

PORT OF SEATTLE
MEMORANDUM

AUDIT COMMITTEE BRIEFING

DATE: August 27, 2009

TO: Commission Audit Committee

FROM: Dan Thomas, Chief Financial Officer
Rudy Caluza, Director, Accounting & Financial Reporting

SUBJECT: Briefing to contract with Moss Adams to conduct the Financial Statement, Single Audit, and Passenger Facility Charge audits of the Port for 2009 and to seek authorization by the Port Commission.

Annual independent audits are required for the financial statements of the Port and the Warehousemen's Pension Trust Fund for purposes of obtaining an independent auditors opinion as to the fairness in presentation of the financial results and position, and independent audits are required of the Port's administration of federal grants and Passenger Facility Charge (PFC) revenues in accordance with applicable regulations.

Pursuant to a formal request for proposal (RFP) process conducted by the Port in 2006, the Port Commission approved on July 25, 2006 award of the contract for audit services to Moss Adams. The term of audit services contained in the RFP is for fiscal years ending December 31, 2006, 2007 and 2008, along with an opportunity to extend another two years. This action exercises the first of the two year extensions to cover the 2009 audit period.

The fee for the 2009 audit services is \$577,600, which is a reduction of 5% or \$30,400 from the previous 2008 audit services engagement of \$608,000. Moss Adams is honoring the Port's 2009 "Contracts Cost Saving" priority, which calls for negotiating up to a 5% contract cost reduction. Based on Inside Public Accounting's August 2009, "Top 100 Accounting Firms" industry research, the 2009 audit fee growth rate for the U.S. Western Region is 6.8%, which to the contrary Moss Adams has agreed to a 5% reduction.

Fiscal transparency and accountability, and retaining public trust, are priorities of the Port Commission that lead to the Port continuing to engage both the State Auditor's Office (SAO) and a national independent Certified Public Accounting (CPA) firm to conduct the various separate key audits of the Port. The SAO conducts Public Accountability/Legal Compliance and Performance audits thereby, allowing the Port to benefit from the depth of expertise of the SAO to conduct such audits of public agencies. A national/regional independent CPA firm conducts the Financial Statement audit, Single Audit (federal grants regulatory compliance) and PFC audit (Federal Aviation Administration regulatory compliance) thereby, enabling the Port to leverage

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the depth of expertise that such CPA firms bring in auditing large and complex proprietary enterprises such as the Port. This combined breadth of audit resources assures the public the most effective pool of expertise and audit rigor.

To ensure timely reporting to the public and to the Port's bondholders, the Port holds our independent CPA firm contractually accountable to complete their audit and issue the independent auditor opinion on the Port's financial statements by April 30th of each year, which then enables the Port to issue its financial statements by the first week of May. Furthermore, the CPA firm is required to complete and issue both the Single Audit and PFC audit reports by June 30th of each year.

Moss Adams will need to work under rigid timelines with Audit Planning during Sept-Oct which encompass risk assessments, prepared-by-client schedules required of the Port, and interviews of key Port leadership; Interim Audit Fieldwork during Oct-Dec which encompass internal controls & significant accounts testing and audit procedures for federal awards administration; Year-end Audit Fieldwork during Feb-March which encompass the audit of Port's financial statements and testing the Schedule of Federal Awards; and then internal quality assurance & concurring partner review during April.

Consideration and approval by the Port Commission will need to occur at the September 17, 2009 meeting in order to mitigate delays in completing the audits and issuance of the Port's financial statements.

Thank you.