PORT OF OAKLAND

Report to Board of Port Commissioners

Year ended June 30, 2019

MGO Certified Public Accountants

PORT OF OAKLAND
Report to Board of Port Commissioners
Year ended June 30, 2019

Table of Contents

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, 2019, and have issued our report thereon dated November 14, 2019. Professional standards require that we advise you of the certain matters relating to our audit that are included in the Required Communications section.

We have also provided a status of our prior year comments in the Status of Prior Year Comments section. The Port's responses to the comments identified in our audit are described in the accompanying schedule of current year comments and responses. We did not audit the Port's responses and, accordingly, we express no opinion on them. We will review the status of the comments during our next audit engagement. We have already discussed the comments and suggestions with various Port personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of the matter, or to assist you in implementing the suggestions.

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 14, 2019

PORT OF OAKLAND
Report to Board of Port Commissioners
Required Communications
Year ended June 30, 2019

1. Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 18, 2019, 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 financial statements. As described in Note 2 to the Port's basic financial statements, the Port implemented a new Governmental Accounting Standards Board (GASB) Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. Implementation of the statement did not have a significant impact on the Port for the fiscal year ended June 30, 2019. 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 estimates affecting the Port's financial statements were:

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 other postemployment benefits (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. 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 estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements and the related notes to the financial statements were:

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

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

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 and each applicable opinion unit. Management has corrected all identified misstatements.

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. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

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, that are included in the management representation letter dated November 14, 2019.

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, 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.

11. Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the Port's audited financial statements does not extend beyond the financial 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, we have applied certain limited procedures to the management's discussion and analysis, the schedule of employer pension contributions, the schedule of proportionate share of the net pension liability, the schedule of pension contributions, the schedule of changes in the 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.

We were engaged to report on the schedule of revenues and expenses by business line, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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 financial statements.

2018-001 GASB Statement No. 84 *Fiduciary Activities*
Informational Comment

Fiduciary activities involve a government taking care of assets that belong to individuals or other entities outside of the government itself. GASB Statement No. 84, *Fiduciary Activities*, establishes guidance regarding what constitutes fiduciary activities for accounting and financial reporting purposes, the recognition of liabilities to beneficiaries, and how fiduciary activities should be reported.

For activities that are not pension plans or OPEB plans, 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. The activity must meet all of the following criteria to be considered a fiduciary activity:

1. The assets are controlled by the government.
2. The assets are not derived solely from the government's own-source revenues or from government-mandated nonexchange transactions, or voluntary nonexchange transactions.
3. The assets have one or more of the following characteristics:
   a. The assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government.
   b. The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals.
   c. The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

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.

Management Response:

Port staff evaluated the provisions of GASB Statement No. 84, *Fiduciary Activities* (GASB 84) for applicability to the Port's deferred compensation plan and determined that GASB 84 does not have an impact on the Port's financial reporting.

2017-001 GASB Statement No., 87 *Leases*
Informational Comment

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). The objective of GASB 87 is 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. Application of this statement is effective for the Port's fiscal year ending June 30, 2021. This new standard represents a significant change to the accounting and financial reporting of certain types of leases. We recommend the Port identify all of its lease contracts and assess the impact of the required accounting and reporting changes.

Management Response:

Port staff is currently working on a template for evaluating leases and to facilitate the accounting for leases that are subject to the accounting requirements of GASB 87. Port staff will be attending a training at the end of January specifically addressing implementation of GASB 87 as it relates to airports and leases that are common for airport operations. We continue to target completion of a preliminary analysis prior to the development of the Port's fiscal year 2021 budget and will be ready to implement GASB 87 for the Port's June 30, 2021 financial statements.

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 continues to work on an inventory of critical business processes and the evaluation of those processes. A preliminary review and assessment has identified a need to improve documentation of procedures and to update or in some cases create forms to improve documentation of activities. Port staff will be addressing these concerns and completing the risk assessment by the close of fiscal year June 30, 2020.