

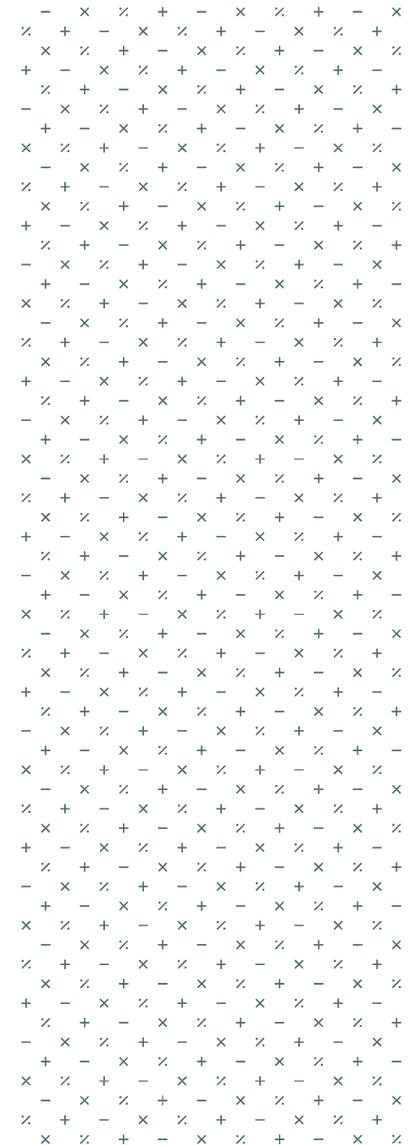


Port of Seattle Report to Audit Committee

2018 Audit Results

June 28, 2019

Copy Revised June 28, 2019



Agenda

- **Reports Issued**
- **Areas of Audit Emphasis**
- **Matters Required to be Communicated**
- **Upcoming Accounting Pronouncements**
- **Other Communications**



Reports Issued

- **Unmodified opinion on financial statements for the Enterprise Fund and the Warehousemen’s Pension Trust Fund**
- **Single Audit Reports**
 - Audit and report on internal control and compliance over financial reporting in accordance with *Government Auditing Standards*
 - No findings of noncompliance noted
 - Audit and report on compliance related to the major federal award programs, the schedule of expenditures of federal awards and related internal controls
 - No findings of noncompliance noted
- **Audit and report on the schedule of Passenger Facility Charge (PFC) receipts and expenditures and related internal controls**
 - No findings of noncompliance noted
- **Report on the Schedule of Net Revenues Available for Revenue Bond Debt Service**
- **Report on Agreed Upon Procedures for Washington State Department of Ecology**
- **Report on Agreed Upon Procedures for Environmental Protection Agency**



Areas of Audit Emphasis

- **Internal control environment**
 - Capital assets/project management, cash receipts/receivables, cash disbursements/payables, payroll, bond and investment transactions, and administration of federal awards;
- **Management estimates**
 - Environmental remediation liability, legal and insurance contingencies/ recoveries, depreciation, allowance for doubtful accounts, grant receivables, actuarial valuations for the Warehousemen's Pension Trust amounts;
- **Northwest Seaport Alliance joint venture**
 - Verified the Port of Seattle's share in operating revenue through confirmation with component auditor and agreement to NWSA audited financial statements;
- **Capital assets**
 - Consideration of capitalization policies and potential impairment, as well as testing of additions, retirements, overhead application, capitalized interest, depreciation;



Areas of Audit Emphasis (continued)

- **Signatory lease and operating agreement**
 - Analysis of revenue requirement by cost center category according to the agreement including landing fees, terminal rents, gate fees, baggage claim rates, preferential and common use rates under the SLOA IV agreement;
 - Revenue share and year-end settlement of amounts on an airline by airline basis;
- **Bond activity**
 - Tested the issuance in June 2018 of \$556 million of **intermediate lien revenue** bonds and in December 2018 of \$100 million of commercial paper;
 - Debt repayments, arbitrage liability, capitalized interest, discounts and premiums, compliance with covenants, and procedures over information presented in the net revenues schedule;
- **Revenue Recognition**
 - Operating revenue analysis using business indicators such as landed weight, enplanements, gate usage, and boat counts;
 - Ad valorem tax levy, investment income, PFC, CFC, and federal grants;
 - Consideration of the collectability of related receivables;



Areas of Audit Emphasis (continued)

- **Net position**
 - Consideration of classification for unrestricted, restricted, and net investment in capital assets categories
- **Information Technology**
 - General Computer Controls
- **Management's Discussion and Analysis and Notes to Financial Statements**
- **Two major federal programs identified and tested this year –**
 - Federal Aviation Administration Airport Improvement Program - \$16.3M
 - National Infrastructure Investments - TIGER Discretionary Grant - T46 Modernizations - \$3.8M



Required Communications

- **Auditor and Management responsibilities for financial statements under Generally Accepted Auditing Standards**
 - To form and express an opinion about whether the financial statements are fairly presented; to plan and perform the audit in accordance with generally accepted auditing standards and *Government Auditing Standards*
 - Our audit does not relieve Port management and the Port Commission of its responsibilities
- **Audit was performed according to the planned scope**
- **Significant accounting policies are summarized in Note 1 to the financial statements**
- **Financial statement disclosures were consistent, clear and understandable**
- **Representations were requested and received from management**
- **There were two adjustments identified and passed by management – one related to new standard implementation and one reclassification adjustment.**



Required Communications (continued)

- **New accounting pronouncements implemented in 2018**
 - GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*
 - GASB Statement No. 86, *Certain Debt Extinguishment Issues*
- **There were no disagreements with management or difficulties encountered during the audit**
- **Consultation with other independent auditors (none of which we are aware)**
- **Illegal acts (none noted)**
- **Ability to continue as a going concern (no disclosure necessary)**
- **Consideration of fraud in a financial statement audit**
 - Procedures performed included journal entry testing, vendor analysis, and interviews of personnel
- **Moss Adams is independent with respect to the Port of Seattle**



Upcoming Accounting Pronouncements

- **GASB 83 – Certain Asset Retirement Obligations (effective in 2019):** Addresses accounting and financial reporting for certain asset retirement obligations.
- **GASB 84 – Fiduciary Activities (effective in 2019):** Addresses the improvement of guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- **GASB 87 – Leases (effective in 2020):** Addresses recognition of certain lease assets and liabilities for leases that previously were classified as operating leases.
- **GASB 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period (effective in 2020):** Requires that interest costs incurred before the end of a construction period be expensed as incurred. As a result, interest costs will not be included in the historical cost of capital assets.

We will work with management to plan for the implementation of these standards.



Other Communications

- Regular status meetings were held between Moss Adams and Port management and staff throughout the audit term;
- Technical ‘whitepapers’ were received from Port management throughout the year;
- The audits progressed on time and in an orderly fashion;
- All Port personnel across all departments were courteous, responsive and fulfilled all of our requests in a timely manner;
- ‘Tone at the Top’ and attitude from management was one of helpfulness, and openness in response to audit requests and discussion points;
- As planned, Branch Richards & Co. personnel were an integral part of our audit team. Approximately 10% of our audit fee for the financial statement audit was paid and attributed to this small business firm;





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