



City of Kenai, Alaska

Federal and State Single Audit Reports
Year Ended June 30, 2018

City of Kenai, Alaska

Federal and State Single Audit Reports
Year Ended June 30, 2018

City of Kenai, Alaska

Contents

	<u>Page</u>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards required by the Uniform Guidance	3-5
Independent Auditor's Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and Report on the Schedule of State Financial Assistance Required by the <i>State of Alaska Audit Guide and Compliance Supplement for State Single Audits</i>	6-8
Schedule of Expenditures of Federal Awards	9
Schedule of State Financial Assistance	10
Notes to the Schedules of Expenditures of Federal Awards and State Financial Assistance	11-12
Schedule of Findings and Questioned Costs	13-14



Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and City Council
City of Kenai, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenai, Alaska (City of Kenai) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Kenai's basic financial statements, and have issued our report thereon dated November 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kenai's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kenai's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kenai's 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. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kenai's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
November 29, 2018



Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Honorable Mayor and City Council
City of Kenai, Alaska

Report on Compliance for Each Major Federal Program

We have audited City of Kenai's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Kenai's major federal programs for the year ended June 30, 2018. City of Kenai's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Kenai's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Kenai's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Kenai's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Kenai complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of City of Kenai is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Kenai's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Kenai's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kenai as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Kenai's basic financial statements. We issued our report thereon dated November 29, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BDO USA, LLP

Anchorage, Alaska
November 29, 2018



Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report on Compliance for Each Major State Program; 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*

Honorable Mayor and City Council
City of Kenai, Alaska

Report on Compliance for Each Major State Program

We have audited the City of Kenai, Alaska's (City of Kenai) compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of City of Kenai's major state programs for the year ended June 30, 2018. City of Kenai's major state programs are identified in the accompanying Schedule of State Financial Assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kenai's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the City of Kenai's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of City of Kenai's compliance.

Opinion on Each Major State Program

In our opinion, the City of Kenai complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the City of Kenai is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Kenai's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Kenai's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenai as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the City of Kenai's basic financial statements. We issued our report thereon dated November 29, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

BDO USA, LLP

Anchorage, Alaska
November 29, 2018

City of Kenai, Alaska
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through the State of Alaska Department of Health and Social Services:				
Special Programs for the Aging, Title III, Part B, Grants for Supporting Services and Senior Centers	93.044	607-309-18010	\$ -	\$ 116,070
Nutrition Services Incentive Program	93.053	607-PA-108	-	18,958
<i>Total Aging Cluster</i>			-	135,028
Total Department of Health and Human Services			-	135,028
DEPARTMENT OF TRANSPORTATION				
Airport Improvement Program	20.106		-	10,899
Airport Improvement Program	20.106		-	107,528
Airport Improvement Program	20.106		-	92,030
Airport Improvement Program	20.106		-	1,024
Airport Improvement Program	20.106		-	427,199
Airport Improvement Program	20.106		-	922,975
<i>Total Airport Improvement Program</i>			-	1,561,655
Passed through the State of Alaska Department of Transportation and Public Facilities Highway Safety Cluster				
National Priority Safety Programs	20.616	402 PT-18-06-00(A)-7	-	2,058
National Priority Safety Programs	20.616	405Dm5hve-18-01-00(A)-7	-	4,435
<i>Total National Priority Safety Programs</i>			-	6,493
Total Department of Transportation			-	1,568,148
DEPARTMENT OF HOMELAND SECURITY				
Passed through the Volunteer Fire Assistance Association - Assistance to Firefighters Grant	97.044	EMW-2014-FO-06296	-	173
DEPARTMENT OF AGRICULTURE FOREST SERVICE				
Passed through the State of Alaska Department of Natural Resources - Cooperative Forestry Assistance	10.664	16DF1100106810	-	7,500
INSTITUTE OF MUSEUM AND LIBRARY SERVICES				
Passed through the State of Alaska Department of Education and Early Development - Grants to States - Inclusive Internship Initiative	45.310	2018	-	1,155
Passed through the Public Library Association - Laura Bush 21st Century Librarian Program	45.313	2018	-	2,243
Total Institute of Museum and Library Services			-	3,398
ENVIRONMENTAL PROTECTION AGENCY				
Passed through the State of Alaska Department of Environmental Conservation - Beach Monitoring and Notification Program Implementation Grants	66.472	ACWA-18-B01	-	13,747
Total Expenditures of Federal Awards			\$ -	\$ 1,727,994

The accompanying notes are an integral part of this schedule.

City of Kenai, Alaska

Schedule of State Financial Assistance Year Ended June 30, 2018

State Grant Title	Grant Number	Total Grant Award	State Share of Expenditures
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT			
Kenai River Bluff Stabilization	12-DC-377	\$ 1,750,000	\$ 22,135
*Public Safety Improvements	14-DC-065	110,000	95,623
*Water/Sewer Improvements	14-DC-067	2,500,000	482,445
Kenai Recreation Center Improvements	15-DC-077	250,000	43,118
Kenai River South Beach Dip Net Access	15-DC-078	1,900,000	46,920
WWTP Upgrades & Renovations Designs	15-DC-081	200,000	11,078
*Revenue Sharing	2018	250,852	<u>250,852</u>
Total Department of Commerce, Community and Economic Development			<u>952,171</u>
DEPARTMENT OF ADMINISTRATION			
*State PERS Relief	2018	262,041	<u>262,041</u>
DEPARTMENT OF ENVIRONMENTAL CONSERVATION			
*Kenai Water System Improvements	47555	980,084	<u>87,128</u>
DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT			
Public Library Assistance	PLA-16-747-01	7,000	<u>7,000</u>
DEPARTMENT OF HEALTH AND SOCIAL SERVICES			
Nutrition, Transportation, and Support	607-309-18010	74,777	<u>74,777</u>
DEPARTMENT OF REVENUE			
Liquor Licenses	2018	25,900	25,900
Electric and Telephone Shared Revenues	2018	31,346	31,346
*Raw Fish Tax	2018	118,543	118,543
Aviation Fuel Tax	2018	6,352	<u>6,352</u>
Total Department of Revenue			<u>182,141</u>
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES			
Conduct Airport Master Plan-Phase II	57302	8,206	<u>363</u>
Total State Financial Assistance			<u>\$ 1,565,621</u>

See accompanying notes to the Schedule of State Financial Assistance.

City of Kenai, Alaska

Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance *Year Ended June 30, 2018*

1. Basis of Presentation

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance (the "Schedules") include the federal and state grant activity of the City of Kenai, Alaska under programs of the federal government and the State of Alaska for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedules presents only a selected portion of the operations of City of Kenai, Alaska, they are not intended to and do not present the financial position, changes in net position or cash flows of City of Kenai, Alaska.

2. Summary of Significant Accounting Policies

Federal and State expenditures reported on the Schedules are reported on the modified accrual basis of accounting. Expenditures reported on the Schedule of Expenditures of Federal Awards are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Costs Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Major Programs

Federal major programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. State major programs are identified on the Schedule of State Financial Assistance with an asterisk (*).

4. Indirect Cost Rate

City of Kenai has elected not to use the 10-percent de minimis indirect rate allowed under Uniform Guidance.

5. PERS On-behalf

The City has recorded \$262,041 in PERS On-behalf payments in the Schedule of State Financial Assistance. This represents the PERS relief payments appropriated and transferred into the plan during FY2018.

City of Kenai, Alaska

Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance, continued *Year Ended June 30, 2018*

In the governmental fund financial statements, on-behalf revenue and expenditures have been recognized commensurate with the proportional share of on-behalf payments in the year appropriated and transferred to the plan. However, in the full accrual financial statements, GASB 68 provisions prescribe that on-behalf pension contributions in a special funding situation may only be recognized during the measurement period in which the plan recognizes the contributions, effectively creating a one-year timing difference between the cash contribution and revenue and expense/expenditures recognition by the City.

As a result of these perspective and timing differences, amounts reported on the financial statements do not agree to the amount reported on the Schedule of State Financial Assistance.

City of Kenai, Alaska

Schedule of Findings and Questioned Costs Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified?

yes (none reported)

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified?

yes (none reported)

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major federal programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Agency</i>
20.106	Airport Improvement Program	Department of Transportation

Dollar threshold used to distinguish between a type A and type B program:

\$ 750,000

Auditee qualified as low-risk auditee?

yes no

State Financial Assistance

Internal control over major programs:

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified?

Yes none reported

Type of auditor's report issued on compliance for major state programs:

Unmodified

Dollar threshold used to distinguish a state major program:

\$75,000

City of Kenai, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2018

Section II - Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

There were no findings related to the financial statements which are required to be reported in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Section III - Federal Award Assistance Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in Title 2 CFR 200.516(a)) that are required to be reported.

Section IV - State Financial Assistance Findings and Questioned Costs

There were no findings and questioned costs for State awards (as defined in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*) that are required to be reported.