

**Communications
with the Risk
Management
Committee of the
Metropolitan
Washington
Airports Authority**

December 31, 2015 – Audit

April 20, 2016

Your guide forward





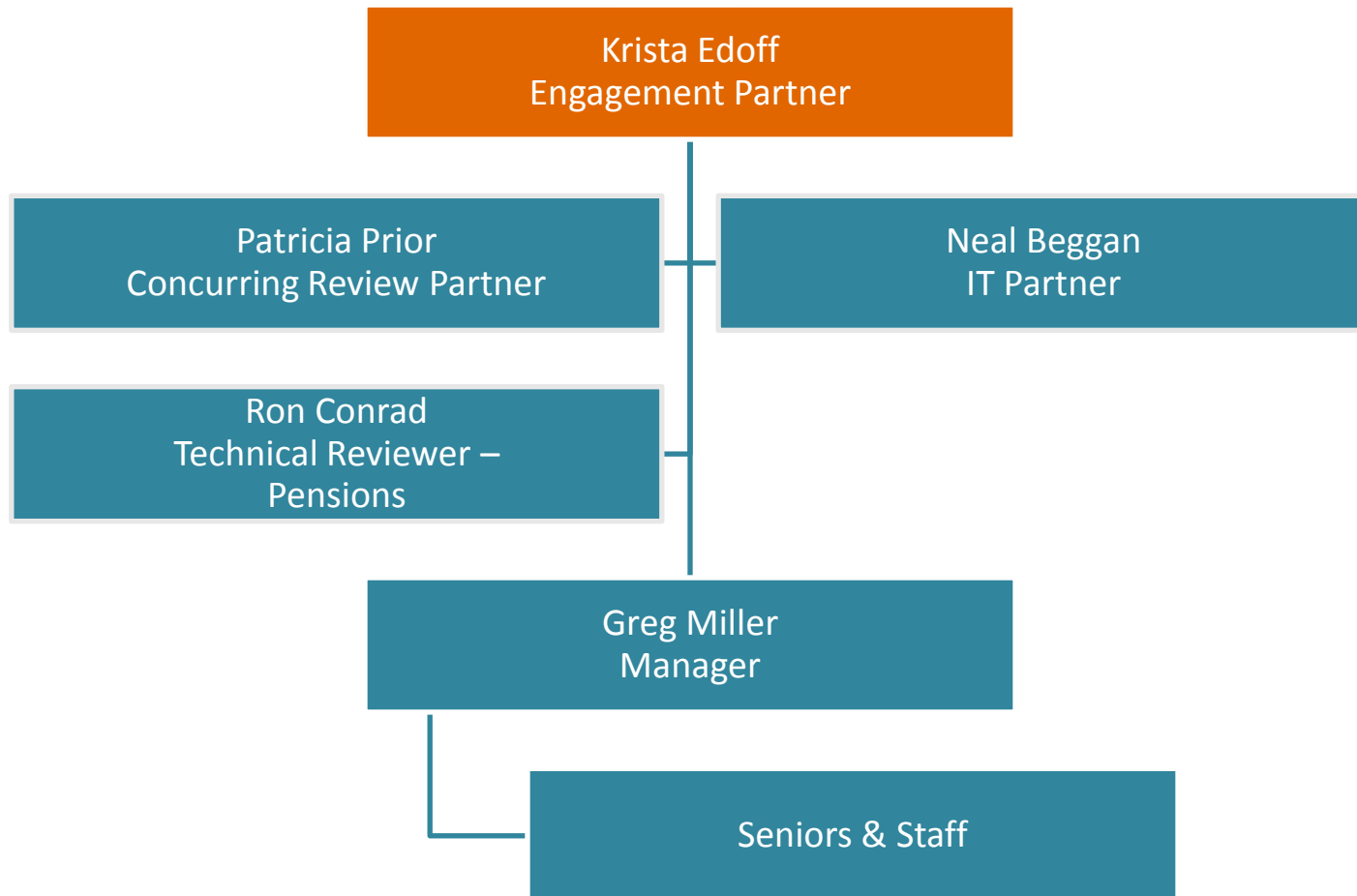
Engagement Services

Engagement Services

- ▶ You have engaged us to provide the following:
 - An audit of the Airports Authority's December 31, 2015 financial statements

- ▶ Audit timeline:
 - Interim audit fieldwork – November-December 2015
 - Final audit fieldwork – January-March 2016
 - Completion and issuance – April 2016

Engagement Team



A grayscale photograph of a hand holding a thin wooden block above a stack of various wood samples. The background is a soft, out-of-focus gray. A solid green horizontal band is overlaid across the middle of the image, containing the text 'Audit Methodology' in white. The wood samples in the stack show different grain patterns and textures, including some with dark, wavy lines and others with straight, fine-grained textures.

Audit Methodology

Audit Methodology

- ▶ Cherry Bekaert utilizes a top-down, risk based, integrated audit approach delivered in three phases:
 - Plan
 - Perform risk assessment procedures to determine the significant audit areas and reporting and compliance requirements
 - Develop and execute the audit plan
 - Select and perform appropriate substantive and analytical procedures, including tests of internal controls, where appropriate
 - Complete
 - Evaluate the results, communicate with management, the Risk Management Committee and the Board and issue the required reports

A black and white photograph of a person's hands holding binoculars to their eyes. The person is wearing a light-colored shirt and a dark jacket. The background is a plain, light-colored wall. The image is overlaid with a semi-transparent orange horizontal band across the middle, which contains the text.

Key Areas of Audit Focus

Based on our risk assessment of the Airports Authority, we have identified the following financial statement captions as key areas of audit focus. Our audit test work included the following example procedures.

Significant Audit Areas

Operating Revenues

Understand controls in place over revenues

Perform test of controls

Test substantive evidence, including contracts and billings

Test cutoff transactions to ensure recording in proper period

Receivables

Confirm receivables with third parties

Analyze adequacy of allowance for doubtful accounts

Test substantive evidence for existence and collectability

Investments

Understand controls in place over investments and swaps

Confirm balance with third parties

Test valuation using our Fair Value Group

Significant Audit Areas (cont.)

Construction in Process

Understand controls in place over construction in process

Test a sample of invoices charged to construction in process

Test a sample of reconciling items between the project module and general ledger

Review methodology and calculation of capitalized interest charged to projects

Test transfers from construction in process to capital assets or WMATA

Perform analytical procedures over depreciation and repairs and maintenance expenses

Pensions

Understand controls in place over payroll

Test census and payroll data for sample of employees participating in the pension plans

Test underlying data utilized in actuarial calculations

Review actuarial assumptions

Review GASB 68 pension disclosures and required supplementary information

Test controls over payroll

Financial Reporting

Reconcile financial statements to audited trial balance

Vouch footnotes to supporting audit evidence

Review calculations for accuracy and classification of net position

Complete disclosure checklist

Use data-mining techniques to analyze and test journal entries

A black and white photograph of several stacks of papers, each held together by a metal binder clip. The stacks are arranged in a row, creating a sense of depth and repetition. The background is blurred, showing more papers and possibly a desk or office environment. A purple horizontal band is overlaid on the bottom half of the image, containing the text.

Service Deliverables & Audit Results

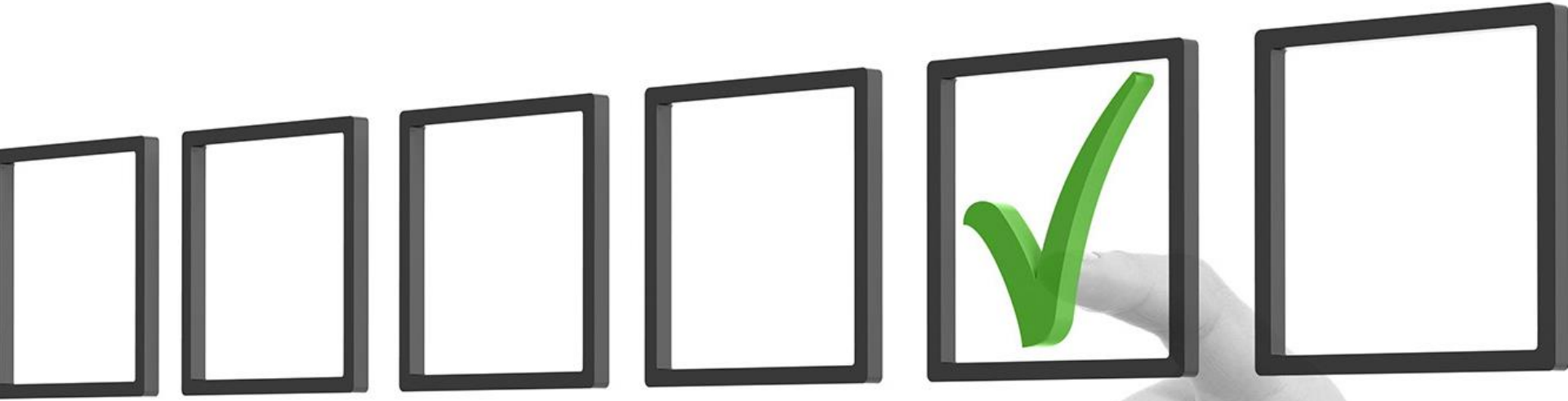
Service Deliverables

▶ Audit Deliverables:

- As of and for the year ended December 31, 2015:
 - Opinion on the financial statements of the Aviation Enterprise Fund, Dulles Corridor Enterprise Fund and Total Business Activities of the Airports Authority
 - Report on internal control over financial reporting and on compliance and other matters required by *Government Auditing Standards*

Audit Results

- ▶ Unmodified opinions for both reports
- ▶ Emphasis of matter paragraphs:
 - The December 31, 2014 financial statements were audited by other auditors
 - New standards were effective for the year ended December 31, 2015, which requires restating prior year balances
- ▶ No material weaknesses in internal control identified



Required Communications

Required Communications

▶ Accounting Policies

- Adoption of new accounting policies effective July 1, 2014
 - **GASB Statement No. 68 – Accounting and Financial Reporting for Pensions** – an amendment of GASB Statement No. 27
 - **GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to Measurement Date** – an amendment of GASB Statement No. 68
 - **GASB Statement No. 78 - Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans**
- Change in accounting policies
 - No other existing accounting policies were changed

Required Communications

- ▶ **Management Judgment and Accounting Estimates**
 - Allowance for Doubtful Accounts on Receivables
 - Depreciation Expense
 - Actuarially Accrued Liabilities
 - Overhead Cost Allocations

- ▶ **Audit Adjustments**
 - No material audit adjustments were proposed
 - There were no uncorrected misstatements

- ▶ **Independence**
 - We are not aware of any relationship that we believe, based on current authoritative guidance, would impair our independence

Required Communications

- ▶ Disagreements with Management
 - There were no disagreements with management regarding accounting or auditing issues

- ▶ Difficulties Encountered in Performing the Audit
 - We encountered no difficulties in performing the audit

- ▶ Consultation with Other Accountants
 - The audit firm GKA, P.C. Certified Public Accountants & Consultants performs the compliance audits for federal grants and passenger facility charges
 - The audit firm CliftonLarsenAllen performs the stand-alone pension plan audits
 - We are not aware of any other consultations

Required Communications

- ▶ Significant Communications with Management:
 - *Representation letter* signed by management on April 11, 2016 confirming the completeness and accuracy of the financial statements and audit evidence provided
 - *Management letter* outlining deficiencies in internal control
 - No material weaknesses
 - No reported significant deficiencies



New Accounting and Reporting Changes

New Accounting and Reporting Changes

- ▶ **GASB statements effective for December 31, 2016:**
 - **GASB Statement No. 72 – *Fair Value Measurement and Application***
 - Significantly changes fair value measurement and disclosures
 - Use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value.
 - Established a hierarchy for measurement of assets or liabilities
 - » Level 1 – Quoted prices in active markets
 - » Level 2 – Direct or indirect observations other than quoted prices
 - » Level 3 – Unobservable inputs
 - Disclosures should be organized by type or class of asset or liability and the level of detail and disaggregation and how much emphasis to place on each disclosure requirement should take into considerations:
 - » The nature, characteristics and risks
 - » The level of the fair value hierarchy
 - » Whether a type or class for an asset or a liability is specified by the standards

New Accounting and Reporting Changes

- ▶ **GASB statements effective for 2017 and 2018, respectively:**
 - ***GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans***
 - Covers reporting by OPEB plans that administer benefits on behalf of governments
 - ***GASB Statement No. 75 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68***
 - Requires governments to report a liability on the face of the financial statements for the OPEB they provide

Thank You!



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