PORT OF ASTORIA

Financial Statements and Supplementary Schedules for Port of Astoria, Oregon

For the Year ended June 30, 2014

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PORT OF ASTORIA
PRINCIPAL OFFICIALS

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Astoria, OR 97103
Dates of service: July 1, 2013 – present

William Hunsinger, Vice-President
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Dates of service: July 1, 2013 – present

Stephen C. Fulton, Secretary
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Dates of service: July 1, 2013 – present

John P. Raichl, Treasurer
10 Pier 1 Building, Suite 308
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Dates of service: June 3, 2014 – present

Robert Mushen, Assistant Secretary-Treasurer
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Dates of service: June 3, 2014 – present

E. Andrew Jordan, Attorney & Registered Agent
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Dates of service: July 1, 2013 – June 30, 2014

Ric Gerttula, Treasurer
10 Pier 1 Building, Suite 308
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Dates of service: July 1, 2013 - May 7, 2014

Jack Bland, Assistant Secretary-Treasurer
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Dates of service: July 1, 2013 - May 20, 2014

Jim Knight, Chief Executive Officer
10 Pier 1 Building, Suite 308
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Dates of service: October 27, 2014 - present

Michael J. Weston II, Acting Chief Executive Officer
10 Pier 1 Building, Suite 308
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Dates of service: September 11, 2013 - October 26, 2014

Hank Bynaker, Chief Executive Officer
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Dates of service: July 16, 2012 - September 11, 2013

FINANCIAL SECTION

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

Board of Commissioners
Port of Astoria
Astoria, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Port of Astoria, Oregon (the 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port'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.

MOSS ADAMS LLP

Opinion

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

Correction of Errors

As described in Note 3 of the financial statements, the Port restated its assets, liabilities, and net position as of June 30, 2013. 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 on pages 4 through 7, and the schedules of funding progress for Public Employees Retirement System and other post-employment benefits on page 32 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 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The supplementary information, as 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 supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

MOSS-ADAMS LLP

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2015, on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is 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.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated May 29, 2015 on our consideration of the Port's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

James C. Lagarotta

For Moss Adams LLP
Eugene, Oregon
May 29, 2015

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 Astoria "the Port", a municipal government organized by ORS 777. It should be read in conjunction with the financial statements for the fiscal year ending June 30, 2014, including all accompanying notes to the financial statements.

Mission Statement

"The Port of Astoria seeks to generate economic growth and prosperity, in a safe and environmentally responsible manner, for its citizens through the creation of family wage jobs and prudent management of its assets".

Overall performance and goals

The Port's primary goals are as follows:

- To improve and strengthen the Port's transportation infrastructure in order to meet current and future demands on a competitive basis.
- To fully exploit the business and employment potential of the Port's industrial and commercial real estate in partnership with community development goals.
- To expand infrastructure in support of traditional natural resource industries and related trades.

Financial highlights

The Port's overall net position decreased slightly during fiscal year 2014 by $7,789. Although the Port had an operating loss in the current year of $105,523, this was an improvement from fiscal year 2013 when the Port sustained operating losses exceeding $640,000.

***Discussion of basic financial statements* -** The basic financial statements are prepared on the accrual basis, similar to a private business, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or paid. The basic financial statements consist of a statement of net position which includes the Port's assets, liabilities, and net position (assets minus liabilities) at year end; a statement of revenues, expenses and changes in net position; and a statement of cash flows, which presents the sources and uses of cash for the year. The financial statements also include notes that further explain some of the information in the financial statements and provide more detailed data. Following the financial statements is a section of supplementary information, nearly all of which is required by the Governmental Accounting Standards Board (GASB).

The Port is operated as a unitary enterprise similar to a commercial or business entity organized for profit. The general funds include accounting of operations that are financed and operated in a manner similar to private-sector business 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. Revenue is generated primarily through land and building rents, dock user fees, fueling fees, airport service charges, and timber revenues.

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 net position total reported in the balance sheet serves as a useful indicator of whether the financial position of the Port is improving or declining over time. The *Statement of Revenues, Expenses and Changes in Net Position* 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 reinvest in Port operations.

Condensed Statement of Net Position

	Year Ended June 30, 2014	2013 (Restated)
Assets		
Current assets	$ 2,450,884	$ 2,155,188
Restricted assets	200,732	-
Other assets	8,868,580	9,190,298
Capital assets	30,683,779	31,191,976
Total assets	$ 42,203,975	$ 42,537,462
Liabilities		
Current liabilities	$ 2,572,229	$ 2,620,930
Long-term liabilities	20,056,652	20,333,649
Total liabilities	22,628,881	22,954,579
Net position		
Net investment in capital assets	22,012,440	21,324,971
Restricted for capital improvements to Pier 3	200,732	50,992
Unrestricted	(2,638,078)	(1,793,080)
Total net position	$ 19,575,094	$ 19,582,883

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2014	2013
Operating revenues	$ 7,993,787	$ 7,796,563
Operating expenses	(8,099,310)	(8,437,092)
Loss from operations	(105,523)	(640,529)
Non-operating revenues	778,109	944,755
Non-operating expenses	(1,604,342)	(740,710)
Net loss before capital grants	(931,756)	(436,484)
Capital grants	923,967	1,380,558
Change in net position	(7,789)	944,074
Net position, beginning of the year	19,582,883	20,556,482
Prior period adjustment	-	(1,917,673)
Net position, end of the year	$ 19,575,094	$ 19,582,883

Analysis of the overall financial position and results of operations

Fiscal year-end June 30, 2014 included a number of continuing projects which were funded through grants received from the Federal Aviation Administration (FAA) and the Oregon Department of Transportation, including pier 2 restoration, and Runway 13-31 Overlay and Drainage. These projects, along with the acquisition of a quick response vessel resulted in capital asset additions of $1,328,969. See Note 6 for more information.

The Port did not issue any additional debt during the current fiscal year, and made standard repayments on the notes payable according to the terms of agreement of $831,782. However, long-term liabilities increased overall by $276,997, mostly caused by an increase of the pollution remediation liability of $859,900. See Note 10 and Note 16 for more information.

Operating revenues increased slightly by $197,224, which represents approximately a 2.5% increase from the prior year. The increased revenues were primarily from lease and rental operations.

Operating expenses decreased by $337,782 which represents a 4.0% decrease from fiscal year 2013. Personnel services decreased $502,356 due to the transition of the CEO and reduction of other staff during the year.

Non-operating revenues, consisting primarily of property taxes, timber tax receipts, interest income, and grants, decreased $166,646, or 17.6% during 2014. This was primarily the result of decreased grant revenues of $178,532. Additionally, capital grants also declined by approximately $456,591 due to the conclusion of an FAA grant.

Non-operating expenses primarily composed of pollution remediation expense and interest expense increased by $863,632, representing a 116.6% increase from the prior year, caused in large part to pollution remediation expenses of $859,900. For more information see Note 16.

The current ratio (the ratio of current assets available to pay current liabilities) increased from the prior year from 0.822 to 0.953. After the prior period adjustment for fiscal year 2013, the decrease in net position for FY 2013 was $973,599 compared to the current year decrease in net position of $7,789 as indicated above.

Capital Asset and Debt Administration

Capital assets - The Port's investment in capital assets for it activities, as of June 30, 2014, was $30,683,779, net of accumulated depreciation. This investment in capital assets includes land, buildings, building improvements, infrastructure, machinery and equipment. The total decrease in capital assets for the current fiscal year was $508,197 or approximately 1.6% based on June 30, 2013 capital asset balances. The decline mostly correlated to the prior period disposal of capital assets. The major capital events for the current fiscal year included pier 2 restoration and the acquisition of a fireboat. Additional information about the Port's capital assets is discussed in Note 6 of the financial statements.

Long-term obligations - At the end of the current fiscal year, the Port had long-term obligations totaling $21,197,799, a decrease of $257,883 from the prior year. Additional information regarding the Port's long-term debt is discussed in Note 10 of the financial statements.

Description of currently known facts, decisions, or conditions - With the exception of the capital projects included in the current year budget, the Port has no projects planned that would materially affect current revenues. Those projects include ongoing grant funds through ConnectOregon IV for Pier 2 rehabilitation and the build-out of the Customs & Border Patrol space in the Pier One Building.

The Port expects increased revenue from the loading of log ships during fiscal year ending June 30, 2015, and increases in rental income from various Port properties. Generally, operations are expected to remain relatively consistent with prior years and there are no anticipated changes in lines of business or issuance of new debt.

Requests for Information - This financial report is designed to provide a general overview of the Port of Astoria'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 Finance Manager, Port of Astoria, 10 Pier One, Suite 308, Astoria, Oregon, 97103.

	JUNE 30,
ASSETS	2014
CURRENT ASSETS:	
Cash and cash equivalents	$ 835,708
Cash and cash equivalents - restricted	200,732
Cash due from county treasurer	10,082
Accounts receivables, net	744,805
Property taxes receivable	61,613
Current maturities, long-term receivable	352,206
Inventory	97,560
Prepaid expenses	222,351
Grants receivable	126,559
Total current assets	2,651,616
NONCURRENT ASSETS:	
Land and non-depreciable capital assets	4,061,082
Capital assets, net	26,622,697
Long-term receivables, less current maturities	8,868,580
Total noncurrent assets	39,552,359
Total assets	42,203,975
Total assets	$ 42,203,975
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Line of credit	$ 2,354
Accounts payable	836,885
Accrued payroll and related expenses	30,364
Accrued interest payable	168,422
Unearned revenue	393,057
Long-term debt obligations, current portion	1,141,147
Total current liabilities	2,572,229
NONCURRENT LIABILITIES:	
Long-term debt obligations, net of current portion	20,056,652
Total liabilities	22,628,881
NET POSITION:	
Net investment in capital assets	22,012,440
Restricted for capital improvements to Pier 3	200,732
Unrestricted	$ (2,638,078)
Total net position	19,575,094
Total liabilities and net position	$ 42,203,975

See accompanying notes.

	YEAR ENDED JUNE 30, 2014
OPERATING REVENUES:	
Lease and rental operations	$ 2,895,082
Fuel sales	1,319,617
Re-billed expenses	1,350,371
Pier revenue	1,401,666
Marina revenue	698,515
Finance charges	824
Other income	327,712
Total operating revenues	7,993,787
OPERATING EXPENSES:	
Materials and services	4,020,973
Personnel services	2,189,631
Depreciation	1,834,672
Bad debt expense	54,034
Total operating expenses	8,099,310
Operating loss	(105,523)
NON-OPERATING INCOME (EXPENSE):	
Property taxes	641,821
Interest income	1,286
Grants	6,225
Timber sales	128,777
Pollution remediation	(859,900)
Loss on disposal of assets	(2,493)
Interest expense	(741,949)
Total non-operating income (expense)	(826,233)
Loss before capital grants	(931,756)
CAPITAL GRANTS:	
Capital grants	923,967
Change in net position	(7,789)
NET POSITION - JUNE 30, 2013, AS PREVIOUSLY STATED	21,500,556
CUMMULATIVE EFFECT OF CORRECTION OF ERRORS (NOTE 3)	(1,917,673)
NET POSITION - JUNE 30, 2013, AS RESTATED	19,582,883
NET POSITION - JUNE 30, 2014	$ 19,575,094

	YEAR ENDED JUNE 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 8,441,933
Payments for personnel services	(2,243,134)
Payment to suppliers	(4,327,170)
Net cash provided by operating activities	1,871,629
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Cash received from property taxes	657,253
Cash received from timber tax revenue	128,777
Repayments on line of credit, net	(141,321)
Payments received on non-capital grant agreements	6,225
Net cash provided by non-capital financing activities	650,934
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments received on capital grant agreements	971,934
Acquisition and construction of capital assets	(1,328,969)
Principal payments on long term debt	(831,782)
Interest paid on capital debt	(747,832)
Net cash provided by capital and related financing activities	(1,936,649)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investment	1,286
Net cash provided by investing activities	1,286
Net increase in cash and cash equivalents	587,200
CASH AND CASH EQUIVALENTS, BEGINNING	449,240
CASH AND CASH EQUIVALENTS, ENDING	$ 1,036,440
CASH AND CASH EQUIVALENTS IS CLASSIFIED ON THE STATEMENT OF NET POSITION AS FOLLOWS:	
Cash and cash equivalents	$ 835,708
Cash and cash equivalents - restricted	200,732
	$ 1,036,440

See accompanying notes.

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	$ (105,523)
Adjustments	
Depreciation	1,834,672
Decrease (increase) in:	
Accounts receivables, net	187,950
Inventory	(19,635)
Prepaid expenses	(133,454)
Long-term receivables, current portion	314,230
Increase (decrease) in:	
Accounts payable	(103,484)
Accrued payroll and related expenses	(40,975)
OPEB liability	(12,528)
Unearned revenue	(48,350)
Clatsop County Assessment	(1,274)
Net cash provided by operating activities	$ 1,871,629

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and operation - The Port of Astoria (Port) is an Oregon Municipal corporation formed under ORS 777. It was formed by special election in 1910. The Port operations include cargo handling, dockage, marina and boat repair facilities. The Port is responsible for operating the airport and facilities surrounding the airport. The Port owns property that it leases to area businesses and individuals.

The financial statements of the Port have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with the subsequent GASB pronouncements (Standards and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

Reporting entity - In evaluating how to define the government, for financial reporting purposes, management has considered the Port's financial reporting entity. The financial reporting entity consists of the Port, organizations for which the Port is financially accountable, and other organizations for which the Port is not accountable, but for which the nature and significance of their relationship with the Port are such that the exclusion would cause the Port's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the Port are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the Port are such that the exclusion would cause the Port's financial statements to be misleading or incomplete. Based on this criterion, the Port has no component units.

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

The Port distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Port's ongoing operations. The principal operating revenues of the Port include lease income from rental of Port property, dockage and wharfage revenue, fuel sales, marina fees, and tenant utility re-bills. 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.

Use of resources - 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents - For purposes of the statement cash flows, the Port considers cash and short-term investments with maturities of three months or less to be cash equivalents. The Port maintains merged bank accounts for its funds in a central pool of demand deposit bank accounts. Restricted cash are cash balances with externally-imposed restrictions.

Accounts receivable - Accounts receivable consist of rents due from tenants within the industrial parks, marinas, and the airport and charges due from ships using port services. The amounts are unsecured. These accounts are shown net of an allowance for doubtful accounts.

The Port provides an allowance for receivables if it believes it may not collect in full. It evaluates the collectability of its accounts based on a combination of factors. The Port's estimates of the recoverability of amounts due may change in the near term. The allowance for doubtful accounts as of June 30, 2014 was $54,790.

Inventories - Inventories consist of fuel inventories held for resale at the marina and airport. Inventories are valued at the lower of cost or market, using the first-in/first-out (FIFO) method. The costs of inventories are recorded as expenses when used (consumption method).

Property taxes - The State of Oregon constitution and state statutes provide for several types of tax levies, all of which require voter approval before being levied. Included among such authorized levies are a permanent tax rate, which can result in a different levy amount each year as assessed valuations change, bonded debt levies which can be levied each year the related general obligation bonds mature, and local option levies for a voter-approved number of years.

The Port of Astoria levies a permanent tax rate property tax levy.

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

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

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

Capital assets - Purchased or constructed capital assets, including property, plant and equipment, and infrastructure (roadways, piers, drainage systems, etc.), are reported at cost or estimated historical cost. The Port defines capital assets as assets with an initial cost of more than $2,000 and an estimated life in excess of one year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets (Continued) - Additions or improvements that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Donated assets are recorded at their fair market value at the date of donation. Maintenance and repairs of a routine nature are charged to expenses as incurred and are not capitalized.

Interest is capitalized on assets acquired with tax-exempt and non-tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period for tax-exempt debt. For tax exempt debt, interest is capitalized through the completion of the project.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvments	10 to 50 years
Buildings and structures	10 to 50 years
Equipment and vehicles	5 to 40 years
Furniture and fixtures	3 to 20 years

Unearned Tenant Improvements - On occasion, Port tenants perform capital improvements to Port property as a condition of the lease rental agreement. In exchange for these improvements, the Port has granted lease rental credits to cover all or a portion of the capital improvement. The Port has recorded capital assets for these improvements and tenant rent payable for the amount due to tenants through the rental credits. The payable is amortized over the life of the lease.

Unused compensated absences - It is the Port's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accumulated vacation leave and sick pay is recorded as an expense and liability when earned by each employee. A portion of the balance of compensated absences generally utilized within one year is reported in the Statement of Net Position as current. The remaining balance is classified as long-term.

Pollution remediation obligations - The Port records future pollution remediation costs that meet measurement criteria outlined in GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* Under this accounting standard, when the Port determines a pollution remediation obligation exists and management is able to make a reasonable and supportable estimation of expected outlays, a long-term liability is recorded. Pollution remediation costs are reported in the *Statement of Revenues, Expenses and Changes in Net Position* as a non-operating expense (or as revenues for recoveries received after all remediation activities have been completed).

Pension plan - Substantially all of the Port's employees are participants in the Oregon Public Employees Retirement Fund ("OPERF"), a statewide cost sharing defined benefit pension plan. Contributions to OPERF are made on a current basis as required by the plan and are charged to expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other post-employment benefits ("OPEB") obligations - The Port's net OPEB Obligation is recognized as a liability and the annual OPEB cost is expensed, as determined by the Port's actuary.

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 proceeds that have been received for capital assets but not yet expended are not included within this component of net position.
- *Restricted for capital improvements.* This represents assets that have externally-imposed restrictions reduced by liabilities related to those assets.
- *Unrestricted*. Resources not included in other classifications are unrestricted.

Revenue recognition **-** The Port recognizes revenue from dockage, wharfage and utility re-bills as the services are provided. The Port recognizes property management income as the lease periods mature. Any assets, liabilities, expenses and revenues created as a result of non-exchange transactions are recognized when all the significant eligibility requirements have been met. A non-exchange transaction occurs when a government receives (or gives) value without directly giving (or receiving) equal value in return.

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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 June 30, 2014, which is an acceptable basis of accounting. The Port includes capital outlay and debt services as expenditures for budgetary purposes.

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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

The Port's actual expenditures were within budgeted amounts for the year ended June 30, 2014, with the following exceptions:

General Fund	
Materials and services	$527,995
Debt service – principal	83,280
Loan payments	141,321

NOTE 3 – RESTATEMENT OF ASSETS, LIABILITIES AND NET POSITION

During the preparation of the financial statements as of and for the year ended June 30, 2014, several errors were noted that effected prior periods resulting in a required adjustment and restatement of net position as of June 30, 2013. The errors span several prior years, and the amounts attributed to each year have not been individually determined. Following is a summary of each of the adjustments and their impact on the financial statements.

Pollution Remediation Obligation - The Port was aware of pollution remediation obligations, which were not reported in its financial statements as of June 30, 2013. The Port estimates their portion of pollution remediation obligation, net of recoveries, was $1,800,000 as of June 30, 2013. This results in reducing net position by $1,800,000 as of June 30, 2013.

Capital Asset Dispositions - A comprehensive review of the Port's capital assets revealed equipment, building improvements, and furniture and fixtures that were no longer owned or operated by the Port. As a result, capital assets decreased $1,025,742, with the associated accumulated depreciation decreasing $932,655. The adjustment results in reducing net position by $93,087 as of June 30, 2013.

Tenant Improvements - In 2012 and 2013 the Port entered into agreements with tenants whereby the tenant performed and financed capital improvements to Port property. In exchange, the Port offered rental credits to fully or partially reimburse the tenant for costs incurred. The Port did not report these assets and liabilities in its financial statements. As a result of these transactions, capital assets increased $613,492 and unearned tenant improvements increased in the same amount. Additionally, accumulated depreciation on these assets in prior years was $122,674, as well as a reduction of $103,990 to unearned tenant improvements. The net adjustment results in reducing net position by $18,684 as of June 30, 2013.

Note Payable - During review of note payable balances it was determined the balance owed to US Bank for the SeaLift Flex 2011A note was understated by $11,367. The adjustment results in reducing net position by this amount as of June 30, 2013.

NOTE 3 - RESTATEMENT OF ASSETS, LIABILITIES AND NET POSITION (Continued)

Long-term receivable - In review of the direct financing lease arrangement with a Port tenant, management noted that in a prior year, the Port elected to use proceeds from a qualifying energy efficiency project to offset the final lease payment. This resulted in a decrease in the long-term receivable and reducing net position by $108,760 as of June 30, 2013.

Compensated absences payable - During review of existing Port policies, management found that outstanding liabilities recorded to cover accrued sick leave was incorrectly calculated. This resulted in increasing compensated absences payable and reducing net position by $86,822 as of June 30, 2013.

Revenue and expense cutoff - During review of fiscal year 2014 activity, management noted several instances in which revenues or expenses were recorded in the incorrect period. Some transactions recorded in fiscal year 2013 should have been recorded in fiscal year 2014 and vice versa. These transactions impacted various revenue and expense accounts, and several balance sheet accounts including accounts receivable, prepaid expenses, accounts payable, accrued payroll, and unearned revenue. In total, these adjustments result in increasing net position by $201,047 as of June 30, 2013.

A summary of the prior period adjustments by account classification is as follows:

	As Previously Reported June 30, 2013	Restated June 30, 2013	Correction Amount
Accounts receivable, net	$ 568,390	$ 932,755	$ 364,365
Prepaid expenses	$ 112,861	$ 88,897	$ (23,964)
Capital assets being depreciated, net			
Land improvements	$ 33,117,384	$ 33,179,799	$ 62,415
Buildings and structures	11,625,263	11,837,338	212,075
Tongue Point	16,538	16,538	-
Airport property	5,734,087	5,893,287	159,200
Leasehold improvements	56,167	56,167	-
Intangibles	17,791	17,791	-
Machine and equipment	1,298,736	1,078,121	(220,615)
Dredge and marine equipment	1,353,806	902,548	(451,258)
Vehicles and boats	72,690	72,690	-
Furniture and fixtures	432,887	258,821	(174,066)
Computers and equipment	111,557	111,557	-
Total capital assets being depreciated	53,836,906	53,424,657	(412,249)
Less: accumulated depreciation	(28,060,030)	(27,250,050)	809,980
Total capital assets being depreciated, net	$ 25,776,876	$ 26,174,607	$ 397,731

NOTE 3 - RESTATEMENT OF ASSETS, LIABILITIES AND NET POSITION (Continued)

A summary of the prior period adjustment by account classification is as follows (Continued):

	As Previously Reported June 30, 2013	Restated June 30, 2013	Correction Amount
Long-term receivables, less current maturities	$ 9,299,058	$ 9,190,298	$ (108,760)
Accounts payable	$ 826,152	$ 940,369	$ 114,217
Accrued payroll and related expenses	$ 23,880	$ 36,184	$ 12,304
Unearned revenue	$ 191,561	$ 204,394	$ 12,833
Long-term debt obligations, net of current portion			
Notes payable	$ 17,885,909	$ 17,897,276	$ 11,367
Unearned tenant improvements	-	509,502	509,502
Compensated absences	-	86,822	86,822
Other postemployment benefits	20,642	20,642	-
Pollution remediation obligation, net	-	1,800,000	1,800,000
Assessment obligations	19,407	19,407	-
Total long-term debt obligations, net of current portion	$ 17,925,958	$ 20,333,649	$ 2,407,691
Net position			
Net investment in capital assets	$ 21,448,110	$ 21,324,971	$ (123,139)
Restricted for capital improvements to Pier 3	50,992	50,992	-
Unrestricted	1,454	(1,793,080)	(1,794,534)
Total net position	$ 21,500,556	$ 19,582,883	$ (1,917,673)

NOTE 4 - CASH AND CASH EQUIVALENTS

Total cash and cash equivalents, as presented in the statements of net position as of June 30, 2014 are as follows:

	2014
Cash on hand	$ 595
Bank deposits	788,219
Money market accounts	247,626
Total cash and cash equivalents	$ 1,036,440

NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

A summary of cash and cash equivalents, by type is as follows:

Cash and cash equivalents	$ 835,708
Cash and cash equivalents - restricted	200,732
Total cash and cash equivalents	$ 1,036,440

The Port is restricted by State of Oregon statutes in the types of investments in which it may invest. Authorized investments include general obligations of the United States Government and its agencies, certain bonded obligations of municipalities, certain certificates of deposits and savings accounts, and other demand deposit accounts.

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 are held in demand accounts with banks.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Port would not be able to recover the value of its deposits and investments or collateral securities that are in the possession of an outside party. Financial instruments that potentially subject the Port to custodial risk consist primarily of bank demand deposits. In order to minimize this risk, state statutes require banks holding public funds become members of the Public Funds Collateralization Program (PFCP), a multiple financial institution collateral pool created by the Office of the State Treasurer. To qualify, participating banks must pledge collateral against any public fund deposits in excess of deposit insurance. The amount of collateral is set by the PFCP between 10% and 110% of each bank's public fund deposits based on their net worth and level of capitalization. Although the PFCP creates a shared liability structure for participating bank depositories, it does not guarantee that all funds are 100% protected.

As required by ORS, 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. The Port had deposits of $786,440 at June 30, 2014 that exceeded FDIC insurance, however this risk is mitigated by coverage through the PFCP.

Concentration of Credit Risk

The Port does not have a policy to limit the amount that may be invested in any one issuer. At June 30, 2014, 100%, of its deposits were held in multiple deposit and money market accounts, with one bank.

NOTE 5 - PROPERTY TAX

The Port levied property taxes for the fiscal year ended June 30, 2014 as follows:

	2014
Total levy	$ 655,372
Summary of property taxes receivable:	
General Fund	
Current levy	$ 26,787
Prior levies	34,826
Total general fund	$ 61,613

NOTE 6 - CAPITAL ASSETS

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

	Restated Balance 6/30/13	Additions	Deletions	Transfers	Ending Balance 6/30/14
Capital assets not being depreciated:					
Land	$ 2,584,837	$ -	$ -	$ -	$ 2,584,837
Construction in progress	2,432,532	926,736	-	(1,883,023)	1,476,245
Total capital assets not being depreciated	5,017,369	926,736	-	(1,883,023)	4,061,082
Capital assets being depreciated:					
Land improvements	33,179,799	15,133	-	1,883,023	35,077,955
Buildings and structures	11,837,338	18,265	(14,251)	-	11,841,352
Tongue Point	16,538	-	-	-	16,538
Airport property	5,893,287	-	-	-	5,893,287
Leasehold improvements	56,167	-	-	-	56,167
Intangibles	17,791	-	-	-	17,791
Machinery and equipment	1,078,121	-	-	-	1,078,121
Dredge and marine equipment	902,548	-	-	-	902,548
Vehicles and boats	72,690	368,835	-	-	441,525
Furniture and fixtures	258,821	-	-	-	258,821
Computer and equipment	111,557	-	-	-	111,557
Total capital assets being depreciated	53,424,657	402,233	(14,251)	1,883,023	55,695,662
Less: accumulated depreciation	(27,250,050)	(1,834,672)	11,757	-	(29,072,965)
Total capital assets being depreciated, net	26,174,607	(1,432,439)	(2,494)	1,883,023	26,622,697
Total capital assets, net	$ 31,191,976	$ (505,703)	$ (2,494)	$ -	$ 30,683,779

There was no interest capitalized during the fiscal year ended June 30, 2014. Construction in progress consists of pier restoration, airport improvements, and building remodel costs. Capital projects are financed by a combination of debt, grants and internal resources.

NOTE 7 - LONG-TERM RECEIVABLE

The long-term receivable at June 30, 2014 consists of the following:

	Current	Long-term
Net investment in direct financing lease (Note 8)	$ 344,218	$ 8,747,955
Tenant land lease	7,500	120,625
Tenant long-term receivable	488	-
Total long-term receivable	$ 352,206	$ 8,868,580

NOTE 8 - LEASES

Operating leases - The Port leases several facilities to various individuals and businesses. These facilities include airport hangar space, marina slips, buildings, parcels of land, and pier and mooring space, among others. The cost and carrying amounts for these assets are included in the Port's Capital Assets (Note 6). Rent agreements vary from month-to-month to 17 years.

The minimum future lease payments to be received as of June 30, 2014, were as follows:

Year Ended	
2015	$ 2,611,899
2016	1,499,007
2017	1,249,190
2018	1,196,153
2019	1,156,153
Thereafter	10,516,244
Total	$ 18,228,646

Direct financing lease - The Port entered into a commercial lease agreement in 2005 to construct and lease a seafood processing facility. Financing for construction of the facility was provided by the Oregon Business Development Department (State Financing). The rent commencement date under the lease agreement was July 1, 2006.

The minimum rental payments under the agreement call for monthly installments equal to the annual debt service on the state financing. In February 2010, the Port elected to use proceeds from a qualifying energy efficiency project performed at the facility to offset the final lease payment at the end of the state financing.

NOTE 8 - LEASES (Continued)

The following lists the components of the net investment in the Port's direct financing lease as of June 30, 2014:

	June 30, 2014
Minimum lease payments receivable	$ 12,261,332
Less unearned income	(3,060,399)
Less applicable credits	(108,760)
Net investment in direct financing lease	9,092,173
Less current maturities	(344,218)
Long-term portion	$ 8,747,955

As of June 30, 2014, minimum lease payments for the next five years are as follows:

Year Ended	
2015	$ 344,218
2016	384,019
2017	397,637
2018	411,738
2019	426,338
Thereafter	7,128,223
Total minimum payments required	$ 9,092,173

NOTE 9 – LINE OF CREDIT

The Port entered into an agreement with a bank to obtain a $150,000 operating line of credit. The line of credit requires interest at the greater of prime or 5.50%, which at June 30, 2014 was 5.50%. The line of credit is secured by prior executed separate instruments and matures in July 2015. The following is a summary of short-term borrowing activities for 2014:

Balance June 30, 2013	Advances	Repayments	Balance June 30, 2014
$ 143,675	107,060	248,381	$ 2,354

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

Notes payable - The Port has various loans with the Oregon Business Development Department (OBDD) and the Special Public Works Fund (SPWF) of the State of Oregon. The loans were obtained to make various improvements to the Port's marine and airport facilities. Interest rates and maturity dates vary from 2.49% to 7.0% and 7 to 19 years. Port real property is pledged as security.

A note payable to the Clatsop Community Bank with an original face value of $1,700,000 for the purchase of Pier 1 office building. The note is collateralized by the Pier 1 office building. The interest and principal payments are due in monthly installments of $12,020 with a balloon payment of 1,080,573 due at maturity on June 14, 2025. The note has a variable interest rate set at prime rate, plus 2.5%. The interest rate at June 30, 2014 was 7.00%. Pursuant to the note agreement, the Port is required to maintain a 1.10 to 1.0 debt service coverage ratio, and issue audited financial statements no later than 180 days after fiscal year-end. The Port met the debt service coverage ratio as of June 30, 2014, and received a waiver from the bank for filing audited financial statements after December 31, 2014.

A note payable to US Bank with an original face value of $155,000 to purchase equipment. Annual interest and principal payments are due in annual installments ranging from 4.8% to 5.5% and $15,000 to $20,000, respectively, until the notes mature on January 1, 2019.

A note payable to US Bank with an original face value of $200,000 to purchase equipment. Annual interest and principal payments are due in annual installments ranging from 3.2% to 4.75% and $5,000 to $20,000, respectively, until the notes mature on January 1, 2017.

A note payable to the Oregon Department of Transportation (ODOT) with an original face value of $300,000 for pier improvements. The principal payments are due in annual installments of $15,000 and matures on January 1, 2029. There is no interest component on the note.

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

	Restated Balance 6/30/13	Additions	Reductions	Ending Balance 6/30/14	Due Within One Year
Notes payable	$ 18,864,674	$ -	$ 992,402	$ 17,872,272	$ 980,301
Unearned tenant improvements	509,502	-	76,393	433,109	77,812
Compensated absences:					
Accrued vacation	65,588	-	6,853	58,735	58,735
Accrued sick	173,644	-	28,303	145,341	21,946
Total compensated absences	239,232	-	35,156	204,076	80,681
Pollution remediation obligation, net (Note 16)	1,800,000	859,900	-	2,659,900	-
Other postemployment benefits	20,642	-	12,528	8,114	-
Clatsop County sssessment	21,602	-	1,274	20,328	2,353
Total long-term debt obligations	$ 21,455,652	$ 859,900	$ 1,117,753	$ 21,197,799	$ 1,141,147

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

Annual debt service requirements to maturity for note payable are as follows:

	Bornstein Buildings Cons't		Lektro Building Expansion		West basin breakwater II		West basin breakwater	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 344,217	$ 317,783	$ 98,324	$ 50,332	$ 89,637	$ 75,151	$ 36,289	$ 32,040
2016	384,019	304,981	100,772	47,884	89,613	71,566	36,581	30,352
2017	397,637	291,363	103,281	45,375	96,457	67,981	41,894	28,615
2018	411,738	277,262	105,853	42,803	102,478	64,026	42,221	26,625
2019	426,339	262,661	108,489	40,167	108,574	59,722	42,571	24,577
2020-24	2,655,688	1,054,812	611,356	158,612	609,555	222,777	263,851	87,724
2025-29	3,506,284	521,716	734,462	75,538	591,462	84,145	186,925	18,994
2030-34	1,075,011	29,820	158,826	3,955	-	-	-	-
2035-39	-	-	-	-	-	-	-	-
	$ 9,200,933	$ 3,060,398	$ 2,021,363	$ 464,666	$ 1,687,776	$ 645,368	$ 650,332	$ 248,927

	Lektro hanger expansion		West basin floats		West basin improvements		Airport waterline/fuel tank	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 24,981	$ 33,526	$ 22,016	$ 25,424	$ 17,677	$ 12,188	$ 9,499	$ 11,306
2016	26,199	32,308	23,033	24,407	18,738	11,128	9,947	10,858
2017	27,477	31,030	24,097	23,343	19,862	10,003	10,417	10,388
2018	28,817	29,690	25,210	22,230	21,054	8,811	10,908	9,897
2019	30,222	28,285	26,375	21,065	22,317	7,548	11,423	9,382
2020-24	174,710	117,827	151,318	85,882	103,487	15,975	65,732	38,294
2025-29	221,673	70,863	189,655	47,545	-	-	82,779	21,246
2030-34	175,049	15,029	88,606	6,185	-	-	38,831	2,770
2035-39	-	-	-	-	-	-	-	-
	$ 709,128	$ 358,558	$ 550,310	$ 256,081	$ 203,135	$ 65,653	$ 239,536	$ 114,141

	Airport T-hangars		Lektro electrical upgrade		Connect II Pier 2		Flex (equipment) 2008 G	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 16,248	$ 17,758	$ 8,430	$ 4,914	$ -	$ -	$ 15,000	$ 4,403
2016	16,914	17,091	9,035	4,309	15,000	-	15,000	3,683
2017	17,608	16,397	9,685	3,660	15,000	-	15,000	2,933
2018	18,330	15,675	10,380	2,964	15,000	-	20,000	2,160
2019	19,082	14,923	11,126	2,218	15,000	-	20,000	1,100
2020-24	107,812	62,215	24,666	1,979	75,000	-	-	-
2025-29	131,812	38,215	-	-	75,000	-	-	-
2030-34	117,759	9,740	-	-	-	-	-	-
2035-39	-	-	-	-	-	-	-	-
	$ 445,565	$ 192,014	$ 73,322	$ 20,044	$ 210,000	$ -	$ 85,000	$ 14,279

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

	Pier 1 Building		T-Hangar #E		SeaLift Flex 2011 A	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 33,278	$ 110,962	$ 8,143	$ 8,515	$ 20,000	$ 1,525
2016	35,684	108,556	8,604	8,054	20,000	865
2017	38,264	105,976	9,091	7,567	5,000	185
2018	41,030	103,210	9,605	7,053	-	-
2019	43,996	100,244	10,149	6,509	-	-
2020-24	272,541	448,659	60,040	23,249	-	-
2025-29	1,135,639	77,362	44,808	5,165	-	-
2030-34	-	-	-	-	-	-
2035-39	-	-	-	-	-	-
	$ 1,600,432	$ 1,054,969	$ 150,440	$ 66,112	$ 45,000	$ 2,575

Assessment obligation - Clatsop County settled a property tax dispute with Georgia Pacific-Wauna Mill on behalf of all the taxing districts within the County during the fiscal year 2011-2012. The intergovernmental agreement previously entered into by the taxing district was to issue bonds to pay the settlement, if needed. The county issued $2,550,000 of bonds payables annually at 2.18% over ten years. As included in the intergovernmental agreement the annual principal and interest payment will be taken from the first annual tax collection turnover. Port of Astoria’s proportionate share of the original obligation was $24,058.

Port of Astoria’s obligation as of June 30, 2014 is $20,328 maturing as follows:

	Property Tax Assessment	
	Principal	Interest
2015	$ 2,353	$ 443
2016	2,405	392
2017	2,457	339
2018	2,511	286
2019	2,566	231
2020-21	8,036	353
	$ 20,328	$ 2,044

NOTE 11 - COMMITMENTS

The Port leases various parcels of submerged and submersible lands claimed by the State of Oregon. These properties include the West and East End Mooring Basins. Lease payments made to the State for the year ended June 30, 2014 were $259,862. Lease payments are determined by the state annually, and minimum rentals are not specified.

NOTE 11 – COMMITMENTS (Continued)

The Port has commitments under various contracts amounting to approximately $1,916,000. This includes Pier 2 restoration, and airport improvements. As of June 30, 2014, approximately $497,000 of these contracts remain outstanding. The Port intends to complete these projects through capital grants.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

Plan Descriptions/Funding Policies

The Port is a participating employer in the Oregon Public Employee Retirement System (PERS), a multiple-employer defined benefit public employee pension plan, and maintains a defined contribution plan for the purpose of individual retirement savings through PERS. PERS is administered under ORS Chapter 238 and Internal Revenue Service 401(a) by the Public Employees Retirement Board (PERB). Benefits generally vest after five years of 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, a component unit 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, by calling (503) 598-7377, or by accessing the PERS web site at http://www.oregon.gov/PERS/.

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

PERS (Public Employee Retirement System) is a cost sharing defined benefit pension plan provided to members who were hired prior to August 29, 2003. Employer contributions to PERS are required by state statute and are made at actuarially determined rates as adopted by the PERB. The Port's PERS rate for fiscal year 2014 was computed at 13.52% in accordance with the December 31, 2013 actuarial valuation. This rate included a combined factor for the Retiree Healthcare unfunded actuarial liability (UAL) totaling 0.53%. However, on May 6, 2013, Senate Bill 822 was signed into law which reduced cost-of-living adjustments payable to benefit recipients and eliminated the tax remedy benefit for recipients who do not pay Oregon state taxes because they do not reside in Oregon. As a result, PERS reduced the Port's PERS rate 2.50% from 13.52% to 11.02% for fiscal year 2014.

OPSRP (Oregon Public Service Retirement Plan) is a cost-sharing multiple-employer defined benefit and defined contribution pension plan created by the Oregon Legislative Assembly in 2003 as a successor plan for PERS. The defined benefit pension plan is provided to members 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. The annual required contribution rates for the OPSRP defined benefit pension plan during fiscal year 2014 were 12.34%. Similar to the PERS rate, these rates included a 0.45% factor for the UAL. As a result of the passage of Senate Bill 822 noted above, the rate was reduced 2.50% to 9.84%.

NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)

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. Although PERS members retain their existing PERS accounts, all current member contributions are deposited into the member's IAP.

PERS retirement benefits are based on final average salary and length of service. These retirement benefits are calculated using three methods: Full Formula, Formula Plus Annuity, and Money Match. PERS will use the method that produces the highest benefit amount. OPSRP pension benefits are calculated at 2.5 percent of final average salary multiplied by the number of years of retirement credit attributable to service. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by State statutes. The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two years. Contributions to PERS have been made based on the annual required contribution and were charged to expense.

Annual Pension Cost

All PERS participating employers are required by law to submit the contributions as adopted by the PERB. The required contribution was determined as part of the actuarial valuation at December 31, 2013 using the Entry Age Normal (EAN) Cost method. The fair market value method is used to determine the actuarial value of the plan's assets. Significant actuarial assumptions used in the valuation included: (a) rate of return on the future investment earnings of the assets of the System are assumed to accrue at an annual rate of 7.75% compounded annually; (b) a rate of return on the future investment earnings of the variable accounts are assumed to accrue at an annual rate of 7.75%, compounded annually; (c) projected annual rate of wage inflation of 3.75%, compounded annually, excluding merit or longevity increases; (d) healthcare cost inflation assumed at 6.1% in 2014, then declining to 4.70% in 2083; (e) consumer price inflation of 2.75% per year; (f) Entry Age Normal (EAN) Cost method is used with a twenty year closed amortization for Tier 1/Tier 2 (sixteen years for OPSRP UAL amortization) of the unfunded actuarial liability as a level percentage of combined valuation payroll; and (g) contribution rates for a rate pool are confined to a collar based on the prior Tier 1/Tier 2 pension contribution rate and the new contribution rate will not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20% of the current rate.

The following table presents three-year trend information for the Port's defined benefit pension plans:

	Annual Pension Cost (APC)	Contribution	Percentage of APC Contributed
June 30, 2012	$ 196,274	$ 196,274	100%
June 30, 2013	219,580	219,580	100%
June 30, 2014	150,259	150,259	100%

NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

The Port is reporting its involvement in PERS as a participant cost-sharing plan. The Port obtains a separate valuation report, and PERS maintains a calculation of the Port's share of the plan's net position.

However, management's understanding is the separate actuarial valuation and calculated portion of the plan's net position does not represent a legal claim to any portion of the plan's net position, nor meet the criteria to report as a participant in an agent multi-employer plan. The separate actuarial valuation and calculated balance of the Port's share of the plan's net position is used by the plan's management as required to determine the Port's annual required contributions under provisions of the plan. For the year ended June 30, 2014, the annual pension cost for the Port was approximately $150,259, and was equal to the required and actual contributions.

Subsequent Event

Subsequent to year-end, the benefit reductions resulting from Senate Bill 822 were challenged in the courts. In April 2015, the courts reversed the benefit reductions. As a result, it is anticipated that future contribution requirements will be increased. The Port does not yet have an estimate of those future contribution rate increases.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS

Plan description - The Port does not have a formal post-employment benefits plan for any employee groups; however, the Port offers medical benefits to retirees who are eligible under a) PERS Tier 1 or 2, being 55 years, or any age with 30 years of service, or b) OPSRP member, being age 55 with 5 years of service. The Port pays the medical premiums for eligible retirees until Medicare eligibility, and reimburses the Medicare Supplement premium thereafter. This explicit benefit is required to be valued under GASB Statement 45.

Of the Port's 28 plan participants, 22 are active plan participants and 6 are inactive plan participants.

In addition to the explicit medical benefits for certain retirees, continued medical coverage is offered to the Port's eligible retirees, their spouses and dependents until Medicare eligibility. The active premium rate, whether paid by the Port or by the retiree, still applies.

In some cases the premium itself does not represent the full cost of covering retirees, as retirees are older than the active population and can generate higher medical claims and premiums. This additional cost is called the "implicit subsidy." An implicit subsidy does not exist in an arrangement that is deemed to be "community rated" by a qualified actuary. In general, a community rated situation is one in which the health care claims of the employer is not expected to impact the premiums being charged to the employer. The Port participates in the Special Districts Association of health plans, along with many other special districts. Therefore, the arrangement is deemed to be community rated and there is no implicit subsidy to value.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual OPEB cost and net OPEB obligation - The Port's annual other postemployment benefit cost is calculated based on the Annual Required Contribution (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 costs each year and amortize any unfunded actuarial liabilities over an open period of 30 years, the maximum period allowed under GASB 45. The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's OPEB obligation.

	6/30/2014
Annual required contributions (ARC)	$ 31,972
Interest on net OPEB obligation	826
Adjustment to ARC	(812)
Annual OPEB cost	31,986
Less OPEB contributions (amonts paid by the Port during the year)	(44,514)
Increase in net OPEB obligation	(12,528)
Net OPEB obligation - beginning of year	20,642
Net OPEB obligation - end of year	$ 8,114

The Port's annual OPEB cost, annual OPEB contributions, the percentage contributed to the plan, and the net OPEB obligation for the last three fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
6/30/2012	$ 29,984	$ 24,930	83%	$ 14,425
6/30/2013	31,067	24,850	80%	20,642
6/30/2014	31,986	44,514	139%	8,114

Funded status and funding progress - As of July 1, 2012, the most recent actuarial valuation date, the plan was funded on a pay-as-you-go basis, and therefore, had no assets. The actuarial accrued liability for benefits was $475,129 and also equaled the unfunded actuarial accrued liability (UAAL). The annual payroll of active employees covered by the plan (covered payroll) was $1,802,201 and the ratio of the UAAL to the covered payroll was 26.4%.

The plan's actuarial valuation involves estimates of amounts and assumptions about the probability of events far into the future, such as, future employment, mortality, and healthcare cost trends. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to periodic revision as actual results for each period are compared with past expectations and new estimates are made about the future.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Actuarial assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumption used include techniques that are designed to reduce the effects of short-term volatility in actuarial results consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation report, the actuary used the Projected Unit Credit actuarial cost method. The actuarial assumptions included (a) 4 percent accrued liability discount rate, (b) heath care cost trend rate of 7.5 percent for 2013-14 grading down over 17 years to 5 percent, and (c) a payroll growth assumption of 3.0 percent. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of payroll over an open period of 30 years.

NOTE 14 - DEFERRED COMPENSATION PLAN

The Port provides a deferred compensation plan, established in 1971. The plan is administered by a committee appointed by the commissioners of the Port. Any employee or independently contracted person, whom the committee designates as eligible, may defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The trust assets are held in a custodial trust for the exclusive benefit of participants and beneficiaries, they are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries. Accordingly, the plan assets are not included in the statement of net position.

NOTE 15 - NET POSITION

The components of net position at June 30, 2014 were as follows:

	2014
Net investment in capital assets:	
Net capital assets	$ 30,683,779
Bornstein Buildings Cons't (Note 10)	9,200,933
Less:	
Current portion of long term debt	980,301
Long term debt	16,891,971
	22,012,440
Restricted for capital improvements to Pier 3	200,732
Unrestricted	(2,638,078)
Total net position	$ 19,575,094

NOTE 16 - POLLUTION REMEDIATION OBLIGATION

Astoria Area-Wide Groundwater Contamination site - The Port has identified a number of contaminated areas on its property that it is required to investigate, monitor, and at times address the identified contaminants under State environmental laws. The Port was informed by the Oregon Department of Environmental Quality that the Port, along with other potentially responsible parties (PRPs), is required to remediate contaminant identified in at least one of the site areas. Although the Port may not bear ultimate responsibility for the contamination, under State law the Port is presumptively liable as the property owner, and it is often practically and financially beneficial for the Port to take initial responsibility to manage and pay for the cleanup. In each of these matters, the Port is cooperating with the notifying agency and taking appropriate action with other PRPs to investigate and remediate pollution damage or contamination.

The Port has developed a procedure consistent with the current accounting standard to recognize liabilities for environmental cleanups, to the extent that such liabilities can be reasonably estimated. As of June 30, 2014, the Port's cleanup cost estimate is $5,319,800, based on reasonable and supportable assumptions, measured at current value using the expected cash flow technique. The Port's pollution cleanup cost estimate does not include cost components that are not yet reasonably measurable. The Port's pollution cleanup cost estimate will change over time due to changes in costs of goods and services, changes in remediation technology, and changes in governing laws and regulations.

The Port anticipates successfully recovering Port incurred investigation and cleanup costs from other PRPs. The Port will continue to seek appropriate recovering in the future. As of June 30, 2014, the pollution remediation liabilities were reduced in half to $2,659,900, for estimated unrealized recoveries.

NOTE 17 - 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, but may still be exposed to some risk of loss. No settlements of any claims exceeded the insurance coverage in the past three years.

NOTE 18 – CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and State of Oregon governments. Any disallowed claims, including amounts already collected, could become a liability of the Port. Management believes amounts disallowed, if any, would not be material to the Port.

The Port is a defendant in various lawsuits. The likely outcome of these lawsuits is not determinable at this time; however, Port management intends to defend these lawsuits vigorously and believes the likely outcome will not have a material adverse effect on the Port's basic financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

Public Employees Retirement System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	$ 4,672,295	$ 5,646,482	$ 974,187	83%	$ 1,358,257	72.0%
12/31/2012	5,195,703	5,444,429	248,726	95%	1,487,753	17.0%
12/31/2013	5,438,787	5,486,807	48,020	99%	1,294,017	4.0%

Other Postemployment Benefit

Actuarial Valuation Date	Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2009	$ -	$ 463,754	$ 463,754	0%	$ 1,093,746	42.4%
7/1/2012	-	475,129	475,123	0%	1,802,201	26.4%

SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

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

Budgetary Comparison schedules include the following funds:

General Fund

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

The Bond Interest & Redemption Fund

The Bond Interest & Redemption Fund is used to account for resources accumulated for the purpose of repayment of the Port's bonded indebtedness. The Bond Interest & Redemption Fund was closed during fiscal year 2014.

The Special Revenue Fund

The Special Revenue Fund is used to account for timber tax revenues and other resources that are not used for ordinary expenses of the Port. Expenditures have been used primarily for capital outlay.

	Budget			Variance with
	Original	Final	Actual	Final Budget
REVENUES:				
Lease & rental income	$ 3,001,500	$ 3,001,500	$ 3,294,906	$ 293,406
Fuel sales	1,215,000	1,215,000	1,319,617	104,617
Rebilled expenses	1,435,200	1,435,200	1,350,371	(84,829)
Pier revenue	1,721,720	1,721,720	1,401,666	(320,054)
Marina revenue	345,000	345,000	698,515	353,515
Finance charges	-	-	824	824
Other income	436,450	436,450	327,712	(108,738)
Property taxes	618,000	618,000	659,341	41,341
Timber revenue	130,000	130,000	128,777	(1,223)
Intergovernmental grants	368,250	368,250	930,192	561,942
Investment earnings	2,300	2,300	1,286	(1,014)
Total revenues	9,273,420	9,273,420	10,113,207	839,787
EXPENDITURES:				
Materials and services	3,701,375	3,701,375	4,229,370	(527,995)
Personnel services	2,430,964	2,430,964	2,237,315	193,649
Debt service				
Principal	748,502	748,502	831,782	(83,280)
Interest	755,253	755,253	747,832	7,421
Capital outlay	1,390,000	1,390,000	1,328,969	61,031
Total expenditures	9,026,094	9,026,094	9,375,268	(349,174)
Revenues over (under) expenditures	247,326	247,326	737,939	490,613
OTHER FINANCING SOURCES (USES):				
Loan payments	-	-	(141,321)	(141,321)
Transfers in	-	619,058	-	(619,058)
Transfers out	-	(619,058)	-	619,058
Total other financing sources (uses)	-	-	(141,321)	(141,321)
Changes in fund balance	247,326	247,326	596,618	349,292
FUND BALANCE, BEGINNING BUDGETARY BASIS	218,748	837,806	587,962	(249,844)
FUND BALANCE, ENDING BUDGETARY BASIS	$ 466,074	$ 1,085,132	$ 1,184,580	$ 99,448

	Revenues	Expenditures
Total revenue and expenditures above	$ 10,113,207	$ 9,375,268
Expenditures capitalized	-	(1,328,969)
Depreciation expense	-	1,834,672
Gain on disposal of capital assets	-	2,494
Debt service principal payments	-	(831,782)
Property taxes receivable	(17,520)	-
Interest payable	-	(5,883)
Prepaid expenses	-	(133,454)
Inventory	-	(19,635)
Lease receivable	(314,230)	-
Pollution remediation	-	859,900
Clatsop County Assessment	-	(1,274)
Unearned revenue	(85,594)	-
Accrued absences	-	(35,156)
OPEB Liability	-	(12,528)
Total revenues and expenses - generally accepted accounting principles	$ 9,695,863	$ 9,703,652
Change in net position		$ (7,789)

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budget			Variance with
	Original	Final	Actual	Final Budget
REVENUES:				
Lease & rental income	$ 3,001,500	$ 3,001,500	$ 3,294,906	$ 293,406
Fuel sales	1,215,000	1,215,000	1,319,617	104,617
Rebilled expenses	1,435,200	1,435,200	1,350,371	(84,829)
Pier revenue	1,721,720	1,721,720	1,401,666	(320,054)
Marina revenue	345,000	345,000	698,515	353,515
Finance charges	-	-	824	824
Other income	436,450	436,450	289,232	(147,218)
Property taxes	618,000	618,000	659,341	41,341
Intergovernmental grants	368,250	368,250	930,192	561,942
Investment earnings	2,300	2,300	1,286	(1,014)
Total revenues	9,143,420	9,143,420	9,945,950	802,530
EXPENDITURES:				
Materials and services	3,701,375	3,701,375	4,229,370	(527,995)
Personnel services	2,430,964	2,430,964	2,237,315	193,649
Debt service				
Principal	748,502	748,502	831,782	(83,280)
Interest	755,253	755,253	747,832	7,421
Bad debt	10,000	10,000	-	10,000
Capital outlay	1,390,000	1,390,000	1,328,969	61,031
Total expenditures	9,036,094	9,036,094	9,375,268	(339,174)
Revenues over (under) expenditures	107,326	107,326	570,682	463,356
OTHER FINANCING SOURCES (USES):				
Loan payments	-	-	(141,321)	(141,321)
Transfers in	-	619,058	619,058	-
Total other financing sources (uses)	-	619,058	477,737	(141,321)
Changes in fund balance	107,326	726,384	1,048,419	322,035
FUND BALANCE, BEGINNING BUDGETARY BASIS	-	-	(274,428)	(274,428)
FUND BALANCE, ENDING BUDGETARY BASIS	$ 107,326	$ 726,384	$ 773,991	$ 47,607

	Budget			Variance with
	Original	Final	Actual	Final Budget
OTHER FINANCING SOURCES (USES):				
Transfers out	$ -	$ (619,058)	$ (619,058)	$ -
Total other financing sources (uses)	-	(619,058)	(619,058)	-
Net changes in fund balance	-	(619,058)	(619,058)	-
FUND BALANCE, BEGINNING BUDGETARY BASIS	-	619,058	619,058	-
FUND BALANCE, ENDING BUDGETARY BASIS	$ -	$ -	$ -	$ -

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION – BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budget			Variance with
	Original	Final	Actual	Final Budget
REVENUES:				
Other county revenues	$ 35,000	$ 35,000	$ 38,480	$ 3,480
Timber revenue	130,000	130,000	128,777	(1,223)
Total revenues	165,000	165,000	167,257	2,257
Changes in fund balance	165,000	165,000	167,257	2,257
FUND BALANCE, BEGINNING BUDGETARY BASIS	218,748	218,748	243,332	24,584
FUND BALANCE, ENDING BUDGETARY BASIS	$ 383,748	$ 383,748	$ 410,589	$ 26,841

OTHER FINANCIAL SCHEDULES

Fiscal Year	Uncollected Balance June 30, 2013	2013-2014 Levy	Discounts & Adjustments	Collections	Uncollected Balance June 30, 2014
2013-14	$ -	$ 655,372	$ (18,294)	$ (610,291)	$ 26,787
2012-13	30,974	-	(452)	(15,442)	15,080
2011-12	16,471		(61)	(6,715)	9,695
2010-11	17,511	-	237	(12,541)	5,207
2009-10	8,452	-	(104)	(6,773)	1,575
2008-09	2,619	-	(654)	(588)	1,377
Prior years	3,106	-	(534)	(680)	1,892
Totals	$ 79,133	$ 655,372	$ (19,862)	$ (653,030)	$ 61,613

COMPLIANCE REPORTS

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

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

Board of Commissioners
Port of Astoria
Astoria, Oregon

We have audited, in accordance with the 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, the financial statements of Port of Astoria, Oregon (the 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 and have issued our report thereon dated May 29, 2015. Our report includes an emphasis of matter paragraph regarding the Port's correction of certain errors by restating its assets, liabilities, and net position as of June 30, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2014-001 and 2014-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2014-003 through 2014-007 to be significant deficiencies.

MOSS ADAMS LLP

Compliance and Other Matters

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

The Port's Response to Findings

The Port's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Port's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams, LLP

Eugene, Oregon
May 29, 2015

FINDINGS RELATED TO FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

FINDING 2014-001 - Proper Separation of Duties in the Accounting Function (Material Weakness in Internal Controls over Financial Reporting)

Criteria - Effective internal controls require adequate segregation of duties of several functions including the authority for transactions, access and custody of cash and other assets, billing customers or making payments to vendors, and recording of transactions in the general ledger. Employees who have total control of a government's accounting system can overcome internal controls. It is surprisingly common, especially in smaller governments, for a single person to control all of a government's checks, deposits and ledgers. In these situations, the entity is subject to greater risk of employee theft of incoming cash and then concealing it by making unsupported entries in the organization's books. Employees who commit check fraud are often in charge of reconciling the bank accounts of the organization, and have total control over the disbursements process. Poor separation of duties is very often the weakness that allows these fraud schemes to go undetected.

Condition - Our audit of the 2014 fiscal year was performed after year-end, and we noted that the two primary individuals responsible for maintaining the Port's books and records had left the Port before our audit began. However, we were able to gain an understanding of the internal controls in place during the 2014 fiscal year through inquiry and other audit procedures performed. We found the following areas where internal controls may not have been effective because proper segregation of duties was not in place:

> Accounts payable - The individuals responsible for signing checks had the authority to approve invoices for payment, and the sole responsibility of entering accounting entries in the accounting system. We believe these check signers could also transfer electronic funds, and they maintained a manual signature stamp instrument with the signatures of other authorized check signers.
>
> Deposits - One individual was responsible for bank deposits, deposit receipt reconciliation, bank reconciliations, and posting deposits.
>
> Payroll - Individuals collecting payroll information and submitting the data to a third party payroll processer, also made entries in the QuickBooks accounting system, and were responsible for reconciling the payroll bank account. In addition, no formal review of the monthly payroll journal entry occurred.

Context - The Port has approximately 25 full-time equivalents on staff, but only two with the primary responsibility for keeping the Port's books and records which on the surface, limits the opportunity to have robust separation of duties.

Effect - The Port has been operating with an increased risk of unauthorized activity and fraudulent activity. In addition, certain cash transactions were allowed to be posted to suspense account, and a net $7,925 adjustment to the Port's operating cash balance in the general ledger was needed to adjust the books to the actual reconciled operating account balance on the June 2014 bank statement.

Cause - Proper accounting controls were not designed and implemented, and adequate oversight of the accounting function was lacking.

FINDING 2014-001 - Proper Separation of Duties in the Accounting Function (Material Weakness in Internal Controls over Financial Reporting) (Continued)

Recommendation - Appropriate separation of duties should be designed, documented and adhered to. We recommend each of the following key areas have segregated duties and responsibilities documented and adhered to:

> Accounts payable - Develop a distinct separation of duties with accounts payable transactions, including written policies and procedures for all personnel including who has the authority to approve vendors, purchases of goods and services, payment of invoices for goods and services purchased, who can enter activity into the accounting system, who has physical access to blank checks, who reviews payments and signs the checks, and who mails vendor payments, from administrative assistants up to the Port Commission. The functions of purchasing goods or services, authorizing the purchase, receiving the goods and services, and making the payment to the vendor should all be separated. Individuals with check signing authority should not have access to make entries in the accounting system. If signature stamps are used, policies should be instituted over the access and physical control of the signature stamp.
>
> Deposits - Each of the following duties and responsibilities should ideally be segregated and documented through written policies and procedures: billing customers, cash receipts, entering transactions in the general ledger, making bank deposits, deposit receipt reconciliation, bank reconciliations, and posting deposits.
>
> Payroll - The following payroll duties should be segregated and documented through written policies and procedures: payroll preparation, payroll disbursement (into payroll and withholding accounts), payroll distribution, payroll bank reconciliation, and human resource functions (e.g. changing pay rates). We recommend setting up a ZBA payroll account (aka sweep account). The ZBA payroll account is joined to a primary checking account. As checks are presented for payment to the payroll account, funds are automatically transferred from the primary (operating) account to cover the disbursements. The payroll account balance is effectively maintained at zero or some nominal amount like $1,000 as an additional control.

Response - Management is aware and in agreement with the findings and recommendations and has already made several changes to address these issues. It is management's plan to develop a formal action plan to address these issues, and has already begun that process in working with both the external auditor and a consultant hired to assist with the review, improvement and implementation to the Port's financial policies. Any revisions to the Port's financial policies will be brought before the Port Commission to be formally addressed in the form of one or more Board Resolutions.

FINDING 2014-002—Accounting and Financial Reporting for Pollution Remediation Obligations (Material Weakness in Internal Controls over Financial Reporting)

Criteria - Pollution remediation is an action taken to address the current or potential detrimental effects of existing pollution. If a government should find itself in the position of having to clean up existing pollution (such as contaminated land), GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* requires the government's financial statements reflect its pollution remediation obligations. Accrual for pollution remediation obligations are to be based on a probability-weighted calculation of future possible cash outflows, and offset by a similar calculation of probable reimbursements from insurance policies or other potentially responsible parties (PRP).

FINDING 2014-002—Accounting and Financial Reporting for Pollution Remediation Obligations (Material Weakness in Internal Controls over Financial Reporting) (Continued)

Condition - Several years ago Oregon Department of Environmental Quality (DEQ) named the Port as a PRP in the Astoria Area-Wide Groundwater Contamination site. When the Port was named as a PRP, no procedures were in place to identify whether an obligating event had occurred triggering accounting and reporting requirements in the Port's financial statements. As a result, prior financial statements for the Port failed to account for and report an estimate of pollution remediation obligations, net of recoveries from other parties and insurance considered probable.

Context - The Astoria Area-Wide Groundwater Contamination site consists of five areas of concern addressing contaminants on Port property, and the Port is one of eleven identified PRPs. Estimating the Port's pollution remediation obligation is complex. The cost estimate involves a number of different components including identifying different remediation alternatives and the probability one alternative will eventually be selected over the other possible alternatives, for which the Port relies on the use of a licensed geologist to assist with the estimate. The Port also estimates expected recoveries from other PRPs and insurance claims.

Effect - The calculated liability, net of future recoveries, required a restatement increasing liabilities and decreasing net position as of June 30, 2013 by $1,800,000.

Cause - There were no effective controls in place to identify and estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability and disclosed in the financial statement footnotes. The Port also lacked procedures necessary to support the expected recoveries from the other PRP's.

Recommendation - We recommend the Port develop and implement procedures for the accounting for pollution remediation obligations. Such procedures should include identifying when an obligating event occurs (e.g. being named as PRP for a State or Federal agency, taking on a remediation project voluntarily, non-compliance with applicable laws or permits, or being named in a lawsuit), tracking the different stages of the pollution remediation effort (e.g. receipt of administrative order, completion of corrective measures, etc.), estimating the liability using the expected cash flow technique, estimating recoveries from other PRPs and insurance claims, capitalizing the cost expenditures when appropriate, and preparing financial statement entries and footnote disclosures.

Response - Management is aware and in agreement with the findings and recommendations and has already made several changes to address these issues. It is management's plan to develop a formal action plan to address these issues, and has already begun that process in working with both the external auditor and a consultant hired to assist with the review, improvement and implementation to the Port's financial policies. Any revisions to the Port's financial policies will be brought before the Port Commission to be formally addressed in the form of one or more Board Resolutions.

FINDING 2014-003—Capital Asset Accounting and Management (Significant Deficiency in Internal Controls over Financial Reporting)

Criteria - Common to most port districts, the amounts reported in the Port's capital assets exceed by far the amounts reported for all other types of assets combined in its financial statements. Capital assets are used in Port operations, and are responsible for generating a significant amount of the Port's operating revenue. Effective internal controls assist in accurately reporting capital assets owned, still in service, as well as recognizing their cost over their service lives through depreciation charges.

Condition - During 2014, the Port performed a thorough review of its capital asset listing for the first time in several years. This review identified $1,025,742 of building improvements, equipment, and furniture and fixtures that did not exist as of June 30, 2013. These were primarily older capital assets with accumulated depreciation totaling $932,655 as of June 30, 2013. The review also identified a number of instances where the Port's capital asset records provide little to no identifiable description of the asset (e.g. asset description of 'land'). Further, We identified a handful of capital assets reporting a negative net book value as of June 30, 2014.

Context - The net book value of all Port depreciable capital assets is $26.6M as of June 30, 2014. Of these 720 capital assets, roughly half of the capital assets are fully depreciated and still in use. This highlights the Port has a large number of capital assets to maintain and monitor, and in many cases replacing these assets is overdue.

Effect - The Port restated its assets and net position as of June 30, 2013 by decreasing depreciable capital assets and net position by $93,087.

Cause - In prior years the Port was not been taking a physical inventory of capital assets or actively managing its capital asset records. The Port also lacks well documented capital asset policies and procedures, and a capital asset replacement reserve plan.

Recommendation - We recommend the Port conduct a physical inventory of its capital assets on an annual basis. Such review will help identify unrecorded assets, unreported capital asset retirements, and capital assets on-hand, but not currently used in operations. In addition to periodic physical inspections of recorded capital assets, we recommend the implementation of a periodic reconciliation of the County tax assessor real property records with the Port's capital asset listing.

We also recommend the Port formalize documented capitalization policies. While property purchased with federal funds of $2,000 or more requires complying with specific compliance requirements, the Port has more flexibility in its capitalization policy for determining what capital assets are included in its financial statements. By using a very low threshold dollar amount, the Port increases its administrative burden for managing and tracking its capital assets. Consider having multiple capitalization thresholds based on asset class, and increasing the capitalization threshold dollar amount for different classes of assets (e.g. a separate and increased dollar amount for buildings and structures and related improvements). In addition, when assets are recorded, an identifiable description should be provided (e.g. tax lot number, serial number). The Port currently tracks its capital assets and related depreciation in a spreadsheet. Given the amount of manual work involved with maintaining over 700 capital assets and the risk of errors inherent with spreadsheets, the Port may consider if a depreciation software system is prudent. Such a system can be a stand-alone application, or can be included with a contract management and invoicing system.

FINDING 2014-003—Capital Asset Accounting and Management (Significant Deficiency in Internal Controls over Financial Reporting) (Continued)

We further recommend the Port develop a 20 year capital improvement plan with estimated costs by year, and capital asset maintenance plans projecting significant maintenance project costs by year. Revenue streams should be identified, where appropriate, to cover the estimated costs. Such estimated costs should be considered in the annual budget process. These steps are essential to maintaining the assets critical to providing Port services.

Response - Management is aware and in agreement with the findings and recommendations and has already made several changes to address these issues. It is management's plan to develop a formal action plan to address these issues, and has already begun that process in working with both the external auditor and a consultant hired to assist with the review, improvement and implementation to the Port's financial policies. Any revisions to the Port's financial policies will be brought before the Port Commission to be formally addressed in the form of one or more Board Resolutions.

FINDING 2014-004— Accounting for Tenant Improvements Resulting from Rent Concessions (Significant Deficiency in Internal Controls over Financial Reporting)

Criteria - The Port often makes improvements to capital assets, including its buildings. Sometimes these improvements are made to assets owned and occupied by the Port, and other times these improvements are made by tenants leasing Port owned property. When tenants make these improvements to Port owned property, there is often an agreed to rent concession the Port approves in exchange for the capital upgrades. The rent credits reduce future receipts collected from Port tenants.

Condition -The Port was infrequently capitalizing these tenant made improvements to Port property. In addition, the rent concessions provided in exchange for the capital upgrades were infrequently documented and improperly accounted for.

Context - Five instances were identified where tenants made capital asset improvements to Port property in exchange for rent credits, and these amounts totaled to $613,492 during fiscal years 2012 and 2013.

Effect - The Port restated its financial statements as of June 30, 2013 to increase depreciable capital assets, net of depreciation by $490,818, increase unearned tenant improvements by $509,502, and decrease net position by $18,684.

Cause - The rent concession agreements provided to tenants were not adequately documented to ensure the transactions were properly accounted for. In addition, the Port was not conducting an annual physical observation of its capital assets to identify improvements made, which were not included in its capital asset listing.

FINDING 2014-004— Accounting for Tenant Improvements Resulting from Rent Concessions (Significant Deficiency in Internal Controls over Financial Reporting) (Continued)

Recommendation - We recommend the Port develop procedures and controls addressing the formal documentation of tenant rent concession agreements in exchange for tenant financed capital improvements, and communication with staff responsible for capital asset and general ledger accounting. Further, we recommend the Port perform an annual physical observation of its capital assets, including real property, to ensure recorded assets still exist, and tenant improvements are accounted for. Finally, the Port's capital asset records should provide sufficiently detailed descriptions, locations, or lot identification numbers to be able to specifically identify each capital asset.

Response - Management is aware and in agreement with the findings and recommendations and has already made several changes to address these issues. It is management's plan to develop a formal action plan to address these issues, and has already begun that process in working with both the external auditor and a consultant hired to assist with the review, improvement and implementation to the Port's financial policies. Any revisions to the Port's financial policies will be brought before the Port Commission to be formally addressed in the form of one or more Board Resolutions.

FINDING 2014-005— Tenant Billing Practices (Significant Deficiency in Internal Controls over Financial Reporting)

Criteria - The Port owns a number of properties for lease, including the airport, waterfront piers and marina. Roughly one third of all Port operating revenue comes from these lease and rental operations. Effective internal controls address the approval for lease terms, monthly processes to ensure tenants are billed authorized amounts and in compliance with eligible rent escalation clauses, monitoring in advance of lease termination dates with processes to begin negotiation of new lease agreements, and review of invoices for accuracy.

Condition - During our testing we found the following errors in tenant billings: (1) in two instances the Port fell behind on calculating a rent escalation clause permitted in a lease agreement, (2) in three instances the Port miscalculated the rent increase billed to a tenant, (3) in two instances a continuing lease agreement expired several years ago, and no new agreement was signed as required by the original lease agreement, (4) in one instance the listing of future rent income misstated the lease's termination date by four months, (5) in one instance additional rent was charged for extra warehouse space, and no signed agreement for the additional rent was located, and (6) in one instance the payment terms of a lease significantly changed, and no agreement supporting the change was found.

Context - The errors identified in the *Condition* section above came from our testing of seven lease transactions.

Effect - The errors amounted to less than $5,000, both individually and in the aggregate, and did not require adjustment to the Port's financial statements.

Cause - The Port almost exclusively documents its tenant information in hard copy files, and manually bills tenants using the accounting system. This approach to documenting tenant information, does not give the Port flexibility to pull financial information efficiently, or quickly identify upcoming lease renewals. This manually reliant approach also increases the likelihood of errors.

FINDING 2014-005— Tenant Billing Practices (Significant Deficiency in Internal Controls over Financial Reporting) (Continued)

Recommendation - We understand the Port is currently accumulating its tenant information into a single spreadsheet. While a summarized spreadsheet is a better tool than recent Port business practices, internally developed spreadsheets or database applications might not have all the controls typically found in an external software package. We recommend the Port review technology based solutions that integrate contract management and invoicing. Such systems can provide tenant property parcels by unit of measure (i.e. square footage), tenant contracts, inflationary/CPI step-ups in rental rates, and compliance and insurance requirements.

Response - Management is aware and in agreement with the findings and recommendations and has already made several changes to address these issues. It is management's plan to develop a formal action plan to address these issues, and has already begun that process in working with both the external auditor and a consultant hired to assist with the review, improvement and implementation to the Port's financial policies. Any revisions to the Port's financial policies will be brought before the Port Commission to be formally addressed in the form of one or more Board Resolutions.

FINDING 2014-006— Revenue and Expense Cutoff Procedures (Significant Deficiency in Internal Controls over Financial Reporting)

Criteria - Under generally accepted accounting principles, the Port's basic financial statements follow the accrual basis of accounting. Under the accrual basis of accounting, Port transactions are recognized when they occur, regardless of when the cash is received or disbursed. For example, the Port recognizes revenue when it provides space to its tenants. Similarly, the Port recognizes expense as employees earn vacation leave.

Condition -The Port's prior year financial statements included a number of instances where revenue and expenses were recognized in the incorrect fiscal year. In some cases 2014 transactions, were incorrectly included as 2013 transactions, and in other cases 2013 transactions were incorrectly included as 2014 transactions.

Context - These cutoff errors were across a wide-range of revenue and expense transactions including rebilled lease and rental operations revenue, re-billed expenses revenue, pier revenue, timber receipts revenue, materials and services expenses, and personnel services expenses.

Effect - Correcting these errors resulted in the following changes to the financial statements as of June 30, 2013: increasing accounts receivable by $364,365, decreasing prepaid expenses by $23,964, increasing accounts payable by $114,217, increasing accrued payroll and related expenses by 12,304, increasing unearned revenue by $12,833, and increasing net position by $201,047.

Cause - The Port lacks procedures to ensure all revenue billed and expenses incurred are entered in the period the services are provided and are reflected in the financial statements in the appropriate period.

FINDING 2014-006— Revenue and Expense Cutoff Procedures (Significant Deficiency in Internal Controls over Financial Reporting) (Continued)

Recommendation - We recommend the Port implement revenue and expense recognition policies and procedures, which incorporate both preventive and detective internal controls to ensure transactions are recognized in the appropriate accounting period. A preventive control can be requiring Port staff to document their assessment of the proper accounting period for June and July billings at fiscal year-end. Examples of possible detective controls include reviewing revenue and expense account details by customer or vendor, and assessing if the appropriate number of transactions is included (e.g. detail for a tenant billed monthly should include 12 invoices), or selecting June and July invoices billed or paid above a certain dollar threshold, and reviewing the supporting detail to assess if the revenue or expenses are reported in the correct fiscal-year.

Response - Management is aware and in agreement with the findings and recommendations and has already made several changes to address these issues. It is management's plan to develop a formal action plan to address these issues, and has already begun that process in working with both the external auditor and a consultant hired to assist with the review, improvement and implementation to the Port's financial policies. Any revisions to the Port's financial policies will be brought before the Port Commission to be formally addressed in the form of one or more Board Resolutions.

FINDING 2014-007— Bank Loan Compliance Requirements (Significant Deficiency in Internal Controls over Financial Reporting)

Criteria - Effective internal controls over debt agreements include identification and monitoring of debt covenants and other significant compliance requirements, and the reporting of any significant requirements or non-compliance with those requirements that have a direct and material effect on the determination of financial statement amounts.

Condition - The Port's financial statements omitted disclosure of its compliance with a bank loan agreement specifying the maintenance of a debt service coverage ratio, and issuing audited financial statements no later than 180 days after fiscal year-end.

Context - The Port obtained the loan in fiscal-year 2010, and omitted the disclosure in its prior year financial statements.

Effect - Failure to comply with bank covenants and ratios could result in the bank loan becoming immediately due and payable. The Port met its debt service coverage ratio requirement as of June 30, 2014, and received a waiver from the bank for filing audited financial statements after December 31, 2014.

Cause - The Port lacked procedures in its financial close and reporting process to ensure the bank loan compliance requirements are adequately disclosed in its financial statements.

Recommendation - We understand the current Port management is aware of the disclosure requirement, and calculated the debt service coverage ratio for disclosure in the 2014 financial statements. We recommend documenting written procedures, such as a disclosure checklist, to ensure bank compliance requirements are properly reflected in the Port's footnote disclosures.

FINDING 2014-007— Bank Loan Compliance Requirements (Significant Deficiency in Internal Controls over Financial Reporting) (Continued)

Response - Management is aware and in agreement with the findings and recommendations and has already made several changes to address these issues. It is management's plan to develop a formal action plan to address these issues, and has already begun that process in working with both the external auditor and a consultant hired to assist with the review, improvement and implementation to the Port's financial policies. Any revisions to the Port's financial policies will be brought before the Port Commission to be formally addressed in the form of one or more Board Resolutions.

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *OREGON MINIMUM AUDIT STANDARDS*

Board of Commissioners
Port of Astoria
Astoria, Oregon

We have audited the basic financial statements of Port of Astoria, Oregon (the Port), as of and for the year ended June 30, 2014, and have issued our report thereon dated May 29, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the *Minimum Standards for Audits of Oregon Municipal Corporations,* prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

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, grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The use of approved depositories to secure the deposit of public funds.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2014 and 2015.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

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. Except as discussed below, the results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Oregon Secretary of State.

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Excess of Expenditures over Appropriations

As described in Note 2, *Stewardship , Compliance and Accountability*, the results of testing indicated three instances of non-compliance related to excess expenditures over appropriations.

Budget Committee Approval of Budget

We identified no evidence in the budget committee meeting minutes approving the budgeted tax amount or tax rate.

Preparation of Accounts and Records for Audit

The Port was unable to prepare its 2014 financial statements in a timely manner. The delay in financial statement preparedness was due to a lack of internal controls over financial reporting in various areas, as discussed in the next section below, and a significant amount of turnover, particularly in the finance positions. Ultimately the new Port management contracted with external CPAs in January 2015 to complete the 2014 accounting, as well as to correct certain prior period errors and prepare the 2014 financial statements. Once the CPAs were able to close 2014 and draft the 2014 financial statements in March 2015, we found the Port's accounts and records to be ready for audit in time to issue our audit reports by the end of May 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2014-001 and 2014-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2014-003 through 2014-007 to be significant deficiencies.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance or on internal control. This report is an integral part of an audit performed in accordance with the provisions of the *Minimum Standards for Audits of Oregon Municipal Corporations* in considering the entity's compliance and internal control. Accordingly, this communication is not suitable for any other purpose.

James C. Lagarotta

For Moss Adams LLP
Eugene, Oregon
May 29, 2015