

# OREGON INTERNATIONAL PORT OF COOS BAY

Coos Bay, Oregon

## REGULAR COMMISSION MEETING

6:30 p.m., Tuesday, January 21, 2020

Port Commission Chambers, 125 Central Avenue, Suite 230, Coos Bay, Oregon 97420

### ATTENDANCE

#### Commission:

David Kronsteiner, President; Eric Farm, Vice President; Brianna Hanson, Treasurer; Bob Garcia, Secretary; and James Martin, Commissioner.

#### Staff:

John Burns, Chief Executive Officer; Lanelle Comstock, Chief Administrative Officer; Mike Dunning, Director of Maritime Operations; Patrick Kerr, Director of Rail Operations; Megan Richardson, Director of Finance; Brandon Collura, Charleston Harbormaster; Margaret Barber, Director of External Affairs; Jake Jacobs, Director of Infrastructure Support Services; and Mike Stebbins, Port Legal Counsel.

#### Media & Guests:

Maeora Mosieur, Tribal One; Amanda McCleary-Moore, Moss Adams; Melissa McMahon, Moss Adams; Curtis Green, Russell's Marine Fuel & Supply; and Jeni Green.

### 1. CALL MEETING TO ORDER

President Kronsteiner called the meeting to order at 6:31 p.m.

### 2. INTRODUCTION OF GUESTS AND PORT STAFF

#### A. Act of Bravery Recognition: Curtis Green, Russell's Marine Fuel & Supply

President Kronsteiner recognized Curtis Green for his recent act of bravery. On December 26, 2019, Mr. Green acted selflessly to rescue the crew of the F/V Darean Rose. It is an amazing story how he saw the people in the water who were trapped as the vessel capsized. He jumped in the water and swam to the boat, attempting to break the window with a hammer, then eventually using his fist to break the window and complete the rescue. President Kronsteiner presented Mr. Green, on behalf of the Port of Coos Bay and the community of Charleston, with a plaque honoring Mr. Green's act of bravery. The community is grateful for Mr. Green, and his bravery and perseverance.

#### B. Annual Financial Report for 2018/19: Amanda McCleary-Moore, Moss Adams

Megan Richardson introduced Amanda McCleary-Moore and Melissa McMahon of Moss Adams, to present the annual financial report for the fiscal year 2018/19.

Ms. McMahon began by reviewing the agenda items for discussion, including the services provided, audit areas, reports, communications and new standards.

Audit of the Port financial statements was performed in accordance with generally accepted audit standards (GAAS) and generally accepted government audit standards (GAGAS). This included the addition of the new blended component this year, the Coos Bay Rail Line, Inc. Compliance testing and reporting was conducted, as required under the Oregon Minimum Audit Standards. Also new this year, a single audit was performed as required for the Fastlane grant under uniform guidance. Reports to conclude the audit were prepared, along with all required communications.

Critical audit areas tested included internal controls. A visit was conducted in April to oversee internal controls to ensure the processes in place were working well. Other critical areas include investments, revenues and receivables, capital assets, etc. Most of these items were tested through confirmations with details and analytical procedures. Good coverage was achieved in all areas.

The Oregon Minimum Standards are a different type of testing, focused on budget and contract testing. The Federal Grants compliance portion of the audit was new this year; this is due to spending over a certain threshold. Activity related to the Fastlane was tested to ensure all requirements were met.

Ms. McCleary-Moore spoke of the reports issued after completing testing for internal controls, confirmations, transactions, and year-end. Included within the bound financial statements provided to Commissioners are copies of the four reports issued. The first is the report of the financial statements. As auditors, Moss Adams determines whether the financial statements of the Port are materially correct in accordance with the generally accepted accounting principles for governments. The Port has received clean unmodified opinions in the past, and this is a great achievement. Again, this year's opinion is that the Port's financial statements are clean or unmodified.

The first two reports are the same as issued last year, and the second report is due to additional levels of compliance for Oregon municipalities. The state requires the audit of procurement, contracts, and budget laws. Certain items are tested with respect to those requirements. Based on that testing, there was one item called out in the report. There were four instances of non-compliance, related to budgetary over expenditures on four line items within the general fund. This can be common with audit, due to accruals at year-end despite good controls in place during the year. It is good practice to monitor expenses, especially at year-end.

The next two reports presented are new this year. This includes a single audit, due to spending federal award money of more than \$750,000. That threshold triggers the additional audit, with additional governmental auditing standards related to the Fastlane grant. The first report issued is the GAGAS report, reporting of non-compliance with laws and regulations, or any findings with internal controls. If a significant deficiency is found during audit, such as internal controls not being in place, that would be included in the report. At the next level of reporting is a material weakness, such as when a control is not in place that could lead to a material error in the financial statements. There were no instances of non-compliance or any control deficiencies found.

The last report is related to the compliance with the Fastlane grant. Auditors read the grant agreement, then consult with federal guidelines and requirements for testing. One of the items checked is the allowable costs; money is granted for a specific purpose and auditors must ensure this is what the money was spent on. Procurement rules are checked, as well as reporting, and compliance testing is performed. Any areas of non-compliance are identified and evaluated. For reporting to occur, it would need to be identified that an internal control was not in place and that identified non-compliance item was likely to continue. There was nothing found to report. After not having a single audit for a number

of years, this is a testament to the fact that the Port communicated to auditors, was aware of compliance testing requirements, and was able to put a good plan in place to ensure compliance. Within the report, there is information about internal controls related to the compliance testing.

Overall, the financial statement reporting was very good. Ms. McCleary-Moore asked if there were any questions.

In addition to the reports previously discussed, management is provided with two additional reports. The first is the Communications to Those Charged with Governance. This letter outlines the auditors responsibilities, which is to design the audit to detect whether the financial statements are materially correct. This letter also identifies the planned scope and timing, and whether that timeline was met. There was nothing to report. Changes in the scope from last year were known ahead of time and communicated well. There are notes included in the governance letter related to significant accounting policies, including Note 1, GASB 83 and GASB 88. There were no significant changes this year, other than implementing two new accounting standards related to asset retired obligations and debt disclosures.

During the audit process if items are found, then a proposed adjustment is made. There were four audit adjustments included in the report, and one uncorrected adjustment. There are two different accounting standards followed for budgetary basis. The basis of accounting is different than what is reported in the financial statements. For instance, a loan comes in and is recorded as revenue for a budgetary basis. Then for full accrual, it is a loan payable on the financial statement. Two of the adjustments were related to these standards and entries that had not been made yet. Another adjustment made was related to property tax revenue. Auditors noticed the issue, and management made the necessary adjustment. The last adjustment was related to accrued liability for construction costs on the tunnels. These adjustments were not material and did not rise to the level of being a significant deficiency or material weakness. There was one uncorrected adjustment found at the end of the audit. Standard audit procedures include a letter to attorneys for the Port, to ascertain the probability of legal action that could result in financial liability. One of the questions asked of the attorneys is the amount of legal fees owed. While there was nothing noted as contingent liability, there are some accrued legal fees. These fees owed do not affect the audit opinion but do need to be noted.

The audit observations are included within the management letter regarding best practices and recommendations. There were no disagreements or difficulties with management. This would be communicated if necessary. There were a few areas of late adjustments, and auditors recommend a checklist to ensure everything is reported and accrued in time.

Looking ahead to future accounting standards that will require implementation, the one that will most effect the Port is related to the reporting of leases. Up to this point, anything considered an operating lease was paid and recorded as an expense. In the future, all leases will be included on the balance sheet as an asset to amortize with a liability to pay down. This will become effective for the June 30, 2021 fiscal year. Another changing standard is GASB Statement 89, related to accounting for interest costs incurred before the end of a contract period. Previously, interest on projects was capitalized and this standard eliminates that.

Ms. McCleary-Moore concluded the financial statement presentation. President Kronsteiner thanked finance staff and Moss Adams for their work on this fine report.

3. **PUBLIC COMMENT**

4. **CONSENT ITEMS**

- A. Approval of December 16, 2019 Regular Commission Meeting Minutes
- B. Approval of December 23, 2019 Emergency Commission Meeting Minutes
- C. Approval of December Invoices
- D. Approval of December Contracts Awarded

Upon a motion by Commissioner Martin (second by Commissioner Farm), the Board of Commissioners voted to approve the December 16, 2019 Regular Commission Meeting Minutes, the December 23, 2019 Emergency Commission Meeting Minutes, December Invoices and December Contracts Awarded. **Motion Passed.**

5. **MANAGEMENT REPORTS**

Management Reports were included within the Meeting Packet.

The Accounting and Finance Department management report and monthly financial reports were not available at the time of publication of the meeting packet. These were provided before the January Commission meeting and will be included within February's meeting packet.

6. **ACTION ITEMS/REPORTS**

A. **Annual Financial Report for Fiscal Year 2018/19**

Moss Adams has completed the annual financial report on behalf of the Oregon International Port of Coos Bay for fiscal year ending June 30, 2019.

The financial statements are presented in accordance with the financial reporting model in the Governmental Accounting Standard Board (GASB) Statement No.34.

There were no adjustments that had a material effect on the Port's reporting process. There were also no material weaknesses or reportable conditions for internal control, or any instances of non-compliance to the general-purpose financial statements.

Ms. Amanda McCleary-Moore of Moss Adams attended this Commission meeting and presented the audit report. A copy of the audit report was provided to Commissioners for review.

Upon a motion by Commissioner Garcia (second by Commissioner Hanson), the Board of Commissioners motioned to approve the annual financial report for Fiscal Year 2018/19. **Motion Passed.**

## **B. Assignment of Track Miles for 45G Tax Credit**

Port staff has worked with Mickelson & Company in the past to arrange assignment of the Port's Section 45G tax credit on behalf of its 151 track miles of rail line to a third-party Class II railroad for allowable track mile maintenance tax credits. Mickelson & Company has again proposed to enter into an assignment agreement with the Port for the 2019 tax year.

The Short Line Railroad Rehabilitation and Investment Act of 2013, Section 45G of the Internal Revenue Code, created an incentive for the private sector to invest in rail infrastructure by providing a tax credit of 50 cents for every dollar a railroad spends on track improvements. The credit is based on a track mile formula and is limited to \$3,500 per mile of rail line owned, leased or assigned by Class II or Class III railroads at the end of the railroad's taxable year. Efforts to make the tax credit permanent have not yet succeeded, and the 45G tax credit had been repeatedly extended through December 31, 2022.

For 2019, Mickelson & Company has proposed to assign 151 track miles at a rate of \$2,100 per mile, or \$317,100 total. Mickelson & Company's fee for the 2019 assignation is covered by the current Professional Services agreement we have in place, and will be \$138 per mile, for a total fee of \$20,838. Total revenue to be realized for this assignation will be \$296,262. Funds from these assignations were typically deposited in the Port's General Fund to offset emergency repairs, overhead, and other expenses related to the Port's ownership of the rail line.

Commissioner Garcia asked for clarification on the revenue cleared after expenses. John Burns stated it is close to \$300,000 for each tax year. Commissioner Martin asked if that money is designated for track repair or added to the general fund. Mr. Burns stated it is recorded as revenue in the general fund.

Upon a motion by Commissioner Farm (second by Commissioner Martin), the Board of Commissioners motioned to approve an agreement to assign track miles for the purpose of receiving tax credit revenue under Section 45G of the Internal Revenue Code including signature authority for the Port Chief Executive Officer John Burns to execute the document. **Motion Passed.**

### **7. OTHER**

### **8. COMMISSION COMMENTS**

### **9. NEXT MEETING DATE – Tuesday, February 18, 2020 at 6:30 p.m.**

### **10. ADJOURN**

President Kronsteiner adjourned the meeting at 7:04 p.m. and entered into Executive Session to:

(b) consider the dismissal or disciplining of a public officer, employee, staff member or individual agent, or hear complaints or charges brought against such a person if that person does not request an open hearing;

- (e) conduct deliberations with persons designated by the governing body to negotiate real property transactions;
- (h) consult with counsel concerning the legal rights and duties of a public body with regard to current litigation or litigation likely to be filed;
- (i) review and evaluate the job performance of a chief executive officer, other officers, employees and staff, if the person whose performance is being reviewed and evaluated does not request an open hearing; and
- (j) carry on negotiations under ORS Chapter 293 with private persons or businesses regarding proposed acquisition, exchange or liquidation of public investments.