




## Kenai Peninsula Borough School District

# AUDIT WRAP UP

June 30, 2019



The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Governing Board and Audit Committee) and, if appropriate, management of the Government and is not intended and should not be used by anyone other than these specified parties.

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November 4, 2019

Members of School Board  
Kenai Peninsula Borough School District  
Kenai, Alaska

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On June 10, 2019 we presented an overview of our plan for the audit of the financial statements of Kenai Peninsula Borough School District (the District) as of and for the year ended June 30, 2019, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Government's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the District and look forward to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

*BDO USA, LLP*

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# Status of Our Audit

We have completed our audit of the financial statements as of and for the year ended June 30, 2019. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements whether due to error or fraud.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- ▶ We have issued an unmodified opinion on the financial statements and released our report on October 18, 2019.
- ▶ We have issued an unmodified opinion on compliance requirements that could have a direct and material effect on each major federal program.
- ▶ Our responsibility for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the District and consider whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.
- ▶ Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of District personnel throughout the course of our work.

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# Results of Our Audit

## ACCOUNTING PRACTICES, POLICIES, ESTIMATES

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

The District's significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

A summary of recently issued accounting pronouncements is included in Note 16 to the District's financial statements.

The school district adopted no new accounting pronouncements during 2019.

There were no changes in significant accounting policies and practices during 2019.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The District's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in note 6 and 13 of the financial statements.

### Significant accounting estimates include:

**Self-Insurance Incurred but Not Reported (IBNR) - The Self Insurance IBNR is estimated based on various factors of data provided to the District by the Third Party Administrator.**

**Pension and OPEB Assets and Liabilities - The Pension and OPEB Liability is estimated based on actuarial and other actual contribution data provided to the District by the PERS / TRS Plan Administrator.**

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## CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected misstatements, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, related to accounts and/or disclosures that we presented to management. To our knowledge, there are no other uncorrected misstatements.

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# Results of Our Audit

## QUALITY OF THE DISTRICT'S FINANCIAL REPORTING

A discussion was held regarding the quality of the District's financial reporting, which included the following:

- ▶ Qualitative aspects of significant accounting policies and practices
  - We concur with the District's interpretation and application of generally accepted accounting principles and practices derived from the standards set by the Governmental Accounting Standards Board (GASB).
- ▶ Our conclusions regarding significant accounting estimates
  - We concur with the District's accounting for significant estimates as noted above.
- ▶ Significant unusual transactions
  - To our knowledge there were no significant unusual transactions noted during 2019.
- ▶ Financial statement presentation
  - To our knowledge all necessary disclosures have been included in the footnotes to the financial statements.
- ▶ New accounting pronouncements
  - To our knowledge there were no significant new accounting pronouncements during 2019.
- ▶ Alternative accounting treatments
  - We did not identify any accounting treatments that did not comply with generally accepted accounting principles and standards set by GASB.
  - We concur with the District's interpretation and application of generally accepted accounting principles and practices derived from the standards set by the Governmental Accounting Standards Board (GASB).

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# Internal Control Over Financial Reporting

In planning and performing our audit of the school districts financial statements, we considered the school district's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing and in a timely manner, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the District's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
<b>Deficiency in Internal Control</b>	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.
<b>Significant Deficiency</b>	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.
<b>Material Weakness</b>	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

# Other Required Communications

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

Requirement	Discussion Points
<b>Significant changes to planned audit strategy or significant risks initially identified</b>	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
<b>Obtain information from those charged with governance relevant to the audit</b>	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the District's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
<b>Nature and extent of specialized skills or knowledge needed related to significant risks</b>	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
<b>Consultations with other accountants</b>	We are not aware of any consultations about significant accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent accountants on the application of generally accepted accounting principles.
<b>Our evaluation of the District's relationships and transactions with related parties and their impact on the financial statements</b>	We have evaluated the District's process to identify, authorize and approve, account for, and disclose its relationships and transactions with related parties and noted no significant issues.
<b>Disagreements with management</b>	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the District's financial statements or to our auditor's report.
<b>Significant difficulties encountered during the audit</b>	There were no significant difficulties encountered during the audit.
<b>Other matters significant to the oversight of the District's financial reporting process, including complaints or concerns regarding accounting or auditing matters</b>	There are no other matters that we consider significant to the oversight of the District's financial reporting process that have not been previously communicated.
<b>Representations requested from management</b>	Please refer to the management representation letter.

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# Independence Communication

Our engagement letter to you dated June 10, 2019 describes our responsibilities in accordance with professional standards and certain regulatory authorities and Government Auditing Standards with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the District with respect to independence as agreed to by the District. Please refer to that letter for further information.



## KENAI PENINSULA BOROUGH SCHOOL DISTRICT

### Assistant Superintendent

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October 18<sup>th</sup>, 2019

BDO USA, LLP

3601 "C" Street Suite 600

Anchorage, Alaska 99503

Ladies and gentlemen:

We are providing this letter in connection with your audit of the financial statements of Kenai Peninsula Borough School District (a component unit of the Kenai Peninsula Borough, Alaska) which comprise the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows for the period then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the preparation and fair presentation in the financial statements of financial position, changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this representation letter, as entered on the first page, the following representations made to you during your audit:

- (1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 10<sup>th</sup>, 2019, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- (2) We have fulfilled our responsibility, as set out in the terms of the aforementioned audit engagement letter, for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- (3) The financial statements include all properly classified funds and other financial information of the primary government required to be included in the financial reporting entity by accounting principles generally accepted in the United States of America. All funds required to be presented as major funds are identified and presented as such.
- (4) We have made available to you:

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

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

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

(d) Minutes of the meetings of Kenai Peninsula Borough School District that were held from July 1<sup>st</sup>, 2018 to the date of this letter, or summaries of actions of recent meetings for which minutes have not yet been prepared.

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

(6) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements, schedule of expenditures of federal awards (SEFA), or schedule of state financial assistance (SSFA).

(7) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud or noncompliance. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud or noncompliance. We have no knowledge of any:

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

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

(c) Allegations of fraud or suspected fraud affecting Kenai Peninsula Borough School District received in communications from employees, former employees, regulatory agencies, law firms, predecessor accounting firms, or others.

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

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

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

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

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

(c) Guarantees, whether written or oral, under which Kenai Peninsula Borough School District is contingently liable.

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

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

- Pending or anticipated tax refunds, other potential or pending claims, lawsuits by or against any branch of government or others;
- Written or oral guarantees, endorsements, or unused letters of credit;
- Unusual guarantees; or
- Labor claims or negotiations.

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

(f) Commitments, such as:

- Major capital asset purchase agreements;
- More-than-one-year employment arrangements or contracts with suppliers or customers, or one-year-or-longer term leases;
- Deferred compensation, bonuses, pensions plans, or severance pay; or
- Pending sale or merger of all or a portion of the business or of an interest therein or acquisition of all or a portion of the business, assets or securities of another entity;

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

(10) There are no:

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

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

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

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

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

(13) We have appropriately disclosed Kenai Peninsula Borough School District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position is properly recognized under the policy.

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

(15) No discussions have taken place with your firm's personnel regarding employment with Kenai Peninsula Borough School District.

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

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

(18) With regard to the Net Pension and OPEB Liability:

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

(b) We believe that the actuarial assumptions and methods used to measure pension and/or other postretirement liabilities and costs for financial accounting and disclosure purposes are appropriate in the circumstances.

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

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

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

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

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

(a) We are responsible for understanding and complying with, and have complied with, the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* (State Single Audit Guide), including requirements relating to the preparation of the schedule of expenditures of federal awards (SEFA) and schedule of state financial assistance (SSFA).

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

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

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

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

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

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

(h) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing our federal and state awards in compliance with federal

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

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

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

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

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

(m) Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance OMB's and the State Single Audit Guide.

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

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

(p) We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

(q) Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the SEFA and SSFA.

(r) The copies of federal and state program financial reports provided to you are true copies of the reports submitted or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.

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

(t) We are responsible for, and have accurately completed, the appropriate sections of the Data Collection Form as required by the Uniform Guidance. The final version of the applicable

audit reporting package, which includes your signed auditor's reports, that we will submit to the Federal Audit Clearinghouse (FAC) will be identical to the final version of such documents that you provided to us.

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

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

(w) We have documented, and provided this documentation to you, that we have deferred implementation of the Uniform Guidance procurement policies and procedures as permitted under the Uniform Guidance grace period for procurement. We are in compliance with the pre-Uniform Guidance procurement standards.

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

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

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

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

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

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

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

Very truly yours,



Dave Jones, Assistant Superintendent



Elizabeth Hayes, Director of Finance