

PORT OF OAKLAND

Report to Board of Port Commissioners
Year ended June 30, 2022



Certified
Public
Accountants

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Board of Port Commissioners
of the Port of Oakland, California
Oakland, California

We have audited the financial statements of the Port of Oakland, California (Port) as of and for the year ended June 30, 2022, and have issued our report thereon dated December 13, 2022. Professional standards require that we advise you of the certain matters relating to our audit that are included in the Required Communications section.

This communication also includes a status of our prior year comment and the Port's response thereto in the Status of Prior Year Comment section. We did not audit the Port's response and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Port Commissioners, Port management, and others within the Port, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
December 13, 2022

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1. Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 14, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Port solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

2. Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

3. Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

4. Qualitative Aspects of the Port's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Port is included in Note 2 to the basic financial statements. As described in Notes 2 and 7 to the Port's basic financial statements, the Port implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. The beginning balance of the net position was reduced by \$6,446,000 to reflect reamortization of a lease receivable, which was previously recorded as a capital lease, and recognition of related leased facilities as capital assets. The related prepayment of lease receivable, which was previously recorded as unearned revenue was reclassified as deferred inflows of resources. Disclosures regarding the Port's lease activities were expanded as described in Note 7 to the basic financial statements.

The Port also implemented the following GASB Statements: Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; Statement No. 92, *Omnibus 2020*; Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal*

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Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No 32; and certain requirements of GASB Statement No. 99, Omnibus 2022. The implementation of these statements did not have a significant impact on the Port's financial statements for the year ended June 30, 2022.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the Port's financial statements are:

1. Fair value measurements of investments were based on quoted prices in active markets or other observable market or industry inputs.
2. Allowance for losses on customer accounts receivable is based on historical collection activity.
3. Depreciation estimates for capital assets are calculated under the straight-line method using estimated useful lives of the assets based on the nature of the depreciable assets.
4. Estimated claims liabilities and pollution remediation costs are based on valuations from Port personnel and external consultants.
5. Workers' compensation liability is based on an actuarial valuation using historical loss and other data.
6. The net pension and OPEB liabilities, contributions, expenses, and other related balances are based on actuarial information provided by the California Public Employees' Retirement System (CalPERS) and actuarial valuations performed by the Port's actuaries.
7. The discount rate used for the calculation of the lease receivable is based on the Port's adopted tax-exempt Municipal Market Data (MMD) yield curve rates, as a proxy for the Port's borrowing costs.
8. Allocation of costs to construction projects is based on a methodology developed in accordance with the Code of Federal Regulations Title 2 Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

We evaluated the key factors and assumptions used to develop these accounting estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Port's financial statements relate to:

1. Fair value measurements of investments are disclosed in Note 3.

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2. Estimated claims liabilities and pollution remediation costs are disclosed in Note 13.
3. Workers' compensation liability is disclosed in Note 14.
4. Net pension and OPEB liabilities are disclosed in Notes 9 and 10, respectively.

5. Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

6. Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. No misstatements were identified as a result of our audit procedures.

7. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Port's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

8. Representations Requested from Management

We have requested certain written representations from management in a letter dated December 13, 2022.

9. Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

10. Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Port, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Port's auditors.

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11. Other Information Included in Annual Comprehensive Financial Report

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the annual comprehensive financial report, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards:

Required Supplementary Information

We have applied certain limited procedures to the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of pension contributions, the schedule of changes in net OPEB liability and related ratios, and the schedule of OPEB contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Supplementary Information

We were engaged to report on the schedule of revenues and expenses by business line, which accompanies the financial statements but is not RSI. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Other Information

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI or supplementary information. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

12. Modification of the Auditor's Report

Our report includes an emphasis of matter paragraph regarding the Port's implementation of GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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2017-002 Risk Assessment

Informational Comment

With potential changes in business processes and controls resulting from the significant system upgrades, as well as new federal grant compliance requirements under the Uniform Guidance, continuing legislative and funding changes, current economic conditions, and future GASB implementations, the Port is exposed to various risks in operational effectiveness and efficiency, accurate financial reporting and compliance with laws and regulations.

We recommend that the Port perform an updated risk assessment considering the objectives of the COSO *Internal Control-Integrated Framework* (Framework), which is the common framework against which internal control systems can be assessed and improved. The Framework establishes five elements of internal control that the Port should consider at the entity-wide level identifying the pervasive risks affecting the Port: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring. These risks may include the Port's financial reporting information system and related subsidiary systems, changes in fiscal policies and federal and state regulations. The Port should also inventory and evaluate each of its critical business cycles/processes (e.g. revenue/cash receipts, expenses/cash disbursements, grants management, etc.) under the element of Control Activities and consider risks related to staff turn-over and institutional knowledge loss, adequacy of staffing levels to mitigate errors in financial reporting and noncompliance, and efficiency and effectiveness of processes due to changes in laws, regulations and technology.

Management Response:

Port staff started work on a risk assessment during 2019; however, several key retirements and staff changes have delayed completion. The Port recently filled several key positions whose involvement in the risk assessment is necessary. We expect to recruit the remaining key positions by end of December 2023. Additionally, the Port will work with the Internal Audit Department to assess inherent risks in the current business processes. This will involve reviewing and updating the current business procedures to improve the entity-wide internal controls.