



PORT OF OAKLAND FY 2018 Audit Service Plan

PRESENTED BY:
MACIAS GINI & O'CONNELL LLP

JULY 9, 2018



Certified
Public
Accountants

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Accountants

Transmittal Letter

July 9, 2018

We are pleased to present our 2018 Audit Service Plan (Plan) for the Port of Oakland (Port) for the year ended June 30, 2018. In preparing our Plan we have drawn on our experience in serving the Port in prior years and numerous governmental entities within California. This Plan presents our engagement service team; timeline for deliverables; highlights our audit approach, scope and objectives; incorporates some of the key audit issues facing the Port; and summarizes audit responsibilities under *Government Auditing Standards*, issued by the Comptroller General of the United States. Also included in this document is a summary of recent technical developments in governmental accounting and financial reporting that may impact the Port over the next few years.

We are committed to serving the Port so that citizens, elected officials, management, grantor agencies and creditors continue to have the utmost confidence in the Port's financial statements, internal control systems and compliance with laws and regulations. We dedicate the resources of our team and provide ongoing access to our very best resources to exceed the Port's expectations.

We appreciate the opportunity to be of service and look forward to discussing the highlights of our Plan with the Port.

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

Macias Gini & O'Connell LLP

SECTION 1

Executive Summary

mGO

Our goal is to continuously exceed the expectations of the Port of Oakland (Port), and focus the resources of our firm in providing efficient, cost-effective and high-quality services to the Port.

MGO OBJECTIVES

Our mission is to be the professional service firm that consistently exceeds the expectations of our clients and our people. Our objective is to deliver seamless, high quality, timely service to the Port in all areas in which we provide professional services. In addition to audit services these services include accounting, consulting, tax and other specialized services. We will meet our objectives by identifying opportunities to provide value-added services to the Port.

In order to accomplish this, we will:

- Identify and resolve reporting, accounting and audit issues timely and effectively;
- Regularly communicate with Port management and the Audit Committee;
- Complete our audit on a timely basis;
- Provide seamless service across the organization;
- Understand your organization, culture, programs and services;
- Provide the suited experienced professionals;
- Utilize specialists where unique skill sets are required;
- Apply our technical knowledge to identify solutions to organizational and financial issues;
- Respond to critical issues with a sense of urgency;
- Act as another set of “eyes and ears”;
- Meet all deadlines; and
- Communicate key findings to the Port.

OUR FOCUS IS ON THE PORT'S CRITICAL AUDIT AREAS AND OPERATION CHANGES

Through planned face-to-face meetings with the Audit Committee chair, the Executive Director, Chief Financial Officer, and key management personnel throughout the year, we will directly ascertain the Port's expectations of us and we will communicate our responsibilities under professional standards. We will listen to what members of management expect from us and ask them to tell us what service attributes are most important to them. We will use this information to develop a comprehensive audit approach to respond to identified issues and service needs for 2018.

AUDIT SERVICES

Our audit services emphasize comprehensive planning and risk assessment to fulfill our professional responsibilities and enable us to be responsive to the needs of the Port.

OUR SERVICE TEAMS

An important part of successfully implementing our plan is identifying and utilizing the appropriate resources. We have selected an engagement team that is committed to carrying out our service plan. Annie Louie, Partner, will lead our team in providing quality service to the Port. The engagement team section lists the individuals aligned to the Port's audits.

QUALITY AND RESPONSIVE SERVICE

We provide service, which stresses responsive attention year-round. Close communication with our clients is one of our top service qualities – it is the only way we serve our clients. We will work with you as business advisors, and we will place special emphasis on being actively involved in understanding all significant financial and reporting matters. Accordingly, we will meet with you regularly to stay abreast of your service needs and special concerns. You can call upon us as a resource at any time.

AUDIT APPROACH

Our audit approach carefully considers the identification of key risk areas and allocation of appropriate resources.

Professionals with extensive auditing and accounting experience lead all phases of our audit. With our experienced leaders in the field, our efficiency and effectiveness increase when dealing with complex accounting and auditing issues. Our audit procedures include analytical reviews, verification of balances and transactions based on independent supporting documentation using statistical and judgmental sampling techniques, confirmation of key balances, and analysis of key assumptions supporting significant estimates made by management.

This document further presents discussions on our approach to the services we will provide to the Port, details our framework for planning and performing the audit, and sets forth our audit scope and timing.

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SECTION 2

The Engagement Team



Engagement Team

The engagement teams selected to serve the Port represent a strong, balanced blend of talent, professional skills, and industry experience that is most critical to working effectively with local governments of your size and magnitude.

Each of our key engagement team members possesses:

- Broad public sector industry experience
- Understanding of the major issues facing local governments
- Demonstrated technical proficiency

The MGO Team is integrated to allow us to respond to your needs. We are committed to providing the resources necessary to meet the timeline that has been established by the Port. This commitment includes providing the appropriate number and level of staffing to meet your needs.



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SECTION 3

Audit Timing



We recognize the importance of timely completion of audit tasks and deliverables. The timing of our audit procedures will be coordinated with management to minimize disruption of Port operations and to ensure timely delivery of all reports by your deadlines.

Government-related entities often depend on a structure of interlocking relationships for managing broad programs and resources. Our philosophy for a successful engagement is based on organization,

communication, and coordination between the two parties responsible for the completion of the audit – the accounting firm and the client. We take coordination seriously and regard it as an integral factor to the relationship. We welcome the Port's involvement in the planning process and believe that monitoring progress will result in timely financial reporting.

We are committed to delivering the Port's various reports according to the Port's proposed time plan.

AUDIT TIMELINE*	CAFR	Deferred Compensation Plan	Single Audit, Passenger and Customer Facility Charges
Planning and Execution of Tests of Controls			
Submit audit service plan	7/9	7/9	7/9
Planning meetings with key management and Board of Commissioners representatives	Week of 7/9	Week of 7/9	Week of 7/9
Perform planning procedures	June and July	June and July	June and July
On-site planning and execution of tests of controls	July	July	July
Execution of Substantive Procedures			
Auditor's receipt of final client trial balances, draft Schedule of Expenditures of Federal Awards, and schedules of cash receipts and cash disbursements for Passenger Facilities Charges (PFC) and Customer Facility Charges (CFC), and other prepared by client items	8/22	11/9	8/22
Auditors' receipt of draft financial statements, including notes, management's discussion and analysis (MD&A), transmittal letter, and statistical section	9/4	11/9	9/4
On-site year-end fieldwork	8/27 - 9/14	11/12-11/21	8/27 - 9/14
Completion Procedures and Communications			
Auditor to provide review comments to the Port	9/17 - 9/21	11/30	n/a
Provide draft management letter comments, if applicable	9/28	n/a	n/a
Audit Committee review draft CAFR and draft management letter comments	10/19	n/a	n/a
Issuance of final reports upon receipt of management representation letter	10/31	12/21	1/31/19
Issuance of required communications and management letter comments, if applicable	10/31	n/a	n/a
Communication			
Status meetings with management	Weekly	Weekly	Weekly
Exit conference with Finance Department	October	December	January
Consult with Port management throughout the year on business and accounting issues	On-going	On-going	On-going

*The above timeline is based on anticipated cooperation from Port's personnel and the assumption that unexpected circumstances will not be encountered during the audit.

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SECTION 4

The Audit Process



PLANNING

TIMELY INVOLVEMENT WITH RISKS AND ISSUES

Planning the Port's audits is a continuous process. Our ongoing attention to changes in the Port's economic and operating environment enables us to react to changing circumstances and unanticipated events and enhances our understanding of the Port. The objectives of the planning phase are to develop an audit plan that

- 1) effectively and efficiently meets our professional responsibilities and
- 2) meets or exceeds the expectations and needs of Port management and the Board of Port Commissioners.

To accomplish our planning objectives, we will:

- Document our understanding of the internal and external factors affecting the Port, which enables us to identify and evaluate relevant areas of risk.
- Document our understanding of the Port's control environment, accounting systems and control procedures for significant audit areas and transaction streams.
- Finalize an audit plan that identifies critical audit areas and procedures to address such risks.
- Ensure that our plan provides appropriate audit coverage.
- Coordinate our audit services with the support of management for maximum efficiency.
- Develop and execute an audit plan that is designed to deliver our services effectively and efficiently and provides a basis for the issuance of our opinions.
- Strive to add value.

CLIENT SERVICE PROGRAM

Through our client service program, our firm's most prestigious clients, such as the Port of Oakland, receive the direct attention of one of our

most knowledgeable and experienced professionals, Annie Louie. Annie will review our annual client service plan and the reports prepared on the results of each year's work, and the assignment of personnel to the engagement. In addition, she will assure that your specialized needs receive priority access to top resources from anywhere in our organization.

ENVIRONMENTAL ASSESSMENT

In addition, our planning process evaluates the Port's financial reporting risks based on the broader environment, drawing upon our knowledge of economic and operational changes affecting the Port, including the impact of:

- Recent economic trends and their effect on the Port's operations
- Uniform Guidance
- Pension and OPEB accounting and financial reporting requirements

EXECUTION

PERFORMANCE – EXECUTION OF AUDIT PLAN

Our audit scope must be designed to provide sufficient audit coverage to enable us to express an opinion on the Port's financial statements, as well as addressing all known audit risks, which could materially impact the Port's financial statements.

Execution generally includes the following steps:

- Performance of audit tests and evaluation of results
- Development of organizational insights
- Review of financial statements, financial statement disclosures and subsequent events
- Obtaining management representations
- Analyze implementation of new accounting and reporting standards

During the course of the audit, we use our knowledge gained during the planning phase related to your current organization strategies, economic conditions, internal controls, and the identified risks to tailor our audit procedures.

APPROACH TO CRITICAL AUDIT AREAS

We have identified certain critical audit areas facing the Port. During our planning phase of the audit, we expand our understanding of these critical audit areas and obtain further information as needed in order to appropriately design audit procedures to address these issues.

Other Postemployment Benefits (OPEB) – The Port participates in the California Employers' Retiree Benefit Trust (CERBT) Fund administered by CalPERS to prefund its Other Post Employment Benefits (OPEB). The Port's annual OPEB expenses are based on various factors, including actuarially determined contributions (ADC) and actual contributions made. Our audit approach will focus on the reasonableness of actuarial assumptions in the actuarial valuation, and calculations for other postemployment benefits. We will also review for the proper accounting and disclosure of the OPEB trust. The Port will be required to implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2018. We will verify the Port complies with applicable requirements of this GASB Statement.

Self-Insured Risks – The Port is exposed to various risks of loss and is self-insured for most of its liability risks, including general liability, workers' compensation claims and certain environmental matters. We consider this to be a critical area due to the high degree of judgment involved in the calculation of the liabilities. Our procedures will review the Port's calculation used to compute these liabilities with an emphasis placed on the consistency of assumptions

used and data maintained, review the adequacy of estimated reserves developed by the Port, and test the roll forward of the claims liability for each major component from prior year.

Debt Covenant Compliance – At June 30, 2017, the Port had nearly \$1.1 billion in bonds payable outstanding. As part of our audit procedures, we plan to review significant debt related transactions during the fiscal year and assess the Port's compliance with debt covenants.

Single Audit - Uniform Guidance – The Port consistently receives federal funding from the U.S. Department of Transportation and the U.S. Department of Homeland Security. In addition to the single audit required under Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the Port must comply with applicable federal statutes, regulations, and the terms and conditions of the federal awards. Noncompliance may have significant impacts to continued federal funding and revenue recognition in the Port's financial statements.

Our audit procedures will consider the Port's compliance with relevant grant requirements that pertain to federal awards that have a direct and material effect on each major program.

TIMING OF OUR WORK

We have timed our work to coincide with key activities that are taking place in the Port throughout the year. The Audit Timing section of this Plan outlines the timing of our procedures.

THE RESULT

Our process is designed to enable us to issue the independent auditor's reports within the agreed upon timeline. The result of our work will also include the timely delivery of observations and suggestions regarding the control environment and operations of your organization. Such communications will be delivered both formally, through the report to management, as well as

informally through regular meetings with management.

REPORTING

SCOPE AND RESPONSIBILITY

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States for the purpose of expressing opinions on the fair presentation of the Port's financial statements in conformity with U.S. generally accepted accounting principles. In addition, we will perform certain limited procedures involving required supplementary information mandated by the Governmental Accounting Standards Board as required by GAAS. Our audits are designed to obtain reasonable (as opposed to absolute) assurance about whether the financial statements are fairly presented.

The Port's Comprehensive Annual Financial Report (CAFR) presents financial information on the activities of the Port for which the Board of Port Commissioners has oversight, governing, and budgeting responsibilities. The CAFR encompasses the basic financial statements and other financial and statistical information including combining statements of individual funds, supporting schedules, ten-year trend data, and various other statistical data.

REPORTING RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

We will also report directly to management and to you matters coming to our attention during the course of our audit that we believe are deficiencies. A 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 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.

In addition to communications about our responsibilities under U.S. generally accepted auditing standards and the planned scope and timing of the audit, we will communicate to you certain other matters related to the conduct of our audit, including where appropriate the following matters:

- Qualitative Aspects of Accounting Practices
- Corrected and Uncorrected Misstatements
- Difficulties Encountered in Performing the Audit
- Disagreements with Management
- Management Representations
- Management Consultations with Other Independent Accountants
- Other Audit Findings or Issues
- Other Information in Documents Containing Audited Financial Statements

MANAGEMENT COMMENTS

One of the primary service objectives is to make constructive and timely recommendations and to provide advice to you and management on matters we believe warrant attention. We have tailored our audit approach to focus on those risks that are important to achieving control and reporting objectives. We have the benefit of being objective outsiders in considering the information we gather. The result is that we are able to add the perspective of our experience and expertise to translate our audit findings into recommendations and insights concerning existing or potential problems. We will keep

management and you apprised of any matters that we believe warrant consideration whenever they come to our attention.

ASSESSMENT – CLIENT SERVICE SATISFACTION

Annually we obtain direct feedback from our clients about their satisfaction level with MGO services. We have partnered with a satisfaction research firm, Inavero, to conduct brief 3-question surveys that allow you to rate our services and share your valuable input. In addition to communicating with management regarding the effectiveness of our services, we use the survey results to identify areas to focus on in order to increase your satisfaction with our service delivery.

Once we receive your response and feedback, we'll identify opportunities to add value; to identify the most experienced people within our organization to best respond to the Port's needs; and to monitor the delivery of such services to ensure we exceed your service expectations.

In addition, we will hold recurring meetings between MGO and the Port's management to discuss emerging issues. The key objective of these meetings is to consolidate our combined knowledge of the Port's organizational changes and new programs or initiatives. These meetings will result in a better understanding of the challenges facing the Port and will enable us to proactively identify opportunities and bring creative ideas to the attention of the Port's management.

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SECTION 5

Engagement Communications



The following represents our understanding of the services we will provide the Port of Oakland.

You have requested that we audit the financial statements of the Port of Oakland (Port), as of June 30, 2018, and for the year then ended and the related notes, which collectively comprise the Port's basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this communication. Our audit will be conducted with the objective of our expressing an opinion on each opinion unit applicable to those basic financial statements.

Accounting principles generally accepted in the United States of America, (U.S. GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) require that certain required supplementary information (RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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. As part of our engagement, we will apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP. This RSI will be subjected to certain limited procedures but will not be audited:

1. Management Discussion and Analysis (MD&A)
2. Schedules of Changes in Net Other Post-Employment Benefits (OPEB) Liability and Related Ratios
3. Schedule of Contributions - OPEB

Supplementary information other than RSI will accompany the Port's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and additional procedures in accordance with U.S. GAAS. We intend to provide an opinion on the following supplementary information in relation to the basic financial statements as a whole:

1. Schedule of Expenditures of Federal Awards
2. Schedule of Passenger Facility Charge Cash Receipts, Cash Disbursements, and Interest by Quarter
3. Schedule of Customer Facility Charge Cash Receipts and Cash Disbursements

Also, the document we submit to you will include the following other additional information that will not be subjected to the auditing procedures applied in our audit of the basic financial statements:

1. Introductory and statistical sections prepared by the Port's management required by the Governmental Finance Officers Association for the Comprehensive Annual Financial Report (CAFR).

AUDITOR RESPONSIBILITIES

We will conduct our audit in accordance with U.S. GAAS. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic

financial statements, whether due to fraud or error, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.

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 basic financial statements. If appropriate, our procedures will therefore include tests of documentary evidence that support the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with creditors and financial institutions. As part of our audit process, we will request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the basic financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements (whether caused by errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and, if applicable, in accordance with *Government Auditing Standards*, and/or any state or regulatory audit requirements.

In making our risk assessments, we consider internal control relevant to the Port's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the

basic financial statements that we have identified during the audit. Our responsibility as auditors is, of course, limited to the period covered by our audit and does not extend to any other periods.

We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

COMPLIANCE WITH LAWS AND REGULATIONS

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of Port's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

MANAGEMENT RESPONSIBILITIES

Our audit will be conducted on the basis that management and those charged with governance acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America
- b. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- c. To provide us with:
 - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters;
 - ii. Additional information that we may request from management for the purpose of the audit; and
 - iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
 - iv. For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by the Port's auditor;
- d. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities;
- e. For adjusting the basic financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole; and
- f. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets.

With regard to the supplementary information referred to above, management acknowledges and understands management's responsibility: (a) for the preparation

of the supplementary information in accordance with the applicable criteria; (b) to provide us with the appropriate written representations regarding supplementary information; (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and (d) to present the supplementary information with the audited basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the Port of the supplementary information and our report thereon.

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audits.

REPORTING

We will issue a written report upon completion of our audit of Port's basic financial statements. Our report will be addressed to the governing body of the Port. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

In addition to our audit of the Port's basic financial statements, we will also perform the following:

- Audit and separately report on compliance with federal award programs in accordance with Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* set forth in Title 2 CFR,

Subtitle A, Chapter II, Part 200 (Uniform Guidance).

- Audit and separately report on the financial statements of the Port's Deferred Compensation Plan.
- Audit and separately report on compliance with requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance will not be an objective of the audit and, therefore, no such opinion will be expressed.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with management the electronic submission and certification. If applicable, we will provide copies of our report for management to include with the reporting package the Port will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period.

ENGAGEMENT ADMINISTRATION

We understand that your employees will prepare all confirmations we

request and will locate any documents or support for any other transactions we select for testing.

If you intend to publish or otherwise reproduce the basic financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

With your written authorization, we may from time to time, and depending on the circumstances, use third-party service providers in serving the Port. We may share confidential information about the Port with these service providers, but remain committed to maintaining the confidentiality and security of the Port's information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of the Port's personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of the Port's information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

As part of our engagement, if the Port requires a comfort letter or other letters in accordance with securities issuances, professional standards require that we review the preliminary offering document as it contains or references our audited financial information for inconsistencies and other misstatements of facts. Those standards require that we receive the preliminary offering document sufficiently prior to its release date. We will then communicate to management our responsibility for such information, our procedures performed, and the results of those procedures. Should we identify a material inconsistency, we will make an assessment as to whether or not the audited basic financial statements or the preliminary offering document needs to be revised. Should management refuse to make the revisions, we may modify our comfort letter. We will communicate this refusal to those charged with governance and potentially hold our reports or withdraw from the engagement. Should inconsistencies be identified subsequent to the report release date, we may apply similar procedures.

We will discuss with management any apparent material misstatements of fact. We may request that management discuss this matter with legal counsel or any other appropriate third party. Should management refuse to do so, we will report the matter to those charged with governance.

Annie Louie, CPA, is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising MGO's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices

for these fees will be rendered as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report(s). The Port will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The contract fee is based on anticipated cooperation from the Port's personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with management and arrive at a new fee estimate before we incur the additional costs.

During the course of the audit we may observe opportunities for economy in, or improved controls over, the Port's operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

You agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

We agree to retain our audit documentation or work papers for a period of seven years after the report release date or for any additional period requested by the Port's cognizant agency. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation. Upon expiration of the seven-year period, MGO will be free to destroy our records related to this engagement. However, MGO does not keep any original client records, so

we will return those to management at the completion of the services rendered under this engagement. When records are returned to management, it is management's responsibility to retain and protect the records for possible future use, including potential examination by any government or regulatory agencies.

At the conclusion of our audit engagement, we will communicate to Board of Port Commissioners the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

The audit documentation for this engagement is the property of MGO and constitutes confidential information. However, we may be requested to make certain audit documentation available to the Port's cognizant agency or its designee pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit

documentation will be provided under the supervision of MGO's personnel.

Furthermore, upon request, we may provide copies of selected audit documentation to the Port's cognizant agency or its designee. These parties may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

In accordance with the requirements of *Government Auditing Standards*, we have provided a copy of our latest external peer review report of our firm for your consideration and files.



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September 17, 2015

System Review Report

To the Partners of Macias Gini & O'Connell LLP
 and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell, LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell, LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Macias Gini & O'Connell, LLP has received a peer review rating of *pass*.

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SECTION 6

Recent Developments in Governmental Accounting

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GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

The following is a summary of the more recent and relevant Governmental Accounting Standards Board (GASB) and other pronouncements that may have an impact on the Port in the current and future periods. We will have ongoing discussions with management about these as well as other developments in an effort to be prepared in advance for their implementation.

FISCAL YEAR 2018 IMPLEMENTATION

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB Statement No. 75 is intended to make OPEB accounting and financial reporting consistent with the pension standards outlined in GASB Statement No. 68. Similar to the changes made to the pension standards, these new OPEB Standards provide a more comprehensive picture of what state and local governments have committed to their employees and the associated costs. Accordingly, the OPEB standards will affect the Port's financial statements in the following ways:

- Change how the long-term obligation and the annual expense of OPEB are measured,
- Recognize the net OPEB liability on the face of the financial statements, and
- Present more extensive note disclosures and related supplemental schedules.

This statement is effective for fiscal years beginning after June 15, 2017. This statement applies to government employers who provide OPEB plans to their employees.

GASB Statement No. 81 – Irrevocable Split Interest Agreements

GASB Statement No. 81 improves accounting and financial reporting for

irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. It also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The statement is effective for fiscal years beginning after December 15, 2016, and should be applied retroactively.

GASB Statement No. 86 – Certain Debt Extinguishment Issues

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

FISCAL YEAR 2019 IMPLEMENTATION

GASB Statement No. 83 – Certain Asset Retirement Obligations

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates

of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

The statement is effective for fiscal years beginning after June 15, 2018.

GASB Statement No. 85 – Omnibus

GASB Statement No. 85 addresses practical issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, pensions and other postemployment benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

FISCAL YEAR 2020 IMPLEMENTATION

GASB Statement No. 84 – Fiduciary Activities

GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The statement is effective for fiscal years beginning after December 15, 2018.

GASB Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

GASB Statement No. 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

FISCAL YEAR 2021 IMPLEMENTATION

GASB Statement No. 87 – Leases

GASB Statement No. 87 is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of

governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement requires that interest cost incurred before the end of a construction period be recognized as an expenditure/expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

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We look forward to
hearing from you.

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