

# Port of Morrow

## Annual Financial Report

Fiscal Year ended June 30, 2014

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**PORT OF MORROW**  
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## **INTRODUCTORY SECTION**

**PORT OF MORROW  
Commissioners**

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Don Russell, President 69247 Kunze Lane Boardman, Oregon 97818	1	June 30, 2017
Joe Taylor, Vice President 67505 Hwy 74 Ione, OR 97843	2	June 30, 2017
Larry Lindsay, Secretary/Treasurer Lindsay Ranch Lexington, Oregon 97839	5	June 30, 2015
Marvin Padberg 64746 Rhea Creek Rd Ione, OR 97843	4	June 30, 2015
Jerry Healy 645 Hager Street Heppner, OR 97836	3	June 30, 2017

**Other Personnel As Of June 30, 2014**

Gary D. Neal, General Manager Boardman, OR 97818

**Registered Agent**

Sam Tucker, Attorney Milton-Freewater, OR 97862

## **FINANCIAL SECTION**

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC

CERTIFIED PUBLIC ACCOUNTANTS

1121 ADAMS AVENUE • P.O. BOX 1024

LA GRANDE, OREGON 97850-1024

**Independent Auditor's Report**

Commissioners  
Port of Morrow  
P.O. Box 200  
Boardman, Oregon 97818

**Report of the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Port of Morrow as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Port's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Port of Morrow as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter Regarding New Accounting Policy**

As described in Note 1, during the year ended June 30, 2014 the Port of Morrow adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and budgetary comparison information be present 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 discussion and analysis 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 the 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port of Morrow's basic financial statements. The introductory section, individual fund financial statements, and other financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The individual fund financial statements, other financial schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statement, other financial schedules, and the schedule of expenditures of federal awards are stated fairly in all material respects in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, on our consideration of the Port of Morrow'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port of Morrow's internal control over financial reporting and on compliance.

## **Report on Other Legal and Regulatory Requirements**

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 8, 2014, on our consideration of the Port of Morrow'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.

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC  
Certified Public Accountants

By H Brent Lewis CPA  
H. Brent Lewis, CPA  
Owner/Member

La Grande, OR  
December 8, 2014

**PORT OF MORROW**  
**Management's Discussion and Analysis**

This discussion and analysis of the Port of Morrow's (Port) financial performance provides an overview of the Port's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the Port's financial statements, which follow this section.

**Overview of the Financial Statements:**

This audit report consists of three parts - management's discussion and analysis (this section), the basic financial statements (including notes), and supplementary information. The report is guided by accounting and reporting principles established by the Governmental Accounting Standards Board (GASB), and also by the Oregon Secretary of State (OSS).

The **Statement of Net Position** and the **Statement of Activities and Changes in Net Position** report financial information about the Port as a whole and about its activities. These statements include *all* assets and liabilities of the Port using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Port's *net position* and the changes in them. Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, which is one way to measure the Port's financial health, or *financial position*. Over time, *increases or decreases* in the Port's net position is one indicator of whether its *financial health* is improving or deteriorating. In these statements, Port activities are separated as follows:

**Governmental activities** – The Port accounts for all receipts, expenditures and capital costs not accounted for within the proprietary or business-type activities fund in its general fund. Property taxes, bond handling fees and transfers from the enterprise fund (or business-type activities) are the primary sources of revenue for the fund.

**Business-type activities** – The Port's freshwater, discharge water, east beach utility, site development and motor pool are reported in this category. The Port charges a fee to customers, tenants or other units within the Port to cover all or most of the cost of services it provides

These activities are described in Note 1 of the financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Following the financial statements is a section of supplementary information, nearly all of which is required by the GASB, the OSS, or bond ordinances.

**Financial Results:**

The analysis in Table 1 (below) focuses on the net position of the general fund and of the business-type activities separately.

**Table 1**  
**Net position:**

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 533,266	\$ 454,545	\$ 14,514,640	\$ 6,752,033	\$ 15,047,906	\$ 7,206,578
Capital assets	218,418	122,456	75,886,818	66,532,838	76,105,236	66,655,294
Total assets	<u>751,684</u>	<u>577,001</u>	<u>90,401,458</u>	<u>73,284,871</u>	<u>91,153,142</u>	<u>73,861,872</u>
Total deferred outflows of resources	-	-	227,906	491,433	227,906	491,433
Long-term liabilities outstanding	-	-	31,964,944	34,565,670	31,964,944	34,565,670
Other liabilities	28,579	21,277	3,746,166	3,418,133	3,774,745	3,439,410
Total liabilities	<u>28,579</u>	<u>21,277</u>	<u>35,711,110</u>	<u>37,983,803</u>	<u>35,739,689</u>	<u>38,005,080</u>
Net position:						
Net investment in capital assets	218,418	122,456	42,548,720	40,201,793	42,767,138	40,324,249
Restricted	-	-	2,079,067	2,216,856	2,079,067	2,216,856
Unrestricted	504,687	433,268	10,290,467	3,373,852	10,795,154	3,807,120
Total net position	<u>\$ 723,105</u>	<u>\$ 555,724</u>	<u>\$ 54,918,254</u>	<u>\$ 45,792,501</u>	<u>\$ 55,641,359</u>	<u>\$ 46,348,225</u>

**PORT OF MORROW**  
**Management's Discussion and Analysis**

The Port's total net position increased over \$9 million from the prior year, or 20 percent. This was due in large part to capital grants received and land sold. Grants funded nearly \$3.5 million in road improvements, \$500,000 towards a wastewater pretreatment facility, and around \$300,000 each in rail additions and airport improvements. The Port also sold land to Bonneville Power Administration for construction of a new substation.

GASB 65 required a change in how bond issue costs are reported. Previously these costs were amortized over the life of the bonds. Under the new standards, these costs are expensed as incurred. The prior period adjustment accounts for the write-off of \$1,022,833 in unamortized bond issue costs incurred in previous years.

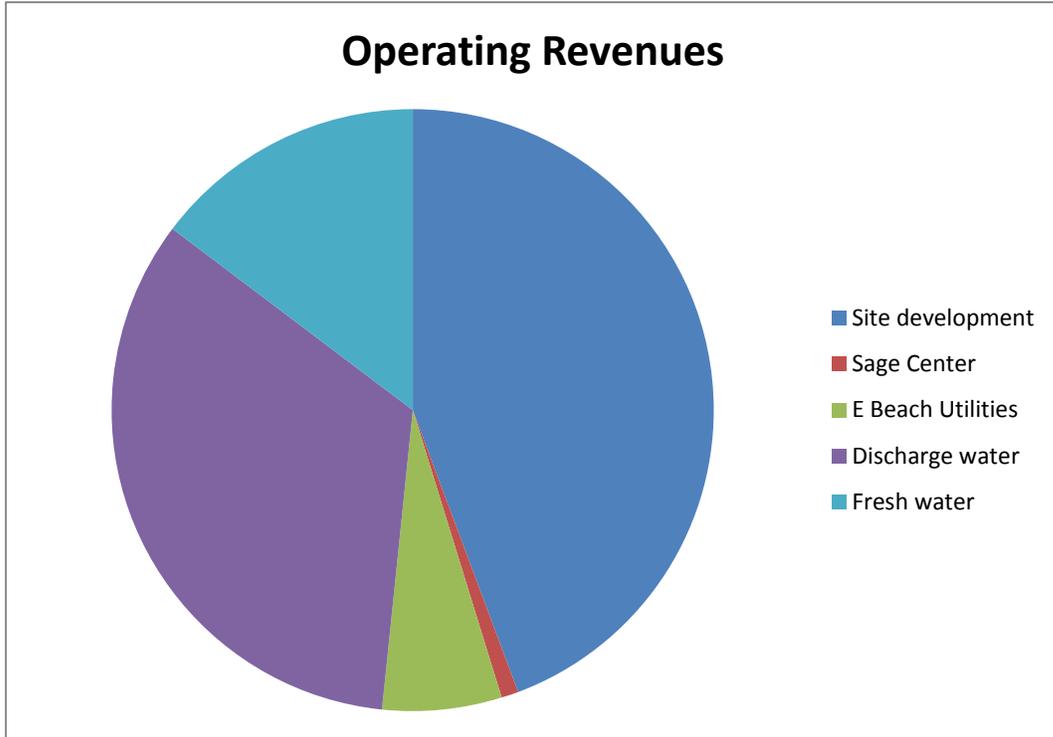
**Table 2**  
**Changes in Net Position**

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues:						
General governmental revenues	\$ 554,967	\$ 428,339	\$ -	\$ -	\$ 554,967	\$ 428,339
Operating revenues						
Site Development	-	-	5,095,534	5,297,856	5,095,534	5,297,856
Sage Center	-	-	105,926	-	105,926	-
E. Beach Utilities	-	-	736,407	623,172	736,407	623,172
Discharge Water	-	-	3,872,919	3,391,152	3,872,919	3,391,152
Freshwater	-	-	1,690,603	1,573,452	1,690,603	1,573,452
NonOperating revenues						
Interest Income	3,042	563	58,135	128,190	61,177	128,753
Gain (loss) on sale of assets	-	-	5,634,691	736,002	5,634,691	736,002
<b>Total revenues</b>	<b>558,009</b>	<b>428,902</b>	<b>17,194,215</b>	<b>11,749,824</b>	<b>17,752,224</b>	<b>12,178,726</b>
Expenses:						
Management and administration	554,628	437,409	-	-	554,628	437,409
Operating expense	-	-	10,117,232	8,780,364	10,117,232	8,780,364
Nonoperating expenses	-	-	1,357,269	1,757,348	1,357,269	1,757,348
<b>Total expenses</b>	<b>554,628</b>	<b>437,409</b>	<b>11,474,501</b>	<b>10,537,712</b>	<b>12,029,129</b>	<b>10,975,121</b>
Increase (decrease) in net position before transfers	3,381	(8,507)	5,719,714	1,212,112	5,723,095	1,203,605
Grant income and contributions	-	50,000	4,592,872	1,584,847	4,592,872	1,634,847
Transfers	164,000	164,000	(164,000)	(164,000)	-	-
Increase (decrease) in net position	167,381	205,493	10,148,586	2,632,959	10,315,967	2,838,452
Net position-beginning	555,724	350,231	45,792,501	43,159,542	46,348,225	43,509,773
Prior period adjustment due to accounting principal change	-	-	(1,022,833)	-	(1,022,833)	-
<b>Net position-ending</b>	<b>\$ 723,105</b>	<b>\$ 555,724</b>	<b>\$ 54,918,254</b>	<b>\$ 45,792,501</b>	<b>\$ 55,641,359</b>	<b>\$ 46,348,225</b>

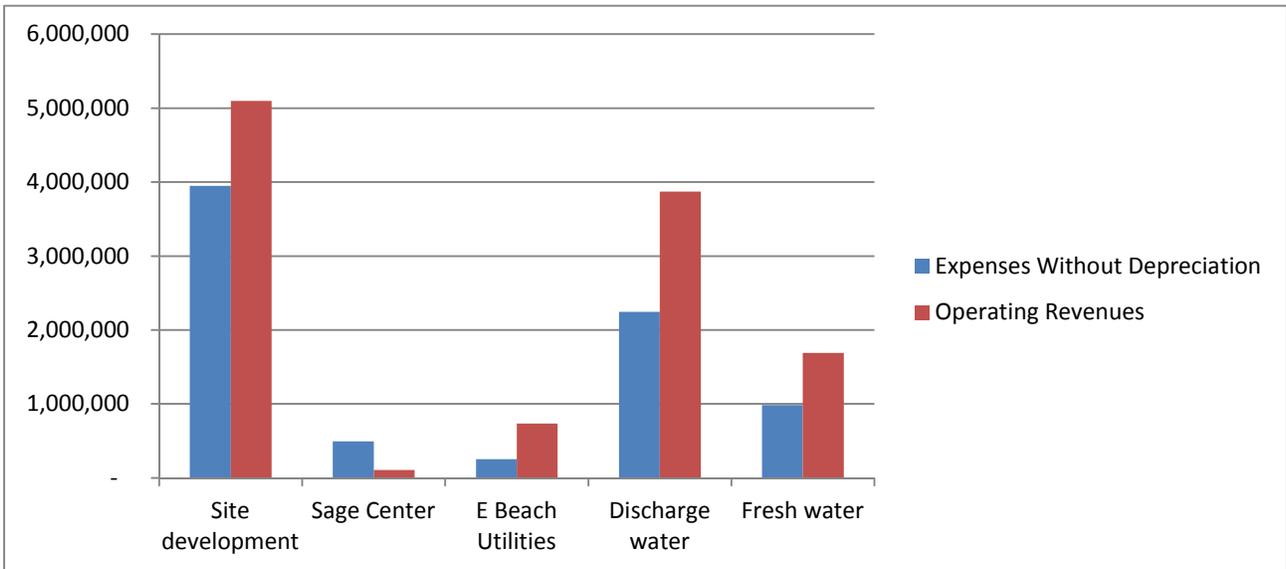
**PORT OF MORROW**  
**Management's Discussion and Analysis**

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Operating revenues received in the Enterprise or business-type fund break down as follows:



Depreciation accounts for 35% of the business-type activity expenses. The following is a representation of the segments without depreciation expense.



**PORT OF MORROW**  
**Management's Discussion and Analysis**

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**Capital Assets**

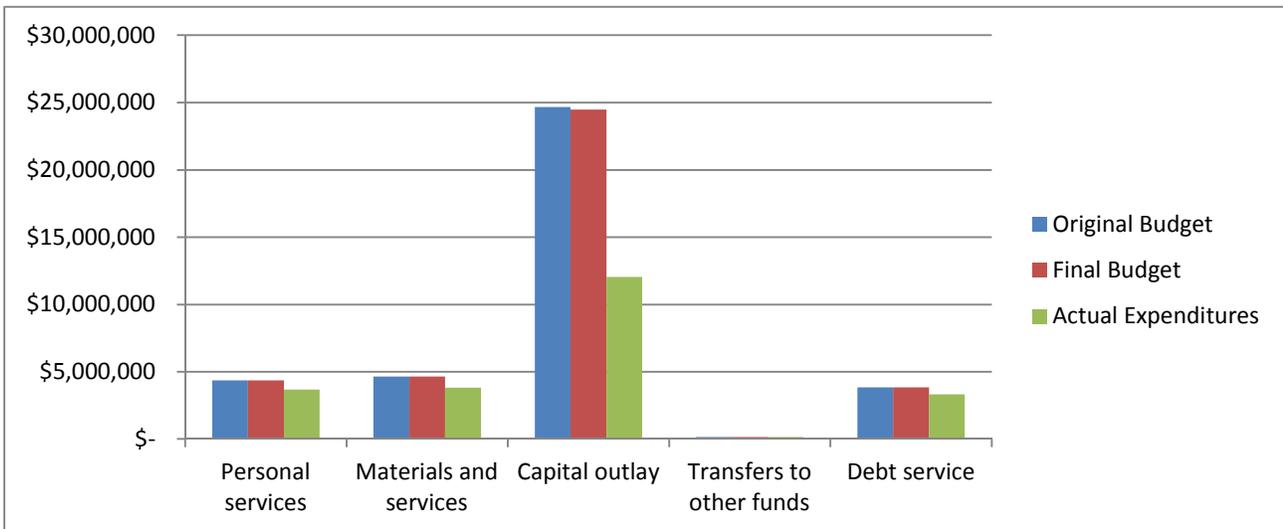
During the fiscal year ended June 30, 2014, the Port invested over \$13 million in capital improvements and purchases, including a \$5.294 million Wastewater Pre-treatment facility for the new ConAgra expansion funded by a \$500,000 grant and \$4.794 million state loan to be repaid with lease payments from the tenant. Approximately \$3.5 million in new roads and road improvements were financed by a combination of state grants and contribution by the related industry. Just over \$400,000 each in railroad additions and airport improvements were funded by approximately \$300,000 each in grants. A new land purchase, various site and utility improvements, as well as equipment purchases were paid for by cash generated by operations and a property sale.

**Debt**

The Port financed \$4.794 million with the Oregon Special Public Works fund towards the purchase of the newly constructed wastewater pretreatment facility. They also entered into a New Market Tax Credit transaction resulting in two new loans totaling \$3,840,000 and a corresponding note receivable of \$3,131,000. See note 8 for additional details regarding the Port's long-term debt.

**Budgetary**

The Port's budget for the year ended June 30, 2014 was adopted by the Port Commission in June 2013. The Port transferred \$180,000 in appropriations by resolution in April of 2014. The following table illustrates the total changes in the final budget with comparison to the actual expenditures.



Capital outlay had a significant variance between actual results and budgeted amounts. Timing of major expenditures and construction projects is difficult to project and some projects did not proceed as quickly as projected. Expenditures did not exceed budgetary limits in any category.

**Contacting the Port's Financial Management**

This financial report is designed to provide users with a general overview of the Port's finances. If you have questions about this report or need additional financial information, contact the Port of Morrow's Controller's Office, PO Box 200, Boardman, OR 97818.

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**PORT OF MORROW**  
**Statement of Net Position**  
**June 30, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Current assets:			
Petty cash	\$ 200	\$ 700	\$ 900
Cash in bank	526,540	691,087	1,217,627
Local Government Investment Pool	-	4,016,458	4,016,458
Deposits with trustee	-	2,079,067	2,079,067
Total cash and cash equivalents	<u>526,740</u>	<u>6,787,312</u>	<u>7,314,052</u>
Accounts receivable - county treasurer	624	-	624
Accounts receivable	1,916	1,046,940	1,048,856
Allowance for doubtful accounts	-	(2,320)	(2,320)
Grants receivable	-	2,765,851	2,765,851
Deposits and prepaid expenses	-	88,626	88,626
Property taxes receivable	3,986	-	3,986
Total current assets	<u>533,266</u>	<u>10,686,409</u>	<u>11,219,675</u>
Noncurrent assets:			
Loan receivable	-	3,206,615	3,206,615
Patronage capital credits	-	621,616	621,616
Capital assets (net)	218,418	75,886,818	76,105,236
Total noncurrent assets	<u>218,418</u>	<u>79,715,049</u>	<u>79,933,467</u>
Total assets	<u>751,684</u>	<u>90,401,458</u>	<u>91,153,142</u>
<b>Deferred outflows of resources:</b>			
Unearned charges	-	227,906	227,906
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	10,996	967,040	978,036
Accrued payroll payable	17,583	487,439	505,022
Accrued interest payable	-	294,719	294,719
Customer deposits	-	4,950	4,950
Bonds payable (net)	-	1,718,932	1,718,932
Notes payable	-	273,086	273,086
Total current liabilities	<u>28,579</u>	<u>3,746,166</u>	<u>3,774,745</u>
Long-term liabilities:			
Bonds payable (net)	-	19,738,742	19,738,742
Notes payable	-	12,063,150	12,063,150
Unearned revenue	-	163,052	163,052
Total long-term liabilities	<u>-</u>	<u>31,964,944</u>	<u>31,964,944</u>
Total liabilities	<u>28,579</u>	<u>35,711,110</u>	<u>35,739,689</u>
<b>Deferred inflows of resources:</b>			
	-	-	-
<b>Net Position:</b>			
Net Investment in capital assets	218,418	42,092,908	42,311,326
Restricted for bond retirement	-	2,079,067	2,079,067
Unrestricted	504,687	10,746,279	11,250,966
Total net position	<u>\$ 723,105</u>	<u>\$ 54,918,254</u>	<u>\$ 55,641,359</u>

*(The accompanying notes are an integral part of these financial statements)*

**PORT OF MORROW**  
**Statement of Activities**  
**June 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b>Governmental Activities:</b>			
Management and administration	\$ 522,362	\$ -	\$ -
Depreciation - unallocated	32,266		
Total governmental	<u>554,628</u>	<u>-</u>	<u>-</u>
<b>Business-Type Activities:</b>			
Site development	6,168,872	4,372,470	723,064
Sage Center	786,300	32,926	73,000
E Beach Utilities	504,912	736,407	-
Discharge water	2,957,875	3,872,919	-
Fresh water	1,056,542	1,690,603	-
Total business-type activities	<u>11,474,501</u>	<u>10,705,325</u>	<u>796,064</u>
Total primary government	<u>\$ 12,029,129</u>	<u>\$ 10,705,325</u>	<u>\$ 796,064</u>

General revenues:

- Property taxes
- Payments in lieu of tax
- Interest income
- Bond handling charges
- Gain (loss) on disposition of assets
- Transfers
- Total general revenues, transfers, and reconciling items

Change in net position

- Net position-beginning
- Prior period adjustment due to accounting principle change
- Net position-ending

<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
\$ -	\$ (522,362)	\$ -	\$ (522,362)
	(32,266)	-	(32,266)
<u>-</u>	<u>(554,628)</u>	<u>-</u>	<u>(554,628)</u>
4,092,872	-	3,019,534	3,019,534
-	-	(680,374)	(680,374)
-	-	231,495	231,495
500,000	-	1,415,044	1,415,044
-	-	634,061	634,061
<u>4,592,872</u>	<u>-</u>	<u>4,619,760</u>	<u>4,619,760</u>
<u>\$ 4,592,872</u>	<u>(554,628)</u>	<u>4,619,760</u>	<u>4,065,132</u>
	134,582	-	134,582
	8,160	-	8,160
	3,042	58,135	61,177
	412,225	-	412,225
	-	5,634,691	5,634,691
	164,000	(164,000)	-
	<u>722,009</u>	<u>5,528,826</u>	<u>6,250,835</u>
	167,381	10,148,586	10,315,967
	555,724	45,792,501	46,348,225
	-	(1,022,833)	(1,022,833)
	<u>\$ 723,105</u>	<u>\$ 54,918,254</u>	<u>\$ 55,641,359</u>

(The accompanying notes are an integral part of these financial statements)

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## **FUND FINANCIAL STATEMENTS**

**PORT OF MORROW**  
**Balance Sheet - Governmental Funds**  
**June 30, 2014**

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	<b>General Fund</b>
<b>Assets:</b>	
Petty cash	\$ 200
Cash in bank	526,540
Cash with county treasurer	624
Total cash and cash equivalents	527,364
Accounts receivable	1,916
Property taxes receivable	3,986
Total assets	533,266
<b>Deferred outflows of resources:</b>	
	-
Total assets and deferred outflows of resources	\$ 533,266
<b>Liabilities:</b>	
Accounts payable	\$ 10,996
Accrued payroll payable	17,583
Total liabilities	32,565
<b>Deferred inflows of resources:</b>	
Unavailable property tax revenue	3,986
<b>Fund Equity:</b>	
Fund balances:	
Restricted	80,000
Unassigned	420,701
Total fund equity	500,701
Total liabilities, deferred inflows of resources and fund balance	\$ 533,266

*(The accompanying notes are an integral part of these financial statements)*

**PORT OF MORROW**  
**Reconciliation of The Governmental Funds Balance Sheet**  
**To The Statement of Net Position**  
**For the Fiscal Year Ended June 30, 2014**

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**Total fund balances for governmental funds** \$ 500,701

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Equipment	\$ 613,541	
Accumulated Depreciation	<u>(395,123)</u>	
		218,418

Some of the Port's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unearned revenue in the funds.

3,986

**Total net position of governmental activities** \$ 723,105

*(The accompanying notes are an integral part of these financial statements)*

**PORT OF MORROW**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - All Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

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	<b>General Fund</b>
<b>Revenues:</b>	
Property taxes	\$ 134,680
Payments in lieu of tax	8,160
Interest income	3,042
Bond handling charges	412,225
Total revenues	558,107
<b>Expenditures:</b>	
Current:	
Management and administration	522,362
Capital outlay	128,228
Total expenditures	650,590
Excess of revenues over (under) expenditures	(92,483)
<b>Other Financing Sources (Uses):</b>	
Transfers (to) from other funds	164,000
Change in fund balance	71,517
Fund balance, beginning of year	429,184
Fund balance, end of year	\$ 500,701

*(The accompanying notes are an integral part of these financial statements)*

**PORT OF MORROW**  
**Reconciliation of The Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances of Governmental Funds To The Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

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<b>Net change in fund balances - total governmental funds</b>	\$ 71,517
The change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$32,266) was exceeded by capital outlay (\$128,228) in the current period.	95,962
Property taxes receivable but not collectable soon enough to pay for the current period's expenditures are offset by unavailable property tax revenue in the Governmental fund. In the statement of activities property taxes are recorded as revenues as billed. Property taxes receivable decreased (4,084 - 3,986) during the current period.	<u>(98)</u>
<b>Change in net position of governmental activities</b>	<u><u>\$ 167,381</u></u>

*(The accompanying notes are an integral part of these financial statements)*

**PORT OF MORROW**  
**Statement of Fund Net Position**  
**June 30, 2014**

	<b>Business-Type Activities</b>
<b>Assets:</b>	
Current assets:	
Petty cash	\$ 700
Cash in bank	691,087
Local government investment pool	4,016,458
Deposits with trustee	2,079,067
Total cash and cash equivalents	6,787,312
Accounts receivable	1,046,940
Allowance for doubtful accounts	(2,320)
Grants receivable	2,765,851
Deposits and prepaid expenses	88,626
Loan receivable	-
Total current assets	10,686,409
Noncurrent assets:	
Loan receivable	3,206,615
Patronage capital credits	621,616
Capital assets:	
Property and equipment	113,163,311
Less: accumulated depreciation	(37,276,493)
Total capital assets, net of depreciation	75,886,818
Total noncurrent assets	79,715,049
Total assets	90,401,458
<b>Deferred outflows of resources:</b>	
Unearned charges	227,906
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable	967,040
Accrued payroll payable	487,439
Accrued interest payable	294,719
Customer deposits	4,950
Bonds payable (net)	1,718,932
Notes payable	273,086
Total current liabilities	3,746,166
Long-term liabilities:	
Bonds payable (net)	19,738,742
Notes payable	12,063,150
Unearned revenue	163,052
Total long-term liabilities	31,964,944
Total liabilities	35,711,110
<b>Deferred inflows of resources:</b>	
	-
<b>Net Position:</b>	
Net Investment in capital assets	42,092,908
Restricted for bond retirement	2,079,067
Unrestricted	10,746,279
Total net position	\$ 54,918,254

*(The accompanying notes are an integral part of these financial statements)*

**PORT OF MORROW**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Enterprise Funds**  
**For the Fiscal Year Ended June 30, 2014**

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**Operating Revenues**

Discharge water segment	\$ 3,872,919
Site development segment	4,424,333
Fresh water segment	1,690,603
Sage center	105,926
Motor pool segment	671,201
East beach utility	736,407
Total operating revenues	11,501,389

**Operating Expenses:**

Labor	2,736,718
Contract	431,291
Utilities	669,750
Insurance	164,441
Repairs	983,993
Fuel and oil	139,702
Testing and permits	363,570
Legal fees	59,926
Property taxes	269,796
Miscellaneous	71,987
SAGE Marketing	89,001
LRA Activities	493,752
Depreciation	3,551,506
Overhead - other funds	164,000
Community projects	34,958
Lease expense	56,841
Total operating expenses	10,281,232

Operating income (loss)	1,220,157
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**Non-Operating Revenues (Expenses):**

Interest income	58,135
Gain (loss) on sale of assets	5,634,691
Interest expense	(1,353,269)
Trustee fees	(4,000)
Total non-operating revenues (expenses)	4,335,557

**Special Items:**

Grant income	4,592,872
Change in net position	10,148,586
Net position, beginning on year	45,792,501
Prior period adjustment due to accounting principle change	(1,022,833)
Net position, end of year	\$ 54,918,254

*(The accompanying notes are an integral part of these financial statements)*

**PORT OF MORROW**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Fiscal Year Ended June 30, 2014**

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**Cash Flows From Operating Activities:**

Cash received from customers	\$ 10,246,001
Cash payments to supplies for goods and services	(3,271,078)
Cash payments for personal services	(2,693,862)
Cash payments for quasi-external operating transactions	(164,000)
Net cash provided by operating activities	4,117,061

**Cash Flows From Capital and Related Financing Activities:**

Principal paid on revenue bond maturities, loans, and contracts	(2,431,309)
Proceeds from bonds and loans	5,996,868
Interest paid on bonds and loans	(1,668,748)
Interest income on bond reserves	13,954
Capital related trustee fees on bonds	(4,000)
Acquisition and construction of capital assets	(11,971,401)
Receipts from sale of capital assets	5,634,691
Capital grants received	2,210,798
Net cash used by capital and related financing activities	(2,219,147)

**Cash Flows From Investing Activities:**

Interest on investments	41,780
Receipts on loans receivable	41,719
Interest earned on pass-thru loans	2,401
Net cash used in investing activities	85,900

Net increase (decrease) in cash	1,983,814
Cash and cash equivalents at July 1, 2013	4,803,498
Cash and cash equivalents at June 30, 2014	\$ 6,787,312

*continued on next page*

**PORT OF MORROW**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Fiscal Year Ended June 30, 2014**

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**Reconciliation of Operating income (Loss) to Net Cash Provided By Operating Activities:**

Operating income	\$ 1,220,157
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	3,551,506
Internal service revenue charged to capital assets	(544,362)
Net increase in trade accounts and notes receivable	(364,540)
Decrease in prepaid expense	86,209
Increase in patronage capital credits	(22,107)
Increase in trade accounts payable	155,877
Increase in customer deposits	2,100
Increase in accrued payroll	42,856
Decrease in unearned revenue	(10,635)
Total adjustments	2,896,904
Net cash provided by operating activities	\$ 4,117,061

**Summary of Cash and Cash Equivalents:**

	<u>June 30, 2014</u>
Petty cash	\$ 700
Cash in bank	691,087
Deposits with trustee	2,079,067
Local government investment pool	4,016,458
Total cash and cash equivalents	\$ 6,787,312

*(The accompanying notes are an integral part of these financial statements)*

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## **NOTES TO BASIC FINANCIAL STATEMENTS**

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

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**Note 1 – Summary of Significant Accounting Policies:**

**Reporting Entity**

The accompanying financial statements present the activities of the Port of Morrow. The Port of Morrow is a municipal corporation whose territory encompasses all of Morrow County, Oregon. The Port was organized under O.R.S. 777.010 and owns land known as "Port of Morrow" along the Columbia River at Boardman, Oregon. It has developed an industrial park, operates water and sewer facilities, is lessor of a dock and wharf facility including a Gantry Crane, and develops siting for prospective tenants. It is governed by a Board of Commissioners form of government. The Port is legally and financially independent of other state and local government units, has the power to levy tax, is responsible for its debts, and is entitled to any surpluses.

The Port has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**Basis of Presentation, Basis of Accounting**

*Government-wide Statements:* The statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the Port. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Port and for each function of the Port's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Port's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds. The Port considers both of its funds to be major.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

**Measurement Focus, Basis of Accounting**

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Port gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Port considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

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recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Port funds certain programs by a combination of grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net resources available to finance the program. It is the Port's policy to first apply grant resources to such programs, followed by general revenues.

**Financial Position**

**Deposits and Investments**

The cash balances of all funds are pooled and invested by the Port for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2014 based on market prices. The individual fund's portions of the pool's fair value are presented as cash and cash equivalents. Earnings on the pooled funds are apportioned and paid or credited to the funds monthly based on the ending balance of each participating fund.

Deposits with Trustee are deposits held by trustees in accordance with bond indenture agreements to service debt and provide cash reserves.

**Cash and Cash Equivalents**

The government's cash and cash equivalents include cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

**Accounts and Other Receivables**

The Port considers its delinquent property tax receivables fully collectible and does not use an allowance for uncollectible property taxes. Property taxes attach as an enforceable lien on property July 1, when they are levied, and until they are paid.

Grants and other receivables from other government agencies are generally expected to be collectible. Accordingly, an allowance for uncollectables is not considered necessary or recorded.

Accounts receivable is partly composed of amounts due Port of Morrow at June 30, 2014 for fresh water and discharge services, land leases and royalties. Accounts receivable are considered delinquent if uncollected after 30 days. Uncollectible receivables are accounted for using the reserve method as required by GAAP based on 80% of accounts receivable aged over 90 days delinquent.

The Enterprise Fund has financed certain road and utility improvements for a local community and has entered into a new leverage loan associated with their new market tax credit transaction. Loan Receivable tracks the aggregate outstanding balances of these transactions.

**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. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items, which arises under the accrual and modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the item, grants paid in advance, is reported in the governmental activities statement of net position and the governmental funds balance sheet. The governmental

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

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funds also report unavailable property tax revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Property Tax Calendar**

Property taxes attach as an enforceable lien when they are levied on July 1, and until they are paid. Taxes are due in one-third increments, on November 15, February 15, and May 15. Unpaid taxes are considered delinquent after November 15.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided.

Property tax revenues are accounted for on the accrual basis of accounting in the government-wide statements and are recognized when earned.

**Prepaid Items**

Certain payments to vendors reflected costs applicable to future accounting periods and are recorded as prepaid items.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historic cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Major capital asset additions are financed primarily from bond proceeds. The normal cost of maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used for assets that have initial useful lives extended beyond a single reporting period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	20-50
Equipment and Furniture	5-20
Buildings and Land Improvements	20-40

**Capitalized Interest**

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. During the fiscal year ended June 30, 2014, \$1,353,269 of interest was incurred, none of which was capitalized.

**Compensated Absences**

Paid vacation benefits are provided to all permanent full-time and permanent part-time employees. Vacation time may accrue to a maximum of 30 days. Any time earned beyond 30 days must be taken by December 31 or is lost unless an extension is granted by the General Manager. All unused vacation time must be converted to cash upon termination of permanent employees at the equivalent hourly rate of pay being received upon termination. Vacation accrues in the following increments:

Years of Employment	Vacation Hours/Days
1	40 hours/5 days
2-4	80 hours/10 days
5-9	120 hours/15 days
10-24	160 hours/ 20 days
25+	200 hours/25 days

Years of employment begin with the date of hire.

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

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Sick leave is provided to full-time and part-time permanent employees. Sick leave is accumulated in proportion to hours worked per month. The permanent employees who work 160 hours per month receive 8 hours sick leave per month. Those who work 80 hours per month receive 4 hours sick leave per month. Sick leave can be used as soon as it is accumulated.

The Port accrues liability for compensated absences which meet the following criteria:

1. The Port's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria the Port has accrued a liability for vacation pay which has been earned but not taken by Port employees. The liability is included in "accrued payroll payable" in accordance with ASC 710-10-25.

**Net Position/Fund Balance Classifications**

*Government-Wide Statements* - Equity is classified as net position and displayed in three components:

- a. Investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
- b. Restricted net position - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Port's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

*Fund Financial Statements* - In the governmental funds the difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. The constraints are defined as follows:

Nonspendable - Resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Restricted - Constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Reported when the Board passes an ordinance that places specific constraints on how the resources may be used. The Board can modify or rescind the ordinance at any time through passage of an additional ordinance.

Assigned - Resources that are constrained by the government's intent to use them for a specific purpose, but are neither restricted nor committed. Intent is expressed when the Commission approves which resources should be "reserved" during the adoption of the annual budget. The Controller uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the Port's annual financial report.

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

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Unassigned - The residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

**Unearned Revenue**

This is cash received prior to the fiscal year in which it is recognized as revenue.

**Unearned Charges**

These are bond issue costs which are amortized over the term of the issue.

**Discount on Port Revenue Bonds**

Bond discounts for proprietary fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective-interest method. Bond discounts are presented as a reduction of the face amount of the bonds payable.

**Unearned Amount on Refunding (Net)**

This account is the difference between the reacquisition price and the net carrying amount of the old debt. It is amortized over the shorter life of either the refunded or refunding debt issue. It is amortized using the bonds outstanding method which approximates the effective-interest method. This account is presented as a reduction of the face amount of bonds payable.

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Depreciation expense, Accumulated Depreciation, Property Taxes Receivable, and Deferred Revenue accounts have been subject to estimation.

**Note 2 - Compliance and Accountability:**

**Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38 "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with the actions taken to address such violations.

None reported

**Note 3 - Deposits and Investments:**

Deposits and investments are comprised of the following at June 30, 2014:

Petty Cash	\$ 900
Deposits with financial institutions	1,217,627
Deposits with trustee	2,079,067
Local Government Investment Pool	4,016,458
	<u>\$ 7,314,052</u>

Deposits and investments are reflected in the government-wide Statement of Net Position as follows:

Cash and cash equivalents	<u>\$ 7,314,052</u>
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The Port maintains a cash management pool for its cash and cash equivalents in which each fund participates. Interest earnings are distributed monthly based on average daily balances.

## **PORT OF MORROW**

### **Notes to Basic Financial Statements**

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Investments, including amounts held in pooled cash and investments, are stated at fair value, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Fair value is determined at the quoted market price, if available; otherwise, the fair value is estimated based on the amount at which the investment could be exchanged in a current transaction between willing parties, other than a forced liquidation sale. Investments in the State of Oregon Local Government Pool (LGIP) are stated at fair value.

#### **Deposits**

Deposits with financial institutions are comprised of bank demand deposits. The total bank balance per the bank statements was \$2,142,610 at June 30, 2014. The difference is due to transactions in process. Deposits are secured by federal deposit insurance to legal limits. The remaining amount is secured by collateral in accordance with Oregon Revised Statutes.

#### **Custodial Credit Risk - Deposits**

Custodial credit risk on deposits is the risk that in the event of a bank failure, the Port's deposits may not be returned. In order to minimize this risk, state statutes require banks holding public funds to become members of the Public Funds Collateralization Program (PFCP), a multiple financial institution collateral pool created by the Office of the State Treasurer. To qualify, participating banks must pledge collateral against any public fund deposits in excess of deposit insurance. The amount of collateral is set by the PFCP between 10% and 110% of each bank's public fund deposits based on their net worth and level of capitalization. Although the PFCP creates a shared liability structure for participating banks depositories, it does not guarantee that all funds are 100% protected.

All accounts are insured by FDIC up to \$250,000.

#### **Investments**

The purpose of the Port's investment policy is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. The Port has delegated investment responsibilities to the Chief Financial Officer, who is primarily responsible for implementing the investment policy.

#### **Credit Risk - Investments**

State statutes authorize the Port to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers and the State Treasurer's investment pool, among others. The Port has no formal investment policy that further restricts its investment choices.

#### **Custodial Credit Risk - Investments**

This is the risk that, in the event of the failure of a counterparty, the Port will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The Port does not have a policy that limits the amount of investments that can be held by counterparties.

The Local Government Investment Pool (LGIP) is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. The LGIP's credit quality is unrated.

Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by the securities that exist in physical or book entry form. Nevertheless, management

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

does not believe that there is any substantial custodial risk related to investments in the LGIP. The fair value of the Port's position in the LGIP is the same as the value of the pool shares.

**Concentration Risk**

The Port does not have a formal policy that places a limit on the amount that they may be invested in any one insurer. The Port has concentrations in the following investments: Local Government Pool. These investments are 100% of the Port's total investments.

Investment Type	Maturities	Concentration % of Portfolio	Actual Amount
Local Government Investment Pool	Avg 6-18 months	100%	<u>\$ 4,016,458</u>

**Interest Rate Risk**

The Port does not have a formal investment policy that explicitly limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

**Note 4 - Property Taxes Receivable**

Property taxes receivable included in revenues are \$3,986, which are all past due and accruing interest.

**Note 5 - Capital Assets:**

Capital asset activity for the twelve months ended June 30, 2014, was as follows:

	Balance at July 1, 2013	Increases	Decreases	Balance at June 30, 2014
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 36,750	\$ -	\$ -	\$ 36,750
Capital assets being depreciated:				
Buildings	102,019	84,809	-	186,828
Equipment & furniture	346,545	43,419	-	389,964
Total capital assets being depreciated	<u>448,564</u>	<u>128,228</u>	<u>-</u>	<u>576,792</u>
Less: accumulated depreciation:				
Buildings	(88,396)	(4,821)	-	(93,217)
Equipment & furniture	(274,462)	(27,445)	-	(301,907)
Total accumulated depreciation	<u>(362,858)</u>	<u>(32,266)</u>	<u>-</u>	<u>(395,124)</u>
Net capital assets being depreciated	<u>85,706</u>	<u>95,962</u>	<u>-</u>	<u>181,668</u>
Net capital assets - Governmental Activities	<u>\$ 122,456</u>	<u>\$ 95,962</u>	<u>\$ -</u>	<u>\$ 218,418</u>
<b>Business-type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 4,440,859	\$ 672,159	\$ -	\$ 5,113,018
Construction in progress	1,226,213	2,754,473	1,057,140	2,923,546
Assets held for sale	2,000,000	-	-	2,000,000
Total capital assets not being depreciated	<u>7,667,072</u>	<u>3,426,632</u>	<u>1,057,140</u>	<u>10,036,564</u>
Capital assets being depreciated:				
Buildings & land improvements	66,186,383	8,058,293	400,000	73,844,676
Equipment & furniture	26,714,703	2,575,868	8,500	29,282,071
Total capital assets being depreciated	<u>92,901,086</u>	<u>10,634,161</u>	<u>408,500</u>	<u>103,126,747</u>
Less: accumulated depreciation:				
Buildings	(18,619,535)	(2,492,847)	(303,049)	(20,809,333)
Equipment & furniture	(15,415,785)	(1,058,659)	(7,284)	(16,467,160)
Total accumulated depreciation	<u>(34,035,320)</u>	<u>(3,551,506)</u>	<u>(310,333)</u>	<u>(37,276,493)</u>
Net capital assets being depreciated	<u>58,865,766</u>	<u>7,082,655</u>	<u>98,167</u>	<u>65,850,254</u>
Net capital assets - Business-type Activities	<u>\$ 66,532,838</u>	<u>\$ 10,509,287</u>	<u>\$ 1,155,307</u>	<u>\$ 75,886,818</u>

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

Depreciation expense was charged to functions as follows:

Governmental activities:		
Unallocated	\$	32,266
Business-type activities:		
Discharge Water	\$	712,180
Site Development		2,514,244
East Beach Utility		252,637
Fresh Water		72,445
Total depreciation expense	\$	3,551,506

**Note 6 - Accounts Payable:**

The accounts payable balance is partly composed of the following:

Construction in Progress Capital Asset - Culbert Construction	\$	308,169
Construction in Progress Capital Asset - H.D. Fowler		148,598
Trade receivable - Umatilla Electric		129,652
Trade receivable - Kittelson @ Associates		58,944
Trade receivable - City of Boardman		33,598

**Note 7 - Long-Term Obligations:**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2014 are as follows:

	Balance 6/30/2013	Long-term Debt Incurred	Matured and Paid	Amortization	Cancelled, Called or Defeased	Balance 6/30/2014
Industrial development bonds (no- commitment debt):						
Idaho Power bond fund	\$ 4,360,000	\$ -	\$ -	\$ -	\$ -	\$ 4,360,000
PGE 1996A	5,800,000	-	-	-	5,800,000	-
PGE 1998A	23,600,000	-	-	-	-	23,600,000
Threemile Canyon	10,000,000	-	-	-	-	10,000,000
Threemile Canyon	10,000,000	-	-	-	-	10,000,000
Bonneville Power	84,740,000	-	-	-	-	84,740,000
Total Industrial development	138,500,000	-	-	-	5,800,000	132,700,000
Enterprise notes payable:						
Special public works #2	195,758	-	61,489	-	-	134,269
Special public works #3	196,370	-	34,835	-	-	161,535
Special public works #4	481,542	-	42,478	-	-	439,064
Special public works #5	602,274	-	38,247	-	-	564,027
Special public works #6	588,638	-	22,453	-	-	566,185
Special public works #7	1,893,203	-	56,915	-	-	1,836,288
Special public works #8		4,794,868	-	-	-	4,794,868
Flexlease #3	45,000	-	45,000	-	-	-
Enhanced Capital A		3,131,000	-	-	-	3,131,000
Enhanced Capital B		709,000	-	-	-	709,000
Total Enterprise notes payable	4,002,785	8,634,868	301,417	-	-	12,336,236

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

Enterprise Port revenue bonds:						
2010A Issue	3,585,000	-	210,000	-	-	3,375,000
2011A Issue	4,401,775	-	417,644	-	-	3,984,131
2013A Issue	7,970,000	-	635,000	-	-	7,335,000
2013FFC Issue	<u>7,060,000</u>	-	<u>405,000</u>	-	-	<u>6,655,000</u>
Total Enterprise Port revenue bonds	<u>23,016,775</u>	-	<u>1,667,644</u>	-	-	<u>21,349,131</u>
Less: bond (discounts) premiums	105,999		-	-		105,999
Amortization of bond discounts (premiums)	6,116	-	-	(3,573)		2,543
Unearned amount on refunding	(854,445)		-	-	(561,738)	(292,707)
Amortization of unearned amount	<u>53,815</u>	-	-	<u>41,325</u>	<u>30,338</u>	<u>64,802</u>
	<u>22,328,260</u>	-	<u>1,667,644</u>	<u>37,752</u>	<u>(531,400)</u>	<u>21,229,768</u>
Total	<u>\$ 164,831,045</u>	<u>\$ 8,634,868</u>	<u>\$ 1,969,061</u>	<u>\$ 37,752</u>	<u>\$ 5,268,600</u>	<u>\$ 166,266,004</u>

**Disclosure of Legal Debt Margin**

Port of Morrow general obligation bonds are limited by Oregon Revised Statutes 777.410 to 2 ½% of true cash value of all taxable property within the Port district. Port of Morrow's district is all of Morrow County, Oregon. The Port's legal debt limit based on the above is \$71,925,489 at June 30, 2014. At that date, Port of Morrow had no general obligation bonds outstanding.

Port of Morrow Revenue Bonds, Port of Morrow Industrial Development Revenue Bonds (direct financing type lease obligations), and installment notes payable are comprised of the following:

**Revenue Bonds:**

- 1) Series 2010 (issued 12-13-2010, original issue of \$4,000,000) interest at various rates (2 – 6%), due serially to fiscal 2025. Parity bonds secured by a pledge of net revenues available for debt service. \$ 3,375,000

The proceeds of these bonds were used to construct a warehouse facility.

- 2) Series 2011 (issued 11-22-11, original issue of \$4,799,300) interest at 3.9%, due annually to 12-01-2021. Parity bonds secured by a pledge of net revenues available for debt service. \$ 3,984,131

The proceeds of these bonds were used to defease Port of Morrow Revenue Bond Series 2001A.

- 3) Series 2013A (issued 4-2-2013, original issue of \$8,665,000) interest at various rates (1.75 – 5.35%), due serially to fiscal 2025. Parity bonds secured by a pledge of net revenues available for debt service. \$ 7,335,000

The proceeds of these bonds were used to defease Port of Morrow Revenue Bond Series 2007.

- 4) Series 2013 (issued 5-29-13, original issue of \$7,060,000) interest at various rates (2 - 4%), due serially to 6-01-2032. Full Faith and Credit bonds secured by a pledge of net revenues available for debt service. \$ 6,655,000

The proceeds of these bonds were used to defease Port of Morrow Full Faith and Credit Issue 2009, Flexleases 1997 and 2007, and wastewater storage improvements.

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

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**Installment Notes Payable:**

- 1) Special Public Works Fund Loan (originated 4-15-96 at \$840,000) interest at 6%, payable annually . Unsecured. \$ 134,269

This loan helped fund an effluent pipeline to the South Farm (#2).

- 2) Special Public Works Fund Loan (originated 7-31-97 at \$534,700) interest at 6%, payable annually on December 1 through fiscal 2013. Unsecured. \$ 161,535

This loan was used to fund the construction of a steam line in the Port industrial area.

- 3) Special Public Works Fund Loan (originated 1-23-02 at \$862,000) interest at various rates from 3 to 5%, payable annually on December 1 through fiscal 2021. Unsecured. \$ 439,064

This loan financed a new crane.

- 4) Special Public Works Fund Loan (originated 6-16-05 at \$840,000) interest at 4.99%, payable annually on December 1 through fiscal 2025. Unsecured. \$ 564,027

This loan financed a wastewater pretreatment facility.

- 5) Special Public Works Fund Loan (originated 2-1-05 at \$700,000) interest at 5.17%, payable annually on December 1 through fiscal 2030. Unsecured. \$ 566,185

This loan was used to finance part of the East Beach Industrial Park railroad spur addition.

- 6) Special Public Works Fund Loan (originated 6-8-07) interest at 4.36%, payable annually on December 1 through fiscal 2029. Unsecured. \$ 1,836,288

This loan is being used to finance part of the East Beach Industrial Park utility improvements.

- 7) Special Public Works Fund Loan (originated 3-12-14) interest at 3.36%, payable annually on December 1 through fiscal 2039. Unsecured. \$ 4,794,868

This loan financed a wastewater pretreatment facility.

- 8) Enhanced Capital New Market Development Fund XIV, LLC - A (originated 7-3-13) interest at 1.1020%, payable annually, interest only through December 1, 2020 then equal annual principal payments through 2040. \$ 3,131,000

Enhanced Capital New Market Development Fund XIV, LLC - B (originated 7-3-13) interest at 1.1020%, payable annually, interest only through December 1, 2020 then equal annual principal payments through 2040. \$ 709,000

These two loans relate to the New Market Tax Credit transaction used to provide additional funding for construction of the SAGE Center.

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

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Related Put/Call Agreement:

Under the NMTC structure, the Company is party to two agreements that, upon expiration of the NMTC compliance period, allow the Company to effectively acquire the owner of the Lender at a contractually-stipulated price. Under the terms of those agreements, the current owner of the owner of the Lender has the option to sell its interest to the Company for a fixed price of \$1,000. Conversely, should that option not be exercised, the Company has the right to acquire that interest for fair market value, as determined by an appraisal or other valuation technique. As the options outlined above do not vest until future periods, no adjustment has been made to the accompanying financial statements to reflect the effect of these agreements

**Industrial Revenue Bonds:**

The Port of Morrow issues industrial development revenue bonds to finance construction of industrial facilities within the Port District which it leases to industrial users by direct financing type leases. The bonds are not a liability or contingent liability of the Port of Morrow, or a lien on any of its properties or revenues other than the industrial facilities for which they were issued. The facilities and the related receipts from lease rentals are pledged for payment of the bonds. All monies are received and disbursed by designated trustees. Accordingly, the bond liability and related receivables are not reflected in the Port's financial statements.

**Idaho Power Company** (issued 8-1-78, original issue \$4,360,000, refunded 4-14-2000) variable interest, due fiscal 2017.

\$ 4,360,000

This issue was used to finance the cost of acquiring and constructing a portion of the pollution control facilities for the PGE coal-fired generating plant referred to above. Idaho Power Company leased a portion of the facilities as of August 1, 1978.

**Portland General Electric Company Series A** (issued 3-11-88, original issue \$23,600,000, refunded 1998, remarketed 5/1/08) interest on its outstanding principal balance fixed at 5.0% through 2033, the remaining life. This issue was used to refund Portland General Electric Company Series A, B, and C issued 7-1-81. These bonds financed solid waste disposal facilities, pollution control facilities, and power facilities at the PGE coal-fired generating plant near Boardman, Oregon.

\$ 23,600,000

**Threemile Canyon Farms LLC Series 2001A & C** (issued July 10, 2001) interest is variable, adjusted weekly and paid quarterly. Principal is due in full in 2021.

\$ 20,000,000

This issue was used for constructing a solid waste disposal located at a dairy west of Boardman, Oregon.

**Bonneville Power Administration Series 2012** (issued July 24, 2012) interest is 3.675%, payable semi-annually, due September 1, 2042. Under the terms of a Lease Agreement, Bonneville is required to make unconditional lease payments directly to the trustee equal to debt service on the bonds. Bonneville is also required to pay any additional taxes, charges or other reasonable costs and expenses of the Port in connection with the Lease Agreement. The Port has no control over, and no obligation with respect to, the project financed by the bonds, including the operation, maintenance, repair, replacement or use of the project.

\$ 84,740,000

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This issue was used to refinance existing long-term debt on Pacific Northwest power transmission distribution system.

Additionally, the Port had closed four lines of credit conduit financing for Bonneville as of August 14, 2014. The Port has no control over the projects to be financed and no obligation to make any payments due under the lines of credit.

Minimum debt service requirements of the revenue bonds and loans (exclusive of internal loans and no-commitment debt) are as follows for the next 5 years:

Enterprise Fund	Principal	Interest	Total
2014-2015	\$ 2,292,018	\$ 1,373,037	\$ 3,665,055
2015-2016	2,476,661	1,453,886	3,930,547
2016-2017	2,488,195	1,375,172	3,863,367
2017-2018	2,490,097	1,295,331	3,785,428
2018-2019	2,541,718	1,207,024	3,748,742
2019-2024	12,490,304	4,481,355	16,971,659
2024-2029	7,940,094	2,079,802	10,019,896
2029-2034	5,813,496	945,079	6,758,575
2034-2039	2,126,579	255,634	2,382,213
2039-2044	1,196,205	38,230	1,234,435

Interest expense on long-term debt has been charged as a direct activity expense on the Statement of Activities as follows:

Discharge Water	\$ 109,122
East Beach Utility	81,109
Site Development	984,718
SAGE Center	178,320
	<u>\$ 1,353,269</u>

**Note 8 - Federal and State Grants:**

In the normal course of operations, the Port received grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, to ensure compliance with conditions of the grant. Any liability for reimbursement which may arise as the result of a grantor audit is not believed to be material.

**Note 9 - Pension Plan:**

The Port of Morrow Commissioners adopted the Port of Morrow Pension Plan effective July 1, 1995. This is a single employer plan and the trustee has been United States National Bank of Oregon. Effective July 25, 2007, the assets in this plan were transferred to Great West Retirement Services. An employee is eligible upon becoming a full-time permanent employee.

All eligible employees participate at the start of the pay period after reaching age 18, and will continue to participate during each plan year in which they have 1,000 hours of service. Port of Morrow contributed 9% of straight time compensation for employees active in the plan on a fiscal year end June 30 basis. This is a defined contribution plan.

If there is a break in service of the employee, that is, employment has been terminated with no more than 500 hours in the employment year, the employee loses the employer contribution not vested. Employer contributions become vested as follows:

Years of Service	Percent Vested
Less than 3	0%
3	25%
4	50%
5	75%
6 or More	100%

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**Notes to Basic Financial Statements**

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The employee contribution will always be fully vested. Employees are 100% vested on retirement, death, or disability. The vesting schedule applies only if employment terminates before one of these events occurs.

Total payroll paid during the fiscal year was \$2,802,553 (100%).

Total payroll subject to the pension plan for fiscal year ended June 30, 2014 was \$2,170,522 (77%).

Total employer and employee contributions in fiscal year ended June 30, 2014, were \$195,347 and \$129,359, respectively.

**Note 10 - Deferred Compensation Plan (Under Internal Revenue Code Section 457)**

The Port has adopted the United States Conference of Mayors deferred compensation program. This offers employees a regular and long-term savings pattern through a payroll deduction feature. Employee contributions and earnings on the plan assets are tax deferred until withdrawn from the plan by the employee.

The plan is administered by Nationwide Retirement Solutions and AIG Valic. Administrative duties include tracking fund assets by employee participant. The Port's fiduciary responsibility ends when it transfers funds to Nationwide Retirement Solutions or AIG Valic equal to the amount deducted from the employee's wage.

**Note 11 - Operating Leases:**

The Port of Morrow is lessee of certain land. In most cases, management expects, in the normal course of business, leases will be renewed or replaced by other leases enabling the Port to retain use of facilities in desirable operating areas.

Port of Morrow is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Port's balance sheet.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014:

2014-2015	\$	380
2015-2016		380
2016-2017		380
2017-2018		380
2018-2019		380
2019-2024		1,900
2024-2029		1,900
2029-2034		1,900
2034-2039		380
		380
Total minimum payments required	\$	7,980

The Port operations also involve the Port as lessor of various types of land with lease terms ranging from one (1) to fifty (50) years. The investment in property on operating leases is presented by type of land and by acreage leased:

Commercial	Buildings & Land	8	acres
Industrial	Waterfront Land	73	acres
Irrigated	Farm Land	1,542	acres
Industrial	Land	188	acres

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

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The following is a schedule by years of minimum future rental receipts on noncancelable operating leases as of June 30, 2014:

2014-2015	\$ 2,213,780
2015-2016	2,165,309
2016-2017	1,922,741
2017-2018	1,911,558
2018-2019	1,691,812
2019-2024	6,884,012
2024-2029	6,465,619
2029-2034	5,581,955
2034-2039	4,524,769
2039-2044	1,592,433
	<u>\$ 34,953,988</u>

The following property and equipment subject to noncancelable operating leases, classified by nature, is as follows:

	<u>Cost</u>	<u>Accum Depr 6/30/2013</u>	<u>Depreciation 13-14</u>	<u>Accum Depr 6/30/2014</u>	<u>Book Value</u>
Industrial Waterfront					
Land/Terminal Equipment	\$ 10,577,988	\$ 4,235,248	\$ 289,859	\$ 4,525,107	\$ 6,052,881
Industrial Land	21,604,043	3,034,166	736,485	3,770,651	17,833,392
Irrigated Farm Land	3,785,159	1,476,311	53,107	1,529,418	2,255,741
Wastewater Pretreatment Facilities	6,495,126	720,156	118,845	839,001	5,656,125
Commercial Buildings & Land	691,487	439,260	32,423	471,683	219,804
	<u>\$ 43,153,803</u>	<u>\$ 9,905,141</u>	<u>\$ 1,230,719</u>	<u>\$ 11,135,860</u>	<u>\$ 32,017,943</u>

**Note 12 - Interfund Transactions - Major Funds:**

Transfers between major funds during fiscal year ended June 30, 2014, consisted of the following:

Transfer from Enterprise Fund to General Fund \$164,000

Transfers were used to reimburse the General Fund for an allocation of salaries, benefits, insurance, etc.

**Note 13 - Risk Management:**

Port of Morrow is exposed to various risks of loss related to limited torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which Port of Morrow carries commercial insurance, subject to customary deductibles and total coverage limits recommended by Port of Morrow's insurance agent of record. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past three years.

Workers compensation insurance is purchased from a commercial carrier. Premiums are determined based on payroll paid at various employment classification rates. Loss prevention services are available from the carrier and Port of Morrow has no potential liability beyond the premium paid.

**Note 14 - Segment Information:**

The Port maintains four business segments within its Enterprise Funds as follows:

**Fresh Water:** This segment accounts for revenue and costs of production and delivery of fresh water to industrial consumers.

**Discharge Water:** This segment accounts for revenue and costs of disposal of water used by industrial consumers.

**East Beach Utility:** This segment accounts for revenue and costs of the utility system (freshwater, disposal of water, and sanitary sewer) in the east beach industrial area.

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**Site Development Operations:** This segment accounts for revenue and costs associated with farming Port land, rental of industrial land, irrigated farm land, grazing land, and commercial buildings, an electricity generating plant, and economic development efforts to expand existing industries and site new industries.

Segment information for the fiscal year ended June 30, 2014 is as follows:

	Fresh Water	Discharge	East Beach Utility	SAGE Center	Site Development	Totals
<b>Assets</b>						
Current Assets	\$ 765,670	\$ 916,883	\$ 207,858	\$ 330,802	\$ 8,465,196	\$ 10,686,409
Noncurrent Assets	197,517	297,163	58,558	3,206,615	68,378	3,828,231
Capital Assets	<u>474,353</u>	<u>12,343,859</u>	<u>3,960,294</u>	<u>8,219,415</u>	<u>50,888,897</u>	<u>75,886,818</u>
Total Assets	<u>1,437,540</u>	<u>13,557,905</u>	<u>4,226,710</u>	<u>11,756,832</u>	<u>59,422,471</u>	<u>90,401,458</u>
Deferred outflow of resources	-	-	-	-	227,906	<u>227,906</u>
<b>Liabilities</b>						
Current Liabilities	104,034	393,898	258,948	47,480	2,941,806	3,746,166
Long-term Liabilities	-	6,156,624	1,779,371	3,840,000	20,188,949	<u>31,964,944</u>
Total Liabilities	<u>104,034</u>	<u>6,550,522</u>	<u>2,038,319</u>	<u>3,887,480</u>	<u>23,130,755</u>	<u>35,711,110</u>
Deferred inflow of resources	-	-	-	-	-	-
<b>Net Position</b>						
Unrestricted	859,153	975,404	64,384	3,489,937	5,357,401	10,746,279
Restricted for Bond Retirement	-	-	-	-	2,079,067	2,079,067
Net Investment in Capital Assets	<u>474,353</u>	<u>6,031,979</u>	<u>2,124,007</u>	<u>4,379,415</u>	<u>29,083,154</u>	<u>42,092,908</u>
Total Net Position	<u>\$ 1,333,506</u>	<u>\$ 7,007,383</u>	<u>\$ 2,188,391</u>	<u>\$ 7,869,352</u>	<u>\$ 36,519,622</u>	<u>\$ 54,918,254</u>
	-	-	-	-	-	-
	Fresh Water	Discharge	East Beach Utility	SAGE Center	Site Development	Totals
<b>Operating Revenues</b>						
Water Usage	\$ 1,599,498	-	\$ 187,597	-	-	\$ 1,787,095
Water Discharge	-	3,763,083	507,794	-	-	4,270,877
Building & Land Leases	-	-	-	-	2,607,326	2,607,326
Other Operating Revenue	<u>91,105</u>	<u>109,836</u>	<u>41,016</u>	<u>105,926</u>	<u>2,488,208</u>	<u>2,836,091</u>
Total Operating Revenue	<u>1,690,603</u>	<u>3,872,919</u>	<u>736,407</u>	<u>105,926</u>	<u>5,095,534</u>	<u>11,501,389</u>
<b>Operating Expenses</b>						
Labor	430,441	1,004,976	11,084	127,166	1,163,051	2,736,718
Depreciation	72,446	712,179	252,637	292,439	2,221,805	3,551,506
Other Operating Expenses	<u>600,656</u>	<u>1,192,596</u>	<u>175,083</u>	<u>78,335</u>	<u>1,946,338</u>	<u>3,993,008</u>
Total Operating Expenses	<u>1,103,543</u>	<u>2,909,751</u>	<u>438,804</u>	<u>497,940</u>	<u>5,331,194</u>	<u>10,281,232</u>
Operating Income	<u>587,060</u>	<u>963,168</u>	<u>297,603</u>	<u>(392,014)</u>	<u>(235,660)</u>	<u>1,220,157</u>

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

Nonoperating Revenues	7,153	12,137	-	15,568	5,657,968	5,692,826
Nonoperating Expenses						
Interest Expense	-	(109,122)	(81,109)	(178,320)	(984,718)	(1,353,269)
Other Nonoperating Expense	-	(142)	-	-	(3,858)	(4,000)
Total Nonoperating income (expense)	<u>7,153</u>	<u>(97,127)</u>	<u>(81,109)</u>	<u>(162,752)</u>	<u>4,669,392</u>	<u>4,335,557</u>
Special Items						
Grant Revenue	-	500,000	-	-	4,092,872	4,592,872
Change in Net Position	594,213	1,366,041	216,494	(554,766)	8,526,604	10,148,586
Beginning Net Position	726,991	6,601,015	1,964,827	-	36,499,668	45,792,501
Prior period adjustment due to accounting principal change					(1,022,833)	(1,022,833)
Reclassification - other Segment	<u>12,302</u>	<u>(959,673)</u>	<u>7,070</u>	<u>8,424,118</u>	<u>(7,483,817)</u>	<u>-</u>
Ending Net Position	<u>\$ 1,333,506</u>	<u>\$ 7,007,383</u>	<u>\$ 2,188,391</u>	<u>\$ 7,869,352</u>	<u>\$ 36,519,622</u>	<u>\$ 54,918,254</u>
Cash Provided By:						
Operating Activities	\$ 580,792	\$ 1,527,822	\$ 540,968	\$ (83,397)	\$ 1,550,876	\$ 4,117,061
Capital	(100,518)	(1,188,762)	(689,008)	414,199	(655,058)	(2,219,147)
Investing Activities	7,153	12,137	-	-	66,610	85,900
Beginning Cash & Cash Equivalents	<u>109,113</u>	<u>119,456</u>	<u>273,164</u>	<u>-</u>	<u>4,301,765</u>	<u>4,803,498</u>
Ending Cash & Cash Equivalents	<u>\$ 596,540</u>	<u>\$ 470,653</u>	<u>\$ 125,124</u>	<u>\$ 330,802</u>	<u>\$ 5,264,193</u>	<u>\$ 6,787,312</u>

**Note 15 - Change in accounting principle and restatement of prior period net position:**

During the fiscal year, the District has adopted GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. GASB 65 established accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Furthermore, this statement provides guidance for deferred outflows of resources and deferred inflows of resources and their applicability to consumption or acquisition of net position.

As of July 1, 2013, the beginning net position of the business-type activities were restated for bond issuance costs incurred prior to July 1, 2013. Under GASB 65 these costs should be expenses as incurred.

Net position at July 1, 2013 - originally reported	\$ 45,792,501
Equity adjustment	<u>(1,022,833)</u>
Net position at July 1, 2013 - restated	<u>\$ 44,769,668</u>

**Note 16 - Related Party Transactions:**

Jerry Healy serves on the Board of Port of Morrow and is President of the Board of Directors of Morrow Development Corporation (MDC), an Oregon nonprofit corporation [ 501(c)(4) ]. The Port of Morrow donates the use of land to MDC on which a commercial building owned by MDC is located and rented to Barenbrug/Tidewater. Use of this land is valued at \$7,500 per year.

Jerry Healy is also General Manager of Columbia Basin Electric Cooperative which provides utility service to the Port's Heppner industrial park. These charges accounted for \$9,578 of the Port's total utility cost and were billed at the Cooperative's standard rates.

**PORT OF MORROW**  
**Notes to Basic Financial Statements**

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Joe Taylor, Board Member, is also the operator of Bedrock Farms, LLC. Bedrock Farms, LLC participated in a sealed bid and leased farm land from the Port for the 2009, 2010, 2011, 2012, and 2013 crop season. Due to water issues, the number of acres was reduced. For 2014 the annual lease amount was \$44,250. \$41,423 was outstanding at June 30, but paid prior to issue of these statements. The lease has now terminated.

Don Russell, Commission Member, and Gary Neal, General Manager, also serve on the Board of Directors of Windwave Communications, Inc. The Port paid Windwave \$12,251 for utility installation and \$2,100 for internet service to the new visitor's center. They also leased an outside storage area from the Port for \$2,400. Windwave is a wholly owned subsidiary of Inland Development Corporation, a non-profit organization. Marvin Padberg and Jerry Healy, Commission Members, are also on the Board of Inland Development. Inland provides internet services to the Port. Fees paid for these services totaled \$1,800 for the year.

Gary Neal is also on the Board of the Bank of Eastern Oregon (Bank). The Port maintains cash deposits with the Bank. Additionally, the Bank purchased the Port's 2011 Bond issue in the amount of approximately \$4.8 million.

**Note 17 - Economic Dependency:**

A material part of Port of Morrow's total revenues is dependent upon one customer, the loss of which would have a materially adverse effect on the Port. During the year ended June 30, 2014, this customer accounted for \$2,591,398 of General Fund and Enterprise Fund operating revenues, or approximately 23% of Port operating revenues. Port of Morrow has done business with this customer for over twenty years.

**Note 18 - Commitments:**

**City of Boardman Water Use:**

The Port is party to an intergovernmental agreement with the City of Boardman wherein the Port agrees to purchase 648 million gallons of potable water each year from the City. The Port has agreed to pay for the water purchased from the City at the wholesale rate of \$.35 per thousand gallons. This equates to \$226,800 annually.

**Loan Agreements - Enhanced Capital**

The Port secured additional financing for its SAGE Center by using New Markets Tax Credits (NMTC) in accordance with Section 45D of the Internal Revenue Code of 1986. The NMTC is the result of a federal program designed to stimulate capital investments in low income communities by providing a credit against Federal income taxes for investors that make Qualified Equity Investments (QEI's) into Community Development Entities (CDE's). In order to facilitate the transactions, the Port entered into loan agreements with Enhanced Capital. The Loans are intended to constitute qualified low-income community investment under the NMTC program, and, for such purpose, the SAGE Center must be and maintain its status as a qualified active low-income community business, as such terms are defined in Section 45D of the Internal Revenue Code, for the entire duration of the Loan. Violation of those covenants would result in the Loan becoming immediately due and payable.

**Note 19 - Subsequent Events:**

Subsequent events have been evaluated through December 8, 2014.

In August 2014 the Port was awarded \$6 million in state Connect Oregon V funds towards construction of a cold storage rail transload facility. In September 2014, the Port issued \$8.17 million in full faith and credit bonds for the remaining funds required for construction of this facility.

**REQUIRED SUPPLEMENTARY INFORMATION**

**PORT OF MORROW**  
**General Fund**  
**Statement of Revenues and Expenditures - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes	\$ 121,752	\$ 121,752	\$ 134,680	\$ 12,928
Payments in lieu of taxes	6,400	6,400	8,160	1,760
Interest income	400	400	3,042	2,642
Bond handling charges	332,225	332,225	412,225	80,000
Sale of assets	100	100	-	(100)
Miscellaneous	100	100	-	(100)
Total revenues	<u>460,977</u>	<u>460,977</u>	<u>558,107</u>	<u>97,130</u>
<b>Expenditures:</b>				
Personal services	236,800	396,800	341,982	54,818
Materials and services	344,000	344,000	180,380	163,620
Capital outlay	125,000	145,000	128,228	16,772
General operating contingency	219,177	39,177	-	39,177
Total expenditures	<u>924,977</u>	<u>924,977</u>	<u>650,590</u>	<u>274,387</u>
Excess of revenues over (under) expenditures	(464,000)	(464,000)	(92,483)	371,517
<b>Other Financing Sources (Uses):</b>				
Transfer from enterprise fund	<u>164,000</u>	<u>164,000</u>	<u>164,000</u>	<u>-</u>
Change in fund balance	(300,000)	(300,000)	71,517	371,517
Fund balance, beginning of year	<u>440,000</u>	<u>440,000</u>	<u>429,184</u>	<u>(10,816)</u>
Fund balance, end of year	<u>\$ 140,000</u>	<u>\$ 140,000</u>	<u>\$ 500,701</u>	<u>\$ 360,701</u>

**PORT OF MORROW**  
**General Fund**  
**Statement of Expenditures - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
<b>Personal Services:</b>			
Payroll	\$ 160,000	\$ 260,000	\$ 235,862
Payroll overhead	76,800	136,800	106,120
Total personal services	<u>236,800</u>	<u>396,800</u>	<u>341,982</u>
<b>Materials and Services:</b>			
Office supplies	20,000	20,000	21,003
Legal	10,000	10,000	1,736
Audit and accounting	40,000	40,000	23,780
Notices and publications	5,000	5,000	144
Dues and subscriptions	35,000	35,000	35,619
Insurance and bonds	4,000	4,000	4,000
Utilities	15,000	15,000	10,904
Marketing	80,000	80,000	27,942
Commissioner expenses	35,000	35,000	29,313
Staff travel	20,000	20,000	16,227
Economic development	40,000	40,000	5,197
Planning/repair & maintenance	30,000	30,000	4,210
Education	10,000	10,000	305
Total materials and services	<u>344,000</u>	<u>344,000</u>	<u>180,380</u>
<b>Capital Outlay:</b>			
Equipment	<u>125,000</u>	<u>145,000</u>	<u>128,228</u>
<b>General Operating Contingency</b>			
	<u>219,177</u>	<u>39,177</u>	<u>-</u>
Total expenditures	<u>\$ 924,977</u>	<u>\$ 924,977</u>	<u>\$ 650,590</u>

**PORT OF MORROW**  
**Notes to Required Supplementary Information**

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**Budgets and Budgetary Accounting**

The Port budgets all funds which are subject to budget requirements of state law. The Board of Commissioners legally adopts the budget by resolution before July 1. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. The level of control (total personal services, materials and services, capital outlay, and other expenditures) is established by resolution for all funds.

The detail budget document, however, is required to contain more specific, detailed information for the aforementioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations ordinance. A supplemental budget that differs by 10 percent or more of any one of the individual funds contained in the original budget for that fiscal year requires hearings before the public, publications in newspapers, and approval by the Port. Original and supplemental budgets may be modified by the use of appropriations transfers between the levels of control. Such transfers require approval by the Board of Commissioners. Appropriations that have not been expended at year-end lapse and subsequent actual expenditures are then charged against ensuing year's appropriations.

**SUPPLEMENTARY INFORMATION**

**PORT OF MORROW**  
**Enterprise Fund**  
**Statement of Revenues, Expenses, and Fund Net Position and Reconciliation To**  
**Net Position - Budget and Actual (Budgetary Basis)**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
<b>Revenues</b>	\$ 12,735,938	\$ 12,735,938	\$ 11,501,389
<b>Expenses</b>	(42,481,928)	(42,301,928)	(23,059,711)
Excess of revenues over (under) expenses	(29,745,990)	(29,565,990)	(11,558,322)
<b>Other Financing Sources (Uses):</b>			
Loan proceeds	5,294,868	5,294,868	5,503,868
Interest income	120,000	120,000	58,135
Sale of assets	6,075,000	6,075,000	5,634,691
Grant income	16,428,000	16,428,000	4,592,872
Total other financing sources (uses)	27,917,868	27,917,868	15,789,566
Excess (deficiency) of revenues and other financing sources over expenses and other uses	(1,828,122)	(1,648,122)	4,231,244
<b>Reconciliation to GAAP Basis:</b>			
Loan proceeds	-	-	(5,503,868)
Principal paid on long-term debt	-	-	1,969,062
Depreciation	-	-	(3,551,506)
Fixed assets - capitalized	-	-	12,055,294
Labor capitalized	-	-	948,360
Total reconciliation items	-	-	5,917,342
Change in net position	(1,828,122)	(1,648,122)	10,148,586
Net position, beginning of year	2,000,000	2,000,000	45,792,501
Prior period adjustment due to accounting principle change	-	-	(1,022,833)
Net position, end of year	\$ 171,878	\$ 351,878	\$ 54,918,254

**PORT OF MORROW**  
**Enterprise Fund**  
**Statement of Revenues - Budget and Actual (Budgetary Basis)**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	
<b>Discharge Water Segment:</b>			
Water discharge	\$ 3,768,563	\$ 3,768,563	\$ 3,763,083
Miscellaneous and reimbursable services	34,000	34,000	33,544
Co-generation fixed fee	50,000	50,000	50,000
Patronage dividend	9,000	9,000	26,292
Total revenues - Discharge Water Segment	<u>3,861,563</u>	<u>3,861,563</u>	<u>3,872,919</u>
<b>Site Development Segment:</b>			
Land leases	999,487	999,487	1,039,526
Mining royalties	120,000	120,000	144,237
Building leases	1,636,721	1,636,721	1,567,800
T-3 lease	192,000	192,000	188,548
Rail tariff	88,000	88,000	90,293
Miscellaneous & reimbursements	8,000	8,000	56,423
Operating grant - LRA	500,000	500,000	723,064
Farm lease	423,417	423,417	281,947
Steam revenue	292,000	292,000	325,504
Patronage dividend	16,000	16,000	6,991
Total revenues - Site Development Segment	<u>4,275,625</u>	<u>4,275,625</u>	<u>4,424,333</u>
<b>Fresh Water Segment:</b>			
Water usage	1,607,491	1,607,491	1,599,498
Patronage dividend & miscellaneous	6,100	6,100	16,105
Co-generation fixed fee	75,000	75,000	75,000
Total revenues - Fresh Water Segment	<u>1,688,591</u>	<u>1,688,591</u>	<u>1,690,603</u>
<b>Motor Pool Segment:</b>			
Equipment rents	<u>1,977,000</u>	<u>1,977,000</u>	<u>671,201</u>
<b>SAGE Center:</b>			
Admission and facility use	148,000	148,000	32,926
Sponsorships (donations)	50,000	50,000	73,000
Total revenues - East Beach Utility	<u>198,000</u>	<u>198,000</u>	<u>105,926</u>
<b>East Beach Utility:</b>			
Utility fees - freshwater	199,704	199,704	187,597
Utility fees - discharge	534,455	534,455	507,794
Miscellaneous & reimbursements	1,000	1,000	41,016
Total revenues - East Beach Utility	<u>735,159</u>	<u>735,159</u>	<u>736,407</u>
Total revenues - enterprise fund	<u>\$ 12,735,938</u>	<u>\$ 12,735,938</u>	<u>\$ 11,501,389</u>

**PORT OF MORROW**  
**Enterprise Fund**  
**Statement of Expenses - Budget and Actual (Budgetary Basis)**  
**For the Fiscal Year Ended June 30, 2014**

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	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenses:</b>				
Personal services	\$ 4,368,993	\$ 4,368,993	\$ 3,685,078	\$ 683,915
Materials and services	4,646,390	4,646,390	3,829,008	817,382
Capital outlay	24,670,068	24,490,068	12,055,294	12,434,774
Transfers to other funds	164,000	164,000	164,000	-
Debt service	3,838,549	3,838,549	3,326,331	512,218
Contingency	4,793,928	4,793,928	-	4,793,928
Total expenses	<u>\$ 42,481,928</u>	<u>\$ 42,301,928</u>	<u>\$ 23,059,711</u>	<u>\$ 19,242,217</u>

## **OTHER FINANCIAL SCHEDULES**

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**PORT OF MORROW**  
**Schedule of Property Taxes**  
**June 30, 2014**

<u>Fiscal Year</u>	<u>Property Tax Receivable 6/30/2013</u>	<u>Current Levy</u>	<u>Cash Collections</u>	<u>Discounts &amp; Adjustments</u>	<u>Property Tax Receivable 6/30/2014</u>
2013-14	\$ -	\$ 138,290	\$ (132,472)	\$ (3,891)	\$ 1,927
2012-13	1,929		(861)	(2)	1,066
2011-12	1,003		(347)	(2)	654
2010-11	687		(379)	(20)	288
2009-10	342		(320)	(3)	19
2008-09 & Prior	123		(37)	(54)	32
	<u>\$ 4,084</u>	<u>\$ 138,290</u>	<u>\$ (134,416)</u>	<u>\$ (3,972)</u>	<u>\$ 3,986</u>

Cash collections	\$ 134,416
Community service fee/pilot	8,160
Other (interest, etc)	264
	<u>\$ 142,840</u>

**Reconciliation to Tax Revenues:**

	<u>General Fund</u>
Current Tax Collections	\$ 132,396
Delinquent Tax Collections	2,284
Community Service Fee/PILOT	8,160
Total Tax Revenues	<u>\$ 142,840</u>

**PORT OF MORROW**  
**Schedule of Future Requirements For Retirement of**  
**Bonded and Long-Term Debt**  
**For the Fiscal Year Ended June 30, 2014**

	2014-2015		2015-2016		2016-2017	
	Principal	interest	Principle	interest	Principle	interest
<b>Industrial Development Bonds</b>						
<b>(No-Commitment Debt) :</b>						
Idaho Power Bond Fund	\$ -	\$ 174,400	\$ -	\$ 174,400	\$ -	\$ 174,400
PGE 1998A		1,227,200		1,227,200		1,227,200
Threemile Canyon Farms		407,000		407,000		407,000
Threemile Canyon Farms		407,000		407,000		407,000
Bonneville Power Administration Series 2012		3,114,195		3,114,195		3,114,195
Total no commitment debt	-	5,329,795	-	5,329,795	-	5,329,795
<b>Enterprise Fund:</b>						
Full Faith & Credit Bond, Series 2014	300,000	182,136	310,000	282,850	315,000	276,650
Full Faith & Credit Bond, Series 2013	415,000	233,450	415,000	225,150	430,000	216,850
Revenue Bond, Series 2013	650,000	292,510	665,000	276,585	685,000	257,965
Revenue Bond, Series 2010	220,000	172,522	225,000	165,007	235,000	156,082
Revenue Bond, Series 2011	433,932	155,381	450,855	138,458	468,439	120,874
Special Public Works Fund #2	65,178	8,056	69,091	4,145	-	-
Special Public Works Fund #3	36,925	9,692	39,141	7,477	41,489	5,128
Special Public Works Fund #4	47,818	21,349	48,181	19,125	48,570	16,837
Special Public Works Fund #5	40,155	28,145	42,159	26,141	44,263	24,038
Special Public Works Fund #6	23,613	29,272	24,834	28,051	26,118	26,767
Special Public Works Fund #7	59,397	80,062	61,987	77,472	64,689	74,770
Special Public Works Fund #8		118,145	125,413	161,108	129,627	156,894
Enhanced Capital		34,504		34,504	-	34,504
Enhanced Capital		7,813		7,813		7,813
Total commitment debt	2,292,018	1,373,037	2,476,661	1,453,886	2,488,195	1,375,172
Total debt	\$ 2,292,018	\$ 6,702,832	\$ 2,476,661	\$ 6,783,681	\$ 2,488,195	\$ 6,704,967

2017-2018		2018-2019		All Subsequent Years		Total	
Principle	interest	Principle	interest	Principal	interest	Principal	interest
\$ -	\$ 174,400	\$ -	\$ 174,400	\$ 4,360,000	\$ 1,918,800	\$ 4,360,000	\$ 2,790,800
	1,227,200		1,227,200	23,600,000	20,862,400	23,600,000	26,998,400
	407,000		407,000	10,000,000	1,221,000	10,000,000	3,256,000
	407,000		407,000	10,000,000	1,221,000	10,000,000	3,256,000
	3,114,195		3,114,195	84,740,000	77,854,875	84,740,000	93,425,850
-	5,329,795	-	5,329,795	132,700,000	103,078,075	132,700,000	129,727,050
320,000	270,350	325,000	263,950	6,600,000	2,257,924	8,170,000	3,533,860
370,000	208,250	385,000	197,150	4,640,000	1,094,400	6,655,000	2,175,250
700,000	237,072	730,000	213,272	3,905,000	680,783	7,335,000	1,958,187
240,000	145,835	255,000	134,251	2,200,000	487,754	3,375,000	1,261,451
486,708	102,605	505,690	83,624	1,638,507	129,434	3,984,131	730,376
				-	-	134,269	12,201
43,980	2,639			-	-	161,535	24,936
53,977	14,530	54,412	11,911	186,106	18,851	439,064	102,603
46,471	21,829	48,790	19,510	342,189	61,462	564,027	181,125
27,468	25,417	28,888	23,997	435,264	146,251	566,185	279,755
67,510	71,949	70,453	69,006	1,512,252	579,637	1,836,288	952,896
133,983	152,538	138,485	148,036	4,267,360	1,749,580	4,794,868	2,486,301
	34,504		34,504	3,131,000	484,739	3,131,000	657,259
	7,813		7,813	709,000	109,285	709,000	148,350
2,490,097	1,295,331	2,541,718	1,207,024	29,566,678	7,800,100	41,855,367	14,504,550
\$ 2,490,097	\$ 6,625,126	\$ 2,541,718	\$ 6,536,819	\$ 162,266,678	\$ 110,878,175	\$ 174,555,367	\$ 144,231,600

**PORT OF MORROW**  
**Schedule of insurance Coverage**  
**For the Fiscal Year Ended June 30, 2014**

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	<u>Policy Number</u>	<u>Expiration Date</u>	<u>Amount</u>
<b>Liability</b>			
Special Districts insurance Services General Liability ( single limit ) automobile insurance on various automobiles. Auto physical damage - \$ 100 Deductible - Comprehensive \$ 500 Deductible - Collision	29P16391-202	12/31/2014	\$ 5,000,000
<b>Property</b>			
Special Districts insurance Services All property, real and personal, including inland Marine \$ 1,000 Deductible on property coverage \$ 500 Deductible - inland Marine coverage \$ 1,000,000 Business interruption \$ 50,000 EDP	29P16391-202	12/31/2014	\$ 42,066,109
<b>Boiler and Machinery</b>			
Special Districts insurance Services \$ 1,000 Deductible	29P16391-202	12/31/2014	\$ 50,000,000
<b>Crime Coverage</b>			
Special Districts insurance Services	29P16391-202	12/31/2014	\$ 500,000
<b>Workers' Compensation</b>			
Special Districts insurance Services	28W16391-83	6/30/2014	\$ 3,000,000
<b>Erisa Bond</b>			
Old Republic Surety Company	W180013325	7/25/2014	\$ 350,000
<b>Group insurance</b>			
MODA Health	G0020636	5/31/2015	Health and Dental

**INDEPENDENT AUDITORS' REPORT REQUIRED  
BY OREGON STATE REGULATIONS**

LEWIS, POE, MOELLER , GUNDERSON & ROBERTS, LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
1121 ADAMS AVENUE • P.O. BOX 1024  
LA GRANDE, OREGON 97850-1024

Independent Auditor's Report  
Required by Oregon State Regulations

Commissioners  
Port of Morrow  
P.O. Box 200  
Boardman, OR 97818

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Port of Morrow as of and for the year ended June 30, 2014, and have issued our report thereon dated December 8, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Port of Morrow'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 Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

In connection with our testing nothing came to our attention that caused us to believe the Port of Morrow was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

**OAR 162-10-0230 Internal Control Over Financial Reporting**

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

This report is intended solely for the information and use of the board of commissioners and management of Port of Morrow and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC  
Certified Public Accountants

By H. Brent Lewis CPA  
H. Brent Lewis, CPA  
Owner/Member

La Grande, OR  
December 8, 2014

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**AUDIT DELIVERABLES REQUIRED  
BY THE SINGLE AUDIT ACT OF 1996**

**PORT OF MORROW**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2014**

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<u>Program Title</u>	<u>Grant I.D. No.</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Transportation:</u></b>			
Airport Improvement Program	3-41-0090-006	20.106	\$ 49,665
Airport Improvement Program	3-41-0090-007-2013	20.106	324,521
<b><u>U.S. Department of Defense:</u></b>			
Community Economic Adjustment Assistance for Establishmen Expansion, Realignment, or Closure of a Military Installation	HQ0051210051	12.607	116,654
Community Economic Adjustment Assistance for Establishmen Expansion, Realignment, or Closure of a Military Installation	HQ0051310110	12.607	557,790
<b><u>U.S. General Service Administration:</u></b>			
Donation of Federal Surplus Personal Property		39.003	<u>85,113</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,133,743</u></u>

(The accompanying notes are an integral part of the schedule of expenditures of federal awards)

**Port of Morrow**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2014**

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**Note A - Purpose of the Schedule:**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") is a supplementary schedule to Port of Morrow's financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a selected portion of the activities of Port of Morrow, it is not intended to and does not present either the financial position, results of operations, or changes in fund balances of Port of Morrow.

**Note B - Significant Accounting Policies:**

**Reporting Entity**

The reporting entity is fully described in Note 1 to Port of Morrow's basic financial statements. The Schedule includes all federal programs administered by Port of Morrow for the year ended June 30, 2014.

**Basis of Presentation**

The information in the Schedule is presented in accordance with OMB Circular A-133.

**Federal Financial Assistance**

Pursuant to the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the Port and the federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

**Major Programs**

The Single Audit Act and OMB Circular A-133 establish criteria to be used in defining major programs. Major programs for Port of Morrow are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

**Basis of Accounting**

The receipt and expenditure of federal awards are accounted for under the same basis of accounting as the fund in which they are recorded. Federal awards recorded in governmental funds are reported using the modified accrual basis of accounting. Revenues are recognized when measurable and available. Expenditures are recorded when the related liability is incurred.

**Insurance Coverage**

For the fiscal year ended June 30, 2014, the Port had insurance coverage in effect comparable to other entities of similar size and circumstance.

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC

CERTIFIED PUBLIC ACCOUNTANTS

1121 ADAMS AVENUE • P.O. BOX 1024

LA GRANDE, OREGON 97850-1024

**Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed In Accordance with *Government Auditing Standards***

Commissioners  
Port of Morrow  
P.O. Box 200  
Boardman, OR 97818

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Port of Morrow as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Port of Morrow's basic financial statements, and have issued our report thereon December 8, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Port of Morrow'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port of Morrow's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port of Morrow'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Port of Morrow's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC  
Certified Public Accountants

By H. Brent Lewis CPA  
H. Brent Lewis, CPA  
Owner/Member

La Grande, OR  
December 8, 2014

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
1121 ADAMS AVENUE • P.O. BOX 1024  
LA GRANDE, OREGON 97850-1024

**Independent Auditor's Report on Compliance For Each Major Program and on  
Internal Control Over Compliance Required by OMB Circular A-133**

Commissioners  
Port of Morrow  
P.O. Box 200  
Boardman, OR 97818

**Report on Compliance for Each Major Federal Program**

We have audited the Port of Morrow's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Port of Morrow's major federal programs for the year ended June 30, 2014. The Port of Morrow's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Port of Morrow's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Port of Morrow's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Port of Morrow's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Port of Morrow complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Report on Internal Control Over Compliance**

Management of Port of Morrow is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Port of Morrow's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and

report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port of Morrow's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC  
Certified Public Accountants

By   
H. Brent Lewis, CPA  
Owner/Member

La Grande, OR  
December 8, 2014

**PORT OF MORROW**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2014**

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**A. Summary of Audit Results**

	<b>Results</b>
<b>Financial Statements Audit</b>	
1. Type of auditor's report issued	Unqualified
2. Internal control over financial reporting:	
Were significant deficiencies disclosed?	No
Of the significant deficiencies disclosed were any material weaknesses?	N/A
3. Did the audit disclose any noncompliance material to the financial statements?	No
<b>Federal Awards</b>	
1. Type of auditor's report issued:	
<u>Major programs:</u>	
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation - CFDA 12.607	Unqualified
2. Internal control over major programs:	
Were significant deficiencies disclosed?	No
Of the significant deficiencies disclosed were any material weaknesses?	N/A
3. Were any of the following disclosed in accordance with section 510(a) of OMB Circular A-133?	
Significant deficiencies in internal control over major programs?	No
Material Noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to major programs?	No
Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program?	No
Known questioned costs which are greater than \$10,000 for a federal program which is not audited as a major program?	No
4. The threshold for distinguishing Types A and B programs	\$ 300,000
5. Auditee qualified as a low-risk auditee	No

**B. Findings and Questioned Costs - Financial Statement Audit**

None noted as a result of our audit procedures.

**C. Federal Awards Findings and Questioned Costs**

None noted as a result of our audit procedures.

**PORT OF MORROW**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2014**

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None noted as a result of our audit procedures.