

REPORT TO BOROUGH ASSEMBLY

ALEUTIANS EAST BOROUGH

AUDIT PLANNING: YEAR ENDING JUNE 30, 2023



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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., Board of Directors and Audit Committee) and, if appropriate, management of the Company, and is not intended and should not be used by anyone other than these specified parties.

Welcome

September 5, 2023

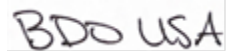
Honorable Mayor and Members of the Borough Assembly

Aleutians East Borough

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. This document provides an overview of our plan for the audit of the financial statements of Aleutians East Borough as of and for the year ending June 30, 2023, including a summary of the nature, scope, and timing of the planned audit work.

We are pleased to be of service to the Borough and look forward to discussing our audit plan, as well as other matters that may be of interest to you.

Respectfully,

The logo for BDO USA, featuring the text "BDO USA" in a stylized, handwritten font.

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Executive Summary



Responsibilities

BDO USA, P.A., as your auditor, is responsible for forming and expressing an opinion(s) about whether the financial statements and the schedule of expenditures of federal awards 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 and 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 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.

Audit Strategy

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, *Government Auditing Standards* require that we also plan and perform the audit to obtain reasonable assurance about whether the Borough has complied with applicable laws, 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 programs.

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

- ▶ 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,
- ▶ inherent risk within the Borough
- ▶ recent developments within the industry, regulatory environment, and general economic conditions,
- ▶ recently issued and effective accounting and financial reporting guidance,
- ▶ the Borough's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions,
- ▶ the control environment and the possibility that the control system and procedures may fail to prevent or detect a material error or fraud,
- ▶ information about systems and the computer environment in which the related systems operate,
- ▶ a continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the Borough and
- ▶ internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures.

The BDOADVANTAGE

The **BDOADVANTAGE**, our digital suite of tools, equips our auditors to perform more effective and robust audits. These tools include communications and project management tools to ensure there are no surprises; automations to help our teams focus on risks; and data analytics that allow our auditors to dive deeper into their risk analysis through use of data visualization, correlation, and comparison. The **BDOADVANTAGE** empowers our audit teams to create more industry-focused client insights with greater precision.

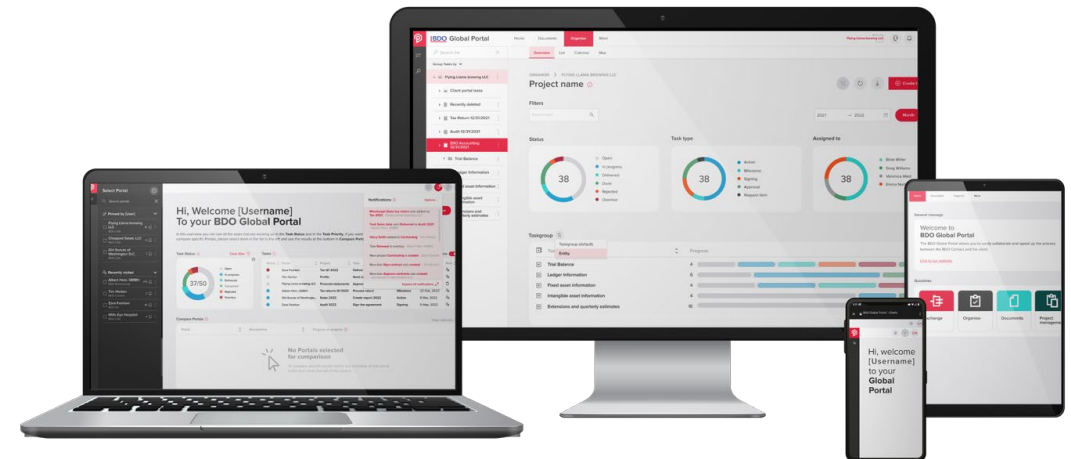
Below are two examples of the **BDOADVANTAGE** technology suite



- ▶ An e-signature tool enables us to manage electronic agreements and integrations with audit reports.
- ▶ Allows for standardization of our contracting process and execution of our audit representation letters.
- ▶ Creates a consistent and reliable process by which necessary documentation is electronically executed, tracked, and stored and to create signing authority control.



- ▶ Provides you with access to all relevant requests and the data and documents.
- ▶ Houses contact details of your BDO engagement team, timelines, schedules, and communication records.
- ▶ Visually depicts the status and progression of the audit in one screen.



Planned Scope

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:
 - Management Override of Controls
 - Fraud Risk
 - Revenue Recognition
 - Federal and State Grants
 - GASB Statement 87 - Leases
 - Implementation of GASB 96 - SBITA
 - Pension and Other Post employment Benefits and Related Disclosures
 - Single Audit in Accordance with the Uniform Guidance and State Single Audit Guide
 - Evaluation of Related Party Relationships and Transactions
 - Other Matters, including Significant Unusual Transactions

- ▶ Our audit strategy involves extensive partner involvement in all aspects of the planning and execution of the audit. Our goals include focusing resources on high-risk areas and other areas of concern for management and the Borough Assembly.

- ▶ Overview of the nature of the audit of group financial statements:
 - The audit of the Borough requires financial presentation for all components of the reporting entity. The reporting entity is comprised of the 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 is Aleutians East Borough School District (AEBSD). The component unit is audited by BDO USA, P.A. (Anchorage Office); however, this audit involves another partner and audit team members. As part of our planned audit strategy, we will initiate required communication with those audit teams to include confirmation of their independence with respect to the entire group, identification of related parties of the component entity, identification of audit risks, and other required communication

Planned Audit Scope

- ▶ We will plan and perform the audit of the financial statements for the year ending June 30, 2023, in accordance with *Government Auditing Standards*.
- ▶ We will consider the Borough's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control.
- ▶ We will perform tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions is not an objective of our audit.
- ▶ We will plan and perform the audit of the Schedule of Expenditures of Federal Awards (SEFA), and State Schedule of Financial Assistance (SSFA) for the year ending June 30, 2023, in accordance with GAS, the Uniform Guidance and the State Audit Guide and will issue an in relation to opinion.
- ▶ We will consider 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 an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Audit Guide.

Overall Audit Timeline

The following represents our anticipated schedule with regard to our audit of the financial statements of the Borough:

	Jul	Aug	Sep	Oct	Nov	Dec
Planning	✓					
Interim Fieldwork	✓	✓				
Year-End Fieldwork			✓	✓		
Release Reports on Financial Statements					✓	✓



Independence

Our engagement letter to you March 1, 2023, describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence Borough. Please refer to that letter and the performance of our services. This letter also stipulates the responsibilities of the Borough with respect to independence as agreed to by the er for further information.

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 individual to be assigned to the engagement based on particular experience, expertise, and engagement needs.

We are pleased to be of service to the 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.



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Appendix



Implementation of New GASB Standards

New GASB Standards

New GASB pronouncements include:

- ▶ Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- ▶ Statement No. 96, *Subscription-Based Information Technology Arrangements*
- ▶ Statement No. 99, *Omnibus 2022*
- ▶ Statements No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*
- ▶ Statements No. 101, *Compensated Absences*

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2022

- ▶ For the Public-Private and Public-Public Partnerships (P3s) that meet the definition of a service concession arrangement (SCA), this Statement carries forward the financial reporting requirements for SCAs that were included in Statement 60, with modifications to apply the more extensive requirements related to recognition and measurement of leases to SCAs.
- ▶ For P3s that meet the definition of a lease, the guidance in Statement No. 87 should be applied, if existing assets of the transferor that are not required to be improved by the operator as part of the P3 arrangement are the only underlying P3 assets and the P3s do not meet the definition of an SCA.
- ▶ This Statement provides specific guidance for all other P3s from the perspective of both a government that transfers rights to another party and governmental operators that receive those rights.
- ▶ The Statement requires governments to account for Availability Payment Arrangement (APAs) in which ownership of the asset transfers by the end of the contract as a financed purchase of the underlying infrastructure or other nonfinancial asset. It also requires a government to report an APA that is related to operating or maintaining a nonfinancial asset as an outflow of resources (for example, expense) in the period to which payments relate

GASB Statement No. 96, *Subscription Based Information Technology Arrangements*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2022

- ▶ Addresses accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. Standard is based on the standards established in Statement No. 87, *Leases*.
- ▶ Defines a SBITA as a contract that conveys control of the right to use a SBITA vendor’s IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.
- ▶ Requires governments with SBITAs to recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability (with an exception for short-term SBITAs—those with a maximum possible term of 12 months).
- ▶ Provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA.

GASB Statement No. 99, *Omnibus 2022*

Effective Dates	Date per Pronouncement
	Effective as Noted Below

- ▶ This Statement address practice issues identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees.
- ▶ Effective Upon Statement Issuance - April 2022:
 - Extension of the period during which LIBOR is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
 - Accounting of benefits distributed as part of the Supplemental Nutrition Assistance Program (SNAP)
 - Disclosures related to nonmonetary transactions
 - Pledges of future revenues when resources are not received by the pledging government
 - Clarification of provisions of Statement No. 34 related to the focus of the government-wide financial statements
 - Updates to terminology used in Statement No. 53 to refer to resource flow statements and to certain provisions in Statement No. 63
- ▶ Effective for Fiscal Years Beginning After June 15, 2022:
 - Determination of lease term and classification of leases as short-term in accordance with Statement No. 87
 - Clarification related to the determination of Public-Private Partnerships (PPP) term and recognition and measurement of installment payments and the transfer of PPP assets under Statement No. 94
 - Clarification of the provisions of Statement No. 96 related to Subscription Based Information Technology Arrangements (SBITA) term, classification of short-term SBITA, and recognition and measurement of a subscription liability
- ▶ Effective for Fiscal Years Beginning After June 15, 2023:
 - A government extending an exchange or exchange-like financial guarantee should recognize a liability and expense/expenditure related to the guarantee when qualitative factors and historical data indicate that it is more likely than not a government will be required to make a payment related to the guarantee. Statement No. 99 excludes guarantees related to special assessment debt, financial guarantee contracts within the scope of Statement No. 53, or guarantees related to conduit debt obligations.
 - Requirements related to the classification and reporting of derivative instruments within the scope of Statement No. 53 that do not meet the definition of an investment or hedging derivative instrument

GASB Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*


Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2023

- ▶ This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes.
- ▶ As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability.
- ▶ This Statement also addresses corrections of errors in previously issued financial statements.
- ▶ This Statement requires that:
 - changes in accounting principles and error corrections be reported retroactively by restating prior periods,
 - changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and
 - changes in accounting estimates be reported prospectively by recognizing the change in the current period.
- ▶ The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.
- ▶ Statement No. 100 requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.
- ▶ This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.
- ▶ Statement No. 100 also addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 101, *Compensated Absences*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 12/15/2023

- ▶ This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means.
- ▶ Requires recognition of a liability for leave that has not been used if:
 - the leave is attributable to services already rendered,
 - the leave accumulates, and
 - the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.
- ▶ Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.
- ▶ Statement No. 101 requires that a liability for certain types of compensated absences, including parental leave, military leave, and jury duty leave, not be recognized until the leave commences.
- ▶ In addition, this Statement requires that for specific types of compensated absences, a liability not be recognized until the leave is used.
- ▶ This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.
- ▶ With respect to financial statements prepared using the current financial resources measurement focus, Statement No. 101 requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.
- ▶ Statement No. 101 amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.



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