

Kenai Peninsula Borough, Alaska

AUDIT WRAP UP

Year-Ended June 30, 2020



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

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February 2, 2021

Honorable Mayor and Members of the Borough Assembly
Kenai Peninsula Borough, 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, 2020 we presented an overview of our plan for the audit of the financial statements of the Kenai Peninsula Borough, Alaska (the Borough) as of and for the year ended June 30, 2020, 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 Borough'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 Kenai Peninsula Borough, Alaska and look forward to meeting with you 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

Discussion Outline

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Status of Our Audit

We have completed our audit of the financial statements, federal and state awards, as of and for the year ended June 30, 2020. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. 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 dated January 13, 2021.
- ▶ We have issued an unmodified opinion on compliance for each major federal and state program, as required by the Uniform Guidance and State of Alaska Single Audit Guide, and released our report dated January 13, 2021.
- ▶ Our responsibility for other information in documents containing the Borough's audited financial statements (e.g. budgetary comparisons, schedules of pension and OPEB amounts) 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 Borough and considered 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 Borough personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES AND SIGNIFICANT UNUSUAL TRANSACTIONS

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

The Borough's significant accounting practices and policies are those included in Note I 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 I to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note N to the Borough's financial statements.
- ▶ No new significant pronouncements were adopted in 2020.
- ▶ There were no changes in significant accounting policies and practices during 2020.

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 Borough's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Note I of the financial statements. There were no significant estimates identified as applicable to 2020.

Other accounting estimates include:

Allowance for Uncollectible Accounts - Several of the Borough's accounts receivable are from granting agencies; these are considered by management to be 100% collectible. Customer accounts receivables, including amounts due related to taxes, assessments, interest income, and various user charges are reviewed by management periodically to determine a reasonable amount of allowance, based on known factors, past history, and age of the outstanding amount.

Net Pension/OPEB Liabilities - The net pension/ OPEB liabilities and related deferred inflow and outflows of resources are estimated based on actuarial and other actual contribution data provided by the Borough by the PERS Plan Administrator.

Closure and Post Closure Obligations - Accounting rules prescribe that the Borough record the ultimate cost of closure and monitoring as the landfill is being filled. The Borough has estimated the cost of closure and monitoring material and supplies to cap and close, the cost of ongoing monitoring. This amount has been reported on the statement of net assets.

Insurance Claims Reserve - The Borough is self-insured for property/casualty, workers' compensation, and health insurance. Claims payable and IBNR are based on estimates of claims incurred.

- ▶ Management did not make any significant changes to the processes or significant assumptions used to develop accounting estimates in 2020.
- ▶ The methods used to account for significant or unusual transactions, and the related disclosures, are considered appropriate, as applicable.

Results of Our Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management

There was one uncorrected misstatement, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

- ▶ See the Representation Letter attached for the uncorrected misstatement identified associated with the component unit, Kenai Peninsula Borough School District.

COMPONENT UNITS

As the component units are included in the Borough's financial statements, we noted the following:

- ▶ South Peninsula Hospital - There were no audit adjustments and no uncorrected misstatements.
- ▶ Central Peninsula General Hospital - There were no audit adjustments and no uncorrected misstatements.
- ▶ Kenai Peninsula Borough School District - There were no audit adjustments. There was one uncorrected misstatement that was determined to be immaterial by management related to Employer Contribution 2019 Internal Service Fund.

Results of Our Audit

QUALITY OF THE BOROUGH'S FINANCIAL REPORTING

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

- ▶ Qualitative aspects of significant accounting policies and practices
 - We concur with the Borough'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 Borough's accounting for estimates, as noted above.
- ▶ Significant unusual transactions
 - To our knowledge, all significant and unusual transactions presented are materially correct.
 - Kenai Peninsula Borough received CARES funding during FY2020 to assist with the COVID-19 pandemic. See footnote disclosure M of the financials for further information on the audit impacts.
- ▶ Financial statement presentation
 - To our knowledge, all necessary disclosures have been included in the footnotes to the financial statements.
- ▶ New accounting pronouncements
 - A summary of recently issued accounting pronouncements is included in Note N of the Borough's financial statements.
- ▶ Alternative accounting treatments
 - We did not identify any accounting treatments that did not comply with generally accepted accounting principles and standards set by GASB.

Group Audit

As you are aware, the audit of the Borough requires the inclusion of financial information for all components of the reporting entity. The reporting entity is comprised of the Borough and its “component unit” as defined by GAAP. This collection of individual reporting entities comprise the “Group”. Our audit is considered the “Group” Audit.

Included in the Borough’s audit is the Kenai Peninsula Borough School District, Central Peninsula General Hospital and the South Peninsula Hospital. All of these audits were performed by BDO. Where relevant, we have included information in this report as it related to the component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the Borough's financial statements, we considered the Borough'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 Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough'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 Borough's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in 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.
Significant Deficiency	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.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Borough'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 Borough:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	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.
Obtain information from those charged with governance relevant to the audit	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 Borough's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Nature and extent of specialized skills or knowledge needed related to significant risks	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.
Consultations with other accountants	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.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Borough's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Other matters significant to the oversight of the Borough's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Borough's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter to you, dated June 10, 2020, 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 Borough with respect to independence as agreed to by the Borough. Please refer to that letter for further information.

Significant Accounting and Reporting Matters

NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84 - Fiduciary Activities

Effective for year-end June 30, 2020. This Statement addresses criteria for identifying and reporting fiduciary activities.

GASB Statement No. 87 - Leases

Effective for year-end June 30, 2021, This Statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB Statement No. 89 - Accounting for Interest Cost Incurred before the End of a Construction Period

Effective for year-end June 30, 2021. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

GASB Statement No. 90 - Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61

Effective for year-end June 30, 2020. This Statement addresses accounting and financial reporting for a majority equity interest in a legally separate organization. It provides a definition of a majority equity interest and provides guidance for further presentation as either an investment or a component unit, based on specific criteria.

GASB Statement No. 91 - Conduit Debt Obligations

Effective for year-end June 30, 2022. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit obligations, and related note disclosures. This Statement clarifies the definition of a conduit debt obligation and establishes standards for related accounting and financial reporting.

GASB Statement No. 92 - Omnibus 2020

Provisions of this Statement related to the effective date of Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The effective date for all other provisions of the Statement are to be implemented for year-end June 30, 2021. This Statement addresses a variety of topics such as leases, the applicability of Statement No. 73 and Statement No. 74 for reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, the measurements of liabilities and assets related to asset retirement obligations in a government acquisition, reporting of public entity risk pools, referencing to nonrecurring fair value measurements, and terminology used to refer to derivative instruments.

Significant Accounting and Reporting Matters

GASB Statement No. 93 - Replacement of Interbank Offered Rates

The provisions of this Statement, except for paragraph 11b, are required to be implemented for year-end June 30, 2022. The requirements in paragraph 11b are required to be implemented for year-end June 30, 2023. This Statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

GASB Statement No. 94 - Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Effective for year-end June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APA).

In light of the COVID-19 Pandemic, on May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon issuance, postpones the effective dates of certain provisions in the above noted pronouncements for one year, except for Statement No. 87 and provisions related to leases in Statement No. 92 which are postponed for eighteen months. Certain other provisions of Statement No. 92 are excluded from Statement No. 95. Additionally, Statement No. 95 excludes provisions in Statement No. 93 related to lease modifications and excludes Statement No. 94 since the GASB considered the pandemic in determining effective dates. Earlier application of the standards is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GASB Statement No. 96 - Subscription-Based Information Technology Arrangements

Effective for year-end June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement, among other things, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA.

GASB Statement No. 97 - Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

Effective for year-end June 30, 2022, except the portion of the pronouncement related to component unit criteria, which is effective for year-end June 30, 2020. This statement modifies certain guidance contained in Statement No. 84 and enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Earlier application of the standards is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

Cybersecurity

The Assembly's role in the oversight of organizational risk is increasingly complicated by cybersecurity concerns. Trustees need to maintain continual knowledge about evolving cyber issues and management's plans for allocating resources and otherwise responding to cyber risks. Such knowledge helps Assemblies assess the priorities and investment decisions made by management in critical areas. Often, particularly in smaller organizations, those charged with governance oversee and monitor management's strategy for protecting its digital assets.

In April 2017, the AICPA published the new [Cybersecurity Risk Management Reporting Framework](#) to its website –also known as “SOC (System and Organization Controls) for Cybersecurity”—that provides entities with a proactive approach for designing a risk management program and communicating about its effectiveness to their senior management teams, boards, and external stakeholders. The Borough Assembly is urged to refer to BDO's [SOC for Cyber](#) resources to learn more about attestation serves with respect to management programs.

Here are recent tools/materials for use by those charged with governance in this area:

Recommended Resources	Release Date
BDO Webinar: Cybersecurity - Resources Boards Want to Know About	August 22, 2018 September 27, 2018
CAQ's Cybersecurity Risk Management Oversight : A Tool for Board Members	April 2018
BDO Archived Webinar: What's on the Minds of Boards?	November 2017
Are You Cyber Aware?: 10 Cybersecurity Questions for Senior Executives?	October 2017
Cyber Risk Management: What You Need to Know Now	October 2017
2017 BDO Cyber Governance Survey	September 2017
Breaking Down the Equifax Data Breach	September 2017
BDO Knows Cybersecurity: Petya Cyber Attack	June 2017
BDO Highlights Important DHS - FBI Cyber Alert on North Korea - Hidden Cobra	June 2017
Introducing SOC for Cybersecurity: Translating Cyber Risk For Every Stakeholder	June 2017

Attachment

A copy of management's representation letter is attached.



Finance Department

144 N. Binkley Street, Soldotna, Alaska 99669 • (907) 714-2170 • (907) 714-2376 Fax

Charlie Pierce
Borough Mayor

January 13, 2021

BDO USA, LLP
3601 C Street, Suite 600
Anchorage, AK 99503

Ladies and gentlemen:

We are providing this letter in connection with your audit of the financial statements of the Kenai Peninsula Borough, Alaska (the Borough), which comprise the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows for the year 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, 2020, 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 and all component units 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, 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 Borough Assembly, that were held from July 1, 2019, 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 the schedule of state financial assistance (SSFA).
- (7) The financial statement misstatements relating to the component unit related to accounts and disclosures identified and discussed with us in the course of the audit that are listed immediately below have not been corrected. In our opinion, the effects of not correcting such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements of the Government taken as a whole.

Uncorrected Misstatements

Item #	Account Name and Adjustment Description	Debit	Credit	Impact on Net Position
KPBSD #1	Employer Contribution 2019 Internal Service Fund		1,648,474	-
	Employer Contribution 2020 Internal Service Fund	1,648,474		-
Current year cumulative uncorrected misstatements				-
Cumulative effect of prior period uncorrected misstatements brought forward from last period				-
Cumulative uncorrected misstatements adjusted for prior period impact				-

- (8) 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 the Borough 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.
- (9) We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- (10) 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 the Borough 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. The methods, significant assumptions, and the data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement, and disclosure that is in accordance with accounting principles generally accepted in the United States of America.
 - (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.

(11) 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) Side agreements or other agreements (either written or oral) that have not been

disclosed to you.

- (d) 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.
- (12) 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.
- (13) The Borough 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.
- (14) We have appropriately disclosed the Borough'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.
- (15) 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 disclosures rules for reporting annual financial information and material events to repositories in accordance with SEC Rule N.240, 15c2-12.
- (16) No discussions have taken place with your firm's personnel regarding employment with the Borough.
- (17) 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.
- (18) 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.
- (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 preparation of the GASB 68 and 75 entries and related footnote disclosures and preparation and submission of 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) In regard to the Net Pension and OPEB Liability:

- (a) We agree with the findings of specialists in evaluating the applicable assertions, and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialist 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 has an impact on the independence or objectivity of the specialists.
 - (b) We believe that the actuarial assumption and methods used to measure pension and postemployment liabilities and costs for the financial accounting disclosure purposes are appropriate in the circumstance.
- (22) We agree with the finding of specialists in evaluation the landfill postclosure cost estimate, and insurance claims reserves, and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialist 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 has an impact on the independence or objectivity of the specialists.
- (23) 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.
- Required supplementary information is measured and presented in accordance with prescribed guidelines.
- (24) We have not completed the process of evaluating the impact that will result from adopting upcoming Governmental Accounting Standards Board (GASB) statements as discussed in Note N. The Borough is therefore unable to disclose the impact that adopting these GASB Statements will have on its financial position and the results of operations when such statements are adopted.
- (25) 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* (the Uniform Guidance) and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* (State Audit Guide), including requirements relating to the preparation of the schedule of expenditures of federal award (SEFA) and schedule of state financial assistance (SSFA).
 - (b) We have, in accordance with the Uniform Guidance and State 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, SSFA, and related notes in accordance with the requirements of the Uniform Guidance and State Audit Guide, and we believe the SEFA and SSFA, including its form and content, are fairly presented in accordance with the Uniform Guidance and State 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.
 - (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, 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 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 or 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 agencies 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 (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB *Compliance Supplement* and State Audit Guide, 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 and State Audit Guide and State 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 schedule of expenditures of federal awards and schedule of state financial assistance.
 - (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 or state agency or pass-through entity, as applicable.
 - (s) We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with applicable federal and state statutes, regulations and terms and conditions of the subaward and have met other pass-

- through entity requirements of the Uniform Guidance and State Audit Guide.
- (t) We have considered the results of subrecipients' audits and have made any necessary adjustments to our books and records.
 - (u) We have charged costs to federal and state awards in accordance with applicable cost principles.
 - (v) 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.
 - (w) 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.
 - (x) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- (26) In conjunction with your audit of the financial statements of Kenai Peninsula Borough, Alaska (the Borough), as of June 30, 2020 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Borough in conformity with accounting principles generally accepted in the United States of America, we confirm, to the best of our knowledge and belief, as of the date of this representation letter, the following representations made to you during your audit:
- To the extent our normal procedures and controls related to our financial close or other reporting processes at any of our locations were adversely impacted by the COVID-19 outbreak, we took appropriate actions and safeguards to reasonably ensure the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (other comprehensive basis of accounting).
 - Other than as disclosed in note M to the financial statements, no other impacts from the COVID-19 outbreak and enactment of the CARES Act are necessary to be reflected in those financial statements.
 - Disclosures included in the financial statements regarding the relevant significant business, financial, and reporting impacts of the COVID-19 outbreak accurately reflect management's full consideration of such impacts.
- (27) The Borough does not believe the Consolidated Appropriations Act of December 27, 2020 has a significant impact on the financial statements as presented.

(28) 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,

Harbaugh, Brandi
Brandi Harbaugh, Finance Director

Digitally signed by Harbaugh, Brandi
DN: dc=us, dc=ak, dc=kenai, dc=borough, ou=KPB_Users,
ou=FIN, ou=ADM, cn=Harbaugh, Brandi,
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