

Alaska Mental Health Trust Authority

AUDIT PLANNING

Year Ended June 30, 2018



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

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July 12, 2018

Board of Trustees
Alaska Mental Health Trust Authority

Professional standards require us to communicate with you regarding matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This document provides an overview of our plan for the audit of the financial statements of Alaska Mental Health Trust Authority (the Trust) as of and for the year ended June 30, 2018, including a summary of the nature, scope, and timing of the planned audit work.

Responsibilities

BDO USA, LLP, as your auditor, is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In addition, our audit will be conducted in accordance with standards for financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. The engagement letter, a copy of which has been provided to you, includes specific details regarding the auditor's and management's responsibilities.

Overall Audit Strategy and Planned Scope

Overall, our audit strategy is to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design further audit procedures responsive to assessed risks. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. In connection with our audit, we will obtain a sufficient understanding of the Trust's internal control to plan the audit of the financial statements. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control. In addition, *Government Auditing Standards* requires that we also plan and perform the audit to obtain reasonable assurance about whether the Trust has complied with applicable statutes, regulations and laws that may have a direct and material impact on the Trust.

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

- a) prior year audit results together with current year preliminary analytical review, including discussions with management and those charged with governance regarding the Trust's operations,
- b) inherent risk within the Trust,
- c) recent developments within the industry, regulatory environment and general economic conditions,
- d) recently issued and effective accounting and financial reporting guidance,
- e) the Trust's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions,
- f) the control environment and the possibility that the control system and procedures may fail to prevent or detect a material error or fraud,

- g) Information about systems and the computer environment in which the related systems operate, and
- h) A continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the Trust.

Based upon our initial assessment, our planned scope for the audit is described below:

- ▶ The areas indicated below relate to significant risks identified during our risk assessment procedures :
 - Fraud Risk
 - Internal Control over Financial Reporting
 - Revenue Recognition
 - Pension and Other Postemployment Benefits
 - Evaluation of Related Party Relationships and Transactions and Going Concern
 - Other Matters, including Significant Unusual Transactions

Overall Audit Timeline

Planning is anticipated to occur in July 2018 and year-end fieldwork will occur in September 2018 with release of the opinion and financial statements expected to occur by October 2018.

Group Audit

The audit of the Trust requires financial presentation for the component of the reporting entity. The reporting entity is comprised of the Trust, itself (its funds and accounts) as well as its "component units" as defined by GAAP. This collection of individual reporting entities comprises the "Group". The Trust audit is considered the "Group Audit".

Included within the reporting entity is the Schedules of Investments Managed by the Alaska Permanent Fund Corporation. The Schedules of Investments Managed by the Alaska Permanent Fund Corporation has been contracted to KPMG LLP (the component auditor) to conduct the audit of the Schedules of Investments Managed by the Alaska Permanent Fund Corporation. As part of our planned audit strategy, we will initiate required communications with the component auditor which will include confirmation of their independence with respect to the entire group, identification of related parties, identification of audit risks, and other required communications. At the completion of the audit, our audit report will make reference to those other auditors.

Independence Communication

Our engagement letter to you dated July 12, 2018 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 Trust with respect to independence as agreed to by the Trust. Please refer to that letter for further information.

Significant Accounting and Reporting Matters

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions - Effective for year-end June 30, 2018, with earlier application encouraged - This statement contains accounting and financial reporting guidelines for OPEB related activities at the participating employer level and generally brings the OPEB reporting rules into alignment with the new GASB 68 Pension rules.

GASB 83 - *Certain Asset Retirement Obligations* - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses accounting and financial reporting for certain asset retirement obligations that are legally enforceable liabilities associated with the retirement of a tangible capital asset.

GASB 84 - *Fiduciary Activities* - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses criteria for identifying and reporting fiduciary activities.

GASB 85 - *Omnibus* - Effective for year-end June 30, 2018, with earlier application encouraged - This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. Issues covered include blending of component units, goodwill, fair value measurement and application, and postemployment benefits.

GASB 86 - *Certain Debt Extinguishment Issues* - Effective for year-end June 30, 2018, with earlier application encouraged - This statement addresses accounting and financial reporting for in-substance defeasance of debt when only existing resources are used, as well as accounting and financial reporting for prepaid insurance on extinguished debt.

GASB 87 - *Leases* - Effective for year-end June 30, 2020, with earlier application encouraged - This statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses note disclosures related to debt, clarifies which liabilities to include when disclosing information related to debt, and defines debt for the purpose of disclosure. It requires additional essential information related to debt be disclosed in the notes, as well as information for direct borrowings and direct placements.

Client Service Team

As a matter of policy, we attempt to provide continuity of service to our clients to the greatest extent possible. Where engagement team rotation is necessary, we will discuss this matter with you and determine the appropriate individuals to be assigned to the engagement based on particular experience, expertise, and engagement needs.

The following is the contact information for the engagement partner responsible:

Bikky Shrestha - Engagement Partner
bshrestha@bdo.com

We are pleased to be of service to the Trust and look forward to answering questions you may have regarding our audit plan as well as other matters that may be of interest to you.

Respectfully,

BDO USA, LLP