

PORT OF TILLAMOOK BAY, OREGON
FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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& COMPANY, LLP

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INTRODUCTORY SECTION

PORT OF TILLAMOOK BAY, OREGON

PRINCIPAL OFFICIALS

June 30, 2013

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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 (the Port), as of and for the year ended June 30, 2013 and 2012, 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 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 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 of Tillamook Bay, Oregon, as of June 30, 2013 and 2012, and the respective changes in financial position, and, cash flows thereof 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 (20) to the financial statements, the Port adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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 comprise the Port's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards* and Oregon Revised Statutes

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2014 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 an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated May 28, 2014, on our consideration of the Port's internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320. 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.



Merina & Company, LLP
West Linn, Oregon
May 28, 2014

**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, 2013, 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 retaining current employees, avoidance of annual layoffs and the hiring of key employee replacements by attracting quality people and providing additional revenue. 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.

Financial Highlights:

- The Port of Tillamook Bay's assets exceeded its liabilities at June 30, 2013 by \$46,035,711 (net position), an increase of \$17,911,803 or 64% over fiscal year 2011-2012.
- Capital assets increased by \$17,994,723 or 53% from the 2011-2012 year due to the FEMA capital projects that were completed during the year.
- The Port experienced an increase in revenues of \$10,129,751 from the previous year due to the FEMA capital grants received during the year.

Brief discussion of basic financial statements:

The Port of Tillamook Bay (Port) maintained two funds for fiscal year 2012-2013; 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 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. 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 2% of the General Fund revenue for fiscal year 2012-2013. 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 this year. 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)	
	2013	Restated 2012	2011	2012 to 2013	2011 to 2012
Assets					
Current Assets	\$ 1,665,376	\$ 3,198,478	\$ 973,458	\$ (1,533,102)	\$ 2,225,020
Restricted Assets	1,112,557	5,318,386	7,238,346	(4,205,829)	(1,919,960)
Other Assets	11,631	14,873	234,595	(3,242)	(219,722)
Capital Assets	51,667,749	33,673,026	27,131,803	17,994,723	6,541,223
Total Assets	\$ 54,457,313	\$ 42,204,763	\$ 35,578,202	\$ 12,252,550	\$ 6,626,561
Liabilities					
Current Liabilities	4,201,256	5,268,702	2,131,201	(1,067,446)	3,137,501
Long Term Liabilities	3,935,346	8,477,153	10,652,549	(4,541,807)	(2,175,396)
Liabilities Payable From Restricted Assets	285,000	335,000	380,000	(50,000)	(45,000)
Total Liabilities	8,421,602	14,080,855	13,163,750	(5,659,253)	917,105
Net Position					
Net Investment in Capital Assets	46,791,577	28,805,622	23,830,865	17,985,955	4,974,757
Restricted	92,605	94,543	94,773	(1,938)	(230)
Unrestricted	(848,471)	(776,257)	(1,511,186)	(72,214)	734,929
Total Net Position	\$ 46,035,711	\$ 28,123,908	\$ 22,414,452	\$ 17,911,803	\$ 5,709,456

Condensed Statement of Activities

	Activities for Fiscal Years Ending June 30			Dollars	
	2013	Restated 2012	2011	2012 to 2013	2011 to 2012
Operating Revenues					
Land & Building	\$ 994,803	\$ 961,320	\$ 968,484	\$ 33,483	\$ (7,164)
Charges for services	355,687	639,987	690,936	(284,300)	(50,949)
Licenses and Permits	6,400	5,695	6,295	705	(600)
Airport Revenues	101,343	90,707	73,749	10,636	16,958
Railroad Revenues	377,738	323,555	166,051	54,183	157,504
Total Operating Revenues	1,835,971	2,021,264	1,905,515	(185,293)	115,749
Operating Expenses:					
Personal Services	1,132,751	1,195,909	999,340	(63,158)	196,569
Materials and Services	1,021,855	1,244,575	968,385	(222,720)	276,190
Depreciation and amortization	1,596,897	1,409,372	-	187,525	1,409,372
Total Operating Expenses	3,751,503	3,849,856	1,967,725	(98,353)	1,882,131
Operating Income (Loss)	(1,915,532)	(1,828,592)	(62,210)	(86,940)	(1,766,382)
Non-operating Revenues (Expenses)					
Grant proceeds	(32,385)	147,126	51,145	(179,511)	95,981
Change in Net Position	19,859,720	9,429,256	4,808,004	10,430,464	4,621,252
Net Position- Beginning	17,911,803	7,747,790	4,796,939	10,164,013	2,950,851
Net Position- Ending	\$ 28,123,908	\$ 20,376,118	\$ 17,617,513	\$ 7,747,790	\$ 2,758,605
Net Position- Ending	\$ 46,035,711	\$ 28,123,908	\$ 22,414,452	\$ 17,911,803	\$ 5,709,456

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

Due to a number of factors, including the 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 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 construction ready toward the end of this fiscal year. The first facility operated until late spring of 2013. 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. 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 is 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 product. Two of the FEMA Alternative Projects, scheduled for fiscal years 2012-2014 include total new facility constructions and a bagging facility. 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, 2013, the net operating income of the Port's general operations was \$(1,915,532). For the year ending June 30, 2013, the General Fund's net position increased by \$17,870,065 and the Revenue Bond Fund's net position increased by \$41,738. The Port total net position, as of June 30, 2013, was \$46,035,711, an increase from the previous year of \$17,911,803. 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, 2013, the Port had \$51,667,751 in capital assets net of accumulated depreciation. The Port's capital assets increased 53% during 2013. This increase is mainly due to FEMA grants that funded various capital projects. For more detailed information regarding the Port's capital assets refer to notes to the basic financial statements.

Capital Assets at Year End

	<u>06/30/12</u>	<u>06/30/13</u>
Land	\$ 4,104,234	\$ 4,104,234
Land Improvements	12,224,518	17,352,756
Buildings	20,000,998	32,521,712
Leasehold Improvements	259,463	259,463
Machinery & Equipment and Rail Equipment	5,609,144	12,612,522
Furniture & Fixtures	240	19,803
Intangible Assets	1,587,882	1,767,331
Construction in Progress	12,008,381	6,745,416
Total Capital Assets	<u>55,794,860</u>	<u>75,383,237</u>
Accumulated Depreciation and Amortization	<u>22,121,834</u>	<u>23,715,486</u>
Net Capital Assets	<u>\$ 33,673,026</u>	<u>\$ 51,667,751</u>

Outstanding Long Term Debt

	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2013</u>
Bonds:	\$ 1,045,000	\$ 925,000	\$ 800,000
Notes Payable	<u>2,042,523</u>	<u>2,191,559</u>	<u>1,959,489</u>
Total Long Term Debt	<u>\$ 3,087,523</u>	<u>\$ 3,116,559</u>	<u>\$ 2,759,489</u>

The Port's total long-term debt decreased by \$357,070 or 11% during 2013, to \$2,759,489, 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. 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. These project continue into this fiscal year.
4. The Port continues to search and apply for grants and loans to complete the capital projects for all aspects of operation, including marketing.

Requests for Information:

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

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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
STATEMENT OF NET POSITION
For the Fiscal Year Ended June 30, 2013 and 2012

	2013	Restated 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 115,878	\$ 152,226
Accounts receivables, net of allowance	100,195	82,755
Property taxes receivable	3,970	2,156
Cash with county	250	250
Grants receivable	1,423,087	2,942,707
Inventory	21,696	18,084
Prepaid expenses	300	300
Total current assets	<u>1,665,376</u>	<u>3,198,478</u>
CURRENT RESTRICTED ASSETS:		
Cash and cash equivalents	<u>1,112,557</u>	<u>5,318,386</u>
Total current restricted assets	<u>1,112,557</u>	<u>5,318,386</u>
NONCURRENT ASSETS:		
Capital assets	51,667,749	33,673,026
Bond issue costs	11,631	14,873
Total noncurrent assets	<u>51,679,380</u>	<u>33,687,899</u>
Total assets	<u>\$ 54,457,313</u>	<u>\$ 42,204,763</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,334,622	2,281,219
Accrued payroll and related expenses	47,363	66,042
Accrued vacation	45,819	34,610
Other accrued liabilities	150,832	155,527
Accrued interest payable	27,174	27,891
Unearned revenue	14,396	5,156
Long-term debt obligations, current portion	382,590	347,408
Line of credit	2,198,460	2,350,849
Total current liabilities	<u>4,201,256</u>	<u>5,268,702</u>
NONCURRENT LIABILITIES:		
Long-term debt obligations, net of current portion	2,091,899	2,434,151
Unearned revenue	1,019,952	5,219,507
Landfill post-closure liability	823,495	823,495
Total noncurrent liabilities	<u>3,935,346</u>	<u>8,477,153</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Revenue bonds	<u>285,000</u>	<u>335,000</u>
Total liabilities, payable from restricted assets	<u>285,000</u>	<u>335,000</u>
Total liabilities	<u>8,421,602</u>	<u>14,080,855</u>
NET POSITION:		
Net investment in capital assets	46,791,577	28,805,622
Restricted for debt service	92,605	94,543
Unrestricted	(848,471)	(776,257)
Total net position	<u>46,035,711</u>	<u>28,123,908</u>
Total liabilities and net position	<u>\$ 54,457,313</u>	<u>\$ 42,204,763</u>

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

PORT OF TILLAMOOK BAY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	Restated 2012
OPERATING REVENUES:		
Land and building rent	\$ 994,803	\$ 961,320
Charges for services	355,687	639,987
Licenses and permits	6,400	5,695
Airport revenues	101,343	90,707
Railroad revenues	377,738	323,555
Total operating revenues	<u>1,835,971</u>	<u>2,021,264</u>
OPERATING EXPENSES:		
Personnel services	1,132,751	1,195,909
Materials and services	1,021,855	1,244,575
Depreciation and amortization	1,596,897	1,409,372
Total operating expenses	<u>3,751,503</u>	<u>3,849,856</u>
Operating income (loss)	(1,915,532)	(1,828,592)
NON-OPERATING REVENUES (EXPENSES):		
Property taxes	47,627	44,367
Interest income	16,560	30,149
Capital grants	19,859,720	9,429,256
Timber sales	5,243	882
Insurance proceeds	4,297	41,609
Other nonoperating revenue	84,088	200,634
Gain on sale of assets	65,460	21,054
Interest expense	(255,660)	(191,569)
Total non-operating income (expenses)	<u>19,827,335</u>	<u>9,576,382</u>
Changes in net position	17,911,803	7,747,790
NET POSITION, BEGINNING	<u>28,123,908</u>	<u>20,376,118</u>
NET POSITION, ENDING	<u>\$ 46,035,711</u>	<u>\$ 28,123,908</u>

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

PORT OF TILLAMOOK BAY
STATEMENT OF CASH FLOWS
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	Restated 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,818,531	\$ 2,194,049
Cash paid to suppliers	(882,316)	(1,420,426)
Cash paid for personnel services	(1,140,221)	(1,181,747)
Net cash provided (used) by operating activities	(204,006)	(408,124)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property taxes received	45,813	44,542
Timber sales	5,243	882
Insurance proceeds	4,297	41,609
Non operating revenues	84,088	200,634
Net cash provided (used) by non-capital financing activities	139,441	287,667
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(20,673,581)	(8,789,489)
Proceeds from sale of assets	65,460	21,054
Grants proceeds	17,179,785	5,406,270
Principal payment on notes and bond payable	(357,070)	(272,500)
Interest paid on notes and bond payable	(256,377)	(195,551)
Line of credit proceeds (payments)	(152,389)	2,075,880
Net cash provided (used) by capital and related financing activities	(4,194,172)	(1,754,336)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	16,560	30,149
Net cash provided (used) by investing activities	16,560	30,149
Net increase (decrease) in cash and cash equivalents	(4,242,177)	(1,844,644)
CASH AND CASH EQUIVALENTS, BEGINNING	5,470,612	7,315,256
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,228,435	\$ 5,470,612

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

PORT OF TILLAMOOK BAY
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Years Ended June 30, 2013 and 2012

CLASSIFIED ON THE STATEMENT OF NET POSITION AS:

Cash and cash equivalents	\$ 115,878	\$ 152,226
Restricted cash and cash equivalents	<u>1,112,557</u>	<u>5,318,386</u>
Total cash and cash equivalents	<u>\$ 1,228,435</u>	<u>\$ 5,470,612</u>

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

Operating loss	\$ (1,915,532)	\$ (1,828,592)
Adjustments:		
Depreciation and amortization	1,596,897	1,409,372
Decrease (increase) in:		
Account receivable	(17,440)	(42,111)
Rent receivable	-	214,896
Inventory	(3,608)	1,373
Increase (decrease) in:		
Accounts payable	138,602	(97,257)
Accrued payroll and related expenses	(7,470)	14,162
Other accrued liabilities	<u>(4,695)</u>	<u>(79,967)</u>
 Net cash provided (used) by operating activities	 <u>\$ (204,006)</u>	 <u>\$ (408,124)</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 formed by special election in 1911 to incorporate land at the entrance to Tillamook Bay and named the Port of Bay Ocean. In 1948 at a special election, additional land at the entrance to Tillamook Bay was incorporated into the Port for the purpose of constructing a jetty to protect the bay. In 1953, a special election was held to incorporate 1600 acres of land, two blimp hangars, and various other buildings from the federal government. The commissioners on November 4, 1953 declared that with the inclusion of the territory adjacent to the Port of Tillamook, it was advisable to change the name of the Port of Bay Ocean to the Port of Tillamook Bay. The Port is governed by an elected five-member Board of Directors. The Board members set Port policy, appropriate 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 revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

PORT OF TILLAMOOK BAY
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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 \$35,967 and \$23,800 as of June 30, 2013 and 2012, 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 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:

PORT OF TILLAMOOK BAY
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Land improvements	15 to 20 years
Buildings	39 to 40 years
Leasehold improvements	10 years
Machinery & Equipment	5 to 10 years
Rail Equipment	15 years
Furniture and fixtures	7 years
Intangibles	5 to 15 years

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.

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.

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, 2013 and 2012 was \$1,034,348 and \$5,224,663 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.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

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, 2012 and 2013, 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, 2013. 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 \$175,130 for the year ended June 30, 2013.

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 the general fund.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 - CASH AND CASH EQUIVALENTS

Following is a summary of the Port's deposit and investment balances at June 30, 2013 and 2012:

Cash deposits	2013	2012
Cash on hand	\$ 300	\$ 300
Bank deposits	161,514	130,385
Total cash and bank deposits	\$ 161,814	\$ 130,685
Cash and investments		
Investments in the State and Local Government	\$ 1,066,621	\$ 5,339,927
Total deposits and investment	\$ 1,228,435	\$ 5,470,612
These balances reconcile to the balance sheet as follows:		
Current assets	\$ 115,878	\$ 152,226
Restricted assets	1,112,557	5,318,386
	\$ 1,228,435	\$ 5,470,612

Deposit and Investment Risk

The following investment risk information is presented for the year ending June 30, 2013 in accordance with GASB 40 *Deposit and Investment Risk Disclosures*.

As of June 30, 2013, the Port had the following cash equivalents:

Investment	Fair Value	Investment Maturities (years)		
		Other	Less than 1	1-5
Local Government Investment Pool	\$ 1,066,621	\$ 1,066,621	\$ -	\$ -
Demand deposits	161,814	161,814		
Total	\$ 1,228,435	\$ 1,228,435	\$ -	\$ -

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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 \$161,514 and \$130,385 as of June 30, 2013 and 2012, 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, 2013 and 2012, \$1,066,621 (87%) and \$5,339,927 (98%), 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 \$46,531 and \$45,252 for fiscal years ending June 30, 2013 and 2012, respectively. Property taxes receivable as of June 30, 2013 and 2012 is \$3,970 and \$2,156, respectively.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 5 - CAPITAL ASSETS

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

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

Capital asset activity and balances consist of the following for the year ended June 30, 2012:

	Balance 6/30/2011	Prior Period Adjustment	Restated 6/30/2011	Additions	Deletion/ Transfer	Balance 6/30/2012
Jetty and Harbor	\$ 193,290	\$ (193,290)	\$ -	\$ -	\$ -	\$ -
Land and Buildings	12,135,486	(12,135,486)	-	-	-	-
Water and Sewer	855,712	(855,712)	-	-	-	-
Airport	3,722,365	(3,722,365)	-	-	-	-
Equipment	4,901,778	(4,901,778)	-	-	-	-
Track and Structures	2,871,868	(2,871,868)	-	-	-	-
CIP	2,451,304	-	2,451,304	9,633,304	(76,227)	12,008,381
Land	-	4,104,234	4,104,234	-	-	4,104,234
Land Improvements	-	11,952,890	11,952,890	195,401	76,227	12,224,518
Buildings	-	20,000,998	20,000,998	-	-	20,000,998
Leasehold Improvements	-	259,463	259,463	-	-	259,463
Machinery & Equipment	-	2,508,848	2,508,848	5,246	-	2,514,094
Rail Equipment	-	3,125,050	3,125,050	-	(30,000)	3,095,050
Furniture & Fixtures	-	240	240	-	-	240
Intangible Assets	-	1,407,727	1,407,727	180,155	-	1,587,882
Total Capital Assets	27,131,803	18,678,951	45,810,754	10,014,106	(30,000)	55,794,860
Less: Accumulated Depreciation	-	(20,747,288)	(20,747,288)	(1,404,546)	30,000	(22,121,834)
Total Capital Assets, Net	\$ 27,131,803	\$ (2,068,337)	\$ 25,063,466	\$ 8,609,560	\$ -	\$ 33,673,026

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 year ended June 30, 2013 and 2012.

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 November 30, 2010, a third line of credit was approved for \$150,000 which was used off a Sterling bank account balance. This line of credit was scheduled to expire on December 10, 2013 but has been extended to a future date. A schedule of changes in short-term debt is as follows:

PORT OF TILLAMOOK BAY
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Line of Credit:	Balance		Deletions	Balance	
	6/30/2012	Additions		6/30/2013	
TLC Line of Credit #160	\$ 180,000	\$ 725,998	\$ -	\$ 905,998	
TLC Line of Credit #14	149,923	-	-	149,923	
TLC Line of Credit #142	2,020,926	-	878,387	1,142,539	
Total Line of Credit	<u>\$ 2,350,849</u>	<u>\$ 725,998</u>	<u>\$ 878,387</u>	<u>\$ 2,198,460</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 \$63,322.

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 \$104,950.

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 OBDD 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 \$123,000 are due until the note matures on January 20, 2021, and requires compliance with certain covenants. At June 30, 2013, the Port was in compliance with these covenants or had obtained suitable waivers.

PORT OF TILLAMOOK BAY
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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, 2013, 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, 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>

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2012:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due within</u> <u>one year</u>
Bonds:					
Refunding Bond, Series 2002	\$ 620,000	\$ -	\$ 75,000	\$ 545,000	\$ 80,000
Revenue Bond	425,000	-	45,000	380,000	45,000
Total Bonds	<u>1,045,000</u>	<u>-</u>	<u>120,000</u>	<u>925,000</u>	<u>125,000</u>
Notes Payable:					
OEDD 040-179	501,469	-	32,571	468,898	33,820
OBDD Payroll loan C2008004	88,121	-	3,117	85,004	3,248
OEDD SPWF X03002	114,926	-	7,951	106,975	8,216
OEDD SPWF L95003	76,594	-	3,967	72,627	4,448
OEDD, Safe Drinking Water, S01009	143,628	-	7,420	136,208	7,521
SPWF L07004	72,363	-	-	72,363	4,425
Refinancing 2004 (Bank of Astoria)	917,058	-	74,526	842,532	78,788
Capital Improvement 2006 (Wells Fargo)	72,363	-	63,682	366,218	66,675
Loans Payable	56,001	-	15,267	40,734	15,267
Total Note Payables	<u>2,042,523</u>	<u>-</u>	<u>208,501</u>	<u>2,191,559</u>	<u>222,408</u>
	<u>\$ 3,087,523</u>	<u>\$ -</u>	<u>\$ 328,501</u>	<u>\$ 3,116,559</u>	<u>\$ 347,408</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>
2014	\$ 85,000	\$ 21,125	\$ 50,000	\$ 15,888
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
2019-2023	-	-	65,000	1,666
Total	<u>\$ 465,000</u>	<u>\$ 60,125</u>	<u>\$ 335,000</u>	<u>\$ 54,198</u>

PORT OF TILLAMOOK BAY
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Future maturities of Notes Payable are as follows:

	OECD 525179		OECD SPWF X03002		OECD SPWF L95003		OECD SPWF SO1009	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 35,116	\$ 15,797	\$ 8,489	\$ 3,279	\$ 5,505	\$ 3,834	\$ 7,521	\$ 5,310
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
2019-2023	241,416	24,700	53,403	5,434	33,462	2,540	49,937	14,220
2024-2028	-	-	-	-	-	-	38,436	3,333
2029-2033								
Total	<u>\$ 430,987</u>	<u>\$ 89,697</u>	<u>\$ 98,759</u>	<u>\$ 18,914</u>	<u>\$ 67,187</u>	<u>\$ 19,740</u>	<u>\$ 129,201</u>	<u>\$ 40,882</u>

	OECD SPWF L07004		Refinancing 2004 Columbia Bank		Capital Improvement Wells Fargo		OBDD Payroll Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ -	\$ -	\$ 103,564	\$ 19,436	\$ 69,808	\$ 14,079	\$ 3,385	\$ 3,450
2015	-	-	106,448	16,552	73,089	10,798	3,528	3,307
2016	4,237	3,213	109,377	13,623	76,525	7,362	3,677	3,158
2017	4,425	3,025	112,459	10,541	80,121	3,766	3,832	3,003
2018	4,622	2,829	115,591	7,409	-	-	3,994	2,842
2019-2023	26,375	10,874	206,453	5,914	-	-	22,645	11,533
2024-2028	32,704	3,546	-	-	-	-	27,844	6,334
2029-2033							12,872	819
Total	<u>\$ 72,363</u>	<u>\$ 23,487</u>	<u>\$ 753,892</u>	<u>\$ 73,475</u>	<u>\$ 299,543</u>	<u>\$ 36,005</u>	<u>\$ 81,777</u>	<u>\$ 34,446</u>

Future maturities of the Loan Payable are as follows:

	Loans Payable	
	Principal	Interest
2014	\$ 14,202	\$ 937
2015	11,579	764
Total	<u>\$ 25,781</u>	<u>\$ 1,701</u>

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013, minimum rental payments required under operating leases which have remaining non-cancelable lease terms in excess of one year are as follows:

Year	Payments
2014	\$ 398,067
2015	403,169
2016	416,659
2017	445,398
2018	426,177
2019-2023	1,389,400
2024-2028	1,173,267
	\$ 4,652,137

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 9.67% was based on a 2012 actuarial valuation.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

- **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 2012 actuarial valuation the annual required contribution rates for the OPSRP defined benefit pension plan was 8.29%.
 - 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, 2013, the Port's annual pension expense for the employer annual required contributions to the defined benefit pension plans totaled \$115,146.

Contributions for the years ended June 30, 2011, 2012, and 2013 were as follows:

Three-year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 70,783	100%	\$ -
June 30, 2012	\$ 89,450	100%	\$ -
June 30, 2013	\$ 115,146	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 2012 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 8% in 2013 decreasing to 4.7% in 2083.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 10 - DEFINED BENEFIT PENSION PLAN - RAILROAD

Railroad employees participate in the Railroad Retirement Program and are immediately eligible to participate. The Railroad Retirement plan is a multi-employer defined benefit pension plan consisting of two parts. Tier I Railroad Retirement is similar to social security with both employee and employer contributing 6.2% of employee compensation. Tier II Railroad Retirement requires an employee contribution of 3.9% and an employer contribution of 12.10% of employee compensation. The Port's required contribution for the year ended June 30, 2013, was \$13,542.

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.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013, are not likely to have a material adverse impact on the Port's financial position.

Account payable – During the 2012-2013 year, a claim of \$312,000 was in dispute for construction activity relating to one of the FEMA projects. The Port contested the claim as the work was not completed to the satisfaction of the Port. This claim has not been accrued in the year ended June 30, 2013. To satisfy both parties, the Port paid \$312,000 to an escrow agent in July of 2013. This claim has been released to the vendor as of April 24, 2014.

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, 2013, 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. For the fiscal year ended June 30, 2013, the Port expended approximately 70% or \$30 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,

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

the landfill has received waste filling 70% of its capacity. As a result, the Port has expensed \$1,123,495 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 \$823,495. The Port will recognize the remaining estimated cost of closure and post-closure care of \$286,211 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 2013. 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 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 2012, 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 – PRIOR PERIOD ADJUSTMENT

A capital asset valuation was performed on the Port's capital assets to estimate the value of capital assets acquired from 1980 through 2010 and calculate the accumulated depreciation and depreciation on these capital assets. As a result of this valuation, a prior period adjustment was made in the amount of \$(2,038,334) which resulted in a restatement of beginning net position as of June 30, 2012.

NOTE 19 – SUBSEQUENT EVENT

In September of 2013, the Port was awarded a grant/loan in the amount of \$1.5 million from the State of Oregon. The grant portion is \$357,425 and the loan amount is \$1,157,575 with interest at 3.95%. The loan is not required to be paid until the project is closed. The first payment is due after the project closeout deadline. There are six projects that affect the loan and the Port has not draw down on any loan proceeds during the year ending June 30, 2013.

PORT OF TILLAMOOK BAY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 20 – NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Port implemented GASB Statement No. 62, and 63 in the year ended June 30, 2013.

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SUPPLEMENTARY INFORMATION

PORT OF TILLAMOOK BAY
COMBINING SCHEDULE OF NET POSITION
For the Fiscal Year Ended June 30, 2013

	GENERAL FUND	REVENUE BOND FUND	TOTAL
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 115,878	\$ -	\$ 115,878
Accounts receivables, net of allowance	100,195	-	100,195
Property taxes receivable	3,970	-	3,970
Cash with county	250	-	250
Grants receivable	1,423,087	-	1,423,087
Inventory	21,696	-	21,696
Prepaid expenses	300	-	300
Total current assets	<u>1,665,376</u>	<u>-</u>	<u>1,665,376</u>
CURRENT RESTRICTED ASSETS:			
Cash and cash equivalents	1,019,952	92,605	1,112,557
Total current restricted assets	<u>1,019,952</u>	<u>92,605</u>	<u>1,112,557</u>
NONCURRENT ASSETS:			
Capital assets	51,667,749	-	51,667,749
Bond issue costs	3,596	8,035	11,631
Total other assets	<u>51,671,345</u>	<u>8,035</u>	<u>51,679,380</u>
Total assets	<u>\$ 54,356,673</u>	<u>\$ 100,640</u>	<u>\$ 54,457,313</u>
<u>LIABILITIES AND NET POSITION</u>			
CURRENT LIABILITIES:			
Accounts payable	\$ 1,334,622		1,334,622
Accrued payroll and related expenses	47,363		47,363
Accrued vacation	45,819		45,819
Other accrued liabilities	150,832		150,832
Accrued interest payable	25,740	1,434	27,174
Unearned revenue	14,396		14,396
Long-term debt obligation, current portion	332,590	50,000	382,590
Line of credit	2,198,460		2,198,460
Total current liabilities	<u>4,149,822</u>	<u>51,434</u>	<u>4,201,256</u>
NONCURRENT LIABILITIES			
Long-term debt obligations, net of current portion	2,091,899	-	2,091,899
Unearned revenue	1,019,952	-	1,019,952
Landfill post-closure liability	823,495	-	823,495
Total noncurrent liabilities	<u>3,935,346</u>	<u>-</u>	<u>3,935,346</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Revenue bonds payable		285,000	285,000
Total current liabilities, payable from restricted assets	<u>-</u>	<u>285,000</u>	<u>285,000</u>
Total liabilities	<u>8,085,168</u>	<u>336,434</u>	<u>8,421,602</u>
NET POSITION:			
Net investment in capital assets	47,126,577	(335,000)	46,791,577
Restricted for debt service	-	92,605	92,605
Unrestricted	(855,072)	6,601	(848,471)
Total net position	<u>46,271,505</u>	<u>(235,794)</u>	<u>46,035,711</u>
Total liabilities and net position	<u>\$ 54,356,673</u>	<u>\$ 100,640</u>	<u>\$ 54,457,313</u>

PORT OF TILLAMOOK BAY
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

	GENERAL FUND	REVENUE BOND FUND	TOTAL
OPERATING REVENUES:			-
Building and land rent	\$ 994,803	\$ -	\$ 994,803
Charges for services	355,687	-	355,687
Licenses and permits	6,400	-	6,400
Airport revenues	101,343	-	101,343
Railroad revenues	377,738	-	377,738
Total operating revenues	<u>1,835,971</u>	<u>-</u>	<u>1,835,971</u>
OPERATING EXPENSES:			
Personnel services	1,132,751	-	1,132,751
Materials and services	1,021,855	-	1,021,855
Depreciation and amortization	1,595,404	1,493	1,596,897
Total operating expenses	<u>3,750,010</u>	<u>1,493</u>	<u>3,751,503</u>
Operating income (loss)	(1,914,039)	(1,493)	(1,915,532)
NON-OPERATING REVENUES (EXPENSES):			
Property taxes	47,627	-	47,627
Interest income	16,551	9	16,560
Capital grants	19,859,720	-	19,859,720
Timber sales	5,243	-	5,243
Insurance proceeds	4,297	-	4,297
Other nonoperating revenue	84,088	-	84,088
Sale of assets	65,460	-	65,460
Interest expense	(236,506)	(19,154)	(255,660)
Transfer in (out)	(62,376)	62,376	-
Total non-operating income (expenses)	<u>19,784,104</u>	<u>43,231</u>	<u>19,827,335</u>
Changes in net position	17,870,065	41,738	17,911,803
NET POSITION, BEGINNING	<u>28,401,440</u>	<u>(277,532)</u>	<u>28,123,908</u>
NET POSITION, ENDING	<u>\$ 46,271,505</u>	<u>\$ (235,794)</u>	<u>\$ 46,035,711</u>

PORT OF TILLAMOOK BAY
COMBINING SCHEDULE OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

	GENERAL FUND	REVENUE BOND FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,818,531	\$ -	\$ 1,818,531
Cash paid to suppliers	(882,316)	-	(882,316)
Cash paid for personnel services	(1,140,221)	-	(1,140,221)
Net cash flows from operating actives	<u>(204,006)</u>	<u>-</u>	<u>(204,006)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Property taxes	45,813	-	45,813
Timber sales	5,243	-	5,243
Insurance proceeds	4,297	-	4,297
Nonoperating revenues	84,088	-	84,088
Transfers	<u>(62,376)</u>	<u>62,376</u>	<u>-</u>
Net cash flows from noncapital financing activities	<u>77,065</u>	<u>62,376</u>	<u>139,441</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Property and equipment additions	(20,673,581)	-	(20,673,581)
Proceeds from sale of assets	65,460	-	65,460
Grant proceeds	17,179,785	-	17,179,785
Payments on notes and bonds payable	(312,070)	(45,000)	(357,070)
Line of credit proceeds (payments)	(152,389)	-	(152,389)
Interest paid on notes and bonds payable	(237,054)	(19,323)	(256,377)
Net cash flows from capital and related financing activities	<u>(4,129,849)</u>	<u>(64,323)</u>	<u>(4,194,172)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	<u>16,551</u>	<u>9</u>	<u>16,560</u>
Net increase (decrease) in cash	(4,240,239)	(1,938)	(4,242,177)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,376,069</u>	<u>94,543</u>	<u>5,470,612</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>1,135,830</u>	<u>92,605</u>	<u>1,228,435</u>
Cash and cash equivalents classification on statement of net position:			
Current assets	\$ 115,878	\$ -	\$ 115,878
Restricted assets	1,019,952	92,605	1,112,557
Total cash and cash equivalents	<u>\$ 1,135,830</u>	<u>\$ 92,605</u>	<u>\$ 1,228,435</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	<u>(1,914,039)</u>	<u>(1,493)</u>	<u>(1,915,532)</u>
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation and amortization	1,595,404	1,493	1,596,897
(Increase) decrease in assets			
Accounts receivable	(17,440)	-	(17,440)
Inventory	(3,608)	-	(3,608)
Increase (decrease) in liabilities			
Accounts payable	138,602	-	138,602
Unearned revenue	9,240	-	9,240
Wages and employee benefits payable	(7,470)	-	(7,470)
Other accrued liabilities	(4,695)	-	(4,695)
Total adjustments	<u>1,710,033</u>	<u>1,493</u>	<u>1,711,526</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (204,006)</u>	<u>\$ -</u>	<u>\$ (204,006)</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, 2013**

	Actual	Budgetary Adjustment	Budgetary Basis	Budget		Variance with Final Budget
				Original	Final	
REVENUES:						
Charges for services	\$ 355,687	\$ -	\$ 355,687	\$ 726,100	\$ 726,100	\$ (370,413)
Railroad revenues	377,738	-	377,738	423,600	423,600	(45,862)
Building and land rent	994,803	-	994,803	920,000	920,000	74,803
Intergovernmental grants	19,859,720	-	19,859,720	25,197,484	25,197,484	(5,337,764)
Airport revenues	101,343	-	101,343	86,000	86,000	15,343
Property taxes	47,627	-	47,627	41,500	41,500	6,127
Timber sales	5,243	-	5,243	201,000	201,000	(195,757)
Interest income	16,551	-	16,551	1,505	1,505	15,046
Sale of property	-	-	-	1,000,000	1,000,000	(1,000,000)
Licenses and permits	6,400	-	6,400	7,200	7,200	(800)
Insurance proceeds	4,297	-	4,297	-	-	4,297
Sale of assets	65,460	-	65,460	57,800	57,800	7,660
Other income	84,088	-	84,088	120,900	120,900	(36,812)
Total revenues	21,918,957	-	21,918,957	28,783,089	28,783,089	(6,864,132)
EXPENDITURES:						
Materials and services	1,021,855	(3,608)	1,018,247	1,195,865	1,195,865	177,618
Personnel services	1,132,751	(3,993)	1,128,758	1,255,251	1,255,251	126,493
Capital outlay	-	19,588,378	19,588,378	25,042,981	25,042,981	5,454,603
Debt service:						
Principle	-	464,459	464,459	289,329	289,329	(175,130)
Interest	236,506	548	237,054	237,054	237,054	-
Depreciation and amortization	1,595,404	(1,595,404)	-	-	-	-
Contingency	-	-	-	713,609	713,609	713,609
Total expenditures	3,986,516	18,450,380	22,436,896	28,734,089	28,734,089	6,297,193
Revenues over (under) expenditures	17,932,441	(18,450,380)	(517,939)	49,000	49,000	(566,939)
OTHER FINANCING SOURCES (USES):						
Transfers out	(62,376)	-	(62,376)	(64,000)	(64,000)	1,624
Total other financing sources (uses)	(62,376)	-	(62,376)	(64,000)	(64,000)	1,624
Changes in net position	17,870,065	(18,450,380)	(580,315)	(15,000)	(15,000)	(565,315)
FUND BALANCE, BEGINNING BUGETARY BASIS			676,482	15,000	15,000	661,482
FUND BALANCE, ENDING BUGETARY BASIS			\$ 96,167	\$ -	\$ -	\$ 96,167

**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, 2013**

	Actual	Budgetary Adjustment	Budgetary Basis	Budget		Variance with Final Budget
				Original	Final	
REVENUES:						
Interest income	\$ 9	\$ -	\$ 9	\$ 50	\$ 50	\$ (41)
Total revenues	9	-	9	50	50	(41)
EXPENDITURES:						
Debt service						
Principal	-	45,000	45,000	45,000	45,000	-
Interest	19,154	169	19,323	22,623	22,623	3,300
Amortization	1,493	(1,493)	-	-	-	-
Total expenditures	20,647	43,676	64,323	67,623	67,623	3,300
Revenues over (under) expenditures	(20,638)	(43,676)	(64,314)	(67,573)	(67,573)	3,259
OTHER FINANCING SOURCES (USES):						
Transfers in	62,376	-	62,376	64,000	64,000	(1,624)
Total other financing sources (uses)	62,376	-	62,376	64,000	64,000	(1,624)
Changes in net position	<u>\$ 41,738</u>	<u>\$ (43,676)</u>	(1,938)	(3,573)	(3,573)	1,635
FUND BALANCE, BEGINNING BUGETARY BASIS			94,543	74,006	74,006	20,537
FUND BALANCE, ENDING BUGETARY BASIS			<u>\$ 92,605</u>	<u>\$ 70,433</u>	<u>\$ 70,433</u>	<u>\$ 22,172</u>

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OTHER FINANCIAL SCHEDULES

PORT OF TILLAMOOK BAY
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
June 30, 2013

<u>General Fund</u>	<u>Uncollected Balance June 30, 2012</u>	<u>2012-2013 Levy</u>	<u>Discounts & Adjustments</u>	<u>Collections</u>	<u>Uncollected Balance June 30, 2013</u>
All years	\$ 2,156	\$ 46,531	\$ 2,910	\$ (47,627)	\$ 3,970

**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, Oregon (the Port), as of and for the year ended June 30, 2013 and have issued our report thereon dated May 28, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 funds.
- 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. The Port did not publish the second newspaper notice of budget committee meeting as required by Oregon Budget Law.
2. Expenditures exceeded appropriations in the General Fund.
 - a. Debt service \$175,130

OAR 162-10-0230 Internal Control

Management of the Port is responsible for establishing and maintaining effective 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 opinion 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.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

We have communicated suggestions for improvements of the Port's processes in a separate letter to management dated May 28, 2014.

Our 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, dated May 28, 2014, is presented under a separate cover.

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.

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP
West Linn, Oregon
May 28, 2014

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