

October 21, 2014



Port of Seattle

2014 Engagement Service Plan

MOSS ADAMS LLP




Certified Public Accountants | Business Consultants

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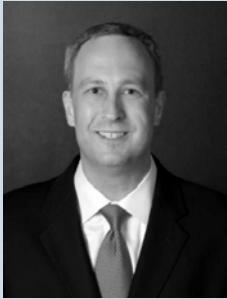
AGENDA

- Moss Adams Service Team Leaders
- Summary of Services
- Responsibilities (Auditor / Management)
- Phases of the Audit
- Moss Adams Audit Approach
- Areas of Audit Emphasis
- Audit Timing
- Auditing Standards / Accounting Pronouncement Update



YOUR 2014 AUDIT SERVICE TEAM LEADERS

Team Member	Responsibilities
 <p data-bbox="510 605 703 682">Laurie Tish, Partner</p>	<p data-bbox="738 465 1827 625">Engagement Reviewer - Laurie will serve as your lead client service partner, overseeing all projects we perform for the Port.</p>
 <p data-bbox="455 913 703 991">Jim Lanzarotta, Partner</p>	<p data-bbox="738 718 1818 933">Concurring Reviewer - Jim will serve as the second partner reviewer of the financial statements and our reports and, as necessary, will consult on technical issues or key elements of the audits.</p>
 <p data-bbox="448 1219 703 1296">Kory Hoggan, Senior Manager</p>	<p data-bbox="738 1025 1808 1240">Additional Reviewer - Kory specializes in audits of governmental entities and employee benefit plans. He will oversee the engagement team and will review testing performed during the audit.</p>

YOUR 2014 AUDIT SERVICE TEAM LEADERS

Team Member	Responsibilities
 <p data-bbox="461 568 705 651">Tyler Reparuk, Manager</p>	<p data-bbox="736 444 1798 601">Manager - Tyler will supervise our staff in the field and manage each of the audits we perform for the Port.</p>
 <p data-bbox="539 875 705 953">Lisa Dion, Senior</p>	<p data-bbox="736 679 1789 893">Senior - Lisa will spend her time assisting with the supervision of staff in the field and performing procedures related to the financial statement accounts and the OMB A-133 audit.</p>
 <p data-bbox="471 1203 705 1282">Chris Kradjan, Partner</p>	<p data-bbox="736 1043 1760 1258">Moss Adams Advisory Services Partner - Chris will lead our audit procedures covering the Port's Information Technology (IT) systems, including general computer controls.</p>

YOUR 2014 AUDIT SERVICE TEAM LEADERS

Team Member	Responsibilities
 <p data-bbox="446 625 703 705">Kimberly Koch, Senior Manager</p>	<p data-bbox="736 482 1808 639">IT Consulting – Kim will oversee and lead the IT testing procedures, which is a significant part of our audits.</p>
 <p data-bbox="423 889 703 969">Kevin Villanueva, Senior Manager</p>	<p data-bbox="736 736 1779 951">IT Consulting - Kevin will serve as an additional reviewer of our IT procedures and will perform audit procedures related to IT security and related issues.</p>

YOUR 2014 AUDIT SERVICE TEAM

- The following individuals will also serve on the Port of Seattle Engagement Team:
 - John Witt, *Business Assurance Staff*
 - Dan Sievers, *Business Assurance Staff*
 - Abby Barr, *Business Assurance Staff*
 - Maribelle Clear, *IT Senior Consultant*
 - Fiona Deng, *Branch Richards & Co; Subcontractor, Business Assurance Staff*

SCOPE OF WORK

SUMMARY OF SERVICES

- Audit and report on financial statements for both the Enterprise Fund and the Warehousemen's Pension Trust Fund to be included in the Port's Comprehensive Annual Financial Report
- Audit and report on internal control and compliance over financial reporting in accordance with *Government Auditing Standards*
 - Issue a management letter of recommendations and observations, as necessary
- Audit and report on compliance related to the Airport Improvement Program (AIP) and other Major Federal Award Program(s), the Schedule of Expenditures of Federal Awards and related internal controls in accordance with Federal Circular OMB A-133
- Audit and report on the schedule of Passenger Facility Charge (PFC) program receipts and expenditures and related internal controls
- Audit and report on the schedule of net revenue available for revenue bond debt service

OUR RESPONSIBILITIES

- Ensure the Audit Committee is aware of any significant deficiencies or material weaknesses
- Communicate those matters that have come to our attention as a result of the performance of the audit
- Immediately inform management and the Audit Committee about any information indicating illegal acts /fraud that may have occurred
- Conduct the audit in accordance with generally accepted auditing standards (GAAS) and generally accepted government auditing standards (GAGAS)
- Express an opinion on the Port's financial statements based on our audit
- Issue GAGAS, Circular A-133, PFC, and Schedule of net revenue available for revenue bond debt service Reports
- Report any non-compliance with federal and state laws as required by OMB Circular A-133
- Read other information contained in audited financial statements and consider whether the information is materially consistent with the information in the financial statements.

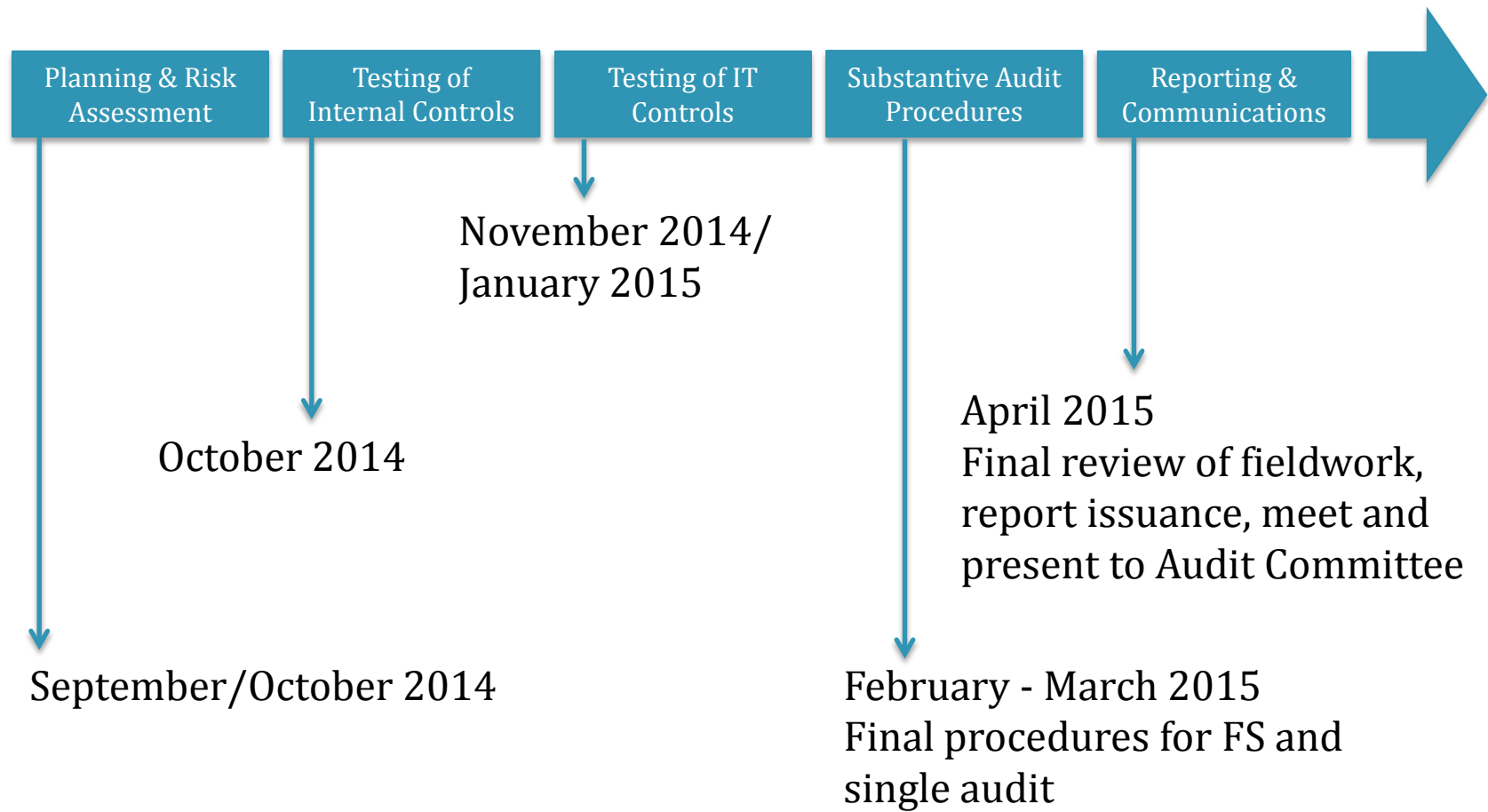
MANAGEMENT'S RESPONSIBILITIES

- Establish and maintain adequate records and internal controls over financial reporting
- Prepare financial statements that are materially correct and in compliance with applicable accounting standards
- Provide written representations about management's responsibilities and assertions prior to issuance of our reports.
- Make accurate and complete financial statement information available to us.
- Make entity personnel available to us.
- Inform us about all known or suspected fraud affecting the entity
- Identify and ensure compliance with laws and regulations applicable to the entity's activities

PHASES OF THE AUDIT

- Planning and risk assessment
- Assessment and evaluation of internal controls
- Substantive audit procedures
- Reporting and presentation of audit results

AUDIT TIMELINE



PLANNING AND RISK ASSESSMENT

- Audit risk involves the risk of material misstatement in the financial statements
- Audit is designed to provide reasonable – not absolute – assurance that the financial statements are free of material misstatements
- Audit risk model – considers different types of risk
 - Inherent risk
 - Control risk
 - Detection risk
- Audit scope and approach is determined based upon results of risk assessment

EVALUATION OF INTERNAL CONTROLS

- Components of internal control which we evaluate
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring
- Top-down approach
 - Assess entity-level controls and information technology related (general computer) controls
 - Identify significant accounts and processes
 - Obtain documentation of significant accounts and processes
 - Assess design and implementation and perform walkthroughs of significant controls
 - Identify “key controls” for testing
 - Perform tests of controls and compliance

SIGNIFICANT ACCOUNTS AND PROCESSES

- Administration of federal awards and related administrative controls
- Billings, cash receipts, and receivables
- Airport, seaport, real estate lease agreements and other operating leases
- Procurement, cash disbursements, and payables
- Payroll
- Capital assets and projects
- Treasury and investments
- Debt and related accounts
- Environmental remediation liability and contingencies
- Financial close and reporting
- Information technology (general computer controls)
- Budget

INFORMATION TECHNOLOGY (IT) TESTING APPROACH

- Determine application systems, databases, and operating systems in scope
- Identify areas of risk and key IT general computing controls that support automated and application controls integral to financial accounting and reporting
- Conduct walkthroughs of significant application and general computing controls to assess design and implementation
- Perform tests of IT controls and compliance

IT CONTROL AREAS

- Application Controls
 - Procurement and cash disbursements
 - Payroll
 - Billing
 - Capital assets and projects
 - Financial close and reporting
- General Computing Controls
 - Security and access
 - System acquisition and implementation
 - System changes/change management
 - Computer operations

ADMINISTRATION OF FEDERAL AWARDS

Internal controls and tests of compliance will be performed relative to the following administrative requirements:

- Allowable costs and activities
- Cash management
- Davis-Bacon Act compliance
- Equipment and real property management
- Matching and level of effort
- Period of availability
- Procurement and suspension and debarment
- Program income
- Reporting
- Sub-recipient monitoring
- Special tests and provisions

SUBSTANTIVE AUDIT PROCEDURES

Tests of Details

- Directed testing and audit sampling
- Random and judgmental sampling methods are used
- Compliance with requirements of the major federal awards and the PFC program

Analytical Procedures

- Comparison of current and prior year results, and actual to budgeted amounts
- Analysis of detailed changes within certain accounts such as capital assets, long term debt and investments
- Predictive analytics for income statement accounts, based upon history , data independent of accounting department, and industry expectations
- Holistic review of overall financial statements

AREAS OF AUDIT EMPHASIS

- Internal control cycles
 - Key controls identified and tested
 - Capital assets, payroll, cash disbursements are tested via attribute sampling
 - All systems tested via inquiry and walkthroughs
- Management estimates
 - Environmental remediation liability, depreciation, allowance for doubtful accounts, grant receivables, legal claims
- Bond accounts
 - Arbitrage liability, capitalized interest, compliance with covenants, new issuances, refunding or defeasances
- Accounting for leases
- Revenue recognition
 - Airport lease agreement, seaport and real estate leasing arrangements, other operating revenues, taxes, PFC and federal awards, investment income
- Capital assets
- Net Position classification
- Pension Plans and Other Postemployment Benefits
 - Disclosures and reliance upon calculations performed by specialists

GASB DOESN'T REST, WHY SHOULD YOU?

Accounting Pronouncements in the Works:

OPEB Plans

- Similar to pensions noted earlier- will require more liability to be reflected in the financial statements

Fair Value Measurement

- Will consider if appropriate to change reporting for certain investments at fair value instead of cost

GAAP Hierarchy

- Review of the hierarchy levels and assessment of the standard-setting process.

Lease Accounting

- Reexamine issues related to lease accounting, determination of whether leases meet the definition of assets or liabilities.

Financial Account Reporting Model

- Reexamination of Statements 34, 35, 37, 41, and 46

ACCOUNTING PRONOUNCEMENTS (GASB)

- **GASB 67 - Financial Reporting for Pension Plans** – an amendment to GASB Statement No. 25 (effective Fiscal Year 2014)
- **GASB 68 - Accounting and Financial Reporting for Pensions** – an amendment of GASB Statement No. 27 (effective Fiscal Year 2015)
- **GASB 69 - Government Combinations and Disposals of Government Operations** (effective Fiscal Year 2014)
- **GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees** (effective Fiscal Year 2014)
- **GASB 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date** – an amendment of GASB Statement No. 68 (effective Fiscal Year 2015)

OMB GRANT REFORM

- Streamlines the Federal guidance on Administrative Requirements, Cost Principles, & Audit requirements for Federal awards
 - Limits allowable costs, provides consistent and transparent treatment of costs
 - Eliminates duplicative and conflicting guidance,
 - Targets audit requirements on risk of waste, fraud, and abuse
 - Focuses on performance rather than just compliance
- Audit requirements
 - More emphasis on risk and audit threshold increases from \$500K to \$750K
- Effective for the Port in fiscal year 2015

CONTACT INFORMATION:

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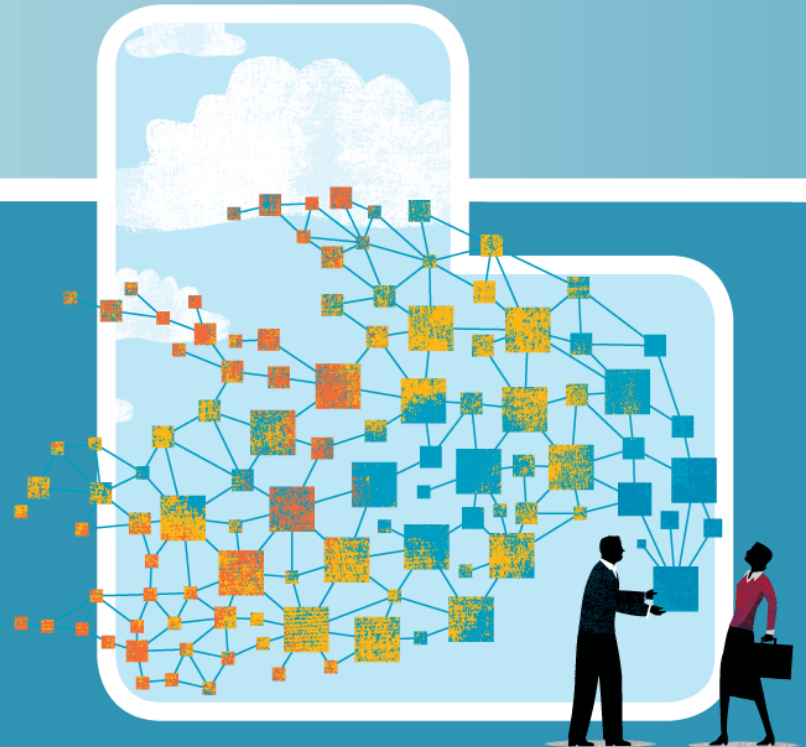
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Questions?



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