

SUMMARY MINUTES
RISK MANAGEMENT COMMITTEE
MEETING OF APRIL 20, 2016

Ms. Lang chaired the April 20 Risk Management Committee Meeting, calling it to order at 11:28 a.m. A quorum was present: Mr. Pozen, Co-Chair, Mr. Caputo, Mr. Griffin, Mr. Kennedy, and Mr. McDermott (*ex officio*). Mr. Curto, Mr. Gates, Ms. Merrick, Mr. Mims, Mr. Session, and Ms. Wells were also present.

External Financial Statement Audit. Lee Wyckoff, Vice President for Audit, was joined by Cherry Bekaert, LLP (Cherry Bekaert) representatives Krista Edoff, Engagement Partner, and Greg Miller, Engagement Manager. He stated that although this was a first-year audit, Cherry Bekaert and the finance staff had worked hard to provide a positive report. He commended Chris Wedding, Controller, Priya D'Souza of the Financial Strategy Office, and their teams for the hard work to assure the high degree of accuracy in the financial results.

Ms. Edoff reported that Cherry Bekaert had been engaged to audit the financial statements of the Airports Authority. She noted that the single audit or the federal grants had been done by other auditors.

Ms. Edoff stated that Cherry Bekaert staff began to get a basic understanding of the processes and controls of the financial reporting within the Airports Authority's operations in November and December 2015. From January to early April, Cherry Bekaert staff conducted the fieldwork on the financial statements in order to issue the report. Ms. Edoff reported that the audit was designed to review significant balances and transactions presented within the financial statements. She explained that the audit is completed by reviewing the financial statements to identify any material deficiencies in accuracy or process.

Ms. Edoff reported that the one key area of focus is revenues. She stated that Cherry Bekaert observed cars going through the Dulles Toll Road (DTR) and key counted the number of axels that hit the sensors on the DTR to ensure the revenue was recorded properly for those particular transactions. Ms. Edoff reported that another focus area includes timing of receivables. She stated that other significant transactions are related to investments. The significant investments are confirmed and valuation testing is done to ensure the appropriate value is being recorded at year-end. There is also a confirmation and evaluation process within

investments for interest rate swaps or derivatives. Ms. Edoff reported that Cherry Bekaert staff spent a significant amount of time understanding how transactions and the procurement process for the Dulles Metrorail Project are recorded, as well as the project management process for closed-out projects that are transferred to the Washington Metropolitan Area Transit Authority.

Ms. Edoff explained that Government Accounting Standards Board (GASB) Statement No. 68 dealt with the required supplementary information about pension liability and how it is reflected in the financial statements. She stated that GASB-68 is applicable only to standalone pension plans that are held for employees that joined the organization as the Airports Authority. Employees that participate in the old federal pension plans prior to the creation of the Airports Authority, such as Civil Service Retirement System and Federal Employees' Retirement system, are subject to a different GASB Statement, GASB-78, where the information is recorded as part of the disclosure in the financial statements. Ms. Edoff stated that significant actuarial assumptions are reviewed to test the underlying data submitted to the actuary is accurate.

Ms. Edoff stated that financial reporting is the last and most significant area of the external audit. She explained that all the information that is compiled daily in the general ledger is used as the financial statement document that includes the audit opinion to match the actual work papers and balances that were audited to ensure that the journal entries are posted from the system and tested against those balances and transactions.

Ms. Edoff summarized the information included in the audit opinion. On behalf of Cherry Bekaert, Ms. Edoff presented unmodified opinions for the financial statement audit, as well as the yellow book audit, which represented the required understanding of the internal control environment and test significant compliance type transactions when the audit was conducted. She stated that a clean opinion is the best result that can be achieved.

Ms. Edoff explained that while Cherry Bekaert has an understanding of controls, it does not issue a separate opinion on internal controls. However, it would be required to take any significant internal control matters resulting from the audit and report them to management. If these internal control matters were of a significant level where the financial statements could be materially misstated, they would be

reported as material weaknesses or significant deficiencies. She reported that the Airports Authority did not have any internal control deficiencies warranting such a report.

Ms. Edoff reported on a couple other matters that she was required to present as a result of the audit. She reviewed the new accounting standards, GASB-68 and GASB-78. Ms. Edoff noted that a comparison of this year's financial statements to the prior year would contain differences as a result of that standard being implemented. Other than that standard, there were no other significant changes in accounting standards for the financial reporting period.

Ms. Edoff reported that Cherry Bekaert staff would be required to inform the Committee of the following: if any audit adjustments had been made, if there had been any disagreements with management or if Cherry Bekaert staff had had any significant difficulties in performing the audit, or if any audit opinion shopping (where management had consulted with any other audit or CPA firms) had occurred. She stated that she was pleased to report that none of the aforementioned issues had occurred. Ms. Edoff noted that the single audit was outsourced to another CPA firm, GKA, P.C., which conducted the testing of the Passenger Facility Charges and the testing of the federal grants. She stated that she was not aware of any other consultations with management and other accountants.

Upon conclusion of the audit, Cherry Bekaert asked management to provide representation that the Airports Authority had provided all of the requested information, all of the required information to allow an audit to be conducted, and an understanding that the financial statements are materially correct. Ms. Edoff reported that management had provided the signed management representation letter to Cherry Bekaert.

With regard to internal control deficiencies, Ms. Edoff noted a third level of internal control deficiencies that were sometimes identified throughout an audit whereby the auditor is required to relay them to management in a separate letter called a management letter or management letter comment. She reported that Cherry Bekaert did not issue a separate letter to management with any related control deficiencies.

Ms. Edoff provided information on upcoming accounting standards that might impact the financial statements going forward. She stated that next year the Airports Authority's investments will be subject to a new

standard called GASB-72, which will change the disclosures as they relate to fair value of investments. Therefore, the disclosures related to investments next year will be reported similar to what occurs in the commercial environment, which will require the Airports Authority management to consider reporting investments as they relate to risk.

Ms. Edoff reported that the other upcoming standard changes include GASB-74 and 75, which will essentially have the same impact on other post-employment benefits that GASB-68 had had on pensions. She noted that they will not be effective until 2018, but that potential liability would occur with any unfunded liability for retiree health care plans.

Mr. Wyckoff reported that there would be an opportunity for Directors to ask questions in executive session. As Ms. Edoff had reported, he stated that GKA, P.C. would provide its findings on the A-133 audit in the near future. Mr. Wyckoff submitted the report, as provided by Cherry Bekaert, as the financial statement audit for the year.

Prior to going into executive session, Ms. Lang thanked Ms. Edoff and the Cherry Bekaert team for its extensive, thorough audit. She also thanked Mr. Wyckoff for his participation and direction.

At 11:57 a.m., Ms. Lang reported that the Committee would need to meet in executive session to further discuss the External Financial Statement Audit (Tab 21) pursuant to Article IX, Section 3(g) of the Airports Authority Bylaws which permits the Board and its Committees to move into executive session for matters that the professional standards applicable to financial statement auditors, when conducting a financial statement audit, require to be discussed in executive session, and pursuant to Article IX, Section 3(c) of the Airports Authority's Bylaws for matters that involve proprietary or confidential information of the Airports Authority and its vendors.

At 12:55 p.m., the Committee ended its executive session, and the meeting was thereupon adjourned.