



## City of Kenai, Alaska

Federal and State Single Audit Reports  
Year Ended June 30, 2017

# City of Kenai, Alaska

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Federal and State Single Audit Reports  
Year Ended June 30, 2017

# City of Kenai, Alaska

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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, 2017, 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 20, 2017.

### 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 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 20, 2017



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## **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, 2017. 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, 2017.

## 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, 2017, 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 20, 2017, 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 20, 2017





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## **Independent Auditors' 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, 2017. 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, 2017.

## 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 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, 2017 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 20, 2017, 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 20, 2017

**City of Kenai, Alaska**

**Schedule of Expenditures of Federal Awards**  
*Year Ended June 30, 2017*

Federal Grantor/ Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through the State of Alaska Department of Health and Social Services:				
Nutrition, Transportation, and Support	93.044	607-309-1710	\$ -	\$ 7,096
Nutrition, Transportation, and Support	93.045	607-309-1710	-	108,974
NSIP-Kenai Senior Services	93.053	607-15-PA-108	-	22,415
<i>Total Aging Cluster</i>			-	138,485
<b>Total Department of Health and Human Services</b>				<u>138,485</u>
<b>DEPARTMENT OF TRANSPORTATION</b>				
Airport Improvement Plan				
Conduct Airport Master Plan-Phase II	20.106		-	1,006
Small Taxiways Aircraft Tie Down Rehab Project	20.106		-	1,674,648
Airfield Marking, Signage, & Crack Sealing	20.106		-	439,013
Improved Airport Drainage Project	20.106		-	386,897
<i>Total Airport Improvement Plan</i>			-	2,501,564
Passed through the State of Alaska Department of Transportation- Highway Safety Cluster				
CIOT Memorial Day 2017	20.600	402-PT-17-06-00(A)-7	-	2,616
<b>Total Department of Transportation</b>				2,504,180
<b>DEPARTMENT OF AGRICULTURE FOREST SERVICE</b>				
Passed through the State of Alaska Division of Forestry-				
2017 Volunteer Fire Assistance Program	10.664	92-6001185	-	6,750
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>				
Passed through the Public Library Association-				
Inclusive Internship Initiative	45.313	RE-00-17-0129-17	-	4,095
<b>Department of Justice</b>				
FY2017 Bullet Proof Vest Partership Program	16.607		-	2,082
<b>Total Expenditures of Federal Awards</b>			<u>\$ -</u>	<u>\$ 2,655,592</u>

*The accompanying notes are an integral part of this schedule.*

**City of Kenai, Alaska**  
**Schedule of State Financial Assistance**  
*Year Ended June 30, 2017*

State Grant Title	Grant Number	Total Grant Award	State Share of Expenditures
<b>DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT</b>			
Kenai River Bluff Stabilization	12-DC-377	\$ 1,750,000	\$ 6,256
*City Streets Paving Improvements	12-DC-376	1,000,000	135,948
Public Safety Improvements	14-DC-065	110,000	2,781
State Personal Use Fishery Improvements	14-DC-066	150,000	642
*Water/Sewer Improvements	14-DC-067	2,500,000	1,405,880
Kenai Recreation Center Improvements	15-DC-077	250,000	1,473
Kenai River South Beach Dip Net Access	15-DC-078	1,900,000	21,725
*New City Light/Heavy Equipment Storage Building	15-DC-079	1,900,000	170,648
WWTP Upgrades & Renovations Designs	15-DC-081	200,000	17,771
*Revenue Sharing	2017	278,232	<u>278,232</u>
<b>Total Department of Commerce, Community and Economic Development</b>			<u>2,041,356</u>
<b>DEPARTMENT OF ADMINISTRATION</b>			
*State PERS Relief	2017	349,046	<u>349,046</u>
<b>DEPARTMENT OF ENVIRONMENTAL CONSERVATION</b>			
*Kenai Water System Improvements	47554	1,878,800	1,310,363
Kenai Water System Improvements	47555	980,084	<u>6,316</u>
<b>Total Department of Environmental Conservation</b>			<u>1,316,679</u>
<b>DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT</b>			
Public Library Assistance	PLA-16-747-01	6,900	6,900
Passed through Alaska State Library Association - ASLA Conference	2017	1,250	<u>1,250</u>
<b>Total Department of Education and Early Development</b>			<u>8,150</u>
<b>DEPARTMENT OF HEALTH AND SOCIAL SERVICES</b>			
*Nutrition, Transportation, and Support	607-309-7610	81,624	<u>81,624</u>
<b>DEPARTMENT OF REVENUE</b>			
Liquor Licenses	2017	19,950	19,950
Electric and Telephone Shared Revenues	2017	30,748	30,748
*Raw Fish Tax	2017	165,087	165,086
Aviation Fuel Tax	2017	7,387	<u>7,387</u>
<b>Total Department of Revenue</b>			<u>223,171</u>
<b>DEPARTMENT OF PUBLIC SAFETY</b>			
SART Exam	2017	8,099	<u>8,099</u>
<b>Total State Financial Assistance</b>			<u>\$ 4,028,125</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, 2017

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### 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 State of Alaska for the year ended June 30, 2017. 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 \$349,046 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 FY2017.

## City of Kenai, Alaska

### Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance Year Ended June 30, 2017

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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, 2017

**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 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 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, 2017*

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### 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.