

Alaska Mental Health Trust Authority

AUDIT WRAP UP

Year Ended June 30, 2020



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 Government and is not intended and should not be used by anyone other than these specified parties.

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October 21, 2020

Board of Trustees
Alaska Mental Health Trust Authority

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 June 10, 2020 we presented 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, 2020, 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 Trust'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 Trust 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 substantially completed our audit of the financial statements as of and for the year ended June 30, 2020. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. 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 expect to issue an unmodified opinion on the financial statements and released our report by October 31, 2020.
- ▶ Our responsibility for other information in documents containing the Trust's audited financial statements (e.g. management's discussion and analysis, schedules of pension and OPEB 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 will read the information included by the Trust and consider whether such information, or the manner of its presentation, is 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 Trust personnel 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 Trust's accounting practices, policies, and estimates and significant unusual transactions:

The Trust'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 16 to the Trust's financial statements.
- ▶ There were no changes in significant accounting policies and practices during 2020.

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 Trust's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed Note 1 of the financial statements. There were no significant estimates identified as applicable to 2020.

Other accounting estimates include:

Net Pension/OPEB Liabilities - The net pension/OPEB liabilities and related deferred inflows and outflows of resources are estimated based on actuarial and other actual contribution data provided to the Trust by the PERS Plan Administrator.

- ▶ Management did not make any significant changes to the process or significant assumption used to develop the significant accounting estimates in 2019.
- ▶ We did not identify any significant or unusual transactions, or any transaction for which there was a lack of authoritative guidance.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There was one corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management. The corrected misstatements was associated with the fair value of the investments in real estate that was discussed with us before being booked during the audit for \$8,240,000.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

Results of Our Audit

QUALITY OF THE TRUST'S FINANCIAL REPORTING

A discussion will be held regarding the quality of the Trust's financial reporting, which will include the following:

- ▶ Qualitative aspects of significant accounting policies and practices
 - We concur with the Trust'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 significant accounting estimates
 - We concur with the Trust's accounting for estimates, as noted above.
- ▶ Significant unusual transactions
 - To our knowledge, there were not any significant unusual items.
- ▶ Financial statement presentation
 - To our knowledge, all necessary disclosures have been included in the footnotes to the financial statements.
- ▶ New accounting pronouncements
 - A summary of recently issued accounting pronouncements is included in the Note 16 of the Trust's financial statements.
- ▶ Alternative accounting treatments
 - We did not identify any accounting treatments that did not comply with generally accepted accounting principles and standards set by GASB.

Internal Control Over Financial Reporting

In planning and performing our audit of the Trust’s financial statements, we considered the Trust’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 Trust’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust’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 and in a timely manner, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Trust’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 Trust’s financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses or significant deficiencies noted.

Other Required Communications

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

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 Trust'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 independent public accountants. Nor are we aware of opinions obtained by management from other independent accountants on the application of generally accepted accounting principles.
Our evaluation of the Trust's relationships and transactions with related parties and their impact on the financial statements	We have evaluated the Trust'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 Trust'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 Trust'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 Trust'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 June 10, 2020 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 Trust with respect to independence as agreed to by the Trust. Please refer to that letter for further information.

Significant Accounting and Reporting Matters

NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84 - Fiduciary Activities

Effective for year-end June 30, 2020. This Statement addresses criteria for identifying and reporting fiduciary activities.

GASB Statement No. 87 - Leases

Effective for year-end June 30, 2021, This Statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This Statement 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 Statement No. 89 - Accounting for Interest Cost Incurred before the End of a Construction Period

Effective for year-end June 30, 2021. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

GASB Statement No. 90 - Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61

Effective for year-end June 30, 2020. This Statement addresses accounting and financial reporting for a majority equity interest in a legally separate organization. It provides a definition of a majority equity interest and provides guidance for further presentation as either an investment or a component unit, based on specific criteria.

GASB Statement No. 91 - Conduit Debt Obligations

Effective for year-end June 30, 2022. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit obligations, and related note disclosures. This Statement clarifies the definition of a conduit debt obligation and establishes standards for related accounting and financial reporting.

GASB Statement No. 92 - Omnibus 2020

Provisions of this Statement related to the effective date of Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The effective date for all other provisions of the Statement are to be implemented for year-end June 30, 2021. This Statement addresses a variety of topics such as leases, the applicability of Statement No. 73 and Statement No. 74 for reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, the measurements of liabilities and assets related to asset retirement obligations in a government acquisition, reporting of public entity risk pools, referencing to nonrecurring fair value measurements, and terminology used to refer to derivative instruments.

Significant Accounting and Reporting Matters

GASB Statement No. 93 - Replacement of Interbank Offered Rates

The provisions of this Statement, except for paragraph 11b, are required to be implemented for year-end June 30, 2022. The requirements in paragraph 11b are required to be implemented for year-end June 30, 2023. This Statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

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

Effective for year-end June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APA).

In light of the COVID-19 Pandemic, on May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon issuance, postpones the effective dates of certain provisions in the above noted pronouncements for one year, except for Statement No. 87 and provisions related to leases in Statement No. 92 which are postponed for eighteen months. Certain other provisions of Statement No. 92 are excluded from Statement No. 95. Additionally, Statement No. 95 excludes provisions in Statement No. 93 related to lease modifications and excludes Statement No. 94 since the GASB considered the pandemic in determining effective dates. Earlier application of the standards is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GASB Statement No. 96 - Subscription-Based Information Technology Arrangements

Effective for year-end June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement, among other things, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA.

GASB Statement No. 97 - Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

Effective for year-end June 30, 2022, except the portion of the pronouncement related to component unit criteria, which is effective for year-end June 30, 2020. This statement modifies certain guidance contained in Statement No. 84 and enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Earlier application of the standards is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

Exhibit A

▶ Management Representation Letter