

Petersburg Borough, Alaska

AUDIT PLANNING

YEAR ENDING JUNE 30, 2017

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (Borough Assembly) and, if appropriate, management of the Borough and is not intended and should not be used by anyone other than these specified parties.

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3601 C Street, Suite 600
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August 1, 2017

Honorable Mayor and
Members of the Borough Assembly
Petersburg Borough, Alaska

Professional standards require us to communicate with you regarding matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This document provides an overview of our plan for the audit of the financial statements, the schedule of expenditures of federal awards, and the schedule of state financial assistance of Petersburg Borough, Alaska (the Borough) as of and for the year ending June 30, 2017, including a summary of the nature, scope, and timing of the planned audit work.

Responsibilities

BDO USA, LLP, as your auditor, is responsible for forming and expressing an opinion about whether the financial statements, the schedule of expenditures of federal awards, and the schedule of state financial assistance that have been prepared by management, with your oversight, are prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In addition our audit will be conducted in accordance with standards for financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits (State Audit Guide). The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. The engagement letter, a copy of which has been provided to you, includes specific details regarding the auditor's and management's responsibilities.

Overall Audit Strategy and Planned Scope

Overall, our audit strategy is to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design further audit procedures responsive to assessed risks. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. In connection with our audit, we will obtain a sufficient understanding of the Borough's internal control to plan the audit of the financial statements. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control. In addition, the Uniform Guidance and the State Audit Guide requires that we also plan and perform the audit to obtain reasonable assurance about whether the Borough has complied with applicable federal and state statutes, regulations and the terms and conditions of the federal and state awards that may have a direct and material effect on each of Borough's major federal and state programs.

We focus on areas with higher risk of material misstatement (whether due to error or fraud). Our audit strategy includes consideration of:

- a) prior year audit results together with current year preliminary analytical review, including discussions with management and those charged with governance regarding the Borough's operations
- b) inherent risk within the Borough
- c) recent developments within the industry, regulatory environment and general economic conditions
- d) recently issued and effective accounting and financial reporting guidance

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- e) the Borough's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions,
- f) the control environment and the possibility that the control system and procedures may fail to prevent or detect a material error or fraud,
- g) internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Audit Guide.
- h) information about systems and the computer environment in which the related systems operate, and
- i) a continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the Borough.

Based upon our initial assessment, our planned scope for the audit is described below:

- The areas indicated below relate to significant risks identified during our risk assessment procedures and include a brief description on how we propose to address them:
 - Fraud Risk
 - Internal Control Over Financial Reporting
 - Cash and Investments
 - Accounts Receivable and Allowances
 - Revenue Recognition
 - Federal and State Grants
 - Long-term Obligations, including Debt Issuance and Repayment
 - Capital Assets
 - Solid Waste Landfill
 - Tax Revenues, Charges for Services, etc.
 - Pension and Other Postemployment benefits
 - Single Audit in Accordance with the Uniform Guidance and State Single Audit
 - Evaluation of Related Party Relationships and Transactions and Going Concern
 - Other Matters, Including Significant Unusual Transactions

Overall Audit Timeline

Planning is anticipated to occur in July and year-end fieldwork will occur August with release of the opinion and financial statements and reports in accordance with *Government Auditing Standards*, the Uniform Guidance, and the State Audit Guide expected to occur in November, dependent upon completion of the separate audits of Petersburg Medical Center and Petersburg School District.

Group Audit

The audit of the Petersburg Borough requires financial presentation for all components of the reporting entity. The reporting entity is comprised of the Petersburg Borough, itself (its funds and accounts) as well as its "component units" as defined by GAAP. This collection of individual reporting entities comprises the "Group". The Borough audit is considered the "Group Audit".

Included within the reporting entity are the Petersburg School District and Petersburg Medical Center. The component units will also be audited by BDO USA, LLP (Anchorage Office); however, these audits involve other partners and audit team members. As part of our planned audit strategy, we will initiate required communications with those audit teams to include confirmation of their independence with respect to the entire group, identification of related parties of those component entities, identification of audit risks, and other required communications.

Independence Communication

Our engagement letter to you dated August 1, 2017 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Borough with respect to independence as agreed to by the Borough. Please refer to that letter for further information.

Significant Accounting and Reporting Matters

GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans - Effective for year-end June 30, 2017, with earlier application encouraged - This statement contains financial reporting guidelines for Postemployment Benefit Plans. This is the Plan side requirements applicable to OPEB benefits and generally brings the OPEB reporting rules into alignment with the new GASB 67 Pension rules.

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions - Effective for year-end June 30, 2018, with earlier application encouraged - This statement contains accounting and financial reporting guidelines for OPEB related activities at the participating employer level and generally brings the OPEB reporting rules into alignment with the new GASB 68 Pension rules.

GASB 80 - Blending Requirements for Certain Component Units - Effective for year-end June 30, 2017, with earlier application encouraged - This statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement amends the previous requirements established in paragraph 53 of GASB 14. The criterion specified in GASB 80 does not apply to component units included in the financial reporting entity pursuant to GASB 39.

GASB 81 - Irrevocable Split-Interest Agreements - Effective for year-end June 30, 2017, with earlier application encouraged - This statement establishes recording and recognition criteria for governments who receive resources pursuant to an irrevocable split-interest agreement.

GASB 83 - Certain Asset Retirement Obligations - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses accounting and financial reporting for certain asset retirement obligations that are legally enforceable liabilities associated with the retirement of a tangible capital asset.

GASB 84 - *Fiduciary Activities* - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses criteria for identifying and reporting fiduciary activities.

GASB 85 - *Omnibus* - Effective for year-end June 30, 2018, with earlier application encouraged - This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. Issues covered include blending of component units, goodwill, fair value measurement and application, and postemployment benefits.

GASB 86 - *Certain Debt Extinguishment Issues* - Effective for year-end June 30, 2018, with earlier application encouraged - This statement addresses accounting and financial reporting for in-substance defeasance of debt when only existing resources are used, as well as accounting and financial reporting for prepaid insurance on extinguished debt.

GASB 87 - *Leases* - Effective for year-end June 30, 2021, with earlier application encouraged - This statement address accounting and financial reporting for lease transactions.

Client Service Team

As a matter of policy, we attempt to provide continuity of service to our clients to the greatest extent possible. Where engagement team rotation is necessary, we will discuss this matter with you and determine the appropriate individuals to be assigned to the engagement based on particular experience, expertise, and engagement needs.

The following is the contact information for the engagement partner and senior manager responsible:

Joy Merriner - Engagement Partner
jmerriner@bdo.com

Sam Thompson - Senior Manager
sthompson@bdo.com

We are pleased to be of service to the Petersburg Borough and look forward to answering questions you may have regarding our audit plan as well as other matters that may be of interest to you.

Respectfully,

BDO USA, LLP