

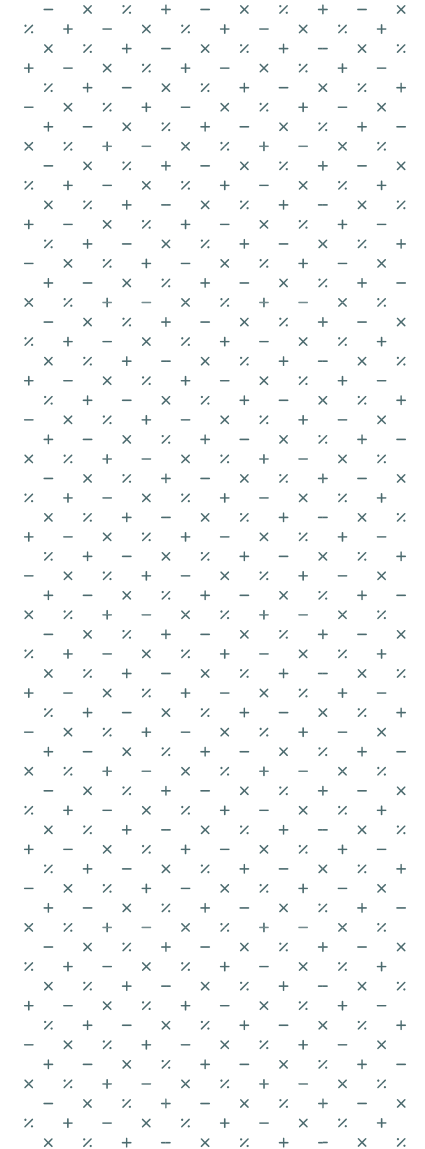


2022 Engagement Service Plan

Sound Transit

Presentation to Finance and Audit Committee

October 20, 2022





Finance and Audit Committee

SOUND TRANSIT

Dear Committee Members:

Thank you for your engagement of Moss Adams LLP, the provider of choice for transit and municipal enterprises. We're pleased to present our audit plan for Sound Transit for the year ending December 31, 2022.

We welcome any questions or input you may have regarding our audit plan, and we look forward to working with you again this year.

A handwritten signature in black ink that reads "Laurie G. Fish".

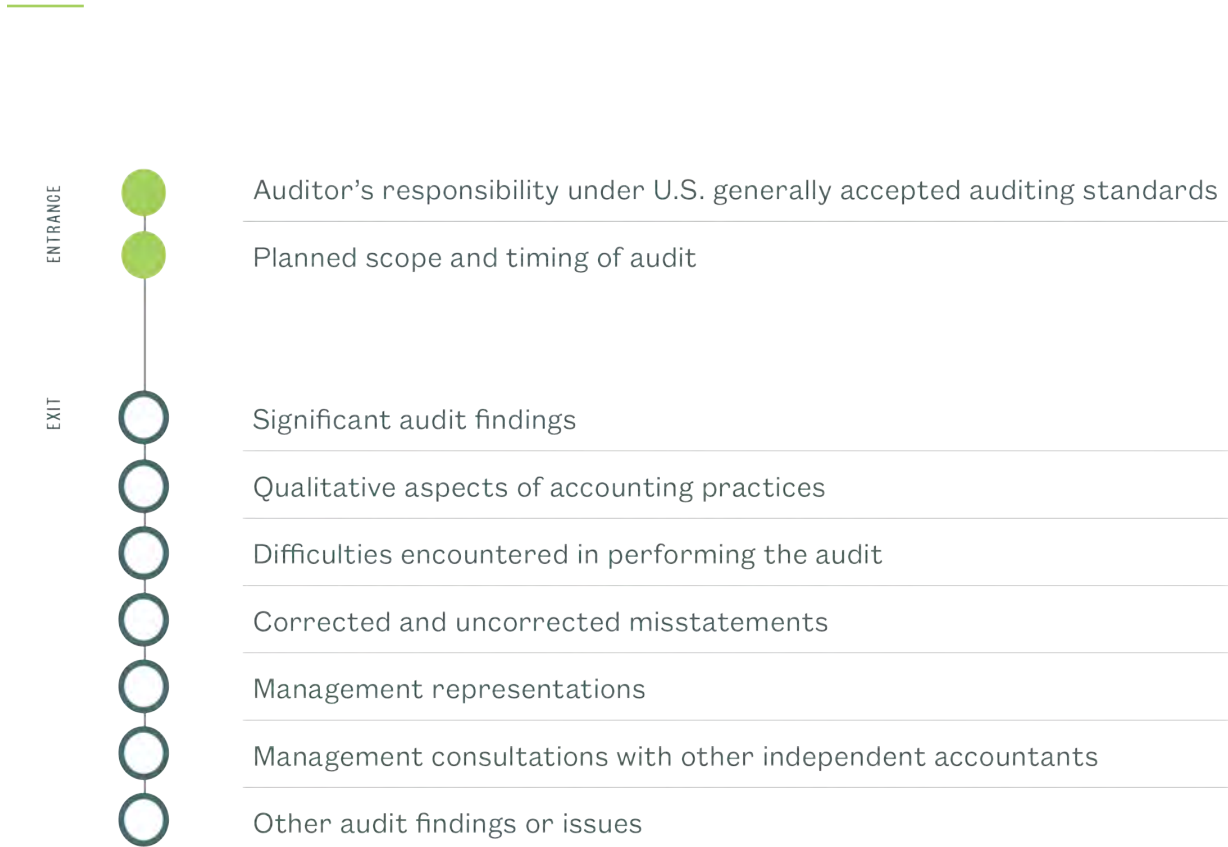


Audit and Project Deliverables

- Report of Independent Auditors' on the financial statements
 - Stand alone financial statements
 - Annual report
 - Single Audit reporting package
- Report of Independent Auditors' on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report of Independent Auditors' on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with Uniform Grant Guidance
 - Schedule of Findings and Questioned Costs (summary of the single audit results)
- Agreed-upon procedures reports associated with the Federal Transit Administration National Transit Database Report
- Agreed-upon procedures report for Schedule of Sources and Uses of Funds by Subarea



Required Communications to Those Charged with Governance



Our Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

1 To express our opinion on whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, and in accordance with U.S. GAAP. However, our audit does not relieve you or management of your responsibilities.

2 To perform an audit in accordance with generally accepted auditing standards issued by the AICPA and *Government Auditing Standards* issued by the Comptroller General of the United States, and design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.

3 To consider internal control over financial reporting and internal control over compliance as a basis for designing audit procedures but not for the purpose of expressing an opinion on its effectiveness or to provide assurance concerning such internal control.

4 To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process and administering federal awards. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.



Documents Containing Audited Financial Statements and Independent Auditor's Report



Our responsibility under generally accepted auditing standards



Request for advance notification when you intend to include audited financial statements and the independent auditor's report in a document



Provide the auditor with the other information prior to issuance of the document that contains the independent auditor's report

Audit Process



Internal Controls

- IT General & Application Controls
- Revenue Cycle – ORCA System Receipts, Taxes, Grants
- Capital Assets, Construction Projects
- Disbursement Cycle
- Payroll Cycle
- Financial Close & Reporting
- Compliance with Federal Awards

Analytical Procedures

- Revenue and expenses
- Accruals and management estimate accounts
- Trends, comparisons, and expectations

Substantive Procedures

- Confirm account balances
- Vouch to supporting documentation
- Examine objective evidence
- Tests of details
- Representations from attorneys and management



What is Materiality?

It's the amount of a misstatement that could influence the economic decisions of users, taken on the basis of the financial statements.



It's calculated using certain **quantitative** (total assets or total revenues) and **qualitative** factors (covenants, expectations of stakeholders, and industry factors)

It identifies:

- 1 Significant risk areas
- 2 Areas of interest to external stakeholders and citizens
- 3 Nature, timing, extent, and scope of test work
- 4 Findings or misstatements

Consideration of Fraud



To identify fraud-related risks of material misstatement, we:

- Brainstorm internally with team
- Conduct personnel interviews
- Document understanding of internal controls
- Consider unusual or unexpected relationships identified in planning and performing the audit



Auditors must consider fraud to “improve the likelihood that auditors will detect material misstatements due to fraud in a financial statement audit.”

Procedures we perform:

- Examine general journal entries for nonstandard transactions
- Evaluate policies and accounting for revenue recognition
- Unpredictable procedures
- Test and analyze significant accounting estimates for biases
- Evaluate rationale for significant unusual transactions

Areas of Audit Emphasis



Internal controls over financial reporting and administration of federal awards



Internal controls over information technology general computer controls



Statement of Financial Position: *Testing areas include cash and investments, taxes receivable, capital assets and construction projects, accounts payable and accrued liabilities, bonds payable, classification of net position accounts, and related financial statement disclosures*



Statement of Activities: *Testing areas include passenger fares, tax revenues, operating and non operating expenses, and governmental grants*



Federal Grant Audit (Uniform Grant Guidance): *Direct and material compliance requirements related to Department of Transportation Programs (Federal Transit Cluster) and any Cares Act funds received*

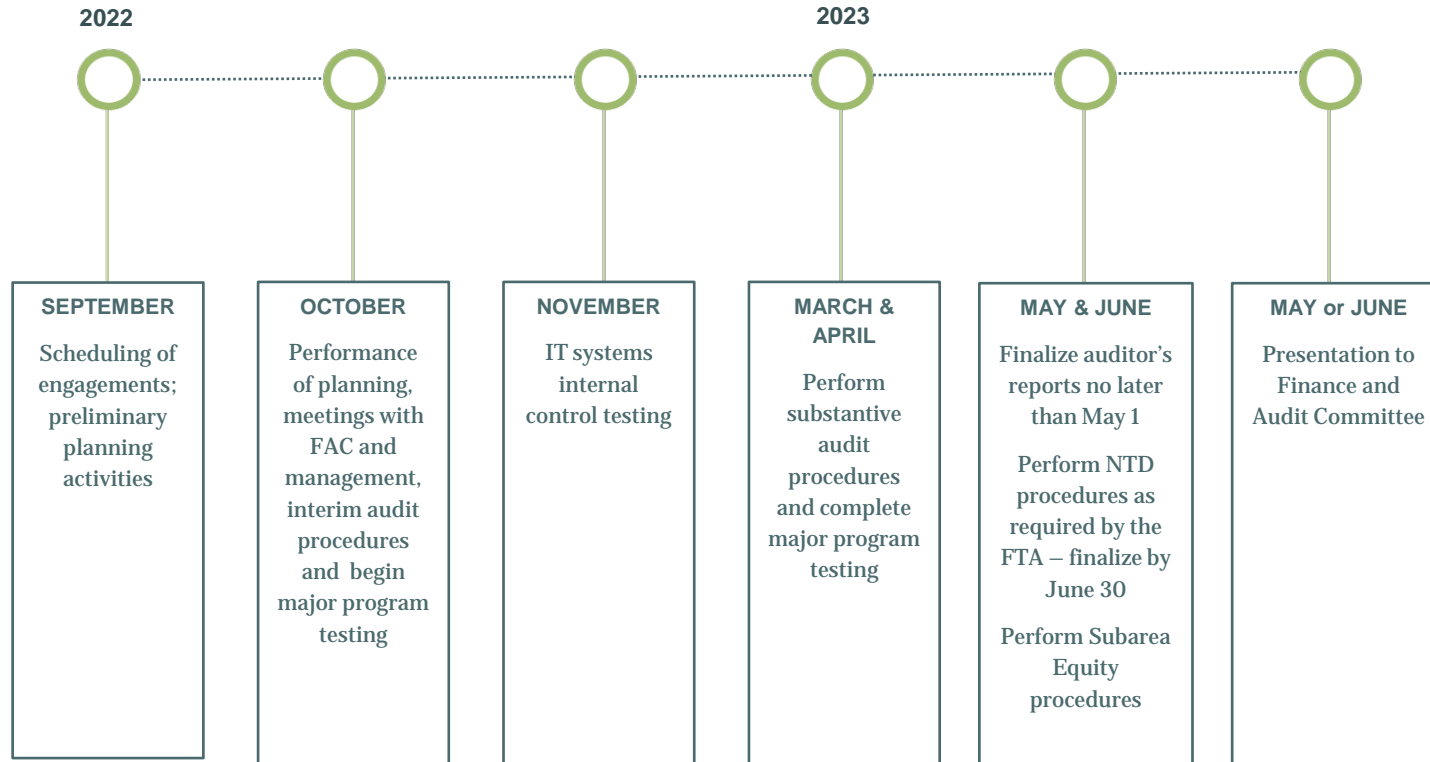


Financial Statements and Disclosures



Significant Audit Risks: *Includes classification of capital assets; occurrence and accuracy of ORCA and other revenues; valuation of lease assets & lease liabilities; compliance with grants and contracts*

Audit Timing



Upcoming Accounting Pronouncements Effective in 2023

Governmental Accounting Standards Board (GASB) Statement No. 96: *Subscription-Based Information Technology Arrangements (SBITA)*

- Defines SBITA as a contract that conveys control of the right to use another party's IT software, and establishes that a SBITA results in a right to use subscription asset (intangible asset) and a corresponding liability.
- Provides criteria for capitalizing outlays other than subscription payments, including implementation costs, and modifies the required disclosures in the financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 94: *Public-Private and Public-Public Partnerships and Availability Pay Arrangements*

- Provides guidance on accounting for partnerships involving the operation of nonfinancial assets in an exchange or exchange-like transaction and availability pay arrangements.



Upcoming Accounting Pronouncements Effective in 2024

Governmental Accounting Standards Board (GASB) Statement No. 100: *Accounting Changes and Error Corrections (an amendment to GASB 62)*

- Changes in accounting principles and error corrections will be reported retroactively by restating prior periods.
- Changes to or within the financial reporting entity will be reported by adjusting beginning balances in the current period.
- Changes in accounting estimates will be reported prospectively by recognizing the change in the current period.

Governmental Accounting Standards Board (GASB) Statement No. 101: *Compensated Absences*

- Unifies recognition and measurement model of compensated absences.
- Liabilities for compensated balances should be recognized for leave that has not been used and leave that has been used but not yet paid/settled.
- Produces a more robust estimate of the amount of compensated absences that are to be paid/settled.



Communications

- What concerns, if any, does the Finance and Audit Committee have regarding the audit this year?
- Are there any areas that the Finance and Audit Committee feel present heightened risk this year?
- What expectations does the Finance and Audit Committee have for on-going communications from the audit team prior to the exit conference?
- Is there anything you expected to discuss today that has not yet been covered?



Your Dedicated Leadership Team



Laurie Tish
*Lead Client Service
Partner*



Olga Darlington
*Concurring Review
Partner*



Amy Sutherland
Director

Spencer Stevenson
Senior Manager

Brent Hutchings
*Manager
Information Technology*

Fiona Deng
*Subcontractor
Manager*

Kristin Gunderson
Manager



Contact Us



+ Laurie Tish	+ Amy Sutherland	+ Spencer Stevenson	+ Kristin Gunderson
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Laurie.Tish@mossadams.com
(206) 302-6466

Amy.Sutherland@mossadams.com
(206) 302-6468

Spencer.Stevenson@mossadams.com
(206) 302-6489

Kristin.Gunderson@mossadams.com
(206) 748-4949



**THANK
YOU**