

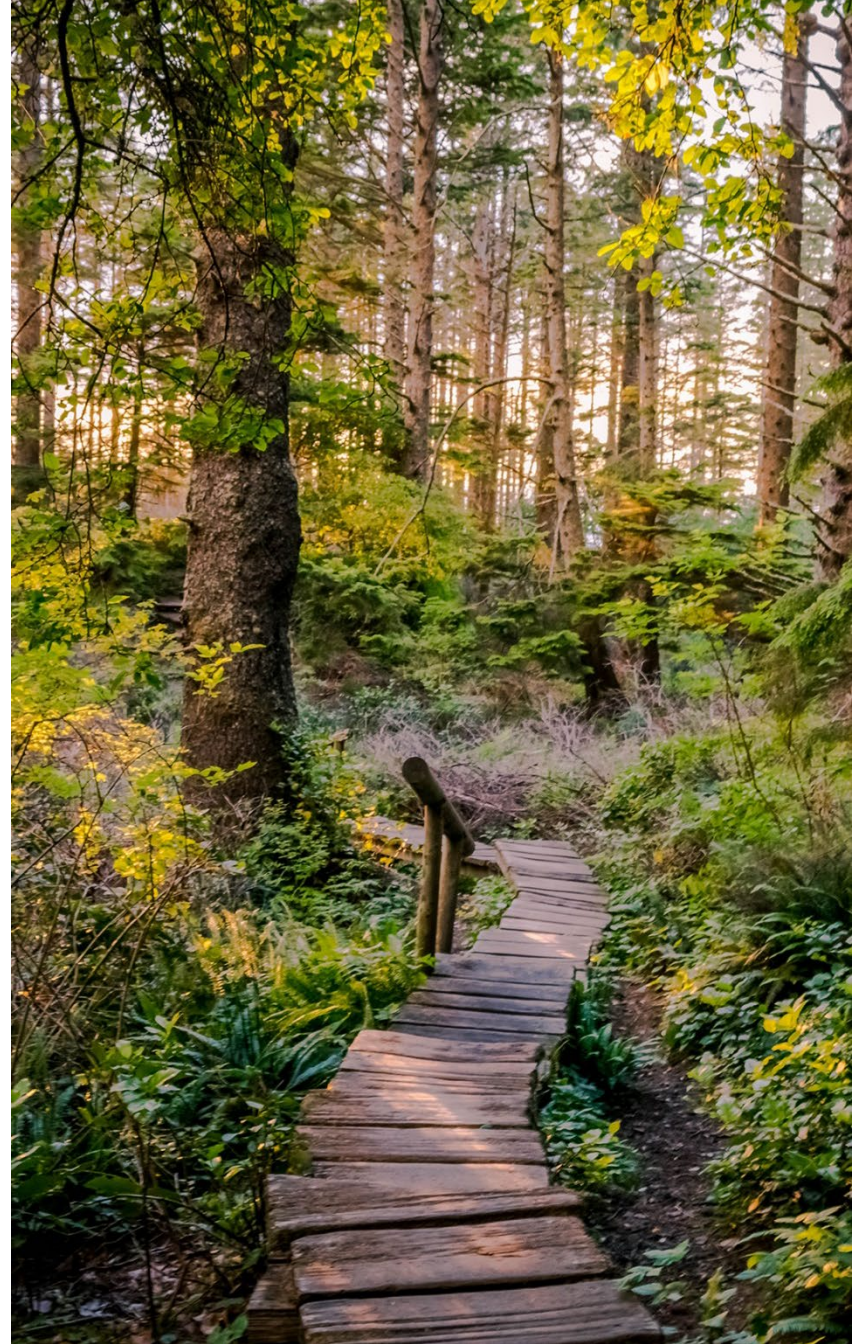
Port of Seattle

Report on 2021 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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Auditor Reports Issued

Auditor Report on Financial Statements for the Enterprise Fund and the Warehousemen's Pension Trust Fund

- Unmodified opinion
- Dated April 28, 2022

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

- No internal control or compliance findings
- Dated April 28, 2022

Report on Compliance for the Major Federal Program and on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance (Single Audit)

- No internal control or compliance findings
- The Schedule of Expenditures of Federal Awards (SEFA) is presented fairly in all material respects in relation to the financial statements
- One Major Program – Airport Improvement Program with \$135.9 million in federal funds received (of which \$100.3 million in COVID-19 funding).



Auditor Reports Issued (continued)

- **Audit and report on the schedule of Passenger Facility Charge (PFC) receipts and expenditures and related internal controls**
 - One significant deficiency in internal control included in the report related to the reporting of certain PFC revenues resulted in an adjustment of unliquidated revenues in the FAA quarterly reports.
- **Report on the Schedule of Net Revenues Available for Revenue Bond Debt Service**
- **Report on Agreed Upon Procedures for Washington State Department of Ecology (to be completed in May)**
- **Report on Agreed Upon Procedures for Environmental Protection Agency (to be completed in May)**



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 with focus on COVID-19 funding

- **Management estimates**

- Allowance for doubtful accounts, environmental remediation liability, special item related to habitat restoration costs recorded in 2021, legal contingencies and insurance recoveries, compensated absences, actuarial valuations for pension and other postemployment benefits amounts

- **Northwest Seaport Alliance (NWSA) 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, and depreciation; consideration of timely closing of capital improvement projects



Areas of Audit Emphasis (continued)

- **Bond activity**

- Tested the five new bond issuances and four refunding bonds during 2021.
- 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 Signatory Lease and Operating Agreement (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



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, Customer Facility Charges (CFCs), and federal grants
- Consideration of the collectability of related receivables

- **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 - \$137.3M
- Major program – FAA Airport Improvement Program - \$135,865,813, including COVID Relief funding of \$100,272,161



PFC Internal Control Matter

Background:

Through their internal review process, Port of Seattle (the Port) staff identified multiple transactions between 2011 and the second quarter of 2021 that were not accurately reported in the quarterly and annual PFC reports submitted to the FAA. The cumulative effect of all identified adjustments caused an increase to the PFC balance as of December 31, 2021 by \$6.3 million.

Recommendation:

We recommend that Port management improve the process to include reconciliation of cash balances of PFC funds to the unliquidated revenue balance on the PFC Schedule of Revenues and Expenditures, at least quarterly, evaluate unusual transactions and resolve discrepant items identified prior to submission of the report to the FAA.

Management response: Management provided a response that included corrective action that has been implemented already.



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 were no uncorrected audit adjustments identified**
- **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



New & Upcoming Accounting Pronouncements

- **New accounting pronouncements implemented in 2021**
 - **GASB Statement No. 98, *The Annual Comprehensive Financial Report***
- **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 Statement No. 91, *Conduit Debt Obligations* (effective 2022)
 - GASB Statement No. 92, *Omnibus 2020* (effective 2022)
 - GASB Statement No. 93, *Replacement of Interbank Offered Rates* (effective 2022)
 - GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (effective 2023)
 - GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (effective 2023)

We have been working with management to plan for the implementation of these standards.



Acknowledgements

- 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 organization wide were responsive and fulfilled all our requests in a timely manner
- ‘Tone at the Top’ and attitude from management was one of openness in response to audit requests and discussion points
- As planned, Branch Richards & Co. personnel and Humbition Consulting personnel were an integral part of our audit team. Over 14% of our audit fee for the audit was to these small business & minority owned firms.



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