



## **Association of Village Council Presidents**

Consolidated Financial Statements,  
Additional Information,  
and Single Audit Reports  
Year Ended December 31, 2018 and 2017

## **Association of Village Council Presidents**

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Consolidated Financial Statements, Additional Information,  
and Single Audit Reports

Year Ended December 31, 2018 and 2017

# Association of Village Council Presidents

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## Independent Auditor's Report

Board of Directors  
Association of Village Council Presidents  
Bethel, Alaska

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Association of Village Council Presidents, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Association of Village Council Presidents as of December 31, 2018 and 2017, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Additional Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance, and additional information on pages 22 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Schedule of State Financial Assistance is required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, in 2018, Association of Village Council Presidents adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019, on our consideration of Association of Village Council Presidents internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Association of Village Council President's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Association of Village Council Presidents internal control over financial reporting and compliance.

*BDO USA, LLP*

Anchorage, Alaska  
September 30, 2019

## Consolidated Financial Statements

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**Association of Village Council Presidents**  
**Consolidated Statements of Financial Position**

<i>December 31,</i>	2018	2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 47,820,652	\$ 37,635,188
Accrued interest	5,231	5,231
Accounts receivable	651	7,629
Accounts receivable - grants	5,202,457	12,487,634
Prepays	94,199	97,820
<b>Total Current Assets</b>	<b>53,123,190</b>	<b>50,233,502</b>
Noncurrent assets:		
Investments - NAB	138,803	111,131
Property and equipment, net of accumulated depreciation	11,638,968	12,241,467
Collections	2,012,986	2,012,986
<b>Total Assets</b>	<b>\$ 66,913,947</b>	<b>\$ 64,599,086</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,397,831	\$ 3,568,030
Accrued payroll and related liabilities	1,363,361	1,351,312
Deferred revenue	47,831,077	40,946,177
<b>Total Current Liabilities</b>	<b>52,592,269</b>	<b>45,865,519</b>
Note payable	500,000	498,600
<b>Total Liabilities</b>	<b>53,092,269</b>	<b>46,364,119</b>
<b>Commitments and Contingencies (Note 8)</b>		
<b>Net Assets - Without donor restrictions</b>	<b>13,821,678</b>	<b>18,234,967</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 66,913,947</b>	<b>\$ 64,599,086</b>

*See accompanying notes to consolidated financial statements.*

# Association of Village Council Presidents

## Consolidated Statements of Activities

<i>Years Ended December 31,</i>	2018	2017
<b>Without donor restrictions:</b>		
<b>Revenues</b>		
Grants and contracts:		
Federal	\$ 40,857,554	\$ 41,196,877
State	6,298,746	4,239,999
Other	186,740	160,171
Investment income	224,685	116,175
Other revenues	82,147	76,579
<b>Total Revenues</b>	<b>47,649,872</b>	<b>45,789,801</b>
<b>Expenses</b>		
Program services:		
Self-governance	19,570,743	17,214,644
Social services	21,676,141	19,265,790
Community services	6,095,716	8,941,415
Environmental	117,081	262,854
Total program services	47,459,681	45,684,703
Support services:		
General and administrative	9,293,643	10,210,587
Less indirect recovery	(4,690,163)	(5,546,285)
Total support services	4,603,480	4,664,302
<b>Total Expenses</b>	<b>52,063,161</b>	<b>50,349,005</b>
Change in net assets without donor restrictions	(4,413,289)	(4,559,204)
<b>Net Assets, beginning of year</b>	<b>18,234,967</b>	<b>22,794,171</b>
<b>Net Assets, end of year</b>	<b>\$ 13,821,678</b>	<b>\$ 18,234,967</b>

*See accompanying notes to consolidated financial statements.*

**Association of Village Council Presidents**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2018**

	Program Services				Total Program Services	Supporting Activities	Total
	Self- Governance	Social Services	Community Services	Environmental		General and Administration	
<b>Expenses</b>							
Wages and benefits	\$ 7,016,439	\$ 8,734,780	\$ 1,957,499	\$ 38,374	\$ 17,747,092	\$ 5,957,785	\$ 23,704,877
Travel	857,992	761,008	279,141	27,560	1,925,701	326,467	2,252,168
Stipends	79,312	68,800	-	1,000	149,112	81,359	230,471
Operating expenses	4,815,306	1,659,277	2,856,479	22,176	9,353,238	933,592	10,286,830
Contractual	1,549,936	1,098,499	68,209	15,702	2,732,346	392,889	3,125,235
Depreciation	-	-	-	-	-	1,054,026	1,054,026
Facilities	340,409	607,310	59,002	500	1,007,221	998,520	2,005,741
Assistance payments	2,703,644	7,082,697	-	-	9,786,341	-	9,786,341
Other expenses	56,670	28	-	11,769	68,467	532	68,999
	17,419,708	20,012,399	5,220,330	117,081	42,769,518	9,745,170	52,514,688
Indirect expense allocation	2,151,035	1,663,742	875,386	-	4,690,163	(4,690,163)	-
Property and equipment purchased with grant funds	-	-	-	-	-	(451,527)	(451,527)
<b>Total Expenses</b>	\$ 19,570,743	\$ 21,676,141	\$ 6,095,716	\$ 117,081	\$ 47,459,681	\$ 4,603,480	\$ 52,063,161

*See accompanying notes to consolidated financial statements.*

**Association of Village Council Presidents**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2017**

	Program Services					Supporting Activities	
	Self-Governance	Social Services	Community Services	Environmental	Total Program Services	General and Administration	Total
<b>Expenses</b>							
Wages and benefits	\$ 7,103,913	\$ 7,029,321	\$ 2,738,289	\$ 115,418	\$ 16,986,941	\$ 5,154,139	\$ 22,141,080
Travel	998,688	745,206	185,836	59,747	1,989,477	335,783	2,325,260
Stipends	62,186	90,500	7,800	-	160,486	131,310	291,796
Operating expenses	3,140,908	1,573,176	4,347,272	41,066	9,102,422	2,145,356	11,247,778
Contractual	1,078,379	947,513	713,450	28,385	2,767,727	531,677	3,299,404
Depreciation	-	-	-	-	-	1,340,059	1,340,059
Facilities	375,357	539,753	64,420	-	979,530	704,184	1,683,714
Assistance payments	1,076,746	7,036,727	-	-	8,113,473	24,056	8,137,529
Other expenses	33,099	3,950	1,189	124	38,362	43,731	82,093
	13,869,276	17,966,146	8,058,256	244,740	40,138,418	10,410,295	50,548,713
Indirect expense allocation	3,345,368	1,299,644	883,159	18,114	5,546,285	(5,546,285)	-
Property and equipment purchased with grant funds	-	-	-	-	-	(199,708)	(199,708)
<b>Total Expenses</b>	<b>\$ 17,214,644</b>	<b>\$ 19,265,790</b>	<b>\$ 8,941,415</b>	<b>\$ 262,854</b>	<b>\$ 45,684,703</b>	<b>\$ 4,664,302</b>	<b>\$ 50,349,005</b>

*See accompanying notes to consolidated financial statements.*

## Association of Village Council Presidents

### Consolidated Statements of Cash Flows

Years Ended December 31,	2018	2017
<b>Cash Flows from (for) Operating Activities</b>		
Change in net assets	\$ (4,413,289)	\$ (4,559,204)
Adjustments to reconcile change in net assets to net cash from (for) operating activities:		
Depreciation	1,054,026	1,340,059
Decrease (increase) in operating assets:		
Accrued interest	-	(133)
Accounts receivable	6,978	12,880
Accounts receivable - grants	7,285,177	(7,233,286)
Prepays	3,621	582,620
Increase (decrease) in operating liabilities:		
Accounts payable	(170,199)	1,749,694
Accrued payroll and related liabilities	12,049	173,257
Deferred revenue	6,884,900	(3,660,472)
<b>Net Cash from (for) Operating Activities</b>	<b>10,663,263</b>	<b>(11,594,585)</b>
<b>Net Cash for Investing Activities</b>		
Purchase of investments	(27,672)	(21,869)
Purchase and construction of property and equipment	(451,527)	(199,706)
<b>Net Cash for Investing Activities</b>	<b>(479,199)</b>	<b>(221,575)</b>
<b>Net Cash from (for) Financing Activities</b>		
Draws (payments) on loan	1,400	(3,679)
<b>Net change in cash and cash equivalents</b>	<b>10,185,464</b>	<b>(11,819,839)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>37,635,188</b>	<b>49,455,027</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 47,820,652</b>	<b>\$ 37,635,188</b>
<b>Supplemental information -</b>		
Cash paid for interest	\$ 11,102	\$ 8,157

*See accompanying notes to consolidated financial statements.*

# Association of Village Council Presidents

## Notes to Consolidated Financial Statements Years Ended December 31, 2018 and 2017

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### 1. Nature of Organization and Summary of Significant Accounting Policies

#### *Organization*

Association of Village Council Presidents (AVCP) was incorporated on May 2, 1977, for the purpose of carrying out nonprofit activities in the areas of housing improvement, environmental matters, and social and economic services. These services are primarily for Alaska Native people residing in the AVCP Region of Alaska. AVCP also acts as a representative of villages within the region.

#### *Principles of Consolidation*

In 2006, AVCP purchased a wholly owned subsidiary, Allanivik Hotel, for the purposes of creating jobs and income for AVCP and its operations. The Allanivik Hotel ceased operations in 2016. The remaining assets and liabilities are included in the accompanying financial statements.

In 2003, AVCP formed a limited liability company, Yuut Yaqungviat, LLC (Yuut), to serve as a flight school. Yuut ceased operations in 2016. The remaining assets and liabilities are included in the accompanying financial statements.

#### *Basis of Presentation*

The accounting records of AVCP are maintained on the accrual basis of accounting under which revenues are recognized when earned and expenses when incurred.

Financial statement presentation follows the recommendations of FASB Accounting Standards Codification (FASB ASC) 958-205, Not-for-Profit Entities - Presentation of Finance Statements. Under these provisions, AVCP is required to report information regarding its financial position and activities according to two classes of net assets: net assets without and net assets with donor restrictions.

*Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

To ensure observance of limitations and restrictions placed on the use of resources available to AVCP, the accounts are maintained in accordance with the principles of fund accounting, whereby resources and related expenses are classified for accounting and reporting purposes into funds with and without donor restriction established according to their nature and purpose.

#### *Support and Revenues*

AVCP administers federal, state, and other grants and contracts which are generally of a cost reimbursement type which include provisions for advances and billings for costs incurred.

# Association of Village Council Presidents

## Notes to Consolidated Financial Statements

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Revenues and receivables are generally recorded when reimbursable expenses are incurred to the extent of the grant or contract amount. Amounts receivable from funding agencies at year end include amounts relating to expenses incurred prior to yearend but not billed until after year end. Advances from funding agencies are considered liquidated when an expense is recorded. All grant and contract receipts in excess of expenses for ongoing programs have been recorded as deferred revenue. Fund receipts in excess of expenses for completed programs have been recorded as amounts payable to funding agencies.

Contributions, including pledges, from the general public are recognized as public support when received. All contributions are considered to be available without donor restriction unless specifically restricted by the donor.

Contributions that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activity as net assets released from restrictions.

AVCP earns interest on unrestricted funds and on certain federal money as permitted by Public Law 93-638. All interest income is allocated to net assets without donor restriction.

### *Allocation of Indirect Expenses*

AVCP records indirect expenses which benefit all programs and are not directly charged to programs. Indirect expenses are allocated between functions based on the current provisional rate negotiated with the federal cognizant agency unless otherwise limited by contractual agreement. Any over-recovery or under-recovery of actual indirect expenses for the year are recovered or refunded to the grantor based on the final negotiated rates with the federal cognizant agency.

### *Functional Allocation of Expenses*

AVCP provides housing improvement, environmental matters and social and economic services to Alaska Native people in the region. The cost of providing program services and supporting activities has been summarized on the consolidated statement of functional expenses on page 6 and 7 of these financial statements. Expenses directly attributable to a specific functional activity are reported as expenses of those functional activities. Expenses that are identified with a specified program are allocated according to their natural expense classification. Certain administrative expenses are allocated to programs on a percentage basis.

Indirect expenses benefit all programs and are not directly charged to programs. These expenses are allocated between functions based on the current provisional rate negotiated with the federal cognizant agency unless otherwise limited by contractual agreement. Any over-recovery or under-recovery of actual indirect expenses for the year are recovered or refunded to the grantor based on the final negotiated rates with the federal cognizant agency.

# Association of Village Council Presidents

## Notes to Consolidated Financial Statements

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### *Liquidity and Availability of Resources*

At December 31, 2018, AVCP had \$53.1 million in financial assets available to meet needs for general expenditures consisting of cash and cash equivalent of \$47.8 million, grants receivables of \$5.2 million and others. Of this amount, \$47.8 million represents cash advances from granting agencies for program expenditures. Accordingly, all such funds are available to meet the cash needs of the Organization for various programs in the next 12 months.

The Organization manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. Cash needs of the Organization are expected to be met monthly mainly from federal and state grant funds. In general, the Organization maintains sufficient financial assets on hand to meet 30 days' worth of normal operating expenses.

AVCP's financial assets available within one year of the balance sheet date for general expenditure are listed as current assets in the consolidated statements of financial position.

As part of AVCP's liquidity management, there is a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. In addition, AVCP invests cash in excess of daily requirements in short-term investments, including money market accounts and certificates of deposit. AVCP has a \$3.5 million line of credit available to meet cash flow needs, of which only \$500,000 has been utilized at year end.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of moneys in deposit accounts, money market funds, and certificates of deposit with maturities of 90 days or less.

### *Investments*

AVCP carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Financial Accounting Standards Board ASC 820, Fair Value Measurements and Disclosure (formerly FAS 157), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1    Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AVCP has the ability to access.
  
- Level 2    Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;

# Association of Village Council Presidents

## Notes to Consolidated Financial Statements

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- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

### *Property and Equipment*

Property and equipment consist of buildings, furniture, heavy equipment, and computer and office equipment. AVCP's capitalization threshold is set at \$5,000 on a nonaggregated base. Property and equipment purchased with Federal and State of Alaska grants have a reversionary interest in such property as well as the ownership of any proceeds upon disposition. Some of the property and equipment purchased with federal grants have use restrictions related to funding guidelines. A record of such property and equipment purchased is maintained to indicate with which grant or contract it was purchased.

Donated furniture and equipment are recorded at acquisition value at date of donation. Furniture and equipment are depreciated on a straight-line basis over their estimated useful lives of three to five years. Leasehold improvements are depreciated on a straight-line basis over the lesser of their estimated useful lives of five years or the remaining term of the lease.

Purchases of property and equipment made with grant or contract moneys are recorded at cost. Generally, title to equipment acquired with the proceeds of grant or contract moneys vests with AVCP, subject to specific conditions related to the use and disposition of such equipment. The assets are recorded in the General Fund and depreciation is computed on the straight-line method.

### *Collections*

AVCP maintains the Yupiit Piciryarait, formerly known as Yupik Museum, which contains various forms of Native American artwork and historical artifacts. These artifacts and artwork are held for public exhibition, are cared for and maintained by AVCP, and proceeds of such items are to be used to acquire other items for collections.

In 2012, AVCP capitalized its collections retroactively. To the extent that reliable records were available, AVCP capitalized collection items acquired prior to 2012 at their cost at the date of purchase or, if the items were contributed, at their fair value at the accession date (the date on which the item was accepted by the Board of Directors). Other collection items, particularly those acquired prior to 2012, when detailed curatorial records began to be maintained, have been capitalized at their appraised or estimated current market value.

# Association of Village Council Presidents

## Notes to Consolidated Financial Statements

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Collection items are not depreciated, as the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long, and adequate resources are in place to protect and preserve these items.

### *Accounts Receivable*

Receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is AVCP's best estimate of the amount of probable credit losses in the existing accounts receivable. AVCP determines the allowance based on historical write-off experience.

An allowance for doubtful accounts for grants and contributions receivable has not been established, as all receivables are considered fully collectible.

### *Advertising Costs*

Advertising costs are expensed as incurred.

### *Income Taxes*

AVCP is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and accordingly no provision for income taxes is included in the financial statements. Certain activities of AVCP may constitute unrelated business income and be subject to tax.

AVCP applies the provisions of Topic 740 of the FASB Accounting Standards Codification relating to accounting for uncertainty in income taxes. AVCP annually reviews its tax positions taken in accordance with the recognition standards. AVCP believes that it has no uncertain tax positions which would require disclosure or adjustment in these financial statements.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### *Change in Accounting Principle*

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, provides information about liquidity and availability of resources and improves the type of information provided about expenses and investment return. AVCP has adopted the ASU retrospectively and adjusted the presentation of these financial statements accordingly. Other than the changes to the financial statement presentation and disclosures described above, adoption of the ASU did not have a significant impact on the financial statements. There was no effect on net assets or the change in net assets for the year ended December 31, 2018.

# Association of Village Council Presidents

## Notes to Consolidated Financial Statements

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### *Subsequent Events*

AVCP has evaluated subsequent events through September 30, 2019, the date on which the financial statements were available to be issued.

### *Upcoming Pronouncements*

#### *Revenue from contracts with customers (Topic 606)*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for AVCP until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

#### *Leases (Topic 842)*

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for AVCP's fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

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# Association of Village Council Presidents

## Notes to Consolidated Financial Statements

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### 2. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

<i>December 31, 2018</i>	Carrying Amount	Bank Balance
Checking accounts	\$ 39,137,255	\$ 39,550,105
Savings accounts	788,732	788,732
Money market funds	2,687,163	2,687,163
Certificates of deposit	5,207,502	5,207,502
<b>Total Cash and Cash Equivalents</b>	<b>\$ 47,820,652</b>	<b>\$ 48,233,502</b>

<i>December 31, 2017</i>	Carrying Amount	Bank Balance
Checking accounts	\$ 29,003,059	\$ 29,427,109
Savings accounts	788,412	788,412
Money market funds	2,600,067	2,600,067
Certificates of deposit	5,243,650	5,238,907
<b>Total Cash and Cash Equivalents</b>	<b>\$ 37,635,188</b>	<b>\$ 38,054,495</b>

AVCP is not party to any financial instruments with off balance sheet risk. Financial instruments which potentially subject AVCP to concentrations of credit risk are demand deposits held in excess of the Federal Deposit Insurance Corporation insured amount. AVCP maintains its deposits with high credit quality commercial banks.

Cash and cash equivalents and investment balances include advances that have been recorded as deferred revenue under various grant awards and funding agreements at December 31, 2018 and 2017, respectively. This deferred revenue is subject to certain investment restrictions required by the awarding agencies. The funds are invested in obligations of the United States or securities that are guaranteed or insured by the United States which satisfy the investment restrictions of the awarding agencies.

### 3. Investments

In 2006, AVCP purchased 1,539 shares of Class A Common Stock of The Native American Bank at \$650 per share for an initial aggregate subscription of \$1,102,863. As of December 31, 2018, and 2017, AVCP held a 1.088% and 1.117% minority interest in The Native American Bank (NAB), respectively. As of December 31, 2018, and 2017, the book value of the stock was \$89 and \$72 a share, respectively. As the stock is not traded in an active market, AVCP considers book value of the shares calculations as a measure of fair value and has classified it as a Level 3 investment.

# Association of Village Council Presidents

## Notes to Consolidated Financial Statements

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### 4. Property and Equipment

A summary of property and equipment, at cost, is as follows:

<i>December 31,</i>	2018	2017
Property and equipment not being depreciated:		
Land	\$ 2,527,805	\$ 2,527,805
Work in progress	6,357	6,357
<b>Total property and equipment not being depreciated</b>	<b>2,534,162</b>	<b>2,534,162</b>
Property and equipment being depreciated:		
Buildings	12,457,482	12,133,637
Heavy equipment and vehicles	6,274,002	6,228,708
Office furniture and equipment	3,080,557	2,998,168
Tools and other equipment	565,497	570,882
<b>Total property and equipment being depreciated</b>	<b>22,377,538</b>	<b>21,931,395</b>
Less accumulated depreciation	(13,272,732)	(12,224,090)
<b>Property and equipment being depreciated, net</b>	<b>9,104,806</b>	<b>9,707,305</b>
<b>Total Property and Equipment, net</b>	<b>\$ 11,638,968</b>	<b>\$ 12,241,467</b>

Depreciation expense was \$1,054,026 and \$1,340,059 for the years ended December 31, 2018 and 2017, respectively.

### 5. Note Payable

AVCP entered into a loan in the amount of \$1.5 million in December 2013. The loan accrues interest at 2% plus prime, currently 2.19%, and monthly interest-only payments are required. A principal-only payment was paid in May 2016, and the outstanding balance of the loan at December 31, 2018 and 2017 is \$500,000 and \$498,600, respectively. On February 24, 2017, the loan amount was increased to a total of \$3.5 million. The maturity date of the loan is February 1, 2020.

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# Association of Village Council Presidents

## Notes to Consolidated Financial Statements

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### 6. Operating Leases

AVCP has entered into several predominantly month-to-month operating leases with vendors and tribal entities. Annual lease expenses were approximately \$562,980 in 2018 and \$598,734 in 2017.

Future lease payments required under the operating lease agreements for the next five years are as follows:

*Year Ending December 31,*

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2019	\$ 573,395
2020	573,395
2021	573,395
2022	573,395
2023	573,395
Thereafter	573,395

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### 7. Retirement Plan

AVCP has adopted a defined contribution retirement plan for all regular, full-time employees with at least 3 months of service. This eligibility period was reduced from 1 year to 3 months during 2003 when AVCP changed pension carriers. The Plan requires mandatory employer contributions of 7% of employee compensation and vests immediately. In 2003, AVCP also adopted a match of an employee's voluntary contribution up to 3%. Contributions are remitted to an insurance company each month. AVCP's contributions to the plan for the years ended December 31, 2018 and 2017 totaled \$969,167 and \$750,182, respectively.

The Plan is subject to the filing requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. Failure to complete the required filing timely and accurately could result in penalties. AVCP is currently compliant with these filing requirements. No penalties have arisen as a result of prior year noncompliance and therefore no provision for liability has been included in the accompanying financial statements.

AVCP also maintains a tax-sheltered annuity plan covering all employees of the company. The annuity plan provides for participants generally to defer, on a pre-tax basis, up to 100% of eligible compensation up to amounts allowed by the Internal Revenue Service. Each participant's account is credited with the employee's elective deferral contribution and an allocation of Plan earnings and charged with an allocation of administrative expenses. Each participant is immediately 100% vested in their account balance.

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# Association of Village Council Presidents

## Notes to Consolidated Financial Statements

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### 8. Commitments and Contingencies

#### *Grants and Contracts*

Generally, most of AVCP's revenues are received from federal and State of Alaska grants and contracts. These grants and contracts restrict the use of revenues to carrying out specific programs and may require the grantor's approval before certain expenses are allowable. AVCP is required to submit written progress reports for the activities being performed. The final expenses may be subject to an agency's compliance audit to determine the allowability of costs for which reimbursement has previously been granted. Adjustments of amounts received under grants and contracts could result if the grants and contracts are audited by such agencies. Management does not believe the amount of adjustments, if any, would be material and, accordingly, no provision for liability from such adjustments, if any, has been included in the accompanying financial statements.

#### *Indirect Expenses*

Amounts charged to individual grants and contracts as indirect expenses have generally been based on provisional rates. The amount of indirect expenses ultimately recoverable from funding agencies will depend upon final negotiations with the cognizant agency, and adjustments could result. Management does not believe that such adjustments, if any, would be material and, accordingly, no provision for liability from such adjustments, if any, is included in the accompanying financial statements.

## Additional Information

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## Association of Village Council Presidents

### Combining Schedule of Activities - Corporate

Year Ended December 31, 2018

	Program Services				Support Services		
	Self-Governance	Social Services	Community Services	Environmental	Total Program Services	General and Administrative	Total
<b>Revenue</b>							
Grants and contracts:							
Federal	\$ 19,570,743	\$ 16,979,835	\$ 4,306,976	\$ -	\$ 40,857,554	\$ -	\$ 40,857,554
State	-	4,509,566	1,789,180	-	6,298,746	-	6,298,746
Other	-	186,740	-	-	186,740	-	186,740
Investment income	-	-	-	-	-	224,685	224,685
Other revenue	-	-	-	-	-	82,147	82,147
<b>Total Revenue</b>	<b>19,570,743</b>	<b>21,676,141</b>	<b>6,096,156</b>	<b>-</b>	<b>47,343,040</b>	<b>53,439,196</b>	<b>47,649,872</b>
<b>Expenses</b>							
Wages and benefits	7,016,439	8,734,780	1,957,499	38,374	17,747,092	5,957,785	23,704,877
Travel	857,992	761,008	279,141	27,560	1,925,701	326,467	2,252,168
Stipends	79,312	68,800	-	1,000	149,112	81,359	230,471
Operating expenses	4,815,306	1,659,277	2,856,479	22,176	9,353,238	933,592	10,286,830
Contractual	1,549,936	1,098,499	68,209	15,702	2,732,346	392,889	3,125,235
Depreciation	-	-	-	-	-	1,054,026	1,054,026
Facilities	340,409	607,310	59,002	500	1,007,221	998,520	2,005,741
Assistance payments	2,703,644	7,082,697	-	-	9,786,341	-	9,786,341
Other expenses	56,670	28	-	11,769	68,467	532	68,999
	17,419,708	20,012,399	5,220,330	117,081	42,769,518	9,745,170	52,514,688
Indirect expense allocation	2,151,035	1,663,742	875,386	-	4,690,163	(4,690,163)	-
<b>Total Expenses</b>	<b>19,570,743</b>	<b>21,676,141</b>	<b>6,095,716</b>	<b>117,081</b>	<b>47,459,681</b>	<b>5,055,007</b>	<b>52,514,688</b>
Property and equipment purchased with grant funds	-	-	-	-	-	(451,527)	(451,527)
<b>Change in Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 440</b>	<b>\$ (117,081)</b>	<b>\$ (116,641)</b>	<b>\$ 47,932,662</b>	<b>\$ (4,413,289)</b>

**Association of Village Council Presidents**  
**Combining Schedule of Expenses - General and Administrative**  
**Year Ended December 31, 2018**

	Administration					Cultural Heritage Services, Museum	Total
	Admini- stration	Financial Services	Legal Services	Human Resources	Total Administration		
<b>Expenses</b>							
Wages and benefits	\$ 3,225,218	\$ 1,575,121	\$ 466,834	\$ 577,290	\$ 5,844,463	\$ 113,322	\$ 5,957,785
Travel	272,237	24,224	15,791	13,228	325,480	987	326,467
Stipends	81,359	-	-	-	81,359	-	81,359
Operating expenses	527,152	60,339	246,951	90,151	924,593	8,999	933,592
Contractual	294,199	9,013	320	89,357	392,889	-	392,889
Depreciation	1,054,026	-	-	-	1,054,026	-	1,054,026
Facilities	995,955	1,505	480	320	998,260	260	998,520
Other expenses	-	-	-	532	532	-	532
	6,450,146	1,670,202	730,376	770,878	9,621,602	123,568	9,745,170
Property and equipment purchased with grant funds	(451,527)	-	-	-	(451,527)	-	(451,527)
<b>Total Expenses</b>	<b>\$ 5,998,619</b>	<b>\$ 1,670,202</b>	<b>\$ 730,376</b>	<b>\$ 770,878</b>	<b>\$ 9,170,075</b>	<b>\$ 123,568</b>	<b>\$ 9,293,643</b>

## Association of Village Council Presidents

### Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2018

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Provided to Sub- recipients	Federal Expend- itures
<b>Department of Commerce</b>				
Economic Development Cluster				
Economic Adjustment Assistance				
Equipment for Regional Aircraft Maintenance School	11.307		\$ -	\$ (7,510)
Economic Development Technical Assistance				
Partnership Planning Investment 18	11.302		-	27,559
Partnership Planning Investment 19	11.302		-	32,357
Total Economic Development Support for Planning Organizations			-	59,916
Total Department of Commerce			-	52,406
<b>Department of the Interior</b>				
WCC Alaska Migratory Bird Grant FY18	15.643		-	13,848
Alaska Migratory Bird Co-Management Council	15.643		-	208
Total Alaska Migratory Bird Co-Management Council			-	14,056
477 Cluster - direct:				
P.L. 102-477 Contract - Plan year 2015-2017	15.U01		285,853	3,756,592
P.L. 102-477 Contract - Plan year 2018-2020	15.U02		107,741	2,210,722
Total 477 Cluster			393,594	5,967,314
Tribal Self Governance:				
Self Governance Compact - 2013	15.022		-	2,513,942
Self Governance Compact - 2015	15.022		-	8,796
Self Governance Compact - 2016	15.022		270,180	591,069
Self Governance Compact - 2017	15.022		395,808	3,614,934
Self Governance Compact - 2018	15.022		1,347,174	6,874,688
Total Tribal Self Governance			2,013,162	13,603,429
Total Department of the Interior			2,406,756	19,584,799
<b>Department of Transportation</b>				
Highway Planning and Construction Cluster				
Highway Planning and Construction				
Indian Reservation Road Program 2009	20.205		-	(33,764)
Indian Reservation Road Program 2011	20.205		-	52,189
Indian Reservation Road Program 2012	20.205		-	539,558
Indian Reservation Road Program 2015	20.205		-	290
Indian Reservation Road Program 2016	20.205		-	1,032,424
Indian Reservation Road Program 2017	20.205		-	1,528,322
Indian Reservation Road Program 2018	20.205		-	1,069,218
Total Highway Planning and Construction Cluster			-	4,188,237
Total Department of Transportation			-	4,188,237

## Association of Village Council Presidents

### Schedule of Expenditures of Federal Awards, continued for the Year Ended December 31, 2018

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Provided to Sub- recipients	Federal Expend- itures
<b>Environmental Protection Agency</b>				
Indian Environmental General Assistance Program 2018	66.926		\$ -	\$ 48,038
Indian Environmental General Assistance Program 2019	66.926		-	4,683
Total Indian Environmental General Assistance Program			-	52,721
<b>Department of Education</b>				
American Indians Vocational Rehabilitation Services				
Vocational Rehabilitation 2014	84.250		-	336
Vocational Rehabilitation 2015	84.250		-	50
Vocational Rehabilitation 2017	84.250		-	355,633
Vocational Rehabilitation 2018	84.250		-	118,645
Total Rehabilitation Services American Indians with Disabilities			-	474,664
<b>Department of Health and Human Services</b>				
TANF Cluster				
Temporary Assistance for Needy Families 2010	93.558		-	811
Temporary Assistance for Needy Families 2011	93.558		-	1,948
Temporary Assistance for Needy Families 2012	93.558		26,322	1,053,835
Temporary Assistance for Needy Families 2013	93.558		464,455	4,565,098
Temporary Assistance for Needy Families 2014	93.558		515,246	4,125,578
Temporary Assistance for Needy Families 2015	93.558		-	391,816
Temporary Assistance for Needy Families 2019	93.558		-	119,962
Total Temporary Assistance for Needy Families			1,006,023	10,259,048
Low Income Home Energy Assistance				
Low Income Home Energy Program 2014	93.568		-	1,244
Low Income Home Energy Program 2015	93.568		-	120
Low Income Home Energy Program 2017	93.568		-	251,461
Low Income Home Energy Program 2018	93.568		-	2,836,524
Low Income Home Energy Program 2019	93.568		-	134,590
Total Low Income Home Energy Assistance			-	3,223,939
Head Start				
Federal Head Start 2014	93.600		-	(111)
Federal Head Start 2016	93.600		-	(7,516)
Federal Head Start 2017	93.600		-	178,325
Federal Head Start 2018	93.600		-	2,376,784
Total Head Start			-	2,547,482

**Association of Village Council Presidents**  
**Schedule of Expenditures of Federal Awards, continued**  
**for the Year Ended December 31, 2018**

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Provided to Sub- recipients	Federal Expend- itures
<b>Department of Health and Human Services, continued</b>				
Promoting Safe and Stable Families 2017	93.556		\$ -	\$ 107,584
Promoting Safe and Stable Families 2018	93.556		-	85,989
Total Promoting Safe and Stable Families			-	193,573
Special Programs for the Aging, Title VI, Part A, Grants to Indian Tribes				
Older Americans Act Title VI, Part A 2017	93.047		-	40,551
Stephanie Tubbs Jones Child Welfare Services Program				
Child Welfare Social Services Program 2016	93.645		-	267
Child Welfare Social Services Program 2017	93.645		-	63,835
Child Welfare Social Services Program 2018	93.645		-	63,921
Total Child Welfare Social Services Program			-	128,023
Aging Cluster				
Nutrition Services Incentive Program 2017	93.053		-	5,327
Total Aging Cluster			-	5,327
Total Department of Health and Human Services			-	16,397,943
<b>Department of Agriculture</b>				
Rural Community Development Initiative				
USDA Cooperative Agreement	10.446		-	(444)
Passed through the State of Alaska Department of Education and Early Development				
Child & Adult Care Food Program 2017	10.558	MA-0720401	-	(2,451)
Child & Adult Care Food Program 2018	10.558	MA-0720401	-	78,286
Child & Adult Care Food Program 2019	10.558	MA-0720401	-	31,393
Total Child & Adult Care Food Program			-	107,228
Total Department of Agriculture			-	106,784
<b>Total Expenditures of Federal Awards</b>			<b>\$ 3,412,779</b>	<b>\$ 40,857,554</b>

*See accompanying notes to Schedule of Expenditures of Federal Awards.*

# Association of Village Council Presidents

## Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2018

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### 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Association of Village Council Presidents under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Association of Village Council Presidents, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Association of Village Council Presidents.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Expenditures reported on the Schedule are recognized following, as applicable, either the cost principles in the Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

### 3. Indirect Rate

Association of Village Council Presidents has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

### 4. 477 Cluster

Below are the CFDA numbers for the programs included in the Association of Village Council Presidents 477 plan:

- 15.026
- 15.114
- 15.130
- 17.265
- 93.575
- 93.594

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## Association of Village Council Presidents

### Notes to the Schedule of Expenditures of Federal Awards, continued For the Year Ended December 31, 2018

#### 5. Deferred Revenue by Federal Program

Deferred revenue for the Association of Village Council Presidents' federal programs at December 31, 2018 is as follows:

<i>Agency</i>	<i>Program Title</i>	CFDA Number	Unearned Revenue
Transportation	Highway Planning and Construction	20.205	\$ 23,639,438
Interior	Tribal Self Governance	15.022	15,955,825
Interior	477 Cluster	15.U02	2,859,417
Interior	477 Cluster	15.U01	980,138
Health and Human Services	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	388,611
Education	American Indians Vocational Rehabilitation Services	84.250	252,436
Health and Human Services	Low Income Home Energy Assistance	93.568	46,991
Health and Human Services	Promoting Safe and Stable Families	93.556	46,524
Health and Human Services	Head Start	93.600	36,879
Interior	Alaska Migratory Bird	15.643	24,906
Health and Human Services	TANF Cluster	93.558	21,812
Commerce	Economic Development Support for Planning Organizations	11.302	17,750
Environmental Protection	Indian Environmental General Assistance Program	66.926	10,339
Agriculture	Education and Early Development	10.558	7,613
Commerce	Economic Adjustment Assistance	11.307	7,500
Health and Human Services	Nutrition Services Incentive Program	93.053	3,036
Health and Human Services	Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,230
Total Federal			44,304,435
State and other			3,529,642
<b>Total Deferred Revenue</b>			<b>\$ 47,831,077</b>

## Association of Village Council Presidents

### Schedule of State Financial Assistance for the Year Ended December 31, 2018

State Grantor / Program Title	Grant Number	Award Amount	State Expenditures
<b>Department of Health and Social Services</b>			
Major Programs:			
Native Family Assistance Program 2019	604-266-19001	\$ 4,702,500	\$ 2,063,151
Native Family Assistance Program 2018	604-266-1801	4,702,500	2,101,603
Nonmajor Programs:			
Alaska Affordable Heating Program 2016	604-257-1602	1,930,935	986
Native Family Assistance Program 2017	604-266-1701	3,588,955	50
Native Family Assistance Program 2018 - Child Support Services Division	604-266-18001	134,965	<u>12,566</u>
Total Department of Health and Social Services			<u>4,178,356</u>
<b>Department of Public Safety</b>			
Major Programs:			
Village Public Safety Officer Program 2019	19-401	1,333,603	711,075
Village Public Safety Officer Program 2018	18-401	1,851,684	767,950
Nonmajor Programs:			
Village Public Safety Officer Program 2017	17-401	2,105,900	(51,296)
Village Public Safety Officer Program 2016	16-401	2,874,041	<u>725</u>
Total Department of Public Safety			<u>1,428,454</u>
<b>Department of Education &amp; Early Development</b>			
Major Program:			
Alaska Head Start 2018	HS 18.066.01	357,948	332,808
Nonmajor Programs:			
Alaska Head Start 2017	HS 17.066.01	357,948	(1,573)
Alaska Head Start 2016	HS 16.066.01	357,948	<u>(25)</u>
Total Department of Education & Early Development			<u>331,210</u>
<b>Department of Commerce, Community, and Economic Development</b>			
Major Program:			
Yukon-Kuskokwim Energy/Freight Corridor Planning & Design	15-DC-338	600,000	232,828
Nonmajor Program:			
Yukon-Kuskokwim Corridor Planning & Development Project	13-DC-552	3,000,000	<u>127,898</u>
Total Department of Commerce, Community, and Economic Development			<u>360,726</u>
<b>Total State Financial Assistance</b>			<u>\$ 6,298,746</u>

*See accompanying notes to Schedule of State Financial Assistance.*

# Association of Village Council Presidents

## Notes to the Schedule of State Financial Assistance For the Year Ended December 31, 2018

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### 1. Basis of Presentation

The accompanying Schedule of State Financial Assistance (the "Schedule") includes the state grant activity of the Association of Village Council Presidents under programs of the state government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of the Association of Village Council Presidents, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Association of Village Council Presidents.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Expenditures reported in the Schedule are recognized following the cost principles contained in *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**Single Audit Section**

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## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors  
Association of Village Council Presidents  
Bethel, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Association of Village Council Presidents, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2019.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Association of Village Council Presidents' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Association of Village Council Presidents' internal control. Accordingly, we do not express an opinion on the effectiveness of Association of Village Council Presidents' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-003 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Association of Village Council Presidents' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Association of Village Council Presidents' Response to Findings

Association of Village Council Presidents' response to the findings identified in our audit are described in the accompanying corrective action plan. Association of Village Council Presidents' response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska  
September 30, 2019



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## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report of Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

Board of Directors  
Association of Village Council Presidents  
Bethel, Alaska

### **Report on Compliance for Each Major Federal Program**

We have audited Association of Village Council Presidents' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Association of Village Council Presidents' major federal programs for the year ended December 31, 2018. Association of Village Council Presidents' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Association of Village Council Presidents' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association of Village Council Presidents' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of Association of Village Council Presidents' compliance.

***Basis for Qualified Opinion on Highway Planning and Construction Cluster and Head Start***

As described in 2018-004, 2018-005 and 2018-006 in the accompanying schedule of findings and questioned costs, the Association of Village Council Presidents did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2018-004	20.205	Highway Planning and Construction Cluster	Procurement
2018-005	20.205	Highway Planning and Construction Cluster	Special Tests and Provisions
2018-006	93.600	Head Start	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the Association of Village Council Presidents to comply with the requirements applicable to these programs.

***Qualified Opinion on Highway Planning and Construction Cluster and Head Start***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Association of Village Council Presidents complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Highway Planning and Construction Cluster and Head Start for the year ended December 31, 2018.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the Association of Village Council Presidents complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2018.

***Other Matters***

The Association of Village Council Presidents' responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Association of Village Council Presidents' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Report on Internal Control Over Compliance**

Management of the Association of Village Council Presidents is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association of Village Council Presidents' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association of Village Council Presidents' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-004, 2018-005, and 2018-006, that we consider to be material weaknesses.

The Association of Village Council Presidents' response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Association of Village Council Presidents' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*BDO USA, LLP*

Anchorage, Alaska  
September 30, 2019



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## **Independent Auditor's Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits***

Board of Directors  
Association of Village Council Presidents  
Bethel, Alaska

### **Report on Compliance for Each Major State Program**

We have audited Association of Village Council Presidents' compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of Association of Village Council Presidents' major state programs for the year ended December 31, 2018. Association of Village Council Presidents' major state programs are identified in the accompanying schedule of state financial assistance.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Association of Village Council Presidents' major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Association of Village Council Presidents compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Association of Village Council Presidents' compliance.

#### ***Opinion on Each Major State Program***

In our opinion, the Association of Village Council Presidents complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on their state major programs for the year ended December 31, 2018.

## Report on Internal Control Over Compliance

Management of Association of Village Council Presidents is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Association of Village Council Presidents 's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program, and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Association of Village Council Presidents internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska  
September 30, 2019

# Association of Village Council Presidents

## Schedule of Findings and Questioned Costs Year Ended December 31, 2018

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes      no

Significant deficiency(ies) identified?  X  yes      (none reported)

Noncompliance material to financial statements noted?      yes  X  no

***Federal Awards***

Internal control over major federal programs:

Material weakness(es) identified?  X  yes      no

Significant deficiency(ies) identified?      yes  X  (none reported)

Type of auditor's report issued on compliance for major federal programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Opinion on Major Program</i>
15.022	Tribal Self-Governance Compact	Unmodified
15.U01 -15.U02	477 Cluster	Unmodified
20.205	Highway Planning and Construction Cluster	Qualified
93.558	TANF Cluster	Unmodified
93.568	Low Income Home Energy Assistance	Unmodified
93.600	Head Start	Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  X  yes      no

Identification of major federal programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Agency</i>
15.022	Tribal Self-Governance Compact	Interior
15.U01 -15.U02	477 Cluster	Interior
20.205	Highway Planning and Construction Cluster	Transportation
93.558	TANF Cluster	Health and Human Services
93.568	Low Income Home Energy Assistance	Health and Human Services
93.600	Head Start	Health and Human Services

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,225,727

Auditee qualified as low-risk auditee?      yes  X  no

**Association of Village Council Presidents**  
**Schedule of Findings and Questioned Costs, continued**  
**Year Ended December 31, 2018**

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<b>Section I - Summary of Auditor's Results - Continued</b>
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*State Financial Assistance*

Internal control over major programs:

Material weakness(es) identified?

     yes

  X   no

Significant deficiency(ies) identified?

     yes

  X   (none reported)

Type of auditor's report issued on compliance for major  
state programs:

Unmodified

Dollar threshold used to distinguish a major state program:

\$ 200,000

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# Association of Village Council Presidents

## Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2018

### Section II - Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards

#### 2018-001 Material Weakness over Financial Reporting - Timely Reconciliation of Books and Records

*Criteria:* AVCP's manual of accounting policies requires that the VP of Finance maintain supporting records in sufficient detail to prepare the entity's financial reports including, amongst others:

- Complete financial statements and program budget(s) annually
- Financial status reports, year to date expense summary of all compacting funds which shows budget, year to date expenditure and budget balance as of that date and balance sheet to be presented to the board at its quarterly meetings
- Trial balance, financial status report and cost summaries and analyses by grant for Program Directors monthly

The policy also mandates the audit fieldwork to begin no later than March 15 of each year and the audited financial statements be provided to AVCP no later than June 30 of each year. The audit report will be submitted to the Federal Audit Clearinghouse no later than September 30 of each year.

*Condition:* Significant effort was required to adjust the books and records correctly from what had been recorded and reconciled during the year under audit. AVCP contracted with external consultants to facilitate the closing of the books and records. However, the financial information that had been reported to funders and the Board of Directors throughout the year under audit was significantly adjusted after year end to bring the books and records in line with generally accepted accounting principles.

*Cause:* AVCP does not have sufficient capacity (knowledge and experience) in its Finance Department to be able to ensure timely and efficient reporting on a monthly, quarterly and annual basis as required by the manual of accounting policies.

*Effect or potential effect:* Relevant and required reports that were supposed to be prepared on a monthly, quarterly and annual basis for effective and efficient decision making were not available. Some financial information was required to be reentered into the new system, and an external contractor was required to be brought in to reconcile and close the books and records. Consequently, auditor noted misstatements relating to grants, accounts payable and indirect cost and recovery that had to be corrected.

*Recommendation:* We recommend that AVCP continue to allocate resources to ensure sound financial controls are functioning as intended, and establish a monthly, quarterly, and annual closing checklist to ensure all accounts are reconciled and reported timely and accurately. In addition, a detail review of the general ledger should be performed regularly.

*Views of Responsible Officials and Corrective Action Plan:* Management agrees with this finding. Refer to the corrective action plan.

# Association of Village Council Presidents

## Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2018

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### 2018-002 Material Weakness over Financial Reporting - Invoice Processing

*Criteria:* The manual of accounting policies stipulates that only valid invoices for products and services that have been properly authorized and show proof of receipt shall be recorded. A check request must be attached to the invoice, complete account code and authorized for payment prior to submittal to accounting for processing. The accrual accounting basis is adopted where expenditures are recorded when supplies, products or services are purchased, received and amount can be readily estimated. Revenue is recorded when it is earned whether through services performed by the grantee or for amounts owed to the grantee for which no current services or performance is required by the recipient.

*Condition:* Significant adjustments were made at year end to close the expenditure and liability accounts. Per our reporting test work procedures, we noted that program expenditures recorded in the general ledger did not reconcile with the corresponding amounts reported to the granting agencies and three supplier invoices were also improperly excluded and included in year-end accounts payables respectively.

*Cause:* The capacity constraint in AVCP's finance department makes it difficult to process invoices on time, close the books monthly and have a high-level review of entries posted. Furthermore, the lack of monthly bank reconciliation preparation and review makes these errors go undetected for a significant time before they are discovered and corrected after year end or during the audit.

*Effect or potential effect:* Invoices were not processed and recorded on time resulting in delays in running the year end close out procedures.

*Recommendation:* We recommend that AVCP continue to allocate resources to ensure that financial controls are functioning as intended, and establish a monthly, quarterly, and annual closing checklist to ensure all accounts are reconciled and reported timely and accurately.

*Views of Responsible Officials and Corrective Action Plan:* Management agrees with this finding. Refer to the corrective action plan.

### 2018-003 Significant Deficiency over Financial Reporting - Accurate Tracking of Accrued Leave

*Criteria:* The system of internal control should be designed and implemented to ensure that reports utilized by management are accurate and reliable.

*Condition:* When AVCP switched payroll software, the accrued leave tracker was not set up properly to accurately track employees leave balance. Three of the samples that were inspected did not reflect the accurate amount of accrued leave balance.

*Cause:* AVCP did not properly set up this function when new payroll software was implemented and has not resolved the initial issues from the initial implementation.

*Effect or potential effect:* Accrued leave balances are not properly reported.

*Recommendation:* We recommend that AVCP obtain support to assist them in properly setting up the accrued leave tracker.

# Association of Village Council Presidents

## Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2018

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*Views of Responsible Officials and Corrective Action Plan:* Management concurs with the finding. See corrective action plan for further information.

### Section III - Federal Award Findings and Questioned Costs

#### 2018-004 Material Weakness in Internal Control over Compliance, Material Noncompliance - Procurement

*Agency* Department of Transportation:  
*Program* Highway Planning and Construction Cluster CFDA No: 20.205  
*Award No.* DTFH69-11-H-00060 - 2011  
DTFH69-12-H-00060 - 2012  
DTFH69-15-H-00060 - 2015  
DTFH69-16-H-00060 - 2016  
DTFH69-17-H-00060 - 2017  
DTFH69-18-H-00060 - 2018

*Criteria:* In accordance with 2 CFR 200 of the Compliance Supplement, AVCP must follow its own procurement policy which conforms to the Uniform Guidance standards. This requires AVCP to among other things ensure that it maintains procurement requisitions and supporting documents reviewed and approved by the appropriate authority depending on the amount.

*Condition:* AVCP was unable to provide procurement supporting documents for some procured items in line with its procurement policy.

*Cause:* The controls and processes established for procurement transactions have not been implemented on all qualifying items noted. Therefore, AVCP did not comply with its own procurement policy which is a violation of grant compliance.

*Effect or potential effect:* There was no evidence to support that the procurement rules and procedures were followed for the two items.

*Questioned costs:* \$567,872

*Context:* In accordance with AICPA GAS/SA sampling guidance, the auditor tested nine procurement applicable transactions, two of which did not have adequate support to confirm that procurement procedures were adhered to. Both Items were in excess of the \$100,000 simplified acquisition threshold or competitive bid threshold, established in the procurement policy. Although these two exceptions are about 57% of the population, it seems they were isolated instances and not necessarily a systemic problem.

*Repeat finding:* This was reported as finding 2017-006 in fiscal year 2017.

*Recommendation:* We recommend that the controls and processes that have been established be implemented to ensure AVCP is following its procurement policy and meeting the Uniform Guidance compliance requirements.

*Views of Responsible Officials and Corrective Action Plan:* Management agrees with this finding. Refer to the corrective action plan.

# Association of Village Council Presidents

## Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2018

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### 2018-005 Material Weakness in Internal Control over Compliance, Material Noncompliance - Special Tests and Provisions

*Agency* Department of Transportation:  
*Program* Highway Planning and Construction Cluster CFDA No: 20.205  
*Award No.* DTFH69-11-H-00060 - 2011  
DTFH69-12-H-00060 - 2012  
DTFH69-15-H-00060 - 2015  
DTFH69-16-H-00060 - 2016  
DTFH69-17-H-00060 - 2017  
DTFH69-18-H-00060 - 2018

*Criteria:* Per the compliance supplement - special tests and provisions requirement, non-Federal entities shall include in their construction contracts subject to the Wage Rate Requirement (which still may be referenced as the Davis-Bacon Act) a provision that the contractor or subcontractor comply with those requirements and the DOL regulations. This also includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract is performed, a copy of the payroll and a statement of compliance.

*Condition:* AVCP has not been including the Wage Rate Requirement provision in its construction contracts with contractors or subcontractors and as such the latter has not been providing the former weekly copies of the payroll and statement of compliance (Form WH-347).

*Cause:* A determination of whether this compliance requirement was material and direct was not done, evidencing a lack of comprehensive review of the compliance requirements and evaluation of their effect on the program.

*Effect:* The Wage Rate Requirement was not communicated to contractors or subcontractors which is a violation of the compliance requirement and therefore there was no monitoring mechanism to ensure that laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds were paid not less than those established for the locality of the project by the Department of Labor.

*Questioned costs:* None identified.

*Context:* Per inquiry with program director and other officials, AVCP has not performed an evaluation of the special tests and provisions (Wage Rate Requirement) as to whether it is direct and material to the program. Consequently, this provision has not been included in any of its contracts with contractors and subcontractors. However, AVCP began to include this wage rate requirement in all its contracts in early 2019.

*Repeat finding:* This was reported as finding 2017-009 in fiscal year 2017.

*Recommendation:* AVCP should establish processes and controls to ensure the Wage Rate Requirement provision is added to all applicable contracts and contractors or subcontractors provide the entity with monthly payroll and compliance statements.

*Views of Responsible Officials and Corrective Action Plan:* Management agrees with this finding. Refer to the corrective action plan.

# Association of Village Council Presidents

## Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2018

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### 2018-006 Material Weakness in Internal Control over Compliance, Material Noncompliance - Special Tests and Provisions

*Agency* Department of Health and Human Services:  
*Program* Head Start CFDA No: 93.600  
*Award No.* 90C19878-03-04 - 2017  
90C19878-04-00 - 2018

*Criteria:* Head Start Compliance Supplement - special tests and provisions sub category program governance requires Head Start Agencies (HSA) to share accurate and regular financial information with the governing body and the policy council, including monthly financial statements, including credit card expenditures and the financial audit. The HSA must also make available to the public a report published at least once in each fiscal year that discloses for the most recently concluded fiscal year (a) the total amount of public and private funds received and the amount from each source; (b) an explanation of budgetary expenditures and proposed budget for the fiscal year; and (c) the financial audit

*Condition:* In the absence of a monthly closing, AVCP has not been providing the board of directors with accurate and regular financial information including monthly financial statements, credit card expenditures, financial audit and making the report available to public at least once in each fiscal year.

*Cause:* Controls were not designed and implemented to ensure the special tests and provisions - program governance was met. Accurate and regular financial information was not available to be provided to the governing body because of the absence of a monthly general ledger closure and reconciliations.

*Effect:* The board did not have accurate and regular financial information to make informed decisions and thus a violation of the compliance requirement.

*Questioned costs:* None identified.

*Context:* To ensure compliance with the special tests and provisions compliance requirement in the criteria above, auditor noted through inquiries and review of board minutes that the board of directors were not provided with accurate financial information including monthly financial statements, credit card expenditures and financial audit. This was a pervasive noncompliance all throughout the year, resulting to decisions been taken without complete and accurate financial information. However, AVCP has in early 2019 put in place procedures for the board of directors to receive previous months' credit card expenditures and financial reports monthly by mail.

*Repeat finding:* This was reported as finding 2017-010.

*Recommendation:* We recommend that monthly financial statements and credit card expenditures be provided in a timely manner and the required financial information be shared with the public. Refer to the recommendation of finding 2018-001.

*Views of Responsible Officials and Corrective Action Plan:* Management agrees with this finding. Refer to the corrective action plan.

# Association of Village Council Presidents

## Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2018

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Section IV - State Award Findings and Questioned Costs
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There were no findings and questioned costs for state awards (as defined in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*) that are required to be reported.

## Unaudited Information

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# ASSOCIATION OF VILLAGE COUNCIL PRESIDENTS

Raymond Watson, Chairperson | Vivian Korhuis, CEO | AVCP.org



## Administration

101 A Main St., PO Box 219, Bethel, AK 99559 | T 907.543.7300 | F 907.543.3596

### Status of Prior Year (FY 2017) Audit Findings *as of September 2019*

#### **2017-001 Material Weakness over Financial Reporting – Timely Reconciliation of Books and Records**

Prior Finding: 2016-001, 2015-001, 2014-002

*Status: Unresolved; In progress*

AVCP was unable to fully implement its quarterly close procedure by yearend 2018. In early 2019, more of the work supporting a quarterly close process was contracted to our supporting accounting firm. By yearend 2019, we expect to complete multiple quarterly closes; the first quarter close has already been completed. As we continue to work with our partnering firm and increase in-house staff capacity, this finding will be eliminated.

#### **2017-002 Material Weakness over Financial Reporting – Invoice Processing**

*Status: Unresolved; In progress*

AVCP did successfully implement new finance software by mid-year 2018. There were still training and process issues that needed further attention but overall if properly used, the software provides for timely processing and tracking on invoices. Additionally, AVCP was unable to fully implement its quarterly close procedure by yearend 2018. In early 2019, more of the work supporting a quarterly close process was contracted to our supporting accounting firm. By yearend 2019, we expect to complete multiple quarterly closes; the first quarter close has already been completed. As we continue to work with our partnering firms and increase in-house staff capacity, the conditions that led to invoices not being processed and recorded on time will eventually be eliminated.

#### **2017-003 Significant Deficiency over Financial Reporting – Accurate Tracking of Accrued Leave**

Prior Finding: 2016-003

*Status: Unresolved; In progress*

AVCP was unable to resolve this issue by yearend 2018. Employees whose accrued leave balance is incorrectly stated may contact the Payroll Department for a manual calculation of leave balances. This calculation receives a second review by the Payroll supervisor or Comptroller. AVCP's new Quality Improvement Officer (QIO) is project managing a complete overhaul of services provided by our outside payroll services vendor, ADP. This "refresh" is expected to resolve the issues of inaccurate tracking of accrued leave.

#### **2017-004 Material Weakness in Internal Control over Compliance - Eligibility**

Prior Finding: 2016-007, 2015-010, 2014-012

*Status: Resolved*

In early 2019, AVCP's TANF eligibility checklist procedure was amended to ensure that documentation of eligibility is timely included in each client's file. Staff has received training on the revised process.



**2017-005 Material Weakness in Internal Control over Compliance, Material Noncompliance – Cash Management**

Prior Finding: 2016-011

*Status: Resolved*

In October 2018, AVCP's draw down procedure was revised to include the addition of a draw down form which documents approvals from the program director, grant compliance accountant, and comptroller. The revised process and form ensure the proper review and documentation has occurred prior to initiating the draw down.

**2017-006 Material Weakness in Internal Control over Compliance, Material Noncompliance – Procurement**

Prior Finding: 2016-012

*Status: Unresolved; In progress*

By yearend 2018, all staff responsible for making and approving purchases had access to procurement and Microix training. In summer 2019, the procurement manual underwent extensive review and revisions to raise the procurement thresholds inline with the most recent OMB guidance and to refine the competitive procurement process (including the documentation process). As a result, procurement records will be more readily available when requested by auditors or others to confirm that the procurement process has been followed.

**2017-007 Material Weakness in Internal Control over Compliance, Material Noncompliance – Reporting**

Prior Finding: 2016-014, 2015-007, 2014-009

*Status: Resolved*

Corrective action has been taken to resolve the issues that led to this finding.

**2017-008 Material Weakness in Internal Control over Compliance, Material Noncompliance – Reporting**

Prior Finding: 2016-015, 2015-008, 2014-010

*Status: Resolved*

Corrective action has been taken to resolve the issues that led to this finding.

**2017-009 Material Weakness in Internal Control over Compliance, Material Noncompliance – Special Tests and Provisions**

*Status: Unresolved; In progress*

In early 2019, AVCP's contract policy was updated to require inclusion of Davis-Bacon language for applicable sub-contracts and the Transportation Department is now following a procedure for the tracking and review of this payroll information using Form WH-347.



**2017-010 Material Weakness in Internal Control over Compliance, Material Noncompliance – Special Tests and Provisions**

*Status: Unresolved; In progress*

In 2019, a plan was put in place for AVCP's External Committee, a committee made up of four to five executive board members (who have access to AVCP's legal and finance departments upon request), to receive the previous months' credit card expenditures and financial reports monthly by mail. In-person reports are provided at quarterly board meetings.

**2017-011 Significant Deficiency in Internal Control over Compliance – Period of Performance**

*Status: Resolved*

Corrective action has been taken to resolve the issues that led to this finding.

**2017-012 Material Weakness in Internal Control over Compliance - Eligibility**

Prior Finding: 2016-018, 2015-015, 2014-017

See 2017-04.

**2017-013 Material Weakness in Internal Control over Compliance, Material Noncompliance – Reporting**

Prior Finding: 2016-021, 2015-017, 2014-019

*Status: Resolved*

Corrective action has been taken to resolve the issues that led to this finding.

**2017-014 Material Weakness in Internal Control over Compliance, Material Noncompliance – Reporting**

Prior Finding: 2016-023, 2015-017, 2014-019

*Status: Resolved*

Corrective action has been taken to resolve the issues that led to this finding.

**2017-015 Material Weakness in Internal Control over Compliance, Material Noncompliance – Reporting**

Prior Finding: 2016-023, 2015-017, 2014-019

*Status: Resolved*

Corrective action has been taken to resolve the issues that led to this finding.

**2017-016 Material Weakness in Internal Control over Compliance, Material Noncompliance – Reporting**

Prior Finding: 2016-025, 2015-017, 2014-019

*Status: Resolved*

Corrective action has been taken to resolve the issues that led to this finding.

# ASSOCIATION OF VILLAGE COUNCIL PRESIDENTS

Raymond Watson, Chairperson | Vivian Korthis, CEO | AVCP.org



## Administration

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## 2018 AUDIT CORRECTIVE ACTION PLAN

The Association of Village Council Presidents (AVCP) is the largest non-profit tribal consortium in the United States with 56 Member Tribes. AVCP employs nearly 400 people and operates nineteen different essential programs throughout the Yukon-Kuskokwim Delta Region, a geographic area the size of the state of New York. The AVCP region has the highest rates of unemployment and is within the bottom 3% for per capita income by census district in the country. Over a ten-year period from 2005-2015 AVCP's programs experienced extraordinary growth and expansion in an effort to achieve region-wide impact. The intensity and complexity of this expansion began to overstretch the organization's administrative capacity. In the fall of 2015, the AVCP Executive Board and top administration initiated an organizational assessment to evaluate the impact of that growth. This assessment ultimately led to the initiation in January of 2016 of an organization-wide quality improvement process (QIP) which emphasized accountability, communication, transparency, and compliance, and focused on "growing our own" talent in the region.

Through the QIP, which is now in the final quarter of our fourth year, AVCP has launched dozens of new initiatives impacting every department in the organization. The largest initiative to date was the monumental process of switching finance software. The old system was not designed for a non-profit, thus endless work-arounds had been created in the system to enable it to function as needed. The multitude of work-arounds made the cumbersome system difficult to use, but it also made it exponentially more difficult to transition away from. Thus, the finance software transition, which had begun in the fall of 2016 with a careful planning phase, continued well into 2018. However, since the completion of that software transition in mid-2018, AVCP has been able to focus more effort on building and strengthening the skills and talents of our finance and grants compliance staff.

Akiachak, Akiak, Alakanuk, Andreafski, Aniak, Arnaautuak, Bethel, Bill Moore's Sl., Chefonak, Chevak, Chuathbaluk, Chuloonawick, Crooked Creek, Eek, Emmonak, Georgetown, Goodnews Bay, Hamilton, Hooper Bay, Lower Kalskag, Upper Kalskag, Kasigluk, Kipnuk, Kongiganak, Koflik, Kwethluk, Kwigillingok, Lime Village, Marshall, Mekoryuk, Mtn. Village, Napaimute, Napakiak, Napaskiak, Newtok, Nighthute, Nunakauyak, Nunam Iqua, Nunapitchuk, Ohogamiut, Oscarville, Paimiut, Pilot Station, Pitka's Point, Platinum, Quinhagak, Red Devil, Russian Mission, Scammon Bay, Sleetmute, St. Mary's, Stony River, Tuluksak, Tuntutuliak, Tununak, Ukmumiut



In early 2019, after the completion of the difficult 2017 year audit, a corrective action plan was developed that addressed the then-reality that timely quarterly closes had yet to be accomplished. That plan stated that AVCP intended to begin outsourcing significant portions of finance's day-to-day operations before the end of 2019. The underlying long-term strategy of such outsourcing was to relieve the immediate pressure on staff, and thus allow room for them to receive the training and mentoring needed to eventually bring some or all of such work back in-house. The outsourcing process was initiated in the fourth quarter of 2018 under the leadership of a newly-added consultant, referred to as the "Quality Improvement Officer," whose efforts were undertaken with management in conjunction with AVCP's long-time external partners who had come onboard mid-2015 and thereafter. Throughout the course of 2019, AVCP outsourced all remaining payroll functions, our travel department, all pre-audit support work, expense reporting, and we significantly increased our quarterly close support. As a result, staff felt better able to manage their day-to-day, which allowed time for growth and training. Through the course of 2019, we found a balance between the external support of trusted partners and internal operations. Accordingly, AVCP has halted plans to outsource any further finance department functions and has continued to make substantial process with the current level of external support and achievements in internal capacity building. We are thrilled that our efforts have resulted in fewer findings in the 2018 audit and expect that trend to continue, as we can now report that by the close of 2019, AVCP will successfully have completed quarter closes.

Finally, this past year the organization launched the implementation of QIP's Phase II, the goal of which is to institutionalize the QIP changes at every level of the company. Through this initiative, which is being facilitated by the new Quality Improvement Officer's efforts with management, AVCP has undergone a comprehensive strategic planning process involving every level of the company. This work has laid the foundation for AVCP to continue to improve its administrative functions and service delivery to better serve the people of our beloved Region.

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**Note 2018-001 Timely Reconciliation of Books and Records**

Expected Completion Date:

December 31, 2019

Corrective Action:

In 2019, more of the work supporting a quarterly close process was contracted out to the outside partner who has been working with AVCP since 2015, a large accounting firm with a large non-profit client base. This outside partner also took over supervision of the 2018 year's close and associated audit preparation work, which alleviated significant burdens on internal finance staff allowing for better day-to-day management in the short-term. As these pieces were outsourced, our finance employees' capacity grew and their progress contributed to significant favorable improvements in the organization's overall administrative operations. AVCP believes it has finally achieved the right balance of internal staffing and external support, and we will complete Q1-Q3 2019 quarterly closes before the end of 2019.

**Note 2018-002 Invoice Processing**

Expected Completion Date:

December 31, 2019

Corrective Action:

Since 2016, AVCP has allocated considerable resources to develop and strengthen controls, and ensure sound financial controls are functioning as intended. One key aspect of this investment was the implementation of MIP not-for-profit accounting software, which was finally completed in late-spring 2018. However, the difficulties we have encountered finding qualified in-house financial staff have prevented us from executing our established monthly, quarterly, and annual closing checklist to ensure all accounts are reconciled and reported timely and accurately. Which is why in 2019, we contracted out much of the work supporting the quarterly close process. This outsource, along with a few other functions, have allowed AVCP to find the right balance of internal staffing and external support. Through this hybrid model, AVCP is confident that staff will timely identify necessary process improvements, and issues related to invoice processing will be eradicated in coming years.

**Note 2018-003 Accurate Tracking of Accrued Leave**

Completion Date:

December 31, 2019

Corrective Action:

AVCP has worked with outside vendor ADP for payroll services since the summer of 2016. In late 2017, we integrated ADP into our new not-for-profit accounting software. However, both the initial ADP conversion, and the subsequent integration, caused problems that were difficult to correct. In September 2018, AVCP hired a Quality Improvement Officer to better support the operational improvements underway, and her first project was to manage the correction of payroll issues. This work led to a new agreement with ADP, and in 2019 AVCP



underwent a complete overhaul of ADP services. This “refresh” is expected to resolve the concerns identified by this finding and will be completed by the end of the 2019 calendar year. In the meantime, employees whose accrued leave balance is incorrectly stated may contact the Payroll Department for a manual calculation of their leave balance, which receives a secondary review by the Payroll supervisor or Comptroller for accuracy.

**Note 2018-004 Procurement**

Expected Completion Date:

December 31, 2019

Corrective Action:

In the summer of 2019, AVCP performed a complete overhaul of its procurement policy and related procedures, as well as providing additional training and support for the procurement specialist and other key staff members. This should ensure better compliance in the future.

**Note 2018-005 Special Tests and Provisions**

Completion Date:

February 28, 2019

Corrective Action:

In February 2019, the legal department’s contract policy was updated to require inclusion of Davis-Bacon language for all applicable sub-contracts. The contract language requires subcontractors to regularly submit payroll information, to verify compliance with the law. The transportation department has created a procedure for the tracking and review of this payroll information.

**Note 2018-006 Special Tests and Provisions**

Completion Date:

September 30, 2019

Corrective Action:

The AVCP Executive Board is the governing body for our Head Start grant. The Executive Board’s External Committee is responsible for overseeing all program compliance. The Executive Board and its committees meet quarterly. The External Committee receives Head Start program reports at their quarterly meetings and then reports out to the Executive Board. Beginning in 2019, internal controls were established to ensure that monthly financial reports and credit card expenditures are provided to the External Committee, as well as a process for ensuring the required yearly public financial disclosures are published.