

# AUDIT WRAP-UP

Year Ended December 31, 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.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.





Tel: 907-278-8827  
Fax: 907-278-5779  
www.bdo.com

3601 C Street, Suite 600  
Anchorage, AK 99503

November 7, 2016

Honorable Mayor and Members of the City Council  
City of Valdez, 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 document dated February 17, 2016 outlined our plan for the audit of the financial statements of the City of Valdez, Alaska (the City) as of and for the year ended December 31, 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

	<b>Page</b>
Status of Our Audit .....	3
Results of Our Audit .....	4
Group Audit .....	7
Internal Control Over Financial Reporting .....	8
Other Required Communications .....	9
Independence Communication .....	10
Other Information .....	10
Get to Know BDO .....	11
Exhibit A .....	13
• Representation Letter	

---

# Status of Our Audit

We have completed our audit of the financial statements as of and for the year ended December 31, 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 November 7, 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. We wish to thank the City and its employees for their cooperation 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 21 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 government-wide financial statements. Additionally, the statement requires that opening net position be restated to reflect the adoption of this new statement.
- There were no other 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** -Accounts receivables from granting agencies are generally considered by management to be 100% collectible. Customer accounts receivables (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** - Management has estimated the cost of landfill closure and post-closure monitoring based on knowledge from the public works department. This liability includes projected actual costs accrued based on the amount of usage and remaining life of the landfill.

**Incurred But Not Reported (IBNR) - Self Insurance Liability** - Claims incurred but not reported are estimated and recorded as a liability in the internal service fund. IBNR is estimated based on reports of the third party administrator and actual experience of run-out claims.

**Net Pension Liabilities** - The Net Pension Liability is estimated based on actuarial information and 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." Previously, the State of Alaska Department of Law determined that the current on-behalf statutes did not create a legal obligation to the State of Alaska; therefore, a special funding situation did not exist. Cities across the state were 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. After much debate and discussion, the

---

# Results of Our Audit

State of Alaska, ultimately, conceded (under protest) that the statutes did constitute a special funding situation. As a result, the City has reported the liability assuming a special funding situation does exist, which results in a lower liability to the City. Absent the special funding situation, the City's liability would be \$3,277,702 higher than currently reported. Please note that a change in the current legislation could result in 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.

- Significant unusual transactions - In 2013 the City began a series of early payoffs related to the 2012 School Bonds. Under the current model, the City began making early payoffs through an "economic defeasance" in which, the City places funds in escrow and then the escrow agent continues to make the payments. Amounts defeased on the 2012 School bonds through December 31, 2015 were as follows:

Original issuance	\$33,865,000
2013 principal defeased	23,390,000
2014 principal defeased	2,070,000
2015 principal defeased	2,740,000
Regular annual principal payments through 12/31/15	3,090,000
<u>Remaining Balance at 12/31/15</u>	<u>\$ 2,575,000</u>

Generally, bond defeasance activity, is not considered to be significant or unusual; however, this particular transaction occurred with a structure and timing that is somewhat unique. (Not bad, not wrong, simply unique). We believe that the current reporting and accounting for the transaction is in conformance with generally accepted accounting principles.

## CORRECTED AND UNCORRECTED MISSTATEMENTS

There were four audit adjusting entries and 6 client journal entry recorded to the trial balance given to us to perform the audit. Of these, the following were considered significant:

- PERS - GASB 68 restatement
- PERS - GASB 68 current year adjustments
- Final Claims payable for health insurance
- School Debt reimbursements

Some of the journal entries were reclassification entries. Reclassification entries have no effect on fund balance. We further note that the City was unable to record the PERS entries prior to receipt of the audited information from the State.

To our knowledge, there are no 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 as required by the accounting standards.
- Alternative accounting treatments
  - We did not identify any accounting treatments that did not comply with generally accepted accounting principles and standards set by GASB.

---

# Group Audit

As you are aware, the audit of the City requires the inclusion of financial information for all components of the reporting entity. The reporting entity is comprised of the City and its "component units" as defined by GAAP. This collection of individual reporting entities comprises the "Group." Our audit is considered the "Group" Audit.

Included in the City's audit is the Valdez Public Schools and the Valdez Museum and Historical Society. The Museum was audited by BDO. The School District was audited by another CPA firm. These two component units are presented discretely which means they are reflected separately and only in the government-wide financial statements. The School District reports on a June 30 year end.

In addition, also included in the City's audit is the Providence Valdez Medical Center and the Providence Valdez Counseling Center. Both of these audits are also performed by yet another CPA firm. The PVMC and the PVCC are presented as blended component units which means they are reflected as "funds" of the City and are incorporated into the City's fund level financial statements.

Our audit report includes a reference to the reports of the other auditor. Unmodified opinions were issued for each of the component units. No material weaknesses or material passed adjustments were reported for these organizations.

---

# 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 we reported no material weakness and one significant deficiency. This item is discussed in detail in the single audit section of the financial statements. For discussion purposes, the following item was identified.

Significant Deficiency	2015-001 - For the wastewater treatment plant outfall grant, the City did not submit three of the four required progress reports when expenditures were incurred.
------------------------	---

# 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. Audit finalization has been delayed due to the delayed receipt of audited information from the State of Alaska related to PERS.
Representations requested from management	Please refer to the attached management representation letter.

---

# Independence Communication

Our engagement letter to you dated February 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.

---

## 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.

---

# Get to Know BDO

**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

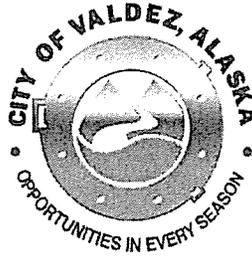
- ▶ **BDO Knows Flash Reports** – Provide briefs about select technical and regulatory developments and emerging issues are made immediately available to BDO professionals and to clients.
- ▶ **BDO Knows Financial Reporting Letters** – Provide more in-depth discussions and practical guidance on technical 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



November 7, 2016

BDO USA, LLP  
3601 C Street, Suite 600  
Anchorage, Alaska 99503

Ladies and gentlemen:

We are providing this letter in connection with your audit of the financial statements of City of Valdez, Alaska (the City), which comprise the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the preparation and fair presentation in the financial statements of financial position, changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this representation letter, as entered on the first page, the following representations made to you during your audit:

- (1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 17, 2016, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- (2) We have fulfilled our responsibility, as set out in the terms of the aforementioned audit engagement letter, for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- (3) The financial statements include all properly classified funds and other financial information of the primary government and all component units required to be included in the financial reporting entity by accounting principles generally accepted in the United States of America. All funds required to be presented as major funds are identified and presented as such.

- (4) We have made available to you:
- (a) All financial records, and related data and federal and state awards (including amendments, if any, and any other correspondence with federal and state agencies or pass-through entities relevant to federal and state programs and related activities), as agreed upon in the terms of the aforementioned audit engagement letter.
  - (b) All additional information that you have requested from us for the purpose of the audit.
  - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - (d) Minutes of the meetings of the Borough Assembly that were held from January 1, 2015 to the date of this letter, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- (5) There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
- (6) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or Schedule of Expenditures of Federal Awards (SEFA) or Schedule of State Financial Assistance (SSFA). All financial statement misstatements relating to accounts and disclosures identified and discussed with us in the course of the audit, as listed in attachment A – Schedule of Audit Adjustments, have been corrected, except those, as listed in attachment B – Schedule of Uncorrected Audit Adjustments. In our opinion, the effects of not correcting such identified financial misstatements are, both individually and in the aggregate, immaterial to the financial statements of the City, taken as a whole. We have evaluated the propriety of the corrected misstatements based on a review of both the applicable authoritative literature and the underlying supporting evidence from our files and confirm our responsibility for the decision to correct them.
- (7) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud or noncompliance. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud or noncompliance. We have no knowledge of any:
- (a) Fraud or suspected fraud involving management or involving employees who have significant roles in internal control, whether or not perceived to have a material effect on the financial statements.
  - (b) Fraud or suspected fraud involving others where the fraud could have a material effect on the financial statements.
  - (c) Allegations of fraud or suspected fraud affecting the Government received in communications from employees, former employees, regulatory agencies, law firms, predecessor accounting firms, or others.

- (d) Instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse, whose effects should be considered when preparing the financial statements except for Finding 2015-001.
- (8) We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- (9) The following, where applicable and material, have been properly recorded or disclosed in the financial statements:
- (a) The identity of related parties and all related party relationships and transactions of which we are aware, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - (b) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
  - (c) Guarantees, whether written or oral, under which the Government is contingently liable.
  - (d) Significant estimates and material concentrations known to management that are required to be disclosed in accordance with accounting principles generally accepted in the United States of America. In that regard, all accounting estimates that could be material to the financial statements, including key factors and significant assumptions underlying those estimates, have been identified, and we believe the estimates are reasonable in the circumstances.
  - (e) The effects of all known actual or possible litigation, claims, and other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America, including:
    - Pending or anticipated tax refunds, other potential or pending claims, lawsuits by or against any branch of government or others;
    - Written or oral guarantees, endorsements, or unused letters of credit;
    - Unusual guarantees; or
    - Labor claims or negotiations.

Accounting principles generally accepted in the United States of America require loss contingencies to be accrued if it is probable an asset has been impaired or a liability incurred at the statement of financial position date and the amount of loss can be reasonably estimated. Such contingencies must be disclosed, but may not be accrued, if the loss is reasonably possible (but not probable) or the loss is probable but the amount of loss cannot be reasonably estimated.

- (f) Commitments, such as:
- Major capital asset purchase agreements;

- More-than-one-year employment arrangements or contracts with suppliers or customers, or one-year-or-longer term leases;
  - Deferred compensation, bonuses, pensions plans, or severance pay; or
  - Pending sale or merger of all or a portion of the business or of an interest therein or acquisition of all or a portion of the business, assets or securities of another entity;
- (g) Joint ventures or other participations, the detailed transactions of which are not carried on our books.
- (10) There are no:
- (a) Violations or possible violations of budget ordinances, laws or regulations and provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects could be material to the financial statements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - (b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
  - (c) Restrictions of net position that were not properly authorized and approved, or reclassifications of net position that have not been properly reflected in the financial statements.
- (11) Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the statement of financial position date and have been appropriately reduced to their estimated net realizable value.
- (12) The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- (13) We have appropriately disclosed the Government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position is properly recognized under the policy.
- (14) We have complied with all aspects of contractual agreements, including debt covenants, that would have a material effect on the financial statements in the event of noncompliance. We have also complied with the SEC disclosure rules for reporting annual financial information and material events to repositories in accordance with SEC Rule N.240, 15c2-12.
- (15) No discussions have taken place with your firm's personnel regarding employment with the Government.
- (16) We are responsible for compliance with laws, regulations and provisions of contracts and grant agreements applicable to us and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.

- (17) Components of net position (net investment in capital assets, restricted and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
- (18) Revenues are appropriately classified in the statement of activities within program revenues, contributions, and general revenues. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- (19) In regards to the preparation of the financial statements services performed by you, we have: (1) assumed all management responsibilities, (2) designated an individual (within senior management) with suitable skill, knowledge, or experience to oversee the services, (3) evaluated the adequacy and results of the services performed, and (4) accepted responsibility for the results of the services.
- (20) We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United State of America and we believe it is fairly presented. The methods of measurement and presentation of the supplementary information have not changed from the prior period and we have disclosed to you any significant assumptions underlying the measurement and presentation of the supplementary information.
- (21) Required supplementary information is measured and presented in accordance with prescribed guidelines.
- (22) With respect to federal and state award programs:
  - (a) We are responsible for understanding and complying with, and have complied with, the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits, including requirements relating to the preparation of the SEFA and the SSFA.
  - (b) We have, in accordance with the Uniform Guidance and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits, identified and disclosed to you in the SEFA and SSFA, expenditures made during the audit period for all government programs and related activities provided by federal and state agencies in the form of federal and state awards, grants, federal or state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
  - (c) We acknowledge our responsibility for the preparation of the SEFA and SSFA and related notes in accordance with the requirements of the Uniform Guidance the State of Alaska Audit Guide and Compliance Supplement for State Single Audits, and we believe the SEFA and SSFA, including its form and content, are fairly presented in accordance with the Uniform Guidance and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits. The methods of measurement or presentation of the SEFA and SSFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA and SSFA.

- (l) We have disclosed to you any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- (m) Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, if applicable.
- (n) We have disclosed to you our interpretations of compliance requirements that are subject to varying interpretations, if any.
- (o) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- (p) We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
- (q) Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the SEFA and SSFA.
- (r) The copies of federal and state program financial reports provided to you are true copies of the reports submitted or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- (s) We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with applicable federal and state statutes, regulations and terms and conditions of the subaward and have met other pass-through entity requirements of the Uniform Guidance and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits.
- (t) We have considered the results of subrecipients' audits and have made any necessary adjustments to our books and records.
- (u) We have issued management decisions for audit findings that relate to federal and state awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.
- (v) We have charged costs to federal and state awards in accordance with applicable cost principles.
- (w) We are responsible for, and have accurately completed, the appropriate sections of the Data Collection Form as required by the Uniform Guidance. The final version of the applicable audit reporting package, which includes your signed auditor's reports, that we will submit to the Federal

Audit Clearinghouse (FAC) will be identical to the final version of such documents that you provided to us.

- (x) We have identified and disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, internal or external monitoring, and other studies directly related to the audit objectives of the compliance audit, including findings received and corrective actions taken from the end of the audit period covered by the compliance audit report to the date of the auditor's report.
  - (y) We have provided views on your reported findings, conclusions, and recommendations. We are responsible for taking corrective action on audit findings and we are responsible for preparing and implementing a corrective action plan for each audit finding that meets the requirements of the State of Alaska Audit Guide and Compliance Supplement for State Single Audits.
  - (z) We are responsible for, and have accurately prepared, the summary schedule of prior audit findings required to be included by the Uniform Guidance and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits, and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
  - (aa) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
  - (bb) We have documented, and provided this documentation to you, that we have deferred implementation of the Uniform Guidance procurement policies and procedures as permitted under the Uniform Guidance grace period for procurement. We are in compliance with the pre-Uniform Guidance procurement standards.
- (23) In connection with any electronic presentation of the financial statements and your audit report thereon on our web site, we acknowledge that:
- We are responsible for the preparation, presentation, and content of the financial statements in the electronic format.
  - If your audit report is presented on our web site, the full financial statements upon which you reported and to which you appended your signed report will be presented.
  - We will clearly indicate in the electronic presentation on our web site the financial information that is subject to your audit report. We will clearly differentiate any information that may also be presented by us on or in connection with our web site that was contained in the published version of the financial statements and other supplementary information, but which is not part of the audited financial statements or other financial information covered by your audit report.
  - We have assessed the security over financial statement information and the audit report presented on our web site, and are satisfied that procedures in place are adequate to ensure the integrity of the information provided. We understand the risk of potential misrepresentation inherent in publishing financial information on our web site through internal failure or external manipulation.

- Our web site, which contains the electronic financial statements, will advise the reader that such financial statements are presented for convenience and information purposes only, and while reasonable efforts have been made to ensure the integrity of such information, they should not be relied on. A copy of the printed financial statements will be provided on request.
- (24) We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No's 72 - 82, as discussed in Note 21. The City is therefore unable to disclose the impact that adopting GASB Statement No's 72 - 82 will have on its financial position and the results of operations when such statements are adopted.
- (25) Subsequent to year end the City settled reached final settlement with various parties, resolving all pending court cases and providing a mechanism to avoid further litigation over the next five years. The settlement has been properly disclosed and reported in the financial statements.
- (26) Participation in a public entity risk pool has been properly reported and disclosed in the financial statements.
- (27) We believe that the actuarial assumptions and methods used to measure pension and/or other postretirement liabilities and costs for financial accounting and disclosure purposes are appropriate in the circumstances.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the statement of financial position date and through the date of this representation letter, as entered on the first page, that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Very truly yours,

  
Dennis Ragsdale, City Manager

  
Brian Carlson, Finance Director

**CITY OF VALDEZ**

**Attachment A**

Year End: December 31, 2015

**Audit Adjustments**

Number	Name	Debit	Credit
	AJE 1 Claims Payable		(89,939.00)
	AJE 1 Other Services & Sales	180,561.00	
	AJE 1 Claim Costs	89,939.00	
	AJE 1 Claim Costs		(180,561.00)
	To adjust claims payable for self-insurance and net stop loss revunds out of claims and revenues.	270,500.00	(270,500.00)
	AJE 2 Prepaid Expenses		(758,235.00)
	AJE 2 Major Equipment Reserve	758,235.00	
	To move firetruck from prepaid to capital outlay.	758,235.00	(758,235.00)
	AJE 3 Deferred Revenue Taxes		(246,485.05)
	AJE 3 Real Property Taxes - Current	246,485.05	
	Adjust deferred/delinquent taxes	246,485.05	(246,485.05)
	AJE 4 Accounts Receivable Property T	32,823,709.00	
	AJE 4 Accts Payable Misc.		(7,308,500.00)
	AJE 4 Deferred Tax Rev TAPS Litigation		(25,515,209.00)
	Record TAPS settlement, AR and Deferred Revenue, net of payable - See WP IV.05B	32,823,709.00	(32,823,709.00)
	AJE 5 Accounts Receivable	50,261.53	
	AJE 5 Berth Rental		(26,068.54)

AJE 5 Transient Berth Fees		(22,179.93)
AJE 5 Electricity		(15.98)
AJE 5 Slip Listing Fee		(853.30)
AJE 5 Boat Storage		(1,143.78)

To correc the Harbor AR accounts

---

AJE 6 Deferred Outflow	1,270,491.00	
AJE 6 Deferred Inflow	778,603.00	
AJE 6 Net Pension Liability		(3,623,837.00)
AJE 6 On-behalf revenue	1,652,929.00	
AJE 6 Pension expense		(78,186.00)

To record effects of adopting GASB 68