

PORT OF TACOMA – AUDIT COMMITTEE
THE FABULICH CENTER, ROOM 104
3600 PORT OF TACOMA ROAD, TACOMA, WASHINGTON

PORT OF TACOMA AUDIT COMMITTEE:

1. Don Johnson, Chair
2. Clare Petrich, Vice Chair (telephonically)

STAFF PRESENT:

1. Darren Arakaki, Director, Accounting
2. Erin Galeno, CFAO
3. Carolyn Lake, Port Counsel
4. Judi Doremus, Executive Assistant
5. Juliet Campbell, Clerk of the Port

1:00 PM – AUDIT COMMITTEE MEETING

1. RETURN TO ORDER:

Commissioner Johnson called the Audit Committee Meeting to order at approximately 1:05 p.m. and a flag salute was performed.

2. CONSENT AGENDA:

A. December 19, 2017 Audit Committee Minutes

Motion was made by Commissioner Petrich, seconded by Commissioner Johnson:

“Approve the December 19, 2017 Audit Committee Minutes.”

VOTE: 2-0

MOTION CARRIED

3. PUBLIC COMMENT: None.

4. GENERAL BUSINESS:

A. Introduction to the Port’s Various Audits

Discussion Included:

1. Director of Accounting Darren Arakaki provided an overview of the various port audits including: Annual Financial Audits, Washington State Accountability Audit and Regulatory Compliance Audits, Washington State Performance Audits, Port of Tacoma Internal Voluntary Performance/Operational and Internal Regulatory Controls Audits.
2. The Port of Tacoma incurs a federal grant audit if it meets certain thresholds of federal grant spending. It did not meet those thresholds in 2017 but expects to meet them in 2018.
3. The State Auditor’s Office (SAO) has performed this audit for the Port in the past. Commissioner McCarthy was elected to the Commission effective 2018. His spouse is the State Auditor. Because the federal grant audit includes an audit of financial statements, independence is required. The SAO has informed the Port it cannot assert independence due to the related parties. Staff will bring recommendations of possible auditors to perform this grant to the Committee later this year.

B. External Audit Results

Discussion Included:

1. External auditors RSM US LLP provided the results of the 2017 financial statements audit. Financial statements were issued in March 2018 with an unmodified “clean” opinion. No material weaknesses were identified.
2. Significant transactions for 2017 included adoption of new accounting standards GASB 74 and 86 and refunding of 2008B Revenue bonds; new bonds totaling \$20M issued.
3. New GASB Pronouncements were discussed. GASB 85 and 86 (2018), GASB 84 (2019) and GASB 87 (2020)

C. Internal Regulatory Compliance Report

Discussion Included:

1. The Port is in the final production of its eighth annual Internal Compliance Report. The Port internally tracks any non-compliance activities. Also tracked are the various state, federal and local agency regulations the Port follows.
2. Improvement activities over previous years are tracked and the priorities for 2018 are identified. This report is made available to the public on the Port of Tacoma public website and should be available May 2018.

3. Commissioner Johnson commented it is a good disciplinary process to go through these annually to ensure new statutes or policies are not overlooked. Management must be kept ware of fiscal and legal responsibilities.

6. **COMMISSIONER COMMENT:**

Commissioner Johnson – Expressed his thanks for the relationship between the Ports accounting department and the auditors. Ongoing communication results in clean audits.

7. **ADJOURNMENT:**

There being no further business, Commissioner Johnson adjourned the meeting at 1:30 p.m.



Donald C. Johnson, Audit Committee Chair
Port of Tacoma Commission

ATTEST:



Clare Petrich, Audit Committee Vice-chair
Port of Tacoma Commission



Juliet Campbell, Clerk of the Port
Port of Tacoma



April 3, 2018

Audit Committee
Port of Tacoma
Tacoma, Washington

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Attention: Audit Committee

This letter is to inform the Audit Committee of the Port of Tacoma about significant matters related to the conduct of our audit as of and for the year ended December 31, 2017, so that it can appropriately discharge its oversight responsibility and we comply with our professional responsibilities.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America (GAAS).

The Respective Responsibilities of the Auditor and Management

Our responsibility under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated September 28, 2017. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated September 28, 2017 regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.

Significant Accounting Practices, Including Policies, Estimates and Disclosures

In our meeting with you, we will discuss our views about the qualitative aspects of Port of Tacoma's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. The following is a list of the matters that will be discussed, including the significant estimates, which you may wish to monitor for your oversight responsibilities of the financial reporting process:

- Fair value measurements
- Environmental liabilities
- Subsequent events
- Depreciation is computed on the straight-line method over the useful life of the capital asset which ranges from ten to 75 years for buildings and improvements and five to 20 years for machinery and equipment.
- The net pension liability was determined by an actuarial valuation.

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Uncorrected Misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Consultation With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Management Representations

Attached is a copy of the management representation letter.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Port of Tacoma.

This letter is intended solely for the information and use of the Audit Committee and is not intended to be, and should not be, used by anyone other than this specified party.

RSM US LLP



People. Partnership. Performance.

P.O. Box 1837
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March 29, 2018

RSM US LLP
1145 Broadway Plaza, Suite 900
Tacoma, WA 98402

This representation letter is provided in connection with your audits of the basic financial statements of Port of Tacoma (the Port) as of and for the year ended December 31, 2017 and 2016 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of March 29, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated September 28, 2017, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with the Northwest Seaport Alliance which is a joint venture in which the Port has an interest, including accounts and advances receivable and payable, and leasing arrangements, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
9. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit

Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.

10. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

11. We have provided you with:

- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
- b. Additional information that you have requested from us for the purpose of the audits;
- c. Unrestricted access to persons within the Port from whom you determined it necessary to obtain audit evidence; and
- d. Minutes of the meetings of the governing boards and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. All transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of allegations of fraud or suspected fraud affecting the Port's financial statements involving:

- a. Management.
- b. Employees who have significant roles in internal control.
- c. Others where the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the Port's financial statements received in communications from employees, former employees, analysts, regulators or others.

16. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

17. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.

18. We have disclosed to you the identity of the Port's related parties and all the related-party relationships and transactions of which we are aware.

19. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Port's ability to record, process, summarize and report financial data.

20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

22. With respect to Management's Discussion and Analysis and Required Supplementary Information presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. There were no underlying significant assumptions or interpretations regarding the measurement or presentation of such information:

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm:

23. We are responsible for:
 - a. Compliance with the laws, regulations, and provisions of contracts and other agreements applicable to the Port; and
 - b. Establishing and maintaining effective internal control over financial reporting.
24. We have identified and disclosed to you:
 - a. All laws, regulations, and provisions of contracts and other agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives; and
 - b. That there have been no violations (or possible violations) of laws, regulations, and provisions of contracts or other agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
25. There have been no fraud, illegal acts, violations of provisions of contracts or other agreements, or abuse that has been reported.
26. There have been no audit findings or recommendations.
27. There have been no previous financial audits, attestation engagements, performance audits or other studies related to the objectives of the audit being undertaken.

Port of Tacoma



John Wolfe
Chief Executive Officer



Erin Galeno
Chief Financial Officer



Darren Arakaki
Director of Accounting and Port Auditor