

Alaska Mental Health Trust Authority

AUDIT PLANNING

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

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June 10, 2020

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 statement of Alaska Mental Health Trust Authority (the Trust) as of and for the year ending June 30, 2020, 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. 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.

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, (i.e., the susceptibility of the financial statements to material error or fraud) before recognizing the effectiveness of the control systems.)
- 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, risk management and monitoring processes, and the possibility that the control systems and procedures may fail to prevent or detect a material error or fraud.
- g) Information about systems and the computer environment in which the related systems operate.



- h) A continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the Trust.

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

- Fraud Risk
- Internal Control Over Financial Reporting
- Cash and Investments and Related Disclosures
- Accounts Receivable and Allowances
- Capital Assets
- Accounts Payable and Accrued Expenses
- Accurate and Timely Capture of Expenses
- Revenue Recognition
- Fund Balance and Net Position
- Pension and Other Postemployment Benefits and Related Disclosures
- Evaluation of Related Party Relationships and Transactions
- Other Matters, Including Significant Unusual Transactions, Going Concern, etc.

Our audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit. Our goals include focusing resources on high risk areas and other areas of concern for management and the Board of Trustees.

Overall Audit Timeline

Planning and interim fieldwork is anticipated to occur in July 2020 and year-end fieldwork will occur in September 2020 with release of the opinion and all financial statements and reports in accordance with *Government Auditing Standards* expected to occur by October 2020.

Group Audit

The audit of the Trust requires financial presentation for all components 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 Schedule of Investments Managed by the Alaska Permanent Fund Corporation. The component unit will be audited by a separate accounting firm, KPMG LLP. As part of our planned audit strategy, we will initiate required communications with this audit team to include confirmation of their independence with respect to the entire group, identification of related parties of those component entities, identification of audit risks, and other required communications.



Independence Communication

Our engagement letter to you dated June 10, 2020 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 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.

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).

GASB ISSUED STATEMENT NO. 95, POSTPONEMENT OF THE EFFECTIVE DATES OF CERTAIN AUTHORITATIVE GUIDANCE

- ▶ 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.

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 and manager responsible:

Bikky Shrestha - Engagement Partner
bshrestha@bdo.com

Michelle Kiese - Manager
mkiese@bdo.com

We are pleased to be of service to the Alaska Mental Health Trust Authority 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