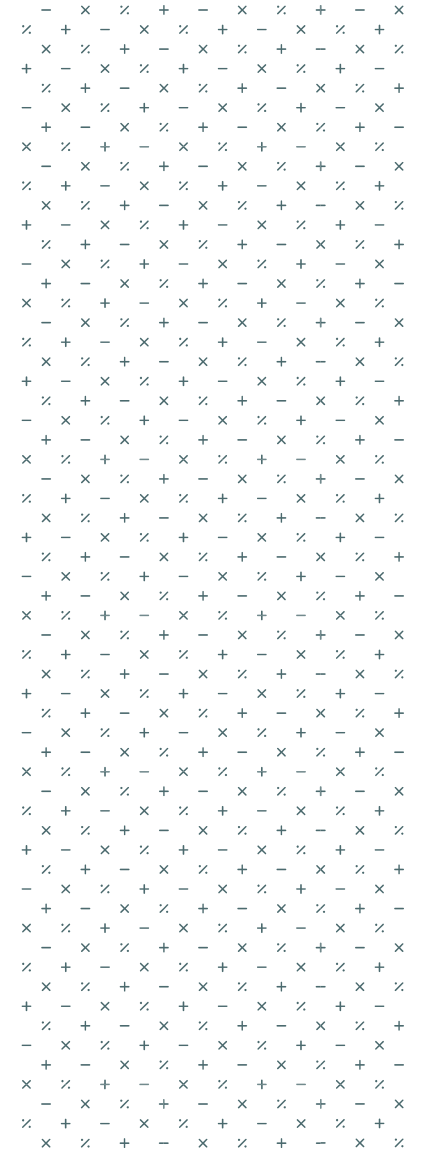




Port of Seattle Report to Audit Committee

2017 Audit Results

June 25, 2018



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**
- **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*
 - 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
- **Agreed Upon Procedures Report for Washington State Department of Ecology**



Areas of Audit Emphasis

- **Internal control environment**
 - Cash receipts/receivables, cash disbursements/payables, payroll, bond and investment transactions, general IT 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, actuarial valuations for the Warehousemen's Pension Trust amounts;
- **Northwest Seaport Alliance joint venture**
 - 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
- **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 III agreement
 - Revenue share and year-end settlement of amounts on an airline by airline basis
- **Bond activity**
 - Tested the issuance in March 2017 of \$127 million of general obligation and in August 2017 \$688 million of revenue and refunding bonds to refund 2009A and 2009B-1 bonds
 - Arbitrage liability, capitalized interest, discounts and premiums, debt repayments, compliance with covenants, and audit of 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
 - Implementation of new ParkingSoft system
- **Management's Discussion and Analysis and Notes to Financial Statements**
- **Two major federal programs tested this year –**
 - TSA Surveillance Systems Program \$3.2 Million
 - Checked Baggage Screening Programs \$10.8 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**



Required Communications (continued)

- **New accounting pronouncements implemented in 2017**
 - GASB Statement No. 82 (Pension Issues – amendment to GASB No. 67, No. 68, and No. 73)
- **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, vendor analysis, and interviews of personnel
- **Moss Adams is independent with respect to the Port of Seattle**



Upcoming Accounting Pronouncements

- **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 (OPEB). We will work with management to plan for the implementation of these standards.
- **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.
- **GASB 86 – Certain debt extinguishment (effective in 2018):** Clarifies requirements related to whether debt is considered defeased when only existing resources are used (not using proceeds from refunding debt issuance). Requires cash or other monetary assets to be placed in trust with an escrow agent, trust restricted to owning essentially risk-free assets and amounts sufficient to met all obligations (principal, interest). We will work with management to plan for the implementation of this standard.



Upcoming Accounting Pronouncements (continued)

- **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.
- **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 87 – Leases (effective in 2020):** Addresses recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. We will work with management to plan for the implementation of this 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**





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