# PORT OF TILLAMOOK BAY, OREGON

# FINANCIAL STATEMENTS

# JUNE 30, 2016

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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# FINANCIAL SECTION

MERINA & COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
KAMALA K. AUSTIN, CPA • TONYA M. MOFFITT, CPA

# INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Port of Tillamook Bay, Oregon
Tillamook, Oregon

## Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Tillamook Bay, Oregon (the Port), as of and for the years ended June 30, 2015 and 2016, and the related notes to the financial statements, which collectively comprise the Port's 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 an opinion 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.



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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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port, as of June 30, 2015 and 2016, and the respective changes in financial position and cash flows for the years 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 management's discussion and analysis and required supplementary information, as listed in the table of contents, 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 management's discussion and analysis, schedule of the proportionate share of the net pension liability, and schedule of contributions, as listed in the table of contents under 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 an opinion on the financial statements that collectively comprise the Port's basic financial statements. The introductory section and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section 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.

## Reports on Other Legal and Regulatory Requirements

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is issued separately and is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

### Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 15, 2016, on our consideration of the Port's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 15, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## INTRODUCTION OF BASIC FINANCIAL STATEMENTS AND
## ANALYTICAL OVERVIEW OF THE PORT'S FINANCIAL ACTIVITIES

The Management's Discussion and Analysis (MD&A) provides a discussion and analysis of the operating results, financial position and future prospects of the Port of Tillamook Bay, a municipal government organized under Oregon Revised Statute (ORS) 777. It should be read in conjunction with the consolidated financial statements for the fiscal year ending June 30, 2016, including all accompanying notes to the financial statements.

***Definitions:***

- *Statement of Net Position* – presents the current and long-term portions of assets and liabilities as well as deferred outflows of resources, and deferred inflows of resources. It may provide a useful indicator of whether the financial position of the Port is improving.

- *Statement of Revenues, Expenses and Changes in Net Position* – presents information showing how net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that do not affect cash until future fiscal periods, such as accrued vacation.

- *Statement of Cash Flows* – presents information showing how the Port's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operation income to net cash provided by operating activities as required by Governmental Accounting Standards Board (GASB) number 34.

***Financial Highlights:***

- The Port of Tillamook Bay's assets exceeded its liabilities at June 30, 2016 by $43,609,303 (net position), a decrease of $2,613,033 or (6%) over fiscal year 2014-2015.

- Capital assets decreased by $2,809,730 or (5%) from the 2014-2015 year primarily due to annual recurring depreciation expense.

***Brief discussion of basic financial statements:***

The Port of Tillamook Bay (Port) maintained two funds for fiscal year 2015-2016; the General Fund, and the Revenue Bond Fund. Accounting is performed on an accrual accounting basis. Within the General Fund, departments have been designated to identify, define and budget for specific areas of operation, including Administration, Airport, Industrial Park, Utilities, Railroad, Digester and Air Museum. Under the reporting model, the financial statements are comprised of four parts: 1) Basic financial statements, 2) Notes to the basic financial statements, 3) Required Supplementary information, and 4) Supplementary information.

***Condensed financial information:***

The Port is operated as an enterprise similar to a commercial or business entity organized for profit. The enterprise funds include accounting of operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through service charges. Most other revenue is generated through land rents. Grants are an additional revenue source.

The permanent property tax rate for the Port of Tillamook Bay is .0364 per thousand of assessed value, and was established by the State of Oregon for most municipalities and districts in Oregon in 1997-1998. Not including grant funds received, revenues from property taxes are minimal and represented only approximately 2% of the General Fund revenue for fiscal year 2015-2016. The opportunity to increase this permanent tax rate exists, however, any change would have to be approved by the electors within the Port's geographic boundaries. Of course, the increased revenue would improve revenues for the General Fund and assist in Port operations.

The *statement of net position* presents information on all the Port's assets and liabilities, with the difference between the two reported as net position. The capital assets (land, buildings, equipment, and infrastructure) are included in this statement are now reported at depreciated value. The Port has analyzed all existing capital assets including purchased asset software and now depreciates capital assets. The *statement of revenues, expenses, and changes in net position* presents information on the operating and non-operating revenues and expenses of the Port. In addition, it provides information on how well the Port is recovering its costs and generating profits available to re-invest in Port operations.

## *Condensed Statement of Net Position*

| | Balances as of June 30 | | | Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2015 to 2016 | 2014 to 2015 |
| **Assets** | | | | | |
| Current Assets | $ 2,389,427 | $ 1,512,321 | $ 1,211,229 | $ 877,106 | $ 301,092 |
| Restricted Assets | 940,881 | 1,086,752 | 1,122,531 | (145,871) | $ (35,779) |
| Other Assets | 393,202 | 227,701 | 0 | 165,501 | $ 227,701 |
| Capital Assets, net | 51,032,230 | 53,841,960 | 53,574,240 | (2,809,730) | $ 267,720 |
| Deferred Outflows of Resources | 100,034 | 61,132 | 0 | 38,902 | $ 61,132 |
| Total Assets and Deferred Outflows of Resources | $ 54,855,774 | $ 56,729,866 | $ 55,908,000 | $ (1,874,092) | $ 821,866 |
| **Liabilities** | | | | | |
| Current Liabilities | 7,511,185 | 6,590,580 | 5,894,034 | 920,605 | $ 696,546 |
| Long Term Liabilities | 3,440,096 | 3,272,493 | 3,660,284 | 167,603 | $ (387,791) |
| Liabilities Payable From Restricted | 125,000 | 180,000 | 235,000 | (55,000) | $ (55,000) |
| Deferred Inflows of Resources | 170,190 | 464,457 | 0 | (294,267) | $ 464,457 |
| Total Liabilities and Deferred Inflows of Resources | 11,246,471 | 10,507,530 | 9,789,318 | 738,941 | $ 718,212 |
| **Net Position** | | | | | |
| Net Investment in Capital Assets | 44,156,075 | 46,666,658 | 46,619,381 | (2,510,583) | 47,277 |
| Restricted | 99,528 | 103,677 | 97,058 | (4,149) | 6,619 |
| Unrestricted | (646,300) | (547,999) | (597,757) | (98,301) | $ 49,758 |
| Total Net Position | 43,609,303 | 46,222,336 | 46,118,682 | (2,613,033) | $ 103,654 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | $ 54,855,774 | $ 56,729,866 | $ 55,908,000 | $ (1,874,092) | $ 821,866 |

### *Condensed Statement of Revenues, Expenses, and Changes in Net Position*

| | Activities for Fiscal Years Ending June 30 | | | Dollars | Dollars |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2015 to 2016 | 2014 to 2015 |
| **Operating Revenues** | | | | | |
| Land & Building | $ 1,270,085 | $ 1,148,849 | $ 1,002,659 | $ 121,236 | $ 146,190 |
| Charges for services | 780,547 | 707,339 | 579,854 | 73,208 | 127,485 |
| Museum | 599,510 | 279,861 | 0 | 319,649 | 279,861 |
| Airport Revenues | 115,074 | 105,331 | 104,298 | 9,743 | 1,033 |
| Railroad Revenues | 173,275 | 170,996 | 196,908 | 2,279 | (25,912) |
| **Total Operating Revenues** | 2,938,491 | 2,412,376 | 1,883,719 | 526,115 | 528,657 |
| **Operating Expenses:** | | | | | |
| Personal Services | 1,743,357 | 1,034,549 | 1,162,850 | 708,808 | (128,301) |
| Materials and Services | 3,866,826 | 2,836,604 | 1,613,234 | 1,030,222 | 1,223,370 |
| Depreciation and amortization | 3,732,913 | 3,378,984 | 3,025,559 | 353,929 | 353,425 |
| **Total Operating Expenses** | 9,343,096 | 7,250,137 | 5,801,643 | 2,092,959 | 1,448,494 |
| Operating Income (Loss) | (6,404,605) | (4,837,761) | (3,917,924) | (1,566,844) | (919,837) |
| **Non-operating Revenues (Expenses)** | 1,344,392 | 1,543,619 | 204,075 | (199,227) | 1,339,544 |
| Grant proceeds | 2,447,180 | 4,112,338 | 3,808,451 | (1,665,158) | 303,887 |
| Change in Net Position | (2,613,033) | 818,196 | 94,602 | (3,431,229) | 723,594 |
| **Income Before Special Item** | | | | | |
| Special Item | 0 | (264,111) | 0 | 264,111 | (264,111) |
| **Net Position- Beginning** | 46,222,336 | 46,118,682 | 46,024,080 | 103,654 | 94,602 |
| Change in Accounting Principle | | (450,431) | 0 | 450,431 | (450,431) |
| Beginning Position Restated | 46,222,336 | 45,668,251 | 0 | 554,085 | 45,668,251 |
| **Net Position- Ending** | $ 43,609,303 | $ 46,222,336 | $ 46,118,682 | $ (2,613,033) | $ 103,654 |

***Analysis of the overall financial position and results of operations:***
Due to a number of factors, including the national economy, the overall financial position of the General Fund had a reduction in revenues. The Port continues to absorb railroad debt and make debt service payments from Port operating funds, as it has since the storm damage in 2007. This continues to impact Port operations. In addition, after a deferral of some of the Port's debt service for previous years, this fiscal year the Port began again fulfilling its debt obligations.

The Port operates a manure digester, of which a new facility was constructed. Revenues include selling power to Portland General Electric (PGE) from the methane, collecting CO2 credit revenues, State Bio Mass tax credits, and selling the end product of fiber. The Port has since ceased operations of the digester.

The POTB Board decided in the spring of 2009 to not pursue repair the damaged railroad. Instead, the Board decided to proceed with a variety of FEMA Alternate Projects, designed to improve capital assets with an expected increase in future revenues and activity for the Port. These projects will be funded by FEMA and State of Oregon Lottery Bonds, with design and construction began in the 2011-2012 fiscal year. East side operations are limited to Banks

Lumber, and west side operations are limited to the Oregon Coast Scenic Railroad, which has taken over full operational authority and responsibility for maintenance. The total FEMA Alternate Project amount is $44.6 million. Currently, the Port is working with Oregon Department of Forestry and Oregon Parks and Recreation Department on a Master Plan for a potential trail in the Salmonberry Canyon where the railroad right of way is located.

***Analysis of balances and transactions of individual funds:***
The General Fund's main revenue is from the rental of industrial property to commercial tenants, airport operations, and water and sewer services. The digester, even while under construction, continued to have a negative financial impact on the general fund due to lack of the ability to maintain a high enough quality of the end products necessary to sell, and to secure contracts for the products.

For the year ending June 30, 2016, the net operating income of the Port's general operations was $(6,404,605). The General Fund's net position decreased by $2,670,112. For the year ending June 30, 2016, the Revenue Bond Fund, had an increase in net position of $57,079. The Port total net position, as of June 30, 2016, was $43,609,303, a decrease from the previous year of $2,613,033 Overall, this trend continues because of the dramatic impact of the FEMA projects, which are all capital improvements, and the remainder of the operations staying fairly static. It is anticipated that once the FEMA and other capital projects are completed that this trend will change to a more operational standard, specifically as staff shifts from an emphasis on project completion to regular operations, expected to be during fiscal year 2017-2018.

***Capital Assets and Debt Administration:***
As of June 30, 2016, the Port had $51,032,230 in capital assets net of accumulated depreciation. The Port's capital assets decreased (5%) during 2016. The decrease is due primarily to depreciation expense. For more detailed information regarding the Port's capital assets refer to notes to the basic financial statements.

### ***Capital Assets at Year End***

| | 06/30/14 | 06/30/15 | 06/30/16 |
|---|---|---|---|
| Land | $ 4,104,234 | $ 3,993,872 | $ 3,993,510 |
| Land Improvements | 23,245,014 | 23,668,241 | 23,974,015 |
| Buildings | 33,552,245 | 35,156,287 | 38,174,963 |
| Leasehold Improvements | 248,331 | 248,331 | 248,331 |
| Machinery & Equipment and Rail Equipment | 12,470,799 | 12,554,754 | 14,349,510 |
| Furniture & Fixtures | 19,803 | 24,803 | 24,803 |
| Intangible Assets | 1,767,331 | 3,871,028 | 3,909,437 |
| Construction in Progress | 4,742,422 | 4,279,092 | 34,487 |
| Total Capital Assets | 80,150,179 | 83,796,408 | 84,709,056 |
| Accumulated Depreciation and Amortization | 26,575,939 | 29,954,448 | 33,676,826 |
| Net Capital Assets | $ 53,574,240 | $ 53,841,960 | $ 51,032,230 |

### ***Outstanding Long Term Debt***

| | 6/30/2014 | 6/30/2015 | 6/30/2016 |
|---|---|---|---|
| Bonds: | $ 665,000 | $ 525,000 | $ 380,000 |
| Notes Payable | 1,708,249 | 1,454,283 | 2,055,675 |
| Total Long Term Debt | $ 2,373,249 | $ 1,979,283 | $ 2,435,675 |

The Port’s total long-term debt increased by $456,329 or 19% during 2016, to $2,435,675. The increase is the net of converting a short-term line of credit to a long term loan and payments on previous debt incurred.

***Description of currently known facts, decisions, or conditions that are expected to have a material effect on financial position (net position) or results of operations (revenues, expenses, and other changes in net position):***

1. The Federal Aviation Administration and the Oregon Department of Aviation recognizes that it is highly unlikely that the Port airport can generate enough income to support the necessary maintenance of asphalt runways and taxis, and navigational aids. Therefore, these state and federal agencies make available funding opportunities in order for the continued operation of the airport through PMP (Pavement Management Program) and Airport Improvement Programs (AIP), and a new avenue, HB2075 Aviation Fuel Tax grants.

2. As stated previously, due to storm damage to the railroad, activity has been extremely limited on the rail. On the east side of the tracks, there is twenty-six (26) miles of track. The Port continues to receive fees for use of this portion of the rail. The Port currently has a 3 year agreement for rail car storage that has another 1.5 years on the contract. On the west side, there is forty-two (42) miles of track available for use. At this time, the only usage is by Oregon Coast Scenic Railroad (OCSR) for passenger trains during certain periods of the year. OCSR has full operations authority and absorb all maintenance of crossings and track, and any improvements for their business.

3. The Port continues to search and apply for grants and loans to complete the capital projects for all aspects of operation, including marketing.

***Requests for Information:***

This financial report is designed to provide a general overview of the Port of Tillamook Bay's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report should be directed to the Port General Manager, Port of Tillamook Bay, 4000 Blimp Boulevard, Suite 100, Tillamook, Oregon, 97141.

# BASIC FINANCIAL STATEMENTS

## BASIC FINANCIAL STATEMENTS

The basic financial statements include interrelated sets of financial statements as required by the GASB. In addition, the notes to the basic financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**PORT OF TILLAMOOK BAY**
**STATEMENT OF NET POSITION**
**For the Fiscal Year Ended June 30, 2016**

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 988,296 | $ 912,274 |
| Accounts receivables, net of allowance | 160,252 | 89,799 |
| Property taxes receivable | 3,648 | 3,488 |
| Note receivable, current portion | 9,660 | - |
| Grants receivable | 1,113,539 | 395,661 |
| Inventory | 113,732 | 110,799 |
| Prepaid expenses | 300 | 300 |
| Total current assets | 2,389,427 | 1,512,321 |
| **CURRENT RESTRICTED ASSETS:** | | |
| Cash and cash equivalents | 940,881 | 1,086,752 |
| Total current restricted assets | 940,881 | 1,086,752 |
| **NONCURRENT ASSETS:** | | |
| Capital assets, net | 51,032,230 | 53,841,960 |
| Note receivable, net of current portion | 393,202 | - |
| Net pension asset | - | 227,701 |
| Total noncurrent assets | 51,425,432 | 54,069,661 |
| Total assets | 54,755,740 | 56,668,734 |
| **DEFERRED OUTFLOWS OF RESOURCES:** | | |
| Deferred outflows relating to pension | 100,034 | 61,132 |
| Total assets and deferred outflows of resources | $ 54,855,774 | $ 56,729,866 |
| **LIABILITIES AND NET POSITION** | | |
| **CURRENT LIABILITIES:** | | |
| Accounts payable | $ 1,738,175 | $ 635,757 |
| Accrued payroll and related expenses | 68,361 | 75,234 |
| Accrued vacation | 59,596 | 86,752 |
| Other accrued liabilities | 107,446 | 106,837 |
| Accrued interest payable | 16,200 | 18,545 |
| Net pension liability | 410,974 | |
| Long-term debt obligations, current portion | 602,430 | 400,416 |
| Line of credit | 4,508,003 | 5,267,039 |
| Total current liabilities | 7,511,185 | 6,590,580 |
| **NONCURRENT LIABILITIES:** | | |
| Long-term debt obligations, net of current portion | 1,708,245 | 1,398,867 |
| Unearned revenue | 841,353 | 983,128 |
| Landfill post-closure liability | 890,498 | 890,498 |
| Total noncurrent liabilities | 3,440,096 | 3,272,493 |
| **LIABILITIES PAYABLE FROM RESTRICTED ASSETS:** | | |
| Revenue bonds | 125,000 | 180,000 |
| Total liabilities | 11,076,281 | 10,043,073 |
| **DEFERRED INFLOWS OF RESOURCES:** | | |
| Deferred inflows relating to pensions | 170,190 | 464,457 |
| **NET POSITION:** | | |
| Net investment in capital assets | 44,156,075 | 46,666,658 |
| Restricted for debt service | 99,528 | 103,677 |
| Unrestricted | (646,300) | (547,999) |
| Total net position | 43,609,303 | 46,222,336 |
| Total liabilities, deferred inflows of resources, and net position | $ 54,855,774 | $ 56,729,866 |

*The accompanying notes are an integral part of the basic financial statements.*

**PORT OF TILLAMOOK BAY**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**
**For the Fiscal Year Ended June 30, 2016**

| | 2016 | 2015 |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Charges for services | $ 780,547 | $ 707,339 |
| Building and land rent | 1,270,085 | 1,148,849 |
| Museum | 599,510 | 279,861 |
| Airport revenues | 115,074 | 105,331 |
| Railroad revenues | 173,275 | 170,996 |
| Total operating revenues | 2,938,491 | 2,412,376 |
| **OPERATING EXPENSES:** | | |
| Personnel services | 1,743,357 | 1,034,549 |
| Materials and services | 3,866,826 | 2,836,604 |
| Depreciation | 3,732,913 | 3,378,984 |
| Total operating expenses | 9,343,096 | 7,250,137 |
| Operating income (loss) | (6,404,605) | (4,837,761) |
| **NON-OPERATING REVENUES (EXPENSES):** | | |
| Property taxes | 50,824 | 48,214 |
| Interest income | 2,824 | 11,327 |
| Grant revenue | 2,447,180 | 4,112,338 |
| Timber sales | 1,937 | 3,031 |
| Miscellaneous income | 35,711 | 10,693 |
| Insurance proceeds | - | 367,288 |
| Other nonoperating revenue | 697,081 | 633,405 |
| Gain on sale of assets | 786,440 | 789,638 |
| Other income | 84,000 | - |
| Interest expense | (314,425) | (319,977) |
| Total non-operating income (expenses) | 3,791,572 | 5,655,957 |
| **INCOME BEFORE SPECIAL ITEM** | (2,613,033) | 818,196 |
| **SPECIAL ITEM** | - | (264,111) |
| Change in net position | (2,613,033) | 554,085 |
| **NET POSITION, BEGINNING** | 46,222,336 | 45,668,251 |
| **NET POSITION, ENDING** | $ 43,609,303 | $ 46,222,336 |

*The accompanying notes are an integral part of the basic financial statements.*

**PORT OF TILLAMOOK BAY**
**STATEMENT OF CASH FLOWS**
**For the Fiscal Year Ended June 30, 2016**

| | 2016 | 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Receipts from customers and users | $ 2,465,176 | $ 2,431,873 |
| Cash paid to suppliers | (2,766,732) | (2,836,195) |
| Cash paid for personnel services | (1,471,880) | (1,295,517) |
| Net cash provided (used) by operating activities | (1,773,436) | (1,699,839) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:** | | |
| Property taxes received | 50,664 | 48,598 |
| Timber sales | 1,937 | 3,031 |
| Insurance proceeds | - | 367,288 |
| Non operating revenues | 816,792 | 644,098 |
| Net cash provided (used) by non-capital financing activities | 869,393 | 1,063,015 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | |
| Acquisition and construction of capital assets | (923,183) | (4,041,430) |
| Proceeds from sale of assets | 786,440 | 900,000 |
| Grant proceeds | 1,587,527 | 4,391,795 |
| Principal payment on notes and bond payable | (515,204) | (393,966) |
| Loan proceeds | 971,596 | - |
| Interest paid on notes and bond payable | (316,770) | (324,321) |
| Line of credit proceeds (payments) | (759,036) | 611,051 |
| Net cash provided (used) by capital and related financing activities | 831,370 | 1,143,129 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest income | 2,824 | 11,327 |
| Net cash provided (used) by investing activities | 2,824 | 11,327 |
| Net increase (decrease) in cash and cash equivalents | (69,849) | 517,632 |
| **CASH AND CASH EQUIVALENTS, BEGINNING** | 1,999,026 | 1,481,394 |
| **CASH AND CASH EQUIVALENTS, ENDING** | $ 1,929,177 | $ 1,999,026 |
| **CLASSIFIED ON THE STATEMENT OF NET POSITION AS:** | | |
| Cash and cash equivalents | $ 988,296 | $ 912,274 |
| Restricted cash and cash equivalents | 940,881 | 1,086,752 |
| **Total cash and cash equivalents** | $ 1,929,177 | $ 1,999,026 |

*The accompanying notes are an integral part of the basic financial statements.*

| | | | | |
|---|---|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | | |
| Operating loss | $ | (6,404,605) | $ | (4,837,761) |
| Adjustments: | | | | |
| Depreciation and amortization | | 3,732,913 | | 3,378,984 |
| Decrease (increase) in: | | | | |
| Account receivable | | (70,453) | | 19,797 |
| Rent receivable | | (402,862) | | - |
| Pension asset | | 188,799 | | (226,630) |
| Prepaid expenses | | - | | (300) |
| Inventory | | (2,933) | | (89,364) |
| Increase (decrease) in: | | | | |
| Accounts payable | | 1,102,418 | | 113,863 |
| Accrued payroll and related expenses | | (34,029) | | 13,839 |
| Pension liability | | 116,707 | | (48,177) |
| Unearned revenue | | - | | (25,444) |
| Other accrued liabilities | | 609 | | 1,354 |
| Net cash provided (used) by operating activities | $ | (1,773,436) | $ | (1,699,839) |

**SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS**

| | | | | |
|---|---|---|---|---|
| Conversion of partial debt balance to grant SPWF Loan- Issued 6/30/2007 | $ | - | $ | 21,897 |

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Organization and Operation*** - The Port of Tillamook Bay is an Oregon Municipal corporation formed under Oregon Revised Statute (ORS) 777. It was formed by special election in 1911 to incorporate land at the entrance to Tillamook Bay and named the Port of Bay Ocean. In 1948 at a special election, additional land at the entrance to Tillamook Bay was incorporated into the Port for the purpose of constructing a jetty to protect the bay. In 1953, a special election was held to incorporate 1600 acres of land, two blimp hangars, and various other buildings from the federal government. The commissioners on November 4, 1953 declared that with the inclusion of the territory adjacent to the Port of Tillamook, it was advisable to change the name of the Port of Bay Ocean to the Port of Tillamook Bay. The Port is governed by an elected five-member Board of Directors. The Board members set Port policy, appropriates funds, adopts budgets, and performs other duties required by state laws.

In 1990, the Port acquired approximately 90 miles of railroad from Southern Pacific with grant proceeds secured with the help from the State of Oregon. In December 2007, the Port experienced a major storm which caused significant damage to its railroad infrastructure. The line between Tillamook and the Willamette Valley is no longer in use for freight service from the Industrial Park. Twenty-five miles of open lines are still in use between Banks, Oregon and Cochran Pond, Oregon which provides cargo transportation to commercial and industrial customers along the rail. In addition, thirty-five miles of open lines are still in use near Tillamook, Oregon to provide local passenger train services to tourists.

***Reporting entity*** - In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units (PCU). The decision to include a PCU in the reporting entity was made by applying the criteria set forth in GAAP.

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, all organizations for which the primary government is financially accountable and other organizations that, by the nature and significance of their relationship with the primary government, would cause the financial statements to be incomplete or misleading if excluded. Based on this criterion, no component units were included within the Port of Tillamook Bay's reporting entity.

***Basis of accounting*** – The Port's financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Accordingly, the Port utilizes the accrual basis of accounting, whereas revenues are recognized when earned and expenses are recognized when incurred.

The Port uses two funds for state legal compliance and budgeting purposes. These funds are combined and reported as a unitary enterprise similar to a commercial entity organized for profit for financial reporting. Enterprise funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user fees; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Port distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Port's ongoing principal operations. The principal operating revenues of the Port include lease income from rental of Port property, museum admissions, train switching, septage receiving, digester fiber sales, electric power sales, and water and sewer fees. Operating expenses include the cost of providing the services mentioned above, as well as administrative expenses. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Cash and cash equivalents*** **-** The Port has one bank account at US Bank. The Port also maintains two bank accounts for its funds in a central pool of cash. This pool includes amounts in demand deposits and investments in the Oregon State Treasury Local Government Investment Pool both of which meet the requirements of ORS 294.035 governing allowable depositories. Amounts on deposit with the Local Government Investment Pool are treated as cash, as the account can be accessed as needed. Additionally, there are two accounts with Wells Fargo Bank.

***Statement of cash flows*** - The cash and investment balances held by the Port are pooled for investment purposes. For purposes of the cash flows statements, "Cash and investments" are considered to be cash equivalents since the amounts are readily available for use.

***Accounts receivable*** - Accounts receivable are unsecured and consist primarily of rents due from tenants within the industrial park. The Port's tenants are located in the Pacific Northwest. The Port establishes a reserve for bad debts based on prior history and a review of individual customer accounts. The reserve totaled $62,849 and $72,095 as of June 30, 2016 and 2015, respectively.

***Grants receivable*** - Grants receivable consist of outstanding reimbursements for FEMA projects.

***Inventory*** - Inventories are maintained on a consumption basis of accounting under the lower of cost or market first-in, first-out method where items are purchased for inventory and charged to expense as the items are consumed. Inventory held by the Port consists of fiber from the digester, food, beverage, and gift shop at the museum, and fuel for the airport facility.

***Prepaid expenses*** - Prepaid expenses represent amounts paid for normal operating expenses in advance of receiving the related goods or services.

***Restricted assets and related liabilities*** - Assets whose use is restricted to specific purposes by State law or by contract and the related liabilities are segregated on the balance sheet. Assets so classified are held to make payments on bonded indebtedness and for purchase or construction of capital assets. When both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources first, then unrestricted resources as they are needed.

***Capital assets -*** All purchased property and equipment are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated property and equipment are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Expenses for additions and improvements with a value of $5,000 or more and a useful life of more than one year are capitalized. Capital assets, excluding land and construction in progress are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

| Assets | Years |
|---|---|
| Land improvements | 15 - 20 |
| Buildings | 39 - 40 |
| Leasehold improvements | 10 |
| Machinery & Equipment | 5 - 10 |
| Rail equipment | 15 |
| Furniture and fixtures | 7 |
| Intangibles | 5 - 15 |

Contribution of funds from federal, state or local sources for the purpose of purchasing property and equipment are recorded as capital grant revenue when received, in accordance with GASB 33.

***Unused compensated absences*** - Vested or accumulated vacation leave is recorded as an expense and liability when earned by each employee.

***Unearned revenue*** - Grant proceeds and rental income received prior to and earned after year end are recorded as unearned revenue. Unearned revenue at June 30, 2016 and 2015 was $841,353 and $983,128, respectively.

***Deferred outflows /inflows of resources-*** In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Port has one item that qualifies for reporting in this category. It is the deferred amounts relating to pensions. This amount is deferred and recognized as an outflow of resources in the period when the Port recognizes pension expense. Deferred outflows are included in the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Port has one item that qualifies for reporting in this category. The Port reports deferred amounts related to pensions. This amount is deferred and recognized as an inflow of resources in the period when the Port recognizes pension income. Deferred inflows are included in the Statement of Net Position.

***Pension-*** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS's fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***Net position*** - The Port's net position is classified as follows:

*Net investment in capital assets-* This represents the Port's total investment in capital assets, net of outstanding debt obligations related to those capital assets. Debt that has been incurred for capital assets but not yet expended is not included within this component of net position.

*Restricted for debt service-* This represents resources restricted by bond indentures or from other external sources for use in debt service.

*Unrestricted-* This represents resources used for the Port's general operations, which are not restricted by third parties.

***Property taxes*** - Assessments of property values are as of July 1 of each year, and the taxes levied are a lien on the properties as of July 1 of the year levied. By July 15 of each year, the Port certifies its property tax levy to Tillamook County, Oregon. Tillamook County makes all assessments of property value and levies, collects, and distributes property taxes for all taxing districts within its boundaries.

Taxes are payable in three installments on November 15, February 15, and May 15 following the levy date and become delinquent May 15. The County pools all tax collections and makes distributions to taxing districts according to their pro-rata share of the total levy of each fiscal year for which collections are received. Property tax revenue is recognized on the accrual basis of accounting. Property taxes levied during the current year are recorded as nonoperating revenue, and any amounts uncollected at year-end are recorded as a current asset.

***Use of estimates*** - Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions.

These assumptions and estimates affect the amounts and disclosures in the accompanying financial statements. Actual results could differ from those estimates.

## NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

***General Fund*** - The General Fund is used to account for the operations of the Port's industrial park and railroad operations. These operations include the lease of industrial and commercial property, airport activities including hangar rentals, the air museum, railroad activities, and sewer and water services.

***Revenue Bond Fund*** - The Revenue Bond Fund is used to account for resources accumulated for the purpose of repayment of the Port's revenue bond indebtedness.

***Budgets and budgetary accounting*** - The Port is required by Oregon State Law to adopt an annual appropriated budget. The budgetary fiscal period coincides with the annual reporting period (July 1 through June 30). Appropriated budgets are adopted by the executive body and, accordingly, used as a management control device for all funds. The Port prepared its budget using the modified accrual basis of accounting for the year ended June 30, 2016. Original appropriations may be increased or decreased, through resolutions, by transferring amounts between appropriations in the same fund or by transferring from an appropriation in the General Fund to an appropriation in another fund, or they may be increased through the adoption of a supplemental budget. By state law, budget appropriations lapse at year-end. The Port adopts its budget at the department level for the General Fund and the Revenue Bond Fund.

Expenditures in the Revenue Bond Fund exceeded appropriations for debt service by $3,013 for the year ended June 30, 2016.

***Deficit Net Position*** - The Revenue Bond Fund has a deficit balance of $81,205 on the full accrual basis. This is a result of recording the bonded debt within this fund while the resources used in repayment of the bond are recorded in the general fund.

## NOTE 3 - CASH AND CASH EQUIVALENTS

Following is a summary of the Port's deposit and investment balances at June 30, 2016 and 2015:

| Cash deposits | 2016 | 2015 |
|---|---|---|
| Cash on hand | $ 1,868 | $ 1,800 |
| Bank deposits | 840,928 | 201,406 |
| Total cash and bank deposits | $ 842,796 | $ 203,206 |
| Cash and investments | | |
| Investments in the State and Local Government | $ 1,086,381 | $ 1,795,820 |
| Total deposits and investment | $ 1,929,177 | $ 1,999,026 |
| These balances reconcile to the Statement of Net Position as follows: | | |
| Current assets | $ 988,296 | $ 912,271 |
| Restricted assets | 940,881 | 1,086,752 |
| | $ 1,929,177 | $ 1,999,023 |

***Deposit and Investment Risk***

The following investment risk information is presented for the year ending June 30, 2016 in accordance with GASB 40 *Deposit and Investment Risk Disclosures.*

As of June 30, 2016, the Port had the following cash equivalents:

| Investment | Weighted Average Maturity | Fair Value |
|---|---|---|
| Local Government Investment Pool | 0.0 | $ 1,086,381 |

***Interest rate risk***

Interest rate risk is the risk of exposure to fair value losses resulting from rising interest rates. The Port does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Port has minimal interest rate risks because all of its deposits and investments are held in demand accounts with banks and the Local Government Investment Pool.

***Custodial credit risk***

Custodial credit risk is the risk that in the event of the failure of a financial institution, the Port would not be able to recover the value of its deposits and investments that are in the possession of the financial institution. The Port's demand deposit accounts and savings accounts with financial institutions are each insured by the Federal Depository Insurance Corporation (FDIC) up to a maximum of $250,000. Oregon statutes require depositories qualified to hold public funds to participate in the Oregon Public Funds Collateralization Program (PFCP) in which depositories become part of a multiple financial institution collateral pool and are required to pledge as collateral, securities with a value at least equal to their maximum liability towards protecting public funds in the event one or more of the participating depositories fail. Although the PFCP creates a shared liability structure for participating bank depositories, it does not guarantee that all funds are 100% protected. As of June 30, 2016, the book value of the Port's deposits was $840,928 and the bank balance was $865,016. None of the Port's bank balances were exposed to custodial credit risk as they were collateralized under PFCP.

***Credit risk***

The Port does not have a formal policy addressing credit risk other than following ORS 294.035 on allowable deposits and investments. The Port uses a Local Government Investment Pool with the State of Oregon for its investments. The fair value of the Port's share of the pool assets approximates its deposits plus accrued interest. The Oregon Short Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). The Port can draw on its deposits in the Pool upon demand, and therefore, classifies this as a cash equivalent.

The Local Government Investment Pool is not rated.

***Concentration of credit risk***

The Port does not limit the amount that may be invested in any one issuer. At June 30, 2016, $1,086,381 (56%) of its deposits and investments were held in the Local Government Investment Pool. The remainder was held in demand accounts with various banks.

## NOTE 4 - PROPERTY TAX

The Port levied property taxes in the amount of $50,464 for fiscal year ending June 30, 2016. Property taxes receivable as of June 30, 2016 and 2015 is $3,648 and $3,488, respectively.

## NOTE 5 - CAPITAL ASSETS

Capital asset activity and balances consist of the following for the year ended June 30, 2016:

| **Capital assets, non depreciable** | **Beginning Balance** | **Additions** | **Transfers** | **Deletions** | **Ending Balance** |
|---|---|---|---|---|---|
| Land | $ 3,993,872 | $ - | $ - | $ (362) | $ 3,993,510 |
| Construction in progress | 4,279,092 | 358,955 | (4,603,560) | - | 34,487 |
| Total capital assets, non-depreciable | 8,272,964 | 358,955 | (4,603,560) | (362) | 4,027,997 |
| **Capital assets, depreciable** | | | | | |
| Land improvements | 23,668,241 | - | 305,774 | - | 23,974,015 |
| Buildings | 35,156,287 | 22,675 | 3,018,779 | (22,778) | 38,174,963 |
| Leasehold improvements | 248,331 | - | - | - | 248,331 |
| Machinery & equipment | 9,459,704 | 554,158 | 1,240,598 | - | 11,254,460 |
| Rail equipment | 3,095,050 | - | - | - | 3,095,050 |
| Furniture & fixtures | 24,803 | - | - | - | 24,803 |
| Intangible assets | 3,871,028 | - | 38,409 | - | 3,909,437 |
| Total capital assets, depreciable | 75,523,444 | 576,833 | 4,603,560 | (22,778) | 80,681,059 |
| **Less: accumulated depreciation** | | | | | |
| Land improvements | (9,593,980) | (1,279,994) | - | - | (10,873,974) |
| Buildings | (12,725,375) | (804,446) | - | 10,535 | (13,519,286) |
| Leasehold improvements | (206,017) | (19,694) | - | - | (225,711) |
| Machinery & equipment | (3,811,501) | (1,253,608) | - | - | (5,065,109) |
| Rail equipment | (2,071,510) | (178,305) | - | - | (2,249,815) |
| Furniture & fixtures | (6,563) | (3,794) | - | - | (10,357) |
| Intangible assets | (1,539,502) | (193,072) | - | - | (1,732,574) |
| Accumulated depreciation | (29,954,448) | (3,732,913) | - | 10,535 | (33,676,826) |
| Net depreciable, capital assets | 45,568,996 | (3,156,080) | 4,603,560 | (12,243) | 47,004,233 |
| **Total net capital assets** | $ 53,841,960 | $ (2,797,125) | $ - | $ (12,605) | $ 51,032,230 |

Capital asset activity and balances consist of the following for the year ended June 30, 2015:

| Capital assets, non depreciable | Beginning Balance | Additions | Transfers | Deletions | Ending Balance |
|---|---|---|---|---|---|
| Land | $ 4,104,234 | $ - | $ - | $ (110,362) | $ 3,993,872 |
| Construction in progress | 4,742,422 | 3,885,247 | (4,084,466) | (264,111) | 4,279,092 |
| Capital assets, non depreciable | 8,846,656 | 3,885,247 | (4,084,466) | (374,473) | 8,272,964 |
| **Capital assets, depreciable** | | | | | |
| Land improvements | 23,245,014 | - | 423,227 | - | 23,668,241 |
| Buildings | 33,552,245 | - | 1,604,042 | - | 35,156,287 |
| Leasehold improvements | 248,331 | - | - | - | 248,331 |
| Machinery & equipment | 9,375,749 | 84,430 | - | (475) | 9,459,704 |
| Rail equipment | 3,095,050 | - | - | - | 3,095,050 |
| Furniture & fixtures | 19,803 | 5,000 | - | - | 24,803 |
| Intangible assets | 1,767,331 | 46,500 | 2,057,197 | - | 3,871,028 |
| Capital assets, depreciable | 71,303,523 | 135,930 | 4,084,466 | (475) | 75,523,444 |
| **Less: accumulated depreciation** | | | | | |
| Land improvements | (8,331,906) | (1,262,074) | - | - | (9,593,980) |
| Buildings | (11,963,048) | (762,327) | - | - | (12,725,375) |
| Leasehold improvements | (186,323) | (19,694) | - | - | (206,017) |
| Machinery & equipment | (2,714,173) | (1,097,803) | - | 475 | (3,811,501) |
| Rail equipment | (1,893,204) | (178,306) | - | - | (2,071,510) |
| Furniture & fixtures | (3,268) | (3,295) | - | - | (6,563) |
| Intangible assets | (1,484,017) | (55,485) | - | - | (1,539,502) |
| Accumulated depreciation | (26,575,939) | (3,378,984) | - | 475 | (29,954,448) |
| Net depreciable, capital assets | 44,727,584 | (3,243,054) | 4,084,466 | - | 45,568,996 |
| **Total net capital assets** | $ 53,574,240 | $ 642,193 | $ - | $ (374,473) | $ 53,841,960 |

Construction in progress consists of the FEMA alternative projects as approved by the board. Capital projects are financed by federal grants, state matching funds and internal resources. There was no interest capitalized during the years ended June 30, 2016 and 2015.

## NOTE 6 - SHORT-TERM DEBT

As discussed in Note 16, Port was awarded grant funds from both FEMA and State Lottery Bond proceeds for approved FEMA grant funded Alternate Projects. FEMA funding is on a "reimbursement" basis, requiring the Port to pay vendors first, then request reimbursement. To ensure the Port's ability to pay vendors on schedule, the Board of Commissioners approved establishing lines of credit to be accessed for vendor payment, and reimbursed when grant funds were received.

A schedule of changes in short-term debt is as follows:

| Line of Credit: | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| TLC Line of Credit #160 | $ 965,998 | $ 5,598 | $ 971,596 | $ - |
| TLC Line of Credit #14 | 55 | - | 55 | - |
| TLC Line of Credit #142 | 4,300,986 | 316,831 | 109,814 | 4,508,003 |
| Total Line of Credit | $ 5,267,039 | $ 322,429 | $ 1,081,465 | $ 4,508,003 |

## NOTE 7 - LONG-TERM DEBT

***Notes payable*** - The Port has various loans with the Oregon Business Development Department (OBDD). These loans were obtained to make various improvements to buildings leased by tenants, cover payroll for a brief period after, and as match money for railroad rehabilitation grants. Interest rates and maturity dates vary from 3.78% to 5%, and maturity dates of 20 to 25 years, respectively. These loans are secured by Port buildings.

The Port also has various loans with the Special Public Works Fund (SPWF) of the State of Oregon. These loans were used to finance improvements to the Port's water and sewer treatment facilities, and to assist with costs incurred in repairing the railroad from the flood damage from 1996. These loans carry interest at rates ranging from 3.32% to 6.5%, and maturity dates of 20 to 25 years. Port real property is pledged as security.

***Revenue bond Series 1998*** - The Port issued a revenue bond, series 1998, in the amount of $830,000 for the purpose of refinancing several OBDD loans outstanding. Semiannual interest and annual principal payments vary from 3.5% to 5.125% and $35,000 to $60,000, respectively, until the bond will be repaid in 2019. Principal and interest maturities for the current year totaled $65,634.

***Refunding Series 2002 bond*** - The Port issued a bond, series 2002, in the amount of $1,145,000 for the purpose of refinancing OBDD obligations and to provide funding for capital projects. Semiannual interest payments vary from 3.5% to 5.0%, until the bonds are repaid in 2018. Principal and interest maturities for the current year totaled $102,250.

***Columbia Bank*** - The Port issued a note payable to Columbia Bank in the amount of $1,400,000 for the purpose of refinancing previously issued debt to the OBDD and SPWF. The note carries interest at 5.5% through January 15, 2014 after which the interest rate will be prime minus half a percentage point. Annual principal and interest payments of $123,000 are due until the note matures on January 20, 2021, and requires compliance with certain covenants. At June 30, 2016, the Port was in compliance with these covenants or had obtained suitable waivers.

***Wells Fargo Bank*** - The Port issued a note payable to Wells Fargo Bank in the amount of $650,000 for the purpose of funding equipment acquisitions and facility improvements. The note carries interest at 4.7% with annual principle and interest payment of $83,887 until the note matures on November 30, 2016, and requires compliance with certain covenants. At June 30, 2016, the Port was in compliance with these covenants or had obtained suitable waivers.

***TLC Federal Credit Union-*** The Port converted a line of credit in the amount of $971,596 to a note payable on October 10, 2015 to provide funding for the FEMA grant projects until reimbursement is received. The note carries interest at 4.5% with annual principle and interest payments of $215,910 until the note matures on November 10, 2020.

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2016:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within one year |
|---|---|---|---|---|---|
| **Bonds:** | | | | | |
| Refunding Bond, Series 2002 | $ 290,000 | $ - | $ 90,000 | $ 200,000 | $ 100,000 |
| Revenue Bond, Series 1998 | 235,000 | - | 55,000 | 180,000 | 55,000 |
| **Total Bonds** | 525,000 | - | 145,000 | 380,000 | 155,000 |
| **Notes Payable:** | | | | | |
| OEDD 525179 | 359,408 | - | 37,860 | 321,548 | 39,312 |
| OEDD SPWF X03002 | 81,500 | - | 9,061 | 72,439 | 9,362 |
| OEDD SPWF L95003 | 55,594 | - | 6,705 | 48,889 | 7,363 |
| OEDD, Safe Drinking Water, S01009 | 113,849 | - | 8,152 | 105,697 | 8,488 |
| SPWF L07004 | 72,363 | - | - | 72,363 | 4,425 |
| Refinancing 2004 (Columbia Bank) | 543,901 | - | 109,358 | 434,543 | 112,457 |
| Capital Improvement 2006 (Wells Fargo) | 156,646 | - | 76,524 | 80,122 | 80,122 |
| OBDD Payroll loan C2008004 | 71,022 | - | 3,499 | 67,523 | 3,637 |
| Commercial Real Estate (TLC) | - | 971,596 | 119,045 | 852,551 | 182,264 |
| **Total Note Payables** | 1,454,283 | 971,596 | 370,204 | 2,055,675 | 447,430 |
| **Total Bonds and Notes Payables** | $ 1,979,283 | $ 971,596 | $ 515,204 | $ 2,435,675 | $ 602,430 |

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2015:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within one year |
|---|---|---|---|---|---|
| **Bonds:** | | | | | |
| Refunding Bond, Series 2002 | $ 380,000 | $ - | $ 90,000 | $ 290,000 | $ 90,000 |
| Revenue Bond, Series 1998 | 285,000 | - | 50,000 | 235,000 | 55,000 |
| **Total Bonds** | 665,000 | - | 140,000 | 525,000 | 145,000 |
| **Notes Payable:** | | | | | |
| OBDD 525179 | 395,871 | - | 36,463 | 359,408 | 37,861 |
| OBDD Payroll loan C2008004 | 74,378 | - | 3,356 | 71,022 | 3,498 |
| OBDD SPWF X03002 | 90,270 | - | 8,770 | 81,500 | 9,062 |
| OBDD SPWF L95003 | 61,681 | - | 6,087 | 55,594 | 6,705 |
| OBDD, Safe Drinking Water, S01009 | 121,680 | - | 7,831 | 113,849 | 8,152 |
| OBDD SPWF L07004 | 72,363 | - | - | 72,363 | 4,237 |
| Refinancing 2004 (Columbia Bank) | 650,377 | - | 106,476 | 543,901 | 109,376 |
| Capital Improvement 2006 (Wells Fargo) | 229,735 | - | 73,089 | 156,646 | 76,525 |
| Loans Payable | 11,894 | - | 11,894 | - | - |
| **Total Note Payables** | 1,708,249 | - | 253,966 | 1,454,283 | 255,416 |
| | $ 2,373,249 | $ - | $ 393,966 | $ 1,979,283 | $ 400,416 |

Future maturities of bonds payable are as follows:

| | Refunding Series 2002 Bond | | Revenue Bond Series 1998 | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| 2017 | $ 100,000 | $ 7,500 | $ 55,000 | $ 7,816 |
| 2018 | 100,000 | 2,500 | 60,000 | 4,869 |
| 2019 | - | - | 65,000 | 1,666 |
| Total | $ 200,000 | $ 10,000 | $ 180,000 | $ 14,351 |

Future maturities of notes payable are as follows:

| | OECDD 525179 | | OEDD SPWF X03002 | | OEDD SPWF L95003 | | OEDD SPWF SO1009 | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | $ 39,312 | $ 11,602 | $ 9,362 | $ 2,405 | $ 7,363 | $ 4,644 | $ 8,488 | $ 4,344 |
| 2018 | 40,819 | 10,094 | 9,673 | 2,094 | 8,066 | 2,166 | 8,836 | 3,995 |
| 2019 | 42,384 | 8,529 | 9,994 | 1,773 | 8,813 | 1,641 | 9,199 | 3,632 |
| 2020 | 44,009 | 6,904 | 10,326 | 1,441 | 24,647 | 899 | 9,578 | 3,254 |
| 2021 | 45,697 | 5,217 | 10,669 | 1,098 | - | - | 9,971 | 2,860 |
| 2022-2026 | 109,327 | 4,050 | 22,415 | 1,122 | - | - | 59,625 | 7,807 |
| Total | $ 321,548 | $ 46,396 | $ 72,439 | $ 9,933 | $ 48,889 | $ 9,350 | $ 105,697 | $ 25,892 |

| | OEDD SPWF L07004 | | Refinancing 2004 Columbia Bank | | Capital Improvement Wells Fargo | | OBDD Payroll Loan | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | $ 4,425 | $ 3,025 | $ 112,457 | $ 10,541 | $ 80,122 | $ 3,766 | $ 3,637 | $ 2,858 |
| 2018 | 4,622 | 2,829 | 115,589 | 7,409 | - | - | 3,798 | 2,697 |
| 2019 | 4,827 | 2,623 | 118,808 | 4,190 | - | - | 3,958 | 2,537 |
| 2020 | 5,041 | 2,408 | 87,689 | 1,724 | - | - | 4,126 | 2,369 |
| 2021 | 5,265 | 2,185 | - | - | - | - | 4,295 | 2,200 |
| 2022-2026 | 30,047 | 7,204 | - | - | - | - | 24,372 | 8,103 |
| 2027-2031 | 18,136 | 617 | - | - | - | - | 23,337 | 2,508 |
| Total | $ 72,363 | $ 20,891 | $ 434,543 | $ 23,864 | $ 80,122 | $ 3,766 | $ 67,523 | $ 23,272 |

| | TLC Real Estate Loan | |
|---|---|---|
| | Principal | Interest |
| 2017 | $ 182,264 | $ 34,647 |
| 2018 | 190,638 | 26,273 |
| 2019 | 199,396 | 17,515 |
| 2020 | 208,538 | 8,373 |
| 2021 | 71,715 | 8,373 |
| Total | $ 852,551 | $ 95,181 |

## NOTE 8 - OPERATING LEASES

The Port leases facilities to various individuals and businesses. Rent agreements vary from month-to-month to 30 years. Determination of the cost and book value of leased facilities is not determinable given the mixed use nature of Port property. As of June 30, 2016, minimum rental payments required under operating leases which have remaining non-cancelable lease terms in excess of one year are as follows:

| Year | Payments |
|---|---|
| 2017 | $ 445,398 |
| 2018 | 426,177 |
| 2019 | 402,214 |
| 2020 | 230,529 |
| 2021 | 253,785 |
| 2022-2026 | 1,207,528 |
| 2027-2031 | 468,610 |
| | $ 3,434,242 |

## NOTE 9 - DEFINED BENEFIT PENSION PLAN

***Plan description*** - Employees of the Port are provided with pensions through the Oregon Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan, the Oregon Legislature has delegated authority to the Public Employees Retirement Board to administer and manage the system. All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Pension Program, established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. OPERS issues a publicly available Comprehensive Annual Financial Report and Actuarial Valuation that can be obtained at http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

***Benefits provided***

1. ***Tier One/Tier Two Retirement Benefit ORS Chapter 238***

   ***Pension benefits*** - The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 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

   General service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 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:

   - the member was employed by a PERS employer at the time of death,
   - the member died within 120 days after termination of PERS-covered employment,
   - the member died as a result of injury sustained while employed in a PERS covered job, or
   - the 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 when determining the monthly benefit.

***Benefit changes*** - After retirement members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60,000 of annual benefit and 0.15 percent on annual benefits above $60,000.

### 2. *OPSRP Pension Program (OPSRP DB)*

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

> 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.

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

***Benefit changes after retirement*** - Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60,000 of annual benefit and 0.15 percent on annual benefits above $60,000.

### *3. OPSRP Individual Account Program (OPSRP IAP)*

***Pension benefits-*** An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

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

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

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

### *Contributions*

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 PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. Employer contributions for the year ended June 30, 2016 were $77,872, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2016 were 12.53 percent for Tier One/Tier Two General Service Member, 8.09 percent for OPSRP Pension Program General Service members, and 6 percent for OPSRP Individual Account Program.

### *Pension Assets, Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2016, the Port reported a liability of $410,974 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013 rolled forward to June 30, 2015. The Port's proportion of the net pension liability was based on a projection of the Port's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the Port's proportion was 0.01004 percent, which was unchanged from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Port recognized pension expense of $305,506. At June 30, 2016, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 22,162 | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on investments | - | 86,149 |
| Changes in proportion | - | 49,575 |
| Differences between employer contributions and proportionate share of contributions | - | 34,466 |
| Total (prior to post-MD contributions) | 22,162 | 170,190 |
| Contributions subsequent to the MD | 77,872 | - |
| Total | $ 100,034 | $ 170,190 |

Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Deferred Outflows | | Deferred Inflows | |
|---|---|---|---|
| Amortization Period | | Amortization Period | |
| FY2017 | $ 82,909 | FY2017 | $ 61,196 |
| FY2018 | 5,037 | FY2018 | 61,196 |
| FY2019 | 5,037 | FY2019 | 61,196 |
| FY2020 | 5,037 | FY2020 | (19,255) |
| FY2021 | 2,014 | FY2021 | 5,857 |
| Total | $ 100,034 | Total | $ 170,190 |

### *Actuarial assumptions*

The employer contribution rates effective July 1, 2013, through June 30, 2015 and effective July 1, 2015, through June 30, 2017, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years.

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

The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | December 31, 2013 |
| Measurement Date | June 30, 2015 |
| Experience Study Report | 2014, published September 2015 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Inflation Rate | 2.75 percent |
| Long-Term Expected Rate of Return | 7.75 percent |
| Discount Rate | 7.75 percent |
| Projected Salary Increases | 3.75 percent overall payroll growth |
| Cost of Living Adjustments (COLA) | Blend of 2.00% COLA and grade COLA |
| Mortality | Health retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.<br><br>Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.<br><br>Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 statistic combined disabled mortality sex-distinct table. |

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

### *Long-term expected rate of return*

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. 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 Allocation | Compounded Annual Return (Geometric) |
|---|---|---|
| Core Fixed Income | 7.20% | 4.50% |
| Short-Term Bonds | 8.00% | 3.70% |
| Intermediate -Term Bonds | 3.00% | 4.10% |
| High Yield Bonds | 1.80% | 6.66% |
| Large Cap US Equities | 11.65% | 7.20% |
| Mid Cap US Equities | 3.88% | 7.30% |
| Small Cap US Equities | 2.27% | 7.45% |
| Developed Foreign Equities | 14.21% | 6.90% |
| Emerging Foreign Equities | 5.49% | 7.40% |
| Private Equities | 20.00% | 8.26% |
| Opportunity Funds/Absolute Return | 5.00% | 6.01% |
| Real Estate (Property) | 13.75% | 6.51% |
| Real Estate (REITS) | 2.50% | 6.76% |
| Commodities | 1.25% | 6.07% |
| Total | 100.00% | |
| Assumed Inflation - Mean | | 2.75% |

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

**Depletion Date Projection**

GASB 68 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 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. Determining the discount rate under GASB 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for PERS:

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

***Discount rate***

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on 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.

***Sensitivity of the Port's proportionate share of the net pension liability to changes in the discount rate***

The following presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

| | 1% Decrease (6.75%) | Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| Port's proportionate share of the net pension liability (asset) | $ 991,870 | $ 410,974 | $ (78,569) |

***Pension plan fiduciary net position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

***Changes in Plan Provisions During the Measurement Period***

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipients.

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

This change in benefit terms were reflected in the current valuation.

***Changes in Plan Provisions Subsequent to Measurement Date***

There were no changes subsequent to the June 30, 2015 measurement date.

## NOTE 10 - DEFINED BENEFIT PENSION PLAN - RAILROAD

Railroad employees participate in the Railroad Retirement Program and are immediately eligible to participate. The Railroad Retirement plan is a multi-employer defined benefit pension plan consisting of two parts. Tier I Railroad Retirement is similar to social security with both employee and employer contributing 6.2% of employee compensation. Tier II Railroad Retirement requires an employee contribution of 3.9% and an employer contribution of 12.10% of employee compensation. The Port's required contribution for the year ended June 30, 2016, was $1,854.

## NOTE 11 - DEFERRED COMPENSATION PLAN

The Port provides its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits them to defer a portion of their salary until future years. The deferred compensation plan benefits are not available to employees until termination, death or unforeseeable emergency.

The Port has met the requirements of the Internal Revenue Code to treat the plan assets as available only to plan participants. As such, plan assets and liabilities are no longer reported in the financial statements.

## NOTE 12 - INTERGOVERNMENTAL AGREEMENT - RAILROAD OPERATIONS

In 1991, the Port purchased approximately 90 miles of railroad from Southern Pacific through a $2,800,000 grant from the Oregon Business Development Department (OBDD).

As of April 6, 1993, an intergovernmental agreement between the Port and the State of Oregon formed the Oregon Tillamook Railroad Authority (OTRA) to administer the operations of the railroad. The

OTRA board of directors consists of five members, three are chosen by the State, and two are chosen by the Port. The agreement states that title to the assets, controls, and trains of the railroad will remain with the Port; however, control over the use and disposition of the rail line will rest with the OTRA. OTRA's oversight was intended to bring the railroad up to FRA Class II standards; however, due to significant storm damage in 2007, achieving the standard is unlikely. The OTRA board remains active in spite of limited activity on Port railroads.

## NOTE 13 - RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Port carries commercial insurance. No settlements of any claims exceeded the insurance coverage in the past three years.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

***Grant revenue*** - The Port receives a significant amount of revenue from various governmental grants. These grants are subject to audit/review by the grantor agencies. At this time, as closure of FEMA funded projects is continuing, there is some uncertainty of ineligible reimbursements, if any. At this time, any finding from these audits is not anticipated have a material impact on the financial statements.

***Litigation***- From time to time the Port may be involved in legal actions, which normally occur in governmental operations. Legal claims are defended by the Port's insurance company and management believes any proceedings known to exist at June 30, 2016, are not likely to have a material adverse impact on the Port's financial position.

***Agreements***- In July of 2016, the Port ceased operations of the Digester which required early termination of several long-term agreements. Management does not believe the termination of any of these agreements will have a significant impact on the Port.

## NOTE 15 - POLLUTION REMEDIATION

The Port implemented GASB 49 on the accounting and reporting of pollution remediation activities in 2009. The Port has identified a few projects that may be undertaken in future years to remediate possible soil contamination and asbestos in several buildings. As of June 30, 2016, the Port had not incurred any obligating events and has not yet conducted studies necessary to determine remediation alternatives or estimated costs. Therefore, no liability has been recognized.

## NOTE 16 - FEMA GRANT AND RELATED CAPITAL PROJECTS

In August of 2010, the Port was awarded up to $44.6 million grant from the Federal Emergency Management Agency ("FEMA") of which twenty five percent match for every dollar spent is required. Lottery bond proceeds totaling $7.8 million were secured as matching funds by the Port through a grant award from the State of Oregon. Additionally, the Port received a grant from the Business Oregon to match equipment purchases, as well as partnering with Stimson Lumber on the Truck Scales Project. Stimson provided the 25% local match. Business Oregon/Infrastructure Finance Authority (IFA) also has issued a combination loan/grant to assist the Port in securing the local match needed on FEMA projects. Grant funds will provide resources for various capital projects on Port property including construction of new buildings, capital improvements, and equipment and real property acquisitions. All FEMA projects are expected to have construction completed by December 31, 2017, and close-out procedures either completed or at OEM or FEMA for review.

## NOTE 17 - CLOSURE AND POST-CLOSURE CARE COST

State and federal laws and regulations require the Port to place a final cover on its Tillamook Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for ten years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Port reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. Total post-closure costs are currently estimated to be $1,409,706. To date, the landfill has received waste filling 84.84% of its capacity. As a result, the Port has expensed $1,195,995 of post-closure care costs in prior years as the waste was being received. To date, the Port has incurred $300,000 of costs applied to its post-closure activities, resulting in an accrual of $890,498. The Port will recognize the remaining estimated cost of closure and post-closure care of $213,711 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. At the current and expected low rate of material to be accepted into the landfill annually, management cannot estimate the year of closure.

Each year the Port demonstrates financial assurance about the closure and post-closure care activities for the two landfills, #1107 and #1132, by using the local government financial assurance test described in Title 40 of the Code of Federal Regulations, paragraph 258.74. Continuing the review from 2013, the most recent analysis, the Port did not meet the stringent percentage requirements with the local government financial assurance test as required by Oregon Administrative Rule 340-94-0140, specifically due to loss of the rail line revenue and additional assets that are under construction not being moved to the asset list. As of March 2014, DEQ determined that financial assurance for #1107 is no longer a liability. The Port has continued working with DEQ on the financial assurance process, and received a letter from DEQ in November of 2016 stating that the #1132 is now considered low risk, and that financial assurance for #1132. The Port will continue to monitor the permits as needed.

## NOTE 18 – SPECIAL ITEMS

At June 30, 2015, the Port determined that assets in the amount of $264,111 related to the resort and golf course project were impaired and wrote off the carrying value of these assets. Given the unusual nature of this loss, the Port classified this as a special item on the Statement of Revenues, Expenses and Changes in Net Position.

## NOTE 19 – SUBSEQUENT EVENT

On December 22, 2016, the Port refinanced six loans in the amount of $6,272,130 to pay off the existing loan balances of $6,119,826. The new loan will be for 20 years at an interest rate of 4.5%.

# REQUIRED SUPPLEMENTARY INFORMATION

## REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

- Schedule of the Proportionate Share of the Net Pension Liability
- Schedule of Contributions

**PORT OF TILLAMOOK BAY**
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**
**For the Last Two Fiscal Years**

| Year Ended June 30, | (a) Port's proportion of the net pension liability (asset) | (b) Port's proportionate share of the net pension liability (asset) | (c) Port's covered payroll | (b/c) Port's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | Plan fiduciary net position as a percentage of the total pension liability |
|---|---|---|---|---|---|
| 2016 | 0.00715800% | $ 410,974 | $ 680,856 | 60.36% | 91.90% |
| 2015 | 0.10045440% | (227,701) | 640,247 | -35.56% | 103.60% |
| 2014 | 0.10045440% | 673,613 | 600,184 | 112.23% | 91.97% |

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

**PORT OF TILLAMOOK BAY**
**SCHEDULE OF CONTRIBUTIONS**
**For the Last Two Fiscal Years**

| Year Ended June 30, | (a) Statutorily required contribution | (b) Contributions in relation to the statutorily required contribution | (a-b) Contribution deficiency (excess) | (c) Port's covered payroll | (b/c) Contributions as a percent of covered payroll |
|---|---|---|---|---|---|
| 2016 | $ 77,872 | $ 77,872 | $ - | 737,864 | 10.55% |
| 2015 | 61,132 | 61,132 | - | $ 680,856 | 8.98% |
| 2014 | 62,203 | 62,203 | - | 640,247 | 9.72% |

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

## NOTE 1 - CHANGES IN ASSUMPTIONS

Details and a comprehensive list of changes in methods and assumptions can be found in the 2012 and 2014 Experience Study for the System, which were published on September 18, 2013 and September 23, 2015.These reports can be found at:

http://www.oregon.gov/pers/Pages/section/financial_reports/mercer_reports.aspx.

## NOTE 2- CHANGES IN BENEFIT TERMS

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipients.

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

This is a change in benefit terms was not included in the net pension liability (asset) proportionate shares provided by OPERS for the years ending June 30, 2015 and June 30, 2014.

# SUPPLEMENTARY INFORMATION

# SUPPLEMENTARY INFORMATION

Supplementary information includes financial statements and schedules not required by GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Pursuant to the provisions of Oregon Revised Statute, an individual schedule of revenues, expenditures, and changes in fund balances requires budget and actual be displayed for each fund where legally adopted budgets are required.

Such statements and schedules include:

- Combining Statements
- Budgetary Comparison Schedules

Budgetary Comparison schedules include the following funds:

**General Fund**
The General Fund is used to account for the operations of the Port's general operational expenses and property tax income that is not reserved for debt service. These operations include the lease of industrial and commercial property, airport activities including hangar rentals, railroad revenues, air museum, and sewer and water services.

**Revenue Bond Fund**
The Revenue Bond Fund is used to account for resources accumulated for the purpose of repayment of the Port's bonded indebtedness.

**PORT OF TILLAMOOK BAY**
**COMBINING STATEMENT OF NET POSITION**
**For the Fiscal Year Ended June 30, 2016**

| | GENERAL FUND | REVENUE BOND FUND | TOTAL |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | $ 988,296 | $ - | $ 988,296 |
| Accounts receivables, net of allowance | 160,252 | - | 160,252 |
| Property taxes receivable | 3,648 | - | 3,648 |
| Note receivable, current portion | 9,660 | - | 9,660 |
| Grants receivable | 1,113,539 | - | 1,113,539 |
| Inventory | 113,732 | - | 113,732 |
| Prepaid expenses | 300 | - | 300 |
| Total current assets | 2,389,427 | - | 2,389,427 |
| **CURRENT RESTRICTED ASSETS:** | | | |
| Cash and cash equivalents | 841,353 | 99,528 | 940,881 |
| Total current restricted assets | 841,353 | 99,528 | 940,881 |
| **NONCURRENT ASSETS:** | | | |
| Capital assets, net | 51,032,230 | - | 51,032,230 |
| Note receivable, net of current portion | 393,202 | - | 393,202 |
| Total noncurrent assets | 51,425,432 | - | 51,425,432 |
| Total assets | 54,656,212 | 99,528 | 54,755,740 |
| **DEFERRED OUTFLOWS OF RESOURCES:** | | | |
| Deferred outflows relating to pension | 100,034 | - | 100,034 |
| Total assets and deferred outflows of resources | $ 54,756,246 | $ 99,528 | $ 54,855,774 |
| **LIABILITIES AND NET POSITION** | | | |
| **CURRENT LIABILITIES:** | | | |
| Accounts payable | $ 1,738,175 | $ - | $ 1,738,175 |
| Accrued payroll and related expenses | 68,361 | - | 68,361 |
| Accrued vacation | 59,596 | - | 59,596 |
| Other accrued liabilities | 107,446 | - | 107,446 |
| Accrued interest payable | 15,467 | 733 | 16,200 |
| Net pension liability | 410,974 | | 410,974 |
| Long-term debt obligation, current portion | 547,430 | 55,000 | 602,430 |
| Line of credit | 4,508,003 | - | 4,508,003 |
| Total current liabilities | 7,455,452 | 55,733 | 7,511,185 |
| **NONCURRENT LIABILITIES:** | | | |
| Long-term debt obligations, net of current portion | 1,708,245 | - | 1,708,245 |
| Unearned revenue | 841,353 | - | 841,353 |
| Landfill post-closure liability | 890,498 | - | 890,498 |
| Total noncurrent liabilities | 3,440,096 | - | 3,440,096 |
| **LIABILITIES PAYABLE FROM RESTRICTED ASSETS:** | | | |
| Revenue bonds payable | - | 125,000 | 125,000 |
| Total liabilities | 10,895,548 | 180,733 | 11,076,281 |
| **DEFERRED INFLOWS OF RESOURCES:** | | | |
| Deferred inflows relating to pensions | 170,190 | - | 170,190 |
| **NET POSITION:** | | | |
| Net investment in capital assets | 44,336,075 | (180,000) | 44,156,075 |
| Restricted for debt service | - | 99,528 | 99,528 |
| Unrestricted | (645,567) | (733) | (646,300) |
| Total net position | 43,690,508 | (81,205) | 43,609,303 |
| Total liabilities, deferred inflows of resources, and net position | $ 54,756,246 | $ 99,528 | $ 54,855,774 |

## PORT OF TILLAMOOK BAY
## COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
### For the Fiscal Year Ended June 30, 2016

| | GENERAL FUND | REVENUE BOND FUND | TOTAL |
|---|---|---|---|
| **OPERATING REVENUES:** | | | |
| Charges for services | $ 780,547 | $ - | $ 780,547 |
| Building and land rent | 1,270,085 | - | 1,270,085 |
| Museum | 599,510 | - | 599,510 |
| Airport revenues | 115,074 | - | 115,074 |
| Railroad revenues | 173,275 | - | 173,275 |
| Miscellaneous revenues | | | |
| Total operating revenues | 2,938,491 | - | 2,938,491 |
| **OPERATING EXPENSES:** | | | |
| Personnel services | 1,743,357 | - | 1,743,357 |
| Materials and services | 3,866,826 | - | 3,866,826 |
| Depreciation | 3,732,913 | - | 3,732,913 |
| Total operating expenses | 9,343,096 | - | 9,343,096 |
| Operating income (loss) | (6,404,605) | - | (6,404,605) |
| **NON-OPERATING REVENUES (EXPENSES):** | | | |
| Property taxes | 50,824 | - | 50,824 |
| Interest income | 2,807 | 17 | 2,824 |
| Grant revenue | 2,447,180 | - | 2,447,180 |
| Timber sales | 1,937 | - | 1,937 |
| Miscellaneous income | 35,711 | - | 35,711 |
| Other nonoperating revenue | 697,081 | - | 697,081 |
| Gain on sale of assets | 786,440 | - | 786,440 |
| Other income | 84,000 | | 84,000 |
| Interest expense | (303,015) | (11,410) | (314,425) |
| Transfers in (out) | (68,472) | 68,472 | - |
| Total non-operating income (expenses) | 3,734,493 | 57,079 | 3,791,572 |
| Changes in net position | (2,670,112) | 57,079 | (2,613,033) |
| **NET POSITION, BEGINNING** | 46,360,620 | (138,284) | 46,222,336 |
| **NET POSITION, ENDING** | $ 43,690,508 | $ (81,205) | $ 43,609,303 |

**PORT OF TILLAMOOK BAY**
**COMBINING STATEMENT OF CASH FLOWS**
**For the Fiscal Year Ended June 30, 2016**

| | GENERAL FUND | REVENUE BOND FUND | TOTAL |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Cash received from customers | $ 2,465,176 | $ - | $ 2,465,176 |
| Cash paid to suppliers | (2,760,728) | (6,004) | (2,766,732) |
| Cash paid for personnel services | (1,471,880) | - | (1,471,880) |
| Net cash flows from operating activities | (1,767,432) | (6,004) | (1,773,436) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | | | |
| Property taxes | 50,664 | - | 50,664 |
| Timber sales | 1,937 | - | 1,937 |
| Nonoperating revenues | 816,792 | - | 816,792 |
| Transfers | (68,472) | 68,472 | - |
| Net cash flows from noncapital financing activities | 800,921 | 68,472 | 869,393 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | |
| Property and equipment additions | (923,183) | - | (923,183) |
| Proceeds from sale of assets | 786,440 | - | 786,440 |
| Grant proceeds | 1,587,527 | - | 1,587,527 |
| Payments on notes and bonds payable | (460,204) | (55,000) | (515,204) |
| Loan proceeds | 971,596 | - | 971,596 |
| Line of credit proceeds (payments) | (759,036) | - | (759,036) |
| Interest paid on notes and bonds payable | (305,136) | (11,634) | (316,770) |
| Net cash flows from capital and related financing activities | 898,004 | (66,634) | 831,370 |
| **CASH FLOWS FROM INVESTING ACTIVIITES:** | | | |
| Interest income | 2,807 | 17 | 2,824 |
| Net increase (decrease) in cash | (65,700) | (4,149) | (69,849) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 1,895,349 | 103,677 | 1,999,026 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 1,829,649 | $ 99,528 | $ 1,929,177 |
| **CLASSIFED ON THE STATEMENT OF NET POSITION AS :** | | | |
| Current assets | $ 988,296 | $ - | $ 988,296 |
| Restricted assets | 841,353 | 99,528 | 940,881 |
| **Total cash and cash equivalents** | $ 1,829,649 | $ 99,528 | $ 1,929,177 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:** | | | |
| Operating income (loss) | $ (6,404,605) | $ - | $ (6,404,605) |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities: | | | |
| Depreciation | 3,732,913 | - | 3,732,913 |
| (Increase) decrease in assets | | | |
| Accounts receivable | (70,453) | - | (70,453) |
| Rent receivable | (402,862) | - | (402,862) |
| Pension asset | 188,799 | - | 188,799 |
| Inventory | (2,933) | - | (2,933) |
| Increase (decrease) in liabilities | | | |
| Accounts payable | 1,108,422 | (6,004) | 1,102,418 |
| Payroll liabilities | (34,029) | - | (34,029) |
| Pension liability | 116,707 | - | 116,707 |
| Other accrued liabilities | 609 | - | 609 |
| Total adjustments | 4,637,173 | (6,004) | 4,631,169 |
| NET CASH USED BY OPERATING ACTIVITIES | $ (1,767,432) | $ (6,004) | $ (1,773,436) |

**PORT OF TILLAMOOK BAY**
**GENERAL FUND**
**SCHEDULE OF REVENUES, EXPENDITURES, AND**
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**
**For the Fiscal Year Ended June 30, 2016**

| | Actual | Budgetary Adjustment | Budgetary Basis | Budget | | Variance with Final Budget |
|---|---|---|---|---|---|---|
| | | | | Original | Final | |
| **REVENUES:** | | | | | | |
| Charges for services | $ 780,547 | $ - | $ 780,547 | $ 831,060 | $ 831,060 | $ (50,513) |
| Building and land rent | 1,270,085 | - | 1,270,085 | 1,076,500 | 1,076,500 | 193,585 |
| Museum | 599,510 | - | 599,510 | 1,035,105 | 1,035,105 | (435,595) |
| Airport revenues | 115,074 | - | 115,074 | 120,000 | 120,000 | (4,926) |
| Railroad revenues | 173,275 | - | 173,275 | 276,000 | 276,000 | (102,725) |
| Property taxes | 50,824 | - | 50,824 | 43,505 | 43,505 | 7,319 |
| Interest income | 2,807 | - | 2,807 | 3,500 | 3,500 | (693) |
| Grant revenue | 2,447,180 | - | 2,447,180 | 3,265,580 | 3,491,576 | (1,044,396) |
| Timber sales | 1,937 | - | 1,937 | 10,000 | 10,000 | (8,063) |
| Miscellaneous income | 35,711 | - | 35,711 | 8,200 | 8,200 | 27,511 |
| Other nonoperating revenue | 697,081 | - | 697,081 | 630,000 | 630,000 | 67,081 |
| Insurance proceeds | - | - | - | 335,000 | 335,000 | (335,000) |
| Forgiveness of debt | - | - | - | 240,000 | 240,000 | (240,000) |
| Other income | 84,000 | - | 84,000 | 91,500 | 91,500 | (7,500) |
| Gain on sale of assets | 786,440 | (786,440) | - | | - | - |
| Total revenues | 7,044,471 | (786,440) | 6,258,031 | 7,965,950 | 8,191,946 | (1,933,915) |
| **EXPENDITURES:** | | | | | | |
| Materials and services | 3,866,826 | (1,194,578) | 2,672,248 | 3,231,025 | 3,328,025 | 655,777 |
| Personnel services | 1,743,357 | (278,350) | 1,465,007 | 1,757,336 | 1,692,336 | 227,329 |
| Capital outlay | - | 2,485,535 | 2,485,535 | 3,258,471 | 3,284,467 | 798,932 |
| Debt service: | | | | | | |
| Principle | - | 460,204 | 460,204 | 6,000,000 | 6,000,000 | 5,539,796 |
| Interest | 303,015 | 3,078 | 306,093 | 403,118 | 568,118 | 262,025 |
| Depreciation | 3,732,913 | (3,732,913) | - | - | - | - |
| Total expenditures | 9,646,111 | (2,257,024) | 7,389,087 | 14,649,950 | 14,872,946 | 7,483,859 |
| Revenues over (under) expenditures | (2,601,640) | 1,470,584 | (1,131,056) | (6,684,000) | (6,681,000) | 5,549,944 |
| **OTHER FINANCING SOURCES (USES):** | | | | | | |
| Loan proceeds | - | 971,596 | 971,596 | 6,000,000 | 6,000,000 | (5,028,404) |
| Transfers out | (68,472) | - | (68,472) | (66,000) | (69,000) | 528 |
| Total other financing sources (uses) | (68,472) | 971,596 | 903,124 | 5,934,000 | 5,931,000 | (5,027,876) |
| Changes in net position | (2,670,112) | 2,442,180 | (227,932) | (750,000) | (750,000) | 522,068 |
| **FUND BALANCE, BEGINNING BUDGETARY BASIS** | | | 589,345 | 750,000 | 750,000 | (160,655) |
| **FUND BALANCE, ENDING BUDGETARY BASIS** | | | $ 361,413 | $ - | $ - | $ 361,413 |

**PORT OF TILLAMOOK BAY**
**REVENUE BOND FUND**
**SCHEDULE OF REVENUES, EXPENDITURES, AND**
**CHANGES IN FUND BALANCE- BUDGET AND ACTUAL**
**For the Fiscal Year Ended June 30, 2016**

| | Actual | Budgetary Adjustment | Budgetary Basis | Budget Original | Budget Final | Variance with Final Budget |
|---|---|---|---|---|---|---|
| **REVENUES:** | | | | | | |
| Interest income | $ 17 | $ - | $ 17 | $ 25 | $ 25 | $ (8) |
| Total revenues | 17 | - | 17 | 25 | 25 | (8) |
| **EXPENDITURES:** | | | | | | |
| Debt service | | | | | | |
| Principal | - | 61,004 | 61,004 | 55,000 | 55,000 | (6,004) |
| Interest | 11,410 | 224 | 11,634 | 14,625 | 14,625 | 2,991 |
| Total expenditures | 11,410 | 61,228 | 72,638 | 69,625 | 69,625 | (3,013) |
| Revenues over (under) expenditures | (11,393) | (61,228) | (72,621) | (69,600) | (69,600) | (3,021) |
| **OTHER FINANCING SOURCES (USES):** | | | | | | |
| Transfers in | 68,472 | - | 68,472 | 66,000 | 66,000 | 2,472 |
| Total other financing sources (uses) | 68,472 | - | 68,472 | 66,000 | 66,000 | 2,472 |
| Changes in net position | $ 57,079 | $ (61,228) | (4,149) | (3,600) | (3,600) | (549) |
| **FUND BALANCE, BEGINNING BUDGETARY BASIS** | | | 103,677 | 92,605 | 92,605 | 11,072 |
| **FUND BALANCE, ENDING BUDGETARY BASIS** | | | $ 99,528 | $ 89,005 | $ 89,005 | $ 10,523 |

# INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATION

MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
KAMALA K. AUSTIN, CPA • TONYA M. MOFFITT, CPA

# INDEPENDENT AUDITOR'S REPORT
# REQUIRED BY OREGON STATE REGULATION

We have audited the basic financial statements of the Port of Tillamook Bay (the Port) as of and for the year ended June 30, 2016, and have issued our report thereon dated December 15, 2016. 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.

## Compliance

As part of obtaining reasonable assurance about whether the Port's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets. The Port does not receive highway revenues.
- Authorized investment of surplus funds. (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).
- Accountability for collecting or receiving money by elected officials. The Port does not have any elected officials collecting or receiving money.



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In connection with our testing, nothing came to our attention that caused us to believe the Port was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations* except as follows:

1. Expenditures exceeded appropriations in the Revenue Bond Fund.

    a. Debt Service $3,013

**OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A *deficiency* in *internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the separately issued Schedule of Findings and Questioned Costs that we consider to be a significant deficiency.

This report is intended solely for the information and use of the Board of Commissioners, Oregon Secretary of State Audits Division, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 15, 2016