

Port of Seattle Report to Audit Committee

2020 Audit Results



Agenda

- **Reports Issued**
 - **Areas of Audit Emphasis**
 - **Internal Control Matters**
 - **Matters Required to be Communicated to the Audit Committee**
 - **Upcoming Accounting Pronouncements**
 - **Other Communications**
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Reports Issued

- **Unmodified opinion on financial statements for the Enterprise Fund and the Warehousemen's Pension Trust Fund**
- **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 program, 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**
 - Allowance for doubtful accounts, environmental remediation liability, legal contingencies and insurance recoveries, compensated absences, actuarial valuations for 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
- **Rent Deferral Payment Plan**
 - Obtained an understanding of the Port's Deferral Payment Plan and methodology for tracking and recording the deferrals
 - Selected a sample of tenants and obtained the signed deferral agreement and reviewed invoicing and payment support for adherence to deferral payment plan



Areas of Audit Emphasis (continued)

- **Capital assets**

- Consideration of capitalization policies, testing of additions, retirements, overhead application, and depreciation; consideration of timely closing of CIP projects

- **Bond activity**

- Tested the three partial defeased bonds during 2020 which were defeased using proceeds from the sale of commercial paper
- Debt repayments, arbitrage liability, discounts and premiums, compliance with covenants, and procedures over information presented in the net revenues schedule

- **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

- **Fiduciary activities**

- Consideration of investment balances, plan contributions and distributions for the Warehousemen's Pension Trust Fund
- Restatement of 2019 and 2018 reporting for 401(a) plans as a result of updated guidance



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

- **Information technology**

- General Computer Controls
- Some internal control recommendations were noted and provided to management

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

- Total federal awards reported on schedule of expenditures of federal awards - \$163.7M
- Major program – FAA Airport Improvement Program - \$161.5M, including CARES Act funding of \$147.1M



Internal Control Matter

Background:

In April 2020, prior to issuance of the auditor's report on the 2019 financial statements, Port project management staff identified several errors in classification of capital assets totaling approximately \$12M. The errors related to portions of capital projects that were completed and placed in service during 2019, but not timely reported to central accounting.

In January 2021, Port staff identified additional projects that were completed during 2019 but were not timely communicated to be closed in the accounting system, resulting in additional asset classification errors. Total errors of \$31.2M were corrected in the 2020 financial statements for projects that should have been closed and started depreciating in 2019.

Recommendation:

Additional review and monitoring controls should be incorporated over construction project activity to ensure that projects that meet the criteria for capitalization are timely reported to central accounting to allow their timely closing and classification to capital assets and for start of depreciation. These reviews should include enhanced coordination between divisional capital project management and project managers, divisional finance and central accounting to ensure timely updates to financial records for assets placed in service throughout the year.

Management response: Management provided a response that included corrective action.



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 disagreements with management or difficulties encountered during the audit**



Required Communications (continued)

- **There was one uncorrected audit adjustment identified**
 - The separate fiduciary fund financial statements for the Warehousemen’s Pension Trust for the year ended December 31, 2020 omits a payment that should have been made to a beneficiary. The Port is seeking an explanation from the third-party administrator. The resulting effect is an uncorrected misstatement related to \$20,856 of unrecorded retirement benefit payments and a corresponding benefits payable to one beneficiary. The effect is immaterial to the fiduciary fund financial statements taken as a whole
- **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, deferred payment plan analysis, and interviews of personnel



Required Communications (continued)

- **New accounting pronouncements implemented in 2020**
 - GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*
 - GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*
 - GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*



Upcoming Accounting Pronouncements

- **GASB 87 – Leases (effective in 2022):** Addresses recognition of certain lease assets and liabilities for leases that previously were classified as operating leases.
- **GASB 91 – Conduit Debt Obligations (effective in 2021):** 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.

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, fully in a remote work environment
- All Port personnel across all departments were courteous, responsive and fulfilled all 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, contributing 345 staff hours to the audit. Over 12% of our audit fee for the audit was paid and attributed to these small business firms.





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