

11.6.13 DRAFT

HAINES BOROUGH

LETTER TO THE ASSEMBLY

For the Year Ended June 30, 2013

 , 2013

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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_____, 2013

Honorable Mayor and Borough Assembly
Haines Borough
Haines, Alaska

Dear Members:

We have audited the basic financial statements of the Haines Borough (the Borough) as of and for the year ended June 30, 2013, and have issued our report thereon dated _____, 2013. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 1, 2013, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Borough solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated _____, 2013.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Borough is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal 2013. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Management has corrected all identified misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Haines Borough's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated _____, 2013.

Accounting Assistance

As part of our engagement we drafted the financial statements and the schedules of expenditures of federal awards and state financial assistance of the Borough from its books and records; however, management of the Borough was involved in the drafting process and retains responsibility for the financial statements and schedules.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Borough, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Borough's auditors.

Internal Control and Other Matters

Other Internal Control Matters Noted During the Current Audit

During our audit we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency, as noted below. We have already discussed many of these comments and suggestions with various Borough personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations to the extent allowed by our professional standards.

Evaluate Borough Financial Structure for Opportunities for Greater Efficiency

Accounting and reporting of governmental financial transactions is necessarily complicated because of the variety of services governments provide. However, in order to convey financial information in a transparent and understandable fashion, it periodically makes sense for governments to evaluate their financial structures for areas where simplifying can be achieved while still meeting public policy goals. As one example, Haines Borough uses six different property tax mill rates. The Borough's general fund has also grandfathered in several smaller sub-funds. The maintenance of these creates complexity in budgeting and makes understanding the Borough's structure more complex for both elected officials and the community.

We recommend that Borough management and the Assembly evaluate whether some of the Borough's financial structure can or should be simplified or streamlined to allow for most efficiency and transparency in financial reporting.

Determine Whether All of Borough's Cash Accounts Are Necessary

The Borough and its component units maintain a significant number of cash accounts. This weakens internal control over cash and increases the amount of time the Borough accounting staff has to devote to reconciling these accounts every month.

We recommend the Borough management evaluate whether all of its cash accounts are necessary and close non-essential accounts.

Other Internal Control Matters Noted During the Prior Audit and Their Current Status

During our prior audit we noted deficiencies in internal control, and other matters that were opportunities for strengthening internal controls and operating efficiency. Following are the recommendations we made in the prior year and the current status of those recommendations.

2012-01 Significant Deficiency in Internal Control over Grant Reporting

The Borough did not maintain adequate internal controls that permit the preparation of timely, reliable grant reports.

Current year status: Finding resolved.

GASB 68 Implementation

In prior year we recommended that the Borough work with the State of Alaska to estimate its share of the net pension liability. We also recommended the Borough assess the consequences of this accounting change on its financial statements and evaluate the resulting financial reporting and other considerations that might be relevant to the users of the financial statements, in light of the significant impact this accounting change will likely generate.

Current year status: we continue to recommend that the Borough assembly and management work with the State of Alaska to address this issue.

This report is intended solely for the information and use of the Borough Assembly and management of the Borough and is not intended to be and should not be used by anyone other than these specified parties.

 , 2013