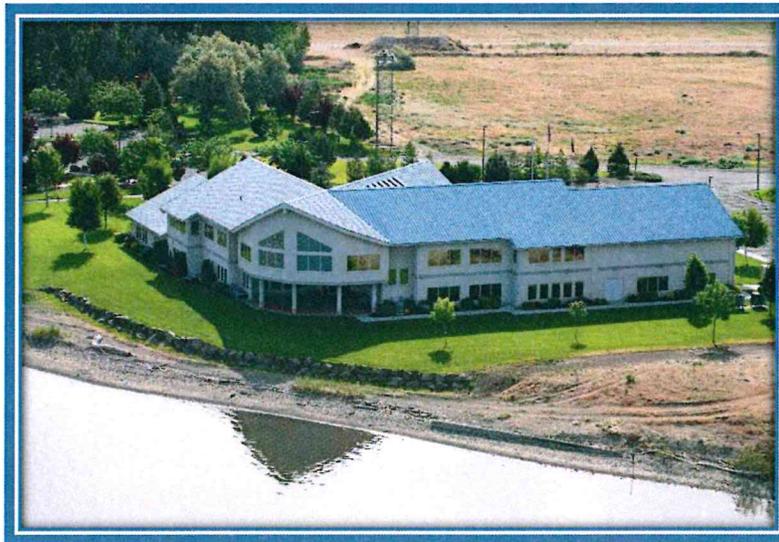


PORT OF MORROW

Annual Financial Report

Fiscal Year ended June 2016



P.O. Box 200 | Boardman, OR 97818 | 541-481-7678

PORT OF MORROW
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INTRODUCTORY SECTION

**PORT OF MORROW
Commissioners**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Joe Taylor, President 67505 Hwy 74 Ione, OR 97843	2	June 30, 2017
Marvin Padberg, Vice President 64746 Rhea Creek Rd Ione, OR 97843	4	June 30, 2019
Larry Lindsay, Secretary/Treasurer Lindsay Ranch Lexington, Oregon 97839	5	June 30, 2019
Jerry Healy 645 Hager Street Heppner, OR 97836	3	June 30, 2017
Rick Stokoe PO Box 1091 Boardman, OR 97818	1	June 30, 2017

Other personnel as of June 30, 2016

Gary D. Neal, General Manager	Boardman, OR 97818
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Registered Agent

Sam Tucker, Attorney	Milton-Freewater, OR 97862
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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 Port of Morrow as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the Port's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. 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 Port of Morrow as of June 30, 2016, 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.

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 is the responsibility of management and was derived from, and, relate directly to, the underlying accounting and other records used to prepare the financial statements. This 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 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 individual fund financial statements and other financial schedules 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 and other financial schedules 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.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated October 17, 2016, on our consideration of 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 Michael R. Poe
Michael R. Poe, CPA
Owner/Member

La Grande, OR
October 17, 2016

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, 2016. 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 Fund Balances** 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 are 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, freezer warehouse, 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.

PORT OF MORROW
Management's Discussion and Analysis

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

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 813,999	\$ 842,345	\$ 24,637,082	\$ 18,194,311	\$ 25,451,081	\$ 19,036,656
Capital assets	303,198	311,065	100,567,344	96,629,633	100,870,542	96,940,698
Total assets	<u>1,117,197</u>	<u>1,153,410</u>	<u>125,204,426</u>	<u>114,823,944</u>	<u>126,321,623</u>	<u>115,977,354</u>
Deferred outflows of resources	-	-	140,215	175,828	140,215	175,828
Long-term liabilities outstanding	-	-	51,187,457	40,794,395	51,187,457	40,794,395
Other liabilities	59,640	30,564	6,228,159	8,073,976	6,287,799	8,104,540
Total liabilities	<u>59,640</u>	<u>30,564</u>	<u>57,415,616</u>	<u>48,868,371</u>	<u>57,475,256</u>	<u>48,898,935</u>
Deferred inflows of resources	-	-	-	149,593	-	149,593
Net position:						
Net investment in capital assets	303,198	311,065	49,037,844	56,389,494	49,341,042	56,700,559
Restricted	-	-	10,354,464	1,906,910	10,354,464	1,906,910
Unrestricted	754,359	811,781	8,536,717	7,685,404	9,291,076	8,497,185
Total net position	<u>\$ 1,057,557</u>	<u>\$ 1,122,846</u>	<u>\$ 67,929,025</u>	<u>\$ 65,981,808</u>	<u>\$ 68,986,582</u>	<u>\$ 67,104,654</u>

The Port's total net position remained stable with a three percent increase.

Table 2
Changes in Net Position

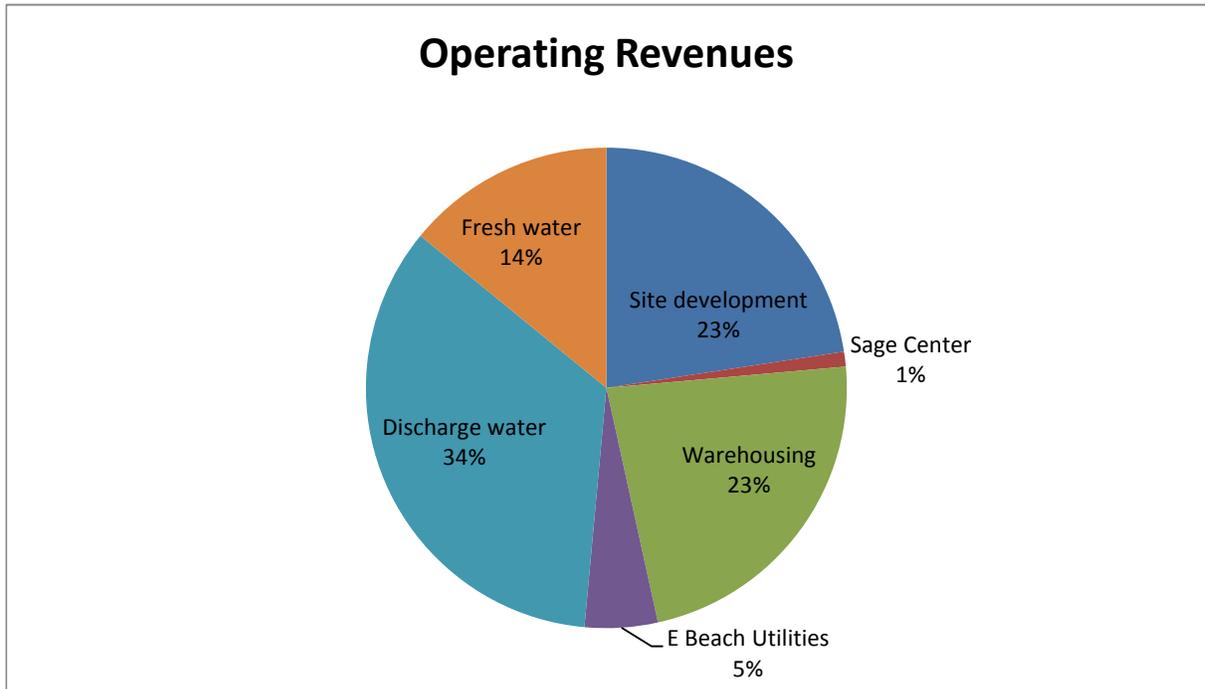
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
General governmental revenues	\$ 660,478	\$ 762,550	\$ -	\$ -	\$ 660,478	\$ 762,550
Operating revenues						
Site Development	-	-	4,068,346	5,362,763	4,068,346	5,362,763
Sage Center	-	-	178,789	127,584	178,789	127,584
Warehousing	-	-	4,137,497	-	4,137,497	-
E. Beach Utilities	-	-	883,469	777,068	883,469	777,068
Discharge Water	-	-	6,207,432	5,257,192	6,207,432	5,257,192
Freshwater	-	-	2,537,861	2,233,353	2,537,861	2,233,353
NonOperating revenues						
Interest Income	5,733	3,036	80,165	62,240	85,898	65,276
Gain (loss) on sale of assets	-	-	75,162	111,547	75,162	111,547
Total revenues	<u>666,211</u>	<u>765,586</u>	<u>18,168,721</u>	<u>13,931,747</u>	<u>18,834,932</u>	<u>14,697,333</u>

PORT OF MORROW
Management's Discussion and Analysis

Table 2 (continued)
Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Expenses:						
Management and administration	741,068	449,845	-	-	741,068	449,845
Operating expense	-	-	17,034,996	12,810,023	17,034,996	12,810,023
Nonoperating expenses	-	-	934,812	-	934,812	-
Total expenses	741,068	449,845	17,969,808	12,810,023	18,710,876	13,259,868
Increase (decrease) in net position before transfers	(74,857)	315,741	198,913	1,121,724	124,056	1,437,465
Valuation adjustment	-	-	-	(1,500,000)	-	(1,500,000)
Grant income and contributions	15,568		1,742,304	11,525,830	1,757,872	11,525,830
Transfers	(6,000)	84,000	6,000	(84,000)	-	-
Increase (decrease) in net position	(65,289)	399,741	1,947,217	11,063,554	1,881,928	11,463,295
Net position-beginning	1,122,846	723,105	65,981,808	54,918,254	67,104,654	55,641,359
Prior period adjustment due to accounting principal change	-	-	-	-	-	-
Net position-ending	\$ 1,057,557	\$ 1,122,846	\$ 67,929,025	\$ 65,981,808	\$ 68,986,582	\$ 67,104,654

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

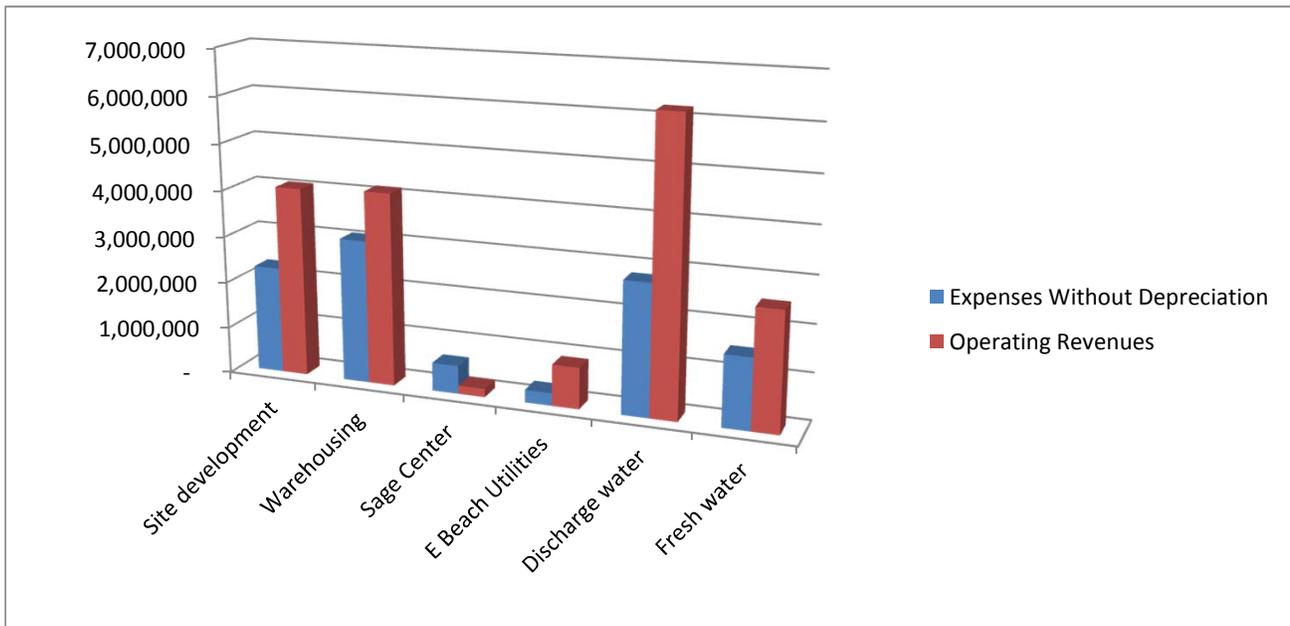


PORT OF MORROW Management's Discussion and Analysis

This year's operations included the first full year for the freezer warehouse facility. Operations began June 1, 2015. The facility reached capacity and an expansion to double its size began this spring. The expansion was substantially complete by mid September 2016 and the division now has 41 staff.

Water usage by existing Port tenants have resulted in an increase in water volumes and related revenue by 16%. Along with the welcomed revenue, this also creates challenges, and an almost \$13 million related utility improvement has been budgetted and planned for the coming year.

Depreciation accounts for 32% of the business-type activity expenses. The following is a representation of the segments without depreciation expense.



Capital Assets

The Port began construction of a planned \$13 million expansion, doubling the 137,500 square foot freezer warehouse facility. At June 30 they had expended over \$4.7 million on this project. This was financed by a bond issue. The expansion was substantially complete and began use in mid September 2016.

The Port also completed two rental buildings and had substantially completed a third. They invested about \$429,000 in construction related equipment and over \$1 million in utility improvements. The Port plans to extend their wastewater distribution system and has obtained \$12.6 million in financing to extend their process water lines. As of June 30 they had expended about \$460,000 towards this project but have not yet drawn against the related financing.

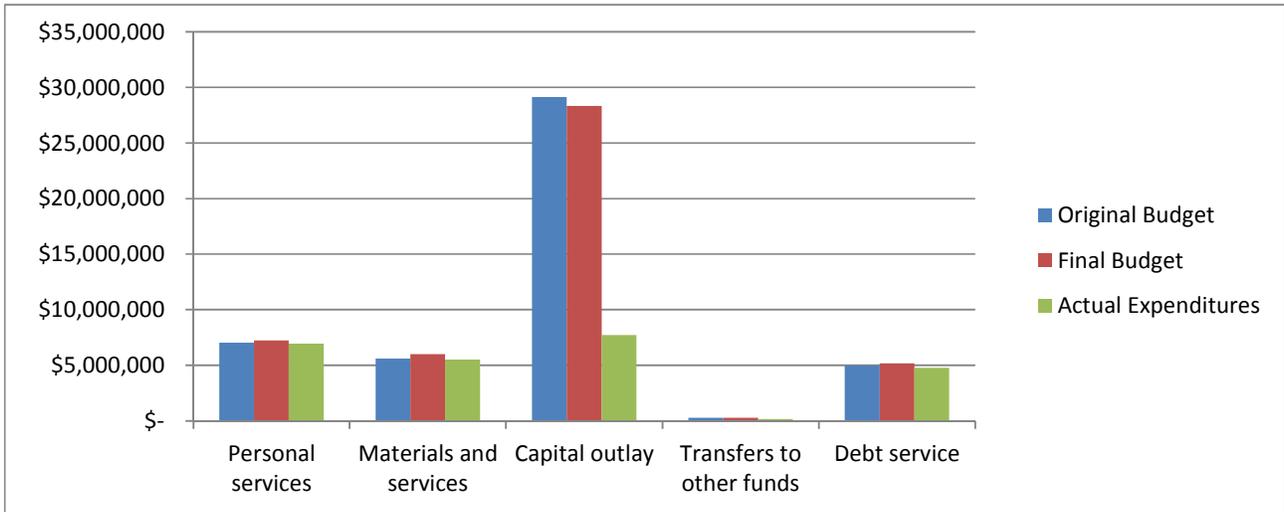
Debt

The Port issued \$14,580,000 in bonds at a \$2,128,113 premium. Of these proceeds, \$2,395,000 par amount plus \$290,644 premium were used to defease their 2010 issue. This resulted in a present value savings of \$543,420. The remaining funds are to be used to expand the freezer warehouse facility and fund \$878,579 towards future debt service. They also entered into a \$199,698 three year lease purchase on additional warehousing equipment. See note 8 for additional details regarding the Port's long-term debt.

PORT OF MORROW
Management's Discussion and Analysis

Budgetary

The Port's budget for the year ended June 30, 2016 was adopted by the Port Commission in June 2015. The Port transferred \$800,000 in appropriations by resolution in June 2016. 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, 2016

Assets:	Governmental Activities	Business-Type Activities	Total
Current assets:			
Petty cash	\$ 200	\$ 900	\$ 1,100
Cash in bank	748,319	1,593,194	2,341,513
Local Government Investment Pool - Unreserved	-	4,577,569	4,577,569
Local Government Investment Pool - Grant Advance	-	2,095,164	2,095,164
Total cash and cash equivalents	<u>748,519</u>	<u>8,266,827</u>	<u>9,015,346</u>
Accounts receivable - county treasurer	574	-	574
Accounts receivable	45,220	1,926,660	1,971,880
Allowance for doubtful accounts	-	(72,549)	(72,549)
Grants receivable	15,568	76,054	91,622
Deposits and prepaid expenses	-	191,612	191,612
Inventory	-	13,691	13,691
Property taxes receivable	4,118	-	4,118
Total current assets	<u>813,999</u>	<u>10,402,295</u>	<u>11,216,294</u>
Noncurrent assets:			
Reserved for capital projects	-	8,179,382	8,179,382
Reserved for debt service	-	879,425	879,425
Deposits with trustee	-	1,295,657	1,295,657
Loan receivable	-	3,175,709	3,175,709
Patronage capital credits	-	704,614	704,614
Capital assets (net)	303,198	100,567,344	100,870,542
Total noncurrent assets	<u>303,198</u>	<u>114,802,131</u>	<u>115,105,329</u>
Total assets	<u>1,117,197</u>	<u>125,204,426</u>	<u>126,321,623</u>
Deferred outflows of resources:			
Unearned charges	-	140,215	140,215
Liabilities:			
Current liabilities:			
Accounts payable	37,580	2,383,846	2,421,426
Accrued payroll payable	22,060	808,019	830,079
Accrued interest payable	-	368,343	368,343
Customer deposits	-	7,050	7,050
Unearned revenue	-	147,302	147,302
Bonds payable (net)	-	2,098,439	2,098,439
Notes payable	-	562,462	562,462
Total current liabilities	<u>59,640</u>	<u>6,375,461</u>	<u>6,435,101</u>
Long-term liabilities:			
Bonds payable (net)	-	37,302,397	37,302,397
Notes payable	-	11,566,202	11,566,202
Unearned revenue	-	2,171,556	2,171,556
Total long-term liabilities	<u>-</u>	<u>51,040,155</u>	<u>51,040,155</u>
Total liabilities	<u>59,640</u>	<u>57,415,616</u>	<u>57,475,256</u>
Deferred inflows of resources:			
	<u>-</u>	<u>-</u>	<u>-</u>
Net Position:			
Net Investment in capital assets	303,198	49,037,844	49,341,042
Restricted for capital project	-	8,179,382	8,179,382
Restricted for bond retirement	-	2,175,082	2,175,082
Unrestricted	754,359	8,536,717	9,291,076
Total net position	<u>\$ 1,057,557</u>	<u>\$ 67,929,025</u>	<u>\$ 68,986,582</u>

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

PORT OF MORROW
Statement of Activities
June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u> <u>Operating Grants and Contributions</u>
Governmental Activities:			
Management and administration	\$ 690,261	\$ -	\$ -
Depreciation - unallocated	50,807		
Total governmental	<u>741,068</u>	<u>-</u>	<u>-</u>
Business-Type Activities:			
Site development	4,945,718	3,719,070	349,276
Sage Center	913,014	52,004	126,785
Warehousing	3,684,863	4,137,497	
E Beach Utilities	595,301	883,469	-
Discharge water	3,798,233	6,207,432	-
Fresh water	1,572,611	2,537,861	-
Total business-type activities	<u>15,509,740</u>	<u>17,537,333</u>	<u>476,061</u>
Total primary government	<u>\$ 16,250,808</u>	<u>\$ 17,537,333</u>	<u>\$ 476,061</u>

General revenues:
Property taxes
Payments in lieu of tax
Interest income
Bond handling charges
Gain (loss) on disposition of assets
Interest expense
Trustee Fees
Special Item - Contributions to others
Transfers
Total general revenues, transfers, and special items

Change in net position
Net position-beginning
Net position-ending

**Net(Expense) Revenue and
Changes in Net Position**

<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
\$ 15,568	\$ (674,693)	\$ -	\$ (674,693)
	(50,807)	-	(50,807)
<u>15,568</u>	<u>(725,500)</u>	<u>-</u>	<u>(725,500)</u>
1,576,205	-	698,833	698,833
-	-	(734,225)	(734,225)
166,099	-	618,733	618,733
-	-	288,168	288,168
-	-	2,409,199	2,409,199
-	-	965,250	965,250
<u>1,742,304</u>	<u>-</u>	<u>4,245,958</u>	<u>4,245,958</u>
<u>\$ 1,757,872</u>	<u>(725,500)</u>	<u>4,245,958</u>	<u>3,520,458</u>
	161,075	-	161,075
	8,347	-	8,347
	5,733	80,165	85,898
	491,056	-	491,056
	-	75,162	75,162
	-	(1,518,456)	(1,518,456)
	-	(6,800)	(6,800)
	-	(934,812)	(934,812)
	(6,000)	6,000	-
	<u>660,211</u>	<u>(2,298,741)</u>	<u>(1,638,530)</u>
	(65,289)	1,947,217	1,881,928
	<u>1,122,846</u>	<u>65,981,808</u>	<u>67,104,654</u>
	<u>\$ 1,057,557</u>	<u>\$ 67,929,025</u>	<u>\$ 68,986,582</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, 2016

	General Fund
Assets:	
Petty cash	\$ 200
Cash in bank	748,319
Total cash and cash equivalents	748,519
Accounts receivable - county treasurer	574
Accounts receivable	45,220
Grant receivable	15,568
Property taxes receivable	4,118
Total assets	813,999
Deferred outflows of resources:	
	-
Total assets and deferred outflows of resources	\$ 813,999
Liabilities:	
Accounts payable	\$ 37,580
Accrued payroll payable	22,060
Unearned revenue	4,118
Total liabilities	63,758
Deferred inflows of resources:	
	-
Fund Balances:	
Unassigned	750,241
Total liabilities, deferred inflows of resources and fund balance	\$ 813,999

(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, 2016

Total fund balances for governmental funds \$ 750,241

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	\$ 783,517	
Accumulated Depreciation	<u>(480,319)</u>	
		303,198

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.

4,118

Total net position of governmental activities **\$ 1,057,557**

(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, 2016

	General Fund
Revenues:	
Taxes:	
Property taxes	\$ 160,706
Payments in lieu of tax	8,346
Miscellaneous:	
Interest income	5,733
Bond handling charges	491,056
Total revenues	665,841
Expenditures:	
Current:	
Management and administration	690,260
Capital outlay	42,941
Total expenditures	733,201
Excess of revenues over (under) expenditures	(67,360)
Other Financing Sources (Uses):	
Grant Revenue	15,568
Transfers (to) from other funds	(6,000)
Change in fund balance	(57,792)
Fund balance, beginning of year	808,033
Fund balance, end of year	\$ 750,241

(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, 2016

Net change in fund balances - total governmental funds \$ (57,792)

The change in net position 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 (\$ 50,807) exceeded capital outlay (\$ 42,941) in the current period. (7,866)

Property taxes receivable but not collectable soon enough to pay for the current period's expenditures are offset by unearned revenue in the Governmental fund. in the statement of activities property taxes are recorded as revenues as billed. Property taxes receivable increased (4,118 - 3,749) during the current period. 369

Change in net position of governmental activities \$ (65,289)

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

PORT OF MORROW
Statement of Fund Net Position
June 30, 2016

	Business-Type Activities
Assets:	
Current assets:	
Petty cash	\$ 900
Cash in bank	1,593,194
Local government investment pool	6,672,733
Total cash and cash equivalents	8,266,827
Accounts receivable	1,926,660
Allowance for doubtful accounts	(72,549)
Grants receivable	76,054
Deposits and prepaid expenses	191,612
Inventory	13,691
Total current assets	10,402,295
Noncurrent assets:	
Reserved for capital projects	8,179,382
Reserved for debt service	879,425
Deposits with trustee	1,295,657
Loan receivable	3,175,709
Patronage capital credits	704,614
Capital assets:	
Assets held for sale	500,000
Property and equipment	145,949,309
Less: accumulated depreciation	(45,881,965)
Total capital assets, net of depreciation	100,567,344
Total noncurrent assets	114,802,131
Total assets	125,204,426
Deferred outflows of resources:	
Unearned charges	140,215
Liabilities:	
Current liabilities:	
Accounts payable	2,383,846
Accrued payroll payable	808,019
Accrued interest payable	368,343
Customer deposits	7,050
Unearned revenue	147,302
Bonds payable (net)	2,098,439
Notes payable	562,462
Total current liabilities	6,375,461
Long-term liabilities:	
Bonds payable (net)	37,302,397
Notes payable	11,566,202
Unearned revenue	2,171,556
Total long-term liabilities	51,040,155
Total liabilities	57,415,616
Deferred inflows of resources:	
	-
Net Position:	
Net Investment in capital assets	49,037,844
Restricted for Capital Project	8,179,382
Restricted for bond retirement	2,175,082
Unrestricted	8,536,717
Total net position	\$ 67,929,025

(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, 2016

Operating Revenues	
Discharge water segment	\$ 6,207,432
Site development segment	4,066,332
Fresh water segment	2,537,861
Sage center	178,789
Warehousing segment	4,137,497
East beach utility	883,469
Total operating revenues	<u>18,011,380</u>
Operating Expenses:	
Labor	5,855,224
Contract	632,407
Utilities	1,078,259
Insurance	220,100
Repairs	1,169,088
Fuel and oil	122,867
Testing and permits	447,759
Legal fees	157,566
Property taxes / Lease Expense	270,026
Supplies	322,366
Marketing	125,200
LRA Activities	153,022
Depreciation	4,937,398
Community projects	16,444
Total operating expenses	<u>15,507,726</u>
Operating income (loss)	<u>2,503,654</u>
Non-Operating Revenues (Expenses):	
Interest income	80,165
Gain (loss) on sale of assets	75,162
Transfers (to) from other funds	6,000
Interest expense	(1,518,456)
Trustee fees	(6,800)
Total non-operating revenues (expenses)	<u>(1,363,929)</u>
Special Items:	
Contributions and subrecipients	(934,812)
Grant income	1,742,304
Total special items	<u>(556,437)</u>
Change in net position	1,947,217
Net position, beginning on year	<u>65,981,808</u>
Net position, end of year	<u>\$ 67,929,025</u>

(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, 2016

Cash Flows From Operating Activities:

Cash received from customers	\$ 17,813,615
Cash payments to supplies for goods and services	(5,422,160)
Cash payments for personal services	<u>(5,607,988)</u>
Net cash provided by operating activities	<u>6,783,467</u>

Cash Flows From Non Capital Financing Activities:

Cash payments for quasi-external operating transactions	<u>6,000</u>
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Cash Flows From Capital and Related Financing Activities:

Principal paid on revenue bond maturities, loans, and contracts	(2,652,837)
Proceeds from bonds and loans	13,977,811
Interest paid on bonds and loans	(1,496,609)
Interest income on bond reserves	12,006
Capital related trustee fees on bonds	(6,800)
Acquisition and construction of capital assets	(10,780,011)
Restricted for capital projects	(8,179,382)
Restricted for debt service	(268,172)
Receipts from sale of capital assets	75,162
Capital grants received	<u>3,469,961</u>
Net cash used by capital and related financing activities	<u>(5,848,871)</u>

Cash Flows From Investing Activities:

Interest on investments	68,159
Receipts on loans receivable	17,350
Pass through contributions to subrecipients	<u>(825,000)</u>
Net cash used in investing activities	<u>(739,491)</u>

Net increase (decrease) in cash	201,105
Cash and cash equivalents at July 1, 2015	<u>8,065,722</u>
Cash and cash equivalents at June 30, 2016	<u><u>\$ 8,266,827</u></u>

continued on next page

PORT OF MORROW
Statement of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2016

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

Operating income	\$ 2,503,654
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	4,937,398
Internal service revenue charged to capital assets	(552,383)
Net increase in trade accounts and notes receivable	(242,171)
Increase in prepaid expense	(72,025)
Increase in patronage capital credits	(49,923)
Increase in trade accounts payable	(82,648)
Increase in customer deposits	64
Increase in accrued payroll	247,236
Increase in unearned revenue	94,265
Total adjustments	4,279,813
Net cash provided by operating activities	\$ 6,783,467

Summary of Cash and Cash Equivalents:

	<u>June 30, 2016</u>
Petty cash	\$ 900
Cash in Bank	1,593,194
Local government investment pool	6,672,733
Total cash and cash equivalents	\$ 8,266,827

(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

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.

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 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, 2016 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.

PORT OF MORROW
Notes to Basic Financial Statements

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, 2016 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 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.

Inventory and Prepaid Items

Inventories are valued at cost using the first in/first out (FIFO) method.

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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
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, 2016, \$1,642,985 of interest was incurred, of which \$178,201 was capitalized.

PORT OF MORROW
Notes to Basic Financial Statements

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	80 hours/10 days
2-4	122 hours/15 days
5-9	161 hours/ 20 days
10-24	200 hours/25 days
25+	242 hours/30 days

Years of employment begin with the date of hire.

Sick leave is provided to all employees. Sick leave is accumulated at the rate of one hour per 30 regular hours worked, up until a maximum of 52 hours earned per year. Sick leave can be used as soon as it is accumulated. Sick leave is not paid out upon termination.

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 or 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 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

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, 2016:

Petty Cash	\$ 1,100
Deposits with financial institutions	2,341,513
Deposits with trustee	1,295,657
Local Government Investment Pool	<u>15,731,540</u>
	<u>\$ 19,369,810</u>

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

Cash and cash equivalents	\$ 9,015,346
Reserved for Capital Projects	8,179,382
Reserved for Debt Service	879,425
Deposits with trustee	<u>1,295,657</u>
	<u>\$ 19,369,810</u>

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.

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 \$2,812,519 at June 30, 2016. 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.

PORT OF MORROW
Notes to Basic Financial Statements

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 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 does not believe 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.

<u>Investment Type</u>	<u>Maturities</u>	<u>Concentration % of Portfolio</u>	<u>Actual Amount</u>
Local Government Investment Pool	Avg 6-18 months	100%	<u>\$ 15,731,540</u>

Interest Rate Risk

The Port does not have a formal investment policy limiting 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 \$4,118, which are all past due and accruing interest.

PORT OF MORROW
Notes to Basic Financial Statements

Note 5 - Capital Assets:

Capital asset activity for the twelve months ended June 30, 2016, was as follows:

	Balance at July 1, 2015	Increases	Decreases	Balance at June 30, 2016
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 36,750	\$ -	\$ -	\$ 36,750
Capital assets being depreciated:				
Buildings	186,828		-	186,828
Equipment & furniture	516,998	42,941	-	559,939
Total capital assets being depreciated	<u>703,826</u>	<u>42,941</u>	<u>-</u>	<u>746,767</u>
Less: accumulated depreciation:				
Buildings	(99,603)	(769)	-	(100,372)
Equipment & furniture	(329,909)	(50,038)	-	(379,947)
Total accumulated depreciation	<u>(429,512)</u>	<u>(50,807)</u>	<u>-</u>	<u>(480,319)</u>
Net capital assets being depreciated	<u>274,314</u>	<u>(7,866)</u>	<u>-</u>	<u>266,448</u>
Net capital assets - Governmental Activities	<u>\$ 311,064</u>	<u>\$ (7,866)</u>	<u>\$ -</u>	<u>\$ 303,198</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 5,113,018		\$ -	\$ 5,113,018
Construction in progress	520,655	4,825,181		5,345,836
Assets held for sale	500,000	-		500,000
Total capital assets not being depreciated	<u>6,133,673</u>	<u>4,825,181</u>	<u>-</u>	<u>10,958,854</u>
Capital assets being depreciated:				
Buildings & land improvements	89,449,134	1,855,988	(232,887)	91,072,235
Equipment & furniture	42,381,908	2,299,003	(262,690)	44,418,221
Total capital assets being depreciated	<u>131,831,042</u>	<u>4,154,991</u>	<u>(495,577)</u>	<u>135,490,456</u>
Less: accumulated depreciation:				
Buildings	(22,319,050)	(3,648,571)	127,921	(25,839,700)
Equipment & furniture	(19,016,032)	(1,288,827)	262,593	(20,042,266)
Total accumulated depreciation	<u>(41,335,082)</u>	<u>(4,937,398)</u>	<u>390,514</u>	<u>(45,881,966)</u>
Net capital assets being depreciated	<u>90,495,960</u>	<u>(782,407)</u>	<u>105,063</u>	<u>89,608,490</u>
Net capital assets - Business-type Activities	<u>\$ 96,629,633</u>	<u>\$ 4,042,774</u>	<u>\$ 105,063</u>	<u>\$ 100,567,344</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Unallocated	<u>\$ 50,807</u>
Business-type activities:	
Discharge Water	\$ 990,463
Site Development	2,962,173
Warehousing	606,056
East Beach Utility	325,249
Fresh Water	<u>53,457</u>
Total depreciation expense	<u>\$ 4,937,398</u>

Note 6 - Accounts Payable:

The accounts payable balance is partly composed of the following:

Construction in Progress Capital Asset - J.R. Swigart Co., Inc	\$ 507,407
Construction in Progress Capital Asset - ISO-Quip Corp	457,005
Construction in Progress Capital Asset - Kemper Northwest	156,469
Construction in Progress Capital Asset - REFA Erections Inc.	153,523
Construction in Progress Capital Asset - Schmitt Electric Inc.	95,146
Construction in Progress Capital Asset - Viking Automatic Sprinkler Co.	99,635
Trade payable - Umatilla Electric	100,353
Trade payable - City of Boardman	64,089
Contingent Liability - DEQ	50,000

PORT OF MORROW
Notes to Basic Financial Statements

The Port has been notified by DEQ of potential penalties for over-applying process water under their land application permit. The Port has plans, an agreement with a land owner, and has obtained financing to extend process water lines to expand their water application area over the next year and a half to alleviate any over application issues and provide excess capacity. They are currently in discussions with DEQ and related consultants regarding these issues. The Port believes it is likely they will be required to pay some amount and while the penalties could be as high as \$340,000, they believe they have sufficient justification to support an estimate of \$50,000.

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, 2016 are as follows:

	Balance 6/30/2015	Long-term Debt Incurred	Matured and Paid	Amortization	Cancelled, Called or Defeased	Balance 6/30/2016
Industrial development bonds (no-commitment debt):						
Idaho Power bond fund	\$ 4,360,000	\$ -	\$ -	\$ -	\$ -	\$ 4,360,000
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
Bonneville Power	193,075,000	-	-	-	-	193,075,000
Bonneville Power		97,790,000				97,790,000
Kodiak Carbonic	-	4,685,000	-	-	-	4,685,000
Bonneville Power	-	115,085,000	-	-	-	115,085,000
Total Industrial development	<u>325,775,000</u>	<u>217,560,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>543,335,000</u>
Enterprise notes payable:						
Special public works #2	69,090	-	69,090	-	-	-
Special public works #3	124,609	-	39,141	-	-	85,468
Special public works #4	391,246	-	48,181	-	-	343,065
Special public works #5	523,872	-	42,158	-	-	481,714
Special public works #6	542,572	-	24,834	-	-	517,738
Special public works #7	1,776,890	-	61,987	-	-	1,714,903
Special public works #8	4,794,868	-	125,413	-	-	4,669,455
NMHG Financial Services	483,273	199,698	206,651	-	-	476,320
Enhanced Capital A	3,131,000	-	-	-	-	3,131,000
Enhanced Capital B	709,000	-	-	-	-	709,000
Total Enterprise notes payable	<u>12,546,420</u>	<u>199,698</u>	<u>617,455</u>	<u>-</u>	<u>-</u>	<u>12,128,663</u>
Enterprise port revenue bonds:						
2010A Issue	3,155,000	-	225,000	-	2,930,000	-
2011A Issue	3,550,199	-	450,856	-	-	3,099,343
2013A Issue	6,685,000	-	665,000	-	-	6,020,000
2013FFC Issue	6,240,000	-	415,000	-	-	5,825,000
2014FFC Issue	7,870,000	-	310,000	-	-	7,560,000
2016FFC Issue	-	14,580,000	-	-	-	14,580,000
Total Enterprise Port revenue bonds	<u>27,500,199</u>	<u>14,580,000</u>	<u>2,065,856</u>	<u>-</u>	<u>2,930,000</u>	<u>37,084,343</u>
Less: bond (discounts) premiums	200,874	2,128,113	-	-	(30,097)	2,359,084
Amortization of bond discounts (premiums)	(7,355)	-	-	(23,199)	12,038	(42,592)
Unearned amount on refunding	(292,707)	(18,059)	-	-	-	(310,766)
Amortization of unearned amount	116,880	-	-	53,672	-	170,552
	<u>27,517,891</u>	<u>16,690,054</u>	<u>2,065,856</u>	<u>30,473</u>	<u>2,911,941</u>	<u>39,260,621</u>
Total	<u>\$ 365,839,311</u>	<u>\$ 234,449,752</u>	<u>\$ 2,683,311</u>	<u>\$ 30,473</u>	<u>\$ 2,911,941</u>	<u>\$ 594,724,284</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 \$51,088,462 at June 30, 2016. At that date, Port of Morrow had no general obligation bonds outstanding.

PORT OF MORROW
Notes to Basic Financial Statements

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 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. \$ 3,099,343

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

- 2) 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. \$ 6,020,000

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

- 3) 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. \$ 5,825,000

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.

- 4) Series 2014 (issued 9-30-14, original issue of \$8,170,000) interest at various rates (2 - 4%), due serially to 6-01-2029. Full Faith and Credit bonds secured by a pledge of net revenues available for debt service. \$ 7,560,000

The proceeds of these bonds were used to partially fund the construction of a freezer warehouse facility.

- 5) Series 2016 (issued 5-17-16, original issue of \$14,580,000) interest at various rates (2 - 4%), due serially to 6-01-2037. Full Faith and Credit bonds secured by a pledge of net revenues available for debt service. \$ 14,580,000

Of these proceeds, \$2,395,000 par amount plus \$290,644 premium, were used to defease the 2010 issue (used originally to fund construction of a warehouse facility). The remaining funds are to be used to build the expansion of a freezer warehouse facility.

Refunding Savings Summary:	
PV of savings from cash flow @1.6746905%	\$ 836,601
Less: Prior funds on hand	(293,000)
Plus: Refunding funds on hand	(181)
Net PV Savings	<u>\$ 543,420</u>

Installment Notes Payable:

- 1) Special Public Works Fund Loan (originated 7-31-97 at \$534,700) interest at 6%, payable annually on December 1 through fiscal 2013. Unsecured. \$ 85,468

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

- 2) 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. \$ 343,065

This loan financed a new crane.

- 3) 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. \$ 481,714

This loan financed a wastewater pretreatment facility.

- 4) 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. \$ 517,738

PORT OF MORROW
Notes to Basic Financial Statements

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

- 5) Special Public Works Fund Loan (originated 6-8-07) interest at 4.36%, payable annually on December 1 through fiscal 2029. Unsecured. \$ 1,714,903

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

- 6) Special Public Works Fund Loan (originated 3-12-14) interest at 3.36%, payable annually on December 1 through fiscal 2039. Unsecured. \$ 4,669,455

This loan financed a wastewater pretreatment facility.

- 7) NMHG Financial Services Lease Payable. Originated 4-27-15, 36 equal monthly payments beginning July 1 with an ending bargain purchase. \$ 476,320

This loan financed forklifts and related equipment at the freezer warehouse.

- 9) 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.

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

PORT OF MORROW
Notes to Basic Financial Statements

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

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

Bonneville Power Administration Series 2014 (issued December 18, 2014) interest is 3.221 to 3.521%, payable semi-annually, due September 1, 2027. 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.

\$ 193,075,000

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

Bonneville Power Administration Series 2015 (issued August 26, 2015) interest is 2.120 to 3.097%, payable semi-annually, due September 1, 2023. 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.

\$ 97,790,000

Kodiak Carbonic, LLC Series 2015 (issued September 29, 2015) interest is variable at the LIBOR Index Rate, and paid monthly. Principal is due in full in 2020.

\$ 4,685,000

This issue was used for constructing a facility to process raw carbon dioxide gas currently vented as a waste product by Pacific Ethanol Inc. east of Boardman, Oregon.

Bonneville Power Administration Series 2016 (issued January 29, 2016) interest is 3.221 to 3.521%, payable semi-annually, due September 1, 2027. 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.

\$ 115,085,000

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

PORT OF MORROW
Notes to Basic Financial Statements

Additionally, the Port had closed six lines of credit conduit financing for Bonneville as of October 7, 2016. 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
2016-2017	\$ 2,660,901	\$ 1,926,194	\$ 4,587,095
2017-2018	2,696,710	1,816,917	4,513,627
2018-2019	2,958,718	1,720,357	4,679,075
2019-2020	3,018,554	1,623,558	4,642,112
2020-2021	2,921,671	1,508,936	4,430,607
2021-2026	12,956,149	5,690,675	18,646,824
2026-2031	8,747,023	3,311,046	12,058,069
2031-2036	8,448,280	1,368,431	9,816,711
2036-2041	965,000	235,710	1,200,710
2041-2046	3,840,000	9,474	3,849,474

Interest expense on long-term debt in the amount of \$178,201 was capitalized into the cost of the freezer warehouse.

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 defined contribution plan and the trustee is Empower Retirement. An employee is eligible upon becoming a full-time permanent employee. The Plan provides retirement benefits and covers 87 participants.

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 the required contribution of 9% of straight time compensation for employees active in the plan on a fiscal year end June 30 basis.

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%

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 \$5,177,042 (100%).

Total payroll subject to the pension plan for fiscal year ended June 30, 2016 was \$3,859,643 (75%).

Total employer and employee contributions in fiscal year ended June 30, 2016, were \$227,170 and \$344,286, 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.

PORT OF MORROW
Notes to Basic Financial Statements

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, 2016:

2016-2017	\$	380
2017-2018		380
2018-2019		380
2019-2020		380
2020-2021		380
2021-2026		1,900
2026-2031		1,900
2031-2036		1,520
Total minimum payments required	\$	7,220

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	1,148	acres
Industrial	Land	188	acres

The following is a schedule by years of minimum future rental receipts on noncancelable operating leases as of June 30, 2016:

2016-2017	\$	2,651,117
2017-2018		2,218,614
2018-2019		1,822,468
2019-2020		1,511,904
2020-2021		1,492,107
2021-2026		7,287,732
2026-2031		6,131,801
2031-2036		5,304,506
2036-2041		3,464,447
2041-2046		550,520
	\$	32,435,216

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

	Cost	Accum Depr 6/30/2015	Depreciation 15-16	Accum Depr 6/30/2016	Book Value
Industrial Waterfront					
Land/Terminal Equipment	\$ 10,577,988	\$ 4,841,693	\$ 303,234	\$ 5,144,927	\$ 5,433,061
Industrial Land	22,550,585	4,505,483	743,833	5,249,316	17,301,269
Irrigated Farm Land	3,330,162	1,061,139	5,973	1,067,112	2,263,050
Wastewater Pretreatment Facilities	6,495,126	957,846	118,845	1,076,691	5,418,435
Commercial Buildings & Land	691,487	484,707	22,720	507,427	184,060
	\$ 43,645,348	\$ 11,850,868	\$ 1,194,605	\$ 13,045,473	\$ 30,599,875

Note 12 - Interfund Transactions - Major Funds:

Transfers between major funds during fiscal year ended June 30, 2016, 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.

Transfer from General Fund to Enterprise Fund \$170,000

Transfers were used to help fund the SAGE Center activities

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.

PORT OF MORROW
Notes to Basic Financial Statements

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 five 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.

SAGE Center: This segment accounts for revenue and costs of the SAGE center, an interactive visitor's center operated by the Port.

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.

Warehousing: This segment accounts for revenue and costs associated with operation of a cold storage facility opened May 2015.

Segment information for the fiscal year ended June 30, 2016 is as follows:

	Fresh Water	Discharge	East Beach Utility	SAGE Center	Site Development	Warehousing	Totals
Assets							
Current Assets	\$ 2,426,106	\$ 3,678,168	\$ 464,766	\$ (607,906)	\$ 3,377,002	\$ 1,064,159	\$ 10,402,295
Noncurrent Assets	147,969	274,799	49,323	3,145,092	2,438,222	8,179,382	14,234,787
Capital Assets	416,034	13,507,593	3,808,892	7,877,186	53,237,189	21,720,450	100,567,344
Total Assets	2,990,109	17,460,560	4,322,981	10,414,372	59,052,413	30,963,991	125,204,426
Deferred outflow of resources							
	-	-	-	-	140,215	-	140,215
Liabilities							
Current Liabilities	123,985	697,231	267,761	48,216	2,593,068	2,645,200	6,375,461
Long-term Liabilities	-	5,599,334	1,650,213	3,840,000	18,483,168	21,467,440	51,040,155
Total Liabilities	123,985	6,296,565	1,917,974	3,888,216	21,076,236	24,112,640	57,415,616
Deferred inflow of resources							
	-	-	-	-	-	-	-
Net Position							
Unrestricted	2,450,090	3,494,907	311,018	2,488,970	1,637,507	(1,845,775)	8,536,717
Restricted for Capital Project	-	-	-	-	-	8,179,382	8,179,382
Restricted for Bond	-	-	-	-	1,295,657	879,425	2,175,082
Net Investment in Capital Assets	416,034	7,669,088	2,093,989	4,037,186	35,258,390	(436,843)	49,037,844
Total Net Position	\$ 2,866,124	\$ 11,163,995	\$ 2,405,007	\$ 6,526,156	\$ 38,191,554	\$ 6,776,189	\$ 67,929,025

PORT OF MORROW
Notes to Basic Financial Statements

	Fresh Water	Discharge	East Beach Utility	SAGE Center	Site Development	Warehousing	Totals
Operating Revenues							
Water Usage	\$ 2,444,217	\$ -	\$ 228,014		\$ -	\$ -	\$ 2,672,231
Water Discharge	-	6,088,016	609,178		-	-	6,697,194
Building & Land Leases	-	-	-		3,143,634		3,143,634
Other Operating Revenue	93,644	119,416	46,277	178,789	1,720,505	4,137,497	6,296,128
Total Operating Revenue	2,537,861	6,207,432	883,469	178,789	4,864,139	4,137,497	18,809,187
Operating Expenses							
Labor	525,402	1,102,621	22,400	300,091	1,422,833	2,481,877	5,855,224
Depreciation	53,457	990,463	325,249	307,189	2,654,984	606,056	4,937,398
Other Operating Expenses	993,752	1,704,711	247,652	305,734	1,666,136	594,926	5,512,911
Total Operating Expenses	1,572,611	3,797,795	595,301	913,014	5,743,953	3,682,859	16,305,533
Operating Income	965,250	2,409,637	288,168	(734,225)	(879,814)	454,638	2,503,654
Nonoperating Revenues	7,759	10,061	341	201,570	105,596		325,327
Nonoperating Expenses							
Interest Expense	-	(208,836)	(74,552)	(42,317)	(888,586)	(304,165)	(1,518,456)
Other Nonoperating Expense	(47,000)	(61,438)	(15,000)	-	(45,358)	(2,004)	(170,800)
Total Nonoperating income (expense)	(39,241)	(260,213)	(89,211)	159,253	(828,348)	(306,169)	(1,363,929)
Special Items							
Contribution to Others	-	-	-	-	(934,812)	-	(934,812)
Grant Revenue	-	-	-	-	1,576,205	166,099	1,742,304
Change in Net Position	926,009	2,149,424	198,957	(574,972)	(1,066,769)	314,568	1,947,217
Beginning Net Position	2,088,000	8,738,133	2,434,578	7,351,289	45,369,808	-	65,981,808
Reclassification - other Segment	(147,885)	276,438	(228,528)	(250,161)	(6,111,485)	6,461,621	-
Ending Net Position	\$ 2,866,124	\$ 11,163,995	\$ 2,405,007	\$ 6,526,156	\$ 38,191,554	\$ 6,776,189	\$ 67,929,025
Cash Provided By:							
Operating Activities	\$ 883,539	\$ 3,301,829	\$ 634,476	\$ (455,020)	\$ 2,120,406	\$ 304,237	\$ 6,789,467
Capital	(69,038)	(1,995,363)	(295,394)	(197,179)	(3,202,895)	8,358,552	2,598,683
Investing Activities	12,707	17,635	-	-	(769,833)	-	(739,491)
Beginning Cash & Cash Equivalents	1,319,684	1,711,250	58,063	44,293	6,839,342	-	9,972,632
Ending Cash & Cash Equivalents	\$ 2,146,892	\$ 3,035,351	\$ 397,145	\$ (607,906)	\$ 4,987,020	\$ 8,662,789	\$ 18,621,291

Note 15 - Related Party Transactions:

Jerry Healy, Commissioner of Port of Morrow, is President of the Board of Directors of Morrow Development Corporation (MDC), an Oregon nonprofit corporation [501(c)(4)]. Port of Morrow previously donated the use of land to MDC on which a commercial building owned by MDC was located and rented to Barenbrug/Tidewater. In July 2015 MDC sold the building to the Port at a bargain price of \$7,635. A contribution of \$382,005 was recorded to bring the value up to fair market.

Don Russell, former Commissioner, and Gary Neal, General Manager, also serve on the Board of Directors of Windwave Communications, Inc. The Port paid Windwave \$78,121 for utility installation and \$2,100 for internet service. They also leased an outside storage area from the Port for \$2,400, and began leasing a building for \$1800 per month starting April 1st for a total of \$5400 this year. Windwave is a wholly owned subsidiary of Inland Development Corporation, a non-profit organization. Marvin Padberg and Jerry Healy, Commissioners, are on the Board of Inland Development. Inland provides internet services to the Port. Fees paid for these services totaled \$7,984 for the year.

Gary Neal is also on the Board of 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.

PORT OF MORROW
Notes to Basic Financial Statements

Note 16 - 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, 2016, this customer accounted for \$9,278,569 equaling approximately 49% of Port operating revenues. Port of Morrow has done business with this customer for over twenty years.

Note 17 - Commitments and Contingencies:

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.

Freezer Warehouse Construction:

In the spring of 2016, the Port began an expansion of the freezer warehouse facility. The expansion was substantially complete by September 12, 2016. As of June 30, 2016 the Port had approximately \$6,050,000 in remaining construction contract agreements relating to this expansion.

Loan Agreements - Enhanced Capital

During fiscal year ended June 30, 2014, 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.

DEQ Contingency

As further described in Note 6, the Port is contingently liable for a DEQ fine estimated at \$50,000. This liability is expected to be paid in full during the next fiscal year.

Note 18 - Subsequent Events:

Subsequent events have been evaluated through October 7, 2016.

On July 21, 2016, the Port entered into additional conduit financing with BPA in the amount of \$320,955,000. 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 will not be reflected in the Port's financial statements.

The Port has entered into an option agreement to purchase approximately 300 acres for an estimated \$1,500,000, with \$50,000 down and the remainder due by December 31, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

PORT OF MORROW
General Fund
Statement of Revenues, Expenditures and Changes in
Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance - Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 133,927	\$ 133,927	\$ 160,706	\$ 26,779
Payments in lieu of taxes	6,400	6,400	8,346	1,946
Interest income	400	400	5,733	5,333
Bond handling charges	664,750	664,750	491,056	(173,694)
Sale of assets	100	100	-	(100)
Miscellaneous	100	100	-	(100)
Total revenues	<u>805,677</u>	<u>805,677</u>	<u>665,841</u>	<u>(139,836)</u>
Expenditures:				
Personal services	525,400	525,400	408,774	116,626
Materials and services	514,000	514,000	281,486	232,514
Capital outlay	185,000	185,000	42,941	142,059
General operating contingency	129,036	129,036	-	129,036
Total expenditures	<u>1,353,436</u>	<u>1,353,436</u>	<u>733,201</u>	<u>620,235</u>
Excess of revenues over (under) expenditures	<u>(547,759)</u>	<u>(547,759)</u>	<u>(67,360)</u>	<u>480,399</u>
Other Financing Sources (Uses):				
Transfer to/from enterprise fund	(6,000)	(6,000)	(6,000)	-
Grants	33,400	33,400	15,568	(17,832)
Total other financing sources (uses)	<u>27,400</u>	<u>27,400</u>	<u>9,568</u>	<u>(17,832)</u>
Change in fund balance	(520,359)	(520,359)	(57,792)	462,567
Fund balance, beginning of year	<u>660,359</u>	<u>660,359</u>	<u>808,033</u>	<u>147,674</u>
Fund balance, end of year	<u>\$ 140,000</u>	<u>\$ 140,000</u>	<u>\$ 750,241</u>	<u>\$ 610,241</u>

PORT OF MORROW
General Fund
Statement of Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
Personal Services:			
Payroll	\$ 355,000	\$ 355,000	\$ 293,158
Payroll overhead	170,400	170,400	115,616
Total personal services	<u>525,400</u>	<u>525,400</u>	<u>408,774</u>
Materials and Services:			
Office supplies	30,000	30,000	22,659
Legal	10,000	10,000	6,413
Audit and accounting	40,000	40,000	29,930
Notices and publications	5,000	5,000	262
Dues and subscriptions	60,000	60,000	58,127
Insurance and bonds	4,000	4,000	4,000
Utilities	15,000	15,000	12,148
Marketing	100,000	100,000	50,566
Commissioner expenses	35,000	35,000	11,682
Staff travel	40,000	40,000	11,083
Economic development	80,000	80,000	3,432
Planning/repair & maintenance	80,000	80,000	69,275
Education	15,000	15,000	1,909
Total materials and services	<u>514,000</u>	<u>514,000</u>	<u>281,486</u>
Capital Outlay:			
Equipment	<u>185,000</u>	<u>185,000</u>	<u>42,941</u>
General Operating Contingency	<u>129,036</u>	<u>129,036</u>	<u>-</u>
Total expenditures	<u>\$ 1,353,436</u>	<u>\$ 1,353,436</u>	<u>\$ 733,201</u>

PORT OF MORROW
Notes to Required Supplementary Information

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, 2016

	Budgeted Amounts		Actual Amounts
	Original	Final	
Revenues	\$ 17,554,790	\$ 17,554,790	\$ 18,809,187
Expenses	(48,372,112)	(48,372,112)	(25,108,117)
Excess of revenues over (under) expenses	(30,817,322)	(30,817,322)	(6,298,930)
Other Financing Sources (Uses):			
Loan proceeds	13,750,000	13,750,000	14,779,698
Interest income	158,400	158,400	80,165
Transfer from other funds	170,000	170,000	170,000
Sale of assets	9,610,800	9,610,800	75,162
Grant income	5,050,000	5,050,000	1,742,304
Total other financing sources (uses)	28,739,200	28,739,200	16,847,329
Excess (deficiency) of revenues and other financing sources over expenses and other uses	(2,078,122)	(2,078,122)	10,548,399
Reconciliation to GAAP Basis:			
Loan proceeds	-	-	(14,779,698)
Principal paid on long-term debt	-	-	3,124,226
Depreciation	-	-	(4,937,398)
Contributions and subrecipients	-	-	(934,812)
Amortization	-	-	(53,672)
Fixed assets - capitalized	-	-	7,706,949
Interest capitalized	-	-	178,201
Labor capitalized	-	-	1,095,022
Total reconciliation items	-	-	(8,601,182)
Change in net position	(2,078,122)	(2,078,122)	1,947,217
Net position, beginning of year	2,250,000	2,250,000	65,981,808
Net position, end of year	\$ 171,878	\$ 171,878	\$ 67,929,025

PORT OF MORROW
Enterprise Fund
Statement of Revenues - Budget and Actual (Budgetary Basis)
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
Discharge Water Segment:			
Water discharge	\$ 5,396,690	\$ 5,396,690	\$ 6,088,016
Miscellaneous and reimbursable services	34,000	34,000	35,485
Co-generation fixed fee	50,000	50,000	50,000
Patronage dividend	25,000	25,000	33,931
Total revenues - Discharge Water Segment	<u>5,505,690</u>	<u>5,505,690</u>	<u>6,207,432</u>
Site Development Segment:			
Land leases	917,152	917,152	944,927
Mining royalties	190,000	190,000	120,179
Building leases	1,799,922	1,799,922	1,769,298
T-3 lease	192,000	192,000	216,167
Rail tariff	88,000	88,000	114,930
Miscellaneous & reimbursements	8,000	8,000	43,989
Operating grant - LRA	500,000	500,000	349,276
Farm lease	423,417	423,417	213,242
Steam revenue	410,000	410,000	275,286
Patronage dividend	8,000	8,000	19,038
Total revenues - Site Development Segment	<u>4,536,491</u>	<u>4,536,491</u>	<u>4,066,332</u>
Fresh Water Segment:			
Water usage	2,100,000	2,100,000	2,444,217
Patronage dividend & miscellaneous	16,100	16,100	18,644
Co-generation fixed fee	75,000	75,000	75,000
Total revenues - Fresh Water Segment	<u>2,191,100</u>	<u>2,191,100</u>	<u>2,537,861</u>
Warehousing			
Warehouse Storage & Handling Revenue	<u>3,223,850</u>	<u>3,223,850</u>	<u>4,137,497</u>
Motor Pool Segment:			
Equipment rents	<u>1,261,000</u>	<u>1,261,000</u>	<u>797,807</u>
SAGE Center:			
Admission and facility use	48,000	48,000	48,252
Sponsorships (donations)	50,000	50,000	126,785
Patronage dividend			3,752
Total revenues - Sage Center	<u>98,000</u>	<u>98,000</u>	<u>178,789</u>
East Beach Utility:			
Utility fees - freshwater	199,704	199,704	228,014
Utility fees - discharge	537,955	537,955	609,178
Miscellaneous & reimbursements	1,000	1,000	34,394
Patronage dividend		-	11,883
Total revenues - East Beach Utility	<u>738,659</u>	<u>738,659</u>	<u>883,469</u>
Total revenues - enterprise fund	<u>\$ 17,554,790</u>	<u>\$ 17,554,790</u>	<u>\$ 18,809,187</u>

PORT OF MORROW
Enterprise Fund
Statement of Expenses - Budget and Actual (Budgetary Basis)
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenses:				
Personal services	\$ 7,013,981	\$ 7,213,981	\$ 6,950,246	\$ 263,735
Materials and services	5,599,680	5,999,680	5,512,911	486,769
Capital outlay	29,149,060	28,349,060	7,706,949	20,642,111
Transfers to other funds	264,000	264,000	164,000	100,000
Debt service	4,971,325	5,171,325	4,774,011	397,314
Contingency	1,374,066	1,374,066	-	1,374,066
Total expenses	<u>\$ 48,372,112</u>	<u>\$ 48,372,112</u>	<u>\$ 25,108,117</u>	<u>\$ 23,263,995</u>

OTHER FINANCIAL SCHEDULES

PORT OF MORROW
Schedule of Future Requirements For Retirement of
Bonded and Long-Term Debt
For the Fiscal Year Ended June 30, 2016

	2016-2017		2017-2018		2018-2019	
	Principal	Interest	Principal	Interest	Principal	Interest
Industrial Development Bonds						
(No-Commitment Debt) :						
Idaho Power Bond Fund	\$ -	\$ 26,596	\$ -	\$ 26,596	\$ -	\$ 26,596
PGE 1998A	-	1,179,528	-	1,179,528	-	1,179,528
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
Bonneville Power Administration Series 2014	-	6,236,323	-	6,236,323	-	6,236,323
Bonneville Power Administration Series 2015		2,713,575		2,714,064		2,714,572
Kodiak Carbonic Series 2015 Bonneville Power Administration Series 2016-2	-	58,563	-	58,563	-	58,563
	-	1,333,048	-	1,968,035	-	1,968,523
Total no commitment debt	-	15,475,828	-	16,111,304	-	16,112,300
Full Faith & Credit Bond, Series 2016	200,000	691,251	210,000	660,150	640,000	647,400
Full Faith & Credit Bond, Series 2014	315,000	276,650	320,000	270,350	325,000	263,950
Full Faith & Credit Bond, Series 2013	430,000	216,850	370,000	208,250	385,000	197,150
Revenue Bond, Series 2013	685,000	257,965	700,000	237,072	730,000	213,272
Revenue Bond, Series 2011	468,439	120,874	486,708	102,605	505,690	83,624
Special Public Works Fund #2					-	-
Special Public Works Fund #3	41,489	5,128	43,979	2,639		
Special Public Works Fund #4	48,570	16,837	53,977	14,530	54,412	11,912
Special Public Works Fund #5	44,262	24,038	46,471	21,829	48,790	19,510
Special Public Works Fund #6	26,117	26,767	27,468	25,417	28,888	23,997
Special Public Works Fund #7	64,690	74,770	67,510	71,949	70,453	69,006
Special Public Works Fund #8	129,627	156,894	133,983	152,538	138,485	148,036
NMHG Financial Services	207,706	15,854	236,614	7,271	32,000	184
Enhanced Capital	-	34,504	-	34,504	-	34,504
Enhanced Capital	-	7,813	-	7,813	-	7,813
Total commitment debt	2,660,901	1,926,194	2,696,710	1,816,917	2,958,718	1,720,357
Total debt	\$ 2,660,901	\$ 17,402,022	\$ 2,696,710	\$ 17,928,221	\$ 2,958,718	\$ 17,832,657

2019-2020		2020-2021		All Subsequent Years		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ -	\$ 26,596	\$ -	\$ 26,596	\$ 4,360,000	\$ 265,960	\$ 4,360,000	\$ 398,940
-	1,179,528	-	1,179,528	23,600,000	18,872,448	23,600,000	24,770,088
-	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
-	6,236,323	-	6,236,323	193,075,000	39,505,680	193,075,000	70,687,295
10,690,000	2,601,787	20,000,000	2,247,023	67,100,000	3,253,269	97,790,000	16,244,290
-	58,563	4,685,000	58,563	-	-	4,685,000	292,815
-	1,969,031	57,500,000	1,514,734	57,585,000	513,082	115,085,000	9,266,453
10,690,000	16,000,023	82,185,000	15,190,962	450,460,000	142,707,314	543,335,000	221,597,731
655,000	630,250	680,000	609,100	12,195,000	5,028,775	14,580,000	8,266,926
335,000	257,450	345,000	245,725	5,920,000	1,754,749	7,560,000	3,068,874
385,000	185,600	405,000	170,200	3,850,000	738,600	5,825,000	1,716,650
760,000	185,898	575,000	155,118	2,570,000	339,767	6,020,000	1,389,092
525,411	63,902	545,902	43,411	567,193	22,121	3,099,343	436,537
				-	-	-	-
				-	-	85,468	7,767
59,874	9,245	60,357	6,312	65,875	3,294	343,065	62,129
51,225	17,075	53,781	14,519	237,184	29,867	481,714	126,837
30,381	22,503	31,953	20,932	372,931	102,816	517,738	222,432
73,525	65,934	76,731	62,728	1,361,993	450,975	1,714,903	795,362
143,138	143,383	147,947	138,574	3,976,275	1,538,942	4,669,455	2,278,367
-	-	-	-	-	-	476,320	23,309
-	34,504	-	34,504	3,131,000	489,002	3,131,000	661,522
-	7,813	-	7,813	709,000	116,429	709,000	155,494
3,018,554	1,623,558	2,921,671	1,508,936	34,956,451	10,615,337	49,213,006	19,211,298
\$ 13,708,554	\$ 17,623,581	\$85,106,671	\$ 16,699,898	\$ 485,416,451	\$ 153,322,651	\$ 592,548,006	\$ 240,809,029

PORT OF MORROW
Schedule of insurance Coverage
For the Fiscal Year Ended June 30, 2016

	<u>Policy Number</u>	<u>Expiration Date</u>	<u>Amount</u>
Liability			
Special Districts insurance Services General Liability (single limit) automobile insurance on various automobiles. Auto physical damage - \$ 100 Deductible - Comprehensive \$ 500 Deductible - Collision	31P16391-202	12/31/2016	\$ 5,000,000
Property			
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	31P16391-202	12/31/2016	\$ 63,092,112
Boiler and Machinery			
Special Districts insurance Services \$ 1,000 Deductible	31P16391-202	12/31/2016	\$ 50,000,000
Crime Coverage			
Special Districts insurance Services	31P16391-202	12/31/2016	\$ 1,000,000
Workers' Compensation			
Special Districts insurance Services	30W16391-83	6/30/2016	\$ 3,000,000
Erisa Bond			
Old Republic Surety Company	W180013325	7/25/2016	\$ 350,000
Group insurance			
Regence BlueCross BlueShield	68000661	6/30/2016	Health
MODA Health	G0020636	6/30/2016	Dental

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND INTERNAL CONTROL
REQUIRED BY OREGON STATE REGULATIONS**

**Independent Auditor's Report on Compliance and Internal
Control Required by Oregon State Regulations**

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

We have audited the basic financial statements of Port of Morrow as of and for the year ended June 30, 2016, and have issued our report thereon dated October 17, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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).**

The independently elected officials of Port of Morrow do not collect or receive money and are, therefore, not subject to the requirements of OAR 162-10-140.

In connection with our testing nothing came to our attention that caused us to believe 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 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 Port of Morrow's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Michael R. Poe
Michael R. Poe, CPA
Owner/Member

La Grande, OR
October 17, 2016