

PORT OF HOOD RIVER

HOOD RIVER COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018



12700 SW 72nd Ave.
Tigard, OR 97223

PORT OF HOOD RIVER

Financial Statements

June 30, 2018

PORT OF HOOD RIVER

June 30, 2018

BOARD OF COMMISSIONERS

NAME	TERM EXPIRES
Hoby Streich, President	June 30, 2019
Brian Shortt, Vice President	June 30, 2019
Ben Sheppard, Treasurer	June 30, 2021
John Everitt, Secretary	June 30, 2021
David Meriwether	June 30, 2021

All commissioners receive mail at the address listed below.

ADMINISTRATION

Michael McElwee, Executive Director
Fred Kowell, Chief Financial Officer
1000 E. Port Marina Dr.
Hood River, Oregon 97031

PORT OF HOOD RIVER
HOOD RIVER COUNTY, OREGON
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HOOD RIVER COUNTY, OREGON
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December 10, 2018

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Port of Hood River
Hood River County, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Port of Hood River, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 auditors' 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 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Port of Hood River, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The Port adopted the provisions of GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions for the year ended June 30, 2018. 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, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedules presented as Required Supplementary Information, as listed in the table of contents, 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 records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2

U.S. Code of Federal Regulations (CRF) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

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

Other Information

The listing of board members containing their term expiration dates, located before the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Reports on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 10, 2018 on our consideration of the internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports 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. The reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 10, 2018 on our consideration of 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.



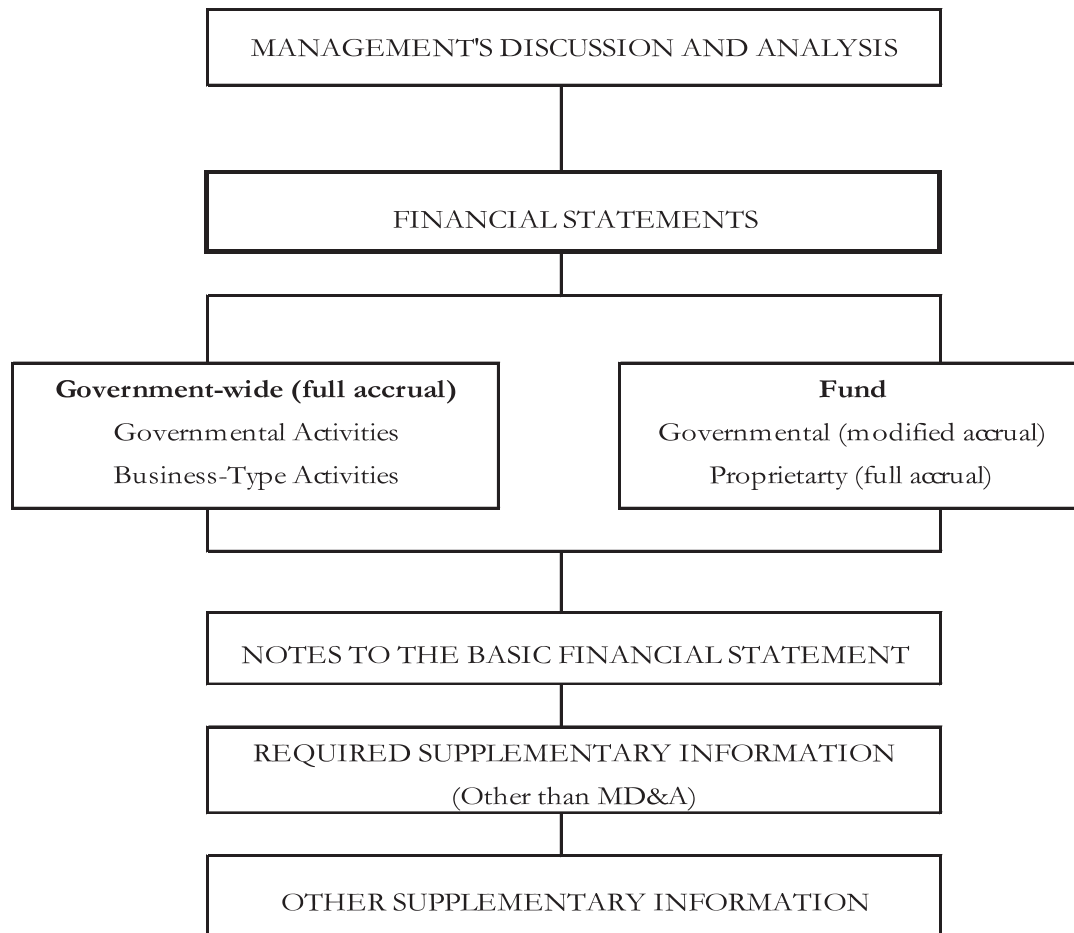
Tara M. Kamp, CPA
PAULY, ROGERS AND CO., P.C.

PORT OF HOOD RIVER, OREGON
Management Discussion and Analysis
For the Year Ended June 30, 2018

INTRODUCTION

The Annual Financial Report consists of Management Discussion and Analysis which provides an overview of the financial performance and activities of the Port for the fiscal year ended June 30, 2018. The diagram below depicts the different components of the Annual Financial Report and their respective descriptions from the basic financial statements to those presented at the fund level which depict how the Port's financial performance compared to what was budgeted.

Financial Section Components



GOVERNMENT-WIDE STATEMENTS

The government-wide statements report financial information about the Port taken as a whole using accounting methods similar to those used by private-sector companies. The statement of Net Position includes all the Port's assets and liabilities. All the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when the cash is received or paid. The two government-wide statements report the Port's Net Position and any changes. Net position – the difference between assets and liabilities – is one way to measure the Port's financial health or position.

The government-wide financial statements of the Port are divided into two categories:

Governmental funds – The Port maintains two individual governmental funds as of June 30, 2018. Both are considered major funds and are reported separately in the statement of revenues, expenditures, and changes in fund balances. The two funds are the General Fund and the Bridge Repair and Replacement fund. The General Fund records the transactions related to policy making and strategic planning as it pertains to the Port's mission and values. The General Fund will also include general administration as well as a portion of support services. The Bridge Repair and Replacement fund is a Special Revenue Fund that is used to record capital improvements, planning, inspection and replacement activity associated with the Hood River/White Salmon Interstate Bridge, as well as any debt related activities with the existing bridge.

The Port adopts an annual budget for all its funds. Budgetary comparison schedules are provided to demonstrate compliance with applicable state budgetary rules. These schedules can be found in the Required Supplementary Information section of this report.

Business-type funds – Business type activities are used to distinguish operating revenues and expenses from non-operating items. The Port maintains an enterprise fund called the Revenue Fund which receives the following fees charged to Port customers:

1. Fees – tolls paid by bridge users
2. Lease revenues - industrial, commercial and mix-use tenants.
3. Rent for marina boat slips and airport hangers.
4. Fees for recreational events, parking and programs.

Notes to the financial statements provide additional information that is essential to fully understand the Port's financial statements and position.

Statement of Net Position

Net Position serves as a useful indicator of a government's financial position, especially when viewed over multiple periods of time. In the case of the Port, the total net position is \$42,003,958 at the close of this fiscal year. This represents a \$2,318,871 increase over the prior fiscal year.

Table 1 below depicts an increase in total assets by \$2,746,424 which is primarily attributable to \$1.6 million in capital improvement projects as compared to last year with the airport south taxi-way improvements accounting for \$1.4 million of the total capital improvements. The remaining \$1.1 million increase in total assets can be attributable to increased cash and investments from higher toll revenues due to increased toll rates.

The largest portion of the Port's net position, at 83%, are invested in capital assets (e.g. bridge, land, buildings, and equipment) and reported net of accumulated depreciation less any outstanding related debt. The Port uses these capital assets to provide services to the public; thus, they do not represent resources available for future spending. Restricted Net position totals \$817,974 which represents cash and investments that are legally restricted for debt service related to the 2013 general revenue (bridge) bonds and the 2015 taxable general revenue bond. Finally, the remaining \$7,328,654 is unrestricted, meaning it is available for meeting the Port's ongoing obligations.

PORT OF HOOD RIVER, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE 1 - NET POSITION
AS OF JUNE 30,

	Governmental Activities		Business-Type Activities		Total All Funds	
			Revenue Fund			
	2018	2017	2018	2017	2018	2017
Unrestricted - Current and Other Assets			\$ 8,859,317	\$ 6,822,529	\$ 8,859,317	\$ 6,822,529
General Fund	215,509	142,062			215,509	142,062
Bridge Repair and Replacement Fund	607,763	589,439			607,763	589,439
Restricted - Current and Other Assets			237,594	1,215,651	237,594	1,215,651
Bridge Repair and Replacement Fund	677,267	677,267			677,267	677,267
Capital Assets			31,463,508	29,719,928	31,463,508	29,719,928
General Fund	7,000	7,000			7,000	7,000
Bridge Repair and Replacement Fund	7,308,711	7,456,369			7,308,711	7,456,369
Total Assets	<u>8,816,250</u>	<u>8,872,137</u>	<u>40,560,419</u>	<u>37,758,108</u>	<u>49,376,669</u>	<u>46,630,245</u>
Pension and OPEB Related Deferrals	67,578	42,492	428,349	665,708	495,927	708,200
Deferred Charges	7,000	14,000	-	-	7,000	14,000
Total Deferred Outflows of Resources	<u>74,578</u>	<u>56,492</u>	<u>428,349</u>	<u>665,708</u>	<u>502,927</u>	<u>722,200</u>
Long-Term Debt			4,448,889	4,635,067	4,928,889	5,765,067
Bridge Repair and Replacement Fund	480,000	1,130,000				
Other Liabilities			1,847,865	653,425	2,899,251	1,845,080
Net Pension Liability	139,577	71,363	884,732	1,118,013		
Total OPEB Liability	3,655	-	22,454	-		
General Fund	-	-				
Bridge Repair and Replacement Fund	968	2,279				
Total Liabilities	<u>624,200</u>	<u>1,203,642</u>	<u>7,203,940</u>	<u>6,406,505</u>	<u>7,828,140</u>	<u>7,610,147</u>
Pension and OPEB Related Deferrals	6,478	1,953	41,020	30,591	47,498	32,544
Total Deferred Inflows of Resources	<u>6,478</u>	<u>1,953</u>	<u>41,020</u>	<u>30,591</u>	<u>47,498</u>	<u>32,544</u>
<i>Net Position</i>						
Net Investment in Capital Assets			27,014,619	25,084,861	33,857,330	31,418,230
General Fund	7,000	7,000				
Bridge Repair and Replacement Fund	6,835,711	6,326,369				
Restricted - Debt Service	677,267	677,267	140,707	140,707	817,974	817,974
Unrestricted			6,588,482	6,761,152	7,328,654	7,473,550
General Fund	133,377	111,238				
Bridge Repair and Replacement Fund	606,795	601,160				
Total Net Position	<u>\$ 8,260,150</u>	<u>\$ 7,723,034</u>	<u>\$ 33,743,808</u>	<u>\$ 31,986,720</u>	<u>\$ 42,003,958</u>	<u>\$ 39,709,754</u>

Note – June 30, 2017 net position is not restated for GASB 75

PORT OF HOOD RIVER, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS
TABLE 2 - GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
FOR THE FISCAL YEARS ENDING JUNE 30TH

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
<i>Program revenues</i>						
Charges for services - Tolls			\$ 4,953,775	\$ 4,024,985	\$ 4,953,775	\$ 4,024,985
Leases, rents and fees			2,700,347	2,556,973	2,700,347	2,556,973
Operating grants	265,399		-	9,750	265,399	9,750
Capital grants			1,302,234	197,972	1,302,234	197,972
<i>General Government Revenues</i>						
Property taxes	70,240	67,296			70,240	67,296
Interest earnings	21,531	12,253	116,013	84,493	137,544	96,746
Other sources	-	130,000	45,518	41,004	45,518	171,004
Transfers	1,793,077	1,336,691	(1,793,077)	(1,338,635)	-	(1,944)
Total Revenues	2,150,247	1,546,240	7,324,810	5,576,542	9,475,057	7,122,782
Expenses						
Governmental Activities						
General government	485,724	387,100			485,724	387,100
Bridge repair and replacement	1,090,998	826,031			1,090,998	826,031
Interest on long-term debt	32,956	48,642	194,051	200,697	227,007	249,339
<i>Business-type Activities</i>						
Toll bridge			1,797,030	1,674,660	1,797,030	1,674,660
Industrial			1,589,342	1,520,469	1,589,342	1,520,469
Commercial			244,725	230,850	244,725	230,850
Waterfront Industrial			109,567	139,375	109,567	139,375
Waterfront Recreation			510,110	490,604	510,110	490,604
Marina			308,518	312,038	308,518	312,038
Airport			509,300	577,732	509,300	577,732
Administration			135,432	153,943	135,432	153,943
Maintenance			148,433	142,129	148,433	142,129
Total Expenses	1,609,678	1,261,773	5,546,508	5,442,497	7,156,186	6,704,270
Increase (decrease) in Net Position	540,569	284,467	1,778,302	134,045	2,318,871	418,512
Beginning Net Position - Restated	7,719,581	7,438,567	31,965,506	31,852,675	39,685,087	39,291,242
Ending Net Position	\$ 8,260,150	\$ 7,723,034	\$ 33,743,808	\$ 31,986,720	\$ 42,003,958	\$ 39,709,754

Note – June 30, 2017 net position is not restated for GASB 75

Statement of Activities

As with the Statement of Net Position, the Port reports its financial activities within two activity types; Governmental, which includes the General Fund and the Bridge Repair and Replacement Fund, and Business-type activities, which include the Revenue Fund. As indicated in Table 2 below, total net position of the Port increased by \$2,318,871, or 5.8%, as compared to the prior year's balance.

Governmental Activities – The change in net position for governmental activities increased \$540,569, or 7%, from the prior year. This increase is primarily due to higher interfund transfers from the enterprise fund to the governmental funds for capital improvements on the bridge and reimbursements from a State of Oregon grant, to fund the final environmental impact studies for a replacement bridge.

Financial highlights of governmental fund activities for the year include:

- Reimbursements amounting to \$265,399 from a legislative grant of \$5 million to complete the final environmental impact study concerning the replacement of the existing bridge.
- Higher interfund transfers by \$456,386
- Property taxes continue to increase in line with projections or about 4%.
- Higher investment earnings due to higher reserves.
- Personnel costs increased over \$153,865 related to the additional staff time dedicated to the bridge replacement planning and legislative advocacy effort during the state legislative session.

Business-type Activities - Business type activities generated \$1,778,302, or a 5.5% increase in the Port's total net position. The financial results for this year include an increase in toll revenues of \$928,790 or 23% over the prior year, which reflects toll rate increases that occurred February 2018. Bridge traffic showed significant growth with a 6% increase over prior year. This was attributable to relatively fair winter weather compared to the prior year's winter ice storms that significantly impacted traffic. Lease revenues from industrial and commercial properties showed inflationary growth with an increase of \$117,686, or 6.3%, over the prior year. Recreation related revenue increased by \$37,663 due to higher Event Site parking season pass rates and concessions. Capital grants continued to play an integral role to the Port as \$1,347,751 was received during the year, of which \$1,288,808 was received for the airport re-design of the south taxiway and master planning effort. The Marina program received a grant from the Oregon State Marine Board to fund electrical repairs to the docks in the amount of \$8,425.

Revenue Fund revenues increased by \$1,748,268, which was primarily attributable to capital grants from the Federal Aviation Administration for the south taxi-way project. Although transfers increased by \$454,422 from the prior year, they were offset by increased toll revenues of \$928,790. Expenses remained relatively flat overall with a slight increase over prior year expenses of \$104,011.

Other miscellaneous expenses were the primary contributor, with credit card fees and technology costs increasing compared to prior years.

Financial Analysis and Outlook:

The Port is involved in a variety of activities that all contribute to the economic health and vitality of the community. The major source of funds for Port operations continues to be the toll bridge, accounting for 65% of Port operating revenues. Lease revenues and other fees continue to show improvement, with a combination of lease renewals and fee increases for paid parking, marina slips, and hangar spaces at the airport. These assets continue to provide the Port with significant financial resources which enables diversification of the revenue mix. The Port has a 95% occupancy rate as the year ended and additional development opportunities may further expand the Port's leasable space. The Port purchased the property formerly known as the Lower Hanel Mill and is in the process of developing the site for future industrial uses like warehousing and manufacturing. This will partially offset the leasable square footage loss that resulted from the sale Expo building.

The Port receives property taxes which are recorded in the General Fund, however these taxes only account for 1% of total revenues and are used to fund policy and planning costs. Capital grants continue to play a vital role in how the Port develops properties, including the airport upgrade to the south taxiway and the planning for the north ramp development. The Port receives an operating grant from the Oregon State Marine Board that assists in funding Marina operations. Over the years the Port has incorporated extensive public outreach and community involvement to guide the development of the waterfront and especially the approximately 12-acre property known locally as "Lot 1". Lot 1 is prime industrial property that represents the last remaining large, developable property on the waterfront. The Port will continue to work with the community in development planning for the property and expects to finalize the conceptual design and layout, as well as target markets for sale or lease of the developed properties. This will help determine the proper sizing for utilities and other infrastructure that will need to be put in place. Ultimately, examination of these costs will assist in the determination of the appropriate kind and amount of public subsidy that will be needed in attaining a return on investment that is satisfactory to the Port Commission and the public.

The following categories are helpful to describe the Port's separate business units:

Bridge – The bridge traffic increased slightly for the year with 4,502,181 crossings, a 6.1% increase as compared to the previous year. This increase has more to do with the prior year winter storm impacts than this year's activity, as this year exhibited normal conditions. Toll rates went up significantly starting February 2018. Cash customers now pay \$2 per crossing for passenger vehicles, versus \$1 per crossing for the previous year. Cash paying trucks pay \$3 per axle versus the previous rate of \$1 per axle. Customers with prepaid electronic tolling accounts also saw an increase, with passenger vehicle tolls going up to \$1 a crossing per car versus \$0.80. Trucks utilizing prepaid electronic tolling saw their tolls increase to \$2 per axle from \$1 per axle. This toll increase will generate cash flow to be used for the capital improvements of the existing bridge or the replacement

bridge efforts. Current engineer estimates show capital improvement, maintenance, and inspection needs in excess of \$54 million of over the next 15-20 years for the existing bridge.

The Port received a \$5 million grant from the State of Oregon to complete the Final Environmental Impact Study required for bridge replacement. This effort will include outreach to all the affected communities so that when the funding phase of this effort occurs, barriers to completion and any other issues can be addressed to achieve broad support for the overall framework of the replacement effort.

This year saw continued capital improvements to the existing bridge's lift span, auxiliary truss and the replacement of the tolling systems. The 30-year plan for the bridge continues to be refined as the Port moves toward bridge replacement. This dual long-range strategy has determined that tolls must continue to be studied to allow the development of reserves as well as the long-term replacement of the existing bridge. During this year, the Port continued to upgrade and replace elements of the tolling system hardware and software. Bridge expenses amounted to over \$1,791,743, including \$301,921 in depreciation. Expenses had a slight increase of \$117,083, primarily due to higher personnel costs, credit card fees and insurance for the year.

Leased Properties – This year, \$608,118 in capital improvements were made to the Big 7 building, the Jensen building and parking lot, the Lower Mill, and the Marina Park building #1 and #2 facilities. These capital improvements were made to ensure continued demand and to maintain the level of tenant occupancy and satisfaction necessary to fulfill job development and small business growth within the Port district. Lease revenues and other reimburseable fees (i.e., utilities and property taxes) were \$1,970,789, reflecting an increase of \$117,686 over the prior year. Developed property (i.e., Industrial and Commercial) expenses amounted to \$1,828,671 of which \$521,013 was depreciation. Expenses were \$77,352 more than the prior year, primarily due to higher personnel and utility costs.

Undeveloped Property – There continues to be various discussions on the remaining undeveloped lots at the waterfront. The Port continues to engage the local community in the development and final design of the remaining undeveloped properties. The Port continues to refine its development options. During the year, the outstanding balance of the note receivable of \$336,648 was paid by the Urban Renewal Agency (“URA”), thereby paying off the note initiated by the Port to assist in the development of the URA. Undeveloped property expenses amounted to \$109,245, a decrease of \$307,130 from the prior year. The decrease is due to less professional services incurred for Lot 1 regarding its design and development.

Recreation – The Port continues to program and manage waterfront activities, which during peak periods of the summer has considerable traffic and use. The recreational usage along the waterfront continues to challenge the Port's ability to meet public user expectations. The growth in kiteboarding, windsurfing, and the addition of paddle boarding has waterfront users competing against each other for time, access to the water, and space. Last summer the Port increased seasonal and daily parking fees at the Event Site to assist in securing additional law enforcement activity in

the area. This year recreation revenues amounted to \$206,170 which was an increase of \$37,663 over the prior year. Recreation expenses amounted to \$508,609 of which \$126,652 was depreciation. Expenses increased by \$18,005 over the prior year, which was entirely attributable to depreciation as the Nichols Basin trail and park improvements started to depreciate.

Marina – The marina continues to have a wait list of more than 78 potential slip renters, seeking space in a Marina with a total of only 165 slips. The marina has a history of 100% occupancy and this year is no exception. The Port has upgraded the electrical infrastructure on the docks and has significantly upgraded several docks adjoining the boathouse portion of the marina. Both projects were completed at the end of summer 2014, however during the year numerous electrical outages occurred due to a faulty electrical feeder line off the electrical panel, which was replaced. This repair allowed the Port to bring the electrical trip level down to 100 milliamps. The Port is sharing the cost of these capital improvements (i.e., electrical and docks) with the marina tenants through an assessment. The marina tenants are being assessed 80% of the costs related to these projects. For the year, marina revenues amounted to \$330,355 which is slight decrease of \$6,085 compared to the prior year. This slight decrease is attributable to utilities reimbursed by the tenants. The revenues included \$83,619 of assessments. Marina expenses were \$307,610, of which \$79,870 was depreciation. Expenses were slightly less by \$4,428 from the prior year, which was attributable to lower utility costs.

Airport – As noted above, the airport master plan is now in final review by the Federal Aviation Administration (“FAA”). The funding for this project was provided by the FAA and required a 10% local match. Airport hangar rates saw an increase of 6% for the year as the Port pursues a multi-year increase of airport hangar space lease rates to bring them in line with comparable airports. This will also allow for more cost recovery by the airport for its operations. Airport revenues were \$189,883 which is \$5,390 less than the prior year revenues, attributable to lower utility costs as compared to 2017. Capital grants amounted to \$1,288,808, funding design and construction of the south taxiway and the completion of the master plan for the airport. Expenses amounted to \$507,802 of which \$255,099 was depreciation. Expenses decreased by \$69,930 from the prior year, which primarily was attributable to lower maintenance costs, but also lower depreciation as older assets were fully depreciated.

Economic Factors - The Port has a stable set of resources for ongoing operations and maintenance such as tolls and lease revenues. Since property taxes are such a small percentage of the revenue mix, a recession does not have the same impact to the Port’s resources as it would otherwise have with other tax-dependent agencies. Additionally, the Hood River area continues to see a high demand for housing but also continues to have a limited supply of developable properties, thereby keeping the recessionary impact to property values from occurring at significant levels. Employment and job growth continue at a moderate pace and the Port continues to focus strategic decisions on how best to stimulate job growth in the community and surrounding area.

Uncertainties about future economic changes and financial impacts are common throughout the region. To deal with the swings in the economy and to plan for future capital expansion, the Port has routinely set aside resources. The Port has completed its Strategic Business Plan and has integrated it with key financial policies regarding reserves, debt coverage, and revenue diversification.

Request for Information – The Port’s financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the Port’s finances and to demonstrate the Port’s accountability. If you have questions about this report or need additional information, please contact the Port’s Chief Financial Officer at 1000 E. Port Marina Drive, Hood River, OR 97031, or via email to fkowell@portofhoodriver.com.

PORT OF HOOD RIVER
HOOD RIVER COUNTY, OREGON
BASIC FINANCIAL STATEMENTS

PORT OF HOOD RIVER
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 819,520	\$ 7,830,114	\$ 8,649,634
Cash and Investments (Restricted)	677,267	237,594	914,861
Receivables (Net)	3,752	581,362	585,114
Prepaid Expenses	-	205,638	205,638
Supply Inventory	-	23,239	23,239
Note Receivable	-	88,478	88,478
Deposit	-	130,486	130,486
Capital Assets:			
Capital Assets, Non-Depreciable	933,097	11,035,275	11,968,372
Capital Assets, Net of Depreciation	6,382,614	20,428,233	26,810,847
Total Assets	8,816,250	40,560,419	49,376,669
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferral	67,574	428,327	495,901
OPEB Related Deferral	4	22	26
Deferred Charge on Refunding	7,000	-	7,000
Total Deferred Outflows of Resources	74,578	428,349	502,927
LIABILITIES			
Accounts Payable	-	1,127,240	1,127,240
Unearned Revenue	-	221,059	221,059
Interest Payable	968	13,540	14,508
Accrued Compensated Absences	-	63,818	63,818
Toll Tickets Outstanding	-	48,580	48,580
Breezeby Outstanding	-	373,628	373,628
Long-Term Debt Due Within One Year	480,000	1,935,928	2,415,928
Noncurrent Liabilities:			
Net Pension Liability	139,577	884,732	1,024,309
Total OPEB Liability	3,655	22,454	26,109
Long-Term Debt	-	2,512,961	2,512,961
Total Liabilities	624,200	7,203,940	7,828,140
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferral	6,272	39,758	46,030
OPEB Related Deferral	206	1,262	1,468
Total Deferred Inflows of Resources	6,478	41,020	47,498
NET POSITION			
Net Investment in Capital Assets	6,842,711	27,014,619	33,857,330
Restricted for:			
Debt Service	677,267	140,707	817,974
Unrestricted	740,172	6,588,482	7,328,654
Total Net Position	\$ 8,260,150	\$ 33,743,808	\$ 42,003,958

See accompanying notes to the basic financial statements

PORT OF HOOD RIVER

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 485,571	\$ -	\$ -	\$ -
Bridge Repair and Replacement	1,091,151	-	265,399	-
Interest on Long Term Debt	32,956	-	-	-
Total Governmental Activities	<u>1,609,678</u>	<u>-</u>	<u>265,399</u>	<u>-</u>
Business Type Activities:				
Revenue Fund	5,352,457	7,654,122	-	1,302,234
Interest of Long Term Debt	194,051	-	-	-
Total Business Type Activities	<u>5,546,508</u>	<u>7,654,122</u>	<u>-</u>	<u>1,302,234</u>
Total Primary Government	<u>\$ 7,156,186</u>	<u>\$ 7,654,122</u>	<u>\$ 265,399</u>	<u>\$ 1,302,234</u>

General Revenues:

Property taxes
Earnings on investments
Miscellaneous
Transfers

Total general revenues

Change in net position

Net position beginning of year - restated

Net position end of year

See accompanying notes to the basic financial statements

Net Revenue (Expenses) and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (485,571)	\$ -	\$ (485,571)
(825,752)	-	(825,752)
<u>(32,956)</u>	<u>-</u>	<u>(32,956)</u>
<u>(1,344,279)</u>	<u>-</u>	<u>(1,344,279)</u>
-	3,603,899	3,603,899
<u>-</u>	<u>(194,051)</u>	<u>(194,051)</u>
<u>-</u>	<u>3,409,848</u>	<u>3,409,848</u>
<u>\$ (1,344,279)</u>	<u>\$ 3,409,848</u>	<u>\$ 2,065,569</u>
70,240	-	70,240
21,531	116,013	137,544
-	45,518	45,518
<u>1,793,077</u>	<u>(1,793,077)</u>	<u>-</u>
<u>1,884,848</u>	<u>(1,631,546)</u>	<u>253,302</u>
540,569	1,778,302	2,318,871
<u>7,719,581</u>	<u>31,965,506</u>	<u>39,685,087</u>
<u>\$ 8,260,150</u>	<u>\$ 33,743,808</u>	<u>\$ 42,003,958</u>

See accompanying notes to the basic financial statements

PORT OF HOOD RIVER

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018**

<u>ASSETS</u>	<u>General</u>	<u>Bridge Repair & Replacement</u>	<u>Total Governmental Funds</u>
<i>Current Assets</i>			
Cash and Investments	\$ 211,459	\$ 1,285,030	\$ 1,496,489
Cash with Fiscal Agent	298	-	298
Taxes Receivable	3,752	-	3,752
<i>Total Assets</i>	\$ 215,509	\$ 1,285,030	\$ 1,500,539
 <u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Revenue - Property Taxes	\$ 3,100	\$ -	\$ 3,100
<i>Total Deferred Inflows of Resources</i>	3,100	-	3,100
 <u>FUND BALANCES</u>			
Restricted for Debt Service	-	677,267	677,267
Committed for Bridge Repair & Replacement	-	607,763	607,763
Unassigned	212,409	-	212,409
<i>Total Fund Balances</i>	212,409	1,285,030	1,497,439
<i>Total Deferred Inflows of Resources and Fund Balances</i>	\$ 215,509	\$ 1,285,030	\$ 1,500,539

See accompanying notes to the basic financial statements

PORT OF HOOD RIVER

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
June 30, 2018

Total Fund Balances - Governmental Funds \$ 1,497,439

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Long-term liabilities, including bonds payables, are not due and payable in the current period and therefore are not reported in the funds. (480,000)

Deferred Outflows of Resources - Deferred Charge on Refunding 7,000

Deferred Outflows of Resources - Pension Related Deferral 67,574

Deferred Outflows of Resources - OPEB Related Deferral 4

Accrued Interest (968)

The proportionate share of the net pension liability is not reported as a liability in the governmental funds. (139,577)

The total OPEB liability is not reported as a liability in the governmental funds. (3,655)

Deferred Inflows of Resources - Pension Related Deferral (6,272)

Deferred Inflows of Resources - OPEB Related Deferral (206)

Revenues are unavailable in the Governmental Funds if received after 60 days, but accrued in the Statement of Activities as earned. 3,100

Capital assets, net used in Governmental Activities are not financial resources and therefore are not reported in the funds. 7,315,711

Net Position of Governmental Activities \$ 8,260,150

See accompanying notes to the basic financial statements

PORT OF HOOD RIVER

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2018

	<u>Funds</u>		<u>Total Governmental Funds</u>
	<u>General</u>	<u>Bridge Repair & Replacement</u>	
<u>REVENUES</u>			
Property taxes	\$ 69,984	\$ -	\$ 69,984
Income from grants	-	265,399	265,399
Interest	3,207	18,324	21,531
Miscellaneous income	-	-	-
<i>Total Revenues</i>	<u>73,191</u>	<u>283,723</u>	<u>356,914</u>
<u>EXPENDITURES</u>			
<i>Current</i>			
General government	459,775	-	459,775
Bridge repair and replacement	-	393,190	393,190
<i>Capital Outlay</i>			
Bridge repair and replacement	-	528,244	528,244
<i>Debt Service</i>			
Interest	-	27,267	27,267
Principal payment	-	650,000	650,000
<i>Total Expenditures</i>	<u>459,775</u>	<u>1,598,701</u>	<u>2,058,476</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	(386,584)	(1,314,978)	(1,701,562)
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers in	<u>459,775</u>	<u>1,333,302</u>	<u>1,793,077</u>
<i>Total Other Financing Sources (Uses)</i>	<u>459,775</u>	<u>1,333,302</u>	<u>1,793,077</u>
Net change in Fund Balances	73,191	18,324	91,515
FUND BALANCE - Beginning	<u>139,218</u>	<u>1,266,706</u>	<u>1,405,924</u>
FUND BALANCE - Ending	<u><u>\$ 212,409</u></u>	<u><u>\$ 1,285,030</u></u>	<u><u>\$ 1,497,439</u></u>

See accompanying notes to the basic financial statements

PORT OF HOOD RIVER

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018**

Net Change in Fund Balances - Total Government Funds \$ 91,515

Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Government Funds report Capital Outlays as Expenditures while Governmental
Activities report Depreciation Expense to allocate those Expenditures over the life
of the assets. This is the amount by which Depreciation exceeded Capital Outlays in
the current period.

Expenditures for Capital Assets	\$ 528,244	
Less: Current Year Depreciation	<u>(675,902)</u>	(147,658)

Under the modified accrual basis of accounting used in the governmental funds,
expenditures are not recognized for transactions that are not normally paid
with expendable available financial resources. In the statement of activities,
however, which is presented on the accrual basis of accounting, expenses and
liabilities are reported regardless of when financial resources are available. This
adjustment combines the net changes in liability balances.

Long Term Debt Principal Paid	650,000	
Accrued Interest Expense	<u>1,311</u>	651,311

Deferred Charge on Refunding - Amortization		(7,000)
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The pension expense represents the change in net pension asset (liability) from year
to year due to changes in total pension liability and the fair value of the pension
plan net position available to pay pension benefits. (47,451)

The OPEB expense represents the net change in total OPEB liability from year. (404)

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds.

Property Taxes		<u>256</u>
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Change in Net Position of Governmental Activities	\$	<u><u>540,569</u></u>
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PORT OF HOOD RIVER
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2018

ASSETS	REVENUE FUND
<i><u>Current Assets</u></i>	
Cash and investments	\$ 8,067,708
Accounts receivable (net of allowance for uncollectible)	581,362
Prepaid expenses	205,638
Notes receivable - due in one year	15,664
Inventory	23,239
<i><u>Non-Current Assets</u></i>	
Deposits	130,486
Notes receivable - due in more than one year	72,814
<i><u>Capital assets (net of accumulated depreciation)</u></i>	
Land	8,940,897
Land improvements	7,511,675
Buildings & improvements	10,280,045
Bridge	2,248,138
Equipment and vehicles	388,375
Construction in progress	2,094,378
TOTAL ASSETS	40,560,419
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferral	428,327
OPEB related deferral	22
TOTAL DEFERRED OUTFLOW OF RESOURCES	428,349
<i><u>Current Liabilities</u></i>	
Accounts payable and other current liabilities	1,127,240
Unearned revenue	221,059
Accrued compensated absences	63,818
Interest Payable	13,540
Toll tickets outstanding	48,580
Breezeby outstanding	373,628
FlexLease payable - due within one year	65,000
Note payable - due within one year	49,687
Taxable general revenue bond -due within one year	1,821,241
<i><u>Non-Current Liabilities</u></i>	
Net pension liability	884,732
Total OPEB liability	22,454
FlexLease payable - due in more than one year	635,000
Note payable - due in more than one year	1,877,961
TOTAL LIABILITIES	7,203,940
DEFERRED INFLOWS OF RESOURCES	
Pension related deferral	39,758
OPEB related deferral	1,262
TOTAL DEFERRED INFLOWS OF RESOURCES	41,020
NET POSITION	
Net investment in capital assets	27,014,619
Restricted for debt service	140,707
Unrestricted	6,588,482
TOTAL NET POSITION	\$ 33,743,808

See accompanying notes to the basic financial statements

PORT OF HOOD RIVER

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - PROPRIETARY FUND**

For the Year Ended June 30, 2018

	<u>REVENUE FUND</u>
OPERATING REVENUES	
Bridge Tolls	\$ 4,953,775
Leases, rents and fees	2,700,347
Total Operating Revenues	<u>7,654,122</u>
OPERATING EXPENSES	
Salaries and wages	1,306,775
Payroll taxes and benefits	546,886
Utilities including communication costs	542,425
Professional services including legal	327,532
Insurance	340,934
Property taxes	187,988
Maintenance and supplies	293,064
Other operating expenses	460,209
Depreciation expense	1,346,644
Total Operating Expenses	<u>5,352,457</u>
Operating Income	<u>2,301,665</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	116,013
Income from other sources and grants	45,518
Interest expense	(194,051)
Total Non-operating Revenues (Expenses)	<u>(32,520)</u>
Income before Capital Contributions and Operating Transfers	2,269,145
CAPITAL GRANTS AND TRANSFERS	
Capital grants and contributions	1,302,234
Operating transfers out	(1,793,077)
Total Capital Contributions and Transfers	<u>(490,843)</u>
Change in net position	1,778,302
Total Net Position - Beginning restated	<u>31,965,506</u>
Total Net Position - Ending	<u>\$ 33,743,808</u>

See accompanying notes to the basic financial statements

PORT OF HOOD RIVER
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2018

	REVENUE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 7,899,350
Cash paid to suppliers	(1,318,463)
Cash paid to employees and benefits	(1,824,667)
Net Cash Provided (Used) by Operating Activities	4,756,220
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES	
Income from other sources and grants	45,518
Transfers to other funds	(1,793,077)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,747,559)
CASH FLOWS FROM CAPITAL FINANCIAL ACTIVITIES	
Principal received on notes	351,594
Capital grant and contribution monies received	1,302,234
Interest paid on capital debt	(194,051)
Principal payment on capital debt	(186,178)
Acquisition and construction of capital assets	(3,090,224)
Net Cash Provided (Used) for Capital and Related Financing Activities	(1,816,625)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	116,013
Net Cash Provided (Used) for Investing Activities	116,013
Net Increase (Decrease) in Cash	1,308,049
CASH AND EQUIVALENTS - BEGINNING OF YEAR	6,759,659
CASH AND EQUIVALENTS - END OF YEAR	\$ 8,067,708
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED BY OPERATIONS)	
Operating Income	\$ 2,301,665
Adjustments to reconcile operating income to net cash:	
Depreciation	1,346,644
(Increase) Decrease in:	
Accounts Receivable	(85,527)
Prepaid Expenses	(15,787)
Inventory	(962)
Decrease (Increase) in:	
Accounts Payable	834,651
Accrued Liabilities	13,247
Interest Payable	(550)
Pension Items	14,507
OPEB Items	1,240
Unearned Revenues	347,092
Net Cash Provided (Used) by Operating Activities	\$ 4,756,220

See accompanying notes to the basic financial statements

PORT OF HOOD RIVER
Notes to Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the Port of Hood River, Oregon, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting policies are described below.

Port of Hood River (Port) is a municipal corporation governed by an elected board of commissioners consisting of a president, vice-president, secretary, treasurer, and a fifth commissioner. As required by generally accepted accounting principles in the United States of America, all activities of the Port have been included in these financial statements.

Component units, as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14, 39 and 61, are separate organizations which are included in the reporting entity because of the significance of their operational or financial relationships with the Port. There are no component units reported herein.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on bridge toll revenues and lease income.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include:

- 1) Charges to customers or applicants for goods, services, or privileges provided,
- 2) Operating grants and contributions, and
- 3) Capital grants and contributions, including special assessments.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

PORT OF HOOD RIVER
Notes to Financial Statements
June 30, 2018

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Port considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. Property taxes associated with the current fiscal period are recognized as revenues in the current fiscal period if collected within sixty days after year end.

D. Budgetary Basis of Accounting

While the financial position, results of operations, and changes in fund balance or net position is reported on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis of accounting differs from generally accepted accounting principles. The budgetary statements provided as part of required supplementary information and supplementary information elsewhere in this report are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The primary differences between the budgetary basis and GAAP are that capital outlay is expensed when purchased, depreciation and amortization expenses are not reported, property taxes are recognized as revenue when received instead of when levied, inventory is expensed as purchased, and proceeds of long-term borrowing are recognized as an “other financing source” and principal paid is considered an expenditure when paid.

The Port reports the following major governmental funds:

The *General Fund* is the Port’s primary administration fund. Financial transactions not specifically related to the Port’s other funds are accounted for therein. The major revenue sources are property taxes, interest income and revenues transferred from the Port’s enterprise fund.

PORT OF HOOD RIVER
Notes to Financial Statements
June 30, 2018

The *Bridge Repair and Replacement Fund* is the Port's special revenue fund. This fund accounts for the revenues and expenditures related to the bridge capital improvements that are made to maintain, extend or replace its structures, surfaces, and integrity of its components into the future. It is financed by debt and transfers received from a portion of the bridge toll revenues and by interest income earned from within the fund. In 2017-18, the adopted budget resolution separated the Fund into two separate funds: the Bridge Repair and Bridge Replacement Funds. However, the Port eventually determined that it was not necessary to have separate funds, so the appropriations were combined by a budget transfer.

The Port reports the following major enterprise fund:

The *Revenue Fund* is the Port's enterprise fund. This fund was established to account for the revenues and expenses of the Port's operating activities. The primary sources of revenue are the bridge tolls, lease rentals, fees, grant proceeds, and proceeds from the sale of any assets.

Proprietary funds distinguish operating revenues and expenses from non-operating items. The principal operating revenues of the enterprise fund are bridge tolls, lease rentals and fees, and operating grants. Operating expenses for the enterprise fund include administrative expenses, maintenance, insurance, and depreciation on capital assets. All other revenues and expenses are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources for their intended purposes first then unrestricted resources as they are needed. Within unrestricted resources, committed and assigned are considered spent (if available) for their intended purposes before unassigned amounts.

E. Cash and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Fair Value Inputs and Methodologies and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Level 1 – unadjusted price quotations in active markets/exchanges for identical assets or liabilities that each Fund has the ability to access, or

PORT OF HOOD RIVER
Notes to Financial Statements
June 30, 2018

Level 2 – other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs), or

Level 3 – unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund’s own assumptions used in determining the fair value of investments).

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgement exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

F. Estimates

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

G. Budgets

A budget is prepared for all funds, in accordance with the modified accrual basis of accounting and legal requirements set forth in the Oregon Local Budget Law. The budget process begins in each fiscal year with the establishment of the Budget Committee. Recommendations are developed through late winter with the Budget Committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The Board of Commissioners may amend the budget prior to adoption; however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30th.

Expenditure budgets are appropriated at the following levels for each fund:

LEVEL OF CONTROL

Personnel Services
Materials and Services
Capital Outlay

Interfund Transfers
Debt Service
Operating Contingency

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Appropriations lapse at the fiscal year-end. Management may amend line items in the budget without Commissioner approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Commissioners approve them due to a need which exists which was not determined at the time the budget was adopted.

Expenditures of the various funds were within authorized appropriations for the year ended June 30, 2018, except for Personnel Services in the Bridge Repair and Replacement Fund by \$66,959. This was due to hiring staff for the bridge replacement effort rather than consultants.

H. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position or equity

1. Deposits and investments – restricted and unrestricted

The Port's cash and cash equivalents are considered to be cash on hand, checking deposits, short-term investments with original maturities of three months or less from the date of acquisition and investments in securities with existing maturities of eight years or less. Investments are recorded at fair value when a market price is available. Assets whose use is restricted to specific purposes by state law or bond indenture are segregated on statement of net position.

2. Receivables and payables

Property tax receivables are deemed to be substantially collectable or recoverable through foreclosure. Accordingly, no allowance for doubtful accounts is deemed necessary with regard to property taxes. All other receivables are shown net of an allowance for uncollectable.

Property taxes are levied and become a lien as of July 1. Property taxes are assessed in October and tax payments are due November 15th. Under the partial payment schedule, the first one-third of taxes are due November 15th, the second one-third on February 15th, and the remaining one-third on May 15th. A three percent discount is allowed if full payment is made by November 15th, and a two percent discount is allowed if two-thirds payment is made by November 15th. Taxes become delinquent if not paid by the due date and interest accrues after each trimester at a rate of one percent per month. Property foreclosure proceedings are initiated four years after the tax due date.

Accounts receivables accordingly, do have an allowance for doubtful accounts that is monitored based upon the payment trends of accounts and their business's ability to pay. If an account depicts financial stress, an agreement is normally renegotiated to keep a past due balance from becoming uncollectible.

3. Inventories

The Port's inventory at year end is stated at cost, using the first in first out method.

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4. *Prepaid Expenses*

Certain payments to vendors reflect costs applicable to a future accounting period(s) and are recorded as prepaid items in both government-wide and fund financial statements.

5. *Capital Assets*

In accordance with GASB Statement No. 34, the Port has reported all capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges), in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Port as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The useful lives generally range from 5 to 40 years for land and building improvements, 20 to 60 years for bridge and related improvements, and 5 to 15 years for equipment. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for land, buildings, and improvements are capitalized as projects are purchased or constructed. Property, plant and equipment of the Port are depreciated using the straight-line method over the estimated useful life of the asset.

6. *Compensated Absences*

It is the Port's policy to permit employees to accumulate earned but unused vacation leave, which will be paid to employees upon separation from service. All vacation pay is accrued when incurred in the government-wide financial statements and in the proprietary fund financial statements. The Port allows for a maximum of 240 hours of vacation to be carried forward at the end of a calendar year.

7. *Non-current liabilities*

In the government-wide financial statements long-term debt, and notes payable are reported as long-term liabilities in the Port's statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums, or discounts at the time of bond issuance and are either reported as other financing sources or uses. The face amount of debt issued is reported as other financing sources.

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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8. *Net position & fund balance*

The government-wide statement of net position reports \$817,974 of restricted net position which is restricted for the Port's future bond debt service. In the fund financial statements, fund balance is reported in a classification that is comprised of a hierarchy based on the extent to which the Port is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. The classifications of fund balances are Nonspendable, Restricted, Committed, Assigned and Unassigned. Nonspendable and Restricted fund balances represent the restricted classifications and Committed, Assigned, and Unassigned represent the unrestricted classifications.

Nonspendable fund balance includes amounts that cannot be spent because either 1) it is not in a spendable form, such as inventory or prepaid items or 2) legally or contractually required to be maintained intact.

Restricted fund balance has externally enforceable limitations imposed by creditors, grantors, contributors, laws and regulations of other governments, or laws through constitutional provisions or enabling legislation.

Committed fund balance is self-imposed limitations at the highest level of decision making authority (Board of Commissioners). The Board of Commissioners approval is required to commit resources or to rescind the commitment. This is done by vote and/or passing a resolution.

Assigned fund balance represents limitations imposed by management and/or Board of Commissioners that do not meet the criteria to be classified as restricted or committed. Assigned fund balance requests are submitted to the Executive Director and/or the Board of Commissioners for approval.

Unassigned fund balance represents the residual net resources in excess of the other classifications. The general fund is the only fund that can report a positive unassigned fund balance and any governmental fund can report a negative unassigned fund balance.

It is the policy of the Port that resources are to be expended in the following order: Restricted, Committed, Assigned, and Unassigned.

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9. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualify for reporting in this category. The first one is the deferred charge on refunding in the government-wide statement of position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunded debt. In addition to the deferred charge, deferrals related to the PERS pension plan and the Port's OPEB are also reported as deferred outflows on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item which arises only under the modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported in only in the governmental funds balance sheet. The governmental funds report unavailable revenue from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The Port also has two items which arise under full accrual accounting in the Statement of Net Position. The Statement of Net Position also reports deferrals related to the PERS pension plan and the Port's OPEB.

10. *Retirement Plans*

Substantially all of the Port's employees are participants in the State of Oregon Public Employees Retirement System (PERS). For the purpose of measuring the net position liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of PERS and additions to, deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. GASB Statements 68 and 71 have been implemented as of July 1, 2014.

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NOTE 2 – DETAILED NOTES ON ALL FUNDS

A. Cash and investments

Deposits with financial institutions

The Port's deposits are held in a qualified bank depository meeting the requirements specified by the Oregon State Treasurer's office, as well as the Port's investment policy. Being a qualified bank depository provides an additional level of collateral to mitigate the level of custodial risk that may be present when deposits exceed the \$250,000 level of insured funds by the Federal Depository Insurance Corporation (FDIC). The level of custodial risk relates to the level of insurance a financial institution will provide if financial difficulties were to occur that would affect Port deposits. The amount of collateral a financial institution will pledge as security for the deposits and the level of creditworthiness of the financial institution.

The bank balance as of June 30, 2018 maintained by the Port was \$284,998. At various times during the fiscal year, bank balances exceeded the FDIC limit but any funds in excess of the FDIC insured limit were covered by collateral pledged by qualified depositories. These depositories are qualified by the Oregon State Treasurer's office.

	Balance	
	Book	Bank
Checking Accounts - General	\$ 120,229	\$ 283,998
Checking Accounts - Payroll	908	1,000
	\$ 121,137	\$ 284,998

Investments

Investments in the Local Government Investment Pool (LGIP) are included in the Oregon Short-Term Fund, which is an external investment pool that is not a 2a-7-like external investment pool, and is not registered with the U.S. Securities and Exchange Commission as an investment company. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund's compliance with all portfolio guidelines can be found in their annual report when issued.

The LGIP seeks to exchange shares at \$1.00 per share; an investment in the LGIP is neither insured nor guaranteed by the FDIC or any other government agency. Although the LGIP seeks to maintain the value of share investments at \$1.00 per share, it is possible to lose money by investing in the pool. We intend to measure these investments at book value since it approximates fair value. The

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pool is comprised of a variety of investments. These investments are characterized as a level 2 fair value measurement in the Oregon Short Term Fund's audited financial report. Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. The audited financial reports of the Oregon Short Term Fund can be found here:

[http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)

If the link has expired please contact the Oregon Short Term Fund directly.

At June 30, 2018 the Port held most of its investments in the LGIP having a carrying amount of \$7,557,850 which approximates fair value. The Port held other agency and energy investments worth \$1,878,971.

Current investment ratings and weighted average maturities depicted as follows:

Investment Type	Credit Quality	Type of Issuer	Fair Value Activity Level	Fair Value	Weighted Avg to Maturity in Years
LGIP	Not Rated	80%	Quoted Market Price, Level 1	\$ 7,557,850	
General Electric	S&P AA-	2%	Quoted Market Price, Level 1	207,934	2.21
Farmer Mac	S&P AA+	2%	Quoted Market Price, Level 1	196,471	2.46
Exxon Mobil	S&P AA+	2%	Quoted Market Price, Level 1	197,394	2.72
Chevron	S&P AA-	2%	Quoted Market Price, Level 1	198,489	1.98
Royal Bank of Canada	Moody Aa2	2%	Quoted Market Price, Level 1	200,049	2.23
Portland OR Urban Renewal	Moody Aa3	2%	Quoted Market Price, Level 1	181,162	6.96
Energy NW Washington Electric	Moody Aa1	2%	Quoted Market Price, Level 1	191,387	1.00
Port of Morrow	Moody Aa1	2%	Quoted Market Price, Level 1	190,718	4.17
Port of Morrow	Moody Aa1	2%	Quoted Market Price, Level 1	200,704	6.17
Port of Camas/Washougal	S&P AA-	1%	Quoted Market Price, Level 1	114,663	1.92
		<u>100%</u>		<u>\$ 9,436,821</u>	

As of June 30, 2018 the Port held the following cash and investments:

	General Fund	Special Revenue Fund	Enterprise Fund	Total Fair Value
Cash on Hand	\$ -	\$ -	\$ 1,875	\$ 1,875
Checking Deposits	-	-	121,137	121,137
Cash with Fiscal Agents	298	-	4,364	4,662
Local Government Investment Pool	211,459	1,285,030	6,061,361	7,557,850
Investments (at fair value)	-	-	1,878,971	1,878,971
Total Cash & Investments	<u>\$ 211,757</u>	<u>\$ 1,285,030</u>	<u>\$ 8,067,708</u>	<u>\$ 9,564,495</u>

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The cash and investments are reflected in the financial statements as follows:

Cash & Investments	\$ 211,757	\$ 607,763	\$ 7,830,114	\$ 8,649,634
Cash & Investments - restricted	<u>-</u>	<u>677,267</u>	<u>237,594</u>	<u>914,861</u>
Total Cash & Investments	<u>\$ 211,757</u>	<u>\$ 1,285,030</u>	<u>\$ 8,067,708</u>	<u>\$ 9,564,495</u>

Fair value of financial assets and liabilities:

The Port estimates the fair value of its monetary assets and liabilities based upon the existing interest rates related to such assets and liabilities compared to the current market rates of interest for instruments of a similar nature and degree of risk. The Port estimates that all of its monetary assets and liabilities approximate fair value as of June 30, 2018.

Custodial credit risk

Custodial credit risk is the risk that in the event of failure of the bank and/or counterparty, the Port will not be able to recover the value of its deposit and investments or collateral securities in possession of an outside party.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The State Treasurer's investment pool account is unrated as to credit risk.

Interest rate risk

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

Concentration of credit risk

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. The Port has a formal policy that places a limit on the amount that it may invest in any one issuer and mitigates the other types of investment risk through analysis of the securities it will purchase that will align with its Investment policy both in maturity, investment quality, capital needs and safekeeping. The LGIP investment represents 80% of the Port's total investments.

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B. Receivables

Accounts receivables consist of amounts due for grants, leases, rents, taxes and other fees. The balances for governmental and business-type activities on June 30, 2018 are as follows:

	Type of Activities		
	Governmental	Business	Total
Accounts Receivables - Trade	\$ -	\$ 182,086	\$ 182,086
Grants Receivables	-	433,888	433,888
Taxes Receivable	3,752	-	3,752
Less: Allowance for doubtful accounts	-	(34,612)	(34,612)
 Net Accounts Receivable	 \$ 3,752	 \$ 581,362	 \$ 585,114

Notes receivable due to the Port at June 30, 2018 are summarized below:

PfrieM Brewery – The mission of the Port of Hood River has many attributes, but primarily it is to stimulate job growth in the community. As a landlord of industrial property, the Port markets itself to tenants such as PfrieM Brewing Company (PfrieM). PfrieM was a startup brewer in need of light industrial space to brew a premium beer that would promote jobs in the community. The original note receivable negotiated with PfrieM was \$50,976 but was later adjusted to \$47,765. This was due to the delay in construction consequently allowing occupancy. The note receivable is at a 4% rate of interest with a monthly payment of \$496 for a 10 year period with 3 years and 7 months remaining.

In November 2013, a second note receivable of \$106,855 was approved for a 10 year payback at a 5% rate of interest. This note receivable was for a capital expansion of the current facility they are using. Both notes were consolidated on February 1, 2015 into one payment stream with the original amortization schedule and terms. The balance on the note receivable with PfrieM at June 30, 2018 is \$88,478.

	Notes Receivable					
	Beginning Balance	Issued	Matured and Redeemed	Outstanding Balance	Due in One Year	
Urban Renewal Agency Note - Waterfront	\$ 336,648	\$ -	\$ 336,648	\$ -	\$ -	
PfrieM Brewery - Halyard Building	103,424	-	14,946	88,478	15,664	
	<u>\$ 440,072</u>	<u>\$ -</u>	<u>\$ 351,593</u>	<u>\$ 88,478</u>	<u>\$ 15,664</u>	

The Urban Renewal Agency Note was paid off during this fiscal year.

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Notes to Financial Statements
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C. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 428,339	\$ 519,974	\$ 15,216	\$ 933,097
<i>Total capital assets, not being depreciated</i>	<u>428,339</u>	<u>519,974</u>	<u>15,216</u>	<u>933,097</u>
<i>Capital assets being depreciated:</i>				
Bridge & improvements	14,014,244	15,216	-	14,029,460
Electronic toll equipment	173,937	8,270	-	182,207
Machinery & equipment	7,000	-	-	7,000
<i>Total capital assets being depreciated</i>	<u>14,195,182</u>	<u>23,486</u>	<u>-</u>	<u>14,218,668</u>
<i>Less: Accumulated depreciation for:</i>				
Bridge & improvements	(6,993,461)	(668,655)	-	(7,662,116)
Electronic toll equipment	(166,691)	(7,247)	-	(173,938)
<i>Total accumulated depreciation</i>	<u>(7,160,152)</u>	<u>(675,902)</u>	<u>-</u>	<u>(7,836,054)</u>
<i>Total capital assets being depreciated, net</i>	<u>7,035,030</u>	<u>(652,416)</u>	<u>-</u>	<u>6,382,614</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 7,463,369</u>	<u>\$ (132,442)</u>	<u>\$ 15,216</u>	<u>\$ 7,315,711</u>

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Capital asset activity for business-type activities for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 8,940,897	\$ -	\$ -	\$ 8,940,897
Construction in progress	1,497,675	3,041,162	2,444,459	2,094,378
<i>Total capital assets, not being depreciated</i>	<u>10,438,572</u>	<u>3,041,162</u>	<u>2,444,459</u>	<u>11,035,275</u>
<i>Capital assets being depreciated:</i>				
Land improvements	8,322,689	2,097,930	-	10,420,619
Buildings & improvements	19,520,680	82,432	-	19,603,112
Bridge & improvements	8,953,952	154,819	-	9,108,771
Equipment - office	187,919	109,278	-	297,197
Equipment - operations	361,599	49,062	-	410,661
Vehicles	242,611	-	-	242,611
<i>Total capital assets being depreciated</i>	<u>37,589,450</u>	<u>2,493,521</u>	<u>-</u>	<u>40,082,971</u>
<i>Less: Accumulated depreciation for:</i>				
Land improvements	(2,546,806)	(362,138)	-	(2,908,944)
Buildings & improvements	(8,705,074)	(617,993)	-	(9,323,067)
Bridge & improvements	(6,558,712)	(301,921)	-	(6,860,633)
Equipment - office	(42,799)	(24,993)	-	(67,792)
Equipment - operations	(322,237)	(6,207)	-	(328,444)
Vehicles	(132,466)	(33,392)	-	(165,858)
<i>Total accumulated depreciation</i>	<u>(18,308,094)</u>	<u>(1,346,644)</u>	<u>-</u>	<u>(19,654,738)</u>
<i>Total capital assets being depreciated, net</i>	<u>19,281,356</u>	<u>1,146,877</u>	<u>-</u>	<u>20,428,233</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 29,719,928</u>	<u>\$ 4,188,039</u>	<u>\$ 2,444,459</u>	<u>\$ 31,463,508</u>

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Notes to Financial Statements
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Depreciation using the straight-line method was charged to functions/programs of the primary government as follows:

	<i>Governmental Activities</i>	<i>Business-Type Activities</i>
Bridge Repair and Replacement Fund	\$ 675,902	\$ -
Revenue Fund	-	1,346,644
 Total Depreciation Expense	 \$ 675,902	 \$ 1,346,644

The Port has various leased properties all accounted for as operating leases. Costs of leased properties (also included in the above capital asset detail) are as follows:

Properties	Land	Land Improvements	Buildings	Total
Industrial Buildings	\$ 4,954,436	\$ 213,620	\$ 13,421,543	\$ 18,589,599
Commercial Buildings	196,337	57,077	2,119,012	2,372,426
Airport	1,362,814	7,778,519	1,340,218	10,481,551
Waterfront	2,391,910	2,282,345	923,781	5,598,036
Marina	35,400	89,058	1,798,558	1,923,016
Total Cost	8,940,897	10,420,619	19,603,112	38,964,628
Accumulated Depreciation	-	(2,908,944)	(9,323,067)	(12,232,011)
Total Cost, net	\$ 8,940,897	\$ 7,511,675	\$ 10,280,045	\$ 26,732,617

Minimum future rentals receivable on non-cancelable operating leases for the five succeeding fiscal years and thereafter are as follows:

Year Ended June 30,	Minimum Future Rentals
2019	\$ 1,443,054
2020	1,308,677
2021	1,215,888
2022	920,444
2023	871,896
 Total	 \$ 5,759,959

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Notes to Financial Statements
June 30, 2018

D. Interfund receivables, payables, and transfers

The composition of interfund transfers to the General and Bridge Repair and Replacement fund to cover their fund expenses at June 30, 2018, are as follows:

	Transfers	
	In	Out
General fund	\$ 459,775	
Bridge repair and replacement fund	1,333,302	
Revenue fund		\$ 1,793,077
 Total	\$ 1,793,077	\$ 1,793,077

E. Long-term debt

In the following table, long-term debt information is presented with respect to governmental and business-type activities. The table below presents current year changes in those obligations and the current portions due for each issue. Each debt issue is defined below as well as their annual debt service requirements to maturity. The long-term debt activity for the year ended June 30, 2018 is as follows:

<u>Governmental Activities</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 1,130,000	\$ -	\$ 650,000	\$ 480,000	\$ 480,000
<i>Total Governmental Activities</i>	1,130,000	-	650,000	480,000	480,000
 <u>Business-Type Activities</u>					
Note Payable- LJS Manufacturing	1,974,917	-	47,269	1,927,648	49,687
Flexlease - Series 2010E	180,000	-	20,000	160,000	20,000
Flexlease - Series 2013B	585,000	-	45,000	540,000	45,000
Taxable Revenue Bonds - Series 2015	1,895,150	-	73,910	1,821,241	1,821,241
<i>Total Business-Type Activities</i>	4,635,067	-	186,179	4,448,889	1,935,928
Total	\$ 5,765,067	\$ -	\$ 836,179	\$ 4,928,889	\$ 2,415,928

General Revenue Bonds – Governmental Activities

The Port issued general revenue bonds to provide funds for improvements to the Port's toll bridge, which included the bridge redecking, upgrading the Bridge's toll plaza and other improvements. The original amount of the general revenue bonds issued in August, 2003 was \$8,000,000. In addition to the

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bond proceeds, the Port has contributed existing funds from reserves for capital improvements to the bridge. In October 2013, the Port issued a General Revenue Refunding Bond, Series 2013 in the amount of \$3,730,000 which refunded the 2003 General Revenue bonds. The Port's toll revenues are expected to provide sufficient funds to pay the debt service on the 2013 General Revenue Refunding bonds.

General revenue bonds are direct obligations and pledge the gross revenues from Port facilities, including earnings on amounts on gross revenues, less any grants, sale of assets, and ad valorem taxes of the Port. The refunding bonds were issued over the remaining 5 years of the original 15-year serial bond life. The interest rates on the bonds are fixed at 2.38%.

Annual debt service requirements to maturity for the general revenue bonds are as follows:

	Governmental Activities		
Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 480,000	\$ 5,807	\$ 485,807
Total	\$ 480,000	\$ 5,809	\$ 485,807

The interest expense on the statement of activities for the general revenue bonds for the fiscal year ended June 30, 2018 is \$25,957.

Flexlease Payable – Business-Type Activity

The Port has entered into two financing agreements with the Special Districts Association of Oregon Flexlease Program to finance the expansion of the Port's marina and to upgrade its electrical infrastructure with associated dock improvements. The Flexlease program issued Certificates of Participation Series 2010E and 2013B, totaling \$290,000 and \$770,000, respectively. The interest rates for the 2010E and 2013B series are fixed for each series and range from 1.5% to 4.4% and 2.0% to 3.90%, respectively. Revenues from the expanded and improved marina are expected to fund the debt service for each series.

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Annual debt service requirements to maturity of the 2010E Flexlease payable is as follows:

<u>Year Ending June 30,</u>	<u>Flexlease Series 2010E - Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 20,000	\$ 6,435	\$ 26,435
2020	20,000	5,670	25,670
2021	20,000	4,840	24,840
2022	25,000	3,850	28,850
2023	25,000	2,750	27,750
2024-2027	50,000	2,200	52,200
Total	<u>\$ 160,000</u>	<u>\$ 25,745</u>	<u>\$ 185,745</u>

Interest expense during the current fiscal year on the 2010E series Flexlease Loan is \$7,155.

Annual debt service requirements for the 2013B Flexlease loan is as follows:

<u>Year Ending June 30,</u>	<u>Flexlease Series 2013B - Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 45,000	\$ 21,624	\$ 66,624
2020	45,000	20,206	65,206
2021	50,000	18,588	68,588
2022	50,000	16,725	66,725
2023	50,000	14,625	64,625
2024-2028	300,000	35,100	335,100
	<u>\$ 540,000</u>	<u>\$ 126,868</u>	<u>\$ 666,868</u>

Interest expense during the current fiscal year on the 2013B series Flexlease Loan is \$22,918.

Note Payable – Business-Type Activity

The Port has an installment note payable with LJS Manufacturing, Inc. for the purchase of a commercial building at the Port's waterfront industrial park. The note is secured by the commercial building. The original amount of the note was \$2,250,000 and interest is fixed at 5%. Monthly payments of \$12,079 are due until May 21, 2020, when the entire unpaid balance is due.

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The annual debt service requirement through to maturity with regard to the note payable is as follows:

<u>Year Ending June 30,</u>	<u>Note Payable - Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 49,687	\$ 95,255	\$ 144,942
2020	1,877,961	85,087	1,963,047
Total	<u>\$ 1,927,648</u>	<u>\$ 180,341</u>	<u>\$ 2,107,989</u>

Interest expense during the current fiscal year on the LJS note payable is \$97,773.

Taxable General Revenue Bond – Business-Type Activity

The Port acquired property at the Hanel Lower Mills site which is a light industrial property. The Port intends to develop this site over the next few years. In acquiring the property, the Port received a grant from the Department of Environmental Quality to clean up the site for future development. The bond is secured by the net operating revenues of the Port. The original bond amount is \$2,000,000 with an interest rate at 3.51%. Semi-annual payments of \$70,354 are due April 15th and October 15th until October 15, 2018, when the final payment of \$1,853,735 is due. The annual debt service requirement through to maturity with regard to this taxable bond is as follows:

<u>Year Ending June 30,</u>	<u>Taxable General Revenue Bond</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 1,821,241	\$ 32,494	\$ 1,853,735
Total	<u>\$ 1,821,241</u>	<u>\$ 32,494</u>	<u>\$ 1,853,735</u>

Interest expense during the current fiscal year on the taxable bond payable is \$66,245.

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NOTE 3 – OTHER INFORMATION

A. Oregon Public Employees Retirement System (PERS)

Plan Description – The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employer defined benefit plan. All benefits of the system are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. Oregon PERS produces an independently audited Comprehensive Annual Financial Report which can be found at:

<http://www.oregon.gov/PERS/Documents/Financial/CAFR/2017-CAFR.pdf>

If the link is expired please contact Oregon PERS for this information.

- a. **PERS Pension (Chapter 238).** The ORS Chapter 238 Defined Benefit Plan is closed to new members hired on or after August 29, 2003.
 - i) Pension Benefits. The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees and 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated either by a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefits results. A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier 1 general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier 2 members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.
 - ii) Death Benefits. Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided on or more of the following contributions are met:
 - member was employed by PERS employer at the time of death,
 - member died within 120 days after termination of PERS covered employment,
 - member died as a result of injury sustained while employed in a PERS-covered job, or
 - member was on an official leave of absence from a PERS-covered job at the time of death.
 - iii) Disability Benefits. A member with 10 or more years of creditable service who becomes disable from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon

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qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

- iv) **Benefit Changes After Retirement.** Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.

- b) **OPSRP Pension Program (OPSRP DB).** The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

- i) **Pension Benefits.** This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

- ii) **Death Benefits.** Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.
- iii) **Disability Benefits.** A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.
- iv) **Benefit Changes After Retirement.** Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.

Contributions – PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2015 actuarial valuation, which became effective July 1, 2017. The state of Oregon and certain schools, community colleges, and political subdivision

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have made unfunded actuarial liability payments and their rates have been reduced. Employer contributions for the year ended June 30, 2018 were approximately \$170,841, excluding amounts to fund employer specific liabilities. In addition approximately \$75,980 in employee contributions were paid or picked up by the Port in fiscal 2018.

At June 30, 2018, the Port reported a net pension liability of \$1,024,309 for its proportionate share of the net pension liability. The pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated December 31, 2015. The Port's proportion of the net pension liability was based on a projection of the Port's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. As of the measurement date of June 30, 2017, the Port's proportion was .0076 percent. Pension expense for the year ended June 30, 2018 was \$60,718.

The rates in effect for the year ended June 30, 2018 were:

- (1) Tier 1/Tier 2 – 16.39%
- (2) OPSRP general services – 11.47%

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 49,536	\$ -
Changes in assumptions	186,713	-
Net difference between projected and actual earnings on investments	10,553	-
Changes in proportionate share	-	41,887
Differences between employer contributions and employer's proportionate share of system contributions	78,258	4,143
Total (prior to post-MD contributions)	325,060	46,030
Contributions subsequent to the MD	170,841	-
Total	<u>\$ 495,901</u>	<u>\$ 46,030</u>

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Amounts reported as deferred outflows or inflow of resources related to pension will be recognized in pension expense as follows:

Year ending June 30,	Amount
2019	\$ 55,622
2020	138,649
2021	98,441
2022	(16,887)
2023	3,205
Thereafter	-
Total	\$ 279,030

All assumptions, methods and plan provisions used in these calculations are described in the Oregon PERS system-wide GASB 68 reporting summary dated February 16, 2018. Oregon PERS produces an independently audited CAFR which can be found at:

<https://www.oregon.gov/pers/documents/financials/CAFR/2017-CAFR.pdf>

Actuarial Valuations – The employer contribution rates effective July 1, 2017 through June 30, 2019, were set using the entry age normal actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (estimated amount necessary to finance benefits earned by employees during the current service year), (2) an amount for the amortization unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an actuarially determined amount for funding a disability benefit component, and (c) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

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Actuarial Methods and Assumptions:

Valuation date	December 31, 2015 rolled forward to June 30, 2017 measurement date
Experience Study Report	2014, Published September 23, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years
Asset valuation method	Market value of assets
Inflation rate	2.5 percent
Investment rate of return	7.5 percent
Projected salary increase	3.5 percent overall payroll growth
Cost of Living Adjustment	Blend of 2.0 percent COLA and graded COLA (1.25/0.15 percent) in accordance with <i>Moro</i> decision, blend based on service
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (70% for males and 95% for females) of the RP-2000 sex distinct, generational per scale BB, disabled mortality rate.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The method and assumptions shown are based on the 2015 Experience Study which is reviewed for the four-year period ending December 31, 2015.

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Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Assumed Asset Allocation:

Asset Class/Strategy	Low Range	High Range	OIC Target
Cash	0.0%	3.0%	0.0%
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Private Equity	14.0%	21.0%	17.5%
Real Estate	9.5%	15.5%	12.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			100%

Source: June 30, 2017 PERS CAFR; p. 92)

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

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Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-term Bonds	8.00%	3.61%
Intermediate-Term Bonds	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.31%	6.99%
Micro Cap US Equities	1.31%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Foreign Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equity	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
<i>Assumed Inflation - Mean</i>		<i>2.50%</i>

Source: June 30, 2017 PERS CAFR; p. 69)

Sensitivity of the Port's proportionate share of the net pension liability to changes in the discount rate – The following presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

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	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Port's proportionate share of the net pension liability	\$ 1,745,610	\$ 1,024,309	\$ 421,168

Changes Subsequent to the Measurement Date

As described above, GASB 67 and GASB 68 require the Total Pension Liability to be determined based on the benefit terms in effect at the Measurement Date. Any changes to benefit terms that occurs after that date are reflected in amounts reported for the subsequent Measurement Date. However, Paragraph 80f of GASB 68 requires employers to briefly describe any changes between the Measurement Date and the employer's reporting date that are expected to have a significant effect on the employer's share of the collective Net Pension Liability, along with an estimate of the resulting change, if available.

At its July 28, 2017 meeting, the PERS Board lowered the assumed rate to 7.2 percent. For member transactions, this rate will take effect January 1, 2018. The current assumed rate is 7.5 percent and has been in effect for member transactions since January 1, 2016.

Deferred Compensation Plan

A deferred compensation plan is available to employees wherein they may execute an individual agreement with the Port for amounts earned by them to not be paid until a future date when certain circumstances are met. These circumstances are: termination by reason of death, disability, resignation, or retirement. Payment to the employee will be made over a period not to exceed 15 years. The deferred compensation plan is one which is authorized under IRC Section 457 and has been approved in its specifics by a private ruling from the Internal Revenue Service. The assets of the plan are held by the administrator for the sole benefit of the plan participants and are not considered assets or liabilities of the Port.

OPSRP Individual Account Program (OPSRP IAP)

Plan Description – Employees of the Port are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003. Chapter 238A created the Oregon Public Service Retirement Plan (OPSRP), which consists of the Defined Benefit Pension Program and the Individual Account Program (IAP). Membership includes public employees hired on or after August

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29, 2003. PERS members retain their existing defined benefit plan accounts, but member contributions are deposited into the member's IAP account. OPSRP is part of OPERS, and is administered by the OPERS Board.

Pension Benefits – Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies. Upon retirement, a member of the OPSRP IAP may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits – Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Contributions – Employees of the Port pay six (6) percent of their covered payroll. The Port did not make any optional contributions to member IAP accounts for the year ended June 30, 2018.

Retirement Health Insurance Account

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

Funding Policy – Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 dollars or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 dollars shall be paid by the eligible retired member in the manner

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provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in OPERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in OPERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in an OPERS-sponsored health plan. A surviving spouse or dependent of a deceased OPERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from OPERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating employers are contractually required to contribute to RHIA at a rate assessed each year by OPERS, and the Port currently contributes 0.50% of annual covered OPERF payroll and 0.43% of OPSRP payroll under a contractual requirement in effect until June 30, 2019. The OPERS Board of Trustees sets the employer contribution rates based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Port's contributions to RHIA for the years ended June 30, 2016, 2017 and 2018 were \$5,996, \$6,173 and \$6,001, respectively, which equaled the required contributions each year.

At June 30, 2018, the Port's net OPEB liability/(asset) and deferred inflows and outflows were not considered significant by management and were not accrued on the government wide statements.

Additional disclosures related to Oregon PERS not applicable to specific employers are available online, or by contacting PERS at the following address: PO Box 23700 Tigard, OR 97281-3700.

<http://www.oregon.gov/pers/EMP/Pages/GASB.aspx>

B. Post-Employment Benefits Other Than Pensions (OPEB)

Plan Description – A program is provided for the availability for retirees and their spouses to purchase healthcare insurance at the same group rates as the Port pays for its active employees'. No plan has been established to account for this activity. Since the former employees' service has caused this benefit to be available, generally accepted accounting principles requires that the costs of these services be calculated and shown as a cost of operations and/or as a liability for providing a future benefit in the financial statements. Disclosure of the liability is mandatory.

Funding Policy – The benefits from this program are paid by the Port on a self-pay basis and the required contribution is based on projected pay-as-you go financing requirements. There is no obligation on the part of the Port to fund these benefits in advance.

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Actuarial Methods and Assumptions – The Port engaged an actuary to perform an evaluation as of July 1, 2017 using entry age normal, level percent of salary Actuarial Cost Method. The Single Employer OPEB Plan liability was determined using the following actuarial assumptions, applied to all periods including the measurement.

Discount Rate per year	3.58%
General Inflation Rate per year	2.50%
Salary Scale per year	3.50%

Health Care Cost Trends:

Year	Trend	Year	Trend
2017	0.50 %	2038-2043	6.00 %
2018	5.75	2044-2046	5.75
2019	5.25	2047-2054	5.50
2020-2030	5.00	2055-2064	5.25
2031-2033	5.25	2065-2066	5.00
2034	5.50	2067-2069	4.75
2035	5.75	2070-2072	4.50
2036-2037	6.25	2073+	4.25

Mortality rates were based on rates adopted by the Oregon Public Employees Retirement System (PERS) for its December 31, 2016 actuarial valuation of retirement benefits.

Turnover rates were based on percentages developed for the valuation of benefits under Oregon PERS and vary by years of service.

Disability rates were not used.

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Retirement rates were based on Oregon PERS assumptions. Annual rates are based on age, Tier 1/Tier 2, OPSRP, duration of service, and employment classification.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

The Port does not pay for any explicit retiree OPEB under GASB 75.

Changes in Total OPEB Liability

Balance at June 30, 2017	\$	24,667
Changes for the Year:		
Service Cost		2,494
Interest		774
Changes of Assumptions or Other Input		(1,802)
Benefit Payments		<u>(24)</u>
Net Changes for the Year		<u>1,442</u>
Total OPEB Liability at June 30, 2018	\$	<u><u>26,109</u></u>

Sensitivity of the Total Other Post-Employment Benefit Liability to Changes in Discount and Trend Rates – The following presents the total other post-employment benefit liability (TOL), calculated using the discount rate of 3.58 percent, as well as what the liability would be if it was calculated using a discount rate 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current rate. A similar sensitivity analysis is then presented for changes in the healthcare cost trend assumption:

June 30, 2018	1%	Current	1%
	<u>Decrease</u>	<u>Discount Rate</u>	<u>Increase</u>
Total OPEB Liability	\$ 28,602	\$ 26,109	\$ 23,798
June 30, 2018	1%	Current	1%
	<u>Decrease</u>	<u>Trend Rate</u>	<u>Increase</u>
Total OPEB Liability	\$ 22,901	\$ 26,109	\$ 29,867

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	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	(1,468)	-
Benefit Payments	-	26
Deferred outflow (inflow) of resources	\$ (1,468)	\$ 26

Amounts reported as deferred outflows or inflow of resources related to pension will be recognized in pension expense as follows:

Year ending June 30,	Amount
2019	\$ (334)
2020	(334)
2021	(334)
2022	(334)
2023	(132)
Thereafter	-
Total	\$ (1,468)

C. 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. There have been no settlements in the past four fiscal years that exceeded insurance coverage.

D. Contingent Liability

There are no contingent liabilities that are known to the Port.

E. Property Tax Limitations

The State of Oregon has a constitutional limit on property taxes for schools and non-school government operations. The limitation provides that property taxes for non-school operations are limited to \$10 to each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation debt.

An additional limit reduces the amount of operating property tax revenues available. This reduction was accomplished by rolling property values for 1997-98 back to their 1995-96 values less 10% and limiting future tax value growth of each property assessed value to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The Constitution also sets restrictive voter approval requirements for most tax and many fee increases, as well as new bond issues.

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F. Tax Abatements

As of June 30, 2018, the Port of Hood River potentially had tax abatements through various state allowed programs that impacted levied taxes. Based on the information available from the county as of the date of issuance of these financial statements, there were no material abatements disclosed by the county for the year ended June 30, 2018 for any program covered under GASB 77.

G. Subsequent Event

The Port was notified in January, 2018 by a waterfront area landowner that a storm water drain pipe that runs under the landowner's building appears to be broken and damaging the landowner's property. The drain pipe runs from the east under other waterfront properties and buildings westerly to the landowner's property, and then runs northwest from the landowner's property to the Columbia River.

The City of Hood River conveyed the landowner's property to the Port in 1967. In 1968 the Port and City amended the 1967 deed language to address respective responsibilities of the Port and City if the drain pipe under landowner's property causes damage to the property or needs to be repaired or relocated. In 1968, the Port also sold landowner's property to the landowner.

After the landowner notified the Port of the drain pipe issue, the landowner hired engineers to analyze the drain pipe and property damage issues. Based on their engineer studies the landowner has claimed the Port and/or City are liable for landowner property damages and related costs. The Port and City are analyzing the drain pipe condition, which is hampered by a large amount of sediment being in the drain pipe. The Port is also reviewing historical information related to the drain pipe and reviewing property documents where the drain pipe is located.

As of the date of this report, per communication from the Port's attorney, there is insufficient information to determine what, if any, liability exposure the Port may have related to possible drain pipe repair or relocation. If the Port is responsible to pay, separately or with a City contribution, for pipe repair or relocation of the drain pipe at the landowner's property, that expense would be material but not cause a significant financial impact to the Port. If the Port is required to pay costs itself, or with others, to repair or replace and relocate the entire underground pipe system those costs could have a significant financial impact to the Port.

Currently, issues related to the placement and condition of the underground pipe, the affect the pipe has on the landowner's property, and legal issues affecting the Port, City, the landowner and possibly other property owners, are being evaluated to determine the nature and extent of legal obligations and Port financial exposure.

PORT OF HOOD RIVER
Notes to Financial Statements
June 30, 2018

H. Restatement of Net Position

The Port implemented GASB #75, Formerly GASB #45, for Other Post-Employment Benefits (OPEB) which resulted in a restatement of beginning net position for 2017-18 in the amount of (\$3,453) for governmental activities, and (\$21,214) for business-type activities.

PORT OF HOOD RIVER
HOOD RIVER COUNTY, OREGON
REQUIRED SUPPLEMENTARY INFORMATION

PORT OF HOOD RIVER

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year Ended June 30,	(a) Employer's proportion of the net pension liability (NPL)	(b) Employer's proportionate share of the net pension liability (NPL)	(c) Port's covered payroll	(b/c) NPL as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.01 %	\$ 1,024,309	\$ 1,262,404	81.1 %	83.1 %
2017	0.01	1,189,375	1,241,215	95.8	80.5
2016	0.01	474,231	1,182,892	40.1	91.9
2015	0.01	(201,797)	1,144,446	(17.6)	103.0
2014	0.01	454,314	990,120	45.9	92.0

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

SCHEDULE OF CONTRIBUTIONS

Year Ended June 30,	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percent of covered payroll
2018	\$ 170,841	\$ 170,841	\$ -	\$ 1,288,432	13.3 %
2017	138,374	138,374	-	1,262,404	11.0
2016	134,541	134,541	-	1,241,215	10.8
2015	88,721	88,721	-	1,182,892	7.5
2014	85,873	85,873	-	1,144,446	7.5

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

PORT OF HOOD RIVER

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

SCHEDULE OF THE TOTAL OPEB LIABILITY

<u>Fiscal Year End Date</u>	<u>(a) Total OPEB Liability (TOL)</u>	<u>(b) Covered Payroll</u>	<u>(a)/(b) TOL as a Percentage of Covered Payroll</u>
6/30/2018	\$ 26,109	\$ 1,288,432	2.0%

The amounts presented for the fiscal year were actuarially determined as of July 1, 2017.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the year for which the required supplementary information is available.

PORT OF HOOD RIVER

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

SCHEDULE OF THE TOTAL OPEB LIABILITY (CONTINUED)

Total OPEB Liability at June 30, 2017	\$	24,667
Changes for the year:		
Service Cost	2,494	
Interest	774	
Changes of Benefit Terms	-	
Differences Between Expected and Actual Experience	-	
Changes of Assumptions or Other Input	(1,802)	
Benefit Payments	<u>(24)</u>	
Net Changes for the Year		<u>1,442</u>
Total OPEB Liability at June 30, 2018	\$	<u>26,109</u>
Covered Payroll		1,288,432
Net Single Employer Pension Plan as a Percentage of Covered Payroll		2.03%

Note: This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full year trend has been compiled, information is presented for the years for which the required supplementary schedule information is available.

PORT OF HOOD RIVER

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES				
Property Taxes	\$ 68,400	\$ 68,400	\$ 69,984	\$ 1,584
Income from Grants	3,500	3,500	-	(3,500)
Investment Earnings	500	500	3,207	2,707
Total Revenues	72,400	72,400	73,191	791
EXPENDITURES				
<i>Current Operating:</i>				
Personnel Services	173,000	173,000 (1)	127,663	45,337
Materials & Services	417,950	417,950 (1)	332,112	85,838
Total Expenditures	590,950	590,950	459,775	131,175
Excess (Deficiency) of Revenues Over (Under) Expenditures	(518,550)	(518,550)	(386,584)	131,966
OTHER FINANCING SOURCES (USES)				
Transfers in	522,600	522,600	459,775	(62,825)
Total Other Financing Sources (Uses)	522,600	522,600	459,775	(62,825)
Net Change in Fund Balance	4,050	4,050	73,191	69,141
Fund Balance - Beginning	132,000	132,000	139,218	7,218
Fund Balance - Ending	<u>\$ 136,050</u>	<u>\$ 136,050</u>	<u>\$ 212,409</u>	<u>\$ 76,359</u>

(1) - Appropriation Level

PORT OF HOOD RIVER
HOOD RIVER COUNTY, OREGON
SUPPLEMENTARY INFORMATION

PORT OF HOOD RIVER

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

BRIDGE REPAIR AND REPLACEMENT FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	
REVENUES				
Income from Grants	\$ -	\$ 1,000,000	\$ 265,399	(734,601)
Investment Earnings	-	8,500	18,324	9,824
Total Revenues	-	1,008,500	283,723	(724,777)
EXPENDITURES				
<i>Current Operating:</i>				
Personnel Services	-	90,100 (1)	157,059	(66,959)
Materials & Services	-	305,000 (1)	236,131	68,869
Capital Outlay	-	2,224,500 (1)	528,244	1,696,256
Debt Service	-	677,500 (1)	677,267	233
Contingency	-	500,000 (1)	-	500,000
Total Expenditures	-	3,797,100	1,598,701	2,198,399
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(2,788,600)	(1,314,978)	1,473,622
OTHER FINANCING SOURCES (USES)				
Transfers in	-	3,165,000	1,333,302	(1,831,698)
Total Other Financing Sources (Uses)	-	3,165,000	1,333,302	(1,831,698)
Net Change in Fund Balance	-	376,400	18,324	(358,076)
Fund Balance - Beginning	-	1,265,000	1,266,706	1,706
Fund Balance - Ending	\$ -	\$ 1,641,400	\$ 1,285,030	\$ (356,370)

(1) - Appropriation Level

PORT OF HOOD RIVER

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

**BRIDGE REPAIR FUND
For the Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Amounts</u>	
				<u>Budgetary</u>	
				<u>Basis</u>	
REVENUES					
Investment Earnings	\$ 8,000	\$ -		\$ -	\$ -
Total Revenues	8,000	-		-	-
EXPENDITURES					
<i>Current Operating:</i>					
Personnel Services	50,900	-	(1)	-	-
Materials & Services	155,000	-	(1)	-	-
Capital Outlay	1,224,500	-	(1)	-	-
Debt Service	677,500	-	(1)	-	-
Contingency	500,000	-	(1)	-	-
Total Expenditures	2,607,900	-		-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,599,900)	-		-	-
OTHER FINANCING SOURCES (USES)					
Transfers in	2,794,300	-		-	-
Total Other Financing Sources (Uses)	2,794,300	-		-	-
Net Change in Fund Balance	194,400	-		-	-
Fund Balance - Beginning	1,265,000	-		-	-
Fund Balance - Ending	\$ 1,459,400	\$ -		\$ -	\$ -

(1) - Appropriation Level

PORT OF HOOD RIVER

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

BRIDGE REPLACEMENT FUND

For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>			Actual	Variance with
	<u>Original</u>	<u>Final</u>		Amounts Budgetary	
REVENUES					
Investment Earnings	\$ 500	\$ -		\$ -	\$ -
Miscellaneous Revenue	1,000,000	-		-	-
	<hr/>	<hr/>		<hr/>	<hr/>
Total Revenues	1,000,500	-		-	-
	<hr/>	<hr/>		<hr/>	<hr/>
EXPENDITURES					
<i>Current Operating:</i>					
Personnel Services	39,200	-	(1)	-	-
Materials & Services	150,000	-	(1)	-	-
Capital Outlay	1,000,000	-	(1)	-	-
	<hr/>	<hr/>		<hr/>	<hr/>
Total Expenditures	1,189,200	-		-	-
	<hr/>	<hr/>		<hr/>	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(188,700)	-		-	-
	<hr/>	<hr/>		<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)					
Transfers in	370,700	-		-	-
	<hr/>	<hr/>		<hr/>	<hr/>
Total Other Financing Sources (Uses)	370,700	-		-	-
	<hr/>	<hr/>		<hr/>	<hr/>
Net Change in Fund Balance	182,000	-		-	-
	<hr/>	<hr/>		<hr/>	<hr/>
Fund Balance - Beginning	-	-		-	-
	<hr/>	<hr/>		<hr/>	<hr/>
Fund Balance - Ending	<u>\$ 182,000</u>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>

(1) - Appropriation Level

PORT OF HOOD RIVER
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

REVENUE FUND
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u> <u>Basis</u>	
REVENUES				
Toll Bridge	\$ 5,261,000	\$ 5,261,000	\$ 4,953,775	\$ (307,225)
Industrial Buildings	1,698,350	1,698,350	1,790,156	91,806
Commercial Buildings	185,550	185,550	180,633	(4,917)
Waterfront Industrial Land	1,000	1,000	3,150	2,150
Waterfront Recreation	151,000	151,000	206,170	55,170
Marina	342,600	342,600	330,355	(12,245)
Airport	200,900	200,900	189,883	(11,017)
Investment Earnings	60,000	60,000	116,013	56,013
Income from Grants and Other Sources	2,107,150	2,107,150	1,699,345	(407,805)
	<u>10,007,550</u>	<u>10,007,550</u>	<u>9,469,480</u>	<u>(538,070)</u>
EXPENDITURES				
Personal Services	1,955,400	1,966,400 (1)	1,824,120	142,280
Materials & Services	2,264,800	2,378,300 (1)	2,152,151	226,149
Capital Outlay	3,876,100	3,751,600 (1)	3,090,223	661,377
Debt Service	382,500	382,500 (1)	381,331	1,169
Contingency	500,000	500,000 (1)	-	500,000
	<u>8,978,800</u>	<u>8,978,800</u>	<u>7,447,825</u>	<u>1,530,975</u>
Revenues Over (Under) Expenditures	1,028,750	1,028,750	2,021,655	992,905
OTHER FINANCING SOURCES (USES)				
Property Sales	490,000	490,000	-	(490,000)
Operating Transfers Out	(3,687,600)	(3,687,600) (1)	(1,793,077)	1,894,523
	<u>(3,197,600)</u>	<u>(3,197,600)</u>	<u>(1,793,077)</u>	<u>1,404,523</u>
Net Change in Fund Balance	(2,168,850)	(2,168,850)	228,578	2,397,428
Fund Balance - Beginning	<u>5,510,000</u>	<u>5,510,000</u>	<u>7,009,347</u>	<u>1,499,347</u>
Fund Balance - Ending	<u>\$ 3,341,150</u>	<u>\$ 3,341,150</u>	<u>7,237,925</u>	<u>\$ 3,896,775</u>
Reconciliation to Net Position				
			31,463,508	
			(884,732)	
			388,570	
			(22,454)	
			(1,240)	
			88,478	
			(4,448,889)	
			(13,540)	
			(63,818)	
(1) - Appropriation Level		Net Position	<u>\$ 33,743,808</u>	

PORT OF HOOD RIVER

**SCHEDULE OF PROPERTY TAX TRANSACTIONS
AND BALANCES UNCOLLECTED
For the Year Ended June 30, 2018**

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/1/17	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 6/30/18
Current:						
2017-2018	\$ 71,903	\$ 1,806	\$ (126)	\$ 29	\$ 68,461	\$ 1,510
Prior Years:						
2016-17	1,481	-	(9)	50	666	806
2015-16	752	-	(1)	36	198	553
2014-15	474	-	(1)	56	196	277
2013-14	277	-	-	45	127	150
2012-13 & Prior	494	-	-	24	38	456
Total Prior	3,478	-	(11)	211	1,225	2,242
Total	<u>\$ 75,381</u>	<u>\$ 1,806</u>	<u>\$ (137)</u>	<u>\$ 240</u>	<u>\$ 69,686</u>	<u>\$ 3,752</u>

RECONCILIATION TO REVENUE:

	GENERAL FUND
Cash Collections by County Treasurers Above	\$ 69,686
Accrual of Receivables:	
June 30, 2017	(486)
June 30, 2018	490
Taxes, (Adjustments) in Lieu	294
Total Revenue	<u>\$ 69,984</u>

PORT OF HOOD RIVER
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the Year Ended June 30, 2018

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Agency Award Number</u>	<u>Expenditures</u>	<u>Passed Through To Sub- Recipients</u>
Department of Transportation (Direct Award):				
Airport Improvement Program	20.106	DOT-FA14NM-003	\$ 5,157	\$ -
	20.106	DOT-FA17NM-0024	1,181,117	-
			<u>1,186,274</u>	<u>-</u>
			(1)	
<i>TOTAL FEDERAL AWARDS</i>			<u><u>\$ 1,186,274</u></u>	<u><u>\$ -</u></u>

(1) Denotes major program

PORT OF HOOD RIVER
HOOD RIVER COUNTY, OREGON

INDEPENDENT AUDITORS' REPORT REQUIRED
BY OREGON STATE REGULATIONS



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December 10, 2018

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Port of Hood River as of and for the year ended June 30, 2018, and have issued our report thereon dated December 10, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

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

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

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

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

1. We noted expenditures exceeded appropriation amounts as noted on page 18.

OAR 162-10-0230 Internal Control

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

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



Tara M. Kamp, CPA
PAULY, ROGERS AND CO., P.C.

PORT OF HOOD RIVER
HOOD RIVER COUNTY, OREGON
GRANT COMPLIANCE REVIEW



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December 10, 2018

To the Board of Commissioners
Port of Hood River
Hood River County, Oregon

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

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 the governmental activities, the business-type activities and each major fund of the Port of Hood River as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of 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*.

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 internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Tara M. Kamp, CPA
PAULY, ROGERS AND CO., P.C.



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December 10, 2018

To the Board of Commissioners
Port of Hood River
Hood River County, Oregon

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited the Port of Hood River's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2018. The major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of compliance.

Opinion on Each Major Federal Program

In our opinion, the Port of Hood River complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Tara M. Kamp, CPA
PAULY, ROGERS AND CO., P.C.

PORT OF HOOD RIVER
HOOD RIVER COUNTY, OREGON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

SECTION I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS

Type of auditors’ report issued	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(s) identified that are not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Any GAGAS audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

FEDERAL AWARDS

Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(s) identified that are not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Type of auditors’ report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

PORT OF HOOD RIVER
HOOD RIVER COUNTY, OREGON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

IDENTIFICATION OF MAJOR PROGRAMS

CFDA NUMBER **NAME OF FEDERAL PROGRAM CLUSTER**

20.106 Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

SECTION II – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE NOTED

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE NOTED

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations, it is not intended to and does not present the net position, changes in net position, or cash flows of the entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.