

**PORT OF TILLAMOOK BAY, OREGON**

**FINANCIAL STATEMENTS**

**JUNE 30, 2009 AND 2008**

**MERINA**  
**& COMPANY, LLP**

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

---

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

**PORT OF TILLAMOOK BAY, OREGON**  
**TABLE OF CONTENTS**

---

**PAGE**

**INTRODUCTORY SECTION**

Principal officials .....1

**FINANCIAL SECTION**

Independent Auditor’s report .....2  
Management’s discussion and analysis.....4  
Statement of net assets .....12  
Statement of revenues, expenses, and changes in net assets.....14  
Statement of cash flows .....15  
Notes to combined financial statements.....17

**SUPPLEMENTAL INFORMATION**

Combining schedule of net assets .....35  
Combining schedule of revenues, expenses, and changes in net assets .....37  
Combining schedule of cash flows.....38  
Schedule of revenues, expenditures, and changes in fund balance  
    Budget (non-GAAP basis) and actual:  
        General Fund .....40  
        Revenue Bond Fund .....41  
        Railroad Fund Division.....42  
Schedule of property tax transactions .....43  
  
Audit Comments and Disclosures Required by State Regulations .....44

**SINGLE AUDIT COMPLIANCE**

Report on Internal Control over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards* .....47  
Report on Compliance with Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance with OMB Circular  
A-133.....49  
Schedule of Expenditures of Federal Awards .....51  
Notes to the Schedule of Expenditures of Federal Awards.....52  
Schedule of Findings and Questioned Costs .....53

## **INTRODUCTORY SECTION**

**PORT OF TILLAMOOK BAY, OREGON**

**PRINCIPAL OFFICIALS**

**June 30, 2009**

---

Jerry Dove, President  
4000 Blimp Blvd.  
Tillamook, Oregon 97141

Jim Young, Vice President  
4000 Blimp Blvd.  
Tillamook, Oregon 97141

John Ficher, Secretary  
4000 Blimp Blvd.  
Tillamook, Oregon 97141

Bill Baertlein, Treasurer  
4000 Blimp Blvd.  
Tillamook, Oregon 97141

Georgine Beveridge  
4000 Blimp Blvd.  
Tillamook, Oregon 97141

---

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

Jeff Bennett, Attorney  
P.O. Box 230669  
Portland, Oregon 97225

## **FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the Port of Tillamook Bay, Oregon (Port) as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of Port of Tillamook Bay, Oregon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to obtain evidence supporting the recorded values of the capital assets because detailed records and documentation of historical cost are not available. In addition, the values of the assets originally donated to the Port of Tillamook Bay, Oregon from the federal government are not properly supported by appraisals or other verifiable documentation. The Port's records do not facilitate the application of alternative procedures to establish the historical cost of the capital assets.

The Port of Tillamook Bay, Oregon does not provide for the depreciation on its capital assets, and does not capitalize interest costs during construction of capital assets. Depreciation of such assets and capitalization of interest is required by generally accepted accounting principles. The impact of these GAAP departures has not been determined.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain evidence supporting the historical cost of capital assets and determine an appropriate provision of interest capitalization and depreciation, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port of Tillamook Bay, Oregon as of June 30, 2009 and 2008, and the

respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2010 on our consideration of the Port of Tillamook Bay, Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Port of Tillamook Bay, Oregon's basic financial statements. The introductory section and supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Port of Tillamook Bay, Oregon. The supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on it.

*Merina & Company, LLP*

Merina & Company, LLP  
West Linn, Oregon  
October 4, 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **INTRODUCTION OF BASIC FINANCIAL STATEMENTS AND ANALYTICAL OVERVIEW OF THE PORT'S FINANCIAL ACTIVITIES**

The Management's Discussion and Analysis (MD&A) provides a discussion and analysis of the operating results, financial position and future prospects of the Port of Tillamook Bay, a municipal government organized under Oregon Revised Statute (ORS) 777. It should be read in conjunction with the consolidated financial statements for the fiscal year ending June 30, 2009, including all accompanying notes to the financial statements.

### ***Mission Statement:***

*"The Port of Tillamook Bay shall pursue activities that shall improve the economy in a manner acceptable to the community".*

### ***Overall Performance and Goals:***

The Port of Tillamook Bay's Board of Commissioners at a meeting on September 2, 1999, evaluated the 64 goals that had been set in 1992 and 1995. At that meeting, half of the previous goals were completed, almost half were near completion with estimated timeframes and a small portion were unattainable. Since 1999, additional goals have been achieved indicating that the overall performance of the Port continues to move forward as an economic engine for the community in concurrence with the Mission Statement.

The Commissioners then identified new goals to pursue that included the retainage of current employees, avoidance of annual layoffs and the hiring of key employee replacements by attracting quality people and providing additional income. The emphasis on employee stability by increasing wage rates to be more in line with the community and the hiring of new employees to keep up with the demand of the Port has created an upward trend in Personal Services. In addition, employee benefits related to insurance coverage has significantly risen over recent years and has contributed to the upward trend of Personal Services.

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

The Port of Tillamook Bay (Port) maintains three funds; (1) General Fund, and (2) Railroad Fund; and (3) the Revenue Bond Fund, which is a Special Fund. Accounting is performed on an accrual accounting basis. Within the two major funds, departments have been designated to identify, define and budget for specific areas of operation. Under the reporting model, the basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. The reporting also contains other supplementary information in addition to the basic financial statements.

### ***Condensed (government-wide) financial information:***

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

The permanent property tax rate for the Port of Tillamook Bay is .0364 per thousand of assessed value, and was established by the State of Oregon for most municipalities and districts in Oregon in 1997-1998. Revenues from property taxes are minimal and represent only approximately 1.36% of the General Fund revenue. The opportunity to increase this permanent tax rate exists, however, any change would have to be approved by the electors within the Port's geographic boundaries. Of course, the increased revenue would improve revenues for the General Fund and assist in Port operations.

The *combined statement of net assets* presents information on all the Port's assets and liabilities, with the difference between the two reported as net assets. The capital assets (land, buildings, equipment, and infrastructure) are included in this statement but reported at original cost, without accumulated depreciation. In addition, by not depreciating the assets, net income reported by the Port is overstated by the amount of annual depreciation expense incurred, and total capital assets are overstated by the cumulative total of depreciation that has been incurred over time. However, even with this limitation, the net asset totals reported in the combined statement of net assets serves as a useful indicator of whether the financial position of the Port is improving or declining over time. The combined statement of activities presents information on the operating and non-operating revenues and expenses of the Port. In addition, it provides information on how well the Port is recovering its costs and generating profits available to re-invest in Port operations.

### *Condensed Statement of Net Assets*

<i>Port of Tillamook Bay</i>	Balances as of June 30			Increases (Decreases)			
				Dollars		Percentages	
	2009	2008	2007	2008 to 2009	2007 to 2008	2008 to 2009	2007 to 2008
<b>Assets</b>							
Current Assets	\$ 574,761	\$ 369,237	\$ 895,250	\$ 205,524	\$ (526,013)	56%	-59%
Restricted Assets	92,414	88,438	91,327	3,976	(2,889)	4%	-3%
Other Assets	257,175	186,035	75,530	71,140	110,505	38%	146%
Fixed Assets	22,500,928	21,932,121	35,074,850	568,807	(13,142,729)	3%	-37%
<b>Total Assets</b>	<b>\$23,425,278</b>	<b>\$22,575,831</b>	<b>\$36,136,957</b>	<b>\$849,447</b>	<b>\$(13,561,126)</b>	<b>4%</b>	<b>-38%</b>
<b>Liabilities</b>							
Current Liabilities	\$ 1,088,035	\$ 1,378,648	\$ 1,174,549	\$(290,613)	\$ 204,099	-21%	17%
Long Term Liabilities	3,333,092	3,395,286	3,676,904	(62,194)	(281,618)	-2%	-8%
Restricted Assets	465,000	505,000	545,000	(40,000)	(40,000)	-8%	-7%
<b>Total Liabilities</b>	<b>\$ 4,886,127</b>	<b>\$ 5,278,934</b>	<b>\$ 5,396,453</b>	<b>\$ 392,807)</b>	<b>\$ (117,519)</b>	<b>-7%</b>	<b>-2%</b>
<b>Net Assets</b>							
Invested In Capital Assets	\$18,309,885	\$17,442,922	\$30,439,295	\$ 866,963	\$(12,996,373)	5%	-43%
Restricted For Debt Service	92,414	88,438	91,327	3,976	(2,889)	4%	-3%
Unrestricted	136,852	(234,463)	209,882	371,315	(444,345)	-158%	-212%
<b>Total Net Assets</b>	<b>\$18,539,151</b>	<b>\$17,296,897</b>	<b>\$30,740,504</b>	<b>\$1,242,254</b>	<b>\$(13,443,607)</b>	<b>7%</b>	<b>-44%</b>

**Condensed Statement of Activities**

<i>Port of Tillamook Bay</i>	Activities for Fiscal Years Ending June 30			Increases (Decreases)			
	2009	2008 Reclassified	2007 Reclassified	Dollars		Percentages	
				2008 to 2009	2007 to 2008	2008 to 2009	2007 to 2008
<b>Operating Revenues:</b>							
Land and building. rent	\$ 1,192,969	\$ 1,220,040	\$ 1,009,928	\$ (27,344)	\$ 210,112	-2%	21%
Charges for services	524,721	1,087,914	1,411,979	(563,193)	(324,065)	-52%	-23%
Licenses and permits	1,820	1,920	1,465	(100)	455	-5%	31%
Airport revenues	87,867	79,749	87,163	8,118	(7,414)	-10%	-9%
Train switching	61,716	678,781	1,667,757	(617,065)	(988,976)	-91%	-59%
Trackage	47,358	1,400	47,613	45,958	(46,213)	3283%	-97%
Passenger train fees	8,333	7,646	102,844	687	(95,198)	9%	-93%
<b>Total</b>	<b>\$ 1,924,511</b>	<b>\$ 3,077,450</b>	<b>\$ 4,328,749</b>	<b>\$ (1,152,939)</b>	<b>\$ (1,251,299)</b>	<b>-37%</b>	<b>-29%</b>
<b>Operating Expenses:</b>							
Personal services	\$881,005	\$1,676,782	\$2,045,094	\$ 795,777	\$ 368,312	-47%	-18%
Materials and services	872,193	1,856,893	2,470,204	984,700	613,311	-53%	-25%
<b>Total</b>	<b>\$1,753,198</b>	<b>\$3,533,675</b>	<b>\$4,515,298</b>	<b>\$ 1,780,477</b>	<b>\$ 981,623</b>	<b>-50%</b>	<b>-22%</b>
Income (Loss) From Operations	\$ 171,313	\$ (456,225)	\$ (186,549)	\$ 627,538	\$ (269,676)	-138%	145%
Non-operating Revenues (Expenses)	441,895	(204,900)	(153,517)	646,795	(51,383)	-316%	33%
Grant proceeds	77,259	807,743	876,262	(730,484)	(68,519)	-90%	-8%
Capital Contribution	369,017	19,021	-	\$ 349,996	\$ 19,021	1840%	NA
Extraordinary Item	182,770	(13,609,246)	-	13,792,016	(13,609,246)	-101%	NA
Increase (Decrease) in Net Assets	1,242,254	(13,443,607)	536,196	14,685,861	(13,979,803)	-109%	-2607%
<b>Net Assets, Beginning of the Year</b>	<b>17,296,897</b>	<b>30,740,504</b>	<b>30,204,308</b>	<b>(13,443,607)</b>	<b>(13,443,607)</b>	<b>-44%</b>	<b>2%</b>
<b>Net Assets, End of the Year</b>	<b>\$ 18,539,151</b>	<b>\$ 17,296,897</b>	<b>\$30,740,504</b>	<b>\$ 1,242,254</b>	<b>\$ (13,443,607)</b>	<b>7%</b>	<b>-44%</b>

*Note: Due to the December 2007 storm event, a large portion of the Port of Tillamook Bay's railroad was damaged beyond repair. The recording of the financial impact of the event, both in depletion of fixed assets and expected revenues, resulted in major impacts to the Port's financials. See extraordinary event costs of 2008.*

***Analysis of the overall (government-wide) financial position and results of operations:***

The overall financial position of the General Fund has a positive financial impact as a result of operations. However, due to the continued limited use of the railroad, its' financial impact is not positive. In addition, the Board of Commissioner's directive to focus on long term debt reduction has contributed to the overall financial position of the Port.

The Port's Digester is considered the first and largest community digester in the nation and therefore on the leading edge of digestion technology. Because of this, getting the digester operating proficiently and pursuing a market for the end products has been a challenge. Revenues include selling power back to the Tillamook People's Utility District (TPUD) from the methane, collecting CO2 credit revenues, renewable energy credits, and selling the end product of fiber and liquid effluent as fertilizer to the public and commercial nursery markets.

Railroad operations have decreased with freight car loading at 130 for the 2008-2009 fiscal year. Due to this limited use, activity within the Railroad Fund has decreased dramatically. The POTB Board decided in the Spring of 2009 to not pursue repair the damaged railroad. Instead, the Board decided to proceed with a variety of Alternate Projects, designed to improve capital assets with an expected increase in future revenues and activity for the Port. These projects will be funded by FEMA and State of Oregon Lottery Bonds, with design and construction beginning in the 2010-2011 fiscal year.

***Analysis of balances and transactions of individual funds:***

The General Fund's main revenue is from the rental of industrial property to commercial tenants, airport operations, and water and sewer services. As of June 2009, the agreement between Garick Corporation and the Port for operation of the digester was terminated. The digester, now in its seventh year of operation, continues to have a negative financial impact on the general fund due to lack of the ability to maintain a high enough quality of the end products necessary to sell. Two of the FEMA Alternative Projects scheduled for fiscal year 2010-2011 include completion of the last cell and retrofitting of piping in the first three cells, plus new, more efficient engines on the digester, as well as a bagging facility for the end product. This, hopefully, will enable the Port to improve the quality of the end product for marketing and sales and create a positive cash flow related to operation of the digester. For the year ending June 30, 2009, the net operating income of the Port's general operations was \$309,019 and the increase in net assets was \$794,072.

The Railroad Fund's revenue sources include fees for freight hauling, supplemented by payments for encroachments and trackage. For the year ending June 30, 2009, the operating loss of the Railroad operations was \$(137,706), with an increase in net assets of \$405,372.

For the year ending June 30, 2010, the Revenue Bond Fund, had an increase in net assets of \$42,810.

The combined net operating balance was \$171,313, with a combined increase in net assets of \$1,242,254.

***Analysis of significant variations between original and final budget amounts and final budget amounts and actual budget results for the general fund:***

The Port budgets are prepared with an allowance for minor unexpected conditions, however when higher than normal or unexpected expenditures occur, transfers within the funds may be made.

In the Port General Fund, the Digester's high operational and maintenance costs, and costs incurred for Blimp Hangar repairs, were the major contributor to expenditures over the budget estimate. The current accounting software program used by the POTB has been adapted for fund accounting of Port's financials. During fiscal year 2008-2009, accounting software provided faulty reporting of expenditures which created an overage in the General Fund. Due to a grant to be received, the Port will be purchasing a complete fund accounting software package in 2010. This should correct and/or alleviate concerns regarding future reporting errors.

***Summary of Capital Assets Activity***

<b><i>Port of Tillamook Bay</i></b>	<b>06/30/08</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>06/30/09</b>
Jetty and harbor	\$ 193,290	\$ -	\$ -	\$ -	\$ 193,290
Land and buildings	10,030,633	-	-	73,231	10,103,864
Water and sewer	852,712	3,000	-	-	855,712
Airport	3,673,501	-	-	-	3,673,501
Equipment	4,090,249	108,677	-	-	4,198,926
Track and structures	2,132,404	11,500	-	201,482	2,345,386
Construction in Progress	959,332	445,630	-	(274,713)	1,130,249
<b>Total Capital Assets</b>	<b>\$ 21,932,121</b>	<b>\$ 568,807</b>	<b>-</b>	<b>-</b>	<b>\$ 22,500,928</b>

The capital asset Construction in Progress included expenses on projects that were not completed by year ending June 30, 2009.

***Summary of General Fund Construction in Progress Detail***

<b><i>Port of Tillamook Bay</i></b>	<b>06/30/08</b>	<b>Additions</b>	<b>Deletions</b>	<b>06/30/09</b>
Airport Improvements	-	-	-	-
FAA-AIP FY 07-09	\$ 148,572	-	-	\$ 148,572
Land & Buildings	-	-	-	-
USIA Bldg 71	40,817	-	(40,817)	-
Bldg 72 Improvements	32,414	-	(32,414)	-
Golf Course	536,047	-	-	536,047
Hangar B	-	\$ 445,630	-	-
<b>Total Port CIP</b>	<b>\$ 757,850</b>	<b>\$ 445,630</b>	<b>\$ (73,231)</b>	<b>\$ 1,130,249</b>

**Summary of Railroad Fund Construction in Progress Detail**

<i>Port of Tillamook Bay</i>	06/30/08	Additions	Deletions	06/30/09
Timber Crossing	\$ 95,971	-	\$ 95,971	-
Latimer Crossing	105,511	-	105,511	-
<b>Total Railroad CIP</b>	<b>\$ 201,482</b>	<b>\$ -</b>	<b>\$ 201,482</b>	<b>\$ -</b>

**Summary of Long Term Debt**

<i>Port of Tillamook Bay</i>	Balance 06/30/08	Additions	Reductions	Balance 06/30/09	Due within one year
<b>Bonds:</b>					
Refunding Series 2002	835,000	-	(70,000)	765,000	70,000
1998 Revenue Bond	545,000	-	(40,000)	505,000	40,000
<b>Total Bonds</b>	<b>\$ 1,380,000</b>	<b>\$ -</b>	<b>\$ (110,000)</b>	<b>\$ 1,270,000</b>	<b>\$ 110,000</b>
<b>Notes Payable:</b>					
<b>Economic Development:</b>					
040-090	20,402	-	(11,738)	8,664	8,664
040-094	81,915	1,597	(15,579)	67,933	67,933
040-179	573,640	4,088	(14,967)	562,761	30,210
<b>Special Public Work Fund:</b>					
L07004 Issued 6/30/07	94,260	-	-	94,260	3,265
L95003 Issued 3/13/95	84,075	8,210	-	92,285	3,515
X03002 Issued 12/1/02	137,281	-	(7,210)	130,071	7,449
Safe Drinking Water	156,433	-	-	156,433	6,402
Bank of Astoria Refinancing	1,086,892	-	(37,072)	1,049,820	67,241
2006 Capital Improvement	604,301	-	(55,485)	548,816	58,092
Sterling Savings Loan	150,000	-	-	150,000	-
<b>Total Notes Payable</b>	<b>2,989,199</b>	<b>13,895</b>	<b>(142,051)</b>	<b>2,861,043</b>	<b>252,951</b>
	<b>\$ 4,369,199</b>	<b>\$ 13,895</b>	<b>\$ (252,051)</b>	<b>\$ 4,131,043</b>	<b>\$ 362,951</b>

\*L07004 – Repayment of this loan has been forgiven by the State, with the condition the Port remain current on all other outstanding debt owed to Business Oregon (OBDD), formerly Oregon Economic & Community Development (OECD). Additional information on the Port’s long-term debt can be found in the prepared financial statements.

*Capital Leases*

<i>Port of Tillamook Bay</i>	Balance 06/30/08	Additions	Reductions	Balance 06/30/09
RR Ties	\$ 35,000	\$ -	\$ (35,000)	\$ -
Hangar Restoration	85,000	-	(25,000)	60,000
<b>Total Leases</b>	<b>\$ 120,000</b>	<b>-</b>	<b>\$ (60,000)</b>	<b>\$ 60,000</b>

*Information about the assessed conditions of and actual versus estimated maintenance/preservation expenditures for infrastructure fixed assets reported using the “modified approach”:*

The Port does not use the “modified approach” at this time for the reporting of fixed assets.

Additional information regarding the Port’s capital assets can be found in the prepared financial statements.

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

1. The Port has been working for the last five years with a developer to construct a golf course and hotel resort. A considerable amount of money has been expended towards this effort and has had a negative impact on the financial condition of the General Fund. Although there was some forward movement, due to developer’s inability to proceed according to contract, the Port Board terminated the agreement with the developer. To this end, expected revenues will not be received and the Port will not receive reimbursement for funds expended related to this project.
2. The Federal Aviation Administration and the Oregon Department of Aviation recognizes that it is highly unlikely that the Port airport can generate enough income to support the necessary maintenance of asphalt runways and taxis, and navigational aids. Therefore, these state and federal agencies make available funding opportunities in order for the continued operation of the airport through PMP (Pavement Management Program) and Airport Improvement Programs (AIP). Although the Port did not receive funds for the 2008-2009 fiscal year, management will be making application for funds in the upcoming fiscal years.
3. As stated previously, due to storm damage to the railroad, activity has been extremely limited on the rail. On the east side of the tracks, there is twenty-six (26) miles of track that is still available and used for freight hauling. The Port continues to receive fees for use of this portion of the rail. On the west side, there is forty-two (42) miles of track available for use. At this time, the only usage is by Oregon Coast Scenic Railroad (OCSR) for passenger trains during certain periods of the year. Trackage fees, as well as

reimbursement for resulting employee expenses, are received from OCSR during their periods of operation.

4. The December 2007 storm did considerable damage to Port properties as well as the railroad. An emergency was declared and FEMA funds became available to the Port. Repair and mitigation efforts for the Blimp Hangar were reimbursed into the General Fund for fiscal year 2008-2009, and will continue to be received until completion of the project. An engineer's inspection and resulting report were approved by FEMA, and the Port was reimbursed in the Railroad Fund for this project. Other FEMA approved projects included reimbursement for Port expenses related to debris removal from the tracks and Tunnel 25. These reimbursements were also included in the Railroad Fund for fiscal year 2008-2009, and a minimal amount is expected for the subsequent fiscal year.
5. In response to the engineer's report on the condition of the railroad, FEMA's input and the Board's decision to not pursue repair of the damaged railroad, the Port will be proceeding with an Alternative Projects effort in future fiscal years. This includes a number of improvements to the Industrial Park and airport, their buildings and infrastructure, and upgrades to the digester. These projects are expected to bring additional revenue into the Port's General Fund in the years after completion of the projects.

***Requests for Information:***

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

**PORT OF TILLAMOOK BAY  
STATEMENT OF NET ASSETS**

ASSETS	JUNE 30,	
	2009	2008
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 172,821	\$ 272,079
Receivables, net of allowance:		
Accounts	188,428	51,502
Property taxes	2,211	1,580
Intergovernmental grants	187,088	14,255
Inventory	23,913	29,521
Prepaid expenses	300	300
Total current assets	574,761	369,237
<b>RESTRICTED ASSETS</b>		
Cash and investments	92,414	88,438
<b>OTHER ASSETS</b>		
Rent receivable	214,896	121,853
Notes receivable, net of allowance	-	10,613
Deferred expense - bond issue costs	42,279	53,569
Total other assets	257,175	186,035
<b>CAPITAL ASSETS</b>		
Jetty and harbor	193,290	193,290
Land and buildings	10,103,864	10,030,633
Water and sewer improvements	855,712	852,712
Airport	3,673,501	3,673,501
Equipment	4,198,926	4,090,249
Track and structures	2,345,386	2,132,404
Construction in progress	1,130,249	959,332
Total capital assets	22,500,928	21,932,121
	\$ 23,425,278	\$ 22,575,831

**PORT OF TILLAMOOK BAY**  
**STATEMENT OF NET ASSETS (Continued)**

LIABILITIES AND PORT DISTRICT NET ASSETS

	JUNE 30,	
	2009	2008
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 468,395	\$ 594,216
Wages payable	45,872	43,312
Accrued payroll taxes	18,795	20,030
Accrued vacation	60,113	91,128
Other accrued liabilities	51,563	53
Accrued interest expense	50,346	40,996
Current portion of notes and bonds payable	362,951	528,913
Current portion of capital leases payable	30,000	60,000
Total current liabilities	1,088,035	1,378,648
<b>LONG-TERM DEBT</b>		
Capital leases payable	60,000	120,000
Notes and bonds payable	3,626,043	3,824,199
Less: current portion	(352,951)	(548,913)
Total long-term debt	3,333,092	3,395,286
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Revenue bonds	505,000	545,000
Less: current portion	(40,000)	(40,000)
	465,000	505,000
Total liabilities	4,886,127	5,278,934
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	18,309,885	17,442,922
Restricted for capital assets and debt service	92,414	88,438
Unrestricted	136,852	(234,463)
Total net assets	18,539,151	17,296,897
	\$ 23,425,278	\$ 22,575,831

**PORT OF TILLAMOOK BAY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	YEAR ENDED JUNE 30,	
	2009	2008
OPERATING REVENUES		
Land and building rent	\$ 1,192,696	\$ 1,220,040
Charges for services	524,721	1,087,914
License and permits	1,820	1,920
Airport revenues	87,867	79,749
Train switching	61,716	678,781
Trackage	47,358	1,400
Passenger train fees	8,333	7,646
Total operating revenues	<u>1,924,511</u>	<u>3,077,450</u>
OPERATING EXPENSES		
Personal services	881,005	1,676,782
Materials and services	872,193	1,856,893
Total operating expenses	<u>1,753,198</u>	<u>3,533,675</u>
OPERATING INCOME (LOSS)	<u>171,313</u>	<u>(456,225)</u>
NONOPERATING REVENUES (EXPENSES)		
Timber sales	4,215	3,431
Property taxes	41,876	38,415
Interest income	7,099	10,830
Insurance proceeds	8,245	210,711
Grant proceeds	77,259	807,743
Other nonoperating revenues	149,535	145,539
Other nonoperating expenses	(3,581)	(84)
Gain on sale of assets	440,140	28,356
Derailment and accident expense	(508)	(419,366)
Interest expense	(193,836)	(211,442)
Amortization expense	(11,290)	(11,290)
Total nonoperating revenues	<u>519,154</u>	<u>602,843</u>
INCOME BEFORE TRANSFERS		
CAPITAL CONTRIBUTION AND EXTRAORDINARY ITEM	690,467	146,618
CAPITAL CONTRIBUTION EXTRAORDINARY ITEM	<u>369,017</u>	<u>19,021</u>
	<u>182,770</u>	<u>(13,609,246)</u>
INCREASE (DECREASE) IN NET ASSETS	1,242,254	(13,443,607)
NET ASSETS, BEGINNING OF YEAR	<u>17,296,897</u>	<u>30,740,504</u>
NET ASSETS, END OF YEAR	<u>\$ 18,539,151</u>	<u>\$ 17,296,897</u>

**PORT OF TILLAMOOK BAY  
STATEMENT OF CASH FLOWS**

	YEAR ENDED JUNE 30,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,710,785	\$ 3,188,861
Cash paid to suppliers	(1,101,236)	(1,647,437)
Cash paid for personnel services	(910,695)	(1,844,770)
Net cash flows from operating activities	<u>(301,146)</u>	<u>(303,346)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes	41,245	38,415
Timber sales	4,215	3,431
Nonoperating revenues	149,535	145,539
Nonoperating expenses	(4,089)	(84)
Grant proceeds	73,321	-
Issuance of notes	(1,978)	-
Storm damage grant proceeds	2,090,055	-
Storm damage expenditures	(1,942,598)	-
Insurance proceeds	8,245	210,711
Transfers to	(313,030)	(162,470)
Transfers from	313,030	253,520
Net cash flows from noncapital financing activities	<u>417,951</u>	<u>489,062</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Property and equipment additions	(459,691)	(466,517)
Proceeds from sale of assets	440,140	(391,010)
Capital contributions from other governments	283,007	826,764
Proceeds from notes payable	13,895	58
Payments on notes and bonds payable	(252,051)	(86,356)
Payments on capital leases	(60,000)	(60,000)
Interest paid on notes and bonds payable	(184,486)	(212,375)
Net cash flows from capital and related financing activities	<u>(219,186)</u>	<u>(389,436)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	7,099	10,830
<b>NET DECREASE IN CASH</b>	<u>(95,282)</u>	<u>(192,890)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>360,517</u>	<u>553,407</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 265,235</u>	<u>\$ 360,517</u>

**PORT OF TILLAMOOK BAY**  
**STATEMENT OF CASH FLOWS (Continued)**

	YEAR ENDED JUNE 30,	
	2009	2008
Cash and cash equivalents classification on statement of net assets:		
Current assets	\$ 172,821	\$ 272,079
Restricted assets	92,414	88,438
Total cash and cash equivalents	\$ 265,235	\$ 360,517
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>		
<b>TO NET CASH USED PROVIDED (USED) BY</b>		
<b>OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 171,313	\$ (456,225)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Provision for uncollectible accounts	28,532	-
(Increase) decrease in assets		
Accounts receivable	(241,971)	114,281
Inventory	5,608	8,828
Increase (decrease) in liabilities		
Accounts payable	(247,242)	121,436
Prepaid rent	12,304	(2,870)
Wages and employee benefits payable	(29,690)	(88,796)
Total adjustments	(472,459)	152,879
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (301,146)</b>	<b>\$ (303,346)</b>

**PORT OF TILLAMOOK BAY  
NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Operation** - The Port of Tillamook Bay is an Oregon Municipal corporation formed under Oregon Revised Statute (ORS) 777. It was formed by special election in 1911 to incorporate land at the entrance to Tillamook Bay and named the Port of Bay Ocean. In 1948 at a special election, additional land at the entrance to Tillamook Bay was incorporated into the Port for the purpose of constructing a jetty to protect the bay. In 1953, a special election was held to incorporate 1600 acres of land, two blimp hangars, and various other buildings from the federal government. The commissioners on November 4, 1953 declared that with the inclusion of the territory adjacent to the Port of Tillamook, it was advisable to change the name of the Port of Bay Ocean to the Port of Tillamook Bay. On August 22, 1992 one of the blimp hangars burned to the ground and was not reconstructed.

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

With the exception of depreciation as discussed in the following paragraph, the financial statements of the Port have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with the subsequent GASB pronouncements (Standards and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below. In accordance with GASB Statement No. 20, the Port has elected to follow only GASB Statements and Pronouncements for the period beginning after November 30, 1989, for its proprietary activities.

GAAP as applicable to governments require the recognition of depreciation on capital assets and the capitalization of interest during the construction of capital assets. The Port does not record depreciation expense, accumulated depreciation or capitalized interest in its financial statements, resulting in a departure from GAAP. The impact of reported income from operations and net assets has not been determined.

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

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

There are other governmental agencies within the general vicinity the Port operates, but these have independent governing boards and the Port cannot demand financial accountability. Therefore, based upon the application of GAAP, no component units were included within the Port of Tillamook Bay's reporting entity.

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

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

When both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources first, then unrestricted resources as they are needed.

**Cash and investments** - The Port has a General Fund bank account and a Railroad bank account at US Bank. The Port also maintains two merged bank accounts for its funds in a central pool of cash. This pool includes amounts in demand deposits and investments in the Oregon State Treasury Local Government Investment Pool both of which meet the requirements of ORS 294.035 governing allowable depositories. Interest income earned as a result of pooling is distributed to each fund utilizing a formula based on the average daily cash balance of each fund. Additionally, there are two Revenue Bond Accounts with Wells Fargo Bank. (See Note 3)

Amounts on deposit with the Local Government Investment Pool are treated as cash, as the account can be accessed as needed. The pool Fair Market Value fluctuates depending upon the asset allocations. However, the Port can only withdraw its balance on deposit and accrued interest; therefore, no attempt has been made to record the amount on deposit with the pool at its fair market value.

**Statement of cash flows** - The statement of cash flows is presented in accordance with GASB Statement No. 9. The cash and investment balances of all funds held by the Port are pooled for investment purposes. For purposes of the cash flows statements, each fund's "Cash and investments" are considered to be cash equivalents since the amounts are readily available for use.

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts receivable** - Accounts receivable are unsecured and consist of rents, sewer and water charges due from tenants within the industrial park, and freight charges due from customers of the railroad. The Port's customers and tenants are located in the Pacific Northwest. The Port establishes a reserve for bad debts based on prior history and a review of individual customer accounts. The reserve totaled \$19,940 and \$4,000 as of June 30, 2009 and 2008, respectively.

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

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

**Restricted assets and related liabilities** - Assets whose use is restricted to specific purposes by State law or bond indenture and the related liabilities are segregated on the balance sheet. Assets so classified are held to make payments on bonded indebtedness.

**Capital assets** - The Port's policy is to capitalize asset purchases which exceed \$5,000, with estimated useful lives extending beyond one year. All purchased property and equipment are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated property and equipment are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property and equipment have not been depreciated.

The Port does not capitalize interest costs incurred during the construction period on capital assets. This represents a departure from GAAP, but partially mitigates the overstatement of income which results because the Port does not provide for depreciation of capital assets.

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

**Deferred debt expense/issuance costs** - Bond discounts and issuance costs 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 to the face amount of the related debt and issuance costs are recorded as an asset.

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Net assets* - The Port's equity is classified as follows:

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

*Restricted for capital assets and debt service.* Restricted net assets are those restricted by bond indentures or from other external sources for use in constructing capital projects, and debt service.

*Unrestricted.* Net assets not included in other classifications are unrestricted.

**Property taxes** - The State of Oregon constitution and state statutes provide for several types of tax levies, all of which require voter approval before being levied. Included among such authorized levies are a permanent tax rate, which can result in a different levy amount each year as assessed valuations change, bonded debt levies which can be levied each year the related general obligation bonds mature, and local option levies for a voter-approved number of years. The State of Oregon constitution includes a tax rate limitation, but the total property tax levies in Tillamook County are not high enough to be affected at this time.

The Port of Tillamook Bay levies a permanent tax rate property tax levy.

By July 15 of each year, the Port certifies its property tax levy to Tillamook County, Oregon. Tillamook County makes all assessments of property value and levies, collects, and distributes property taxes for all taxing districts within its boundaries.

Assessments of property values are as of July 1 of each year, and the taxes levied are a lien on the properties as of July 1 of the year levied.

Taxes are payable in three installments on November 15, February 15, and May 15 following the levy date and become delinquent May 15. The County pools all tax collections and makes distributions to taxing districts according to their pro-rata share of the total levy of each fiscal year for which collections are received.

Property tax revenue is recognized on the accrual basis of accounting. Property taxes levied during the current year are recorded as revenue, and any amounts uncollected at year-end are recorded as a current asset.

**Use of estimates** - Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These assumptions and estimates affect the amounts and disclosures in the accompanying financial statements. Actual results could differ from those estimates.

**Reclassifications** - Certain prior year amounts have been reclassified to conform to the current year presentation. There was no effect on previously reported change in net assets.

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

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

**Railroad Division** - The Railroad Division is used to account for the Port's railroad operations.

**Budgets and budgetary accounting** - The Port is required by Oregon State Law to adopt an annual appropriated budget. The budgetary fiscal period coincides with the annual reporting period (July 1 through June 30). Appropriated budgets are adopted by the executive body and, accordingly, used as a management control device for all funds.

The Port prepared its budget using the modified accrual basis of accounting for the years ended June 30, 2008 and 2009, which is an acceptable basis of accounting. The Port includes capital outlay and debt services as expenditures for budgetary purposes.

Original appropriations may be increased or decreased, through resolutions, by transferring amounts between appropriations in the same fund or by transferring from an appropriation in the General Fund to an appropriation in another fund, or they may be increased through the adoption of a supplemental budget. The Port made several changes to the budget through supplemental budgets and appropriation transfers. By state law, budget appropriations lapse at year-end.

The Port adopts its budget by the following object classifications within each fund: personal services, material and services, capital outlay, debt service, transfers to other funds, and contingency.

The Port's actual expenditures were within budgeted amounts for the year with the following exceptions:

General Fund	
Materials and services	\$482,188
Capital outlay	\$321,803

**Deficit Fund Balance** -The Revenue Bond Fund has a deficit balance on the full accrual basis. This is a result of recording the bonded debt within this fund while the resources used in repayment of the bond are recorded in other funds.

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 3 - CASH AND INVESTMENTS**

At June 30, 2009 and 2008, the carrying amount of the Port's cash and investments was \$260,017 and \$402,627 and the bank balances were \$123,179 and \$194,130, respectively. The balance was entirely covered by federal depository insurance at year-end.

The Port uses a Local Government Investment Pool with the State of Oregon for its temporary investments. The fair value of the Port's share of the pool assets approximates its deposits plus accrued interest. The Oregon Short Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895).

***Deposit and Investment Risk***

The following investment risk information is presented for the year ending June 30, 2009 in accordance with GASB 40 *Deposit and Investment Risk Disclosures*.

As of June 30, 2009, the Port had the following deposits and investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (years)</u>		
		<u>Other</u>	<u>Less than 1</u>	<u>1-5</u>
Local Government Investment Pool	\$ 136,838	\$ 136,838	\$ -	\$ -
Demand deposits	<u>123,179</u>	<u>123,179</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 260,017</u>	<u>\$ 260,017</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2008, the Port had the following deposits and investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (years)</u>		
		<u>Other</u>	<u>Less than 1</u>	<u>1-5</u>
Local Government Investment Pool	\$ 208,497	\$ 208,497	\$ -	\$ -
Demand deposits	<u>194,130</u>	<u>194,130</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 402,627</u>	<u>\$ 402,627</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

*Interest Rate Risk*

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

*Custodial Risk*

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Port would not be able to recover the value of its deposits and investments or collateral securities that are in the possession of an outside party. Financial instruments that potentially subject the Port to custodial risk consist primarily of bank demand deposits. In order to minimize this risk, state statutes require banks holding public funds 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 bank depositories, it does not guarantee that all funds are 100% protected. Of the Port's June 30, 2009, demand deposits totaling \$123,179, all was insured by FDIC.

*Credit Risk*

The Port does not have a formal policy addressing credit risk other than following ORS 294.035 on allowable deposits and investments. The Local Government Investment Pool is not rated.

*Concentration of Credit Risk*

The Port does not limit the amount that may be invested in any one issuer. At June 30, 2009, \$136,838, or 53%, of its deposits and investments were held in the Local Government Investment Pool. The remainder was held in demand accounts with various banks.

**NOTE 4 - PROPERTY TAX**

The Port levied property taxes in the amount of \$41,274 and \$39,657 for fiscal years ending June 30, 2009 and 2008, respectively. The tax rate is .00364% and .00364% per \$1,000 of assessed value, including the levy for bonded indebtedness for fiscal years ending June 30, 2009 and 2008, respectively. Property taxes receivable as of June 30, 2009 and 2008 is \$2,211 and \$1,580, respectively.

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity and balances consist of the following for the year ended June 30, 2009:

	Balance 6/30/2008	Additions	Transfer	Deletions	Balance 6/30/2009
Jetty and harbor	\$ 193,290	\$ -	\$ -	\$ -	\$ 193,290
Land and buildings	10,030,633	-	73,231	-	10,103,864
Water and sewer	852,712	3,000	-	-	855,712
Airport	3,673,501	-	-	-	3,673,501
Equipment	4,090,249	108,677	-	-	4,198,926
Track and structures	2,132,404	11,500	201,482	-	2,345,386
Construction in progress	959,332	445,630	(274,713)	-	1,130,249
<b>Total capital assets</b>	<b>\$ 21,932,121</b>	<b>\$ 568,807</b>	<b>\$ -</b>	<b>-</b>	<b>\$ 22,500,928</b>

Capital asset activity and balances consist of the following for the year ended June 30, 2008:

	Balance 6/30/2007	Additions	Transfer	Deletions	Balance 6/30/2008
Jetty and harbor	\$ 193,290	\$ -	\$ -	\$ -	\$ 193,290
Land and buildings	10,015,292	15,341	-	-	10,030,633
Water and sewer	852,712	-	-	-	852,712
Airport	3,225,917	-	447,584	-	3,673,501
Equipment	4,050,673	44,590	-	(5,014)	4,090,249
Track and structures	15,530,534	-	211,116	(13,609,246)	2,132,404
Construction in progress	1,206,432	411,600	(658,700)	-	959,332
<b>Total capital assets</b>	<b>\$ 35,074,850</b>	<b>\$ 471,531</b>	<b>\$ -</b>	<b>\$ (13,614,260)</b>	<b>\$ 21,932,121</b>

Construction in progress consists of several general Port and Railroad improvement and expansion projects as approved by the board. Capital projects are financed by a combination of debt, grants and internal resources.

**NOTE 6 - LONG-TERM DEBT**

*Notes payable* - The Port has incurred various notes payable, some of which are to the Oregon Economic Development Department (OEDD). These loans were obtained to make various improvements to buildings leased by tenants, and as match money for railroad rehabilitation grants. Interest rates and maturity dates vary from 1.80% to 5.75%, and 5 to 20 years, respectively. These loans are secured by Port buildings.

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 6 - LONG-TERM DEBT (Continued)**

The Port is participating in an equipment financing program offered by the Special Districts Association of Oregon (SDAO). Leases have been obtained through this program to purchase equipment. These leases are secured by the equipment.

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

**Revenue bond** - The Port issued a revenue bond, series 1998, in the amount of \$830,000 for the purpose of refinancing several OEDD loans outstanding. Semiannual interest and annual principal payments vary from 3.5% to 5.15% and \$35,000 to \$65,000, respectively, until the bond will be repaid in 2019. Gross revenues of the Port, net of certain operating costs, are pledged through the maturity date of the bonds. Principal and interest maturities for the current year totaled \$67,000. Operating revenues of the Port are pledged.

**Refunding Series 2002 bond** - The Port issued a bond, series 2002, in the amount of \$1,145,000 for the purpose of refinancing OEDD obligations and to provide funding for capital projects. Semiannual interest and annual principal payments vary from 1.8% to 5% and \$65,000 to \$100,000, respectively, until the bonds are repaid in 2017.

**Bank of Astoria** - The Port issued a note payable to the Bank of Astoria in the amount of \$1,400,000 for the purpose of refinancing previously issued debt to the OEDD and SPWF. The note carries interest at 5.5% through January 15, 2013 after which the interest rate will be prime minus half a percentage point. Annual principal and interest payments of \$123,562 are due until the note matures on January 20, 2021, and requires compliance with certain covenants. At June 30, 2009, the Port was in compliance with these covenants or had obtained suitable waivers.

**Sterling Savings Bank** - The Port issued a note payable to Sterling Savings Bank in the amount of \$150,000 to provide funding for repairs of December 2007 storm damage. The note carries interest at 5.75% and matures on October 15, 2010.

**Wells Fargo Bank** - The Port issued a note payable to Wells Fargo Bank in the amount of \$650,000 for the purpose of funding equipment acquisitions and facility improvements. The note carries interest at 4.7% with annual principle and interest payment of \$83,887 until the note matures on November 30, 2016, and requires compliance with certain covenants. At June 30, 2009, the Port was in compliance with these covenants or had obtained suitable waivers.

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Following is a summary of changes in long-term debt for the fiscal year ended June 30, 2009:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Due within one year
Bonds:					
Revenue Bond	\$ 545,000	\$ -	\$ (40,000)	\$ 505,000	\$ 40,000
Refunding Series 2002	835,000	-	(70,000)	765,000	70,000
Total Bonds	<u>1,380,000</u>	<u>-</u>	<u>(110,000)</u>	<u>1,270,000</u>	<u>110,000</u>
Notes Payable:					
Economic Development Department Loans:					
040-90	20,402	-	(11,738)	8,664	8,664
040-94	81,915	1,597	(15,579)	67,933	67,933
040-179	573,640	4,088	(14,967)	562,761	30,210
Special Public Works Fund Loans:					
Issued 3/13/95	84,075	8,210	-	92,285	3,515
Issued 12/01/02 - Compost Facility	137,281	-	(7,210)	130,071	7,449
Issued 06/30/07	94,260	-	-	94,260	3,265
Safe Drinking	156,433	-	-	156,433	6,402
Bank of Astoria - Refinancing	1,086,892	-	(37,072)	1,049,820	67,421
2006 Capital Improvement	604,301	-	(55,485)	548,816	58,092
Sterling Savings Bank Loan	150,000	-	-	150,000	-
Total Notes Payable	<u>2,989,199</u>	<u>13,895</u>	<u>(142,051)</u>	<u>2,861,043</u>	<u>252,951</u>
	<u>\$ 4,369,199</u>	<u>\$ 13,895</u>	<u>\$ (252,051)</u>	<u>\$ 4,131,043</u>	<u>\$ 362,951</u>

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Following is a summary of changes in long-term debt for the fiscal year ended June 30, 2008:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
<b>Bonds:</b>					
Revenue Bond	\$ 580,000	\$ -	\$ (35,000)	\$ 545,000	\$ 40,000
Refunding Series 2002	900,000	-	(65,000)	835,000	70,000
Total Bonds	<u>1,480,000</u>	<u>-</u>	<u>(100,000)</u>	<u>1,380,000</u>	<u>110,000</u>
<b>Notes Payable:</b>					
<b>Economic Development Department Loans:</b>					
040-90	24,187	-	(3,785)	20,402	8,056
040-94	97,112	-	(15,197)	81,915	32,344
040-179	588,051	-	(14,411)	573,640	30,210
<b>Special Public Works Fund Loans:</b>					
Issued 7/13/88	5,716	-	(5,716)	-	-
Issued 3/13/95	80,023	8,611	(4,559)	84,075	2,882
Issued 12/01/02 - Compost Facility	144,259	-	(6,978)	137,281	7,210
Issued 06/30/07	80,550	19,450	(5,740)	94,260	94,260
Safe Drinking	162,582	-	(6,149)	156,433	6,402
Bank of Astoria - Refinancing	1,143,075	-	(56,183)	1,086,892	32,064
2006 Capital Improvement	650,000	-	(45,699)	604,301	55,485
Sterling Savings Bank Loan	-	150,000	-	150,000	150,000
Total Notes Payable	<u>2,975,555</u>	<u>178,061</u>	<u>(164,417)</u>	<u>2,989,199</u>	<u>418,913</u>
	<u>\$ 4,455,555</u>	<u>\$ 178,061</u>	<u>\$ (264,417)</u>	<u>\$ 4,369,199</u>	<u>\$ 528,913</u>

Future maturities of long-term debt:

	G.O. and Revenue Bonds Principal	G.O. and Revenue Bonds Interest	Notes Payable Principal	Notes Payable Interest
2010	\$ 110,000	\$ 58,707	\$ 252,951	\$ 134,494
2011	115,000	53,957	335,158	116,441
2012	120,000	48,816	194,396	104,895
2013	125,000	43,272	204,101	96,232
2014	135,000	37,012	214,295	87,128
2014-2019	665,000	77,310	1,071,618	286,738
2020-2024	-	-	534,634	50,589
2025-2029	-	-	53,890	4,464
	<u>\$ 1,270,000</u>	<u>\$ 319,074</u>	<u>\$ 2,861,043</u>	<u>\$ 880,981</u>

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 7 - CAPITAL LEASE**

In December 2005, the Port entered into a capital lease agreement for the acquisition of equipment attributable to restoration of a blimp hangar. Assets financed through capital leases as of June 30, 2009 totaled \$135,000.

Following is a summary of changes in capital leases for the fiscal year ended June 30, 2009:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009
RR Ties	\$ 35,000	\$ -	\$ (35,000)	\$ -
Hangar Restoration	85,000	-	(25,000)	60,000
Total Capital Leases	<u>\$ 120,000</u>	<u>\$ -</u>	<u>\$ (60,000)</u>	<u>\$ 60,000</u>

The minimum future lease obligations and the net present value of these minimum lease payments as of June 30, 2009, were as follows:

	General Fund	Railroad Fund	Total
2010	\$ 33,570	\$ -	\$ 33,570
2011	31,800	-	31,800
Total minimum payments	65,370	-	65,370
Less amount representing interest	5,370	-	5,370
Present value of minimum lease payments	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 8 - OPERATING LEASES**

The Port leases facilities to various individuals and businesses. Rent agreements vary from month-to-month to 30 years.

The minimum future lease payments to be received as of June 30, 2009, were as follows:

	<u>Payments</u>
2010	\$ 262,711
2011	207,501
2012	203,242
2013	118,566
2014	93,983
Thereafter	<u>2,368,802</u>
	<u>\$ 3,254,805</u>

**NOTE 9 - DEFINED BENEFIT PENSION PLAN**

*Plan description* - The Port is a participating employer in Oregon Public Employees Retirement System (OPERS), a cost sharing public employee retirement system that acts as a common investment and administrative agent for public employers in the State of Oregon. OPERS is administered under Oregon Revised Statutes Chapter 238 and Internal Revenue Service 401 (a) by the Public Employees Retirement Board (PERB). Any Port employee who has completed six months of service is eligible to participate in OPERS. Benefits vest after five continuous years of service, or age 50. The Oregon Public Employees Retirement System, a component of the State of Oregon, issues a comprehensive annual financial report, which may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281 or by calling (503) 598-7377.

Port employees participate in one or more OPERS retirement plans that provide pension, death, disability, and post-employment healthcare benefits to members or their beneficiaries.

- PERS (Public Employee Retirement System) is a defined benefit pension plan provided to members or their beneficiaries who were hired prior to August 29, 2003 and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. In 1995, the Legislature enacted a second level or “tier” of PERS benefits for persons who established PERS membership on or after January 1, 1996. These Tier Two members do not have the Tier One assumed earnings rate guarantee, and have a higher normal retirement age of 60, compared to 58 for Tier One. Employer contributions to PERS are required by state statute and are made at actuarially determined rates as adopted by the PERB. The Port’s current annual contribution rate of 8.09% was based on a 2005 actuarial evaluation.

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 9 - DEFINED BENEFIT PENSION PLAN (Continued)**

- OPSRP (Oregon Public Service Retirement Plan) is a hybrid retirement plan with two components: a defined benefit pension plan and a defined contribution pension plan.
  - The defined benefit pension plan is provided to members or their beneficiaries who were hired on or after August 29, 2003. Employer contributions are required by state statute and are made at actuarially determined rates as adopted by the PERB. Based on the 2005 actuarial evaluation the annual required contribution rates for the OPSRP defined benefit pension plan was 10.92%.
  - The defined contribution pension plan (called the Individual Account Program or IAP) is provided to all members or their beneficiaries who are PERS or OPSRP eligible. State statutes require covered employees to contribute 6% of their annual covered salary to the IAP plan effective January 1, 2004. Plan members of PERS retain their existing PERS accounts, but member contributions beginning in 2004 will be deposited in the member's IAP, not into the member's PERS account.

**Annual Pension Cost** - All OPERS participating employers are required by law to submit the contributions as adopted by the PERB. For the fiscal year ended June 30, 2009, the Port's annual pension expenditures/expense for the employer annual required contributions to the defined benefit pension plans totaled \$67,046.

The Port's required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included: a rate of return on the investment of present and future assets of 8% a year, compounded annually, and projected salary increases of 3.75% per year, attributable to general wage adjustments.

Contributions for the years ended June 30, 2009, 2008, and 2007 were as follows:

**Three-year Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	\$ 99,257	100%	\$ -
June 30, 2008	\$ 112,403	100%	\$ -
June 30, 2009	\$ 67,046	100%	\$ -

Employer contributions are calculated in conformance with the provisions of GASB 27 as a percentage of covered payroll. Therefore, the contributions transmitted to PERS are equal to the Annual Required Contribution (ARC), and there is no Net Pension Obligation (NPO).

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 9 - DEFINED BENEFIT PENSION PLAN (Continued)**

*Actuarial evaluation* - The Port's actuarial assumptions and contribution rates for the OPERS defined benefit plans were based on the 2005 actuarial evaluation. A 2007 evaluation of OPERS was performed; however, actuarial assumptions and contribution rates per that evaluation do not become effective until July 1, 2009.

**NOTE 10 - DEFINED BENEFIT PENSION PLAN - RAILROAD**

Railroad employees participate in the Railroad Retirement Program and are immediately eligible to participate. The Railroad Retirement plan is a multi-employer defined benefit pension plan consisting of two parts. Tier I Railroad Retirement is similar to social security with both employee and employer contributing 7.65% of employee compensation. Tier II Railroad Retirement requires an employee contribution of 4.9% and an employer contribution of 15.60% of employee compensation. The Port's required contribution for the year ended June 30, 2009, was \$60,783.

**NOTE 11 - DEFERRED COMPENSATION PLAN**

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

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

**NOTE 12 - INTERGOVERNMENTAL AGREEMENT - RAILROAD OPERATIONS**

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

As of April 6, 1993, an intergovernmental agreement between the Port and the State of Oregon formed the Oregon Tillamook Railroad Authority (OTRA) to administer the operations of the railroad. The OTRA board of directors consists of five members, three are chosen by the State, and two are chosen by the Port.

The agreement states that title to the assets, controls, and trains of the railroad will remain with the Port; however, control over the use and disposition of the rail line will rest with the OTRA. OTRA's oversight was intended to bring the railroad up to FRA Class II standards.

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 13 - RELATED PARTY TRANSACTIONS**

The Port purchased supplies from a company owned by a former Port Commissioner and purchased construction services from a construction company owned by a Port Commissioner. The prices charged to the Port for the office supplies and construction services were the same prices available to all customers.

	<u>2009</u>	<u>2008</u>
Construction projects	<u>\$ 5,626</u>	<u>\$ 31,149</u>

**NOTE 14 - RISK MANAGEMENT**

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

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

*Grant revenue* - The Port receives a significant amount of revenue from various governmental grants. These grants are subject to audit/review by the grantor agencies. Any findings from these audits are anticipated to be minor and have immaterial impacts on the financial statements.

*Account payable* - After the December 2007 storm damaged sections of Port rail lines, the Port engaged a third party to assist in determination of repairs needed to return damaged rail lines to pre-storm condition. Per the agreement between the parties, services rendered would not exceed approximately \$1.2 million which the Port has paid in full. During the fiscal year ended June 30, 2009, the Port was overbilled approximately \$124,000 by the third party. Discussions between the two parties are ongoing. The Port does not consider itself liable for the overbilling. Any future repayment by the Port cannot be estimated and therefore the balance has not been reflected in the Statement of Net Assets as of June 30, 2009.

*Litigation*- The Port is involved with several threatened legal actions. In the opinion of the Port's management, the range of potential loss from all such claims and actions should not materially affect the financial condition of the Port.

**NOTE 16 - POLLUTION REMEDIATION**

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

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

---

**NOTE 17 - EXTRAORDINARY ITEM**

In December of 2007, the Port experienced a major storm which caused significant damage to its railroad infrastructure. The damage included, but was not limited to the following: the railroad lines, tunnels and bridges. The line between Tillamook and the Willamette Valley is completely shut down. The Port's blimp hangar was also damaged in the storm. The Port estimated and recorded a loss totaling \$13,069,246 due to storm damages as of June 30, 2008, and classified this event as an extraordinary item. During the year ended June 30, 2009, the Port received grants from other governments which it spent to return damaged property to pre-storm condition. As repair activity progressed, the Port re-evaluated the estimated loss as a result of the storm. For the year ended June 30, 2009, the Port lowered its total loss estimate to \$12,886,476 which resulted in a current year gain of \$182,770 classified as an extraordinary item.

**NOTE 18 - SUBSEQUENT EVENT**

In January 2009, the Port extended through July 15, 2009 its Purchase and Sales agreement it held with a third party who planned to construct a resort and golf course. In June 2009, the Port further extended the agreement to December 31, 2009. On November 20, 2009, the Port terminated the Purchase and Sales agreement. Additionally in December 2009, the Port notified the third party it had breached its lease agreement and demanded payment of past due rent. At June 30, 2009, the past due rent from the third party totaled approximately \$214,000. Collection of the receivable is in doubt. In concert with the resort and golf course project, the Port held various construction and use permits. Historical cost of the permits held and reported in construction in progress as of June 30, 2009 totaled approximately \$536,000 (See Note 5). Through termination of the Purchase and Sales agreements and by enforcing default under the lease agreement, completion of the project is in doubt.

In August 2010, the Port was awarded FEMA funding in the amount of \$44 million to be used to improve existing facilities and construct new Port of Tillamook Bay facilities. Of this amount awarded, \$33.5 million (75%) is reimbursed by FEMA. The POTB has identified 32 capital improvement projects as Alternative Projects. In addition, the Port is using matching funds approved by the 2009 Oregon State Legislature. These matching funds are provided through the sale of Oregon Lottery bonds and construction of these projects is scheduled through May 2013. On June 28, 2010, the Port received its first match from the Oregon Lottery Bond in the amount of \$1.4 million.

In September 2010, the Port of Tillamook received a line of credit in the amount of \$1,300,000. The line of credit is for five years with an interest rate of 4.5%. The line of credit will be used to pay for the costs of the FEMA projects prior to the receipt of reimbursement from the State.

**PORT OF TILLAMOOK BAY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 19 - SEGMENT INFORMATION**

The Port's general operations consist mainly of the rental of industrial property to commercial tenants, the operation of an airport, and providing sewer and water services. The Port also operates a railroad. Information for the industrial park and railroad are as follows:

	<u>INDUSTRIAL PARK</u>	<u>RAILROAD FUND</u>
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
Assets		
Current assets (including restricted cash)	\$ 539,975	\$ 127,200
Other assets	240,683	16,492
Interfund receivables	700,669	-
Capital assets	16,019,075	6,481,853
Total assets	<u>17,500,402</u>	<u>6,625,545</u>
Liabilities		
Current liabilities	618,529	469,506
Noncurrent liabilities	2,605,586	1,192,506
Interfund payables	-	700,669
Total liabilities	<u>3,224,115</u>	<u>2,362,681</u>
Net assets		
Invested in capital assets, net of related debt	13,176,616	5,133,269
Restricted for debt service	92,414	-
Unrestricted	1,007,257	(870,405)
Total net assets	<u>\$ 14,276,287</u>	<u>\$ 4,262,864</u>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>		
Operating revenues	\$ 1,715,868	\$ 208,643
Operating expenses	1,406,849	346,349
Operating income (loss)	<u>309,019</u>	<u>(137,706)</u>
Nonoperating revenues (expenses)		
Gain on sale of assets	365,754	74,386
Other nonoperating revenues	234,938	53,291
Interest expense	(124,052)	(69,784)
Other nonoperating expenses	(10,406)	(4,973)
Capital contribution	369,017	-
Extraordinary item	(82,708)	265,478
Transfers in (out)	(224,680)	224,680
Change in net assets	<u>836,882</u>	<u>405,372</u>
Beginning net assets	13,439,405	3,857,492
Ending net assets	<u>\$ 14,276,287</u>	<u>\$ 4,262,864</u>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided (used) by:		
Operating activities	\$ 139,156	\$ (440,302)
Noncapital financing activities	(187,998)	605,949
Capital and related financing activities	(12,028)	(207,158)
Investing activities	5,922	1,177
Net increase (decrease) in cash	<u>(54,948)</u>	<u>(40,334)</u>
Beginning cash and cash equivalents	299,515	61,002
Ending cash and cash equivalents	<u>\$ 244,567</u>	<u>\$ 20,668</u>

**PORT OF TILLAMOOK BAY  
COMBINING SCHEDULE OF NET ASSETS  
JUNE 30, 2009**

	GENERAL FUND	RAILROAD FUND	REVENUE BOND FUND	INTERFUND ELIMINATIONS	TOTAL
<b>CURRENT ASSETS</b>					
Cash and investments	\$ 152,153	\$ 20,668	\$ -	\$ -	\$ 172,821
Accounts receivable	92,296	96,132	-	-	188,428
Property taxes receivable	2,211	-	-	-	2,211
Inventory	21,385	2,528	-	-	23,913
Prepaid expenses	-	300	-	-	300
Intergovernmental grants	179,516	7,572	-	-	187,088
Total current assets	447,561	127,200	-	-	574,761
<b>RESTRICTED ASSETS</b>					
Cash and investments	-	-	92,414	-	92,414
<b>OTHER ASSETS</b>					
Due from railroad fund	700,669	-	-	(700,669)	-
Rent receivable	214,896	-	-	-	214,896
Deferred Expense - bond issue costs	11,780	16,492	14,007	-	42,279
Total other assets	927,345	16,492	14,007	(700,669)	257,175
<b>CAPITAL ASSETS</b>					
Jetty and harbor	193,290	-	-	-	193,290
Land and buildings	8,892,089	1,211,775	-	-	10,103,864
Water and sewer improvements	855,712	-	-	-	855,712
Airport	3,673,501	-	-	-	3,673,501
Equipment	1,178,985	3,019,941	-	-	4,198,926
Track and structures	95,249	2,250,137	-	-	2,345,386
Construction in progress	1,130,249	-	-	-	1,130,249
Total capital assets	16,019,075	6,481,853	-	-	22,500,928
<b>TOTAL</b>	<b>\$ 17,393,981</b>	<b>\$ 6,625,545</b>	<b>\$ 106,421</b>	<b>\$ (700,669)</b>	<b>\$ 23,425,278</b>

**PORT OF TILLAMOOK BAY**  
**COMBINING SCHEDULE OF NET ASSETS (Continued)**  
**JUNE 30, 2009**

	GENERAL FUND	RAILROAD FUND	REVENUE BOND FUND	INTERFUND ELIMINATIONS	TOTAL
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 239,829	\$ 228,566	\$ -	\$ -	\$ 468,395
Wages payable	36,031	9,841	-	-	45,872
Accrued payroll taxes	13,941	4,854	-	-	18,795
Accrued vacation	55,166	4,947	-	-	60,113
Other accrued liabilities	-	51,563	-	-	51,563
Accrued interest expense	34,783	13,657	1,906	-	50,346
Current portion of notes and bonds payable	166,873	156,078	40,000	-	362,951
Current portion of capital leases payable	30,000	-	-	-	30,000
	<u>576,623</u>	<u>469,506</u>	<u>41,906</u>	<u>-</u>	<u>1,088,035</u>
<b>LONG-TERM DEBT</b>					
Capital lease payable	60,000	-	-	-	60,000
Notes and bonds payable	2,277,459	1,348,584	-	-	3,626,043
Due to general fund	-	700,669	-	(700,669)	-
Less: current portion	(196,873)	(156,078)	-	-	(352,951)
	<u>2,140,586</u>	<u>1,893,175</u>	<u>-</u>	<u>(700,669)</u>	<u>3,333,092</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>					
Revenue bonds	-	-	505,000	-	505,000
Less: current portion	-	-	(40,000)	-	(40,000)
Total revenue bonds	<u>-</u>	<u>-</u>	<u>465,000</u>	<u>-</u>	<u>465,000</u>
	<u>2,717,209</u>	<u>2,362,681</u>	<u>506,906</u>	<u>(700,669)</u>	<u>4,886,127</u>
<b>NET ASSETS</b>					
Net Assets					
Invested in capital assets, net of related debt	13,681,616	5,133,269	(505,000)	-	18,309,885
Restricted for capital assets and debt service	-	-	92,414	-	92,414
Unrestricted	995,156	(870,405)	12,101	-	136,852
	<u>14,676,772</u>	<u>4,262,864</u>	<u>(400,485)</u>	<u>-</u>	<u>18,539,151</u>
<b>TOTAL</b>	<u>\$ 17,393,981</u>	<u>\$ 6,625,545</u>	<u>\$ 106,421</u>	<u>\$ (700,669)</u>	<u>\$ 23,425,278</u>

**PORT OF TILLAMOOK BAY**  
**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2009**

	GENERAL FUND	RAILROAD FUND	REVENUE BOND FUND	TOTAL
<b>OPERATING REVENUE</b>				
Land and building rent	\$ 1,103,760	\$ 88,936	\$ -	\$ 1,192,696
Charges for services	522,421	2,300	-	524,721
Licenses and permits	1,820	-	-	1,820
Airport revenues	87,867	-	-	87,867
Train switching	-	61,716	-	61,716
Trackage	-	47,358	-	47,358
Passenger train fees	-	8,333	-	8,333
Total operating revenues	<u>1,715,868</u>	<u>208,643</u>	<u>-</u>	<u>1,924,511</u>
<b>OPERATING EXPENSES</b>				
Personal services	742,925	138,080	-	881,005
Materials and services	663,924	208,269	-	872,193
Total operating expenses	<u>1,406,849</u>	<u>346,349</u>	<u>-</u>	<u>1,753,198</u>
<b>OPERATING INCOME (LOSS)</b>	<u>309,019</u>	<u>(137,706)</u>	<u>-</u>	<u>171,313</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Timber sales	4,215	-	-	4,215
Property taxes	41,876	-	-	41,876
Interest income	5,402	1,177	520	7,099
Insurance proceeds	-	8,245	-	8,245
Grant revenues	47,666	29,593	-	77,259
Other nonoperating revenues	135,259	14,276	-	149,535
Other nonoperating expenses	(3,580)	-	(1)	(3,581)
Gain on sale of assets	365,754	74,386	-	440,140
Derailment and accident expense	-	(508)	-	(508)
Interest expense	(103,671)	(69,784)	(20,381)	(193,836)
Amortization expense	(5,332)	(4,465)	(1,493)	(11,290)
Total nonoperating revenue (expenses)	<u>487,589</u>	<u>52,920</u>	<u>(21,355)</u>	<u>519,154</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>				
<b>CAPITAL CONTRIBUTION AND     EXTRAORDINARY ITEM</b>	796,608	(84,786)	(21,355)	690,467
<b>Transfer (to) from other funds</b>				
Transfers in	-	224,680	64,165	288,845
Transfers out	(288,845)	-	-	(288,845)
Capital contribution	369,017	-	-	369,017
Extraordinary item	(82,708)	265,478	-	182,770
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>794,072</u>	<u>405,372</u>	<u>42,810</u>	<u>1,242,254</u>
<b>NET ASSETS, beginning of year</b>	<u>13,882,700</u>	<u>3,857,492</u>	<u>(443,295)</u>	<u>17,296,897</u>
<b>NET ASSETS, end of year</b>	<u>\$14,676,772</u>	<u>\$ 4,262,864</u>	<u>\$ (400,485)</u>	<u>\$18,539,151</u>

**PORT OF TILLAMOOK BAY  
COMBINING SCHEDULE OF CASH FLOWS  
YEAR ENDED JUNE 30, 2009**

	GENERAL FUND	RAILROAD FUND	REVENUE BOND FUND	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 1,563,441	\$ 147,344	\$ -	\$ 1,710,785
Cash paid to suppliers	(701,165)	(400,071)	-	(1,101,236)
Cash paid for personnel services	(723,120)	(187,575)	-	(910,695)
Net cash flows from operating activities	139,156	(440,302)	-	(301,146)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Property taxes	41,245	-	-	41,245
Timber sales	4,215	-	-	4,215
Nonoperating revenues	135,259	14,276	-	149,535
Nonoperating expenses	(3,580)	(508)	(1)	(4,089)
Grant proceeds	47,666	25,655	-	73,321
Issuance of notes	(1,978)	-	-	(1,978)
Storm damage grant proceeds	324,555	1,765,500	-	2,090,055
Storm damage expenditures	(486,514)	(1,456,084)	-	(1,942,598)
Insurance proceeds	-	8,245	-	8,245
Transfers to	(313,030)	-	-	(313,030)
Transfers from	-	248,865	64,165	313,030
Net cash from noncapital financing activities	(252,162)	605,949	64,164	417,951
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Property and equipment additions	(395,857)	(63,834)	-	(459,691)
Proceeds from sale of assets	365,754	74,386	-	440,140
Capital contributions from other governments	283,007	-	-	283,007
Proceeds from notes payable	12,297	1,598	-	13,895
Payments on notes and bonds payable	(101,703)	(110,348)	(40,000)	(252,051)
Payments on capital leases	(25,000)	(35,000)	-	(60,000)
Interest paid on notes and bonds payable	(89,818)	(73,960)	(20,708)	(184,486)
Net cash from capital and related financing activities	48,680	(207,158)	(60,708)	(219,186)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	5,402	1,177	520	7,099
Net increase (decrease) in cash	(58,924)	(40,334)	3,976	(95,282)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	211,077	61,002	88,438	360,517
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 152,153	20,668	\$ 92,414	\$ 265,235

**PORT OF TILLAMOOK BAY  
COMBINING SCHEDULE OF CASH FLOWS (Continued)  
YEAR ENDED JUNE 30, 2009**

	GENERAL FUND	RAILROAD FUND	REVENUE BOND FUND	TOTAL
Cash and cash equivalents classification on statement of net assets:				
Current assets	\$ 152,153	\$ 20,668	\$ -	\$ 172,821
Restricted assets	-	-	92,414	92,414
Total cash	<u>\$ 152,153</u>	<u>\$ 20,668</u>	<u>\$ 92,414</u>	<u>\$ 265,235</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	309,019	(137,706)	-	171,313
Adjustments to reconcile operating income to net cash used by operating activities:				
Provision for uncollectible accounts	28,532	-	-	28,532
(Increase) decrease in assets				
Accounts receivable	(180,672)	(61,299)	-	(241,971)
Inventory	5,608	-	-	5,608
Increase (decrease) in liabilities				
Accounts payable	(55,440)	(191,802)	-	(247,242)
Prepaid rent	12,304	-	-	12,304
Wages and employee benefits payable	19,805	(49,495)	-	(29,690)
Total adjustments	<u>(169,863)</u>	<u>(302,596)</u>	<u>-</u>	<u>(472,459)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 139,156</u>	<u>\$ (440,302)</u>	<u>\$ -</u>	<u>\$ (301,146)</u>

**PORT OF TILLAMOOK BAY GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE BUDGET (NON-GAAP BASIS) AND ACTUAL  
YEAR ENDED JUNE 30, 2009**

	Actual	Budgetary Adjustment	Budgetary Basis	Original Budget	Final Budget	Variance Under (Over)
<b>Revenues:</b>						
Charges for services	\$ 1,714,048	\$ (204,283)	\$ 1,509,765	\$ 1,736,581	\$ 1,736,581	\$ 226,816
Property taxes	41,876	-	41,876	36,000	36,000	(5,876)
Intergovernmental	820,489	-	820,489	75,000	322,500	(497,989)
Licenses and permits	1,820	-	1,820	1,900	1,900	80
Sale of assets	365,754	-	365,754	8,450,000	8,450,000	8,084,246
Timber sales	4,215	-	4,215	5,000	5,000	785
Interest	5,402	-	5,402	7,415	7,415	2,013
Miscellaneous	131,679	6,063	137,742	-	30,000	(107,742)
<b>Total revenues</b>	<b>3,085,283</b>	<b>(198,220)</b>	<b>2,887,063</b>	<b>10,311,896</b>	<b>10,589,396</b>	<b>7,702,333</b>
<b>Expenditures:</b>						
Personal services	742,925	(10,830)	732,095	959,820	1,107,120	375,025
Materials and services	1,150,438	-	1,150,438	563,050	668,250	(482,188)
Capital outlay	-	521,803	521,803	200,000	200,000	(321,803)
Debt service						
Principle	-	114,406	114,406	297,794	297,794	183,388
Interest	109,003	(5,332)	103,671	127,908	127,908	24,237
<b>Total expenditures</b>	<b>2,002,366</b>	<b>620,047</b>	<b>2,622,413</b>	<b>2,148,572</b>	<b>2,401,072</b>	<b>(221,341)</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,082,917</b>	<b>(818,267)</b>	<b>264,650</b>	<b>8,163,324</b>	<b>8,188,324</b>	<b>7,923,674</b>
<b>Other financing uses:</b>						
Operating transfers out	(288,845)	(24,185)	(313,030)	(270,450)	(295,450)	17,580
Contingency	-	-	-	(7,924,889)	(7,924,889)	(7,924,889)
<b>Total other financing sources uses</b>	<b>(288,845)</b>	<b>(24,185)</b>	<b>(313,030)</b>	<b>(8,195,339)</b>	<b>(8,220,339)</b>	<b>(7,907,309)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>\$ 794,072</b>	<b>\$ (842,452)</b>	<b>(48,380)</b>	<b>(32,015)</b>	<b>(32,015)</b>	<b>16,365</b>
<b>Fund balance, beginning of year</b>			<b>171,357</b>	<b>32,015</b>	<b>32,015</b>	<b>(139,342)</b>
<b>Fund balance, end of year</b>			<b>\$ 122,977</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 122,977</b>

**PORT OF TILLAMOOK BAY REVENUE BOND FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE BUDGET (NON-GAAP BASIS) AND ACTUAL  
YEAR ENDED JUNE 30, 2009**

	Actual	Budgetary Adjustment	Budgetary Basis	Original And Final Budget	Variance Under (Over)
Revenues:					
Interest	\$ 520	\$ -	\$ 520	\$ 1,000	\$ (480)
Total revenues	<u>520</u>	<u>-</u>	<u>520</u>	<u>1,000</u>	<u>(480)</u>
Expenditures:					
Debt service:					
Other non-operating	-	-	-	-	-
Principal	-	40,000	40,000	40,000	-
Interest	21,875	(1,166)	20,709	30,450	9,741
Total expenditures	<u>21,875</u>	<u>38,834</u>	<u>60,709</u>	<u>70,450</u>	<u>9,741</u>
Excess (deficiency) of revenues over (under) expenditures	(21,355)	(38,834)	(60,189)	(69,450)	9,261
Other financing sources (uses)					
Transfers in	64,165	-	64,165	70,450	(6,285)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 42,810</u>	<u>\$ (38,834)</u>	3,976	1,000	2,976
Fund balance, beginning of year			<u>88,438</u>	<u>77,500</u>	<u>10,938</u>
Fund balance, end of year			<u>\$ 92,414</u>	<u>78,500</u>	<u>\$ 13,914</u>

**PORT OF TILLAMOOK BAY RAILROAD DIVISION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
YEAR ENDED JUNE 30, 2009**

	Actual	Budgetary Adjustment	Budgetary Basis	Original Budget	Final Budget	Variance Under (Over)
<b>Revenues</b>						
Switching fees	\$ 61,716	\$ -	\$ 61,716	\$ 77,000	\$ 77,000	\$ 15,284
Passenger fares	8,333	-	8,333	2,000	2,000	(6,333)
Trackage	47,358	-	47,358	46,000	46,000	(1,358)
Intergovernmental	1,802,665	-	1,802,665	2,377,369	3,629,369	1,826,704
Land and equipment rent	88,936	-	88,936	56,000	56,000	(32,936)
Sale of property	74,386	-	74,386	166,000	166,000	91,614
Interest	1,177	-	1,177	2,200	2,200	1,023
Miscellaneous	24,313	(15,058)	9,255	75,100	75,100	65,845
<b>Total revenues</b>	<b>2,108,884</b>	<b>(15,058)</b>	<b>2,093,826</b>	<b>2,801,669</b>	<b>4,053,669</b>	<b>1,959,843</b>
<b>Expenditures</b>						
Personal services	421,259	41,845	463,104	471,385	471,385	8,281
Materials and services	1,432,684	-	1,432,684	856,799	2,108,799	676,115
Capital outlay	-	47,004	47,004	1,202,000	1,202,000	1,154,996
Debt service						
Principle	-	143,750	143,750	462,559	462,559	318,809
Interest	74,249	(4,465)	69,784	78,926	78,926	9,142
Contingency	-	-	-	-	-	-
<b>Total expenditures</b>	<b>1,928,192</b>	<b>228,134</b>	<b>2,156,326</b>	<b>3,071,669</b>	<b>4,323,669</b>	<b>2,167,343</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>180,692</b>	<b>(243,192)</b>	<b>(62,500)</b>	<b>(270,000)</b>	<b>(270,000)</b>	<b>(207,500)</b>
<b>Other financing sources</b>						
Operating transfer in	224,680	24,185	248,865	200,000	200,000	48,865
<b>Total financing sources</b>	<b>224,680</b>	<b>24,185</b>	<b>248,865</b>	<b>200,000</b>	<b>200,000</b>	<b>48,865</b>
<b>Excess (deficiency) revenues and other financing sources over expenditures and other financing uses</b>	<b>\$ 405,372</b>	<b>\$ (219,007)</b>	<b>186,365</b>	<b>(70,000)</b>	<b>(70,000)</b>	<b>256,365</b>
Fund balance, beginning of year			(367,646)	35,000	35,000	402,646
Fund balance, end of year			<b>\$ (181,281)</b>	<b>\$ (35,000)</b>	<b>\$ (35,000)</b>	<b>\$ (146,281)</b>

**PORT OF TILLAMOOK BAY RAILROAD DIVISION  
SCHEDULE OF PROPERTY TAX TRANSACTIONS**

---

<u>Year</u>	<u>06/30/08</u>	<u>Lew</u>	<u>Discount</u>	<u>Adjustments &amp; Corrections</u>	<u>Collections</u>	<u>06/30/09</u>
2008-2009	\$ -	\$ 41,274	\$ (963)	\$ (36)	\$ (38,479)	\$ 1,796
2007-2008	1,506	-	-	(8.98)	(744)	753
2006-2007	481	-	-	(1.53)	(185)	294
2005-2006	(187)	-	-	(1.22)	(171)	(359)
2004-2005	(165)	-	-	(0.86)	(51)	(217)
2003-2004	(49)	-	-	(0.73)	-	(50)
2002-2003	(2)	-	-	(0.41)	-	(2)
Prior	(4)	-	-	-	-	(4)
	<u>\$ 1,580</u>	<u>\$ 41,274</u>	<u>\$ (963)</u>	<u>\$ (50)</u>	<u>\$ (39,630)</u>	<u>\$ 2,211</u>

**PORT OF TILLAMOOK BAY, OREGON**  
**AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS**  
**June 30, 2009**

---

Introduction

Oregon Administrative Rules 162-10-000 through 162-10-330 incorporate the Minimum Standards for Audits of Oregon Municipal Corporations. These standards, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding section of this report. Required comments and disclosures related to our audit of such statements and schedules are contained in this section.

Internal Accounting Control

We have audited the financial statements of the Port of Tillamook Bay, Oregon (the Port) for the year ended June 30, 2009 and have issued our report thereon dated October 4, 2010.

The management of the Port is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

We noted certain matters that we reported to management of the Port in a separate letter dated October 4, 2010.

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

In connection with our audit:

Accounting Records

We found the accounting records of the Port to be adequate for audit purposes considering the size and complexity of the municipal corporation.

Collateral

The Port was in compliance with ORS Chapter 295 regarding collateral securing deposits for fiscal year ended June 30, 2009.

**PORT OF TILLAMOOK BAY, OREGON**  
**AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS**  
**June 30, 2009**

---

Indebtedness

During our audit, nothing came to our attention that caused us to believe the Port was not in compliance with limitation and the provision of bond indentures and other agreements.

Budgets

We reviewed budgets adopted by the Port for the current and ensuing fiscal year. Budget preparation and adoption procedures followed by the Port appear to be in compliance with Oregon Local Budget Law (ORS Chapter 294.305 to 294.520), with the following exceptions:

Expenditures in the following fund exceeded appropriations for the year ended June 30, 2009:

<u>Fund</u>	<u>Budget Category</u>	<u>Amount of Over-expenditure</u>
General Fund	Materials and services	\$ 482,188
General Fund	Capital outlay	\$ 321,803

Insurance and Fidelity Bonds

We reviewed policies relating to insurance and fidelity bond coverage and ascertained that such policies appeared to be in force. We are not competent by training to state whether the insurance policies covering Port-owned property in force at June 30, 2009 are adequate.

Programs Funded from Outside Sources

We reviewed and tested, to the extent we considered necessary in the circumstances, transactions and reports relative to federal and state grant programs. The Port appeared to have appropriate procedures for making expenditures on behalf of, and reporting for, such programs.

Highway Funds

The Port does not receive Highway Funds.

Investments

The Port's investments for the year ended June 30, 2009 were tested and appear to be in compliance with Oregon Revised Statutes Chapter 294 with regard to legal restrictions pertaining to the investment of public funds.

Public Contracts and Purchasing

We reviewed and tested the Port's procedures for awarding public contracts. The Port appears to be in compliance with the cost accounting guidelines developed by the State of Oregon Executive Department with regard to the Port's construction projects and ORS Chapter 279 in the awarding of public contracts and the construction of public improvements.

**PORT OF TILLAMOOK BAY, OREGON**  
**AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS**  
**June 30, 2009**

---

Independently Elected Officials

The Independently Elected Officials of the Port do not receive and disburse funds. Accordingly a Schedule of Accountability for Independently Elected Officials is not included.

*Merina & Company, LLP*

Merina & Company, LLP  
West Linn, Oregon  
October 4, 2009

## **SINGLE AUDIT COMPLIANCE**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

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

We have audited the financial statements of the Port of Tillamook Bay, Oregon, (the Port), as of and for the year ended June 30, 2009, and have issued our report thereon dated October 4, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Port's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Port's financial statements that is more than inconsequential will not be prevented or detected by the Port's internal control. We consider the deficiencies described in the accompanying schedule of

findings and questioned costs to be significant deficiencies in internal control over financial reporting. (FS 2009-1, FS 2009-2 and FS 2009-3).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Port's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider items FS 2009-1 and FS 2009-2 to be material weaknesses.

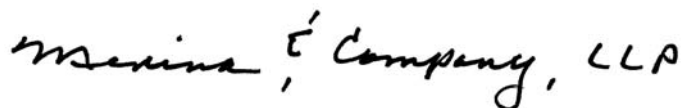
### Compliance and Other Matters

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

We noted certain matters that we reported to management of the Port, in a separate letter dated October 4, 2010.

The Port's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Port's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Merina & Company, LLP  
West Linn, Oregon  
October 4, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Commissioners  
Port of Tillamook Bay, Oregon

Compliance

We have audited the compliance of Port of Tillamook Bay, Oregon, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Port of Tillamook Bay, Oregon's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Port of Tillamook Bay, Oregon's management. Our responsibility is to express an opinion on Port of Tillamook Bay, Oregon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Port of Tillamook Bay, Oregon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Port of Tillamook Bay, Oregon's compliance with those requirements.

In our opinion, Port of Tillamook Bay, Oregon, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

## Internal Control Over Compliance

The management of Port of Tillamook Bay, Oregon, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Port of Tillamook Bay, Oregon's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Port of Tillamook Bay, Oregon's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Merina & Company, LLP  
West Linn, Oregon  
October 4, 2010

**PORT OF TILLAMOOK BAY, OREGON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Agency or Pass Through Number	Federal Expenditures
<b><u>Department of Homeland Security</u></b>			
<i>Public Assistance Grant Program</i>	97.036	<i>Oregon Emergency Management 248</i>	\$ 2,038,339
<b><u>US Department of Transportation</u></b>			
<i>Rail-Highway Crossing Project</i>	20.205	<i>Oregon Dept. of Transportation 73000</i>	<u>29,939</u>
<b>Grand Total</b>			<u><u>\$ 2,068,278</u></u>

**PORT OF TILLAMOOK BAY, OREGON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2009**

---

Note 1. General

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Port of Tillamook Bay, Oregon.

Note 2. Significant Accounting Policies

**Reporting Entity:** The reporting entity is fully described in Note 1 to the Port's basic financial statements. The schedule includes all federal financial assistance programs administered by the Port for the year ended June 30, 2009.

**Basis of Presentation:** The information in the Schedule is presented in accordance with OMB Circular A-133.

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

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

**Revenue Recognition:** The receipt and expenditure of federal awards are accounted for under the accrual method of accounting. Expenditures are recorded when the liability is incurred.

**PORT OF TILLAMOOK BAY, OREGON  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2009**

---

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiency(s) identified that are  
 Not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiency (s) identified that are  
 Not considered to be material weaknesses?  Yes  None reported

Type of auditor’s report issued on compliance for major  
 Programs: Unqualified

Any audit findings disclosed that are required to be  
 Reported in accordance with OMB Circular A-133,  
 Section 510(a)?  Yes  No

**Identification of major programs:**

**CFDA Number    Name of Federal Program or Cluster**

97.036                      Public Assistance Grant Program

Dollar threshold used to distinguish between Type A  
 Type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

**PORT OF TILLAMOOK BAY, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2009**

---

**Section II – Financial Statement Findings**

2009-FS-1

Condition: We were unable to obtain evidence supporting the recorded values of the capital assets because detailed records and documentation of historical cost are not available. In addition, the values of the assets originally donated to the Port from the federal government are not properly supported by appraisals or other verifiable documentation.

Criteria: General Accepted Accounting Principles (GAAP) requires capital assets be reported at historical cost and donated assets to be reported at fair market value on the date of donation.

Effect: Because capital assets are not properly reported, the financial statements contain a departure from General Accepted Accounting Principles (GAAP).

Cause: The Port does not have detailed records and documentation of historical cost or other verifiable documentation to support the values of the capital assets.

Recommendation: The Port should perform an analysis or obtain an independent review to determine the appropriate value of the Port's capital assets.

Auditee Response: The Port has recently contracted with an accounting firm to perform the analysis on all of the assets for the Port and Railroad as to properly record their value. That contract should commence before the end of October 2010. Additionally, upgraded software (from Peachtree to SAGE MIP) is being purchased, as well as new servers and desktop.

2009-FS-2

Condition: The Port does not provide for the depreciation on its capital assets and does not capitalize interest costs during construction of capital assets.

Criteria: Depreciation of such assets and capitalization of interest are required by generally accepted accounting principles.

Effect: By not recording depreciation and capitalization of interest, the Port's financial statements contain a departure from General Accepted Accounting Principles (GAAP).

Cause: The Port does not have the accounting software system to track and depreciate these capital assets and does not have the expertise or resources to capitalize interest costs during construction.

**PORT OF TILLAMOOK BAY, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2009**

---

Recommendation: We recommend that the Port obtain an asset software system to track depreciation for all capital assets. In addition, the Port's management should include capitalized interest costs during construction of capital assets, when applicable.

Auditee Response: The Port has recently contracted with an accounting firm so that once the assets are recorded, they can be properly depreciated and conform to GAAP. The software purchase works in conjunction with the contract for the accounting firm.

2009-FS-3

Condition: Revenue was not recognized in the proper period.

Criteria: Generally Accepted Accounting Principles (GAAP) requires revenue to be recorded when the earning process is complete.

Effect: Revenues that are not recorded in the proper period could cause the financial statements to be materially misstated.

Cause: Proper procedures were not in place to ensure revenue was recorded when earned.

Recommendation: We recommend that the Port develop procedures to record revenue accruals at year end.

Auditee Response: The Port has reinstated prior practice to record a "grants receivable" at the end of each accounting period that will again incorporate any expense incurred and requested as reimbursement for projects. By doing this monthly, all revenues will be recorded properly as they arrive and be posted to the grants receivable account, and will also show on a monthly basis on the balance sheet presented to the board of commissioners.

**Section III – Federal Awards Findings and Questioned Costs**

None

**Section IV – Schedule of Prior Federal Award Findings and Questioned Costs for the Years Ended June 30, 2008**

None