

KODIAK ISLAND BOROUGH SCHOOL DISTRICT  
(A Component Unit of the Kodiak Island Borough)

Letter to the Governing Board

Year Ended June 30, 2017

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November 11, 2017

Members of the School Board  
Kodiak Island Borough School District  
Kodiak, Alaska

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kodiak Island Borough School District (District) for the year ended June, 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards, 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 Sate Single Audits*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 5, 2017. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Accounting Policies and Transactions

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kodiak Island Borough School District are described in Note I to the financial statements. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

##### All Opinion Units:

Management's estimate of the collectability of accounts receivable is based on historical collections. We evaluated the key factors and assumptions used to develop the collectability of accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of health and medical insurance expenditures and expenses and the liability at year end is based on claims paid for the year and historical trend information to estimate the year end insurance liability. We evaluated the key factors and assumptions used to develop the health and medical liability and estimate of expenditures and expenses in determining that it is reasonable in relation to the financial statements taken as a whole.

Governmental activities opinion unit:

Management's estimate of the useful lives and depreciation is based upon the expected life of an asset. We evaluated the key factors and assumptions used to develop the useful lives and depreciation expense in determining that it is reasonable in relation to the financial statements as a whole.

Management's estimates of the District's proportionate share of the collective net pension liability and related deferred outflows and inflows of resources are based on information furnished by the State of Alaska and actuarial reports generated during the audit of the Public Employees' Retirement System and Teachers' Retirement System. The amortization of these deferrals is based on guidance provided by the Governmental Accounting Standards Board. We evaluated the key factors and assumptions used to develop the estimates of the District's proportionate share of the collective net pension liability and deferred outflows and inflows of resources and related amortization in determining that it is reasonable in relation to the financial statements as a whole.

Financial Statement Disclosure

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The Disclosure of contingencies in Note IV. C. to the financial statements. Federal and State award money is subject to compliance in accordance with the grant agreement. Expenditures may be disallowed by the granting agencies at any time which would have an impact on the financial statements.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of our audit we proposed the following adjustment that was corrected by management:

- Correct the beginning fund balance in the General Fund by (\$30,404).

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 11, 2017.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Internal Control Matters

See the June 30, 2017 financial statements, compliance section for definition and descriptions of deficiencies, significant deficiencies, material weaknesses and any reported findings.

#### Accounting Assistance

As part of our engagement we drafted the basic financial statements of the District from the District’s accounting records; however, management of the District was involved in the drafting process and retains responsibility for the basic financial statements.

#### Supplementary Information Accompanying the Financial Statements

We applied certain limited procedures to the Management Discussion and Analysis and Schedules of the District’s Proportionate Share of Net Position Liabilities and Contributions for the Public Employees’ Retirement System and the Teachers’ Retirement System, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the “Additional Supplementary Information”, which includes Major Governmental Fund: Comparative Balance Sheets – General Fund; Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund and Pupil Transportation Special Revenue Fund; Other Governmental Funds: Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances; Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Funds; Schedule of Revenues, Expenditures, and Changes in Fund Balance – Capital Projects Fund; Schedule of Changes in Amounts Due to Student Organizations – Student Activity Agency Fund; the Schedule of Expenditures of Federal Awards; and the Schedule of State Financial Assistance, which accompany the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our response were not a condition to our retention.

### Other Matters

#### ***Uniform Guidance Administrative Requirements***

Under 2 CFR 200, procurement standards will require entities to have written policies preventing organizational conflicts of interest which will be used to protect the integrity of procurements under federal awards and subawards. For Internal Controls, institutions must establish and maintain effective written internal controls over federal awards, and the controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States and the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Required written policies include those over advance payments and reimbursements, allowable costs, conflicts of interest and procurement. Additionally, nonfederal entities will also need to take reasonable measures to safeguard protected personally identifiable information.

The most significant element of the new standards relates to procurement. There are five thresholds that all Districts will need to ensure are met in their policy:

- **Micro-purchase:** Purchases where the aggregate dollar amount does not exceed \$3,000 (or \$2,000 if the procurement is construction and subject to Davis-Bacon). When practical, the entity should distribute micro-purchases equitably among qualified suppliers. No competitive quotes are required if management determines that the price is reasonable.
- **Small purchase:** Includes purchases up to the Simplified Acquisition threshold, which is currently \$150,000. Informal purchasing procedures are acceptable, but price or rate quotes must be obtained from an adequate number of sources.
- **Sealed bids:** Used for purchases over the Simplified Acquisition Threshold, which is currently \$150,000. Under this purchase method, formal solicitation is required, and the fixed price (lump sum or unit price) is awarded to the responsible bidder who conformed to all material terms and is the lowest in price. This method is the most common procurement method for construction contracts.
- **Competitive proposals:** Used for purchases over the Simplified Acquisition Threshold, which is currently \$150,000. This procurement method requires formal solicitation, fixed-price or cost-reimbursement contracts, and is used when sealed bids are not appropriate. The contract should be awarded to the responsible firm whose proposal is most advantageous to the program, with price being one of the various factors.
- **Noncompetitive proposals:** Also known as sole-source procurement, this may be appropriate only when specific criteria are met. Examples include when an item is available only from one source, when a public emergency does not allow for the time of the competitive proposal process, when the federal awarding agency authorizes, or after a number of attempts at a competitive process, the competition is deemed inadequate.

Districts should focus on the most economical solution during the procurement process.

The standards are effective beginning July 1, 2018. We encourage management to review these new guidelines and establish written policies and procedures to remain in compliance with all new requirements related to this grant reform.

Restriction on Use

This information is intended solely for the use of School Board and management of Kodiak Island Borough School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*Altman, Rogers & Co.*

Anchorage, Alaska