

**PORT OF NEWPORT
OREGON**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2014

Prepared By
SIGNE GRIMSTAD
Certified Public Accountant
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PORT OF NEWPORT, OREGON

BOARD OF COMMISSIONERS

JoAnn Barton, President
Newport, Oregon
Position No. 1

Serving since July 1, 2007
Term Expires June 30, 2015

David Jincks, Vice-President
Newport, Oregon
Position No. 2

Serving since May 19, 2009
Term Expires June 30, 2017

Walter Chuck, Secretary/Treasurer
Newport, Oregon
Position No. 3

Serving since November 22, 2011
Term Expires June 30, 2015

Lloyd "Oly" Olson
Newport, Oregon
Position No. 4

Served since July 1, 2013
Term vacated October 20, 2013

Ken Brown
Newport, Oregon
Position No. 4

Serving since January 13, 2014
Term Expires June 30, 2015

Dean Fleck
South Beach, Oregon
Position No. 5

Serving since May 17, 2007
Term Expires June 30, 2017

REGISTERED AGENT

Kevin Greenwood, General Manager
Serving since February 1, 2014
600 SE Bay Boulevard
Newport, OR 97365

PORT OF NEWPORT, OREGON

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Certified Public Accountants

October 9, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Port of Newport
Newport, Oregon

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Port of Newport (Port) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussions and analysis, listed in the table of contents, is 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. I have applied certain limited procedures to the required supplementary information 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port of Newport's basic financial statements. The accompanying supplemental information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental 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. 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 my opinion, this supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.


SIGNE GRIMSTAD
Certified Public Accountant

**PORT OF NEWPORT
Oregon**

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

As management of the Port of Newport, Oregon, we offer readers this narrative overview and analysis of the financial activities of the Port for the fiscal year ended June 30, 2014. The readers are encouraged to read this narrative overview in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- Total assets of the Port are \$96,342,822 with Capital assets of \$88,077,060 net of accumulated depreciation. Current assets are \$8,174,428 at June 30, 2014.
- The assets of Port exceeded its liabilities at the close of the fiscal year by \$50,288,672 (Net Position). Of this amount \$3,603,179 (unrestricted net position) may be used to meet the Port's ongoing obligations.
- The Port's net position decreased by \$776,354 from June 30, 2014 largely based on the adoption of GASB 65. See Note 8.
- Total operating revenue was \$5,581,973 which is an increase of 5.9% over the prior year.
- Total operating expenses for the year were \$5,473,782. This figure is 9.3% higher than the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Port of Newport's basic financial statements. The Statement of Net Position presents information on all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Port's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing when the related cash flows occur. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

Notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Port's statements. The notes can be found on pages 12 through 22 of this report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

PORT-WIDE FINANCIAL STATEMENTS

**Statement of Net Position
(in thousands)**

	<u>2014</u>	<u>2013</u>
Assets		
Current assets	\$ 7,746	\$ 7,403
Other assets	520	1,812
Capital assets	<u>88,077</u>	<u>89,128</u>
Total assets	<u>96,343</u>	<u>98,343</u>
Liabilities		
Current liabilities	2,195	2,063
Noncurrent liabilities	<u>43,859</u>	<u>45,215</u>
Total liabilities	<u>46,054</u>	<u>47,278</u>
Net Position		
Investments in capital assets, net of related debt	42,840	43,436
Restricted	3,846	3,776
Unrestricted	<u>3,602</u>	<u>3,853</u>
Total net position	<u>\$ 50,288</u>	<u>\$ 51,065</u>

By far the largest portion of the Port's net position (85%) reflects its investment in capital assets (i.e., land, dock infrastructure, marina, recreational vehicle park, construction in progress, etc.) less related outstanding debt used to acquire those assets. The Port uses these capital assets to provide services to facility patrons; consequently, these assets are not available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**PORT OF NEWPORT
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MANAGEMENT'S DISCUSSION AND ANALYSIS

PORT-WIDE FINANCIAL STATEMENTS - Continued

**Statement of Revenues, Expenses and Changes in Net Position
(in thousands)**

	<u>2014</u>	<u>2013</u>
Revenues		
Operating revenue from services	\$ 5,582	\$ 5,268
Nonoperating revenue:		
Grants	2	1,253
Property taxes	1,071	884
Interest	17	18
Gain (loss) on sale of equipment	<u>20</u>	<u>(2)</u>
Total revenues	<u>6,692</u>	<u>7,421</u>
Expenses		
Operating expenses	5,474	5,007
Other	<u>1,221</u>	<u>1,458</u>
Total expenses	<u>6,695</u>	<u>6,465</u>
Excess (def) of revenue over expenses before contribution	(3)	956
Capital contribution	<u>0</u>	<u>1,016</u>
Change in net position	(3)	1,972
Net position - restated beginning of year	<u>50,291</u>	<u>49,093</u>
Net position - end of year	<u>\$ 50,288</u>	<u>\$ 51,065</u>

The Port recognized a loss in net position during the most recent fiscal year of \$(3). Operating revenues from moorages, leases, RV Park operations, hoist dock revenue, and other services all increased compared to the prior fiscal year. Launch ramp dock revenue decreased 9% compared to the prior fiscal year. Property taxes increased to cover debt service on General Obligation Bonds issued in 2007, 2008 and 2011 approved by voters to reconstruct the Newport International Terminal. Operating expenses increased as a result of increased operational services and projects.

**PORT OF NEWPORT
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE PORT'S FUNDS

The Port operates as a special-purpose entity, reporting all of its activities as a single enterprise function. The Port accounts for various activities in separate funds to ensure and demonstrate compliance with finance-related legal and budget requirements.

The Port rolls all of its individual funds together for a single presentation in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, as well as the Statement of Cash Flows for Port-wide presentation.

GENERAL FUND BUDGETARY HIGHLIGHTS

A review of the Port's General Operating Fund indicates total revenues were 98.93% of budgeted projections and total expenses were 76.50% of budgeted levels.

No supplemental budget was passed by the Port's Board of Commissioners during the current year ending June 30, 2014.

CAPITAL ASSETS

The following table lists the Port's capital assets and their values, net of depreciation, as of June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 20,222	\$ 20,222
Construction	3,020	27,499
Land improvements	10,486	10,883
Buildings and docks	28,601	30,127
International terminal	25,369	0
Equipment	<u>379</u>	<u>397</u>
Total	<u>\$ 88,077</u>	<u>\$ 89,128</u>

As shown in the table above, the Port's net capital assets decreased by \$1,051 during the current year.

Current year additions include dock work in South Beach, installing fiber optic and wi fi equipment acquisitions and \$942,368 of reconstruction (including capitalized interest) on the Newport International Terminals project.

For further information relating to the Port's capital assets, see Note 5 of the Notes to Basic Financial Statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

DEBT OUTSTANDING

Figures presented in the following table illustrate balances outstanding at June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
General obligation bonds	\$ 14,065	\$ 14,340
Revenue bond	22,540	23,330
Full faith and credit obligations	3,410	3,410
State of Oregon loans	4,832	4,943
Bank loans	476	539
Capital leases	<u>46</u>	<u>25</u>
Total	<u>\$ 45,369</u>	<u>\$ 46,587</u>

In the fiscal year 2013, full faith and credit obligations of \$3,410 were issued to pay off two State of Oregon loans of \$2,523 at a lower interest rate and provide \$890 additional resources for the International Terminal project. An additional \$3,400 State of Oregon loans were taken out for the International Terminal reconstruction. Reductions in debt year to year represent scheduled principal payments.

For further information relating to the Port's debt, see Note 7 of the Notes to Basic Financial Statements.

KEY ECONOMIC FACTORS AND BUDGET INFORMATION FOR THE FUTURE

The Port is limited by State constitutional limits on property taxes. This limits the ability of the Port to increase property tax receipts. In addition, the impact of local economic conditions tends to limit increases in other revenues. During the budget process, these factors were considered in the preparation and adoption the Port's 2014-15 fiscal year budget. The goals of that budget were therefore to maintain the existing level of expenditure to serve customers in the most professional, accountable and efficient manner possible.

The largest goal for 2014-15 will be the completion of dredging and mitigation related to the International Terminal construction project. Components of the project that are remaining are the berth dredging to 35 feet, armament of the under wharf slope, mitigation removal of earthen dikes behind the Oregon Coast Aquarium and mitigation upgrade of a culvert connecting Yaquina Bay and a decommissioned log pond in the same area. The cost of these projects will total \$700,000 and will be completed out of the Construction Fund.

Upon completion of the terminal, the Port will be prepared to serve customers interested in shipping primarily raw logs to Asian markets, though the Port will be recruiting other users as well. The fiscal 2014-15 budget does not account for any income related to this activity. That income, when realized, will accumulate in the cash reserves (unappropriated ending fund balance) and will be a point of discussion during the fiscal year 2015-16 budget development.

The NOAA enterprise fund will continue to see pressure from unforeseen dredging needs and eel grass mitigation requirements. In fiscal year 2014-15, an additional \$225,000 will be spent to manage the growth of eel grass required by the installation of the NOAA facility.

**PORT OF NEWPORT
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MANAGEMENT'S DISCUSSION AND ANALYSIS

KEY ECONOMIC FACTORS AND BUDGET INFORMATION FOR THE FUTURE - Continued

NOAA's unrestricted cash will finance the construction of a new 4,630 sf single level port administration building, site improvements and parking. The building program includes a meeting room sized to accommodate fifty people, three restrooms, an entry vestibule, a kitchenette, eight offices and a mechanical room. The project is scheduled to commence construction in June 2015; and be completed and ready for occupancy by August 2016. The preliminary budget for direct construction cost is approximately \$695,000, though soft costs will bring the overall budget to nearly \$1 million. This project will be expensed through the Construction Fund and depending on other activity within the fund, may require a supplemental budget in fiscal year 2014-15.

NOAA has also contributed greatly to the Maintenance Reserve Fund. The fund was tapped when it was discovered that the gas lines were leaking during an annual inspection. The cost to repair the line was nearly \$80,000. Other projects that will be expended out of the reserve fund will be laundry equipment replacement in South Beach and acquisition of marine materials for maintenance repairs.

The Port's traditional revenue sources from leases, moorage and RV Parks remain the largest percentage of General Fund revenues. Res. No. 2014-06 increased rates for service fees as much as 30% to make up for staff time related to billable hours and equipment depreciation. This may result in a decrease of usage by users of port services.

Moorage rates were modified to be more standard after years of no or minimal increases. Management's hope is to adopt smaller, regular increases that mariners can more easily accommodate. Rate increases will result in more maintenance on commercial docks which are in dire need of replacement.

Other potential issues will be the announced closure of the Yaquina Bay Fruit Processing which will open up a four acre water dependently zoned parcel in South Beach. This lease generated as much as \$40,000 annually for the General Fund. The Port may also need to consider paving almost two acres to the west of the International Terminal office for fisherman storage and significant excavation of dredge spoils at McLean Point as the Port looks to retract from its lease with the Hall family.

REQUESTS FOR INFORMATION

The Port's financial statements are designed to present district taxpayers, customers and creditors with a general overview of the Port's finances and to demonstrate the Port's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Kevin Greenwood, General Manager, Port of Newport, 600 SE Bay Blvd., Newport, Oregon 97365.

PORT OF NEWPORT, OREGON

STATEMENT OF NET POSITION as of June 30, 2014

ASSETS

Current Assets

Cash and cash equivalents	\$ 7,746,616
Investment	59,818
Accounts receivable, net of allowance for doubtful accounts	148,884
Property taxes receivable	87,180
Prepaid expenses	<u>131,930</u>

Total current assets 8,174,428

Capital Assets

Land	20,221,521
Buildings and equipment, net of depreciation	<u>67,855,539</u>

Total capital assets 88,077,060

Other Assets

Bond issue costs, net of amortization	<u>91,334</u>
---------------------------------------	---------------

Total assets 96,342,822

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	157,984
Accounts payable from restricted assets	5,455
Accrued expenses	26,106
Unearned revenue	115,554
Accrued interest payable	12,369
Accrued interest payable from restricted assets	499,410
Current portion of loans and capital leases payable	278,103
Current portion of bonds payable	<u>1,100,000</u>

Total current liabilities 2,194,981

Long-term Liabilities

Loans and capital leases payable	5,075,678
Bonds payable	<u>38,783,491</u>

Total long-term liabilities 43,859,169

Total liabilities 46,054,150

Net Position

Invested in capital assets, net of related debt	42,839,788
Restricted	
Debt service	3,512,075
Maintenance reserve	333,630
Unrestricted	<u>3,603,179</u>

Total net position \$ 50,288,672

See accompanying notes to financial statements

PORT OF NEWPORT, OREGON

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION for the Year Ended June 30, 2014**

OPERATING REVENUES

Moorages and leases	\$ 4,357,265
RV Park	641,061
Terminals	9,613
Hoist dock	444,582
Launch ramp	59,148
Other	<u>70,304</u>
 Total operating revenues	 <u>5,581,973</u>

OPERATING EXPENSES

Salaries and wages	728,340
Payroll taxes and benefits	287,337
Administration, promotion and marketing	79,522
Maintenance	430,954
Utilities	414,741
Insurance	275,715
Professional fees	98,031
Service fees	281,915
Supplies	92,698
Operating fees	58,058
Other	86,240
Depreciation	<u>2,640,231</u>
 Total operating expenses	 <u>5,473,782</u>

Operating Income (Loss) 108,191

NONOPERATING REVENUE (EXPENSES)

Property taxes	1,071,578
Grants	1,939
Interest income	16,854
Interest expense	(1,215,579)
Gain on sale of equipment	19,665
Amortization	<u>(4,243)</u>
 Total nonoperating revenue (expense)	 <u>(109,786)</u>

Change in Net Position (1,595)

NET POSITION - Beginning of year

As originally stated	51,065,028
Prior period adjustment - debt issue costs	<u>(774,761)</u>
As restated	<u>50,290,267</u>

NET POSITION - End of year \$ 50,288,672

See accompanying notes to financial statements

PORT OF NEWPORT, OREGON

STATEMENT OF CASH FLOWS for the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 6,228,911
Cash payments for goods and services	(1,734,776)
Cash payments for employees and benefits	<u>(1,076,735)</u>
Net cash provided (used) by operating activities	<u>3,417,400</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Non capital grants	1,939
Property taxes collected	<u>1,056,679</u>
Net cash provided (used) by noncapital financing activities	<u>1,058,618</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(615,169)
Proceeds from sale of assets	20,961
Principal paid on debt	(1,249,578)
Interest paid on debt	<u>(2,245,800)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,089,586)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
CD reclassified as investment	(59,818)
Interest income	<u>16,854</u>
Net cash provided (used) by investing activities	<u>(42,964)</u>
Net increase (decrease) in cash and cash equivalents	343,468
Cash and cash equivalents - Beginning of year (restricted \$5,065,515)	<u>7,403,148</u>
Cash and cash equivalents - End of year (restricted \$4,870,935)	<u><u>\$ 7,746,616</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 108,191
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	2,640,231
(Increase) decrease in operating assets	
Accounts receivable	607,485
Prepaid expenses	(22,389)
Increase (decrease) in operating liabilities	
Accounts payable	105,487
Accrued expenses	(61,058)
Deferred revenue	<u>39,453</u>
Net cash provided (used) by operating activities	<u><u>\$ 3,417,400</u></u>
NONCASH CAPITAL ACTIVITY	
Equipment acquired through capital lease	\$ 31,357

See accompanying notes to financial statements.

PORT OF NEWPORT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices are disclosed below.

Reporting Entity

The Port is organized under the general laws of the State of Oregon. The governing body is a five-member elected Board of Commissioners (the Board). The daily management of the Port is under the supervision of the General Manager, who is appointed by the Board. The Port is the level of government financially accountable for all Port operations within its boundaries. As a result, all related activities have been included in the financial statements. There are various governmental agencies and special service districts that provide services within the Port's boundaries; however, the Port is not financially accountable for any of these entities, and accordingly their financial information is not included in these financial statements.

Measurement Focus, Basis of Presentation and Accounting

The Port is considered to be a single enterprise similar to a commercial entity for financial reporting purposes. Accordingly, these financial statements are maintained on the flow of economic resources measurement focus using the accrual basis of accounting and accounting principles applicable to commercial enterprises. This measurement focus provides that all assets and liabilities associated with operations are included on the Statement of Net Position. The Port's net position is segregated into net position invested in capital assets, restricted net position and unrestricted net position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in net position.

The financial statements of the Port have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial reporting principles. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

Operating Revenues, Non-Operating Revenues and Operating Expenses

The Port has defined operating revenues to include lease fees, RV park fees, launch dock, hoist and moorage fees. Operating expenses are defined as those expenses directly related to providing the services reflected within operating revenues including depreciation and administration expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenue and expenses. This includes property taxes, investment interest, gain (loss) on sale of capital assets, and non-operating grant revenue and amortization costs.

Deposits and Investments

The Port's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

The Port's investment policies are governed by Oregon statutes. The statutes authorize the Port to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade commercial paper and the State Treasurer's Local Government Investment Pool (LGIP). See Note 3.

PORT OF NEWPORT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables

Terminal, marina and lease receivables are shown net of an allowance for doubtful accounts. The allowance is judgmentally determined by management based on a collectability analysis.

Property taxes are levied and become a lien on all taxable property as of July 1. Property taxes are payable on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent. Property taxes receivable are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established.

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received. Interest costs are capitalized as part of the costs of capital assets during the period of construction based on borrowing costs incurred. 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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The Port recognizes assets with an initial cost or donated value of more than \$5,000 and an estimated life of over more than one year.

Capital assets constructed with tax-exempt borrowing may include capitalized interest as part of the costs of capital assets. All interest costs of the borrowing less any interest earned on investments acquired with the proceeds of the borrowing are capitalized from the date of the borrowing until the assets are ready for their intended use.

Assets subject to depreciation are depreciated over their estimated useful lives on the straight-line basis. Estimated useful lives for land improvements (marina and RV park) are 10 to 20 years, buildings - 25 to 40 years, docks - 20 to 40 years, and equipment from 5 to 10 years.

Compensated Absences

Employees are permitted to accumulate earned but unused vacation and related employee benefits. Vacation and holiday pay are recognized as expense when earned. Compensated absences are reported with accrued expenses in the Statement of Net Position.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items.

Long-Term Liabilities

General obligation bonds are payable from property taxes. All other long-term obligations are payable from operations.

Net Position

Net Position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the Port's financial statements.

PORT OF NEWPORT, OREGON
NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position

Net position is divided into three components:

Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position - consists of assets that are restricted by the Port's creditors, by enabling legislation, by grantors, and other contributors.

Unrestricted - all other net position is reported in this category.

Restricted Assets and Related Liabilities

Assets whose use is restricted for construction related to the marine terminal redevelopment project, the National Oceanic and Atmospheric Administration (NOAA) Marine Operations Center - Pacific (MOC-P) project, the facilities maintenance reserve and the payment of bonded debt service, as well as all related liabilities are segregated on the Statement of Net Position.

Where both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources to the limits of the policies and statutes governing them first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Law and Practice

The Port legally adopts an annual budget for each proprietary fund prior to July 1 through passage of a resolution in accordance with the legal requirements set forth in the Oregon Local Budget Law. The resolution authorizes fund appropriations at the following control levels: personal services, materials and services, capital outlay, debt service, interfund transactions, operating contingency, and all other requirement levels. Expenditures cannot legally exceed appropriations at these control levels.

Budgets are prepared using the modified accrual basis of accounting. A reconciliation schedule brings the budget basis to full accrual for compliance with generally accepted accounting principles.

PORT OF NEWPORT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Budget Law and Practice

Unexpected additional resources may be added to the budget through the use of a supplemental budget. The supplemental budget process requires hearings before the public, publications in newspapers, and approval by the Board. Only the Board may modify original and supplemental budgets by the use of appropriation transfers between the levels of control. In addition, Oregon Local Budget Law provides certain specific exceptions to the supplemental budget process to increase appropriations. Such transfers and increases require Board's approval by adoption of a resolution.

Budget appropriation amounts shown in the financial statements include the original and revised budget appropriations as approved by the Board. Appropriations are limited to a single fiscal year; therefore, all spending authority of the Port lapse at year end.

Over Expenditures

The General Fund over expended in Debt Services by \$132,724.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30 consist of the following:

	<u>Balance</u>	<u>Unrestricted</u>	<u>Restricted</u>
Cash on hand	\$ 2,125	\$ 2,125	\$ 0
Deposits with financial institutions	<u>7,744,491</u>	<u>2,873,556</u>	<u>4,870,935</u>
Total cash and cash equivalents	7,746,616	2,875,681	4,870,935
Investments - time certificate of deposit	<u>59,818</u>	<u>0</u>	<u>59,818</u>
Total cash, cash equivalents and investments	<u>\$7,806,434</u>	<u>\$ 2,875,681</u>	<u>\$4,930,753</u>

Deposits

At the end of the fiscal year, the Port's total deposits with financial institutions have a bank value of \$7,972,671, of which \$1,000,000 was covered by FDIC.

Custodial Credit Risk

As required by Oregon Revised Statutes, deposits in excess of federal depository insurance were held at qualified depositories for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer. As a result the Port has no exposure to custodial credit risk for deposits with financial institutions.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

PORT OF NEWPORT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Credit risk

Oregon Statutes limit investments to general obligations of U.S. government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, high-grade commercial paper and the State Treasurer's Local Government Investment Pool. The Port has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The Port places no limit on the amount the Port may invest in any one investment or issuer. For the current year, the Port held 71% of funds in Oregon Coast Bank.

NOTE 4 - RECEIVABLES

Receivables at year end consist of the following:

	<u>Balance</u>	
Property taxes	\$ 87,180	Restricted
Accounts receivable	148,884	Unrestricted
Total receivables	<u>\$ 236,064</u>	

Terminal, marina, and lease receivables are shown net of an allowance for doubtful accounts. The allowance is judgmentally determined by management based on a collectability analysis.

Property Taxes

Property taxes are levied and become a lien on all taxable property as of July 1. Taxes are levied on November 15 with collection dates: November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30 was as follows:

	<u>7/01 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30 Balance</u>
Capital assets not being depreciated				
Land	\$ 20,221,521	\$ 0	\$ 0	\$ 20,221,521
Construction in progress	27,499,638	1,408,209	(25,887,409)	3,020,437
Total assets not being depreciated	47,721,159	1,408,209	(25,887,409)	23,241,958
Capital assets being depreciated				
Land improvements	18,413,449	23,177	0	18,436,626
Buildings and docks	41,639,092	104,715	0	41,743,807
Equipment	828,608	52,793	0	881,402
International Terminal	0	25,887,409	0	25,887,409
Total depreciable at historical cost	60,881,149	26,068,094	0	86,949,244

PORT OF NEWPORT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

NOTE 5 - CAPITAL ASSETS - Continued

	<u>7/01</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30</u> <u>Balance</u>
Accumulated depreciation				
Land improvements	(7,530,225)	(421,313)	0	(7,951,537)
Buildings and docks	(11,512,089)	(1,630,690)	0	(13,142,779)
Equipment	(431,598)	(70,480)	0	(502,078)
International Terminal	<u>0</u>	<u>(517,748)</u>	<u>0</u>	<u>(517,748)</u>
Total accumulated depreciation	<u>(19,473,911)</u>	<u>(2,640,231)</u>	<u>0</u>	<u>(22,114,142)</u>
Total capital assets, net	<u>\$ 89,128,397</u>	<u>\$24,836,072</u>	<u>\$(25,887,409)</u>	<u>\$ 88,077,060</u>

Capitalized interest expense for the year was \$942,368.

NOTE 6 - LEASE

Leases - Port as Lessor

The Port, as a lessor, leases certain properties with a total approximate net capitalized cost of \$25,750,000 and annual depreciation expense of approximately \$1,290,000 under long-term operating leases. On August 7, 2009, the Port entered into a 20-year lease for a MOC-P with the United States of America, through the NOAA, expiring June 30, 2031, commonly referred to as the NOAA lease. NOAA lease revenue is pledged first to pay bond principal and interest, second to credit the reserve account to eliminate any deficiency in the required reserve and third for any other lawful Port purpose. The annual rent under this lease is approximately \$2,500,000 which is included in the schedule below.

The minimum future payments to be received under non-cancelable leases are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Balance</u>
2015	\$ 3,050,000
2016	2,960,000
2017	2,810,000
2018	2,580,000
2019	2,560,000
Thereafter	<u>30,170,000</u>
Total	<u>\$ 44,130,000</u>

Total minimum future lease payments do not include amounts for lease payments based on the lessee's gross sales. These payments amounted to approximately \$116,000 for the fiscal year. Amounts for future lease extensions are not included as they are cancelable.

PORT OF NEWPORT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

NOTE 7 - LONG TERM DEBT

Bonds, Loans and Capital Leases Payable

Bonds, loans and capital leases payable are as follows:

	<u>Original Amount</u>	<u>7/01 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30 Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds						
Series 2007, interest rates from 4% to 4.25%	\$ 5,000,000	\$ 4,440,000	\$ 0	\$ 110,000	\$ 4,330,000	\$ 115,000
Series 2008, interest rates from 3.5% to 4.25%	5,000,000	4,520,000	0	105,000	4,415,000	110,000
Series 2011, interest rates from 2% to 5.5%	5,452,000	5,380,000	0	60,000	5,320,000	60,000
Full Faith and Credit Obligation Bond						
Series 2013, interest at 2.45%	3,410,000	3,410,000	0	0	3,410,000	30,000
State of Oregon Loans						
Special Public Works Fund Loan, interest at 4.77% to 6.5%	9,071,047	4,853,358	0	98,690	4,754,668	156,838
Oregon Port Revolving Loans, interest at 6%	366,065	89,393	0	12,771	76,622	13,555
Oregon Coast Bank Loans						
Loan payable, interest at 7%	315,955	113,149	0	44,759	68,390	48,015
Loan payable, interest at 6%	465,811	425,725	0	17,967	407,758	19,016
Toyota Financial Services						
Capital lease, interest at 5.55%	33,038	3,185	0	3,185	0	0
Capital lease, interest at 4.75%	24,767	22,192	0	4,264	17,928	4,831
Capital lease, interest at 4.3%	31,357	0	31,357	2,943	28,414	5,848
Revenue Bond						
Series 2010, interest rate from 3% to 6.125%	24,095,000	<u>23,330,000</u>	<u>0</u>	<u>790,000</u>	<u>22,540,000</u>	<u>815,000</u>
		<u>\$46,587,002</u>	<u>\$ 31,357</u>	<u>\$ 1,249,579</u>	<u>\$45,368,780</u>	<u>\$1,378,103</u>

* Note that amounts do not represent variable interest debt, but rather stated rates related to various maturities for the respective issuances.

PORT OF NEWPORT, OREGON

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

NOTE 7 - LONG TERM DEBT - Continued

Bonds, Loans and Capital Leases Payable

General obligation bonds, full faith and credit obligation bond, and State of Oregon loans are direct obligations and pledge the full faith and credit of the Port. The revenue bonds are secured by the NOAA lease revenue and the required reserve was fully funded with bond proceeds. The funds provided by the obligations and the Oregon Coast Bank loans, were and continue to be used for the acquisition, repair and construction of capital assets.

In the last fiscal year ending June 30, 2013, the Port obtained financing to fund construction of the International Terminal. The Port negotiated a \$3,000,000 loan with a \$500,000 grant from the Oregon Infrastructure Finance Authority (IFA), fully drawn down by June 30, 2013. Also additional financing was obtained under a forgivable loan from the State of Oregon Business Development in the amount of \$400,000. The no interest loan is secured by a promissory note and will be forgiven by the State upon completion of the project.

In the last fiscal year ending June 30, 2013, the Port refinanced two special Public Works Fund Community Facility loans outstanding of \$2,624,942 and received new funding of \$890,000 deposited into the Construction Fund for improvements to the Port's International Terminal.

The Port has various capital leases for certain equipment. The balance outstanding on these leases at June 30, 2014 was \$46,342. The cost of leased equipment at year end was \$56,124, with accumulated depreciation of \$5,778 and net book value of \$50,346.

Future maturities are as follows:

Year Ending June 30	General Obligation Bonds	Full Faith & Credit Obl. Bond	State of Oregon Loans	Oregon Coast Bank Loans	Capital Leases	Revenue Bond	Total	Total Interest
2015	\$ 285,000	\$ 30,000	\$ 170,393	\$ 67,031	\$ 10,679	\$ 815,000	\$ 1,378,103	\$ 2,120,777
2016	300,000	120,000	181,693	40,503	11,181	840,000	1,493,377	2,070,262
2017	310,000	185,000	195,336	21,466	11,693	870,000	1,593,495	2,014,596
2018	320,000	190,000	235,924	22,809	9,353	910,000	1,688,086	1,953,450
2019	335,000	200,000	243,471	24,236	3,436	945,000	1,751,143	1,886,064
2020-24	1,895,000	1,090,000	1,238,549	145,820	0	5,525,000	9,894,369	8,199,715
2025-29	2,335,000	1,130,000	1,323,651	154,283	0	7,200,000	12,142,934	5,618,368
2030-34	2,905,000	465,000	1,242,271	0	0	5,435,000	10,047,273	2,427,021
2035-39	3,640,000	0	0	0	0	0	3,640,000	1,041,978
2040-44	1,740,000	0	0	0	0	0	1,740,000	144,925
Total	<u>\$14,065,000</u>	<u>\$3,410,000</u>	<u>\$4,831,288</u>	<u>\$ 476,148</u>	<u>\$ 46,342</u>	<u>\$22,540,000</u>	<u>\$45,368,780</u>	<u>\$27,477,156</u>
							Adjustment - current portion	(1,378,103)
							- premium/discounts	<u>(131,508)</u>
							Total long-term debt, net	<u>\$43,859,169</u>

PORT OF NEWPORT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2014

NOTE 8 - PRIOR PERIOD ADJUSTMENT

Government Accounting Standards Board (GAS) Statement 65 - Items Previously Recognized as Assets and Liabilities became effective for fiscal years beginning after December 15, 2012. Under GASB 65 debt issuance costs, other than prepaid insurance costs, are recognized as an outflow of resource in the period incurred rather than amortized over the life of the related debt. The statement is to be applied retroactively. As a result, beginning net position has been reduced by \$774,761, the amount of the unamortized debt issuance costs at June 30, 2013.

NOTE 9 - OTHER INFORMATION

Pension Plan

Substantially all Port employees, after six months of employment, are participants in the State of Oregon Public Employees Retirement System (PERS). The Port's policy is to fund pension costs as determined by actuarial valuations. The Port contributes to the PERS and to the Oregon Public Service Retirement Plan (ORSRP). PERS is a cost sharing multiple-employer defined benefit public employee retirement system. OPSRP is a hybrid retirement plan with two components; the Pension Program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan) and the Individual Account Program (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan). A defined benefit plan is benefit-based and uses predictable criteria such as a pension determined by salary multiplied by length of service multiplied by a factor. A defined contribution plan has no guarantee. ORSRP is administered by PERS. PERS acts as a common investment and administrative agent for political subdivisions in the State of Oregon.

The 2003 Oregon Legislature established OPSRP. Public employees hired on after August 29, 2003, become part of OPSRP, unless membership was previously established in PERS. The 1995 Oregon Legislature established a different level of benefits for employees who began their six-month waiting period on or after January 1, 1996. This level is called Tier Two.

Benefits generally vest after five years of continuous service. Retirement is allowed at age fifty-eight with unreduced benefits, but retirement is generally available after age fifty-five with reduced benefits. Retirement benefits based on salary and length of service are calculated using a formula and are payable in a lump sum or monthly using several payment options. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statutes.

The State of Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700 or by calling 1-888-320-7377.

Funding Policy

The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two year. Contributions to PERS have historically been made based on the annual required contribution and were charged to expenses/expenditures as funded.

The Port's annual required contribution rate for the fiscal year was 4.46% of covered employees' salaries for PERS and 4.01% for general OPSRP. The employee contribution rate is 6%.

PORT OF NEWPORT, OREGON
NOTES TO FINANCIAL STATEMENTS
as of June 30, 2014

NOTE 9 - OTHER INFORMATION - Continued

Pension Plan

Risk Pooling and Revised PERS Contribution Rates

The Port participates in the State and Local Government Rate Pool (SLGRP). The SLGRP was created by legislative act of the State of Oregon and provided local governments the option to pool their PERS related assets and liabilities with others that elected to participate in the pool. Contribution rates are determined based on the overall experience of the pool versus the potentially more volatile experience of individual employers.

Annual Pension Cost

For the fiscal year, the Port's actual annual pension cost of approximately \$30,000 was equal to the annual required contributions. The required contribution was determined as part of the actuarial valuation at December 31, 2009, using the projected unit credit cost methods. Significant actuarial assumptions used in the valuation included; (a) rate of return on the investment of present and future assets of 7.75%; (b) projected salary increases which include 3.75% per year in addition to salary increases due to promotions and longevity that may vary by age and service; (c) post-retirement benefit increases of 2% per year (the maximum allowable); (d) consumer price inflation of 2.75% per year; and, (e) thirty-year open amortization of the unfunded actuarial liability as a level percentage of projected annual payroll.

Beginning in 2000, the actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. No obligation for retirees is attributed to the Port as PERS pools the risk related to retired employees among all employers. PERS assumes the obligation for benefits from the individual entity, as a whole, when benefits become payable.

The Port's annual required contributions, percentages of annual contributions to the plan, and the net pension obligation for 2014 and the two preceding years were as follows:

Fiscal Year Ending June 30	Annual Required Contribution	% Contributed	Remaining Obligation
2012	\$ 41,000	100%	\$ 0
2013	36,000	100%	0
2014	30,000	100%	0

Retirement Health Insurance Account (RHIA)

Plan Description

As a member of Oregon Public Employees Retirement System (OPERS), the Port contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing, multiple-employer defined benefit other postemployment benefit plan (OPEB) administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

PORT OF NEWPORT, OREGON

NOTES TO FINANCIAL STATEMENTS as of June 30, 2014

NOTE 9 - OTHER INFORMATION - Continued

Retirement Health Insurance Account (RHIA)

Funding Policy

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS requires that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the RHIA established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating municipal corporations are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently .59% for PERS members and .49% for OPSRP of annual covered payroll, respectively. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Port's contributions to RHIA for the years ended June 30, 2014, 2013, and 2012 were paid with contributions for pension, and equaled the required contributions for each year.

Risk Management

The Port is exposed to various risks of loss related to theft of; damage to and destruction of assets; torts; errors and omissions; injuries to employees; and natural disasters. The Port purchases commercial insurance for such risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Commitments and Contingencies

The Port had commitments under various contracts for the terminal redevelopment project totaling approximately \$740,000 for the year.

Evaluation of Subsequent Events

The Port has evaluated subsequent events through October 9, 2014, the date which the financial statements were available to be issued.

**PORT OF NEWPORT
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SUPPLEMENTAL INFORMATION

PORT OF NEWPORT, OREGON

DESCRIPTION OF BUDGETARY FUNDS

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 Operating Fund

The fund is used to account for the financial resources of the Port that are not accounted for in any other fund. Principal sources of revenue are from property taxes, service fees and lease revenue. Primary expenditures are for maintenance and general administration.

Bonded Debt Fund

The fund is used to account for expenditures for major construction and improvement. Principal sources of revenue are mortgage fees.

Facilities Maintenance Fund

The fund is used to account for the accumulation of funds for the maintenance, repairs and capital improvements.

Construction Fund

The fund is used for capital improvements and acquisitions.

NOAA Lease Revenue Fund

The fund is used for operation and maintenance as authorized by the General Fund Budget. It is reported as a part of the enterprise fund on a generally accepted accounting principles basis.

PORT OF NEWPORT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2014**

GENERAL OPERATING FUND

	Original & Final Budget	Actual	Variance
REVENUES			
Moorage	1,279,500	1,219,239	(60,261)
Leases	535,500	599,533	64,033
RV park	537,300	641,061	103,761
Terminals	141,500	9,613	(131,887)
Hoist dock	0	444,582	444,582
Intergovernmental	527,200	1,939	(525,261)
Launch ramp	58,000	59,148	1,148
Property taxes	89,000	99,491	10,491
Interest	2,500	2,886	386
Miscellaneous	31,000	89,689	58,689
Total revenues	<u>3,201,500</u>	<u>3,167,181</u>	<u>(34,318)</u>
EXPENDITURES			
Personal services	1,181,000	915,628	265,372
Materials and services	1,437,000	1,311,748	125,252
Capital outlay	637,500	25,608	611,892
Debt service	445,000	577,724	(132,724)
Total expenditures	<u>3,700,500</u>	<u>2,830,708</u>	<u>869,792</u>
Excess (def) of revenues over expenditures	<u>(499,000)</u>	<u>336,473</u>	<u>835,473</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>25,000</u>	<u>25,000</u>	<u>0</u>
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>0</u>
Excess (def) of revenues over expenditures	(474,000)	361,473	835,473
Unappropriated ending fund balance	(76,000)	0	(76,000)
FUND BALANCE - Restated - Beginning of year (Budget)	<u>550,000</u>	<u>867,554</u>	<u>317,554</u>
FUND BALANCE - End of year (Budget)	<u>\$ 0</u>	1,229,027	<u>\$ 1,229,027</u>
GAAP Adjustments			
Capital assets, net		88,077,060	
Accrued interest payable		(12,369)	
Long-term debt		<u>(8,882,447)</u>	
FUND BALANCE - End of year (GAAP)		<u>\$ 80,411,271</u>	

PORT OF NEWPORT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2014**

BONDED DEBT FUND

	Original & Final Budget	Actual	Variance
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property taxes	\$ 962,773	\$ 972,087	\$ (9,314)
Interest	<u>300</u>	<u>950</u>	<u>(650)</u>
Total revenues	963,073	973,037	(9,964)
EXPENDITURES			
Debt service	<u>923,073</u>	<u>918,073</u>	<u>5,000</u>
Excess (def) of revenues over expenditures	40,000	54,964	14,964
Unappropriated ending fund balance	(40,000)	0	(40,000)
FUND BALANCE - Restated - Beg of year (Budget)	<u>0</u>	<u>65,628</u>	<u>(65,628)</u>
FUND BALANCE - End of year (Budget)	<u>\$ 0</u>	120,592	<u>\$ 120,592</u>
GAAP Adjustments			
Bond issue costs		91,334	
Long-term debt		<u>(13,997,401)</u>	
FUND BALANCE - End of Year (GAAP)		<u>\$ (13,785,475)</u>	

PORT OF NEWPORT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2014**

FACILITIES MAINTENANCE FUND

	Original & Final Budget	Actual	Variance
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Interest	\$ 25	\$ 173	\$ 148
EXPENDITURES			
Materials and services	<u>240,025</u>	<u>123,736</u>	<u>116,289</u>
Excess (def) of revenues over expenditures	(240,000)	(123,563)	116,437
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>235,000</u>	<u>193,870</u>	<u>(41,130)</u>
Excess (def) of revenues over expenditures	(5,000)	70,307	75,307
Unappropriated ending fund balance	(70,000)	0	70,000
FUND BALANCE - Beginning of year (Budget)	<u>75,000</u>	<u>96,289</u>	<u>21,289</u>
FUND BALANCE - End of year (Budget)	<u><u>0</u></u>	166,596	<u><u>166,596</u></u>
GAAP Adjustments			
Capital outlay		123,720	
Transfer		<u>(123,720)</u>	
FUND BALANCE - End of Year (GAAP)		<u><u>\$ 166,596</u></u>	

PORT OF NEWPORT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2014**

CONSTRUCTION FUND

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest	\$ 700	\$ 2,475	\$ 1,775
EXPENDITURES			
Capital outlay	<u>890,700</u>	<u>463,841</u>	<u>426,859</u>
Excess (def) of revenues over expenditures	(890,000)	(461,366)	428,634
FUND BALANCE - Beginning of year (Budget)	<u>890,000</u>	<u>1,212,170</u>	<u>322,170</u>
FUND BALANCE - End of year (Budget)	<u>\$ 0</u>	750,804	<u>\$ 750,804</u>
GAAP Adjustments			
Capital outlay		459,841	
Transfer		<u>(459,841)</u>	
FUND BALANCE - End of Year (GAAP)		<u>\$ 750,804</u>	

PORT OF NEWPORT, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2014**

NOAA LEASE REVENUE FUND

	Original & Final Budget	Actual	Variance
REVENUES			
Leases	\$ 2,535,000	\$ 2,538,493	\$ 3,493
Grants	100,000	0	\$ (100,000)
Interest	10,000	10,650	650
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>
 Total revenues	 <u>2,645,000</u>	 <u>2,549,143</u>	 <u>(95,856)</u>
 EXPENDITURES			
Personal services	104,980	100,049	4,931
Materials and services	624,200	239,792	384,408
Capital outlay	0	267,453	(267,453)
Debt service	2,000,434	2,000,434	0
Contingency	<u>100,000</u>	<u>0</u>	<u>100,000</u>
 Total expenditures	 <u>2,829,614</u>	 <u>2,607,728</u>	 <u>221,886</u>
 Excess (def) of revenues over expenditures	 (184,614)	 (58,585)	 126,029
 OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(220,000)</u>	<u>(218,870)</u>	<u>1,130</u>
 Excess (def) of revenues over expenditures	 (404,614)	 (277,455)	 127,159
 Unappropriated ending fund balance	 (2,595,386)	 0	 (2,595,386)
 FUND BALANCE - Restated - Beg of year (Budget)	 <u>3,000,000</u>	 <u>5,879,765</u>	 <u>2,879,765</u>
 FUND BALANCE - End of year (Budget)	 <u>\$ 0</u>	 5,602,310	 <u>\$ 5,602,310</u>
 GAAP Adjustments			
Accrued interest payable		(499,410)	
Long-term debt		<u>(22,357,424)</u>	
 FUND BALANCE - End of year (GAAP)		 <u>\$ (17,254,524)</u>	

PORT OF NEWPORT, OREGON

RECONCILIATION OF REVENUES AND EXPENDITURES (BUDGETARY BASIS) TO THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION for the Year Ended June 30, 2014

	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>Net</u>
Budgetary Basis			
General Operating Fund	\$ 3,192,181	\$ 2,830,708	\$ 361,473
Bonded Debt Fund	973,037	918,073	54,964
Facilities Maintenance Fund	194,043	123,736	70,307
Construction Fund	2,475	463,841	(461,366)
NOAA Lease Revenue Fund	<u>2,549,143</u>	<u>2,826,598</u>	<u>(277,455)</u>
 Total budgetary basis	 <u>\$ 6,910,879</u>	 <u>\$ 7,162,956</u>	 (252,077)
 Add (Deduct) Items to Reconcile to Net Income on a Financial Reporting Basis			
Payment of long-term debt			1,249,578
Capital outlay			615,169
Capitalized interest			942,368
Accrued interest			87,853
Amortization of bond premium/discount			(4,243)
Depreciation			<u>(2,640,231)</u>
 Change in net position			 <u>(1,583)</u>
 NET POSITION - Beginning of year			
As originally stated			51,065,028
Prior period adjustment - debt issue costs			<u>(774,773)</u>
As restated			<u>50,290,255</u>
 NET POSITION - End of year			 <u>\$ 50,288,672</u>

PORT OF NEWPORT, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS
for the Year Ended June 30, 2014

Levy Year	7/1 Balance	Current Levy	Tax Roll Adjustments	Collection	6/30 Balance
2013-14	\$ 0	\$ 1,081,586	\$ (28,375)	\$ 1,007,602	\$ 45,609
2012-13	37,270	0	5,208	20,447	22,031
2011-12	15,072	0	(39)	5,752	9,281
2010-11	15,259	0	(51)	9,239	5,969
2009-10	5,730	0	(49)	3,202	2,479
Prior Years	<u>2,275</u>	<u>0</u>	<u>(212)</u>	<u>252</u>	<u>1,811</u>
Totals	<u>\$ 75,606</u>	<u>\$ 1,081,586</u>	<u>\$ (23,518)</u>	<u>\$ 1,046,494</u>	<u>\$ 87,180</u>

PROPERTY TAX RECEIVABLE

	Balance
General Operating Fund	\$ 10,335
Bonded Debt Fund	<u>76,845</u>
Total	<u>\$ 87,180</u>

**PORT OF NEWPORT
OREGON**

COMPLIANCE SECTION

GRIMSTAD & ASSOCIATES
Certified Public Accountants

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October 9, 2014

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

Board of Commissioners
Port of Newport
Newport, Oregon

I have audited the basic financial statements of the Port of Newport as of and for the year ended June 30, 2014, and have issued my report thereon October 9, 2014. I conducted my audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

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

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

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

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

The General Fund over expended by \$132,724 in Debt Services.

Members:
AICPA OSCPA & OAIA

OAR 162-10-0230 Internal Control

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

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

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses.

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



SIGNE GRIMSTAD
Certified Public Accountant