



REPORT TO CITY COUNCIL

CITY OF KOTZEBUE, ALASKA

2024 AUDIT PLAN
DECEMBER 31, 2024



Welcome

BDO USA, P.C.
3601 C Street, Suite 600
Anchorage, AK 99503
Tel.: 907-278-8878
www.bdo.com

May 30, 2025

The City Council
City Of Kotzebue

We look forward to discussing with you the current year audit plan for The City of Kotzebue (the City). This report provides an overview of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

We are pleased to be of service to the City, are committed to executing a quality audit, and look forward to discussing our audit plan, as well as other matters that may be of interest to you, during our meeting.

Respectfully,

BDO USA, P.C.

BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Your Client Service Executive Team



Bikky Shrestha
Engagement Partner
bshrestha@bdo.com
907-770-2234



Joseph Syren
Project Manager
jsyren@bdo.com
907 646-7309

Contents

<u>WELCOME</u>	2
<u>EXECUTIVE SUMMARY</u>	4
<u>OTHER TOPICS</u>	14

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., City Council) and, if appropriate, management of the City, and is not intended and should not be used by anyone other than these specified parties.

Executive Summary



Executive Summary

Audit strategy, including significant risks identified

- ▶ Our audit strategy, including significant risks identified, for the 2024 audit is outlined in the “Areas of Significant Risk” on page 11.

Other topics of interest

- ▶ We have provided you with a list of the Government Accounting Standards Update on page 15 which includes GASB Statements that are effective for the year ending June 30, 2026, and the GASB Statements that are effective for upcoming year ends.



Audit Overview & Strategy



Overview

Our audit strategy follows a risk-based approach, so that our audit work, including the nature, timing and extent of audit procedures planned, is focused on the areas of the financial statements where the risk of material misstatement is assessed to be significant as well as other areas of the financial statements where we have identified risks of material misstatement.

In preparation for our audit, we have discussed with the City Council, management and internal audit significant matters including, but not limited to, market conditions, activities, and changes to the City's business, systems, accounting principles and controls, and obtained management's view of potential audit risk in order to update our understanding of the City. This is important to our identification and assessment of risks of material misstatement to the financial statements and related disclosures.

Key components of our audit objectives and strategy are highlighted within this report.

We will continue to update the resulting assessment throughout the audit. We will communicate to you any significant changes to the planned audit strategy or the significant risks initially identified and communicated herein, and the reason for such changes, as applicable, when we present the results of our audit upon completion.

Terms of the Audit and Independence

AUDITOR'S RESPONSIBILITY

BDO USA, P.C., as your auditor, is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with the applicable financial reporting framework. We are also responsible for expressing an in relation to opinion on the schedule of expenditures of federal awards (SEFA) that has been prepared by management, with your oversight, is prepared in accordance with *Government Auditing Standards*. Our audit will be conducted in accordance with standards for financial audits contained in the *Government Auditing Standards* (GAS or Yellow Book) issued by the Comptroller General of the United States. Our audit will also be performed in accordance with Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance) for forming and expressing an opinion on compliance.

The audits do not relieve you of your responsibilities and do not relieve management of their responsibilities.

INDEPENDENCE

- ▶ Our engagement letter to you dated May 13, 2025 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* regarding independence and the performance of our services. This letter also stipulates the responsibilities of the City with respect to independence as agreed to by the City. Please refer to that letter for further information.

TERMS OF THE AUDIT

Our establishment and understanding of the terms of the audit engagement have been documented in our annual engagement letter, which was provided to you on Mat 13, 2025, and includes the objectives of the audit along with the responsibilities of both the auditor and of management for your reference.

- ▶ We will plan and perform the audit of the financial statements for the year ended December 31, 2024 in accordance with *Government Auditing Standards*.
- ▶ We will plan and perform the audit of the SEFA for the year ended December 31, 2024 in accordance with GAS and will issue an in relation to opinion.
- ▶ We will perform tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions is not an objective of our audit.
- ▶ We will consider the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with GAS and the Uniform Guidance.

Determining Our Planned Audit Strategy

We focus on areas with higher risk of material misstatement to the financial statements, whether due to error or fraud.

In addition, *Government Auditing Standards* require that we also plan and perform the audit to obtain reasonable assurance about whether the City has complied with applicable laws, regulations and the terms and conditions of the federal awards that may have a direct and material effect on each of the City's major federal programs.

Our audit strategy includes consideration of the following:

- ▶ Prior year audit results including discussions with management and those charged with governance regarding the City's operations and risks.
- ▶ Inherent risk within the City (i.e., the susceptibility of the financial statements to material error or fraud) without regard to the effect of controls.
- ▶ A continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the City.
- ▶ Recent developments within the industry, regulatory environment, and general economic conditions.
- ▶ Recently issued and effective accounting and financial reporting guidance.
- ▶ The City's significant and critical accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions.
- ▶ The control environment, risk management and monitoring activities, and the possibility that internal controls may fail to prevent or detect a material misstatement due to error or fraud. In connection with our audit, we will obtain a sufficient understanding of the City's internal control to plan the audit of the financial statements. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control.
- ▶ The use of information systems and service organizations in the financial reporting process and overall IT environment.
- ▶ Extent to which we plan to use others, outside the core engagement team, to perform certain planned audit procedures or evaluate audit results related to significant risks that may require specialized skills or knowledge.
- ▶ We will consider the City's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the City's effectiveness of internal control.
- ▶ Internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

Detail of Significant Risks & Additional Audit Considerations



Areas of Significant Risk

Our areas of significant risk, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations, are as follows.

Based upon our initial assessment, our planned scope for the audit is described below:

- ▶ The areas indicated below relate to significant risks identified during our risk assessment procedures:
 - Fraud Risk and Management Override of Internal Controls
 - Risks relating to management exercising undue influence to override internal control policies and procedures designed to deter, prevent, and detect misstatements due to fraud.
 - Substantive procedures will be performed addressing manual journal entries prepared by management, management's use of significant accounting estimates (if any), and significant unusual transactions occurring during the fiscal year.
- ▶ Risks related to revenue recognition and the existence of revenue
 - Substantive procedures will be performed to ensure documentation is complete, accurate, and appropriately supports revenue recognition and the existence of revenue for the City's grant revenue stream.

Other Topics



BDO's System of Quality Management

An audit firm's effective system of quality management ("SoQM") is crucial for supporting the consistent performance of high-quality audits and reviews of financial statements, or other assurance or related services engagements under professional standards, and applicable legal and regulatory requirements.

Accordingly, BDO has implemented a SoQM designed to provide reasonable assurance that its professionals fulfill their responsibilities and conduct engagements in accordance with those standards and requirements. The firm's SoQM supports the consistent performance of quality audits through many ongoing activities including, at least annually, certification by leaders with responsibility for key controls and related processes. Our Assurance Quality Management team performs regular reviews and testing of key controls and processes throughout the SoQM and identifies and communicates areas for improvement. In addition, our Audit Quality Advisory Council supports our SoQM by providing guidance and input on audit quality initiatives.

As required by International Standard on Quality Management 1 (ISQM 1) under the International Auditing and Assurance Standards Board (IAASB), BDO has conducted an evaluation of the effectiveness of its system of quality management and concluded, as of July 31, 2024, that, except for certain deficiencies related to the execution of its issuer audits, that system provides the reasonable assurance that our professionals will perform audits and reviews of financial statements or related assurance services engagements in accordance with professional standards, and applicable legal and regulatory requirements. BDO has either implemented or is designing remedial actions to address those deficiencies prior to our next evaluation.



We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO's system of quality management within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).

[CLICK HERE TO ACCESS IAASB ISQM-1 IN ITS ENTIRETY >](#)

Implementation of New GASB Standards



GASB Statement No. 100, *Accounting Changes and Error Corrections* - an amendment of GASB Statement No. 62

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2023

- ▶ This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes.
- ▶ As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability.
- ▶ This Statement also addresses corrections of errors in previously issued financial statements.
- ▶ This Statement requires that:
 - changes in accounting principles and error corrections be reported retroactively by restating prior periods,
 - changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and
 - changes in accounting estimates be reported prospectively by recognizing the change in the current period.
- ▶ The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.
- ▶ Statement No. 100 requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.
- ▶ This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.
- ▶ Statement No. 100 also addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 101, *Compensated Absences*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 12/15/2023

- ▶ This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means.
- ▶ Requires recognition of a liability for leave that has not been used if:
 - the leave is attributable to services already rendered,
 - the leave accumulates, and
 - the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.
- ▶ Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.
- ▶ Statement No. 101 requires that a liability for certain types of compensated absences, including parental leave, military leave, and jury duty leave, not be recognized until the leave commences.
- ▶ In addition, this Statement requires that for specific types of compensated absences, a liability not be recognized until the leave is used.
- ▶ This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.
- ▶ With respect to financial statements prepared using the current financial resources measurement focus, Statement No. 101 requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.
- ▶ Statement No. 101 amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 102, *Certain Risk Disclosures*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2024

- ▶ The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints.
- ▶ Statement No. 102 defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources.
- ▶ Statement No. 102 defines a *constraint* as a limitation imposed on a government by an external party or by formal action of the government’s highest level of decision-making authority.
- ▶ Requires a government to assess:
 - whether a concentration or constraint is known to the government prior to the issuance of the financial statements,
 - whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact and
 - whether event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.
- ▶ For items meeting the above criteria, required disclosures include descriptions of:
 - the concentration or constraint,
 - each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements, and
 - Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

About BDO USA

Our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes and value for our people, our clients, and our communities. BDO is proud to be an ESOP company, reflecting a culture that puts people first. BDO professionals provide assurance, tax, and advisory services for a diverse range of clients across the U.S. and in over 160 countries through our global organization.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. For more information, please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2025 BDO USA, P.C. All rights reserved.

