

PORT OF TILLAMOOK BAY, OREGON
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2017 & 2016

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

5499 AMY STREET • WEST LINN, OR 97068
PHONE: (503) 723-0300 • FAX: (503) 723-9946 • WWW.MERINACPAS.COM

PORT OF TILLAMOOK BAY, OREGON
TABLE OF CONTENTS
June 30, 2017 and 2016

	<u>PAGE</u>
INTRODUCTORY SECTION	
Principal Officials	i
FINANCIAL SECTION	
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	4
<u>Basic Financial Statements</u>	11
Statement of Net Position.....	12
Statement of Revenues, Expenses, and Change in Net Position.....	13
Statement of Cash Flows.....	14
<u>Notes to the Basic Financial Statements</u>	16
<u>Required Supplementary Information</u>	43
Schedule of Proportionate Share of the Net Pension Liability-Last Four Fiscal Years.....	44
Schedule of Contributions - Last Four Fiscal Years	45
<u>Notes to the Required Supplementary Information</u>	46
<u>Supplementary Information</u>	47
Combining Statement of Net Position.....	48
Combining Statement of Revenues, Expenses, and Changes in Net Position	49
Combining Statement of Cash Flows.....	50
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget (non-GAAP basis) and actual:	
General Fund	51
Revenue Bond Fund	52
Schedule of Expenditures, budget and actual	
General Fund – Budgetary Basis	53
Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting on an Audit of Financial Statements Performed in Accordance with <i>Oregon State Regulation</i>	54

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTORY SECTION

PORT OF TILLAMOOK BAY, OREGON

PRINCIPAL OFFICIALS

June 30, 2017

Jim Young, President
4000 Blimp Blvd.
Suite 100
Tillamook, Oregon 97141

Bob Olson, Vice President
4000 Blimp Blvd.
Suite 100
Tillamook, Oregon 97141

Jack Mulder, Secretary
4000 Blimp Blvd.
Suite 100
Tillamook, Oregon 97141

Carolyn Decker, Treasurer
4000 Blimp Blvd.
Suite 100
Tillamook, Oregon 97141

Gerald Opdahl, Board member
4000 Blimp Blvd.
Suite 100
Tillamook, Oregon 97141

Michele Bradley, Port Manager and Registered Agent
4000 Blimp Blvd.
Suite 100
Tillamook, Oregon 97141

Jordan Ramis, Attorney
P.O. Box 230669
Portland, Oregon 97225

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

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, 2016 and 2017, 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

The Port's 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2016 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof 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 the required supplementary information, such as management's discussion and analysis 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 the 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 opinions 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 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.

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

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 27, 2017 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 27, 2017, 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.

A handwritten signature in black ink, appearing to read "Kamal", with a stylized flourish extending to the right.

For Merina & Company, LLP
West Linn, Oregon
December 27, 2017

**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, 2017, 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, e.g. 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 GASB 34.

Financial Highlights:

- The Port of Tillamook Bay’s assets exceeded its liabilities at June 30, 2017 by \$40,012,082 (net position), a decrease of \$3,597,221 or (8%) over fiscal year 2015-2016.
- Capital assets decreased by \$3,738,846 or (7%) from the 2015-2016 year due to depreciation of capital projects.

Brief discussion of basic financial statements:

The Port of Tillamook Bay (Port) maintained two funds for fiscal year 2016-2017; 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 1% of the General Fund revenue for fiscal year 2016-2017. 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

Condensed Statement of Net Position

	Balances as of June 30			Increase (Decrease)	
	2017	2016	2015	2016 to 2017	2015 to 2016
Assets					
Current Assets	\$ 1,355,649	\$ 2,389,427	\$ 1,512,321	\$ (1,033,778)	\$ 877,106
Restricted Assets	196,784	940,881	1,086,752	(744,097)	(145,871)
Other Assets	383,012	393,202	227,701	(10,190)	165,501
Capital Assets, net	<u>47,293,384</u>	<u>51,032,230</u>	<u>53,841,960</u>	<u>(3,738,846)</u>	<u>(2,809,730)</u>
Deferred Outflows of Resources	<u>637,338</u>	<u>100,034</u>	<u>61,132</u>	<u>537,304</u>	<u>38,902</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 49,866,167</u>	<u>\$ 54,855,774</u>	<u>\$ 56,729,866</u>	<u>\$ (4,989,607)</u>	<u>\$ (1,874,092)</u>
Liabilities					
Current Liabilities	2,068,572	7,511,185	6,590,580	(5,442,613)	920,605
Long Term Liabilities	7,721,563	3,440,096	3,272,493	4,281,467	167,603
Liabilities Payable From Restricted	<u>0</u>	<u>125,000</u>	<u>180,000</u>	<u>(125,000)</u>	<u>(55,000)</u>
Deferred Inflows of Resources	<u>63,950</u>	<u>170,190</u>	<u>464,457</u>	<u>(106,240)</u>	<u>(294,267)</u>
Total Liabilities and Deferred Inflows of Resources	<u>9,854,085</u>	<u>11,246,471</u>	<u>10,507,530</u>	<u>(1,392,386)</u>	<u>738,941</u>
Net Position					
Net Investment in Capital Assets	40,669,130	44,156,075	46,666,658	(3,486,945)	(2,510,583)
Restricted	0	99,528	103,677	(99,528)	(4,149)
Unrestricted	<u>(657,048)</u>	<u>(646,300)</u>	<u>(547,999)</u>	<u>(10,748)</u>	<u>(98,301)</u>
Total Net Position	<u>40,012,082</u>	<u>43,609,303</u>	<u>46,222,336</u>	<u>(3,597,221)</u>	<u>(2,613,033)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 49,866,167</u>	<u>\$ 54,855,774</u>	<u>\$ 56,729,866</u>	<u>\$ (4,989,607)</u>	<u>\$ (1,874,092)</u>

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

	Activities for Fiscal Years Ending June 30			Dollars	Dollars
	2017	2016	2015	2016 to 2017	2015 to 2016
Operating Revenues					
Land & Building	\$ 1,438,803	\$ 1,270,085	\$ 1,148,849	\$ 168,718	\$ 121,236
Charges for services	446,176	780,547	707,339	(334,371)	73,208
Museum	514,785	599,510	279,861	(84,725)	319,649
Airport Revenues	72,413	115,074	105,331	(42,661)	9,743
Railroad Revenues	218,179	173,275	170,996	44,904	2,279
Total Operating Revenues	2,690,356	2,938,491	2,412,376	(248,135)	526,115
Operating Expenses:					
Personal Services	1,510,155	1,743,357	1,034,549	(233,202)	708,808
Materials and Services	5,708,936	3,866,826	2,836,604	1,842,110	1,030,222
Depreciation and amortization	3,864,055	3,732,913	3,378,984	131,142	353,929
Total Operating Expenses	11,083,146	9,343,096	7,250,137	1,740,050	2,092,959
Operating Income (Loss)	(8,392,790)	(6,404,605)	(4,837,761)	(1,988,185)	(1,566,844)
Non-operating Revenues (Expenses)					
Grant proceeds	4,807,234	2,447,180	4,112,338	2,360,054	(1,665,158)
Change in Net Position	(3,597,221)	(2,613,033)	818,196	(984,188)	(3,431,229)
Income Before Special Item					
Special Item	-	-	(264,111)	-	264,111
Net Position- Beginning	43,609,303	46,222,336	46,118,682	(2,613,033)	103,654
Change in Accounting Principle	-	-	(450,431)	-	450,431
Beginning Position Restated	43,609,303	46,222,336	45,668,251	(2,613,033)	554,085
Net Position- Ending	\$ 40,012,082	\$ 43,609,303	\$ 46,222,336	\$ (3,597,221)	\$ (2,613,033)

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 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 a lumber mill in Banks, rail car storage, 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, Tillamook County, and Oregon Parks and Recreation Department on a Master Plan for the Salmonberry Trail, located between Banks and Tillamook, running through 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, 2017, the net operating income of the Port’s general operations was \$(8,392,790). The General Fund’s net position decreased by \$3,678,426. For the year ending June 30, 2017, the Revenue Bond Fund, had an increase in net position of \$81,205. The Port total net position, as of June 30, 2017, was \$40,012,082, a decrease from the previous year of \$3,597,221 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.

Capital Assets and Debt Administration:

As of June 30, 2017, the Port had \$47,293,384 in capital assets net of accumulated depreciation. The Port’s capital assets decreased (7%) during 2017. This increase is mainly due to FEMA grants that funded various capital projects. For more detailed information regarding the Port’s capital assets refer to notes to the basic financial statements.

Capital Assets at Year End

	<u>06/30/15</u>	<u>06/30/16</u>	<u>06/30/17</u>
Land	\$ 3,993,872	\$ 3,993,510	\$ 3,993,510
Land Improvements	23,668,241	23,974,015	23,972,904
Buildings	35,156,287	38,174,963	38,163,115
Leasehold Improvements	248,331	248,331	248,331
Machinery & Equipment and Rail Equipment	12,554,754	14,349,510	14,391,212
Furniture & Fixtures	24,803	24,803	24,803
Intangible Assets	3,871,028	3,909,437	3,909,437
Construction in Progress	<u>4,279,092</u>	<u>34,487</u>	<u>93,835</u>
Total Capital Assets	83,796,408	84,709,056	84,797,147
Accumulated Depreciation and Amortization	<u>29,954,448</u>	<u>33,676,826</u>	<u>37,503,763</u>
Net Capital Assets	<u>\$ 53,841,960</u>	<u>\$ 51,032,230</u>	<u>\$ 47,293,384</u>

Outstanding Long Term Debt

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Bonds:	\$ 525,000	\$ 380,000	\$ 6,206,579
Notes Payable	<u>1,454,283</u>	<u>2,055,675</u>	<u>481,562</u>
Total Long Term Debt	<u>\$ 1,979,283</u>	<u>\$ 2,435,675</u>	<u>\$ 6,688,141</u>

The Port's total long-term debt increased by \$4,252,466 or 64% during 2017, to \$6,688,141 as the Port refinanced the lines of credit (moved from short term to long term debt) and other loans to consolidate debt and improve cash flow. *L07004 – Repayment of this loan will be forgiven by the State, with the condition the Port remain current on all other outstanding debt owed to Business Oregon (OBDD), formerly Oregon Economic & Community Development (OECDD).

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 year 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 are for their business. This is a fifteen-year agreement, with 9 years remaining.
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
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 727,942	\$ 988,296
Accounts receivables, net of allowance	41,800	160,252
Property taxes receivable	3,784	3,648
Note receivable, current portion	10,111	9,660
Grants receivable	508,593	1,113,539
Inventory	63,119	113,732
Prepaid expenses	300	300
Total current assets	<u>1,355,649</u>	<u>2,389,427</u>
CURRENT RESTRICTED ASSETS:		
Cash and cash equivalents	<u>196,784</u>	<u>940,881</u>
Total current restricted assets	<u>196,784</u>	<u>940,881</u>
NONCURRENT ASSETS:		
Capital assets, net	47,293,384	51,032,230
Note receivable, net of current portion	<u>383,012</u>	<u>393,202</u>
Total noncurrent assets	<u>47,676,396</u>	<u>51,425,432</u>
Total assets	49,228,829	54,755,740
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows relating to pension	<u>637,338</u>	<u>100,034</u>
Total assets and deferred outflows of resources	<u>\$ 49,866,167</u>	<u>\$ 54,855,774</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 411,372	\$ 1,738,175
Accrued payroll and related expenses	111,796	68,361
Accrued vacation	44,415	59,596
Other accrued liabilities	106,983	107,446
Accrued interest payable	166,781	16,200
Net pension liability	1,173,365	410,974
Long-term debt obligations, current portion	53,860	602,430
Line of credit	-	4,508,003
Total current liabilities	<u>2,068,572</u>	<u>7,511,185</u>
NONCURRENT LIABILITIES:		
Long-term debt obligations, net of current portion	6,634,281	1,708,245
Unearned revenue	196,784	841,353
Landfill post-closure liability	890,498	890,498
Total noncurrent liabilities	<u>7,721,563</u>	<u>3,440,096</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Revenue bonds	<u>-</u>	<u>125,000</u>
Total liabilities	<u>9,790,135</u>	<u>11,076,281</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows relating to pensions	<u>63,950</u>	<u>170,190</u>
NET POSITION:		
Net investment in capital assets	40,669,130	44,156,075
Restricted for debt service	-	99,528
Unrestricted	<u>(657,048)</u>	<u>(646,300)</u>
Total net position	<u>40,012,082</u>	<u>43,609,303</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 49,866,167</u>	<u>\$ 54,855,774</u>

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 Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Charges for services	\$ 446,176	\$ 780,547
Building and land rent	1,438,803	1,270,085
Museum	514,785	599,510
Airport revenues	72,413	115,074
Railroad revenues	218,179	173,275
Total operating revenues	<u>2,690,356</u>	<u>2,938,491</u>
OPERATING EXPENSES:		
Personnel services	1,510,155	1,743,357
Materials and services	5,708,936	3,866,826
Depreciation	3,864,055	3,732,913
Total operating expenses	<u>11,083,146</u>	<u>9,343,096</u>
Operating income (loss)	<u>(8,392,790)</u>	<u>(6,404,605)</u>
NON-OPERATING REVENUES (EXPENSES):		
Property taxes	52,791	50,824
Interest income	21,727	2,824
Grant revenue	4,807,234	2,447,180
Timber sales	4,000	1,937
Miscellaneous income	20,754	35,711
Tax credit income	383,551	697,081
Loss on sale of assets	(4,582)	786,440
Other income	-	84,000
Loan fees	(176,113)	-
Interest expense	(313,793)	(314,425)
Total non-operating income (expenses)	<u>4,795,569</u>	<u>3,791,572</u>
Change in net position	(3,597,221)	(2,613,033)
NET POSITION, BEGINNING	<u>43,609,303</u>	<u>46,222,336</u>
NET POSITION, ENDING	<u>\$ 40,012,082</u>	<u>\$ 43,609,303</u>

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

PORT OF TILLAMOOK BAY
STATEMENT OF CASH FLOWS
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 2,818,547	\$ 2,465,176
Cash paid to suppliers	(6,985,589)	(2,766,732)
Cash paid for personnel services	(1,363,054)	(1,471,880)
Net cash provided (used) by operating activities	<u>(5,530,096)</u>	<u>(1,773,436)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Property taxes received	52,655	50,664
Timber sales	4,000	1,937
Non operating revenues	404,305	816,792
Net cash provided (used) by non-capital financing activities	<u>460,960</u>	<u>869,393</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(129,791)	(923,183)
Proceeds from sale of assets	-	786,440
Grant proceeds	4,767,611	1,587,527
Principal payment on notes and bond payable	(1,954,113)	(515,204)
Loan proceeds	6,320,000	971,596
Bond discount on issuance of debt	(115,947)	-
Interest paid on notes and bond payable	(163,212)	(316,770)
Fees paid on notes and bonds payable	(173,587)	-
Line of credit proceeds (payments)	(4,508,003)	(759,036)
Net cash provided (used) by capital and related financing activities	<u>4,042,958</u>	<u>831,370</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	21,727	2,824
Net cash provided (used) by investing activities	<u>21,727</u>	<u>2,824</u>
Net increase (decrease) in cash and cash equivalents	(1,004,451)	(69,849)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,929,177</u>	<u>1,999,026</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 924,726</u>	<u>\$ 1,929,177</u>
CLASSIFIED ON THE STATEMENT OF NET POSITION AS:		
Cash and cash equivalents	\$ 727,942	\$ 988,296
Restricted cash and cash equivalents	196,784	940,881
Total cash and cash equivalents	<u>\$ 924,726</u>	<u>\$ 1,929,177</u>

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

PORT OF TILLAMOOK BAY
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Fiscal Years Ended June 30, 2017 and 2016

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating loss	\$ (8,392,790)	\$ (6,404,605)
Adjustments:		
Depreciation	3,864,055	3,732,913
Pension expense	118,847	305,506
Decrease (increase) in:		
Accounts receivable	118,452	(70,453)
Note receivable	9,739	(402,862)
Inventory	50,613	(2,933)
Increase (decrease) in:		
Accounts payable	(1,326,803)	1,102,418
Accrued payroll	43,435	(6,873)
Accrued compensated absences	(15,181)	(27,156)
Other accrued liabilities	(463)	609
	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	<u>\$ (5,530,096)</u>	<u>\$ (1,773,436)</u>

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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 \$50,980 and \$62,849 as of June 30, 2017 and 2016, 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 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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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:

<u>Assets</u>	<u>Years</u>
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, 2017 and 2016 was \$196,784 and \$841,353, 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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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, 2017. 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.

NOTE 3 - CASH AND CASH EQUIVALENTS

Following is a summary of the Port’s deposit and investment balances at June 30, 2017 and 2016:

Cash deposits	2017	2016
Cash on hand	\$ 1,868	\$ 1,868
Bank deposits	235,372	840,928
Total cash and bank deposits	237,240	842,796
Cash and investments		
Investments in the State and Local Government	687,487	1,086,381
Total deposits and investment	<u>\$ 924,726</u>	<u>\$ 1,929,177</u>
These balances reconcile to the Statement of Net Position as follows:		
Current assets	\$ 727,942	\$ 988,296
Restricted assets	196,784	940,881
	<u>\$ 924,726</u>	<u>\$ 1,929,177</u>

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

As of June 30, 2017, the Port had the following cash equivalents:

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
Local Government Investment Pool	0.0	<u>\$ 687,487</u>

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

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
Local Government Investment Pool	0.0	<u>\$ 1,086,381</u>

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, 2017 and 2016, the book value of the Port's deposits was \$235,372 and \$840,928 and the bank balance was \$235,319 and \$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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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, 2017 and 2016, \$687,487 (74%) and \$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 \$51,835 and \$50,464 for fiscal year ending June 30, 2017 and 2016. Property taxes receivable as of June 30, 2017 and 2016 is \$3,784 and \$3,648, respectively.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 5 - CAPITAL ASSETS

Capital asset activity and balances consist of the following for the year ended June 30, 2017:

Capital assets, non depreciable	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
Land	\$ 3,993,510	\$ -	\$ -	\$ -	\$ 3,993,510
Construction in progress	34,487	80,600	(21,252)	-	93,835
Total capital assets, non-depreciable	4,027,997	80,600	(21,252)	-	4,087,345
Capital assets, depreciable					
Land improvements	23,974,015	-	-	(1,111)	23,972,904
Buildings	38,174,963	-	21,252	(33,100)	38,163,115
Leasehold improvements	248,331	-	-	-	248,331
Machinery & equipment	11,254,460	49,190	-	(7,488)	11,296,162
Rail equipment	3,095,050	-	-	-	3,095,050
Furniture & fixtures	24,803	-	-	-	24,803
Intangible assets	3,909,437	-	-	-	3,909,437
Total capital assets, depreciable	80,681,059	49,190	21,252	(41,699)	80,709,802
Less: accumulated depreciation					
Land improvements	(10,873,974)	(1,289,471)	-	667	(12,162,778)
Buildings	(13,519,286)	(865,594)	-	28,963	(14,355,917)
Leasehold improvements	(225,711)	(7,974)	-	-	(233,685)
Machinery & equipment	(5,065,109)	(1,351,822)	-	7,488	(6,409,443)
Rail equipment	(2,249,815)	(154,598)	-	-	(2,404,413)
Furniture & fixtures	(10,357)	(3,795)	-	-	(14,152)
Intangible assets	(1,732,574)	(190,801)	-	-	(1,923,375)
Accumulated depreciation	(33,676,826)	(3,864,055)	-	37,118	(37,503,763)
Net depreciable, capital assets	47,004,233	(3,156,080)	\$ (21,252)	(4,581)	43,206,039
Total net capital assets	\$ 51,032,230	\$ (3,075,480)	\$ (42,504)	\$ (4,581)	\$ 47,293,384

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

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, 2017 and 2016.

NOTE 6 - SHORT-TERM DEBT

As discussed in Note 16, the 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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

A schedule of changes in short-term debt for June 30, 2017:

Line of Credit:	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017
TLC Line of Credit #142	\$ 4,508,003	\$ 21,062	\$ 4,529,065	-
Total Line of Credit	<u>\$ 4,508,003</u>	<u>\$ 21,062</u>	<u>\$ 4,529,065</u>	<u>\$ -</u>

A schedule of changes in short-term debt for June 30, 2016:

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	<u>\$ 5,267,039</u>	<u>\$ 322,429</u>	<u>\$ 1,081,465</u>	<u>\$ 4,508,003</u>

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 the storm, 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.

Series 2016B Tax Exempt Bond - The Port issued a bond, series 2016B, in the amount of \$130,000 for the purpose of refinancing several outstanding bonds and notes. Semiannual interest and annual principal payments vary from 3.0% to 4.5% until the bond will be repaid in 2037.

Series 2016C Taxable Bond - The Port issued a bond, series 2016C, in the amount of \$6,190,000, for the purpose of refinancing several outstanding bonds and notes payable loans. Semiannual interest payments vary from 3.2% to 5.650% until the bonds are repaid in 2037.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Bonds:					
Refunding Bond, Series 2002	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ -
Revenue Bond, Series 1998	180,000	-	180,000	-	-
Series 2016B - Tax-Exempt	-	130,000	-	130,000	-
Series 2016C - Taxable	-	6,190,000	-	6,190,000	-
Bond Discount	-	(115,947)	(2,526)	(113,421)	(5,052)
Total Bonds	380,000	6,204,053	377,474	6,206,579	(5,052)
Notes Payable:					
OEDD 525179	321,548	-	39,312	282,236	40,819
OBDD Payroll loan C2008004	67,523	-	3,636	63,887	3,798
OEDD SPWF X03002	72,439	-	9,363	63,076	9,673
OEDD SPWF L95003	48,889	-	48,889	-	-
OEDD, Safe Drinking Water, S01009	105,697	-	105,697	-	-
SPWF L07004	72,363	-	-	72,363	4,622
Refinancing 2004 (Columbia Bank)	434,543	-	434,543	-	-
Capital Improvement 2006 (Wells Fargo)	80,122	-	80,122	-	-
Commercial Real Estate (TLC)	852,551	-	852,551	-	-
Total Notes Payable	2,055,675	-	1,574,113	481,562	58,912
Total Bonds and Notes Payable	\$ 2,435,675	\$ 6,204,053	\$ 1,951,587	\$ 6,688,141	\$ 53,860

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 Notes Payable	1,454,283	971,596	370,204	2,055,675	447,430
Total Bonds and Notes Payable	\$ 1,979,283	\$ 971,596	\$ 515,204	\$ 2,435,675	\$ 602,430

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

Future maturities of bonds payable are as follows:

	<u>Series 2016B - Tax-Exempt</u>		<u>Series 2016C - Taxable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ -	\$ 5,438	\$ -	\$ 313,742
2019	-	5,305	-	306,090
2020	5,000	5,305	235,000	306,090
2021	5,000	5,155	240,000	298,570
2022	5,000	5,005	250,000	290,530
2023-2027	25,000	22,535	1,405,000	1,300,940
2028-2032	40,000	17,027	1,760,000	940,947
2033-2037	50,000	6,750	2,300,000	403,976
Total	<u>\$ 130,000</u>	<u>\$ 72,520</u>	<u>\$6,190,000</u>	<u>\$4,160,885</u>

Future maturities of notes payable are as follows:

	<u>OECD 525179</u>		<u>OEDD SPWF X03002</u>		<u>OEDD SPWF L07004</u>		<u>OBDD Payroll Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 40,819	\$ 10,094	\$ 9,673	\$ 2,094	\$ 4,622	\$ 2,829	\$ 3,798	\$ 2,697
2019	42,384	8,529	9,994	1,773	4,827	2,623	3,958	2,537
2020	44,009	6,904	10,326	1,441	5,041	2,408	4,126	2,369
2021	45,697	5,217	10,669	1,098	5,265	2,185	4,295	2,200
2022	47,449	3,465	11,023	744	5,499	1,951	4,480	2,015
2023-2027	61,878	585	11,391	378	47,109	5,870	25,402	7,073
2028-2032	-	-	-	-	-	-	17,828	1,523
Total	<u>\$ 282,236</u>	<u>\$ 34,794</u>	<u>\$ 63,076</u>	<u>\$ 7,528</u>	<u>\$ 72,363</u>	<u>\$ 17,866</u>	<u>\$ 63,887</u>	<u>\$ 20,414</u>

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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

As of June 30, 2017, minimum rental payments required under operating leases which have remaining non-cancelable lease terms in excess of one year are as follows:

<u>Year</u>	<u>Payments</u>
2018	\$ 426,177
2019	402,214
2020	230,529
2021	253,785
2022	254,414
2023-2027	1,197,502
2028-2032	224,223
	<u>\$ 2,988,843</u>

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:

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

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/Financials/Actuarial-Financial-Information.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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 (COLA) changes. The COLA is capped at 2.0 percent.

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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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, 2013 actuarial valuation as subsequently modified by 2015 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2015. Employer contributions for the year ended June 30, 2017 were \$77,872, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2017 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, 2017 and 2016, respectively, the Port reported a liability of \$1,173,365 and \$410,974 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2016 and 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, 2016, the Port's proportion was 0.00716 percent measured as of June 30, 2015, which was decreased from its proportion of 0.01004 measured as of June 30, 2014.

For the year ended June 30, 2017, the Port recognized pension expense of \$118,847. At June 30, 2017, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 38,820	\$ -
Changes of assumptions	250,250	-
Net difference between projected and actual earnings on investments	231,808	-
Changes in proportion	35,423	38,308
Differences between employer contributions and proportionate share of contributions	<u>2,062</u>	<u>25,642</u>
Total (prior to post-MD contributions)	558,363	63,950
Contributions subsequent to the MD	<u>78,975</u>	-
Total	<u>\$ 637,338</u>	<u>\$ 63,950</u>

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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)	<u>22,162</u>	<u>170,190</u>
Contributions subsequent to the MD	<u>77,872</u>	<u>-</u>
Total	<u><u>\$ 100,034</u></u>	<u><u>\$ 170,190</u></u>

\$78,975 was reported as deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 1,851
2019	80,826
2020	168,471
2021	139,943
2022	<u>24,347</u>
Total	<u><u>\$415,438</u></u>

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

\$77,872 was reported as deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (56,159)
2018	(56,159)
2019	(56,159)
2020	24,292
2021	<u>(3,843)</u>
	<u>\$ (148,028)</u>

Actuarial assumptions

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the entry age normal method.

For the ORS 238 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), and (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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

Valuation Date	December 31, 2014
Measurement Date	June 30, 2016
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.50 percent
Long-Term Expected Rate of Return	7.50 percent
Discount Rate	7.50 percent
Projected Salary Increases	3.50 percent overall payroll growth
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and grade COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision, blend based on service.
Mortality	<p>Health retirees and beneficiaries: RP-2000 sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p>Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 sex-distinct, generational per Scale BB, disabled</p>
At its September 25, 2015 meeting, the PERS Board reduced the assumed rate of return on investments from 7.75 percent to 7.5 percent	

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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	<p>Health retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.</p> <p>Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 statistic combined disabled mortality sex-distinct table.</p>

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 and 2013 Experience Study which reviewed experience for the four-year period ending on December 31, 2014 and 2013, respectively.

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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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. The following asset class allocation table remained unchanged for the 2013 and 2014 valuation.

<u>Asset Class/Strategy</u>	<u>Assumed Asset Allocation</u>		
	<u>Low Range</u>	<u>High Range</u>	<u>Target</u>
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			<u>100.0%</u>

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

The breakdown of asset categories for the 2014 valuation are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return (Geometric)</u>
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.30%	6.99%
Micro Cap US Equities	1.30%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Foreign Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equities	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-Driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
	<hr/>	
Total	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

The breakdown of asset categories for the 2013 valuation are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return (Geometric)</u>
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	<u>1.25%</u>	6.07%
 Total	 <u><u>100.00%</u></u>	
 Assumed Inflation - Mean		 2.75%

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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

- 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 7.50 and 7.75, for June 30, 2017 and 2016, respectively, 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 as of June 30, 2017, calculated using the discount rate of 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Port's proportionate share of the net pension liability (asset)	\$ 1,894,593	\$ 1,173,365	\$ 570,544

The following presents the Port's proportionate share of the net pension liability as of June 30, 2016, 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:

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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 Prior to Measurement Period

There were no changes during the June 30, 2016 measurement period that require disclosure.

There were some changes during the June 30, 2015 measurement period that require disclosure. On April 30, 2015, the Oregon Supreme Court 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% annual increase. OPERS made 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 was reflected in the prior period valuation.

Changes in Plan Provisions Subsequent to Measurement Date

On July 28, 2017, subsequent to the June 30, 2016 measurement date, the OSPERS Board lowered the assumed rate to 7.2 percent. The current assumed rate is 7.5 percent and has been in effect for member transactions since January 1, 2016. The new rate will take effect January 1, 2018. The effect on the Port has not been determined.

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 contributions for the years ended June 30, 2017 and 2016 were \$1,660 and \$1,854 respectively.

NOTE 11 - 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).

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 was disbanded in September of 2014.

NOTE 12 - 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 13 - 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, 2017 and 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 14 - 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 15 - 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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 16 - 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 2017 and 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 meet the stringent percentage requirements with the local government financial assurance test as required by Oregon Administrative Rule 340-94-0140. 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 requirements, and received a letter from DEQ in November of 2016 stating that site #1132 is now considered low risk, and is exempt from financial assurance requirements, as the site is now in the interim closure status.

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 Four 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
2017	0.00781601%	\$ 1,173,365	\$ 737,864	159.02%	80.53%
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 Four 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
2017	\$ 78,975	\$ 78,975	-	\$ 694,147	11.38%
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.

PORT OF TILLAMOOK BAY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017 and 2016

Notes to Required Supplementary Information

NOTE 1 – 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. Senate Bill 822 lowered the COLA from 2% to 1.5% for recipients who do not pay Oregon income tax because they are not residents of Oregon.

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.

NOTE 2 – Changes of Assumptions

Details and a comprehensive list of changes in methods and assumptions can be found in the 2012, 2014, and 2016 Experience Study for the System, which were published on September 18, 2013, September 23, 2015, and July 26, 2017. These reports can be found at:

<http://www.oregon.gov/PERS/Pages/Financials/Actuarial-Presentations-and-Reports.aspx>.

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
June 30, 2017

	GENERAL FUND	REVENUE BOND FUND	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 727,942	\$ -	\$ 727,942
Accounts receivables, net of allowance	41,800	-	41,800
Property taxes receivable	3,784	-	3,784
Note receivable, current portion	10,111	-	10,111
Grants receivable	508,593	-	508,593
Inventory	63,119	-	63,119
Prepaid expenses	300	-	300
Total current assets	<u>1,355,649</u>	<u>-</u>	<u>1,355,649</u>
CURRENT RESTRICTED ASSETS:			
Cash and cash equivalents	196,784	-	196,784
Total current restricted assets	<u>196,784</u>	<u>-</u>	<u>196,784</u>
NONCURRENT ASSETS:			
Capital assets, net	47,293,384	-	47,293,384
Note receivable, net of current portion	383,012	-	383,012
Total noncurrent assets	<u>47,676,396</u>	<u>-</u>	<u>47,676,396</u>
Total assets	<u>49,228,829</u>	<u>-</u>	<u>49,228,829</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows relating to pension	637,338	-	637,338
Total deferred outflows of resources	<u>637,338</u>	<u>-</u>	<u>637,338</u>
Total assets and deferred outflows of resources	<u>\$ 49,866,167</u>	<u>\$ -</u>	<u>\$ 49,866,167</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES:			
Accounts payable	\$ 411,372	\$ -	\$ 411,372
Accrued payroll and related expenses	111,796	-	111,796
Accrued vacation	44,415	-	44,415
Other accrued liabilities	106,983	-	106,983
Accrued interest payable	166,781	-	166,781
Net pension liability	1,173,365	-	1,173,365
Long-term debt obligation, current portion	53,860	-	53,860
Line of credit	-	-	-
Total current liabilities	<u>2,068,572</u>	<u>-</u>	<u>2,068,572</u>
NONCURRENT LIABILITIES:			
Long-term debt obligations, net of current portion	6,634,281	-	6,634,281
Unearned revenue	196,784	-	196,784
Landfill post-closure liability	890,498	-	890,498
Total noncurrent liabilities	<u>7,721,563</u>	<u>-</u>	<u>7,721,563</u>
Total liabilities	<u>9,790,135</u>	<u>-</u>	<u>9,790,135</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows relating to pensions	63,950	-	63,950
NET POSITION:			
Net investment in capital assets	40,669,130	-	40,669,130
Unrestricted	(657,048)	-	(657,048)
Total net position	<u>40,012,082</u>	<u>-</u>	<u>40,012,082</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 49,866,167</u>	<u>\$ -</u>	<u>\$ 49,866,167</u>

PORT OF TILLAMOOK BAY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2017

	GENERAL FUND	REVENUE BOND FUND	TOTAL
OPERATING REVENUES:			
Charges for services	\$ 446,176	\$ -	\$ 446,176
Building and land rent	1,438,803	-	1,438,803
Museum	514,785	-	514,785
Airport revenues	72,413	-	72,413
Railroad revenues	218,179	-	218,179
Total operating revenues	<u>2,690,356</u>	<u>-</u>	<u>2,690,356</u>
OPERATING EXPENSES:			
Personnel services	1,510,155	-	1,510,155
Materials and services	5,708,936	-	5,708,936
Depreciation	3,864,055	-	3,864,055
Total operating expenses	<u>11,083,146</u>	<u>-</u>	<u>11,083,146</u>
Operating income (loss)	(8,392,790)	-	(8,392,790)
NON-OPERATING REVENUES (EXPENSES):			
Property taxes	52,791	-	52,791
Interest income	21,631	96	21,727
Grant revenue	4,807,234	-	4,807,234
Timber sales	4,000	-	4,000
Miscellaneous income	20,754	-	20,754
Tax credit income	383,551	-	383,551
Loss on sale of assets	(4,582)	-	(4,582)
Loan fees	(176,113)	-	(176,113)
Interest expense	(308,989)	(4,804)	(313,793)
Transfers in (out)	(85,913)	85,913	-
Total non-operating income (expenses)	<u>4,714,364</u>	<u>81,205</u>	<u>4,795,569</u>
Changes in net position	(3,678,426)	81,205	(3,597,221)
NET POSITION, BEGINNING	<u>43,690,508</u>	<u>(81,205)</u>	<u>43,609,303</u>
NET POSITION, ENDING	<u>\$ 40,012,082</u>	<u>\$ -</u>	<u>\$ 40,012,082</u>

PORT OF TILLAMOOK BAY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017

	GENERAL FUND	REVENUE BOND FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 2,818,547	\$ -	\$ 2,818,547
Cash paid to suppliers	(6,985,589)	-	(6,985,589)
Cash paid for personnel services	(1,363,054)	-	(1,363,054)
Net cash flows from operating activities	<u>(5,530,096)</u>	<u>-</u>	<u>(5,530,096)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Property taxes	52,655	-	52,655
Timber sales	4,000	-	4,000
Nonoperating revenues	404,305	-	404,305
Transfers	(85,913)	85,913	-
Net cash flows from noncapital financing activities	<u>375,047</u>	<u>85,913</u>	<u>460,960</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(129,791)	-	(129,791)
Grant proceeds	4,767,611	-	4,767,611
Principal payment on notes and bond payable	(1,774,113)	(180,000)	(1,954,113)
Loan proceeds	6,320,000	-	6,320,000
Bond discount on issuance of debt	(115,947)	-	(115,947)
Line of credit proceeds (payments)	(4,508,003)	-	(4,508,003)
Fees paid on notes and bonds payable	(173,587)	-	(173,587)
Interest paid on notes and bonds payable	(157,675)	(5,537)	(163,212)
Net cash flows from capital and related financing activities	<u>4,228,495</u>	<u>(185,537)</u>	<u>4,042,958</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	21,631	96	21,727
Net increase (decrease) in cash	(904,923)	(99,528)	(1,004,451)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,829,649</u>	<u>99,528</u>	<u>1,929,177</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 924,726</u>	<u>\$ -</u>	<u>\$ 924,726</u>
CLASSIFIED ON THE STATEMENT OF NET POSITION AS :			
Current assets	\$ 727,942	\$ -	\$ 727,942
Restricted assets	196,784	-	196,784
Total cash and cash equivalents	<u>\$ 924,726</u>	<u>\$ -</u>	<u>\$ 924,726</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (8,392,790)	\$ -	\$ (8,392,790)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	3,864,055	-	3,864,055
Pension expense	118,847	-	118,847
(Increase) decrease in assets			
Accounts receivable	118,452	-	118,452
Note receivable	9,739	-	9,739
Inventory	50,613	-	50,613
Increase (decrease) in liabilities			
Accounts payable	(1,326,803)	-	(1,326,803)
Accrued payroll liabilities	43,435	-	43,435
Accrued compensated absences	(15,181)	-	(15,181)
Other accrued liabilities	(463)	-	(463)
Total adjustments	<u>2,862,694</u>	<u>-</u>	<u>2,862,694</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (5,530,096)</u>	<u>\$ -</u>	<u>\$ (5,530,096)</u>

**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, 2017**

	Actual	Budgetary Adjustment	Budgetary Basis	Budget		Variance with Final Budget
				Original	Final	
REVENUES:						
Charges for services	\$ 446,176	\$ -	\$ 446,176	\$ 488,630	\$ 488,630	\$ (42,454)
Building and land rent	1,438,803	-	1,438,803	1,242,025	1,242,025	196,778
Museum	514,785	-	514,785	1,141,750	1,141,750	(626,965)
Airport revenues	72,413	-	72,413	120,000	120,000	(47,587)
Railroad revenues	218,179	-	218,179	320,050	320,050	(101,871)
Property taxes	52,791	-	52,791	62,796	62,796	(10,005)
Interest income	21,631	-	21,631	4,005	4,005	17,626
Grant revenue	4,807,234	-	4,807,234	3,723,672	4,973,672	(166,438)
Timber sales	4,000	-	4,000	20,000	20,000	(16,000)
Miscellaneous income	20,754	-	20,754	7,200	7,200	13,554
Tax credit income	383,551	-	383,551	355,000	355,000	28,551
Other income	-	-	-	88,600	88,600	(88,600)
Loss on sale of assets	(4,582)	4,582	-	-	-	-
Total revenues	7,975,735	4,582	7,980,317	7,573,728	8,823,728	(843,411)
EXPENDITURES:						
Materials and services	5,885,049	(4,574,471)	1,310,578	2,063,504	2,063,504	752,926 *
Personnel services	1,510,155	(103,666)	1,406,489	1,609,666	1,609,666	203,177 *
Capital outlay	-	4,640,933	4,640,933	3,746,672	4,996,672	355,739 *
Debt service:						
Principle	-	6,303,178	6,303,178	5,000,000	5,000,000	(1,303,178) *
Interest	308,989	(151,314)	157,675	411,086	411,086	253,411 *
Depreciation	3,864,055	(3,864,055)	-	-	-	-
Total expenditures	11,568,248	2,250,605	13,818,853	12,830,928	14,080,928	262,075
Revenues over (under) expenditures	(3,592,513)	(2,246,023)	(5,838,536)	(5,257,200)	(5,257,200)	(581,336)
OTHER FINANCING SOURCES (USES):						
Loan proceeds	-	6,320,000	6,320,000	5,000,000	5,000,000	1,320,000
Bond discount on issuance of debt	-	(115,947)	(115,947)	-	-	(115,947) *
Line of credit proceeds	-	21,062	21,062	-	-	21,062
Transfers out	(85,913)	-	(85,913)	(67,000)	(67,000)	(18,913) *
Total other financing sources (uses)	(85,913)	6,225,115	6,139,202	4,933,000	4,933,000	1,206,202
Changes in net position	<u>\$ (3,678,426)</u>	<u>\$ 3,979,092</u>	300,666	(324,200)	(324,200)	624,866
FUND BALANCE, BEGINNING BUDGETARY BASIS			361,413	324,200	324,200	37,213
FUND BALANCE, ENDING BUDGETARY BASIS			<u>\$ 662,079</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 662,079</u>

*Budget appropriations at department level see General Fund - Schedule of Expenditures - Budget and Actual

**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, 2017**

	Actual	Budgetary Adjustment	Budgetary Basis	Budget		Variance with Final Budget
				Original	Final	
REVENUES:						
Interest income	\$ 96	\$ -	\$ 96	\$ -	\$ -	\$ 96
Total revenues	96	-	96	-	-	96
EXPENDITURES:						
Debt service						
Principal	-	180,000	180,000	55,000	55,000	(125,000) *
Interest	4,804	733	5,537	11,746	11,746	6,209
Total expenditures	4,804	180,733	185,537	66,746	66,746	(118,791)
Revenues over (under) expenditures	(4,708)	(180,733)	(185,441)	(66,746)	(66,746)	(118,695)
OTHER FINANCING SOURCES (USES):						
Transfers in	85,913	-	85,913	67,000	67,000	18,913
Total other financing sources (uses)	85,913	-	85,913	67,000	67,000	18,913
Changes in net position	<u>\$ 81,205</u>	<u>\$ (180,733)</u>	(99,528)	254	254	(99,782)
FUND BALANCE, BEGINNING BUDGETARY BASIS			99,528	92,605	92,605	6,923
FUND BALANCE, ENDING BUDGETARY BASIS			<u>\$ -</u>	<u>\$ 92,859</u>	<u>\$ 92,859</u>	<u>\$ (92,859)</u>

* Exempt from Oregon Budget law

PORT OF TILLAMOOK BAY
GENERAL FUND - BUDGETARY BASIS
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
Administration				
Personnel service	\$ 129,439	\$ 129,439	\$ 122,716	\$ 6,723
Materials and service	195,200	195,200	189,829	5,371
Debt Service	5,217,201	5,217,201	6,050,967	(833,766) *
Subtotal	5,541,840	5,541,840	6,363,512	(821,672)
Airport				
Personnel service	332,561	332,561	211,990	120,571
Materials and service	260,949	260,949	187,816	73,133
Capital outlay	507,000	507,000	342,476	164,524
Debt Service	34,631	34,631	34,631	-
Subtotal	1,135,141	1,135,141	776,913	358,228
Industrial Park				
Personnel service	465,592	465,592	429,642	35,950
Materials and service	301,500	301,500	157,331	144,169
Capital outlay	3,229,672	4,479,672	4,272,388	207,284
Debt Service	158,396	158,396	158,396	-
Subtotal	4,155,160	5,405,160	5,017,757	387,403
Utilities				
Personnel services	200,963	200,963	222,965	(22,002)
Materials and service	197,850	197,850	156,020	41,830
Debt Service	47,806	47,806	47,806	-
Subtotal	446,619	446,619	426,791	19,828
Rail Road Management				
Personnel service	51,503	51,503	53,350	(1,847)
Materials and service	197,160	197,160	154,565	42,595
Capital outlay	-	-	26,069	(26,069)
Debt Service	150,671	150,671	150,671	-
Subtotal	399,334	399,334	384,655	14,679
Digester				
Personnel service	84,194	84,194	68,733	15,461
Materials and service	275,600	275,600	245,015	30,585
Debt Service	18,382	18,382	18,382	-
Subtotal	378,176	378,176	332,130	46,046
Museum:				
Personnel service	345,414	345,414	297,093	48,321
Materials and service	419,245	419,245	220,002	199,243
Capital outlay	10,000	10,000	-	10,000
Subtotal	774,659	774,659	517,095	257,564
Total expenditures	\$ 12,830,929	\$ 14,080,929	\$ 13,818,853	\$ 262,076

* Exempt from Oregon Budget law

THIS PAGE INTENTIONALLY LEFT BLANK

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *OREGON STATE REGULATION***

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH OREGON STATE REGULATION**

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

We have audited the financial statements of Port of Tillamook Bay (the Port), Oregon, as of and for the year ended June 30, 2017 and have issued our report thereon dated December 27, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State 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 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:

- 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.

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. 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*

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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



For Merina & Company, LLP
West Linn, Oregon
December 27, 2017