

HAINES BOROUGH

LETTER TO THE ASSEMBLY

For the Year Ended June 30, 2016

January 18, 2017

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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January 18, 2017

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, 2016, and have issued our report thereon dated January 18, 2017. 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, 2016, our responsibility, as described by professional standards, is to form and express opinions 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.

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 2016. 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.

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. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. 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 attached letter.

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

Significant Deficiency in Internal Controls over Compliance and Compliance – Reporting

As described in our *Independent Auditor's Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance and Report on the Schedule of State Financial Assistance Required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, we identified a significant deficiency in internal controls over reporting compliance that we also consider to be a reporting compliance finding.

Finding 2016-001 – Significant Deficiency in Internal Controls over Compliance and Compliance - Reporting

Haines Borough did not report three out of twelve of their reports required by the grant agreement.

Other Internal Control Matters Noted During the Current Audit

During our audit we noted deficiencies in internal control, and other matters that were opportunities for strengthening internal controls and operating efficiency.

Utilize or Close Southeast Alaska Revolving Loan Fund

The Borough has an account with the Southeast Alaska Revolving Loan Fund (RLF) administered by the Juneau Economic Development Corporation (JEDC). Previous loans made from the Borough's account were repaid with interest several years ago, and since then there has been no activity in the RLF. Currently, JEDC's account contains approximately \$120,000.

We recommend the Borough determine whether it wants to continue its relationship with the RLF. If so, it should work with JEDC to identify potential borrowers. If not, the Borough should close its account.

Reconcile Harbor Billing System

During the past year, Harbor management implemented a new software system that included the ability to bill customers and track related accounts receivables. The Finance Department has not established procedures to reconcile the new system to the Borough's accounting records. This reconciliation is important to ensure that all activity in the new software is properly captured by and accounted for in the Borough's accounting records.

We recommend that the Finance Director establish procedures to properly reconcile the Harbor's new software to the Borough's accounting system.

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.

Improve Grant Accounting and Reporting Controls

In prior year, we recommended the Borough reevaluate the current procedures over grant accounting including assignment of responsibilities and authority oversight of all grant function.

Status: In light of the finding described above related to the Borough's AEA grant, this comment is repeated. Appropriate internal controls over compliance are more important as government agencies continue to increase oversight over State and federal funding.

Component Unit Accounting

In prior year, we recommended the Borough evaluate whether to consolidate the Sheldon Museum as a Borough department in order to streamline operations.

Status: We continue to recommend the Borough consider consolidating the Sheldon Museum as a Borough department. Comment repeated.

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.

ERM



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January 18, 2017

Elgee Rehfeld Mertz, LLC
9309 Glacier Highway, Suite B-200
Juneau, Alaska 99801

This representation letter is provided in connection with your audit of the financial statements of Haines Borough, Alaska, (the Borough) as of June 30, 2016 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the Borough in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of January 18, 2017:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated June 1, 2016, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.

- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our 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/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 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.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Borough has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Borough is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.

- The Borough has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Required Supplementary Information

- With respect to the required supplementary information accompanying the financial statements:
 - We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - The methods of measurement or presentation have not changed from those used in the prior period.
 - We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

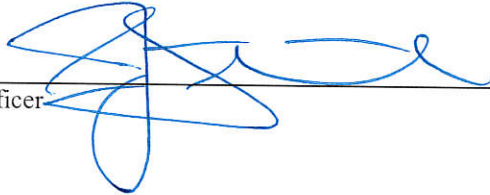
Uniform Guidance and State of Alaska Single Audit

- With respect to State and Federal awards, we represent the following to you:
 - 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 State of Alaska Single Audit guide.
 - We are responsible for the preparation and presentation of the schedule of expenditures of federal awards (SEFA) and the schedule of state financial assistance (SSFA) in accordance with Uniform Guidance and State of Alaska Single Audit guide.
 - We believe the SEFA and SSFA, including its form and content, are fairly presented in accordance with the Uniform Guidance and State of Alaska Single Audit guide.
 - As part of your audit(s), you prepared the draft financial statements and related notes and SEFA and SSFA. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and SEFA and SSFA.
 - The methods of measurement or presentation have not changed from those used in the prior period.
 - We believe the significant assumptions or interpretations underlying the measurement or presentation of the SEFA and SSFA, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
 - We are responsible for including the auditor's report on the SEFA and SSFA in any document that contains the schedule and that indicates that the auditor has reported on such information.
 - We have notified you of federal awards and funding increments that were received before December 26, 2014, and differentiated those awards from awards and funding increments received on or after December 26, 2014, and the Uniform Guidance.

- We have, in accordance with the Uniform Guidance and State of Alaska Single Audit guide, identified in the SEFA and SSFA, expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
- We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program; and we have complied, in all material respects, with these requirements.
- We have provided to you our interpretations of any compliance requirements that have varying interpretations.
- We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
- We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relating to federal or state programs.
- We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- We have charged costs to federal and state awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and the U.S. Office of Management and Budget's, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*
- We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- 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/SSFA).
- 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.
- We have charged costs to federal awards in accordance with the provisions of the Uniform Guidance (for grant awards and funding increments received before December 26, 2014) or U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Tribal Governments* (for grant awards and funding increments received on or after December 26, 2014), as applicable.

- We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 or State of Alaska Single Audit Guide, and we have provided you with all information on the status of the follow-up on prior audit findings by federal or state awarding agencies and pass-through entities, including all management decisions.
- We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by the Uniform Guidance, and we are responsible for preparing and implementing a correction action plan for each audit finding.
- We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
- 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.

Chief Financial Officer

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke, positioned over a horizontal line.