



## Agenda:

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



# Port of Seattle Report to Audit Committee

2016 Audit Results

May 12, 2017

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

# 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*
    - Two findings noted as reported by other audit organizations
  - 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 2017

# 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, separation of NWSA activity
- 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
  - Transfer of initial assets to the NWSA
  - Testing of internal controls over allocation of transactions and accounts
  - Verified the Port of Seattle's share in operating revenue through confirmation with component auditor and agreement to NWSA audited financial statements
  - Evaluated service allocation agreements associated with NWSA

# AREAS OF AUDIT EMPHASIS (CONTINUED)

- Net pension liability
  - Recognition of share of the liability for Port employees' future pension obligations as part of the Washington State Department of Retirement System (DRS) as well as the future pension liability obligation associated with the Warehouseman's Pension Trust Fund
  - Employer liability and related deferred inflows/outflows including selections of new hires from the census and contributions made by the Port to the DRS
- Bond activity
  - Tested the issuance of \$249 million of Revenue Refunding bonds issued in July 2016 and August 2016 to refund 2006, 2007A and 2007B bonds
  - 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
- 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)

- 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
- 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
- Unpredictable Procedures
  - Selected a significant non-SLOA lease agreement to test contract compliance and application of fees charge in accordance with contract terms

# 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
  - Ancillary revenue operating system
- Management's Discussion and Analysis and Notes to Financial Statements
- Two major federal programs tested this year –
  - Airport Improvement Program \$17.3 million
  - Port Security Grant Program \$1.6 million
    - Surveillance Systems
    - Checked Baggage Screening Program

# 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

# REQUIRED COMMUNICATIONS (CONTINUED)

- New accounting pronouncements applied during 2016 – GASB Statement No. 72 (Fair Value Measurement and Application)
- 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 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 82 – Pension Issues – amendment of GASB Statements No. 67, No. 68, and No. 73 (effective in 2018):* Addresses accounting and financial reporting clarifications related to issues identified in statements Nos. 67, 68, and 73. We will work with management to plan for the implementation of this standard.
- *GASB 83 – Certain Asset Retirement Obligations (effective in 2019):* Addresses accounting and financial reporting for certain asset retirement obligations. We will work with management to plan for the implementation of this standard.

# UPCOMING ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- *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. We will work with management to plan for the implementation of this standard.
- *GASB 85 – Omnibus 2017 (effective in 2018)*: Addresses practice issues that have been identified during implementation and application of certain GASB Statements. We will work with management to plan for the implementation of this standard.
- *Lease Accounting* – Exposure draft approved in January 2016. Public comment deadline was 2016 but has been extended. There is not yet a release date for this new standard.

# 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 10% of our audit fee for the financial statement audit was paid and attributed to this small business firm