



Agenda:

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



Port of Seattle Report to Audit Committee

2015 Audit Results

May 9, 2016

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORTS ISSUED

- Unmodified opinion on financial statements for the Enterprise Fund and the Warehousemen's Pension Trust Fund
- Report on the Schedule of Net Revenues Available for Revenue Bond Debt Service
- Single Audit Reports
 - Audit and report on internal control and compliance over financial reporting in accordance with *Government Auditing Standards*
 - One significant deficiency in internal control noted related to a vendor supplied ancillary operating system; corrective action plan is 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
- Agreed Upon Procedures Report for Washington State Department of Ecology
 - To be issued in May 2016

AREAS OF AUDIT EMPHASIS

- Internal control environment
 - Cash receipts/receivables, cash disbursements/payables, payroll, bond and investment transactions, general computer controls, financial close and reporting, administration of federal awards
- Management estimates
 - Environmental remediation liability, legal and insurance contingencies/ recoveries, depreciation, allowance for doubtful accounts, grant receivables, self insurance liabilities, actuarial valuations for the Warehousemen's Pension Trust amounts and disclosures
- Net pension liability (adoption of GASB Statements No. 68 and 71)
 - Resulted in the Port's recognition as an employer to record their share of the liability for Port employees' future pension obligations as part of the Washington State Department of Retirement System
 - Recognition also includes the future pension liability obligation associated with the Warehouseman's Pension Trust Fund
 - Adoption resulted in the restatement of 2014 and the 2013 net position and is appropriately disclosed in Notes 1, 8, and 14 of the financial statements

AREAS OF AUDIT EMPHASIS (CONTINUED)

- Special item
 - Payment to the Washington State Department of Transportation for the Alaskan Way Viaduct Project for \$120 million
- Revenue recognition
 - Operating revenue analysis using business indicators such as landed weight, enplanements, gate usage, crane movements, and boat counts
 - Ad valorem tax levy, investment income, PFC, CFC, and federal grants
 - Consideration of the collectability of related receivables
- 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 III agreement
 - Revenue sharing and year-end settlement of amounts on an airline by airline basis

AREAS OF AUDIT EMPHASIS (CONTINUED)

- Accounting for leases
 - Airport concessions and fuel system, Seaport, and Real Estate leases
 - Testing of lease terms, payments and appropriate accounting treatment and disclosures
- Bonds and related accounts
 - Arbitrage liability, capitalized interest, discounts and premiums, debt repayments, compliance with covenants, and audit of Net Revenues Schedule
 - Alaskan Way Viaduct payment funded from issuance of bonds in March 2015
- Capital assets
 - Consideration of capitalization policies and potential impairment, as well as testing of additions, retirements, overhead application, capitalized interest, depreciation
- Unpredictable Procedures
 - Selected three cash receipt revenue streams (STIA Conference Center, STIA Employee Parking Center and Bell Harbor Conference Center) and reviewed for processes and controls in place

AREAS OF AUDIT EMPHASIS (CONTINUED)

- Net position
 - Consideration of classification for unrestricted, restricted, and net investment in capital assets categories
- Stormwater Utility
 - Effective January 1, 2015 for non-aviation properties
- Management's Discussion and Analysis and Notes to Financial Statements
- Two major federal programs tested this year –
 - Airport Improvement Program \$21.5 million
 - National Clean Diesel Emissions Reduction Program \$1.1 million

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 no proposed or passed audit adjustments impacting net position

REQUIRED COMMUNICATIONS (CONTINUED)

- New accounting pronouncements applied during 2015 – GASB Statements No. 68 and 71 (net pension liability)
- There were no disagreements with management
- Consultation with other independent auditors (none of which we are aware)
- Difficulties encountered during the audit (none)
- 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 and interviews of personnel
- Moss Adams is independent with respect to the Port of Seattle

UPCOMING ACCOUNTING PRONOUNCEMENTS

- *GASB 72 – Fair Value Measurement and Application (effective in 2016)*: Addresses accounting and financial reporting issues related to fair value measurements. We will work with management to plan for the implementation of this standard.
- *GASB 74 – Financial Reporting for Postemployment Benefit Plans Other than Pension Plans (effective in 2017) and GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (effective in 2018)*: Addresses accounting and financial reporting issues related to other postemployment benefit plans. We will work with management to plan for the implementation of these standards.
- *GASB 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (effective in 2016)*: Addresses accounting and financial reporting issues related to those plans which do not fall under the scope of GASB Statement No. 68, such as Taft-Hartley (union) plans. We will work with management to plan for the implementation of this standard.
- *Lease Accounting* – Exposure draft approved in January 2016. Public comment period is ongoing and expected issuance set for December 2016.

OTHER COMMUNICATIONS

- Weekly 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 requested schedules and draft financial statements were received on a timely basis
- 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, candor, 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 7.5% of our audit fee for the financial statement audit was paid and attributed to this small business firm