

	Presented
Date Action Taken: <i>N/A</i>	<i>7/25/16</i>
Other:	
Verified By: <i>[Signature]</i>	

CITY COUNCIL INFORMATIONAL MEMORANDUM

IM No. 16-13: Audit Planning Report, Fiscal Year Ending June 30, 2016.

Originator: Troy Tankersley, Finance Director
 Date: 7/12/2016

Agenda of: 7/25/2016

Route to:	Department Head	Signature	Date
X	Finance Director	<i>[Signature]</i>	<i>7/12/16</i>
X	Deputy Administrator	<i>[Signature]</i>	<i>7/13/16</i>
X	City Clerk	<i>[Signature]</i>	<i>7/14/16</i>

Reviewed by Mayor Bert L. Cottle: *[Signature]* *7/14/2016*

Attachments: Audit Planning, Year Ending June 30, 2016 (12 pages)

Summary Statement: The City of Wasilla has contracted with BDO USA, LLP for audit services regarding the fiscal year-end of June 30, 2016.

BDO USA, LLP has requested the distribution of the Audit Planning Report, Year Ending June 30, 2016 to Council and Administration.

City of Wasilla, Alaska

AUDIT PLANNING

YEAR ENDING JUNE 30, 2016



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., City Council and Audit Committee) 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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3601 C Street, Suite 600
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June 17, 2016

Honorable Mayor and
Members of the City Council
City of Wasilla, 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 report provides an overview of our plan for the audit of the financial statements of City of Wasilla (the City), Alaska as of and for the year ending June 30, 2016, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

We are pleased to be of service to the City. Please feel free to contact Joy Merriner should you have any questions regarding the audit plan, or if you would like to discuss any other matters that may be of interest to you.

Respectfully,

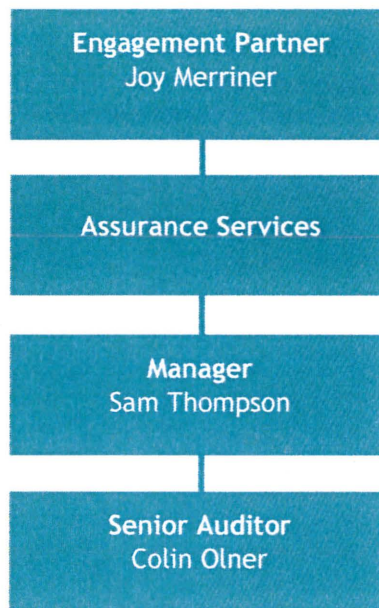
BDO USA, LLP

Discussion Outline

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Client Service Team

Our client service team members for this year's audit are listed in the organizational chart below. 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 management and those charged with governance and determine the appropriate new individuals to be assigned to the engagement based on particular experience, expertise, and engagement needs.



In addition to the Anchorage audit team, we will be teaming with BDO national personnel to provide you with the most experienced expertise. These individuals will provide technical consultation and review as needed throughout the engagement.

- Technical Reviews - John Bost and Patricia Duperron

Management's Responsibilities

Management is responsible for preparing, with the oversight of those charged with governance, the financial statements and disclosures in conformity with accounting principles generally accepted in the United States of America (GAAP). Management's responsibilities also include the following:

- Establish and maintain effective internal control over financial reporting and proper accounting records.
- Identify and ensure compliance with relevant laws and regulations.
- Safeguard the City's assets.
- Select appropriate accounting principles.
- Use reasonable judgments and accounting estimates.
- Complete a GAAP disclosure checklist to ensure there are no significant financial statement disclosure deficiencies.
- Evaluate whether there is substantial doubt about the City's ability to continue as a going concern and the impact on the presentation and disclosure within the financial statements.
- Make all financial records and related information available to BDO.
- Record material audit adjustments and affirm to BDO that the impact of uncorrected misstatements, if any, is immaterial to the financial statements taken as a whole.
- Provide BDO with a letter confirming representations made during the audit.

Engagement Objectives

Our objectives with respect to the audit of the City's annual financial statements are summarized below:

- Plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with auditing standards generally accepted in the United States of America does not provide absolute assurance relative to or any guarantee of the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, may not be detected.
- Obtain a sufficient understanding of the City's internal control to plan the audit of the financial statements. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- Communicate our responsibilities in relation to the audit and establish an understanding of the terms of the engagement.
- Provide an overview of the overall audit strategy and planned scope and timing of the audit.
- Inquire of those charged with governance about risks of material misstatement, including fraud risks, and whether those charged with governance are aware of other matters that may be relevant to the audit such as, but not limited to, violations or possible violations of laws or regulations and complaints or concerns raised regarding accounting or auditing matters.
- Coordinate with others within the City, as appropriate, to optimize audit effectiveness and efficiency.
- Consult regarding accounting and reporting matters as needed throughout the year.
- Communicate with management and those charged with governance regarding significant deficiencies and material weaknesses identified during our audit and other timely observations that are significant and relevant to the financial reporting process.
- Work with management toward timely issuance of financial statements.
- Maintain our independence with respect to the City.
- Ensure that those charged with governance are kept appropriately informed in a timely manner of the City's financial reporting matters; comply with professional standards as to communications with those charged with governance.

Overall Audit Strategy - Planned Scope

Overall, our audit strategy is to focus on higher risk areas of material misstatement (whether due to error or fraud) and other areas of concern for management and those charged with governance.

Our audit strategy includes consideration of:

- Prior year audit results together with interim results, including discussions with management and those charged with governance regarding the City's operations, business activities, and risks.
- Inherent risk within the City (i.e., the susceptibility of the financial statements to material error or fraud) before recognizing the effectiveness of the control systems.
- A continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the City.
- Recent developments within the industry, regulatory environment, and general economic conditions.
- Recently issued and effective accounting and financial reporting guidance.
- The City's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions.
- The control environment, risk management and monitoring processes, and the possibility that the control systems and procedures may fail to prevent or detect a material error or fraud. We intend to place reliance on internal controls, where applicable, in determining the degree of detailed substantive testing required.
- Information about systems and the computer environment in which financial records and related systems operate.

Overall Audit Strategy - Planned Scope

Based upon our initial assessment, our audit will entail a combination of testing controls for reliance and substantive testing. The primary areas of focus in our overall audit strategy include the following.

- Fraud Risk
- Internal Control Over Financial Reporting
- Revenue Recognition
- Accounts Receivable and Allowances
- Investments
- Capital Assets
- Debt
- Self-Insurance
- Pension Benefits
- State Single Audit
- Evaluation of Going Concern
- Evaluation of Related Party Relationships and Transactions
- Other Matters, Including Significant Unusual Transactions

Overall Audit Timeline

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

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Periodic Meetings and Discussions With Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Develop Audit Strategy, and Determine Nature and Scope of Testing			✓	✓		✓						
Internal Control Assessment and Testing				✓		✓						
Substantive Testing (confirmation procedures, etc.)						✓	✓					
Review Draft Financial Statements							✓	✓				
Final Communications With Those Charged With Governance								✓				
Release Opinions on Financial Statements							✓	✓				

Independence Communication

Our engagement letter to you dated June 17, 2016 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.

Significant Accounting and Reporting Matters

- GASB 72 - Fair Value Measurement and Application - Effective for year-end June 30, 2016 - This statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. This statement is expected to primarily affect investment disclosures.
- GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 - This statement contains certain clarifications and amendments to GASB 67 and 68 as well as establishing requirements for both defined benefit and defined contribution pensions not within the scope of GASB 68. Effective for fiscal - year end June 30, 2016—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for year ending June 30, 2017.
- 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 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments - Effective for year-end June 30, 2016, with earlier application encouraged - This statement clarifies the hierarchy of generally accepted accounting principles to be used in the preparation of state and local government financial statements. This statement supersedes the previous hierarchy established in GASB 55.
- GASB 77 - Tax Abatement Disclosures - Effective for year-end June 30, 2017, with earlier application encouraged - This statement requires local governments to provide financial disclosures relating to tax abatements affecting the government. This includes information about abatement agreements entered into directly by the government, including conditions and criteria under which taxes can be abated, and the type and dollar amount of the tax. In addition, the statement requires disclosure of tax abatements issued by other governments that affect the local government's revenue recognition and reporting.

Contact Information

We would be happy to answer any questions you might have regarding the audit. And also, this a good opportunity for you to communicate any specific areas of focus or concern that you might have regarding the audit and audit plan.

You can contact us at (907)-278-8878 any time with issues or concerns. You can also reach us by email at the following:

- Joy Merriner - jmerriner@bdo.com
- Sam Thompson - sthompson@bdo.com
- Colin Olnier - colnier@bdo.com