Municipality of Anchorage, Alaska

AUDIT WRAP UP

December 31, 2019

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., Municipal Assembly and Audit Committee) and, if appropriate, management of the Municipality and is not intended and should not be used by anyone other than these specified parties.

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3601 C Street Suite 600
Anchorage, Alaska 99503

August 13, 2020

Honorable Mayor,
Members of the Assembly, and Audit Committee
Municipality of Anchorage, Alaska

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 December 16, 2019 we presented an overview of our plan for the audit of the financial statements of the Municipality of Anchorage, Alaska (the Municipality) as of and for the year ended December 31, 2019, 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 Municipality'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 Municipality 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

Status of Our Audit

We have completed our audit of the financial statements and federal and state awards as of and for the year ended December 31, 2019. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. 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 have issued an unmodified opinion on the financial statements and each major federal and state program, and released our reports on July 27, 2020.
- Our responsibility for other information in documents containing the Municipality's audited financial statements (e.g. management's discussion and analysis, budgetary comparisons, 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 have read the information included by the Municipality and considered whether such information, or the manner of its presentation, was 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 Municipality personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the Municipality's accounting practices, policies, and estimates:

The Municipality'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 22 of the Municipality's financial statements.
- There were no changes in significant accounting policies and practices during 2019.

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 Municipality's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are as follows:

Significant accounting estimates include:
Allowance for Uncollectible Accounts - based on prior collection experience and historical trends
Net Pension/OPEB Liabilities - Based on actuarial calculations prepared by third-party actuaries for each plan
Incurred but Not Reported (IBNR) Self-Insurance Liabilities - based on past claims experience modified for current trends and information, as determined by a third-party actuary
Landfill Closure and Post Closure Obligations - based on the expected remaining useful life of the municipal landfill, trends in inflation, and remaining landfill capacity
Asset Retirement Obligation - based on projected demobilization costs of gas field assets, deflated to present value and derecognized over the remaining life of the field. This estimate follows the specific methodology and guidance prescribed in ASC Topic 410
Environmental Remediation Liabilities - based on various remediation action cost estimates and the probability of each course of action taking place

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2019.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were 3 corrected misstatements, other than those that were clearly trivial, related to accounts that we brought to the attention of management. Please refer to the Schedule of Corrected Misstatements. Additionally, there were 5 corrected disclosures, other than those that were clearly trivial, that we brought to the attention of management. Please refer to the Schedule of Corrected Disclosures.

There were 3 uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management. Please refer to the Schedule of Uncorrected Misstatements. We concur with management's assessment that the effects of not recording such adjustments are, both individually and in aggregate, immaterial to the consolidated financial statements taken as a whole, considering both qualitative and quantitative factors.

Results of Our Audit

QUALITY OF THE MUNICIPALITY'S FINANCIAL REPORTING

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

- Qualitative aspects of significant accounting policies and practices
  - We concur with the Municipality'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
  - The nature of the Municipality's operations reduces the need for numerous significant estimates within the accounting records. See comment about estimates on the previous page. We believe the Municipality's estimates are reasonable in the circumstances.
- Significant unusual transactions
  - To our knowledge all significant unusual transactions have been properly reported in the financial statements.
- Financial statement presentation
  - To our knowledge all necessary disclosures have been included in the footnotes to the financial statements.
- New accounting pronouncements
  - The Municipality adopted GASB Statement No. 84, *Fiduciary Activities*. This statement addresses criteria for identifying and reporting fiduciary activities.
  - The Municipality adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement requires additional disclosures related to debt that fall under the definition of a direct placement and/or a direct borrowing. A direct borrowing is defined as a government entering into a loan agreement with a lender. A direct placement is defined as a government issuing a debt security directly to an investor. The Municipality does not have any debt that is defined as a direct placement debt but has notes that meet the definition of a direct borrowing.
  - The Municipality adopted GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB issued this statement in response to the COVID-19 pandemic. This statement postpones the effective dates of several statements.

    We believe the Municipality's adoption of GASB Statements No. 84, 88, and 95 is appropriate.
- Alternative accounting treatments
  - Management has applied guidance found in ASC 410 (traditional for-profit accounting guidance) to the Municipality's accounting of the ARO. GASB's applicable guidance for ARO accounting, GASB Statement No. 83, *Certain Asset Retirement Obligations*, was not required to be adopted in 2019. We believe that this treatment is reasonable in the circumstances.

Results of Our Audit

- Subsequent events

  - COVID-19 pandemic

    In late January 2020, the World Health Organization ("WHO") announced a global health emergency regarding a new strain of virus called coronavirus (COVID-19). This virus originated from within China, and spread globally, including Alaska. The WHO declared this new strain creates extreme health risks as it spreads globally. Further, in March 2020, the WHO classified the coronavirus as a pandemic. March 12, 2020, the mayor of Anchorage declared a state of emergency to protect and preserve public health and safety, and subsequently closed all civic, cultural and recreational facilities in the Municipality. The governor of Alaska declared a public health disaster as did the President of the United States.

    Although the Municipality cannot estimate the length or gravity of the impact of the COVID-19 pandemic at this time, if the pandemic continues, it may have an adverse effect on the Municipality's results of future operations, financial position, and liquidity in fiscal year 2020 and future years.

  - CARES Act funding

    On March 27, 2020, the President signed into law the "Coronavirus Aid, Relief and Economic Security (CARES) Act." The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to States and certain local governments. To date, the Municipality has received $134,905,008 in CARES Act funds including $116 million in Coronavirus Relief Funds passed through the State of Alaska. The Municipality expects to use those funds to help defray the costs of the emergency response to the pandemic, as well as provide support to individuals, agencies and businesses affected by the COVID-19 emergency, as directed by the US Treasury Department.

  - Sale of the Electric Utility

    The Electric Utility, the Municipality and Chugach Electric Association (CEA) are currently engaged in integration activities and transition planning. The Electric Utility continues to operate as usual and the proposed sale has had no material effect on ongoing operations of the Electric Utility. It is expected that the Municipality will continue to operate the Electric Utility until the acquisition date, at which time CEA will take over operation of the Electric Utility. Of course, the successful acquisition of most of the assets of the Electric Utility by CEA would have a significant effect on the financial position and results of operations of the Municipality and the Electric Utility. The proceeds of the sale will provide several hundred million dollars of additional funding for the MOA Trust. The agreement, as approved with conditions by the Regulatory Commission of Alaska (RCA), requires that the Electric Utility retain only the generation assets of Eklutna Hydroelectric Project and sell power to Matanuska Electric Association for those assets.

    We believe the Municipality's accounting and disclosures related to the COVID-19 pandemic, CARES Act funding, and the sale of the Electric Utility is appropriate.

Group Audit

As you are aware, the audit of the Municipality requires the inclusion of financial information for all components of the reporting entity. The reporting entity is comprised of the Municipality and its “component units” as defined by GAAP. This collection of individual reporting entities comprises the “Group.” Our audit is considered the “Group” Audit.

Included in the Municipality’s audit are the audits of the Anchorage School District, Anchorage Community Development Authority, and the Alaska Center for the Performing Arts. These audits were performed by BDO USA, LLP. The Anchorage Police and Fire Retirement System was performed by other auditors, whose report was furnished to us. Where relevant, we have included information in this report as it relates to separate audits.

Internal Control Over Financial Reporting

In planning and performing our audit of the Municipality's financial statements, we considered the Municipality'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 Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 Municipality'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 Municipality'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.

Other Required Communications

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

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 Municipality'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	Besides the use of information systems auditors and pension and OPEB actuaries, 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.
-Information Systems (IS) Auditors	Internal BDO specialists supplemented the core engagement team in reviewing the Municipality's IS programs and applications for risk assessment purposes related to internal controls over financial reporting.
-Pension and OPEB Actuaries	Internal BDO specialists supplemented the core engagement team in evaluating the suitability of the actuarial assumptions used for financial reporting purposes by the Public Employees' Retirement System and Anchorage Police and Fire Retirement System pension plans, as well as the Public Employees' Retirement System and Police and Fire Retiree Medical Group and Gentile Group OPEB plans.
Extent to which our plan to use the work of others and the basis for our determination that we can serve as the principal auditor has changed since our planning communication	Since our Audit Planning communications, there have been no significant changes in the basis for our determination that we can serve as the principal auditor.
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.
If applicable, our evaluation of the Municipality's ability to continue as a going concern	We have evaluated the Municipality's process to identify, authorize and approve, account for, and disclose its relationships and transactions with related parties and noted no significant issues.
Our evaluation of the Municipality's relationships and transactions with related parties and their impact on the financial statements	We have evaluated the Municipality's process to identify, authorize and approve, account for, and disclose its relationships and transactions with related parties and noted no significant issues.

Other Required Communications

Requirement	Discussion Points
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 Municipality'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 Municipality'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 Municipality'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 December 12, 2019 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 Municipality with respect to independence as agreed to by the Municipality. Please refer to that letter for further information.

GASB Standards Effective in 2020

GASB STATEMENT NO. 83, *CERTAIN ASSET RETIREMENT OBLIGATIONS*

- Establishes measurement criteria for recording a liability for the retirement or removal of certain assets such as:
  - ✓ Nuclear power plants
  - ✓ Sewage treatment facilities
  - ✓ Coal-fired power plant
  - ✓ Wind turbines
  - ✓ X-ray machines
- Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets would be required to recognize a liability.
- A liability and corresponding deferred outflow is recorded when the liability is both incurred and reasonable estimable.
- The liability is based on the best estimate of the current value of outlays expected to be incurred.
- Must be both an external obligating event, such as a court judgment or federal, state or local law; and an internal obligating event, such as contamination or retirement.

GASB Standards Effective in 2021

GASB STATEMENT NO. 89, *ACCOUNTING FOR INTEREST COST INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD*

- Upon implementation, in financial statements using the economic resources measurement focus (business-type activities and enterprise funds) interest incurred during construction should be recognized as an expense of the period.
- Interest costs on construction-in-progress will be capitalized only to the implementation date of this Statement. The provisions of this Statement are to be applied prospectively and will therefore not require a restatement of any balances.
- In financial statements using the current financial resources measurement focus, interest incurred during construction should be recognized as an expenditure (no change).
- If a government has regulated operations as defined by paragraph 476 of GASB Statement No. 62, this Statement does not eliminate or remove the requirement to capitalize qualifying interest costs as a regulatory asset.

GASB Standards Effective in 2022

GASB STATEMENT NO. 87, *LEASES*

- This standard will require recognition of certain lease assets and liabilities for leases that are currently classified as operating leases.
- Eliminates the distinction between operating and capital leases - all leases will be recorded on the statement of net position/balance sheet.
- New definition of a lease - a contract that conveys the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction.
- Excludes leases that transfer ownership under a bargain purchase option or service concession arrangements that are covered by GASB Statement No. 60.
- Lessees would recognize a lease liability and an intangible right-to-use lease asset which would be amortized in a systematic and reasonable manner over the shorter of the lease term or the useful life of the underlying asset. Short-term leases are excluded.
- Lessors would recognize lease receivable and deferred inflow of resources which would be recognized as revenue in a systematic and rational manner over the term of the lease.

GASB STATEMENT NO. 91, *CONDUIT DEBT OBLIGATIONS*

- 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*

- This statement addresses a variety of topics such as leases, the applicability of Statement 73 and Statement 74 for reporting assets accumulated for postemployment benefits, the applicability of Statement 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*

- This statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

GASB STATEMENT NO. 97, *CERTAIN COMPONENT UNITS, AND ACCOUNTING AND FINANCIAL REPORTING FOR INTERNAL REVENUE CODE SECTION 457 DEFERRED COMPENSATION PLANS -AND AMENDMENT OF GASB STATEMENT NO. 14 AND NO. 84, AND A SUPERSESSION OF GASB STAEMENT NO.32*

- This statement addresses (1) reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) costs associated with reporting certain defined contribution pension and OPEB plans, and other employee benefit plans as fiduciary fund financial statements; and (3) accounting and financial reporting of Section 457 plans.
- This statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84 be applicable to only defined benefit pension and OPEB plans that meet the criteria of paragraph 3 of GASB Statement No. 67 and paragraph 3 of GASB Statement No. 74, respectively.

GASB Standards Effective in 2023

GASB STATEMENT NO. 94, *PUBLIC-PRIVATE AND PUBLIC-PUBLIC PARTNERSHIPS AND AVAILABILITY PAYMENT ARRANGEMENTS*

- This statement addresses financial reporting issues related to public-private and public-public partnerships arrangements (PPP).
- This statement defines a PPP as an arrangement in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or exchange-like transaction.
- This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APA).
- This statement defines an APA as an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

GASB STATEMENT NO. 96, *SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS*

- This statement addresses accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users.
- This statement defines a SBITA as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction.
- Under the statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service.

Attachment

A copy of management's representation letter is attached.

MUNICIPALITY OF ANCHORAGE

Office of the Chief Fiscal Officer

Phone: (907) 343-6610

Alexander Slivka, CFO

July 27, 2020

BDO USA, LLP
3601 C Street, Suite 600
Anchorage, Alaska 99503

Ladies and gentlemen:

We are providing this letter in connection with your audit of the financial statements of the Municipality of Anchorage, Alaska (the Municipality), which comprise the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the preparation and fair presentation in the financial statements of financial position, changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

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, as of the date of this representation letter, as entered on the first page, the following representations made to you during your audit:

(1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 12, 2019, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

(2) We have fulfilled our responsibility, as set out in the terms of the aforementioned audit engagement letter, 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.

(3) The financial statements include all properly classified funds and other financial information of the primary government and all component units required to be included in the financial reporting entity by accounting principles generally accepted in the United States of America. All funds required to be presented as major funds are identified and presented as such.

(4) We have made available to you:

   (a) All financial records, and related data and federal and state awards including amendments, if any, and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities, as agreed upon in the terms of the aforementioned audit engagement letter.

(b) All additional information that you have requested from us for the purpose of the audit.

(c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

(d) Minutes of the meetings of the Anchorage Assembly that were held from January 1, 2019 to the date of this letter, or summaries of actions of recent meetings for which minutes have not yet been prepared.

(5) There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

(6) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or schedule of expenditures of federal awards (SEFA), or schedule of state financial assistance (SSFA). All financial statement misstatements relating to accounts and disclosures identified and discussed with us in the course of the audit as listed in attachment – "Schedule of Corrected Misstatements" and "Schedule of Corrected Disclosures" - have been corrected, except for those listed in attachment - "Schedule of Uncorrected Misstatements." In our opinion, the effects of not correcting such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements of the Municipality, taken as a whole. We have evaluated the propriety of the corrected misstatements based on a review of both the applicable authoritative literature and the underlying supporting evidence from our files and confirm our responsibility for the decision to correct them.

(7) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud or noncompliance. 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 or noncompliance. We have no knowledge of any:

(a) Fraud or suspected fraud involving management or involving employees who have significant roles in internal control, whether or not perceived to have a material effect on the financial statements.

(b) Fraud or suspected fraud involving others where the fraud could have a material effect on the financial statements.

(c) Allegations of fraud or suspected fraud affecting the Municipality received in communications from employees, former employees, regulatory agencies, law firms, predecessor accounting firms, or others.

(d) Instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse, whose effects should be considered when preparing the financial statements.

(8) We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

(9) The following, where applicable and material, have been properly recorded or disclosed in the financial statements:

(a) The identity of related parties and all related party relationships and transactions of which we are aware, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

(b) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

(c) Guarantees, whether written or oral, under which the Municipality is contingently liable.

(d) Significant estimates and material concentrations known to management that are required to be disclosed in accordance with accounting principles generally accepted in the United States of America. In that regard, all accounting estimates that could be material to the financial statements, including key factors and significant assumptions underlying those estimates, have been identified, and we believe the estimates are reasonable in the circumstances.

(e) The effects of all known actual or possible litigation, claims, and other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America, including:

- Pending or anticipated tax refunds, other potential or pending claims, lawsuits by or against any branch of government or others;

- Written or oral guarantees, endorsements, or unused letters of credit;

- Unusual guarantees; or

- Labor claims or negotiations.

Accounting principles generally accepted in the United States of America require loss contingencies to be accrued if it is probable an asset has been impaired or a liability incurred at the statement of financial position date and the amount of loss can be reasonably estimated. Such contingencies must be disclosed, but may not be accrued, if the loss is reasonably possible (but not probable) or the loss is probable but the amount of loss cannot be reasonably estimated.

(f) Commitments, such as:

- Major capital asset purchase agreements;

- More-than-one-year employment arrangements or contracts with suppliers or customers, or one-year-or-longer term leases;

- Deferred compensation, bonuses, pensions plans, or severance pay; or

- Pending sale or merger of all or a portion of the business or of an interest therein or acquisition of all or a portion of the business, assets or securities of another entity;

(g) Joint ventures or other participations, the detailed transactions of which are not carried on our books.

(10) There are no:

(a) Violations or possible violations of budget ordinances, laws or regulations and provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects could be material to the financial statements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

(b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.

(c) Restrictions of net position that were not properly authorized and approved, or reclassifications of net position that have not been properly reflected in the financial statements.

(11) Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the statement of financial position date and have been appropriately reduced to their estimated net realizable value.

(12) The Municipality has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

(13) We have appropriately disclosed the Municipality's 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 are available and have determined that net position is properly recognized under the policy.

(14) We have complied with all aspects of contractual agreements, including debt covenants, that would have a material effect on the financial statements in the event of noncompliance. We have also complied with the SEC disclosure rules for reporting annual financial information and material events to repositories in accordance with SEC Rule N.240, 15c2-12.

(15) No discussions have taken place with your firm's personnel regarding employment with the Municipality.

(16) We are responsible for compliance with laws, regulations and provisions of contracts and grant agreements applicable to us and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.

(17) Components of net position (net investment in capital assets, restricted and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.

(18) Revenues are appropriately classified in the statement of activities within program revenues, contributions, and general revenues. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

(19) In regards to the assistance provided in preparing and submitting the required Form SF-SAC Data Collection Form, services performed by you, we have: (1) assumed all management responsibilities, (2) designated an individual (within senior management) with suitable skill, knowledge, or experience to oversee the services, (3) evaluated the adequacy and results of the services performed, and (4) accepted responsibility for the results of the services.

(20) We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United State of America and we believe it is fairly presented. The methods of measurement and presentation of the supplementary information have not changed from the prior period and we have disclosed to you any significant assumptions underlying the measurement and presentation of the supplementary information.

(21) Required supplementary information is measured and presented in accordance with prescribed guidelines.

(22) With respect to our participation in multi-employer defined benefit pension and other postemployment benefit (OPEB) plans:

(a) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting and disclosure purposes are appropriate in the circumstances.

(b) We are unable to determine the possibility of a withdrawal liability from a multi-employer benefit plan.

(c) We agree with the findings of specialists in evaluating the net pension and OPEB liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

(d) We do not plan to make frequent amendments to the multi-employer defined benefit pension and other postemployment benefit (OPEB) plans.

(23) With respect to our Police and Fire Retirement System Pension Plan and Police and Fire Retiree Medical Group OPEB plans:

(a) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting and disclosure purposes are appropriate in the circumstances.

(b) We agree with the findings of specialists in evaluating the net pension and OPEB liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

(c) We do not plan to make frequent amendments to the defined benefit pension and other postemployment benefit (OPEB) plans.

(24) Capital assets, including intangible assets, have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded.

(25) We agree with the findings of specialists in evaluating landfill closure and postclosure cost estimate, pollution remediation liabilities and incurred but not reported insurance liabilities, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

(26) Provisions have been made for any material loss that is probably from environmental remediation liabilities associated with identified contaminated sites. We believe such estimates are reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the financial statements.

(27) With respect to federal and state award programs:

(a) 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 *the State of Alaska Audit Guide and Compliance Supplement for State Single Audits* (State Single Audit Guide) including requirements relating to the preparation of the schedule of expenditures of federal awards (SEFA) and the schedule of state financial assistance (SSFA).

(b) We have, in accordance with the Uniform Guidance and the State Single Audit Guide, identified and disclosed to you in the schedule of expenditures of federal awards (SEFA) and the schedule of state financial assistance (SSFA), expenditures made during the audit period for all government programs and related activities provided by federal and state agencies in the form of federal and state awards, grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

(c) We acknowledge our responsibility for the preparation of the SEFA and SSFA and related notes in accordance with the requirements of the Uniform Guidance and the State Single Audit Guide, and we believe the SEFA and SSFA, including its form and content, is fairly presented in accordance with the Uniform Guidance and the State Single Audit Guide. The methods of measurement or presentation of the SEFA and SSFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA and SSFA.

(d) We have notified you of federal awards and funding increments that were received for awards received before December 26, 2014, and differentiated those awards from awards received on or after December 26, 2014, and subject to the audit requirements of the Uniform Guidance.

(e) We will include the auditor's report on the SEFA and SSFA in any document that contains the SEFA or SSFA and that indicates you have reported on such information.

(f) If the SEFA and SSFA are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA and SSFA no later than the date we issue the SEFA and SSFA and the auditor's report thereon.

(g) We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions considered to have a direct and material effect on each federal program.

(h) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing our federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, subsequent to the date of the auditor's report as of which compliance was audited, no changes have occurred in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and material weaknesses in internal control over compliance as reported in the schedule of findings and questioned costs.

(i) We have made available to you all federal and state award contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relating to each major federal and state program and related activities that have taken place with federal or state agencies or pass-through entities.

(j) We have received no requests from a federal or state agency to audit one or more specific programs as a major program.

(k) We have complied, in all material respects, with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB *Compliance Supplement*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material requirements of federal and state awards, including the results of other audits or program reviews or confirmed that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal and state awards. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.

(l) We have disclosed to you any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

(m) Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance, OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, and* the State Single Audit Guide.

(n) We have disclosed to you our interpretations of compliance requirements that are subject to varying interpretations, if any.

(o) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.

(p) 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.

(q) 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 schedule of expenditures of federal awards and the schedule of state financial assistance.

(r) 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 agency or pass-through entity, as applicable.

(s) We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with applicable federal and state statutes, regulations and terms and conditions of the subaward and have met other pass-through entity requirements of the Uniform Guidance.

(t) We have considered the results of subrecipients' audits and have made any necessary adjustments to our books and records.

(u) We have charged costs to federal awards in accordance with applicable cost principles.

(v) We are responsible for, and have accurately completed, the appropriate sections of the Data Collection Form as required by the Uniform Guidance. The final version of the applicable audit reporting package, which includes your signed auditor's reports, that we will submit to the Federal Audit Clearinghouse (FAC) will be identical to the final version of such documents that you provided to us.

(w) We have identified and disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, internal or external monitoring, and other studies directly related to the audit objectives of the compliance audit, including findings received and corrective actions taken from the end of the audit period covered by the compliance audit report to the date of the auditor's report.

(x) We are responsible for, and have accurately prepared, the summary schedule of prior audit findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

(y) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.

(28) There have been no known or suspected breaches of sensitive information (e.g., personnel files) caused by cyber-attack or other means, or other cybersecurity incidents, where the breach or other incident could have a material effect on the financial statements.

(29) To the extent our normal procedures and controls related to our financial close process at any of our locations were adversely impacted by the COVID-19 outbreak, we took appropriate actions and safeguards to reasonably ensure the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

- Other than as disclosed in Note 21 to the financial statements, no other impacts from the COVID-19 outbreak are necessary to be reflected in those financial statements.

- Disclosures included in the financial statements regarding the relevant significant business, financial, and reporting impacts of the COVID-19 outbreak accurately reflect management's full consideration of such impacts.

- Other than disclosed in Note 21 to the financial statements, no other impacts from enactment of the CARES Act are necessary to be reflected in those financial statements.

- Disclosures included in the financial statements regarding the relevant significant financial reporting impacts from enactment of the CARES Act accurately reflect management's full consideration of such impacts.

(30) In connection with any electronic presentation of the financial statements and your audit report thereon on our web site, we acknowledge that:

- We are responsible for the preparation, presentation, and content of the financial statements in the electronic format.

- If your audit report is presented on our web site, the full financial statements upon which you reported and to which you appended your signed report will be presented.

- We will clearly indicate in the electronic presentation on our web site the financial information that is subject to your audit report. We will clearly differentiate any information that may also be presented by us on or in connection with our web site that was contained in the published version of the financial statements and other supplementary information, but which is not part of the audited financial statements or other financial information covered by your audit report.

- We have assessed the security over financial statement information and the audit report presented on our web site, and are satisfied that procedures in place are adequate to ensure the integrity of the information provided. We understand the risk of potential misrepresentation inherent in publishing financial information on our web site through internal failure or external manipulation.

- If the electronic financial statements are generally made available to the public on our web site, we will include a notification to the reader that such financial statements are presented for convenience and information purposes only, and while reasonable efforts have been made to ensure the integrity of such information, they should not be relied on. A copy of the printed financial statements will be provided on request.

MUNICIPALITY OF ANCHORAGE

Office of the Chief Fiscal Officer

Phone: (907) 343-6610

Alexander Slivka, CFO

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the statement of financial position date and through the date of this representation letter, as entered on the first page, that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Very truly yours,

Alexander H. Slivka, Chief Fiscal Officer

Mollie Morrison

Mollie Morrison, Controller

Municipality of Anchorage, Alaska
Schedule of Corrected Misstatements
For the Year Ended December 31, 2019

Item #	Account Name and Adjustment Description	Debit	Credit	Impact on Net Position
1	Governmental Activities - Deferred Inflows of Resources	26,928,815		
	Governmental Activities - Deferred Outflows of Resources		26,928,815	
	To properly present deferred outflows of resources and deferred inflows of resources related to the Anchorage Police and Fire Retirement System. In accordance with GASB Statement No. 68, paragraph 33b, deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual earnings on pension plan investments in different periods are required to be netted and reported as deferred outflows of resources related to pensions if the net balance is a debit and reported as deferred inflows of resources related to pensions if the net balance is a credit.			
2	Governmental Activities - Deferred Inflows of Resources	272,440		
	Governmental Activities - Deferred Outflows of Resources		272,440	
	To properly present deferred outflows of resources and deferred inflows of resources related to the Police and Fire Retiree Medical Trust. In accordance with GASB Statement No. 75, paragraph 43b, deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual earnings on OPEB plan investments in different periods are required to be netted and reported as deferred outflows of resources related to OPEB if the net balance is a debit and reported as deferred inflows of resources related to OPEB if the net balance is a credit.			
3	Water Utility Enterprise Fund - Accounts Payable	707,604		
	Water Utility Enterprise Fund - Prepaid Expense		707,604	
	To correct an overstatement of prepaid expense and accounts payable for an incorrectly applied voucher			

Municipality of Anchorage, Alaska
Schedule of Corrected Disclosures
For the Year Ended December 31, 2019

Item #	Adjustment Description
1	An operating lease recorded in the Governmental Activities Opinion Unit was incorrectly calculated, causing total future lease payments to be overstated by $15,292,480. The correction made reduced total future lease payments to equal actual future lease payments.
2	The Business-Type Activities annual debt service requirements note disclosure for notes and contracts from direct borrowings included a variable rate multi-year loan. Interest associated with the loan was not calculated as of December 31, 2019 and projected over the remaining life of the loan. Total amount of future interest payments was understated by $2,376,062. The correction made increased the disclosed amount of future interest payments to equal actual future interest payments.
3	The Anchorage Regional Landfill Post-Closure Reserve Fund holds an investment in a common trust fund valued at $11,417,109. The investment was incorrectly reported as an investment held at fair value and classified as a Level 1 investment under the fair value hierarchy. The investment is actually valued at net asset value, based on the fair value of the underlying investments held by the fund. As a result of the misclassification, required disclosures associated with investments held at NAV were not presented. The correction made properly presented the investment at NAV and added required disclosures associated with investments held at NAV.
4	The related party transaction note disclosure did not disclose the Municipality's lease of 716 West 4th Avenue for the APD office and lease payments made in 2019 of 1,587,900. Additionally, the related party transaction note disclosure did not disclose payments of hotel and motel tax revenues to the Anchorage Convention and Visitors Bureau of $10,192,796. The correction made added each disclosure to the notes.
5	The Port Enterprise Fund was originally identified as only a major fund for qualitative purposes. The Port Enterprise Fund actually qualifies as a major fund quantitatively. The correction was made to remove references to qualitative purposes.

Municipality of Anchorage, Alaska
Schedule of Uncorrected Misstatements
For the Year Ended December 31, 2019

Item #	Account Name and Adjustment Description	Debit	Credit	Impact on Net Position
1	Water Enterprise Fund - Depreciation Expense	156,480		(156,480)
	Water Enterprise Fund - Accumulated Depreciation		156,480	
	To correct an understatement of depreciation expense and accumulated depreciation for an asset placed into service at the beginning of the year			
2	Wastewater Enterprise Fund - Depreciation Expense	151,340		(151,340)
	Wastewater Enterprise Fund - Accumulated Depreciation		151,340	
	To correct an understatement of depreciation expense and accumulated depreciation for an asset placed into service at the beginning of the year			
3	Police and Fire Retirement Trust - investment income - current year	745,491		
	Police and Fire Retirement Trust - investment income - prior year		745,491	
	APFRS reports their assets according to what BNY Mellon reports and not to the actual amounts per fund managers. The UBS funds report to BNY on a quarter lag and as a result the year end balances are incorrect			