EXHIBIT B

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE UNDER SAS NO. 114

To the City Council Members, and
Mary Hull Caballero, City Auditor
City of Portland, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Portland, Oregon (the City) as of and for the year ended June 30, 2015, and have issued our report thereon dated December 1, 2015. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDIT STANDARDS, THE SINGLE AUDIT ACT, AND THE OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

As stated in the audit contract as amended through May 11, 2015, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with generally accepted auditing standards and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of the City's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility for other information in the financial statements does not extend beyond the financial information identified in our report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. However, we have read the information and nothing came to our attention that caused us to believe that such information or its manner of presentation is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope previously communicated to you in the contract dated May 18, 2012.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements. Throughout the course of an audit, we review changes, if any, to significant accounting policies or their application, and the initial selection and implementation of new policies. These policies have been consistently followed during the year with the exception of the new standards adopted by the City during the year as disclosed in Note I.E. The City's implementation of GASB Statements No. 68 and 71 during the year required the full recognition of the City's net pension obligations for its own single employer retirement plan, as well as its involvement in Oregon PERS, a cost sharing multi-employer pension plan. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are:

- The depreciable lives and the net book value of the City's capital assets.
- The provision for discounts and allowances on the City's accounts and loans receivables.
- The accrued liabilities for the City's claims and judgments and risk financing activities.
- The accruals for City employee post-employment healthcare and retirement benefits.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear and understandable. Certain financial statement disclosures are especially sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note I addressing the reporting entity and component units included in the City's financial statements, along with the other significant accounting policies of the City.
- Note III.A disclosing the City's cash and investments including interest rate, credit, and custodial credit risks inherent in the City's investment portfolio.
- Note III.B disclosing the amount of discounts, allowances, and provision for uncollectible accounts including the various loan receivable programs of the City at June 30, 2015.
- Note III.I disclosing changes to the City's long-term debt balances along with details of each debt outstanding and future repayment terms.
- Note IV. A through C disclosing details and accruals for the City's risk financing activities, claims, judgments, commitments, and contingent liabilities.
- Note IV. D and E disclosing on the details of employee post-employment health and retirement benefit programs. As noted earlier, the City implemented a new pension accounting standard that resulted in the full recognition of the City's share of its net pension obligations in the two retirement plans provided to City employees. The recorded obligation for pension and other post-employment benefit programs totaled $2.8 billion as of June 30, 2015.

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements as a whole.

The following summarizes the impact of uncorrected misstatements in the fiscal year 2015 financial statements that were identified during the current year audit. Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We agree with this assessment.

- Capital Asset Additions - Certain Parks properties acquired in prior years totaling approximately $22.6 million had not been capitalized when originally acquired by the City. An entry was made in fiscal year 2014 to capitalize $6.1 million of the identified properties. An additional entry was made in the fiscal year 2015 financial statements in the amount of $16.5 million to record the remainder acquisitions of these properties. Reported capital assets and net position at June 30, 2014 was understated by $16.5, and fiscal year 2015 capital additions is overstated by $16.5 million.

- In fiscal 2015, the City identified costs incurred to date in the amount of $6.9 million for uncompleted capital projects where decisions had been made in prior years not to move forward with related projects. As a result, the net position at the beginning of the year, as well as fiscal 2015 losses from writing off the related costs, are overstated by $6.9 million.

- Advances – Advances in the amount of $8.9 million outstanding at year-end representing capital asset down payments were classified as current assets. Given these advances will be applied to capital assets, they would be more appropriately classified as non-current assets.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We requested and received certain representations from management that are included in the management representation letters dated December 1, 2015.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER MATTERS

Update on the Governmental Activities Net Position Trends. As we have reported to you in the past few years' audit communications, the total cost of providing the City's general governmental services, as measured on a full accrual basis under generally accepted accounting principles, has exceeded the revenues recognizable for financial reporting purposes for many years now. The cost of providing services over the past ten years as reported in the City's statistical section of the financial statements has exceeded recognizable revenues by $2.595 billion resulting in a decline in total governmental net position from $1.424 billion at the end of fiscal year 2005, to a negative $1.171 billion at the end of fiscal year 2015. For the year ended June 30, 2015, governmental activities net position decreased by $1.383 billion.

The primary contributor to the current year decrease is a change in the accounting principles for the reporting of pension obligations, as well as the current year cost of providing these employee benefits over the payments made to fund them as follows:

- ($1,264 million). A change in the accounting principles required the full recognition of the City's net pension liabilities, and an adjustment was made to beginning net position in the amount of $1,264 million representing the beginning of the year's additional liabilities as calculated under this new accounting standard. Prior accounting principles required only the partial recognition of these obligations based on required contributions, and not the accrual basis accounting of the cost of the benefits earned by employees as they were earned. The new rules require the reporting of the difference between the City's share of the total pension liability in Oregon PERS as well as its own Fire and Police Retirement Plan, less the City's share of resources held by Oregon PERS and within the Fire and Police Retirement Trust Fund, as a liability in the financial statements. Details of this adjustment are included in Note I.E. to the financial statements.

- ($197 million). The current year cost of providing post-employment benefits in excess of the cash contributions the City made to the trust funds used to hold resources for benefit payments totaled $197 million. Details on these benefits and current year changes in related liabilities are included in Notes IV.D and IV.E to the financial statements.

- ($53 million). The wear and tear that occurs as the result of the use of the City's capital assets is recognized in the financial statements through depreciation expense. Depreciation is an element of the cost of providing services that is generally recognized over the respective useful lives, and the cash necessary to replace assets is generally only spent at time of replacement or improvement of the underlying asset. $53 million in the reduction of net position is attributable to a decline in the net book value of capital assets, or a measure of the cost incurred in excess of the amounts the City has invested in replacements, improvements, and new capital assets. Details on the City's governmental capital assets can be found in Note III.F. to the financial statements.

- $70 million. The City received restricted resources in excess of amounts spent by $70 million as represented by an increase in the reported restricted net position in the financial statements. This increase in net position is due primarily to the timing of recognition of the revenue compared to the timing of incurring costs for the programs funded by these restricted resources.

- $61 million. The City utilized $61 million of revenues recognized during the year to pay down debt and increase cash and other assets.

As you are aware, the City began addressing the increasing net pension liabilities starting in 2007 by switching new police and fire personnel from the City's 'pay as you go' unfunded FPD&R Retirement Plan to Oregon PERS, and making contributions currently on an actuarially calculated basis. The City has a dedicated property tax revenue source available to make necessary contributions. As a result, the City's revenues used to provide benefits to Fire and Police personnel will eventually increase to amounts necessary to cover the current cost of providing these benefits.

The main risk to the City is the adequacy of the rate associated with the dedicated property tax due to both the $2.80 per $1,000 of assessed value cap, and property tax limitation measures that can reduce property tax assessments. We understand that the City periodically obtains a projection of future property tax revenues compared to estimated benefit payments and determines the probabilities associated with scenarios producing sufficient cash flow to make benefit payments, and scenarios that would fall short of providing necessary resources to make benefit payments. The last such study showed less than a five percent probability that the resources would be short of amounts necessary to make benefit payments within the next 40 years.

We understand the City adopted a resolution last year to apply excess fund balances over estimated amounts to be dedicated to capital asset replacements. In addition, we learned that the Council has directed the Chief Financial Officer (CFO) to provide additional information to the Council and assist with additional steps that can be taken to improve the City's ability to fund capital asset replacements and improvements in future years.

The City's ability to have sufficient cash or other resources to meet these obligations in future years as they become due is dependent on the continued observance and execution of these initiatives.

AUDITOR INDEPENDENCE

Auditor independence, in fact and appearance, is essential so that the public may justifiably perceive the audit process as an unbiased review of management's presentation of financial information.

MOSS ADAMS LLP

At least annually, we will disclose to the City Council the nature of all relationships between Moss Adams and the City of Portland, Oregon, that, in our professional judgment, may reasonably be thought to bear on our independence.

We are not aware of any relationships between our Firm and the City of Portland, Oregon, for the year ended June 30, 2015, and through the date of this letter, that may reasonably be thought to impact our independence. Accordingly, relating to our audit of the financial statements of the City of Portland, Oregon, as of and for the year ended June 30, 2015, we confirm we are independent with respect to the City within the meaning of Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct, its interpretations and rulings.

This information is intended solely for the information and use of the City Council, City Auditor, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Eugene, Oregon
January 15, 2015