

**CITY OF KENAI, ALASKA**

Federal and State Single Audit Reports

Year Ended June 30, 2012

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**CITY OF KENAI, ALASKA**

Federal and State Single Audit Reports

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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 Members of the City Council  
City of Kenai, Alaska

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, 2012, which collectively comprise the City of Kenai's basic financial statements and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of City of Kenai is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Kenai's internal control over financial reporting 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 City of Kenai's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Kenai's internal control over financial reporting.

*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.

Honorable Mayor and Members of the City Council  
City of Kenai, Alaska

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Kenai's financial statements are free of 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*.

This report is intended solely for the information and use of the City of Kenai's management, Honorable Mayor and City Council, others within the entity, federal and state awarding agencies, and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
November 15, 2012

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Honorable Mayor and Members of the City Council  
City of Kenai, Alaska

Compliance

We have audited City of Kenai, Alaska's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Kenai's management. Our responsibility is to express an opinion on City of Kenai's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of City of Kenai's compliance with those requirements.

In our opinion, City of Kenai complied, in all material respects, with the 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, 2012.

Honorable Mayor and Members of the City Council  
City of Kenai, Alaska

### Internal Control Over Compliance

Management of City of Kenai is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Kenai's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

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, 2012, and have issued our report thereon dated November 15, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 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 financial statements or to the 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 financial statements taken as a whole.

Honorable Mayor and Members of the City Council  
City of Kenai, Alaska

This report is intended solely for the information and use of the City of Kenai's management, Honorable Mayor and City Council, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
November 15, 2012

**CITY OF KENAI, ALASKA**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

| <u>Federal Grant Title</u>   | <u>Grant Number</u> | <u>Catalog of Federal Domestic Assistance Number</u> | <u>Federal Share of Expenditures</u> |
|--|---------------------|--|--------------------------------------|
| <b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>   |                     |  |                                      |
| Passed through the State of Alaska Department of Health and Social Services:                               |                     |  |                                      |
| Nutrition, Transportation, and Support   | 607-12-108          | 93.043   | \$ 5,625                             |
| Nutrition, Transportation, and Support   | 607-12-108          | 93.044   | 43,419                               |
| Nutrition, Transportation, and Support   | 607-12-108          | 93.045   | 65,000                               |
| Passed through the State of Alaska Department of Administration - NSIP-Kenai Senior Services               | 607-12-PA-108       | 93.053   | <u>10,217</u>                        |
| Total Department of Health and Human Services  |                     |  | <u>124,261</u>                       |
| <b>DEPARTMENT OF THE INTERIOR</b>  |                     |  |                                      |
| Kenai Dunes Restoration  | 701818J735          | 15.631   | 6,000                                |
| Tidal Marsh Rehabilitation   | 701818J734          | 15.631   | 19,060                               |
| Kenai Floodplain Restoration   | 70181BJ017          | 15.631   | <u>25,000</u>                        |
| Total Department of the Interior   |                     |  | <u>50,060</u>                        |
| <b>DEPARTMENT OF JUSTICE</b>   |                     |  |                                      |
| Internet Crimes Against Children   | -                   | 16.543   | 8,047                                |
| Bulletproof Vest Partnership   | -                   | 16.607   | 368                                  |
| Passed through the State of Alaska Department of Public Safety - Violence Against Women Exam Reimbursement | -                   | 16.588   | <u>2,217</u>                         |
| Total Department of Justice  |                     |  | <u>10,632</u>                        |
| <b>DEPARTMENT OF TRANSPORTATION</b>  |                     |  |                                      |
| Conduct Airport Master Plan  | 3-02-0142-045-2010  | 20.106   | 232,200                              |
| Apron Rehabilitation Phase 2   | 3-02-0142-042-2009  | 20.106   | 126,723                              |
| Float Plane Basin Dev-Phase 1  | 3-02-0142-044-2010  | 20.106   | 18,737                               |
| Snow Removal Equipment-Phase 1   | 3-02-0142-046-2011  | 20.106   | 826,101                              |
| Wildlife Hazard Assessment   | 3-02-0142-047-2011  | 20.106   | <u>29,982</u>                        |
| Total CFDA 20.106  |                     |  | <u>1,233,743</u>                     |
| Passed through the State of Alaska Department of Transportation and Public Facilities:                     |                     |  |                                      |
| AK Highway Safety Grant - Seat Belt Enforcement  | 402PT 11-06-09      | 20.600   | 817                                  |
| AK Highway Safety Grant - Seat Belt Enforcement  | 402PT 12-06-01      | 20.600   | <u>2,800</u>                         |
|  |                     |  | <u>3,617</u>                         |
| AK Highway Safety Grant - DUI  | 154AL 11-01-03      | 20.600   | 2,093                                |
| AK Highway Safety Grant - DUI  | 154AL 12-01-03      | 20.600   | <u>1,999</u>                         |
| Total CFDA 20.600  |                     |  | <u>4,092</u>                         |
| Total Department of Transportation   |                     |  | <u>1,241,452</u>                     |

**CITY OF KENAI, ALASKA**  
Schedule of Expenditures of Federal Awards, continued

| <u>Federal Grant Title</u>   | <u>Grant<br/>Number</u> | <u>Catalog of<br/>Federal<br/>Domestic<br/>Assistance<br/>Number</u> | <u>Federal<br/>Share of<br/>Expend-<br/>itures</u> |
|--|-------------------------|--|--|
| <b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>                                      |                         |  |  |
| Passed through the State of Alaska Department of<br>Education and Early Development: |                         |  |  |
| Continuing Education Grant   | CED-12-747-167          | 45.310   | \$ 1,000   |
| Continuing Education Grant   | CED-12-747-197          | 45.310   | 1,500  |
| Work Shop  | ILC-12-747-118          | 45.310   | <u>1,666</u>                                       |
| Total Institute of Museum and Library Services                                       |                         |  | <u>4,166</u>                                       |
| <b>DEPARTMENT OF HOMELAND SECURITY</b>   |                         |  |  |
| Passed through the State of Alaska Department of<br>Military and Veteran Affairs:    |                         |  |  |
| 2011 State Homeland Security Program -   |                         |  |  |
| EMW-2011-SS-00053  | 11SHSP-GR34076          | 97.067   | 26,515   |
| Disaster Relief (75% federal share)  | DR-5054                 | 97.036   | <u>23,264</u>                                      |
| Total Department of Homeland Security  |                         |  | <u>49,779</u>                                      |
| <b>ENVIRONMENTAL PROTECTION AGENCY</b>   |                         |  |  |
| Passed through the State of Alaska Department of<br>Environmental Conservation:      |                         |  |  |
| Lawton Drive, Beaver Loop, Phase 2   | XP-00J33601             | 66.202   | 22,129   |
| ARRA - Bridge Access Sewer Extension   | 475061                  | 66.468   | 11,486   |
| ARRA - Bridge Access Water Extension   | 475051                  | 66.458   | 53,444   |
| Kenai River Monitoring, Waste Mgt. and Education                                     | 12-B04                  | 66.605   | 4,960  |
| Kenai River Monitoring, Waste Mgt. and Education                                     | 12-B04                  | 66.472   | <u>78,614</u>                                      |
| Total Environmental Protection Agency  |                         |  | <u>170,633</u>                                     |
| <b>HISTORIC PRESERVATION OFFICE</b>  |                         |  |  |
| Passed through the State of Alaska Department of<br>Natural Resources:               |                         |  |  |
| Planning Preservation: Holy Assumption Orthodox Church                               | 11554                   | 15.904   | <u>3,038</u>                                       |
| <b>NATIONAL OCEANIC AND ATMOSPHERIC ASSOCIATION</b>                                  |                         |  |  |
| Passed through the State of Alaska Department of<br>Fish and Game:                   |                         |  |  |
| Kenai River Personal Use Fishery North Shore   |                         |  |  |
| Fishery Support Improvements   | COOP-11-083             | 11.438   | <u>17,100</u>                                      |
| Total Federal Financial Assistance   |                         |  | \$ <u>1,671,121</u>                                |

Note 1: Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Kenai, Alaska and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and Members of the City Council  
City of Kenai, Alaska

Compliance

We have audited City of Kenai, Alaska's 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 its major state programs for the year ended June 30, 2012. City of Kenai's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of City of Kenai's management. Our responsibility is to express an opinion on City of Kenai's compliance based on our audit.

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 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. Our audit does not provide a legal determination of City of Kenai's compliance with those requirements.

In our opinion, City of Kenai complied, in all material respects, with the 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, 2012.

Honorable Mayor and Members of the City Council  
City of Kenai, Alaska

### Internal Control Over Compliance

Management of City of Kenai is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered City of Kenai's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with *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 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Honorable Mayor and Members of the City Council  
City of Kenai, Alaska

Schedule of State Financial Assistance

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, 2012, and have issued our report thereon dated November 15, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's financial statements. The accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis as required by *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 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 financial statements or to the 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 financial statements taken as a whole.

This report is intended solely for the information and use of the City of Kenai's management, Honorable Mayor and City Council, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
November 15, 2012

**CITY OF KENAI, ALASKA**  
Schedule of State Financial Assistance  
Year Ended June 30, 2012

| <u>State Grant Title</u>  | <u>Grant Number</u> | <u>Total<br/>Grant<br/>Award</u> | <u>State<br/>Share of<br/>Expenditures</u> |
|---|---------------------|----------------------------------|--|
| <b>DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT</b>         |                     |                                  |  |
| *Municipal Roadway Paving - City Streets                                  | 12-DC-376           | \$ 1,000,000                     | 165,259                                    |
| Capital Improvements - Industrial Park                                    | 12-RR-022           | 761,650                          | 45,170                                     |
| *Public Road, Water and Sewer Improvements                                | 07-DC-231           | 322,000                          | 89,320                                     |
| *Wildwood Drive Reconstruction  | 08-RR-026           | 592,541                          | 179,763                                    |
| Shared Fisheries Business Tax   | -                   | 6,257                            | 6,257                                      |
| Public Improvements   | 09-DC-214           | 1,000,000                        | 37,521                                     |
| *Revenue Sharing  | -                   | 598,635                          | <u>598,635</u>                             |
| Total Department of Commerce, Community and Economic Development          |                     |                                  | <u>1,121,925</u>                           |
| <b>DEPARTMENT OF ADMINISTRATION</b>                                       |                     |                                  |  |
| *State PERS Relief  | -                   | 825,794                          | <u>825,794</u>                             |
| <b>DEPARTMENT OF ENVIRONMENTAL CONSERVATION</b>                           |                     |                                  |  |
| *Water Treatment Facility   | 47550               | 3,642,000                        | <u>2,985,401</u>                           |
| <b>DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT</b>                      |                     |                                  |  |
| Public Library Assistance   | PLA-11-747-38       | 6,500                            | <u>6,500</u>                               |
| <b>DEPARTMENT OF FISH AND GAME</b>  |                     |                                  |  |
| Kenai River Personal Use Fishery North Shore Fishery Support Improvements | COOP-10-096         | 150,000                          | <u>35,098</u>                              |
| <b>DEPARTMENT OF HEALTH AND SOCIAL SERVICES</b>                           |                     |                                  |  |
| Nutrition, Transportation, and Support                                    | 607-12-108          | 64,836                           | <u>64,836</u>                              |
| <b>DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES</b>                 |                     |                                  |  |
| Float Plane Basin   | 53571               | 5,253                            | 493  |
| Airport Master Plan   | 53571               | 13,990                           | 6,111                                      |
| Wildlife Hazard Assessment  | 54268               | 3,106                            | 789  |
| Snow Removal Equipment - Phase I  | 54241               | 22,316                           | 21,740                                     |
| Apron Rehabilitation  | 52198               | 18,995                           | <u>3,335</u>                               |
| Total Department of Transportation and Public Facilities                  |                     |                                  | <u>32,468</u>                              |

**CITY OF KENAI, ALASKA**  
Schedule of State Financial Assistance, continued

| <u>State Grant Title</u>                            | <u>Grant Number</u> |    | <u>Total<br/>Grant<br/>Award</u> | <u>State<br/>Share of<br/>Expenditures</u> |
|---|---------------------|----|----------------------------------|--|
| <b>DEPARTMENT OF REVENUE</b>                        |                     |    |                                  |  |
| Liquor Licenses                                     | -                   | \$ | 25,575                           | 25,575                                     |
| Electric and Telephone Shared Revenues              | -                   |    | 32,966                           | 32,966                                     |
| *Raw Fish Tax                                       | FY11                |    | 276,547                          | 276,547                                    |
| Aviation Fuel Tax                                   | -                   |    | 13,035                           | <u>13,035</u>                              |
| Total Department of Revenue                         |                     |    |                                  | <u>348,123</u>                             |
| <b>DEPARTMENT OF MILITARY AND VETERAN'S AFFAIRS</b> |                     |    |                                  |  |
| Disaster Relief (25% state share)                   | DR-4054             |    | 8,585                            | <u>7,755</u>                               |
| Total State Financial Assistance                    |                     |    | \$                               | <u>5,427,900</u>                           |

\* Major program

Note 1: Basis of Presentation

The Schedule of State Financial Assistance includes the State grant activity of the City of Kenai, Alaska and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance for State Single Audits*.

**CITY OF KENAI, ALASKA**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

**I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued

Unqualified

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 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 programs?

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes  no

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes  no



**CITY OF KENAI, ALASKA**

Corrective Action Plan

Year Ended June 30, 2012

There are no current year findings; therefore, no corrective action plan is required.

**CITY OF KENAI, ALASKA**

Schedule of Prior Audit Findings

Year Ended June 30, 2012

There were no prior audit findings reported.