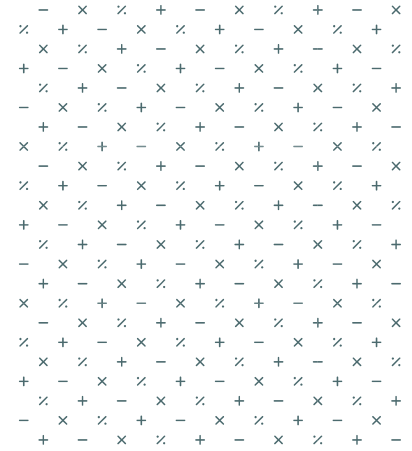




Port of Seattle Report to Audit Committee

2019 Audit Results

June 11, 2020



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 Fiduciary Fund, which includes –**
 - ❖ Warehousemen’s Pension Trust Fund,
 - ❖ 401(a) Supplemental Savings Plan,
 - ❖ 401(a) Police Retirement Plan, and
 - ❖ 401(a) Fire Fighters Retirement Plan
- **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



Reports Issued (continued)

- **Audit and report on the schedule of Passenger Facility Charge (PFC) receipts and expenditures and related internal controls**
 - No findings of noncompliance noted
- **Report on the Schedule of Net Revenues Available for Revenue Bond Debt Service**
- **Report on Agreed Upon Procedures for Washington State Department of Ecology**
- **Report on Agreed Upon Procedures for Environmental Protection Agency**



Areas of Audit Emphasis

- **Internal control environment**
 - Capital assets/project management, cash receipts/receivables, cash disbursements/payables, payroll, bond and investment transactions, and administration of federal awards;
- **Management estimates**
 - Environmental remediation liability, legal contingencies and insurance recoveries, depreciation, allowance for doubtful accounts, grant receivables, actuarial valuations pension and OPEB amounts;
- **Northwest Seaport Alliance joint venture**
 - Confirmed 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, testing of additions, retirements, overhead application, capitalized interest, depreciation; consideration of impairment and asset retirement obligations



Areas of Audit Emphasis (continued)

- **Airline lease and operating agreement**
 - Analysis of revenue requirement by cost center category under the SLOA IV agreement, including landing fees, terminal rents, gate fees, and baggage claim rates;
 - Confirmations of amounts on an airline by airline basis;
- **Bond activity**
 - Tested the issuance in August 2019 of \$457 million of intermediate lien revenue bonds;
 - Debt repayments, arbitrage liability, capitalized interest, discounts and premiums, compliance with covenants, and procedures over information presented in the 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)

- **Fiduciary activities**

- Consideration of investment balances, plan contributions and distributions for 401(a) type plans administered by ICMA, and for the Warehousemen's Pension Trust Fund;

- **Net position**

- Consideration of classification for appropriate categories

- **Information technology**

- General Computer Controls

- **One major federal program identified and tested current year –**

- Total federal awards reported on schedule of expenditures of federal awards - \$9.2M
- Major program – FAA Airport Improvement Program - \$5.4M



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 was one adjustment identified and passed by management –related to reclassification of completed project cost from CIP to capital assets in the amount of \$12.4M, and related depreciation expense in the amount of \$250K.**



Required Communications (continued)

- **New accounting pronouncements implemented in 2019**
 - GASB Statement No. 83, *Certain Asset Retirement Obligations*
 - GASB Statement No. 84, *Fiduciary Activities*
 - GASB Statement No. 88, *Certain Disclosure Related to Debt*
- **There were no disagreements with management or difficulties encountered during the audit**
- **Consultation with other independent auditors (none of which we are aware)**
- **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



Upcoming Accounting Pronouncements

- **GASB 87 – Leases (effective in 2022, as deferred by GASB 95*)**: Addresses recognition of certain lease assets and liabilities for leases that previously were classified as operating leases.
- **GASB 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period (effective in 2021, as deferred by GASB 95*)**: Requires that interest costs incurred before the end of a construction period be expensed as incurred. As a result, interest costs will not be included in the historical cost of capital assets. This standard has been implemented effective January 1, 2020.
- **GASB 91 – Conduit Debt Obligations (effective in 2021, as deferred by GASB 95*)**: Provides clarifying definition of conduit debt obligations, establishes that it is not a liability of an issuer, and provides accounting guidance and additional note disclosures.

* **GASB 95 - *Postponement of the Effective Dates of Certain Authoritative Guidance***: was issued on May 8, 2020. The standard provides temporary relief in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain pronouncements by one year.

We will work with management to plan for the implementation of these standards.



Other Communications

- Regular status 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; partially in a remote work environment.
- 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, and openness in response to audit requests and discussion points;
- As planned, Branch Richards & Co. personnel and Marescot Palomino & Associates PLLC personnel were an integral part of our audit team. Approximately 13% of our audit fee for the audit was paid and attributed to these small business firms;





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