

AUDIT WRAP-UP

Year Ended June 30, 2015



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 (e.g., the city council) and, if appropriate, management of the City and is not intended and should not be used by anyone other than these specified parties.

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February 25, 2016

Honorable Mayor and
Members of the City Council
City of Sand Point, Alaska

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. Our audit planning communication dated July 21, 2015 outlined our plan for the audit of the financial statements of the City of Sand Point (the City) as of and for the year ended June 30, 2015. That document included a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the City's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the City. Feel free to contact us to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA, LLP

Anchorage, Alaska

Discussion Outline

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Status of Our Audit

We have completed our audit of the financial statements as of and for the year ended June 30, 2015. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We have issued an unmodified opinion on the financial statements and have released our report on February 25, 2016.
- All records and information requested by BDO were freely available for our inspection.
- We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of City personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES, AND SIGNIFICANT UNUSUAL TRANSACTIONS

The following summarizes the more significant required communications related to our audit concerning the City's accounting practices, policies, estimates, and significant unusual transactions:

The City's significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- A summary of recently issued accounting pronouncements is included in Note 14 to the City's financial statements.
- In 2015 the City adopted the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. This statement requires the City to recognize its proportional share of the net pension liability related to PERS participation in each of its full accrual financial statements (government-wide statements and enterprise funds). Additionally, the statement requires that opening net position be restated to reflect the adoption of this new statement.
- There were no changes in significant accounting policies and practices during 2015.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. Overall, the City has few significant accounting estimates. The most significant estimates are disclosed below:

Significant accounting estimates include:

Collectability of Outstanding Accounts Receivables - Receivables from granting agencies are considered by management to be 100% collectible. Customer accounts receivable (Water, sewer, harbor, etc.) are reviewed by management periodically to determine a reasonable amount of allowance, based on known factors, past history, and age of the outstanding amount.

Landfill Closure Liability - Accounting rules prescribe that the City record the ultimate cost of closure and monitoring as the landfill is being filled. The liability recorded is based on an initial third-party closure estimate updated annually for management estimates of capacity used during the year adjusted for inflation.

Net Pension Liability (and related deferred accounts) - The Pension Liability is estimated based on actuarial and other actual contribution data provided to the City by the PERS Plan Administrator.

- In connection with the adoption of GASB 68, there has been significant (statewide) dispute regarding the existence of a "special funding situation." The State of Alaska Department of Law determined that the current on-behalf statutes do not create a legal obligation to the State of Alaska; therefore, a special funding situation does not exist. Cities across the state are in disagreement with this position and believe that the noted statutes do represent a legal obligation to the state and therefore, a special funding situation does exist. The City has elected to report the liability assuming a special funding situation, which results in a lower liability. The City has recognized a liability in the amount of \$1,232,488. Absent the special funding situation, the City's liability would be \$2,399,631. Please note that a change in the current legislation could result in

Results of Our Audit

the removal of the special funding, in which case, the City would need to record the additional liability as calculated in the next measurement cycle. In addition, the liability record reflects ONLY the pension portion of the unfunded PERS liability. The healthcare component liability will be coming online in 2017.

- In 2015, the City renewed its landfill permit. In connection with the permit application, management was required to submit an estimate of the landfill closure liability. Amounts recorded for the landfill liability has been based on an external engineering report prepared several years ago. In 2015, in submitting the application, the original estimate was revised upwards to account for inflation. As a result, the estimate recorded in the financial statements has also been revised upwards. We would encourage management to consider obtaining an updated engineering review on the landfill to ensure that the closure estimate is in line with the actual usage and life of the landfill.
- We did not identify any significant or unusual transactions, or any transactions for which there was a lack of authoritative guidance.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were 8 adjusting entries recorded to the trial balance given to us to perform the audit. Of these, the following were considered significant:

- Record GASB 68 restatement and current year transactions
- Record Grant Revenue and A/R and capital contribution
- Record PERS on-behalf
- Adjust cross-fund advance accounts

There were also two reclassification journal entries. Reclassification entries have no effect on fund balance.

We note that the GASB 68 related entries were derived from information provided by the State of Alaska after audit fieldwork was completed. Management could not have recorded these entries prior to release of the information from the State.

There were no uncorrected misstatements related to accounts and/or disclosures that we presented to management. To our knowledge, there are no other uncorrected misstatements.

All journal entries recorded were provided to management in the representation letter.

Results of Our Audit

QUALITY OF THE CITY'S FINANCIAL REPORTING

- Qualitative aspects of significant accounting policies and practices
 - We concur with the City's interpretation and application of generally accepted accounting principles and practices derived from the standards set by the Governmental Accounting Standards Board (GASB).
- Our conclusions regarding critical accounting estimates
 - The nature of the City's operations reduces the need for numerous significant estimates within the accounting records. See comment about estimates above. We believe the City's estimates are reasonable in the circumstances. The City may wish to consider obtaining an independent estimate with respect to the landfill closure.
- Financial statement presentation
 - To our knowledge all necessary disclosures have been included in the footnotes to the financial statements.
- New accounting pronouncements
 - As noted on the previous page, in 2015 the City adopted GASB Statement 68. We concur with the City's decision to adopt this statement.
- Alternative accounting treatments
 - We did not identify any accounting treatments that did not comply with generally accepted accounting principles and standards set by GASB.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the City’s internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we reported no material weaknesses.

Other Required Communications

Following is a summary of those required items, along with specific discussion points as they pertain to the City:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified as part of our Audit Planning Process.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the City's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
If applicable, nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the City's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit. The audit finalization and delivery was delayed due to the late arrival of information relating to the PERS liability. This delay has affected virtually every participating employer in the Plan.
Representations requested from management	Please refer to the attached management representation letter.

Independence Communication

Our engagement letter to you dated May 28, 2015 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 City with respect to independence as agreed to by the City. Please refer to that letter for further information.

Other Information

UPCOMING CHANGES

New GASB Statements

There are several new accounting pronouncements with effective dates over the next two to three years. These include Fair Value Measurement rules as well as new accounting rules related to Other Post-Employment Benefits, among others, which will have an effect on financial reporting over the next few years. We strongly encourage management to familiarize themselves with these upcoming changes in order to properly adopt the new provisions on their effective dates.

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Section 200) aka - Super Circular

In 2013 the federal Office of Management and Budget adopted new requirements associated with the administration of federal grants. Grant awards issued after December 2014 are subject to the new rules, with many additional provisions coming online during the City's fiscal year 2016. The audit provisions of the new guidance will be in effect with your June 30, 2016 audit. Management should continue to stay abreast of these changes and ensure continued compliance with the regulatory rules.

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BDO COMMITS SIGNIFICANT RESOURCES TO KEEP OUR PROFESSIONALS AND OUR CLIENTS UP TO DATE ON CURRENT AND EVOLVING TECHNICAL, GOVERNANCE, INDUSTRY AND REPORTING DEVELOPMENTS. VISIT [HTTP://WWW.BDO.COM](http://www.bdo.com) FOR ALL OF OUR OFFERINGS:

Our clients' time is valuable, as management must meet all compliance requirements while maintaining lean and efficient teams. This is why our culture guides us to view ourselves as trusted advisors, not merely accountants serving compliance needs. By leveraging the shared knowledge of our top professionals across the country and globe, we develop succinct thought leadership and training programs to help clients stay abreast of emerging trends and requirements.

Our thought leadership consists of quarterly email updates, publications, surveys, practice aids, and tools that span a broad spectrum of topics that impact financial reporting, as well as corporate governance. Our focus is not to simply announce changes in technical guidance, regulations or emerging business trends, but rather expound on how such changes may impact our clients' businesses. Some examples of our thought leadership offerings include the following:

- ▶ **Board Reflections** — Resources that include BDO's proprietary studies, publications, practice aids, and educational programs to keep board members of both public and private companies up to date on emerging issues and trends to assist in fulfilling their corporate oversight responsibilities. Such resources contain customized information for the various committees of the board. For example, refer to our Effective Audit Committees in the Ever Changing Marketplace practical guide and related tools. Visit our Insights page on <http://www.bdo.com>.
- ▶ **Significant Accounting and Reporting Matters Guide** — Quarterly digest of final and proposed financial accounting standards designed to help audit committees, boards and financial executives keep up to date on the latest corporate governance and financial reporting developments.
- ▶ **Client Advisories** — Concise documents that provide timely commentary, analysis and insights on events and trends of interest to management and boards of directors.
- ▶ **Tax Newsletters and Alerts** — Updates with respect to federal, state, local, expatriate, and international developments, along with other specific tax planning and strategy considerations including specific practice areas such as compensation and benefits, private client and individual filer services, transfer pricing, Foreign Account Tax Compliance Act, etc.
- ▶ **Technical Research Tools** — BDO uses Accounting Research Manager™ (ARM) as a primary source of insightful interpretations on GAAP, GAAS and Securities and Exchange Commission rules. ARM is updated daily and is considered to be one of the timeliest and most comprehensive online databases of analytical interpretations of accounting, auditing and SEC matters. Access to ARM, and a number of other research tools, provides each professional the technical research capability to respond immediately to client-specific technical issues.

Get to Know BDO

- ▶ **BDO Knows Flash Reports** – Provide briefs about select technical and regulatory developments and emerging issues are made immediately available to BDO professionals and to clients.
- ▶ **BDO Knows Financial Reporting Letters** – Provide more in-depth discussions and practical guidance on technical guidance affecting both public and private entities.
- ▶ **Industry Newsletters, Alerts, Reports, Proprietary Studies and Surveys** – A variety of publications depicting specific industry issues, emerging trends and developments.
- ▶ **BDO Knowledge Webinar Series** – An educational series designed to assist those charged with governance (e.g., Audit Committees) and financial executives in keeping up to date on the latest corporate governance, risk management and financial reporting developments. The program is multi-faceted and consists of complimentary CPE webinars and archived self-study courses, covering both broad and specific topics of interest, publications and links to various BDO and external resources.

Additionally, consider our monthly tax series that provide insights and perspectives on the tax issues most important to our clients and their businesses. Visit our Event/Webinar page for a current listing of programming on <http://www.bdo.com>

Exhibit A

- Representation Letter is attached