

PORT OF TILLAMOOK BAY, OREGON
FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

MERINA
& COMPANY, LLP

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INTRODUCTORY SECTION

PORT OF TILLAMOOK BAY, OREGON

PRINCIPAL OFFICIALS

June 30, 2014

Jim Young, President
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Tillamook, Oregon 97141

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

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

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

John Lewis, Board member
Suite 100
4000 Blimp Blvd.
Tillamook, Oregon 97141

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

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Tillamook Bay, Oregon (the Port), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 19 to the financial statements, the Port adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The introductory section, supplementary information and other financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2015 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is issued separately and is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port's internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated April 17, 2015, on our consideration of the Port's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Merina & Company, LLP
West Linn, Oregon
April 17, 2015

**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, 2014, including all accompanying notes to the financial statements.

Definitions:

- *Statement of Net Position* – presents the current and long-term portions of assets and liabilities separately and may provide a useful indicator of whether the financial position of the Port is improving.
- *Statement of Revenues, Expenses and Changes in Net Position* – presents information showing how net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that do not affect cash until future fiscal periods, e.g. accrued vacation.
- *Statement of Cash Flows* – presents information showing how the Port's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and included the reconciliation of operation income to net cash provided by operating activities as required by GASB 34.

Financial Highlights:

- The Port of Tillamook Bay's assets exceeded its liabilities at June 30, 2014 by \$46,118,682 (net position), an increase of \$94,602 or 1% over fiscal year 2012-2013.
- Capital assets increased by \$1,906,491 or 36% from the 2012-2013 year due to the FEMA capital projects that were completed during the year.
- The Port experienced a decrease in revenues of \$15,692,045 from the previous year due to the majority of FEMA projects being completed or near completion in prior years.

Brief discussion of basic financial statements:

The Port of Tillamook Bay (Port) maintained two funds for fiscal year 2013-2014; the General Fund, and the Revenue Bond Fund, which is a Special Fund. Accounting is performed on an accrual accounting basis. Within the General Fund, departments have been designated to identify, define and budget for specific areas of operation, including Administration, Airport, Industrial Park, Utilities, Railroad and Digester. Under the reporting model, the financial statements are comprised of three parts: 1) Basic financial statements, 2) Notes to the basic financial statements, and 3) Supplementary information.

Condensed financial information:

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

The permanent property tax rate for the Port of Tillamook Bay is .0364 per thousand of assessed value, and was established by the State of Oregon for most municipalities and districts in Oregon in 1997-1998. Not including grant funds received, revenues from property taxes are minimal and represented only approximately 1% of the General Fund revenue for fiscal year 2013-2014. The opportunity to increase this permanent tax rate exists, however, any change would have to be approved by the electors within the Port's geographic boundaries. Of course, the increased revenue would improve revenues for the General Fund and assist in Port operations.

The *statement of net position* presents information on all the Port's assets and liabilities, with the difference between the two reported as net position. The capital assets (land, buildings, equipment, and infrastructure) are included in this statement are now reported at depreciated value. The Port has analyzed all existing capital assets including purchased asset software and now depreciates capital assets. The *statement of 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 Position

	Balances as of June 30			Increases (Decreases)	
	2014	Restated 2013	Restated 2012	2013 to 2014	2012 to 2013
Assets					
Current Assets	\$ 1,211,229	\$ 1,665,376	\$ 3,198,478	\$ (454,147)	\$ (1,533,102)
Restricted Assets	1,122,531	1,112,557	5,318,386	9,974	(4,205,829)
Other Assets	-	-	14,873	-	(14,873)
Capital Assets	53,574,240	51,667,749	33,673,026	1,906,491	17,994,723
Total Assets	<u>\$ 55,908,000</u>	<u>\$ 54,445,682</u>	<u>\$ 42,204,763</u>	<u>\$ 1,462,318</u>	<u>\$ 12,240,919</u>
Liabilities					
Current Liabilities	5,894,034	4,201,256	5,268,702	1,692,778	(1,067,446)
Long Term Liabilities	3,660,284	3,935,346	8,477,153	(275,062)	(4,541,807)
Liabilities Payable From Restricted	235,000	285,000	335,000	(50,000)	(50,000)
Total Liabilities	<u>9,789,318</u>	<u>8,421,602</u>	<u>14,080,855</u>	<u>1,367,716</u>	<u>(5,659,253)</u>
Net Position					
Net Investment in Capital Assets	46,619,381	46,791,577	28,805,622	(172,196)	17,985,955
Restricted	97,058	92,605	94,543	4,453	(1,938)
Unrestricted	(597,757)	(860,102)	(776,257)	262,345	(83,845)
Total Net Position	<u>\$ 46,118,682</u>	<u>\$ 46,024,080</u>	<u>\$ 28,123,908</u>	<u>\$ 94,602</u>	<u>\$ 17,900,172</u>

Condensed Statement of Activities

	Activities for Fiscal Years Ending June 30			Dollars	
	2014	Restated 2013	Restated 2012	2013 to 2014	2012 to 2013
Operating Revenues					
Land & Building	\$ 579,854	\$ 994,803	\$ 961,320	\$ (414,949)	\$ 33,483
Charges for services	1,002,659	355,687	639,987	646,972	(284,300)
Airport Revenues	104,298	107,743	96,402	(3,445)	11,341
Railroad Revenues	196,908	377,738	323,555	(180,830)	54,183
Total Operating Revenues	1,883,719	1,835,971	2,021,264	47,748	(185,293)
Operating Expenses:					
Personal Services	1,162,850	1,132,751	1,195,909	30,099	(63,158)
Materials and Services	1,613,234	1,021,855	1,244,575	591,379	(222,720)
Depreciation and amortization	3,025,559	1,593,655	1,409,372	1,431,904	184,283
Total Operating Expenses	5,801,643	3,748,261	3,849,856	2,053,382	(101,595)
Operating Income (Loss)	(3,917,924)	(1,912,290)	(1,828,592)	(2,005,634)	(83,698)
Non-operating Revenues (Expenses)					
Grant proceeds	204,075	(32,385)	147,126	236,460	(179,511)
Change in Net Position	3,808,451	19,859,720	9,429,256	(16,051,269)	10,430,464
Net Position- Beginning	94,602	17,915,045	7,747,790	(17,820,443)	10,167,255
Net Position- Ending	46,024,080	28,109,035	20,361,245	17,915,045	7,747,790
Net Position- Ending	\$ 46,118,682	\$ 46,024,080	\$ 28,109,035	\$ 94,602	\$ 17,915,045

Analysis of the overall financial position and results of operations:

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

The Port operates a manure digester, of which a new facility was constructed. Revenues include selling power 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. The Port continues to explore other revenue sources to ensure success of the digester. The Port has used consultants for this and many other tasks.

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

taken over full operational authority and responsibility for maintenance. The total FEMA Alternate Project amount is \$44.6 million. Currently, the Port is working with Oregon Department of Forestry and Oregon Parks and Recreation Department on a Master Plan for a potential trail in the Salmonberry Canyon where the railroad right of way is located.

Analysis of balances and transactions of individual funds:

The General Fund’s main revenue is from the rental of industrial property to commercial tenants, airport operations, and water and sewer services. The digester, even while under construction, 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, and to secure contracts for the products. 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, 2014, the net operating income of the Port’s general operations was \$(3,917,924). The General Fund’s net position increased by \$39,805. For the year ending June 30, 2014, the Revenue Bond Fund, had an increase in net position of \$54,797. The Port total net position, as of June 30, 2014, was \$46,118,682, an increase from the previous year of \$94,602. Overall, this trend continues because of the dramatic impact of the FEMA projects, which are all capital improvements, and the remainder of the operations staying fairly static. It is anticipated that once the FEMA and other capital projects are completed that this trend will change to a more operational standard, specifically as staff shifts from an emphasis on project completion to regular operations.

Capital Assets and Debt Administration:

As of June 30, 2014, the Port had \$53,574,240 in capital assets net of accumulated depreciation. The Port’s capital assets increased 6% during 2014. This increase is mainly due to FEMA grants that funded various capital projects. For more detailed information regarding the Port’s capital assets refer to notes to the basic financial statements.

Capital Assets at Year End

	06/30/13	06/30/14
Land	\$ 4,104,234	\$ 4,104,234
Land Improvements	17,352,755	23,245,014
Buildings	32,521,713	33,552,245
Leasehold Improvements	259,463	248,331
Machinery & Equipment and Rail Equipment	12,612,523	12,470,799
Furniture & Fixtures	19,803	19,803
Intangible Assets	1,767,331	1,767,331
Construction in Progress	6,745,416	4,742,422
Total Capital Assets	75,383,238	80,150,179
Accumulated Depreciation and Amortization	23,715,489	26,575,939
Net Capital Assets	\$ 51,667,749	\$ 53,574,240

Outstanding Long Term Debt

	<u>6/30/2012</u>	<u>6/30/2013</u>	<u>6/30/2014</u>
Bonds:	\$ 925,000	\$ 800,000	\$ 665,000
Notes Payable	<u>2,191,559</u>	<u>1,959,489</u>	<u>1,708,249</u>
Total Long Term Debt	<u>\$ 3,116,559</u>	<u>\$ 2,759,489</u>	<u>\$ 2,373,249</u>

The Port’s total long-term debt decreased by \$386,240 or 14% during 2014, to \$2,373,249 as the Port continued to pay down previous debt incurred. *L07004 – Repayment of this loan will be forgiven by the State, with the condition the Port remain current on all other outstanding debt owed to Business Oregon (OBDD), formerly Oregon Economic & Community Development (OECDD).

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

1. The Federal Aviation Administration and the Oregon Department of Aviation recognizes that it is highly unlikely that the Port airport can generate enough income to support the necessary maintenance of asphalt runways and taxis, and navigational aids. Therefore, these state and federal agencies make available funding opportunities in order for the continued operation of the airport through PMP (Pavement Management Program) and Airport Improvement Programs (AIP). The Port has received a \$2.6 million grant for a runway overlay to be completed in fiscal year 2013-2014.
2. As stated previously, due to storm damage to the railroad, activity has been extremely limited on the rail. On the east side of the tracks, there is twenty-six (26) miles of track 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. OCSR has full operations authority and absorb all maintenance of crossings and track, and any improvements are for their business.
3. The Port continues to search and apply for grants and loans to complete the capital projects for all aspects of operation, including marketing.
4. As of January 1, 2015, the Port entered into an Agreement with the Erickson Group, a tenant who operated the Tillamook Air Museum. The complete impact of this on the Port’s financials will not be known until a full fiscal year of operation has occurred, which will be operations through June 30, 2016. The Port immediately hired staff for the

museum and started doing renovations and cleaning of the area, as well as increased retail operations and advertising.

Requests for Information:

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

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BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

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

PORT OF TILLAMOOK BAY
STATEMENTS OF NET POSITION
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	Restated 2013
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 358,863	\$ 115,878
Accounts receivables, net of allowance	109,596	100,195
Property taxes receivable	3,622	3,970
Cash with county	250	250
Grants receivable	717,463	1,423,087
Inventory	21,435	21,696
Prepaid expenses	-	300
Total current assets	<u>1,211,229</u>	<u>1,665,376</u>
CURRENT RESTRICTED ASSETS:		
Cash and cash equivalents	<u>1,122,531</u>	<u>1,112,557</u>
Total current restricted assets	<u>1,122,531</u>	<u>1,112,557</u>
NONCURRENT ASSETS:		
Capital assets, net	<u>53,574,240</u>	<u>51,667,749</u>
Total noncurrent assets	<u>53,574,240</u>	<u>51,667,749</u>
Total assets	<u>\$ 55,908,000</u>	<u>\$ 54,445,682</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 542,147	\$ 1,334,622
Accrued payroll and related expenses	65,671	47,363
Accrued vacation	82,476	45,819
Other accrued liabilities	105,483	150,832
Accrued interest payable	22,889	27,174
Unearned revenue	25,444	14,396
Long-term debt obligations, current portion	393,936	382,590
Line of credit	<u>4,655,988</u>	<u>2,198,460</u>
Total current liabilities	<u>5,894,034</u>	<u>4,201,256</u>
NONCURRENT LIABILITIES:		
Long-term debt obligations, net of current portion	1,744,313	2,091,899
Unearned revenue	1,025,473	1,019,952
Landfill post-closure liability	890,498	823,495
Total noncurrent liabilities	<u>3,660,284</u>	<u>3,935,346</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Revenue bonds	<u>235,000</u>	<u>285,000</u>
Total liabilities, payable from restricted assets	<u>235,000</u>	<u>285,000</u>
Total liabilities	<u>9,789,318</u>	<u>8,421,602</u>
NET POSITION:		
Net investment in capital assets	46,619,381	46,791,577
Restricted for debt service	97,058	92,605
Unrestricted	<u>(597,757)</u>	<u>(860,102)</u>
Total net position	<u>46,118,682</u>	<u>46,024,080</u>
Total liabilities and net position	<u>\$ 55,908,000</u>	<u>\$ 54,445,682</u>

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

PORT OF TILLAMOOK BAY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	Restated 2013
OPERATING REVENUES:		
Charges for services	\$ 579,854	\$ 355,687
Building and land rent	1,002,659	994,803
Airport revenues	104,298	107,743
Railroad revenues	196,908	377,738
Total operating revenues	<u>1,883,719</u>	<u>1,835,971</u>
OPERATING EXPENSES:		
Personnel services	1,162,850	1,132,751
Materials and services	1,613,234	1,021,855
Depreciation	3,025,559	1,593,655
Total operating expenses	<u>5,801,643</u>	<u>3,748,261</u>
Operating income (loss)	(3,917,924)	(1,912,290)
NON-OPERATING REVENUES (EXPENSES):		
Property taxes	47,541	47,627
Interest income	688	16,560
Capital grants	3,808,451	19,859,720
Timber sales	6,227	5,243
Insurance proceeds	-	4,297
Other nonoperating revenue	414,835	84,088
Forgiveness of debt	4,092	-
Sale of assets	1,234	-
Gain on sale of assets	-	65,460
Interest expense	(270,542)	(255,660)
Total non-operating income (expenses)	<u>4,012,526</u>	<u>19,827,335</u>
Changes in net position	94,602	17,915,045
NET POSITION, BEGINNING	<u>46,024,080</u>	<u>28,109,035</u>
NET POSITION, ENDING	<u>\$ 46,118,682</u>	<u>\$ 46,024,080</u>

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

PORT OF TILLAMOOK BAY
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	Restated 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,874,618	\$ 1,818,531
Cash paid to suppliers	(1,606,984)	(882,316)
Cash paid for personnel services	(1,107,885)	(1,140,221)
Net cash provided (used) by operating activities	(840,251)	(204,006)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property taxes received	47,889	45,813
Timber sales	6,227	5,243
Insurance proceeds	-	4,297
Non operating revenues	414,835	84,088
Net cash provided (used) by non-capital financing activities	468,951	139,441
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(5,697,812)	(20,673,581)
Proceeds from sale of assets	1,234	65,460
Grant proceeds	4,519,596	17,179,785
Principal payment on notes and bond payable	(382,148)	(357,070)
Interest paid on notes and bond payable	(274,827)	(256,377)
Line of credit proceeds (payments)	2,457,528	(152,389)
Net cash provided (used) by capital and related financing activities	623,571	(4,194,172)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	688	16,560
Net cash provided (used) by investing activities	688	16,560
Net increase (decrease) in cash and cash equivalents	252,959	(4,242,177)
CASH AND CASH EQUIVALENTS, BEGINNING	1,228,435	5,470,612
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,481,394	\$ 1,228,435

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

PORT OF TILLAMOOK BAY
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Fiscal Years Ended June 30, 2014 and 2013

CLASSIFIED ON THE STATEMENT OF NET POSITION AS:

Cash and cash equivalents	\$ 358,863	\$ 115,878
Restricted cash and cash equivalents	<u>1,122,531</u>	<u>1,112,557</u>

Total cash and cash equivalents	<u>\$ 1,481,394</u>	<u>\$ 1,228,435</u>
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**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (3,917,924)	\$ (1,912,290)
Adjustments:		
Depreciation and amortization	3,025,559	1,593,655
Decrease (increase) in:		
Account receivable	(9,401)	(17,440)
Prepaid expenses	300	-
Inventory	261	(3,608)
Increase (decrease) in:		
Accounts payable	(26,713)	138,602
Accrued payroll and related expenses	54,965	(7,470)
Unearned revenue	11,048	9,240
Landfill liability	67,003	-
Other accrued liabilities	<u>(45,349)</u>	<u>(4,695)</u>
Net cash provided (used) by operating activities	<u>\$ (840,251)</u>	<u>\$ (204,006)</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Debt principle payment forgiveness	\$ 4,092	\$ -
	<u>\$ 4,092</u>	<u>\$ -</u>

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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 formed¹² by special election in 1911 to incorporate land at the entrance to Tillamook Bay and named the Port of Bay Ocean. In 1948 at a special election, additional land at the entrance to Tillamook Bay was incorporated into the Port for the purpose of constructing a jetty to protect the bay. In 1953, a special election was held to incorporate 1600 acres of land, two blimp hangars, and various other buildings from the federal government. The commissioners on November 4, 1953 declared that with the inclusion of the territory adjacent to the Port of Tillamook, it was advisable to change the name of the Port of Bay Ocean to the Port of Tillamook Bay. The Port is governed by an elected five-member Board of Directors. The Board members set Port policy, appropriates funds, adopts budgets, and performs other duties required by state laws.

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

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

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

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

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

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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, septage receiving, digester fiber sales, electric power sales, and water and sewer fees. Operating expenses include the cost of providing the services mentioned above, as well as administrative expenses. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

Accounts receivable - Accounts receivable are unsecured and consist primarily of rents due from tenants within the industrial park. The Port's tenants are located in the Pacific Northwest. The Port establishes a reserve for bad debts based on prior history and a review of individual customer accounts. The reserve totaled \$72,094 and \$35,967 as of June 30, 2014 and 2013, 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 by contract and the related liabilities are segregated on the balance sheet. Assets so classified are held to make payments on bonded indebtedness and for purchase or construction of capital assets. When both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital assets - All purchased property and equipment are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated property and equipment are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Expenses for additions and improvements with a value of \$5,000 or more and a useful life of

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more than one year are capitalized. Capital assets, excluding land and construction in progress are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

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

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

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

Unearned revenue - Grant proceeds and rental income received prior to and earned after year end are recorded as unearned revenue. Unearned revenue at June 30, 2014 and 2013 was \$ \$1,050,917 and \$1,034,348, respectively.

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

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

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

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

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

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

PORT OF TILLAMOOK BAY
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levied during the current year are recorded as nonoperating revenue, and any amounts uncollected at year-end are recorded as a current asset.

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

Budgets and budgetary accounting - The Port is required by Oregon State Law to adopt an annual appropriated budget. The budgetary fiscal period coincides with the annual reporting period (July 1 through June 30). Appropriated budgets are adopted by the executive body and, accordingly, used as a management control device for all funds. The Port prepared its budget using the modified accrual basis of accounting for the years ended June 30, 2013 and 2014, which is an acceptable basis of accounting.

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. There were no changes to the budget through supplemental budgets and appropriation transfers for the year ended June 30, 2014. 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.

Expenditures in the General Fund exceeded debt service appropriations by \$3,970,476 and transfers out appropriations by \$5,442 for the year ended June 30, 2014.

Deficit Net Position - The Revenue Bond Fund has a deficit balance of \$189,032 on the full accrual basis. This is a result of recording the bonded debt within this fund while the resources used in repayment of the bond are recorded in the general fund.

PORT OF TILLAMOOK BAY
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NOTE 3 - CASH AND CASH EQUIVALENTS

Following is a summary of the Port's deposit and investment balances at June 30, 2014 and 2013:

Cash deposits	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 300	\$ 300
Bank deposits	<u>270,444</u>	<u>161,514</u>
Total cash and bank deposits	\$ 270,744	\$ 161,814
Cash and investments		
Investments in the State and Local Government	<u>\$ 1,210,650</u>	<u>\$ 1,066,621</u>
Total deposits and investment	<u><u>\$ 1,481,394</u></u>	<u><u>\$ 1,228,435</u></u>
These balances reconcile to the balance sheet as follows:		
Current assets	\$ 358,863	\$ 115,878
Restricted assets	<u>1,122,531</u>	<u>1,112,557</u>
	<u><u>\$ 1,481,394</u></u>	<u><u>\$ 1,228,435</u></u>

Deposit and Investment Risk

The following investment risk information is presented for the year ending June 30, 2014 in accordance with GASB 40 *Deposit and Investment Risk Disclosures*.

As of June 30, 2014, the Port had the following cash equivalents:

	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
Investments in the State Treasurer's Local Government Investment Pool	<u>0.00</u>	<u>\$1,210,650</u>
Total cash equivalents	<u><u>0.00</u></u>	<u><u>\$1,210,650</u></u>

Interest Rate Risk

Interest rate risk is the risk of exposure to fair value losses resulting from rising interest rates. The Port does not have a formal investment policy that limits investment maturities as a means of managing its

PORT OF TILLAMOOK BAY
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exposure to fair value losses arising from increasing interest rates. However, the Port has minimal interest rate risks because all of its deposits and investments are held in demand accounts with banks and the Local Government Investment Pool.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a financial institution, the Port would not be able to recover the value of its deposits and investments that are in the possession of the financial institution. The Port's demand deposit accounts and savings accounts with financial institutions are each insured by the Federal Depository Insurance Corporation (FDIC) up to a maximum of \$250,000. Oregon statutes require depositories qualified to hold public funds to participate in the Oregon Public Funds Collateralization Program (PFCP) in which depositories become part of a multiple financial institution collateral pool and are required to pledge as collateral, securities with a value at least equal to their maximum liability towards protecting public funds in the event one or more of the participating depositories fail. Although the PFCP creates a shared liability structure for participating bank depositories, it does not guarantee that all funds are 100% protected. The Port's demand deposits of \$270,444 and \$161,514 as of June 30, 2014 and 2013, respectively, were 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 Port uses a Local Government Investment Pool with the State of Oregon for its investments. The fair value of the Port's share of the pool assets approximates its deposits plus accrued interest. The Oregon Short Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). The Port can draw on its deposits in the Pool upon demand, and therefore, classifies this as a cash equivalent. The Local Government Investment Pool is not rated.

Concentration of Credit Risk

The Port does not limit the amount that may be invested in any one issuer. At June 30, 2014 and 2013, \$1,210,650 (82%) and \$1,066,621 (87%), 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 \$48,237 and \$46,531 for fiscal years ending June 30, 2014 and 2013, respectively. Property taxes receivable as of June 30, 2014 and 2013 is \$3,622 and \$3,970, respectively.

PORT OF TILLAMOOK BAY
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NOTE 5 - CAPITAL ASSETS

Capital asset activity and balances consist of the following for the year ended June 30, 2014:

	Balance 06/30/13	Additions	Transfers	Deletions	Balance 06/30/14
Capital assets, non depreciable					
Land	\$ 4,104,234	\$ -	\$ -	\$ -	\$ 4,104,234
Construction in progress	6,745,416	4,927,197	(6,930,191)	-	4,742,422
Total capital assets non depreciable	<u>10,849,650</u>	<u>4,927,197</u>	<u>(6,930,191)</u>	<u>-</u>	<u>8,846,656</u>
Capital assets, depreciable					
Land improvements	17,352,755	-	5,892,259	-	23,245,014
Buildings	32,521,713	-	1,037,932	(7,400)	33,552,245
Leasehold improvements	259,463	-	-	(11,132)	248,331
Machinery & equipment	9,517,473	5,000	-	(146,724)	9,375,749
Rail equipment	3,095,050	-	-	-	3,095,050
Furniture & fixtures	19,803	-	-	-	19,803
Intangible assets	1,767,331	-	-	-	1,767,331
Total capital assets, depreciable	<u>64,533,588</u>	<u>5,000</u>	<u>6,930,191</u>	<u>(165,256)</u>	<u>71,303,523</u>
Less: accumulated depreciation					
Land improvements	(7,436,830)	(895,076)	-	-	(8,331,906)
Buildings	(11,250,684)	(719,764)	-	7,400	(11,963,048)
Leasehold improvements	(173,648)	(23,807)	-	11,132	(186,323)
Machinery & equipment	(1,719,632)	(1,141,118)	-	146,577	(2,714,173)
Rail equipment	(1,704,140)	(189,064)	-	-	(1,893,204)
Furniture & fixtures	(473)	(2,795)	-	-	(3,268)
Intangible assets	(1,430,082)	(53,935)	-	-	(1,484,017)
Total accumulated depreciation	<u>(23,715,489)</u>	<u>(3,025,559)</u>	<u>-</u>	<u>165,109</u>	<u>(26,575,939)</u>
Net depreciable, capital assets	<u>40,818,099</u>	<u>(3,020,559)</u>	<u>6,930,191</u>	<u>(147)</u>	<u>44,727,584</u>
Total net capital assets	<u>\$ 51,667,749</u>	<u>\$ 1,906,638</u>	<u>\$ -</u>	<u>\$ (147)</u>	<u>\$ 53,574,240</u>

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Capital asset activity and balances consist of the following for the year ended June 30, 2013:

	Balance 06/30/12	Additions	Transfers	Deletions	Balance 06/30/13
Capital assets, non depreciable					
Land	\$ 4,104,234	\$ -	\$ -	\$ -	\$ 4,104,234
Construction in progress	12,008,381	19,275,497	(24,538,462)	-	6,745,416
Total capital assets non depreciable	16,112,615	19,275,497	(24,538,462)	-	10,849,650
Capital assets, depreciable					
Land improvements	12,224,518	-	5,128,237	-	17,352,755
Buildings	20,000,998	-	12,520,715	-	32,521,713
Leasehold improvements	259,463	-	-	-	259,463
Machinery & equipment	2,514,094	293,318	6,710,061	-	9,517,473
Rail equipment	3,095,050	-	-	-	3,095,050
Furniture & fixtures	240	19,563	-	-	19,803
Intangible assets	1,587,882	-	179,449	-	1,767,331
Total capital assets, depreciable	39,682,245	312,881	24,538,462	-	64,533,588
Less: accumulated depreciation					
Land improvements	(6,855,146)	(581,684)	-	-	(7,436,830)
Buildings	(10,825,210)	(425,474)	-	-	(11,250,684)
Leasehold improvements	(149,841)	(23,807)	-	-	(173,648)
Machinery & equipment	(1,389,207)	(330,425)	-	-	(1,719,632)
Rail equipment	(1,515,076)	(189,064)	-	-	(1,704,140)
Furniture & fixtures	(240)	(233)	-	-	(473)
Intangible assets	(1,387,114)	(42,968)	-	-	(1,430,082)
Total accumulated depreciation	(22,121,834)	(1,593,655)	-	-	(23,715,489)
Net depreciable, capital assets	17,560,411	(1,280,774)	24,538,462	-	40,818,099
Total net capital assets	\$ 33,673,026	\$17,994,723	\$ -	\$ -	\$51,667,749

Construction in progress consists of the FEMA alternative projects as approved by the board. Capital projects are financed by federal grants, state matching funds and internal resources. There was no interest capitalized during the years ended June 30, 2014 and 2013.

NOTE 6 - SHORT-TERM DEBT

As discussed in Note 16, Port was awarded grant funds from both FEMA and State Lottery Bond proceeds for approved FEMA grant funded Alternate Projects. FEMA funding is on a “reimbursement” basis, requiring the Port to pay vendors first, then request reimbursement. To ensure the Port’s ability to pay vendors on schedule, the Board of Commissioners approved establishing lines of credit to be accessed for vendor payment, and reimbursed when grant funds were received. The first was approved by the Board on November 5, 2010, for \$1 million which expires on October 10, 2015. On May 27, 2011, an additional \$5 million line of credit was approved as the number of projects, available construction windows, and related costs increased. This line of credit expires on October 10, 2016. On

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November 30, 2010, a third line of credit was approved for \$150,000 which was used to pay off a Sterling bank account balance. This line of credit was scheduled to expire on December 10, 2014, but has been extended to a future date. A schedule of changes in short-term debt is as follows:

Line of credit:	Balance	Additions	Reductions	Balance
	06/30/13			06/30/14
TLC line of credit #160	\$ 905,998	\$ 60,000	\$ -	\$ 965,998
TLC line of credit #14	149,923	-	-	149,923
TLC line of credit #142	1,142,539	6,359,920	3,962,392	3,540,067
Total line of credit	<u>\$ 2,198,460</u>	<u>\$ 6,419,920</u>	<u>\$ 3,962,392</u>	<u>\$ 4,655,988</u>

NOTE 7 - LONG-TERM DEBT

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

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

Loan payable- The Port has a loan with CNH Capital in the amount of \$56,000 to finance capital equipment. This loan runs through 2015 with an interest rate of 6.6%.

Revenue bond Series 1998 - The Port issued a revenue bond, series 1998, in the amount of \$830,000 for the purpose of refinancing several OBDD loans outstanding. Semiannual interest and annual principal payments vary from 3.5% to 5.125% and \$35,000 to \$67,000, respectively, until the bond will be repaid in 2019. Principal and interest maturities for the current year totaled \$65,888.

Refunding Series 2002 bond - The Port issued a bond, series 2002, in the amount of \$1,145,000 for the purpose of refinancing OBDD obligations and to provide funding for capital projects. Semiannual interest payments vary from 3.5% to 5.125, until the bonds are repaid in 2019. Principal and interest maturities for the current year totaled \$106,125.

Columbia Bank - The Port issued a note payable to Columbia Bank in the amount of \$1,400,000 for the purpose of refinancing previously issued debt to the OBDD and SPWF. The note carries interest at 5.5% through January 15, 2014 after which the interest rate will be prime minus half a percentage point. Annual principal and interest payments of \$123,000 are due until the note matures on January 20, 2021,

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and requires compliance with certain covenants. At June 30, 2014, the Port was in compliance with these covenants or had obtained suitable waivers.

Wells Fargo Bank - The Port issued a note payable to Wells Fargo Bank in the amount of \$650,000 for the purpose of funding equipment acquisitions and facility improvements. The note carries interest at 4.7% with annual principle and interest payment of \$83,887 until the note matures on November 30, 2016, and requires compliance with certain covenants. At June 30, 2014, the Port was in compliance with these covenants or had obtained suitable waivers.

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2014:

	Balance			Balance	Due within
	June 30, 2013	Additions	Reductions	June 30, 2014	one year
Bonds:					
Refunding bond, series 2002	\$ 465,000	\$ -	\$ 85,000	\$ 380,000	\$ 90,000
Revenue bond, series 1998	335,000	-	50,000	285,000	50,000
Total bonds	800,000	-	135,000	665,000	140,000
Notes payable:					
OEDD 525179	430,987	-	35,116	395,871	36,463
OBDD Payroll loan C2008004	81,777	-	7,399	74,378	3,356
OEDD SPWF X03002	98,759	-	8,489	90,270	8,770
OEDD SPWF L95003	67,186	-	5,505	61,681	6,086
OEDD, Safe drinking water, S01009	129,201	-	7,521	121,680	7,831
SPWF L07004	72,363	-	-	72,363	-
Refinancing 2004 (Columbia Bank)	753,892	-	103,515	650,377	106,447
Capital improvement 2006 (Wells Fargo)	299,543	-	69,808	229,735	73,089
Loans payable	25,781	-	13,887	11,894	11,894
Total note payables	1,959,489	-	251,240	1,708,249	253,936
Total long-term debt	\$ 2,759,489	\$ -	\$ 386,240	\$ 2,373,249	\$ 393,936

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The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2013:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due within</u> <u>one year</u>
Bonds:					
Refunding bond, series 2002	\$ 545,000	\$ -	\$ 80,000	\$ 465,000	\$ 85,000
Revenue bond, series 1998	380,000	-	45,000	335,000	50,000
Total Bonds	<u>925,000</u>	<u>-</u>	<u>125,000</u>	<u>800,000</u>	<u>135,000</u>
Notes Payable:					
OEDD 525179	468,898	-	37,911	430,987	35,116
OBDD Payroll loan C2008004	85,004	-	3,227	81,777	3,385
OEDD SPWF X03002	106,975	-	8,216	98,759	8,489
OEDD SPWF L95003	72,147	-	4,961	67,186	5,505
OEDD, Safe drinking water, S01009	136,688	-	7,487	129,201	7,521
SPWF L07004	72,363	-	-	72,363	-
Refinancing 2004 (Columbia Bank)	842,532	-	88,640	753,892	103,564
Capital improvement 2006 (Wells Fargo)	366,218	-	66,675	299,543	69,808
Loans payable	40,734	-	14,953	25,781	14,202
Total Note Payables	<u>2,191,559</u>	<u>-</u>	<u>232,070</u>	<u>1,959,489</u>	<u>247,590</u>
	<u>\$ 3,116,559</u>	<u>\$ -</u>	<u>\$ 357,070</u>	<u>\$ 2,759,489</u>	<u>\$ 382,590</u>

Future maturities of bonds payable are as follows:

	<u>Refunding Series 2002 Bond</u>		<u>Revenue Bond Series 1998</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 90,000	\$ 16,750	\$ 50,000	\$ 13,325
2016	90,000	12,250	55,000	10,634
2017	100,000	7,500	55,000	7,816
2018	100,000	2,500	60,000	4,869
Total	<u>\$ 380,000</u>	<u>\$ 39,000</u>	<u>\$ 285,000</u>	<u>\$ 38,310</u>

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Future maturities of notes payable are as follows:

	<u>OECDD 525179</u>		<u>OEDD SPWF X03002</u>		<u>OEDD SPWF L95003</u>		<u>OEDD SPWF SO1009</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 36,463	\$ 14,451	\$ 8,770	\$ 2,996	\$ 6,086	\$ 3,476	\$ 7,831	\$ 5,001
2016	37,861	13,053	9,062	2,706	6,705	3,080	8,152	4,679
2017	39,312	11,602	9,362	2,405	7,363	4,644	8,488	4,344
2018	40,819	10,094	9,673	2,094	8,066	2,166	8,836	3,995
2019	42,384	8,529	9,994	1,773	8,813	1,641	9,199	3,632
2020-2024	199,032	16,171	43,409	3,661	24,648	899	51,990	12,168
2025-2029	-	-	-	-	-	-	27,184	1,753
Total	<u>\$ 395,871</u>	<u>\$ 73,900</u>	<u>\$ 90,270</u>	<u>\$ 15,635</u>	<u>\$ 61,681</u>	<u>\$ 15,906</u>	<u>\$ 121,680</u>	<u>\$ 35,572</u>

	<u>OEDD SPWF L07004</u>		<u>Refinancing 2004 Columbia Bank</u>		<u>Capital Improvement Wells Fargo</u>		<u>OBDD Payroll Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ -	\$ -	\$ 106,447	\$ 16,552	\$ 73,089	\$ 10,798	\$ 3,356	\$ 3,139
2016	4,237	3,213	109,376	13,623	76,525	7,362	3,498	2,997
2017	4,425	3,025	112,457	10,541	80,121	3,766	3,637	2,858
2018	4,622	2,829	115,589	7,409	-	-	3,798	2,697
2019	4,827	2,623	118,808	4,190	-	-	3,958	2,537
2020-2024	27,546	9,703	87,700	1,724	-	-	22,438	10,037
2025-2029	26,706	2,711	-	-	-	-	27,591	4,884
2030-2034	-	-	-	-	-	-	6,102	259
Total	<u>\$ 72,363</u>	<u>\$ 24,104</u>	<u>\$ 650,377</u>	<u>\$ 54,039</u>	<u>\$ 229,735</u>	<u>\$ 21,926</u>	<u>\$ 74,378</u>	<u>\$ 29,408</u>

Future maturities of the loan payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2015	<u>\$ 11,894</u>	<u>\$ 785</u>
Total	<u>\$ 11,894</u>	<u>\$ 785</u>

NOTE 8 - OPERATING LEASES

The Port leases facilities to various individuals and businesses. Rent agreements vary from month-to-month to 30 years. Determination of the cost and book value of leased facilities is not determinable given the mixed use nature of Port property. As of June 30, 2014, minimum rental payments required under operating leases which have remaining non-cancelable lease terms in excess of one year are as follows:

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014 and 2013

<u>Year</u>	<u>Payments</u>
2015	\$ 403,169
2016	416,659
2017	445,398
2018	426,177
2019	402,214
2020-2024	1,217,460
2025-2028	942,993
	<u>\$ 4,254,070</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 10.31% was based on a 2013 actuarial valuation.
- 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 2013

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014 and 2013

actuarial valuation the annual required contribution rates for the OPSRP defined benefit pension plan was 8.70%.

- 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, 2014, the Port's annual pension expense for the employer annual required contributions to the defined benefit pension plans totaled \$103,011.

Contributions for the years ended June 30, 2012, 2013, and 2014 were as follows:

Three-year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 89,450	100%	\$ -
June 30, 2013	\$ 115,146	100%	\$ -
June 30, 2014	\$ 103,011	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).

Actuarial valuation - The Port's actuarial assumptions and contribution rates for the OPERS defined benefit plans were based on the 2013 actuarial valuation. The Port's required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included: a rate of return on the investment of present and future assets of 7.75% a year, compounded annually, and projected salary increases of 3.75% per year, attributable to general wage adjustments, and healthcare cost inflation trend rate of 6.1% in 2014 decreasing to 4.7% in 2083.

NOTE 10 - DEFINED BENEFIT PENSION PLAN - RAILROAD

Railroad employees participate in the Railroad Retirement Program and are immediately eligible to participate. The Railroad Retirement plan is a multi-employer defined benefit pension plan consisting of two parts. Tier I Railroad Retirement is similar to social security with both employee and employer contributing 6.2% of employee compensation. Tier II Railroad Retirement requires an employee

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014 and 2013

contribution of 3.9% and an employer contribution of 12.10% of employee compensation. The Port's required contribution for the year ended June 30, 2014, was \$1,534.

NOTE 11 - DEFERRED COMPENSATION PLAN

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

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

NOTE 12 - INTERGOVERNMENTAL AGREEMENT - RAILROAD OPERATIONS

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

As of April 6, 1993, an intergovernmental agreement between the Port and the State of Oregon formed the Oregon Tillamook Railroad Authority (OTRA) to administer the operations of the railroad. The OTRA board of directors consists of five members, three are chosen by the State, and two are chosen by the Port. The agreement states that title to the assets, controls, and trains of the railroad will remain with the Port; however, control over the use and disposition of the rail line will rest with the OTRA. OTRA's oversight was intended to bring the railroad up to FRA Class II standards; however, due to significant storm damage in 2007, achieving the standard is unlikely. The OTRA board remains active in spite of limited activity on Port railroads.

NOTE 13 - RISK MANAGEMENT

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

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

Litigation- From time to time the Port may be involved in legal actions, which normally occur in governmental operations. Legal claims are defended by the Port's insurance company and management believes any proceedings known to exist at June 30, 2014, are not likely to have a material adverse impact on the Port's financial position.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 15 - POLLUTION REMEDIATION

The Port implemented GASB 49 on the accounting and reporting of pollution remediation activities in 2009. The Port has identified a few projects that may be undertaken in future years to remediate possible soil contamination and asbestos in several buildings. As of June 30, 2014, the Port had not incurred any obligating events and has not yet conducted studies necessary to determine remediation alternatives or estimated costs. Therefore, no liability has been recognized.

NOTE 16 - FEMA GRANT AND RELATED CAPITAL PROJECTS

The Port has been awarded up to \$44.6 million grant from the Federal Emergency Management Agency (“FEMA”) of which twenty five percent match for every dollar spent is required. Lottery bond proceeds totaling \$7.8 million have been secured as matching funds by the Port through a grant award from the State of Oregon. Additionally, the Port has received a grant from the Business Oregon to match equipment purchases, as well as partnering with Stimson Lumber on the Truck Scales Project. Stimson provided the 25% local match. Business Oregon/Infrastructure Finance Authority (IFA) also has issued a combination loan/grant to assist the Port in securing the local match needed on FEMA projects. To utilize the entire FEMA award, management is exploring other sources of matching funds totaling less than \$2.5 million. Grant funds will provide resources for various capital projects on Port property including construction of new buildings, capital improvements, and equipment and real property acquisitions. As of the fiscal year ended June 30, 2014, the Port had expended approximately 77.8% or \$33.47 million of related funds and expects to expend remaining grant funds over the next two years. Certain commitments and contracts have been executed by the Port as part of the capital projects for services including architecture, engineering and construction. Management expects new revenue streams upon completion of the capital projects.

NOTE 17 - CLOSURE AND POST-CLOSURE CARE COST

State and federal laws and regulations require the Port to place a final cover on its Tillamook Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for ten years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Port reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net assets date. Total post-closure costs are currently estimated to be \$1,409,706. To date, the landfill has received waste filling 84.45% of its capacity. As a result, the Port has expensed \$1,190,498 of post-closure care costs in prior years as the waste was being received. To date, the Port has incurred \$300,000 of costs applied to its post-closure activities, resulting in an accrual of \$890,498. The Port will recognize the remaining estimated cost of closure and post-closure care of \$219,208 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. At the current and expected low rate of material to be accepted into the landfill annually, management cannot estimate the year of closure. The Port working with Oregon Department of Environment Quality (DEQ) is currently updating the permit for #1132. DEQ has determined that closure materials can be sourced from the Port property which may significantly

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014 and 2013

reduce the estimated closure costs. The Port is in the process of updating their closure plan to reflect these revised closure costs.

Each year the Port demonstrates financial assurance in connection with the closure and post-closure care activities for the two landfills, #1107 and #1132, by using the local government financial assurance test described in Title 40 of the Code of Federal Regulations, paragraph 258.74. Continuing the review from 2013, the most recent analysis, the Port did not meet the stringent percentage requirements with the local government financial assurance test as required by Oregon Administrative Rule 340-94-0140, specifically due to loss of the rail line revenue and additional assets that are under construction not being moved to the asset list. However, on December 14, 2010, conditional approval of financial assurance test by the Oregon Department of Environmental Quality was granted to the Port. As of March 2014, DEQ determined that financial assurance for #1107 is no longer a liability. The Port will be removing the ILOC from TLCFCU. DEQ and POTB are awaiting updated closure costs in order to complete the financial assurance for #1132, and are expected to meet the stringent standards of the local government test.

NOTE 18 – SUBSEQUENT EVENT

On January 1, 2015, the Port assumed operations of the Tillamook Naval Air Station Museum. The Erickson Group (President of the Air Museum) will leave on-site all assets loaned from the US Navy, and will transfer all moveable fixtures to the Port. The Port is obligated to pay the Air Museum, LLC 10% of the gross revenues. Revenues generated from gift shop operations will only be paid until the Port has paid an amount equal to 10% of the Inventory Value Cap, or the value of inventory as of October 28, 2014.

NOTE 19 – NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued statement No. 65, *Items previously reported as assets and liabilities*. The Port implemented GASB Statement No. 65 in the year ended June 30, 2014.

NOTE 20- RESTATED BEGINNING NET POSITION

GASB Statement No. 65 states that bond issue costs are current period costs. As a result of implementing GASB No. 65, beginning net position as of June 30, 2013, has been restated in the amount of \$14,873, the amount of the unamortized bond issue cost reported at June 30, 2012.

NOTE 21- RECLASSIFICATION

Certain balances in prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

SUPPLEMENTARY INFORMATION

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

Budgetary Comparison schedules include the following funds:

General Fund

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

Revenue Bond Fund

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

PORT OF TILLAMOOK BAY
COMBINING STATEMENT OF NET POSITION
For the Fiscal Year Ended June 30, 2014

	GENERAL FUND	REVENUE BOND FUND	TOTAL
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 358,863	\$ -	\$ 358,863
Accounts receivables, net of allowance	109,596	-	109,596
Property taxes receivable	3,622	-	3,622
Cash with county	250	-	250
Grants receivable	717,463	-	717,463
Inventory	21,435	-	21,435
Total current assets	<u>1,211,229</u>	<u>-</u>	<u>1,211,229</u>
CURRENT RESTRICTED ASSETS:			
Cash and cash equivalents	1,025,473	97,058	1,122,531
Total current restricted assets	<u>1,025,473</u>	<u>97,058</u>	<u>1,122,531</u>
NONCURRENT ASSETS:			
Capital assets, net	53,574,240	-	53,574,240
Total noncurrent assets	<u>53,574,240</u>	<u>-</u>	<u>53,574,240</u>
Total assets	<u>\$ 55,810,942</u>	<u>\$ 97,058</u>	<u>\$ 55,908,000</u>
<u>LIABILITIES AND NET POSITION</u>			
CURRENT LIABILITIES:			
Accounts payable	\$ 542,147	\$ -	\$ 542,147
Accrued payroll and related expenses	65,671	-	65,671
Accrued vacation	82,476	-	82,476
Other accrued liabilities	105,483	-	105,483
Accrued interest payable	21,799	1,090	22,889
Unearned revenue	25,444	-	25,444
Long-term debt obligation, current portion	343,936	50,000	393,936
Line of credit	4,655,988	-	4,655,988
Total current liabilities	<u>5,842,944</u>	<u>51,090</u>	<u>5,894,034</u>
NONCURRENT LIABILITIES:			
Long-term debt obligations, net of current portion	1,744,313	-	1,744,313
Unearned revenue	1,025,473	-	1,025,473
Landfill post-closure liability	890,498	-	890,498
Total noncurrent liabilities	<u>3,660,284</u>	<u>-</u>	<u>3,660,284</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:			
Revenue bonds payable	-	235,000	235,000
Total liabilities, payable from restricted assets	<u>-</u>	<u>235,000</u>	<u>235,000</u>
Total liabilities	<u>9,503,228</u>	<u>286,090</u>	<u>9,789,318</u>
NET POSITION:			
Net investment in capital assets	46,904,381	(285,000)	46,619,381
Restricted for debt service	-	97,058	97,058
Unrestricted	(596,667)	(1,090)	(597,757)
Total net position	<u>46,307,714</u>	<u>(189,032)</u>	<u>46,118,682</u>
Total liabilities and net position	<u>\$ 55,810,942</u>	<u>\$ 97,058</u>	<u>\$ 55,908,000</u>

PORT OF TILLAMOOK BAY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014

	GENERAL FUND	REVENUE BOND FUND	TOTAL
OPERATING REVENUES:			
Charges for services	\$ 579,854	\$ -	\$ 579,854
Building and land rent	1,002,659	-	1,002,659
Airport revenues	104,298	-	104,298
Railroad revenues	196,908	-	196,908
Total operating revenues	<u>1,883,719</u>	<u>-</u>	<u>1,883,719</u>
OPERATING EXPENSES:			
Personnel services	1,162,850	-	1,162,850
Materials and services	1,613,234	-	1,613,234
Depreciation	3,025,559	-	3,025,559
Total operating expenses	<u>5,801,643</u>	<u>-</u>	<u>5,801,643</u>
Operating income (loss)	(3,917,924)	-	(3,917,924)
NON-OPERATING REVENUES (EXPENSES):			
Property taxes	47,541	-	47,541
Interest income	678	10	688
Capital grants	3,808,451	-	3,808,451
Timber sales	6,227	-	6,227
Forgiveness of debt	4,092	-	4,092
Other nonoperating revenue	414,835	-	414,835
Sale of assets	1,234	-	1,234
Interest expense	(253,999)	(16,543)	(270,542)
Transfers in (out)	(71,330)	71,330	-
Total non-operating income (expenses)	<u>3,957,729</u>	<u>54,797</u>	<u>4,012,526</u>
Changes in net position	39,805	54,797	94,602
NET POSITION, BEGINNING, RESTATED	<u>46,267,909</u>	<u>(243,829)</u>	<u>46,024,080</u>
NET POSITION, ENDING	<u>\$ 46,307,714</u>	<u>\$ (189,032)</u>	<u>\$ 46,118,682</u>

PORT OF TILLAMOOK BAY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

	GENERAL FUND	REVENUE BOND FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,874,618	\$ -	\$ 1,874,618
Cash paid to suppliers	(1,606,984)	-	(1,606,984)
Cash paid for personnel services	(1,107,885)	-	(1,107,885)
Net cash flows from operating activities	<u>(840,251)</u>	<u>-</u>	<u>(840,251)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Property taxes	47,889	-	47,889
Timber sales	6,227	-	6,227
Nonoperating revenues	414,835	-	414,835
Transfers	(71,330)	71,330	-
Net cash flows from noncapital financing activities	<u>397,621</u>	<u>71,330</u>	<u>468,951</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Property and equipment additions	(5,697,812)	-	(5,697,812)
Proceeds from sale of assets	1,234	-	1,234
Grant proceeds	4,519,596	-	4,519,596
Payments on notes and bonds payable	(332,148)	(50,000)	(382,148)
Line of credit proceeds (payments)	2,457,528	-	2,457,528
Interest paid on notes and bonds payable	(257,940)	(16,887)	(274,827)
Net cash flows from capital and related financing activities	<u>690,458</u>	<u>(66,887)</u>	<u>623,571</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	678	10	688
Net increase (decrease) in cash	248,506	4,453	252,959
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,135,830</u>	<u>92,605</u>	<u>1,228,435</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,384,336</u>	<u>\$ 97,058</u>	<u>\$ 1,481,394</u>
Cash and cash equivalents classification on statement of net position:			
Current assets	\$ 358,863	\$ -	\$ 358,863
Restricted assets	1,025,473	97,058	1,122,531
Total cash and cash equivalents	<u>\$ 1,384,336</u>	<u>\$ 97,058</u>	<u>\$ 1,481,394</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (3,917,924)	\$ -	\$ (3,917,924)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	3,025,559	-	3,025,559
(Increase) decrease in assets			
Accounts receivable	(9,401)	-	(9,401)
Prepaid expenses	300	-	300
Inventory	261	-	261
Increase (decrease) in liabilities			
Accounts payable	(26,713)	-	(26,713)
Unearned revenue	11,048	-	11,048
Wages and employee benefits payable	54,965	-	54,965
Landfill liability	67,003	-	67,003
Other accrued liabilities	(45,349)	-	(45,349)
Total adjustments	<u>3,077,673</u>	<u>-</u>	<u>3,077,673</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (840,251)</u>	<u>\$ -</u>	<u>\$ (840,251)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS			
Debt principle payment forgiveness	\$ 4,092	\$ -	\$ 4,092
	<u>\$ 4,092</u>	<u>\$ -</u>	<u>\$ 4,092</u>

**PORT OF TILLAMOOK BAY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014**

	Actual	Budgetary Adjustment	Budgetary Basis	Budget		Variance with Final Budget
				Original	Final	
REVENUES:						
Charges for services	\$ 579,854	\$ -	\$ 579,854	\$ 830,914	\$ 830,914	\$ (251,060)
Building and land rent	1,002,659	-	1,002,659	715,000	715,000	287,659
Airport revenues	104,298	-	104,298	297,700	297,700	(193,402)
Railroad revenues	196,908	-	196,908	276,000	276,000	(79,092)
Property taxes	47,541	-	47,541	43,505	43,505	4,036
Interest income	678	-	678	500	500	178
Capital grants	3,808,451	-	3,808,451	7,784,250	7,784,250	(3,975,799)
Timber sales	6,227	-	6,227	55,000	55,000	(48,773)
Other nonoperating revenue	414,835	-	414,835	525,850	525,850	(111,015)
Insurance proceeds	-	-	-	20,000	20,000	(20,000)
Forgiveness of debt	4,092	(4,092)	-	-	-	-
Sale of assets	1,234	-	1,234	887,500	887,500	(886,266)
Total revenues	6,166,777	-	6,162,685	11,436,219	11,436,219	(5,273,534)
EXPENDITURES:						
Materials and services	1,613,234	(67,564)	1,545,670	1,797,025	1,797,025	251,355
Personnel services	1,162,850	(36,657)	1,126,193	1,280,765	1,280,765	154,572
Capital outlay	-	4,932,050	4,932,050	7,762,201	7,762,201	2,830,151
Debt service:						
Principle	-	4,294,540	4,294,540	324,064	324,064	(3,970,476)
Interest	253,999	3,941	257,940	257,940	257,940	-
Depreciation	3,025,559	(3,025,559)	-	3,336	3,336	3,336
Total expenditures	6,055,642	6,100,751	12,156,393	11,425,331	11,425,331	(731,062)
Revenues over (under) expenditures	111,135	(6,100,751)	(5,993,708)	10,888	10,888	(6,004,596)
OTHER FINANCING SOURCES (USES):						
Loan proceeds	-	6,419,920	6,419,920	-	-	6,419,920
Transfers out	(71,330)	-	(71,330)	(65,888)	(65,888)	(5,442)
Total other financing sources (uses)	(71,330)	6,419,920	6,348,590	(65,888)	(65,888)	6,414,478
Changes in net position	39,805	319,169	354,882	(55,000)	(55,000)	409,882
FUND BALANCE, BEGINNING BUDGETARY BASIS			96,167	55,000	55,000	41,167
FUND BALANCE, ENDING BUDGETARY BASIS			\$ 451,049	\$ -	\$ -	\$ 451,049

**PORT OF TILLAMOOK BAY
REVENUE BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE- BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014**

	Actual	Budgetary Adjustment	Budgetary Basis	Budget		Variance with Final Budget
				Original	Final	
REVENUES:						
Interest income	\$ 10	\$ -	\$ 10	\$ 25	\$ 25	\$ (15)
Total revenues	10	-	10	25	25	(15)
EXPENDITURES:						
Debt service						
Principal	-	50,000	50,000	50,000	50,000	-
Interest	16,543	344	16,887	18,324	18,324	1,437
Amortization	-	-	-	1,495	1,495	1,495
Total expenditures	16,543	50,344	66,887	69,819	69,819	2,932
Revenues over (under) expenditures	(16,533)	(50,344)	(66,877)	(69,794)	(69,794)	2,917
OTHER FINANCING SOURCES (USES):						
Transfers in	71,330	-	71,330	65,888	65,888	5,442
Total other financing sources (uses)	71,330	-	71,330	65,888	65,888	5,442
Changes in net position	<u>\$ 54,797</u>	<u>\$ (50,344)</u>	4,453	(3,906)	(3,906)	8,359
FUND BALANCE, BEGINNING BUDGETARY BASIS			<u>92,605</u>	<u>78,906</u>	<u>78,906</u>	<u>13,699</u>
FUND BALANCE, ENDING BUDGETARY BASIS			<u>\$ 97,058</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ 22,058</u>

OTHER FINANCIAL SCHEDULES

PORT OF TILLAMOOK BAY
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
June 30, 2014

	Uncollected Balance June 30, 2013	2013-2014 Levy	Discounts & Adjustments	Collections	Uncollected Balance June 30, 2014
2013-2014	\$ -	\$ 48,237	\$ (1,358)	\$ (45,100)	\$ 1,778
2012-2013	2,016	-	(128)	(871)	1,017
2011-2012	972	-	(2)	(473)	497
2010-2011	563	-	(2)	(394)	166
2009-2010	247	-	(2)	(200)	45
2008-2009	68	-	(1)	(32)	35
Prior Years	104	-	(1)	(18)	84
	<u>\$ 3,970</u>	<u>\$ 48,237</u>	<u>\$ (137)</u>	<u>\$ (1,989)</u>	<u>\$ 3,622</u>

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

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

We have audited the basic financial statements of the Port of Tillamook Bay (the Port), as of and for the year ended June 30, 2014 and have issued our report thereon dated April 17, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Port's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

1. Expenditures exceeded appropriations in the General Fund.
 - a. Debt service \$3,970,476
 - b. Transfers out \$5,442
2. Our single audit over the Port's federal grant programs identified one instance of noncompliance that is reported in the Schedule of Findings and Questioned Costs included in the separately issued Single Audit Report.

OAR 162-10-0230 Internal Control

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

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

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

We have noted certain matters that we reported to management of the Port in a separate letter to management dated April 17, 2015.

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

Merina & Company

Merina & Company, LLP
West Linn, Oregon
April 17, 2015

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