	-	-	15	102,834
Claims Settlement	-	-	-	-	-	-
Pensions (FPDR 1 and 2)	630	39,686,226	237	6,156,210	867	45,842,436
PERS contributions (FPDR Three)	256	4,794,368	-	-	256	4,794,368
Medical benefits	215	1,432,462	-	-	215	1,432,462
Vocational rehabilitation benefits	1	628	-	-	1	628
Funeral benefits	15	26,326	-	-	15	26,326
	1,244	$ 46,957,145	237	$ 6,156,210	1,481	$ 53,113,355
Portland Police Bureau:						
Nonservice disability benefits	5	$ 173,308	-	$ -	5	$ 173,308
Service disability benefits	153	1,946,942	1	74,985	154	2,021,927
Occupational disability benefits	9	25,573	1	9,008	10	34,581
Early return to work benefits	42	358,870	-	-	42	358,870
Claims Settlement	-	-	-	-	-	-
Pensions (FPDR 1 and 2)	897	61,778,199	254	6,205,987	1,151	67,984,186
PERS contributions (FPDR Three)	249	4,878,327	-	-	249	4,878,327
Medical benefits	307	1,417,945	-	-	307	1,417,945
Vocational rehabilitation benefits	4	3,748	-	-	4	3,748
Funeral benefits	17	38,421	-	-	17	38,421
	1,683	$ 70,621,333	256	$ 6,289,980	1,939	$ 76,911,313
Combined Fire and Police:						
Nonservice disability benefits	6	$ 173,405	-	$ -	6	$ 173,405
Service disability benefits	253	2,784,816	1	74,985	254	2,859,801
Occupational disability benefits	20	101,903	1	9,008	21	110,911
Early return to work benefits	57	461,704	-	-	57	461,704
Claims Settlement	-	-	-	-	-	-
Pensions (FPDR 1 and 2)	1,527	101,464,425	491	12,362,197	2,018	113,826,622
PERS contributions (FPDR Three)	505	9,672,695	-	-	505	9,672,695
Medical benefits	522	2,850,407	-	-	522	2,850,407
Vocational rehabilitation benefits	5	4,376	-	-	5	4,376
Funeral benefits	32	64,747	-	-	32	64,747
	2,927	$117,578,478	493	$ 12,446,190	3,420	$130,024,668

Notes to Schedule

1. The benefits amount in the Statement of Changes in Plan Net Position is $130,161,981. 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 $137,313.

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, 2017

	Portland Fire & Rescue			Portland Police Bureau			Total		
	Members	Other Beneficiaries	Total	Members	Other Beneficiaries	Total	Members	Other Beneficiaries	Total
Pensions	615	169	784	880	184	1,064	1,495	353	1,848
PERS Contributions	265	-	265	270	-	270	535	-	535
Disability	14	-	14	36	1	37	50	1	51
	894	169	1,063	1,186	185	1,371	2,080	354	2,434

COMPARATIVE SCHEDULE OF NUMBER OF PENSIONERS AND BENEFICIARIES BY BUREAU

	June 30,										Increase (decrease) Ten years ended June 30,
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2017
Portland Fire & Rescue:											
Pension:											
FPDR 1&2 members	615	610	602	607	614	608	584	590	604	573	42
FPDR 3 members[1]	265	224	192	172	172	173	163	128	101	55	210
Other beneficiaries	169	176	179	177	189	187	193	183	181	195	(26)
Total	1049	1010	973	956	975	968	940	901	886	823	226
Disability:											
Members	14	18	24	27	23	23	33	34	37	52	(38)
Other beneficiaries	0	0	0	0	1	1	2	4	4	4	(4)
Total	14	18	24	27	24	24	35	38	41	56	(42)
Total Fire	1063	1028	997	983	999	992	975	939	927	879	184
Portland Police Bureau:											
Pension:											
FPDR 1&2 members	880	845	824	803	807	798	767	774	773	767	113
FPDR 3 members[1]	270	240	230	216	214	189	174	151	119	60	210
Other beneficiaries	184	185	189	196	198	195	194	194	186	191	(7)
Total	1,334	1,270	1,243	1,215	1,219	1,182	1,135	1,119	1,078	1,018	316
Disability:											
Members	36	40	42	44	42	43	59	76	78	78	(42)
Other beneficiaries	1	2	2	3	4	4	4	6	5	8	(7)
Total	37	42	44	47	46	47	63	82	83	86	(49)
Total Police	1,371	1,312	1,287	1,262	1,265	1,229	1,198	1,201	1,161	1,104	267
Summary of disability:											
Fire	14	18	24	27	24	24	35	38	41	56	(42)
Police	37	42	44	47	46	47	63	82	83	86	(49)
Total	51	60	68	74	70	71	98	120	124	142	(91)
Summary of pension and disability:											
Fire	1063	1028	997	983	999	992	975	939	927	879	184
Police	1,371	1,312	1,287	1,262	1,265	1,229	1,198	1,201	1,161	1,104	267
Total	2,434	2,340	2,284	2,245	2,264	2,221	2,173	2,140	2,088	1,983	451

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

Year ended June 30,	Imposed levy rate per $1,000 of real market value	Imposed levy	Maximum levy authorized ($2.80/$1,000)	Imposed levy under authorized levy
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
2017	1.10	132,477,613	338,199,473	205,721,860

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

AUDITOR'S REPORT UNDER GOVERNMENT AUDITING STANDARDS

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
(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 Funds), component units of the City of Portland, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated October 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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
October 24, 2017