

City of Valdez, Alaska

AUDIT WRAP UP

December 31, 2017



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

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September 18, 2018

Honorable Mayor and 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. On April 4, 2018 we presented an overview of our plan for the audit of the financial statements of City of Valdez, Alaska (the Government) as of and for the year ended December 31, 2017, including 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 Government'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 Government and look forward to meeting with you 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

Discussion Outline

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Status of Our Audit

We have completed our audit of the financial statements, federal awards, and state financial assistance, as of and for the year ended December 31, 2017. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards. 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 whether due to error or fraud.
- ▶ 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 an unmodified opinion on compliance requirements that could have a direct and material effect on each major federal and state program, and released our reports on September 13, 2018.
- ▶ Our responsibility for other information in documents containing the Government's audited financial statements (e.g. management's discussion and analysis, budgetary comparisons, schedules of pension amounts) does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Government and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.
- ▶ Management's cooperation was excellent. 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 Government personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES

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

The Government'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 Government's financial statements.
- ▶ The Government adopted the provisions of GASB Statement No. 80, *Blending Requirements for Certain Components - an amendment of GASB Statement No. 14*. As a result, the Government was required to restate opening balances. A description of the implementation of GASB Statement No. 80 is included in Note 19 to the Government's financial statements.
- ▶ There were no other changes in significant accounting policies and practices during 2017.

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. The Government's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Note 1 of the financial statements.

Results of Our Audit

Significant accounting estimates include:

Incurred But Not Reported Insurance Claims

Allowance for Uncollectible Accounts

PERS Net Pension Liability

Landfill Closure and Post Closure Obligations

- ▶ Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2017.

CORRECTED AND UNCORRECTED MISSTATEMENTS

We identified 10 corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management. Please refer to the Schedule of Corrected Misstatements.

We identified 1 uncorrected misstatement, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management. Please refer to the Schedule of Uncorrected Misstatements. We concur with management's assessment that the effects of not recording this adjustment is, both individually and in the aggregate, immaterial to the consolidated financial statements taken as a whole, considering both qualitative and quantitative factors. None of the proposed adjustments could potentially cause future-period financial statement to be materially misstated.

Results of Our Audit

QUALITY OF THE GOVERNMENT'S FINANCIAL REPORTING

A discussion was held regarding the quality of the Government's financial reporting, which included the following:

- ▶ Qualitative aspects of significant accounting policies and practices
- ▶ Our conclusions regarding significant accounting estimates
- ▶ Significant unusual transactions
- ▶ Financial statement presentation
- ▶ New accounting pronouncements
- ▶ Alternative accounting treatments

Internal Control Over Financial Reporting

We are required to communicate, in writing and in a timely manner, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Government'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 Government's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit, we noted the following:

- ▶ The following material weaknesses were identified:

Material Weakness	Comments
2017-001	Debt Service Fund Transactions - Internal Control over Financial Reporting
2017-002	Construction in Progress - Internal Control over Financial Reporting

- ▶ The following significant deficiencies were identified:

Significant Deficiency	Comments
2017-003	Accuracy of Health Insurance Internal Service Fund Balances - Internal Control over Financial Reporting

Other Required Communications

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

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 and previously communicated to those charged with governance as part of our Audit Planning communications.
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 Government's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
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 significant accounting or auditing matters between management and other accountants where we have identified a concern regarding such matters.
Our evaluation of the Government's relationships and transactions with related parties and their impact on the financial statements	We have evaluated the Government's process to identify, authorize and approve, account for, and disclose its relationships and transactions with related parties and noted no significant issues.
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 Government's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Other matters significant to the oversight of the Government's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Government's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter to you dated October 27, 2017 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Government with respect to independence as agreed to by the Government. Please refer to that letter for further information.

Significant Accounting and Reporting Matters

GASB Standards Effective in 2018

GASB STATEMENT NO. 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

- ▶ Establishes measurement criteria for the Other Postemployment Benefits (OPEB) liability of state and local governments and mirrors the requirements of GASB 68.
- ▶ For plans administered through a trust, governments must recognize the net OPEB liability.
- ▶ For plans not administered through a trust, the government must recognize the total OPEB liability.
- ▶ The pronouncement will be effective starting with years ending June 30, 2018.

GASB STATEMENT NO. 85, OMNIBUS 2017

- ▶ Addresses several practice issues that have been identified during implementation of certain GASB Statements:
 1. Blending a component unit when the primary government is a business-type activity that reports in a single column.
 2. Reporting amounts previously reported as goodwill and negative goodwill.
 3. Classifying real estate held by insurance entities.
 4. Measuring certain money market instruments at amortized cost.
 5. Timing of the measurement of pension or OPEB liabilities and expenditures in governmental fund financial statements.
 6. Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
 7. Presenting payroll-related measures in Required Supplementary Information for OPEB plans and employers that provide OPEB.
 8. Classifying employer-paid member contributions for OPEB.
 9. Simplifying certain aspects of the alternative measurement method for OPEB.
 10. Accounting and reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.
- ▶ The pronouncement will be effective starting with years ending June 30, 2018.

GASB STATEMENT NO. 86, CERTAIN DEBT EXTINGUISHMENT ISSUES

- ▶ Resolves issue of how to record in-substance defeasance of debt when only existing resources are used.
- ▶ Current standards only address reporting requirements when debt is extinguished using bond proceeds.
- ▶ When cash or other existing resources are placed in an irrevocable trust to extinguish debt, it is considered to be in-substance defeasance, assuming all criteria are met.
- ▶ The difference between the reacquisition price and the net carrying amount of the debt will be recognized as a separately identified gain or loss in the period of defeasance. This differs from current practice when debt is extinguished using bond proceeds, whereby the difference is deferred.
- ▶ Payments to the escrow agent from existing resources should be reported as debt service expenditures in governmental fund types.
- ▶ The pronouncement will be effective starting with years ending June 30, 2018.

GASB Standards Effective in 2019

GASB STATEMENT NO. 83, *CERTAIN ASSET RETIREMENT OBLIGATIONS*

- ▶ Establishes measurement criteria for recording a liability for the retirement or removal of certain assets such as:
 - ✓ Nuclear power plants
 - ✓ Sewage treatment facilities
 - ✓ Coal-fired power plant
 - ✓ Wind turbines
 - ✓ X-ray machines
- ▶ Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets would be required to recognize a liability.
- ▶ A liability and corresponding deferred outflow is recorded when the liability is both incurred and reasonable estimable.
- ▶ The liability is based on the best estimate of the current value of outlays expected to be incurred.
- ▶ Must be both an external obligating event, such as a court judgment or federal, state or local law; and an internal obligating event, such as contamination or retirement.
- ▶ The pronouncement will be effective starting with years ending June 30, 2019.

GASB STATEMENT NO. 84, *FIDUCIARY ACTIVITIES*

- ▶ Establishes criteria for reporting fiduciary activities that focuses on whether the government controls the assets and the fiduciary relationship with the beneficiaries.
- ▶ The statement describes four fiduciary funds:
 1. Pension and OPEB funds
 2. Investment trust funds
 3. Private-purpose trust funds
 4. Custodial funds
- ▶ Custodial funds replace agency funds for activities that are not held in trust.
- ▶ For activities for which a trust agreement exists, an investment trust fund or private purpose trust fund will be used.
- ▶ Pension funds not held in trust would be classified as custodial funds.
- ▶ GASB is working on an Implementation Guide for which an Exposure Draft likely will be issued in December 2018.
- ▶ The pronouncement will be effective starting with years ending December 31, 2019.

GASB Standards Effective in 2019

GASB STATEMENT 88, CERTAIN DISCLOSURES RELATED TO DEBT, INCLUDING DIRECT BORROWINGS AND DIRECT PLACEMENTS

- ▶ Defines debt for purposes of disclosure as a liability that arises from a contractual obligation to pay cash or other assets in one or more payments to settle an amount that is fixed as of the date the obligation is established.
- ▶ Would exclude pension and OPEB liabilities, leases and accounts payable as those should be disclosed in separate notes.
- ▶ Includes capital appreciation bonds and variable rate debt.
- ▶ Additional note disclosures required for unused lines of credit, assets pledged as collateral, specific debt agreement terms.
- ▶ The pronouncement will be effective starting with years ending June 30, 2019.

GASB STATEMENT 90, MAJORITY EQUITY INTERESTS - AN AMENDMENT OF GASB STATEMENTS 14 AND 61

- ▶ Will report majority equity interest as an investment if it meets the definition.
- ▶ Measured using the equity method, unless held by a special-purpose government engaged only in fiduciary activities, fiduciary fund or endowment/permanent fund. These funds would utilize fair value.
- ▶ For all other majority equity interests, report as component unit and fund that holds the equity interest reports an asset using the equity method.
- ▶ Acquisition of a component unit in which government holds 100% interest would be measured using acquisition value.
- ▶ Expected effective date: Years ending December 31, 2019.

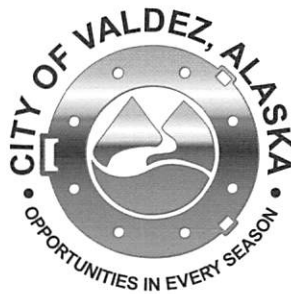
GASB Standards Effective in 2020

GASB STATEMENT NO. 87, *LEASES*

- ▶ This standard will require recognition of certain lease assets and liabilities for leases that are currently classified as operating leases.
- ▶ Eliminates the distinction between operating and capital leases - all leases will be recorded on the statement of net position/balance sheet.
- ▶ New definition of a lease - a contract that conveys the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction.
- ▶ Excludes leases that transfer ownership under a bargain purchase option or service concession arrangements that are covered by GASB Statement No. 60.
- ▶ Lessees would recognize a lease liability and an intangible right-to-use lease asset which would be amortized in a systematic and reasonable manner over the shorter of the lease term or the useful life of the underlying asset. Short-term leases are excluded.
- ▶ Lessors would recognize lease receivable and deferred inflow of resources which would be recognized as revenue in a systematic and rational manner over the term of the lease.
- ▶ The pronouncement will be effective starting with years ending December 31, 2020.

GASB STATEMENT NO. 89, *ACCOUNTING FOR INTEREST COST INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD*

- ▶ In financial statements using the economic resources measurement focus, interest incurred during construction should be recognized as an expense of the period.
- ▶ In financial statements using the current financial resources measurement focus, interest incurred during construction should be recognized as an expenditure.
- ▶ Interest cost should not be capitalized.
- ▶ Interest does not meet the definition of an asset or a deferred outflow.
- ▶ The pronouncement will be effective starting with years ending, December 31, 2020



September 13, 2018

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 Government), which comprise the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information as of December 31, 2017, 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 October 27, 2017, 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 Valdez City Council that were held from January 1, 2017 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, 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 (see the attached "Schedule of Corrected Misstatements") have been corrected, except for those listed in the attached "Schedule of Uncorrected Misstatements." In our opinion, the effects of not correcting such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements of the Government, 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.

- (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 assistance provided in preparing the financial statements and related footnote disclosures, and assistance provided in preparing and submitting the required Form SF-SAC Data Collection Form, 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) 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.
- (23) We agree with the findings of specialists in evaluating the incurred but not reported health insurance liability, landfill closure and post-closure liability, and net pension liability as of December 31, 2017, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
- (24) We believe that the adoption of Governmental Accounting Standards Board (GASB) Statement Number 80, *Blending Requirements for Certain Component Units - an amendment to GASB Statement No. 14*, is correct given the change in generally accepted accounting principles brought forth by the issuance of GASB Statement No. 80.

(25) 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 Single Audit Guide and Compliance Supplement for State Single Audits (State Audit Guide), including requirements relating to the preparation of the schedule of expenditures of federal awards (SEFA) and schedule of state financial assistance (SSFA).
- (b) We have, in accordance with the Uniform Guidance and State Audit Guide, 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 and 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 and State Audit Guide, and we believe the SEFA and SSFA, including its form and content, is fairly presented in accordance with the Uniform Guidance and State Audit Guide. 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.
- (d) We have notified you of federal awards and funding increments that were received for awards received before December 26, 2014, and differentiated those awards from awards received on or after December 26, 2014, and subject to the audit requirements of the Uniform Guidance.
- (e) We will include the auditor's report on the SEFA and SSFA in any document that contains the SEFA and SSFA and that indicates you have reported on such information.
- (f) If the SEFA or SSFA are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA or SSFA no later than the date we issue the SEFA or SSFA and the auditor's report thereon.
- (g) We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards related to each of our federal and state programs and have identified and disclosed to you the requirements of federal and state statutes, regulations, and the terms and conditions considered to have a direct and material effect on each federal and state program.
- (h) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing our federal and state awards in compliance with federal and state statutes, regulations, and the terms and

conditions that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, subsequent to the date of the auditor's report as of which compliance was audited, no changes have occurred in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and material weaknesses in internal control over compliance as reported in the schedule of findings and questioned costs.

- (i) We have made available to you all federal and state award contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to each major federal program and related activities that have taken place with federal and state agencies or pass-through entities.
- (j) We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- (k) We have complied, in all material respects, with the direct and material compliance requirements, including when applicable, those set forth in the *OMB Compliance Supplement* and State Audit Guide, relating to federal and state awards and have confirmed that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal and state awards. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- (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*, and State Audit Guide.
- (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 and state 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 or state agency or pass-through entity, as applicable.
 - (s) We have charged costs to federal and state awards in accordance with applicable cost principles.
 - (t) 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.
 - (u) 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.
 - (v) 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 Uniform Guidance and State Audit Guide.
 - (w) We are responsible for, and have accurately prepared, the summary schedule of prior audit findings required to be included by the Uniform Guidance and State Audit Guide, 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.
 - (x) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
 - (y) 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.
- (26) 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.
- If the electronic financial statements are generally made available to the public on our web site, we will include a notification to 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.

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,



Elke Doom, City Manager



Brian Carlson, Finance Director

City of Valdez, Alaska
Schedule of Corrected Misstatements
As of and for the Year Ending December 31, 2017

Number	Name	Account No	Debit	Credit
AJE 1	Claims Payable	210-0000-20400		(507,215.00)
	Claim Costs	210-2100-42100	507,215.00	
	Adjust self insurance IBNR liability to reflect known claims incurred in FY 17 and paid subsequent to year-end and record estimate of additional incurred but not reported claims			
AJE 2	Other Services & Sales	210-0000-34160		(741,714.00)
	Claim Costs	210-2100-42100	741,714.00	
	True up Self Insurance Fund revenues and expense to equal actual contributions received and claims payments made			
AJE 3	AR Reimbursable Pmts made	205-0000-11500	309,252.00	
	Interest	205-2050-47120		(309,252.00)
	Adjust interest expense for erroneous interest payment made on partially-defeased GO 2012 bonds and record receivable for refund due City from paying agent BNY Mellon			
AJE 4	AR Reimbursable Pmts made	205-0000-11500		(177,525.00)
	Harbor Debt Repayment	205-0000-33582	177,525.00	
	Reduce Harbor Bond debt reimbursement revenue to equal actual debt service expenditures incurred and eligible for reimbursement (as a result, reduce amount reported on State Schedule of Financial Assistance for Harbor Debt Retirement Program)			
AJE 5	AR Reimbursable Pmts made	205-0000-11500	9,030.00	
	School Debt Repayment	205-0000-33580		(107.00)
	Mid-School Bond Repayment	205-0000-33581		(8,923.00)
	Adjust School debt reimbursement revenue and accounts receivable for amounts earned but not received, pending 1% close out at YE			
AJE 6	General Fund - Due from CT	001-0000-10100	19,323.06	
	Interest Income	001-0000-36110		(19,323.06)
	Due to Other Funds	999-0000-10100		(19,323.06)
	Investment Pool	999-0000-10120	19,323.06	
	True up investments to agree to broker statement			

City of Valdez, Alaska
Schedule of Corrected Misstatements
As of and for the Year Ending December 31, 2017

Number	Name	Account No	Debit	Credit
AJE 7	Unavailable Community Assistance Funds	001-0000-22761		(174,372.00)
	State Revenue Sharing Program	001-0000-33550	174,372.00	
	To reduce revenue in the General Fund associated with Community Assistance Program funds that were not received soon enough after year-end to be considered "available" and recognized as revenue under the modified accrual basis of accounting			
AJE 8	Deferred Revenue	310-0000-22210		(2,896.61)
AJE 8	Homestead Road Special Assmnts	310-1042-34138	2,896.61	
	To adjust deferred inflows of resources related to special assessments to equal assessment AR at 12/31/17; reduce assessment revenue for amounts not considered available			
AJE 9	Deferred Revenue Taxes	001-0000-22208	32,015.05	
	Real Property Taxes - Current	001-0000-31100		(32,015.05)
	To adjust deferred inflows of resources and property tax revenue at the fund level for tax AR not considered available			
AJE 10	Deferred Outflows of Resources			(2,405,658.00)
	Deferred Inflows of Resources			(985,689.00)
	Net Pension Liability		3,262,244.00	
	On-behalf Revenue			(53,275.00)
	Pension Expense		182,378.00	
	To record FY 17 GASB 68 adjustments given most recent PERS Schedule of Employer and Nonemployer Allocations and Schedule of Pension Amounts by Employer and Nonemployer Reports			
RJE 1	Accounts Receivable	402-0000-11500	89,122.88	
	Deferred Revenue	402-0000-22210		(89,122.88)
	Reclassify prepaid moorage balances that were incorrectly recorded as credits against accounts receivable. This entry properly states AR and unearned revenue at the gross level			

City of Valdez, Alaska
Schedule of Uncorrected Misstatements
As of and for the Year Ending December 31, 2017

Number	Name	Debit	Credit
PAJE 1	Governmental Activities Expense - Prior Year	2,663,272.00	
	Governmental Activities Expense - Current Year		(2,663,272.00)

To properly record construction costs,
erroneously recorded as construction in progress
in prior fiscal years and as expense in the 2017
governmental statement of activities, as prior
period expenses