

PORT OF MONTANA PORT AUTHORITY

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Port of Montana Port Authority
P.O. Box 3641
Butte, Montana 59702

We have audited the accompanying financial statements and related notes to the financial statements of the Port of Montana Port Authority, a component unit of Butte Silver Bow, Montana, as of and for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by

management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Port of Montana Port Authority's financial statements as a whole. The Schedule of Operating Expenses and Schedule of Insurance Coverage on pages 25 and 26 are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Operating Expenses and Schedule of Insurance Coverage are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information

directly to the underlying accounting and other 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. In our opinion, the Schedules of Operating Expenses and Insurance Coverage is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the Port of Montana Port Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port of Montana Port Authority's internal control over financial reporting and compliance.

Newland & Company

NEWLAND AND COMPANY
A Professional Corporation

Butte, Montana
December 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Port of Montana Port Authority (Port) is a transportation facility, which provides distribution, storage and transload services (moving freight from one mode of transportation to another) for freight moving through Western Montana. The Port is a point of transfer for freight movements using rail and/or truck shipping.

The Port's management is pleased to provide this narrative discussion and analysis of the financial activities of the Port for the fiscal year ended June 30, 2014. Within this section of the annual financial report, the Port's financial performance is analyzed within the context of the accompanying financial statements and disclosures.

Financial Highlights

The Port's assets exceeded its liabilities by \$7,298,821 for the fiscal year reported. This net figure consists of the following:

Capital assets, including property and equipment, net of accumulated depreciation and related debt of \$4,491,989.

Assets to maintain the Port's obligations to provide services to its customers and meet its obligations to creditors of \$2,806,832 were available.

In fiscal 2014 a loss from operations of \$43,506 was recorded. This compares to a loss from operations of \$45,063 in fiscal year 2013.

The Port continues to maintain a strong financial position due in part to the partial funding of its major economic development activities by municipal income.

The above financial highlights are explained in more detail in the Financial Analysis section of this document.

Overview and Description of the Financial Statements

The Port operates as a port enterprise and presents its financial statements using the economic resources measurement focus and accrual basis of accounting. The Management Discussion and Analysis document introduces the Port's basic financial statements. As an enterprise fund, the Port's basic financial statements include a *Statement of Net Position*, a *Statement of Revenues, Expenses and Changes in Fund Net Position*, and a *Statement of Cash Flows*. These statements include fund financial statements and notes to the basic financial statements. The Port also includes in this report additional information to supplement the basic financial statements. Comparative data is presented when available.

As indicated, the Port uses accounting methods similar to those used by private sector companies in its basic financial statements. Short and long-term financial information about the Port's activities is provided.

The Statement of Net Position

The Statement of Net Position provides information about the nature and the amounts of investments in resources (assets) and obligations to Port creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the Port and assessing the liquidity and financial flexibility of the Port. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Port as a whole is improving or declining.

We present this statement on page 11 of this report.

The Statement of Revenues, Expenses and Changes in Net Position

This statement measures the results of the Port's operations over the past year. It can be used to determine profitability, credit worthiness, and whether the Port has successfully recovered its costs through its user fees.

We present this statement on page 12 of this report.

The Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the Port's cash transactions during the reporting period. This statement reports cash receipts, payments, and net changes in cash resulting from operations, financing, and investing activities. It provides answers to questions such as where did the cash come from, how was it used, and what was the change in the cash balance during the reporting period.

We present this statement on page 13 of this report.

Notes to the Financial Statements

The accompanying notes to the financial statements are an integral part of statements and are essential for a full understanding of the Port's financial performance.

The notes to the financial statements are presented on page 15 of this report.

Accompanying Information

In addition to the basic financial statements and notes, this report also presents a detailed schedule of expenses and a schedule of insurance coverage.

Accompanying information is presented on pages 25 and 26 of this report.

Financial Analysis of the Port as a Whole

The Port's net position at fiscal year ended June 30, 2014 were \$7,298,821 compared to \$7,146,870 in the previous fiscal year. The following table summarizes the components of net position:

	2014	% of 2014	2013	% of 2013	Change	%
Assets:						
Current Assets	\$ 2,969,838	36%	\$ 2,742,983	34%	\$ 226,855	8%
Capital Assets	5,169,468	64%	5,309,226	66%	(139,758)	-3%
	<u>8,139,306</u>	<u>100%</u>	<u>8,052,209</u>	<u>100%</u>	<u>87,096</u>	<u>1%</u>
Liabilities						
Current Liabilities	155,989	19%	187,907	21%	(31,918)	-17%
Long-Term Liabilities	684,495	81%	717,432	79%	(32,937)	-5%
	<u>840,484</u>	<u>100%</u>	<u>905,339</u>	<u>100%</u>	<u>(64,855)</u>	<u>-7%</u>
Net Position						
Investment in Capital Assets (net of debt)	4,491,989	62%	4,606,766	64%	(144,777)	-2%
Restricted	121,480	1%	96,068	1%	413	0%
Unrestricted	2,685,252	37%	2,444,036	34%	266,316	11%
Total Net Position	<u>\$ 7,298,821</u>	<u>100%</u>	<u>\$ 7,146,870</u>	<u>100%</u>	<u>\$ 151,951</u>	<u>2%</u>

The current ratio compares current assets to current liabilities and indicates a company's ability to pay current obligations. The Port maintained an extremely high current ratio of 19 to 1 on June 30, 2014.

Total assets increased 1% compared to fiscal year 2013. Capital assets net of debt decreased 2% due to depreciation exceeding the debt paid off during the year. Net assets increased \$151,951 compared to the previous fiscal year. Approximately 62% of the Port's assets are invested in capital. These capital assets are used to provide services to customers.

At year end, June 30, 2014 total liabilities decreased \$64,855 or 7% due to a lower accounts payable, payroll liabilities and bond principal balances.

The following table provides a summary of the Port's changes in net position:

	2014	% of 2014	2013	% of 2013	Change	%
Operating Revenues:						
Silicon	39,490	3%	41,859	3%	(2,369)	-6%
Fertilizer	39,067	3%	41,780	3%	(2,713)	-6%
Bulk Minerals	250,023	19%	131,291	10%	118,733	90%
Warehouse	262,290	20%	254,890	20%	7,400	3%
Transload and Distribution	65,050	5%	73,251	6%	(8,201)	-11%
Storage	252,596	20%	284,614	22%	(32,018)	-11%
Car Storage	25,840	2%	24,422	2%	1,418	6%
Auto Facility	266,637	21%	254,702	20%	11,936	5%
Miscellaneous	<u>84,968</u>	<u>7%</u>	<u>76,448</u>	<u>6%</u>	<u>8,520</u>	<u>11%</u>
Total Revenues	1,285,961	100%	1,183,255	100%	102,706	9%
Operating Expenses:						
Direct	894,701	67%	826,240	62%	68,461	8%
Overhead	112,530	8%	111,842	8%	688	1%
General and Administration	105,167	8%	85,956	6%	19,210	22%
Depreciation	<u>217,071</u>	<u>16%</u>	<u>204,280</u>	<u>15%</u>	<u>12,791</u>	<u>6%</u>
Total Operating Expenses	1,329,468	100%	1,228,318	92%	101,150	8%
Operating Income (Loss)	(43,507)		(45,063)		1,556	-3%
Non-operating Net Revenues	<u>195,458</u>		<u>183,809</u>		<u>11,649</u>	<u>6%</u>
Net Income before Capital Grant	151,951		138,746		13,206	10%
Capital Grant			<u>314,554</u>			
Net Income	151,951		453,300			
Net Position, Beginning of Year	<u>7,146,870</u>		<u>6,693,570</u>			
Net Position, End of Year	<u>\$ 7,298,821</u>		<u>\$ 7,146,870</u>			

Bulk Minerals

During the fiscal year, the Port participated in a Canadian bulk sample project where high grade ores were received via rail and delivered locally for processing. This project resulted in one-time revenues of \$109,447. Handling of liquid deicer and dust control products also increased slightly.

Fertilizer

Fertilizer distribution is heavily dependent on the weather each year and specifically the precipitation. Fertilizer handling remained at a level consistent with the previous fiscal year.

Warehouse Leases

Warehouse income continues to be a steady revenue stream with a small increase due to lease rate adjustments. There were no new or expired leases during the fiscal year.

Transload and Distribution

Revenues related to building products increased slightly. However, transload and distribution as a whole decreased compared to the previous fiscal year due to fewer regional steel projects for the year.

Silicon and Storage

Due to a challenging market for the Port's customers and a strategic change in the amount of inventories kept in stock, silicon and storage revenues continued a slight downward trend early in the year which then leveled out and has remained stable. Another customer's sale and complete liquidation of product which had been in long term storage at the Port also contributed to the decrease in storage revenues.

Car Storage

Rail car storage is income collected from storing rail cars in the off season, in anticipation of distribution, or after cars have been emptied. Due to the rebound in the economy, the rail car storage market changed dramatically in fiscal year 2013 and has remained at the lower levels through fiscal year 2014. This lower amount level of activity is expected to continue in the future.

Auto Facility

Auto distribution continues to be a strong business unit. The auto facility revenues remain stable with a 5% increase over the previous fiscal year.

Operating Expenses

Direct and operating expenses remained relatively consistent, posting slight increases over fiscal year 2013.

General and administrative increased \$19,210 due to an increased focus on marketing and necessary monitoring expenses of an underground petroleum tank on a former Port property.

Depreciation expenses increased due to the completion of the warehouse expansion and the depreciation associated with the capitalization of the project.

Net Income

The Port of Montana is a public entity, which focuses on economic development and the creation of jobs within the transportation industry. As such, the Port prices all services to benefit customers. The intent of the Port's operation is not to incur profits; the goal is to cover all operating costs and expenses while satisfying the needs of all its customers. This should be considered when reviewing net income and net loss. Strictly comparing yearly data could be misleading.

The Port's net income for fiscal year ending June 30, 2014 was \$151,951. This compares to a net income before capital grants for fiscal year ending June 30, 2013 of

\$138,746. Net income after capital grants in fiscal year ending June 30, 2013 was \$453,300 which included a grant from the Tax Increment Financing District of \$314,544.

Budgetary Highlights

The Port is not required to adopt a legal budget, and has not done so. For this reason, budget to actual comparisons are not included in this report. The Port's Board of Commissioners reviews and approves a budget for management purposes and for submission to the City and County of Butte-Silver Bow, Montana to support a request for millage funds as statutorily authorized and levied annually. The budget sets goals and provides guidelines for operation.

Capital Assets

The Port's investment in capital assets, net of accumulated depreciation and related debt, at the end of the fiscal year was \$4,491,989. The following table provides a summary of capital asset activity.

	June 30, 2014	June 30, 2013	Change	%
Non-depreciable Asstes:				
Land	\$ 353,252	\$ 353,252	\$ 0	0%
Total non-depreciable Assets	353,252	353,252	0	0%
Depreciable Assets:				
Warehouse and Improvements	753,094	753,094	0	0%
Equipment	1,230,025	1,184,025	46,000	4%
HUB Transportation Facility	7,541,177	7,509,865	31,312	0%
Total Depreciable Assets	9,524,296	9,446,984	77,312	1%
Less Accumulated Depreciation	(4,708,081)	(4,491,010)	(217,071)	5%
Book Value of Depreciable Assets	\$ 4,816,215	\$ 4,955,974	\$ (139,759)	-3%
Percentage Depreciated	49%	48%		

Long Term Debt

In fiscal year 2011 the Port used bond proceeds for construction of a warehouse addition. As security for the revenue bonds, millage funds as statutorily authorized and levied annually for the Port were pledged by the City and County of Butte-Silver Bow.

At the end of the fiscal year, the Port had outstanding bonds payable of \$677,479. The current portion of that debt was \$26,586 and the long term portion was \$650,893. See Note 5 for additional information about the Port's long term debt.

	June 30, 2014	June 30, 2013	Change
Port Authority Revenue Bond	\$ 677,479	\$ 702,837	\$ (25,358)
Due within one year	<u>26,586</u>	<u>25,358</u>	<u>1,228</u>
Long-term debt	\$ 650,893	\$ 677,479	\$ (26,586)

Compensated absences payable is the accrued portion of vacation and sick leave, including the associated employment taxes, which employees are eligible to take. Management estimates the current and long term distribution of these accrued payables yearly based primarily on historical data. The actual compensated absences used during the fiscal years ending 2014, 2013 and 2012 were \$45,324, \$45,307 and \$27,784 respectively. Management estimated an increase in short term compensated absences in fiscal year 2014 due to employee retirements during the fiscal year. The current portion of the compensated absences payable at fiscal year end June 30, 2014 was estimated at \$64,590. The long term portion therefore was \$33,602.

	June 30, 2014	June 30, 2013	Change
Compensated absences	\$ 98,193	\$ 86,489	\$ 11,704
Due within one year	<u>64,590</u>	<u>46,536</u>	<u>18,054</u>
Long-term compensated absences	\$ 33,602	\$ 39,953	\$ (6,351)

Contacting the Port's Financial Management

We designed this financial report to provide a general overview of the Port's finances, comply with finance-related laws and regulations, and demonstrate the Port's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Port's General Manager, Kathy Fasso, or its Financial Manager, Sheryl Ralph at (406)723-4321.

PORT OF MONTANA PORT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

Current Assets:

Cash & Cash Equivalents	\$	2,626,612
Restricted Cash (Note 2)		121,480
Accounts Receivable, net of allowance for doubtful accounts		130,011
Tax Levy Receivable		17,515
Due from Butte Silver Bow		61,100
Prepaid Expenses		13,120
Total Current Assets		2,969,838

Capital Assets:

Land		353,252
HUB Warehouse and Warehouse Improvements		7,541,177
Industrial Park Warehouse		753,094
HUB Equipment		1,230,025
Total		9,877,548
Less Accumulated Depreciation		4,708,081
Total Capital Assets		5,169,468

Total Assets: 8,139,306

LIABILITIES

Current Liabilities:

Accounts Payable		20,028
Wages Payable		23,592
Compensated Absences		64,590
Accrued Interest Payable		13,673
Unearned Revenue		7,520
Current Maturities of long term debt		26,586
Total Current Liabilities		155,990

Noncurrent Liabilities:

Compensated Absences-noncurrent portion		33,602
Long Term debt		650,893
Total Noncurrent liabilities		684,495
Total Liabilities		840,485

NET POSITION

Net Investment in Capital Assets		4,491,989
Restricted		121,480
Unrestricted		2,685,352
Total Net Position	\$	7,298,821

The notes to the financial statements are an integral part of these statements.

PORT OF MONTANA PORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Operating Revenues		
Silicon	\$	39,490
Fertilizer		39,067
Bulk Minerals		250,023
Warehouse		262,290
Transload and Distribution		65,050
Storage		252,596
Car Storage		25,840
Auto Facility		266,637
Miscellaneous		84,968
Total Operating Revenues		<u>1,285,962</u>
Operating Expenses		
Direct Expenses		894,701
Overhead Expenses		112,530
General and Administrative Expenses		105,167
Depreciation		217,071
Total Operating Expenses		<u>1,329,468</u>
Income (Loss) from Operations		(43,506)
Non-operating Revenue (Expense)		
Interest Expense		(32,899)
Investment Earnings		38,436
Municipal Revenue		189,920
Total Non-operating Revenue (Expense)		<u>195,457</u>
Net Income		151,951
Net Position, Beginning of Year		<u>7,146,870</u>
Net Position, End of year	\$	<u><u>7,298,821</u></u>

The notes to the financial statements are an integral part of these statements.

PORT OF MONTANA PORT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

Cash Flows from Operating Activities:	
Cash received from users	\$ 1,290,696
Cash payments to employees for services	(486,530)
Cash payments to suppliers of goods and services	<u>(659,022)</u>
Net cash provided (used by operating activities)	145,144
Cash Flows from Non-capital Financing Activities:	
Cash received from primary government	<u>178,324</u>
Net cash provided (used) by non-capital financing activities	178,324
Cash Flows from Capital and Related Financing Activities:	
Interest expense paid on debt	(33,403)
Repayments of amounts borrowed	(25,358)
Purchases of capital assests	(77,313)
Intergovernmental revenues	<u>3,147</u>
Net cash flows provided (used) by capital and related financing activities	(132,927)
Cash Flows from Investing Activities:	
Investment earnings	<u>32,086</u>
Net cash provided (used) by investing activities	<u>32,086</u>
Net increase (decrease) in cash	222,627
Cash and cash equivalents at beginning of year	<u>2,525,465</u>
Cash and cash equivalents at end of year	<u>\$ 2,748,092</u>
Cash and cash equivalents per statement of financial position	
Cash and cash equivalents	\$ 2,626,612
Restricted cash	<u>121,480</u>
Total cash and cash equivalents at end of year	<u>\$ 2,748,092</u>

The notes to the financial statements are an integral part of these statements.

PORT OF MONTANA PORT AUTHORITY
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Reconciliation of Operating Income to Net Cash

Operating income (loss)	\$ (43,506)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	217,071
Decrease in receivables	4,522
Decrease in inventory	654
Increase in prepaid expenses	(955)
Increase in unearned revenue	212
Decrease in accounts payable	(16,331)
Decrease in wages payable	(34,577)
Increase in compensated absences payable	<u>18,054</u>
Total adjustments	<u>188,650</u>
Net cash provided by operating activities	<u><u>\$ 145,144</u></u>

The notes to the financial statements are an integral part of these statements.

PORT OF MONTANA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Port of Montana Port Authority (the Port) was created by resolution on May 7, 1986, pursuant to authority granted by the 1985 Montana Legislative assembly and the Butte-Silver Bow Council of Commissioners. The Port is a Montana Municipal corporation. Accordingly, it has no stockholders or equity holders. A Board of Commissioners appointed by the Butte-Silver Bow Chief Executive and confirmed by the Butte-Silver Bow Council of Commissioners governs the Port. A general manager hired by the Board of Commissioners handles the day to day operations.

The Port of Montana Port Authority is a component unit of the primary governmental unit, Butte-Silver Bow, Butte, Montana, because the property tax levy request and indebtedness is subject to Butte-Silver Bow Council of Commissioners approval. Butte-Silver Bow is able to impose its will on the Port. The Port itself has no component units as defined by accounting principles generally accepted in the United States of America.

Nature of Business

The Port promotes, stimulates and develops commerce, economic development and prosperity for the State of Montana and its citizens.

Fund Accounting

The activities of the Port are reported as a proprietary fund. A proprietary fund is operated in a manner similar to private business enterprises, where (a) the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; and (b) the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Basis of Accounting

A proprietary fund is accounted for using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Change in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Operating revenues in a proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses

PORT OF MONTANA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. When both restricted and unrestricted net resources are available, it is the Port's policy to use restricted net resources first. Restricted net resources represent restrictions imposed by third party creditors.

Budgets

The Port is not required to adopt a legal budget, therefore these financial statements do not include budget to actual comparisons. The Port's Board of Commissioners does approve an annual budget for management purposes which is submitted to Butte-Silver Bow government.

Deposits and Investments

The Port's cash and cash equivalents are considered to be cash on hand, demand and time deposits, and short-term investments.

Montana State statutes authorize the investment of public money in interest-bearing savings accounts, certificates of deposit, and time deposits insured up to \$250,000 by the Federal Deposit Insurance Corporation or fully collateralized, U.S. government and U.S. agency obligations, the Montana State Short-Term Investment Pool and repurchase agreements where there is a master repurchase agreement and collateral held by a third party.

Investments for the Port are reported at fair value.

Accounts Receivable

Accounts receivable are amounts due from customers in the normal course of operations. Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be non-collectable based on management's analysis of past collection history.

Receivables, including the applicable allowance for uncollectable accounts, are as follows:

Accounts Receivable	\$ 131,324
Allowance for uncollectable accounts	<u>\$ (1,313)</u>
Net Receivables	\$ 130,011

PORT OF MONTANA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets are recorded at cost. All expenditures for equipment over \$2,500 are capitalized. If actual cost cannot be determined, estimated historical cost is used. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of capital assets has been provided for over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Warehouse and warehouse improvements	15-40 years
Equipment	3-15 years
HUB Transportation facility	25-40 years

Maintenance and repair expenses are charged to operating expense as incurred. Significant improvements are capitalized and depreciated over their estimated useful lives.

All construction period interest is capitalized and interest that was incurred related to the construction of the HUB transportation facility was capitalized. No interest was capitalized during the fiscal year ended June 30, 2014.

Depreciation expense was \$217,071 for the fiscal year end June 30, 2014.

Compensated Absences

Employees are permitted to accumulate a maximum of twice their annual vacation accrual. Upon termination of employment, an employee is paid for his accumulated vacation based on his current hourly rate of pay. All employees accumulate sick leave at 8 hours per month and are allowed to receive payment at 25% of accumulated sick leave balances upon termination at current hourly rates of pay. Salaried employee's sick leave balance is capped at 960 hours, union employee's is capped at 500 hours.

Tax Exempt Status

The Port is a municipal corporation and therefore, is not liable for federal and state income taxes pursuant to the Internal Revenue Code 501 (c)(1).

Concentrations of Credit Risk

The Port receives revenue from transload, storage and distribution services in Silver Bow, Montana. The Port grants credit on these sales and generally requires no collateral from its customers.

PORT OF MONTANA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

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

Inventory and Prepaid Expenses

Inventory was valued at cost using the first in/first out (FIFO) method. Inventory was recorded as an expenditure when consumed rather than when purchased. As of June 30, 2014, inventory was no longer carried.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

NOTE 2. DEPOSITS AND INVESTMENTS

Restricted Cash

On June 30, 2014, the Port had restricted cash of \$58,974 for the bond reserves and \$37,506 for the next installment payable on the Port Authority Revenue Bond per the bond covenants. Also, \$25,000 has been restricted by agreement with HCC Surety as collateral on a surety bond.

Deposits and Investments

The Port does not have formal investment policies, but restricts investments to those authorized by Montana statute. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. As of June 30, 2014, the Port's deposits had a carrying value of \$2,748,092 and bank balances of \$2,734,216. All deposits were fully secured by the Federal depository Insurance Corporation (FDIC).

NOTE 3. PROPERTY TAX FUNDING AND TAX LEVY RECEIVABLE

The Due from Butte-Silver Bow at June 30, 2014 consists of tax collections at the Butte-Silver Bow treasurer's office prior to June 30th that are remitted to the Port of Montana Port Authority in the next fiscal year. Due from Butte Silver Bow at June 30, 2014 is \$61,100.

PORT OF MONTANA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3. PROPERTY TAX FUNDING AND TAX LEVY RECEIVABLE - CONTINUED

Butte-Silver Bow's real property taxes, special assessments and certain utility fees are assessed on November 1st each year. Payments are due in two equal installments on November 30th and May 31st. Tax liens are enforced for real property with taxes which are three years delinquent.

Butte-Silver Bow local government has appropriated 2.8 mills for Port funding. One mill was worth \$58,451 in fiscal year 2014. Municipal income also includes the Port's share of taxes receivable. Taxes receivable at June 30, 2014 were \$17,515.

Pursuant to Resolution 10-59, millage funds as statutorily authorized and levied annually for the Port were pledged by Butte-Silver Bow as security until the principal and interest on the Series 2010 Bond are paid.

NOTE 4. NONCURRENT ASSETS

Capital assets consist of the following:

	Total 6/30/13	Additions	Deletions	Total 6/30/14
Non-depreciable Assets:				
Land	\$ 353,252			\$ 353,252
Construction in Progress	-	-	-	-
<i>Total Non-Depreciable Assets</i>	<u>353,252</u>	<u>-</u>	<u>-</u>	<u>353,252</u>
Depreciable Assets:				
Warehouse and Improvements	753,094	-	-	753,094
Equipment	1,184,025	46,000	-	1,230,025
Buildings and Improvements	6,040,540	31,312	-	6,071,852
Track	1,469,325	-	-	1,469,325
<i>Total Depreciable Assets</i>	<u>9,446,984</u>	<u>77,312</u>	<u>-</u>	<u>9,524,296</u>
Total Assets:	<u><u>9,800,236</u></u>	<u><u>77,312</u></u>	<u><u>-</u></u>	<u><u>9,877,548</u></u>
Accumulated Depreciation:				
Warehouse and Improvements	(572,356)	(12,474)	-	(584,829)
Equipment	(913,452)	(27,263)	-	(940,715)
Buildings and Improvements	(2,246,179)	(144,274)	-	(2,390,453)
Track	(759,024)	(33,060)	-	(792,084)
Total Accumulated Depreciation	<u>(4,491,010)</u>	<u>(217,071)</u>	<u>-</u>	<u>(4,708,079)</u>
Net Capital Assets	<u><u>\$ 5,309,226</u></u>	<u><u>\$ (139,759)</u></u>	<u><u>-</u></u>	<u><u>\$ 5,169,468</u></u>

PORT OF MONTANA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5. LONG-TERM DEBT

Long term debt and related current maturities consist of a Revenue Bond and Compensated Absences:

Port Authority Revenue Bond, Series 2010, Dated 7-20-2010, original amount \$750,000, interest rate 4.84%, payable in 20 principal installments plus interest on August 1st of each year and interest only payments on February 1st of each year, continuing until maturity August 1, 2030, secured by the Butte-Silver Bow mill levy support and revenues of the Port (see Note 12). The Mandatory Sinking Fund Redemption is set forth below.

Fiscal Year	Interest	Principal	Principal & Interest
2015	32,147	26,586	58,732
2016	30,829	27,873	58,701
2017	29,447	29,222	58,669
2018	27,998	30,636	58,634
2019	26,480	32,119	58,599
2020-2024	106,918	185,472	292,391
2025-2029	56,277	234,917	291,194
2030-2031	<u>5,419</u>	<u>110,655</u>	<u>116,074</u>
	<u>\$ 315,515</u>	<u>\$ 677,479</u>	<u>\$ 992,994</u>

A summary of long-term debt, including compensated absences, for the year ending June 30, 2014 is as follows:

	Balance 6/30/13	Additions	Payments	Balance 6/30/14	Due within One Year
Revenue Bond	\$ 702,837	\$ -	\$ (25,358)	\$ 677,479	\$ 26,586
Compensated Absences	<u>86,489</u>	<u>57,027</u>	<u>(45,324)</u>	<u>98,193</u>	<u>64,590</u>
Total	\$ 789,326	\$ 57,027	\$ (70,682)	\$ 775,671	\$ 91,176

NOTE 6. LEASES

As Lessor

As part of its normal operation, the Port leases warehouse space to tenants. All leases are accounted for as operating leases. The following schedule provides an analysis of the Port's investment in property under operating leases and property held for lease by major classes as of June 30, 2014.

PORT OF MONTANA PORT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 6. LEASES - CONTINUED

Buildings & improvements	\$ 753,094
Less accumulated depreciation	<u>(584,829)</u>
Net Buildings and improvements	\$ 168,265

The Port has the following schedule of minimum future rental income on its non-cancelable leases for the next five fiscal years:

2015	253,762
2016	258,229
2017	143,282
2018	84,960
2019	<u>84,960</u>
Total	\$ 740,233

Other lease agreements are negotiated monthly or annually.

NOTE 7. PENSION PLANS

The Port's union employees participate in the Western Conference of Teamsters Pension Plan. The plan is a multi-employer defined benefit pension plan. The Multi-Employer Pension Plan Amendments Act of 1980 amended ERISA to establish funding requirements and obligations for employers participating in multi-employer plans, principally related to employer withdrawal from or termination of such plans. The Port may be liable on termination or withdrawal from the plan for an allocated share of the plan's unfunded vested liabilities. Separate actuarial calculations of the Port's position are not available with respect to the multi-employer plan.

The plan was established in 1955 under a collective bargaining agreement between union members and employers. The plan provides for retirement, disability and surviving spouse benefits. An annual financial report can be requested from the Western Conference of Teamsters Pension Plan, 2323 Eastlake Avenue East, Seattle, Washington, 98102.

Contribution rates, as established by the bargaining unit, were \$2.78 through March 2014, increasing to \$2.88 April 2014, with limits placed on the number of eligible hours worked per month. Contributions to the multi-employer plan for fiscal years ended June 30, 2014, 2013 and 2012 were \$32,335, \$25,300 and \$22,624 respectively.

PORT OF MONTANA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7. PENSION PLANS – CONTINUED

The Port also participates in a state-wide, cost-sharing multiple employer retirement plan which covers all eligible employees, except those covered under the preceding plan. Participants select between a defined benefit retirement plan and a defined contribution retirement plan.

This plan, the Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost sharing plan administered by the Montana Public Employees' Retirement Administration (MPERA).

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. For the defined benefit retirement plan, eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56th times the number of years of service times the final average salary. Members' rights become vested after five years of service. Eligibility for the defined contribution retirement plan is upon termination of service. Vesting is immediate for member's contributions and earnings and 5 years of service for the employer's contributions and earnings. Benefits are dependent upon the individual account balance. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The PERS financial information is reported in a Comprehensive Annual Financial Report for the fiscal year end. It is available from the MPERA at 100 N. Park Avenue, Suite 200, P.O. Box 200131, Helena, Montana 59620-0131, (406) 444-3154 or at www.mpera.mt.gov/annualReports.shtml. Contributions rates are required and determined by State law. In fiscal year 2014, the PERS rate for employees was 7.9% and the employers' rate was 8.07%.

The State of Montana, on behalf of the Port of Montana Port Authority, contributed .10% of the covered wages to the Public Employees Retirement System. The on-behalf payment for the fiscal year ending June 30, 2014 was \$211. The financial statements do not reflect the related revenue and expenditure for these immaterial on-behalf payments.

The amounts contributed to the plans during the years ended June 30, 2014, 2013 and 2012 were equal to the required contribution for each year. The amounts contributed by

PORT OF MONTANA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7. PENSION PLANS – CONTINUED

both the Port and its employees (including additional voluntary contributions by employees as permitted by State law) were \$33,674, \$31,170 and \$29,229 for June 30, 2014, 2013 and 2012 respectively.

NOTE 8. DEFERRED COMPENSATION PLAN

For the fiscal year ended June 30, 2014, the Port maintained a Deferred Compensation Plan pursuant to Section 457 of the Internal Revenue Code. Employee participation is voluntary and is only available for non-union employees. The Port supplements voluntary employee contributions with an amount equal to 30% of such contribution not to exceed 3% of gross wages. The employer contribution to the plan was \$4,885 for fiscal year ended June 30, 2014.

NOTE 9. RELATED PARTIES

The Port is a municipal corporation of Butte-Silver Bow municipal government. The directors of the Port are appointed by the Chief Executive Officer and approved by the Council of Commissioners of Butte-Silver Bow. Butte-Silver Bow provides funding with statutorily authorized mill levy support to the Port each fiscal year (see note 3).

NOTE 10. RECENTLY ISSUED AND ADOPTED ACCOUNTING PRONOUNCEMENTS

GASB Statement 65 *Items Previously Reported as Assets and Liabilities*. The objective of GASB 65 is to properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. The adoption of this statement does not have a material impact on the Authority's financial statements.

NOTE 11. RISK MANAGEMENT

The Port faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e. errors and omissions, d) environmental damage, e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, and professional liabilities. The Port pays premiums to the Montana State Fund, for workers' compensation and, given the lack of coverage available, the Port has no coverage for potential losses from environmental damages.

PORT OF MONTANA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11. RISK MANAGEMENT – CONTINUED

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. Workers compensation rates decreased during the fiscal year.

PORT OF MONTANA PORT AUTHORITY
 SCHEDULE OF OPERATING EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2014

Direct Expenses	
Salaries and Wages	\$ 470,007
Payroll Expenses	211,757
Cost of Sales	59,475
Claims	1,000
Facility Repair and Maintenance	64,733
Equipment Repair and Maintenance	28,616
Utilities	17,674
Demurrage	155
Supplies	41,285
Total Direct Expenses	<u>\$ 894,701</u>
Overhead Expenses	
Misc. Supplies	22,147
Insurance	43,764
Utilities	43,795
Travel	2,824
Total Overhead Expenses	<u>\$ 112,530</u>
General and Administrative Expenses	
Professional Fees	\$ 36,065
Marketing	7,911
Office Supplies and Postage	10,302
Dues & Subscriptions	3,531
Bad Debts	(2,727)
Rental and Repairs	6,397
Meetings/Education/Misc.	5,270
Utilities and Garbage Removal	31,849
Automobile Expense	1,139
Other Taxes	3,665
Licenses & Permits	1,765
Total General and Administrative Expenses	<u>\$ 105,167</u>

PORT OF MONTANA
SCHEDULE OF INSURANCE COVERAGE
AS OF JUNE 30, 2014

Insurance/Bond Carrier	Type of Insurance/Bond	Amount of Coverage	Coverage through	Type of Coverage
PayneWest	Foreign Trade Zone Operator	\$100,000	2/4/2015	Compliance with Customs requirements for Foreign
PayneWest	Custodian of Bonded Merchandise	\$50,000	2/4/2015	Compliance with Customs requirements for Container
Montana Association of Counties	Package Policy		7/1/2015	
		\$1,000,000		Auto Liability Insurance
		\$8,419,770		Property Insurance
		\$500,000		Crime Coverage
		\$500,000		Theft
		\$500,000		Forgery/Alteration
		\$500,000		Computer Fraud
		\$853,000		Equipment
		\$5,000,000		Excess Liability
	All Risk for all property in which a member had an insurable value			Boiler
	\$750,000/\$1,500,000 subject to additional limits of \$1,000,000/\$3,000,000			Commercial General
HCC Surety Group	Federal Motor Carrier Safety	\$10,000	8/31/2014	ICC Broker
Allianz	Inland Marine	\$1,000,000	2/24/2015	Warehousemans
		\$50,000	2/24/2015	Rigging Floater
Montana State Fund	Workman's Compensation	NA	7/1/2015	Employee Injury



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Michael E. Johns, CPA
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Nancy A. Clark, CPA

CPA's

Michael J. Blakeley
John E. Boyce
Kyle T. McGree
Craig C. Tippet
David P. Petroni

Founder

John N. Newland, CPA
(1906-1999)

INDEPENDENT AUDITOR'S 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

To the Board of Commissioners
Port of Montana Port Authority

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 Port of Montana Port Authority, a component unit of Butte Silver Bow, Butte, Montana, as of and for the year ended June 30, 2014 and the related notes to the financial statements, and have issued our report thereon dated December 10, 2014.

Internal Control Over Financial Reporting

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

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

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

Purpose of this Report

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

Newland & Company

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Butte, Montana
December 10, 2014