

CITY AND BOROUGH OF SITKA, ALASKA

Comprehensive Annual Financial Report

Year Ended June 30, 2009

David L. Wolff, Finance Director

CITY AND BOROUGH OF SITKA, ALASKA

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City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

December 18, 2009

To the Honorable Mayor Scott McAdams,
Assembly Members and
Citizens of the City and Borough of Sitka, Alaska:

The Assembly of the City and Borough of Sitka has elected to issue each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that request, we hereby issue the comprehensive annual financial report of the City and Borough of Sitka, Alaska for the fiscal year ended June 30, 2009.

This report consists of management's representations concerning the finances of the City and Borough of Sitka. Consequently, management assumes full responsibility for the completeness and reliability of all of the information present in this report. To provide a reasonable basis for making these representations, management of the City and Borough of Sitka has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City and Borough of Sitka's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City and Borough of Sitka's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City and Borough of Sitka's financial statements have been audited by Mikunda, Cottrell & Co., Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City and Borough of Sitka for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit that they will render an unqualified opinion on the City and Borough of Sitka's financial statements for the fiscal year ended June 30, 2009. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City and Borough of Sitka was part of a broader, state and federally mandated "Single Audit" designed to meet the special needs of state and federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and legal requirements involving the administration of state and federal awards. These reports are available in the City and Borough of Sitka's separately issued Single Audit Reports.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD & A). This letter of transmittal is designed to complement the MD & A and should be read in conjunction with it. The City and Borough of Sitka's MD & A can be found immediately following the report of the independent auditors.

Profile of Government

The City and Borough of Sitka, incorporated in 1971, is located on Baranof and Chicagof Islands which are located along the Inside Passage in Southeast Alaska. Sitka is situated on the west coast of Baranof Island, contained within the largest temperate rain forest in the world. Most of this rain forest is part of the Tongass National Forest. The City and Borough of Sitka currently occupies a land area of 2,894 square miles, a water area of 1,816 square miles and serves a population of 8,615. The City and Borough of Sitka is empowered to levy a property tax on both real and personal properties located within its boundaries. The City and Borough of Sitka also levies a sales tax on sales within the City and Borough.

The City and Borough of Sitka has operated under the Assembly-Administrator form of government since 1971. Policy-making and legislative authority are vested in a governing assembly consisting of the Mayor and six other members. The Assembly is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the government's Administrator and Attorney. The administrator is responsible for carrying out the policies and ordinances of the Assembly, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The Assembly is elected on a non-partisan basis. Assembly members serve three-year staggered terms, with two Assembly members elected each year. The Mayor is elected to serve a two-year term. The Mayor and Assembly members are elected at large.

The City and Borough of Sitka provides a full range of services, including police and fire protection; ambulance service; the construction and maintenance of streets and other infrastructure; recreational facilities and cultural events. Other services include electricity, water, waste water treatment, solid waste disposal and recycling, moorage within the harbor system, cold storage facility, and leases within the industrial park. These services represent different departments in the City and Borough of Sitka and therefore have been included as an integral part of the City and Borough of Sitka's financial statements. The City and Borough of Sitka also is financially accountable for a legally separate school district, hospital, and convention and visitors bureau, all of which are reported separately within the City and Borough of Sitka's financial statements. Additional information on all four of these legally separate entities can be found in Note 1 in the notes to the financial statements.

The annual budget serves as the foundation for the City and Borough of Sitka's financial planning and control. All departments of the City and Borough of Sitka are required to submit requests for appropriation to the Budget Officer on or before the 15th of January each year. The Budget Officer compiles and presents the draft budget to the Administrator on or before the 15th of March. The Administrator then presents this proposed budget to the Assembly for review on or before the 15th of April. As set forth in the Home Rule Charter of the City and Borough of Sitka for budget performance, the following dates outline the Charter's requirements: (1) not later than 60 days before the end of the current fiscal year, the Administrator shall submit to the Assembly a budget for the following fiscal year, a capital improvements program and an accompanying explanatory message of both; (2) not later than 15 days before the end of the current fiscal year, a public hearing shall be held on the budget and capital improvements program; (3) the Assembly by ordinance shall adopt a budget (for the next fiscal year) not later than 10 days before the end of the current fiscal year. The appropriated budget is prepared by fund and department (e.g., police). The Administrator may make transfers of appropriations within a department, with the exception of line items for salary and benefits, travel and training, and capital assets. Assembly approval is needed for the above three line items within each department's budget. Transfers of appropriations between departments and/or funds, however, require the approval of the Assembly. Budget-to-actual comparisons are provided in this report for the General Fund for which an appropriated annual budget has been adopted. The General Fund's comparison is presented on page 22-26 as part of the basic financial statements for the governmental funds.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City and Borough of Sitka operates.

Local economy. The City and Borough of Sitka's principal economic base is fishing, fish processing, government, tourism, and related businesses. The harvesting, processing and sale of timber has steadily declined since the closure of the Alaska Pulp Corporation pulp mill in September of 1993. An increase in fish processing, tourism, educational institutions and healthcare has offset some of the decline in timber, but over the longer term, lower paying jobs will not compensate for the loss of high paying timber employment.

Population estimates for the Municipality fell from 8,644 in 2007 to 8,615 in 2008. Total gross business sales for 2009 rose over 2.8% compared to 2008 sales. This increase is due to additional cruise ship passengers and the construction industry growth.

Long-term financial planning. The City and Borough of Sitka's Assembly continues to promote the development of the Sawmill Cove Industrial Park for new and expanding businesses. The industrial site was the location of the Alaska Pulp Corporation mill which was given to the City and Borough of Sitka after a substantial cleanup of the site by Alaska Pulp Corporation. The Assembly passed a resolution for two projects for inclusion in the Governor's Access to the Future projects list for projects that are sustainable and create jobs and income. Both projects are located at the Sawmill Cove Industrial Park and consist of multi-purpose bulkheads and a hatchery and fish processing plant. Project costs range from \$4.7 million to \$5 million.

Cash management policies and practices. The City and Borough of Sitka utilizes a central treasury to aggregate cash from all funds except the component units listed herein, for cash management and investment purposes. Interest income on investments is allocated monthly to participating funds based on their average equity balance.

The City and Borough of Sitka's investment policy authorizes investment in obligations of the United States government, its agencies and instrumentalities, bankers' acceptances, mutual funds, commercial paper and the Alaska Municipal League investment pool. The investment policy also places limitations on maturity of investments. In addition, investment guidelines are contained in an Investment Policy passed, approved and adopted by the City and Borough of Sitka's Assembly.

Risk management. During FY2009, the Municipality continued a limited risk management program for workers' compensation. Various controls techniques, including employee accident prevention training, have been implemented during the year to minimize accident-related losses. Third-party coverage is currently maintained for individual workers' compensation claims and all other potential losses.

Pension and other postemployment benefits. The City and Borough of Sitka and the Sitka Community Hospital provide pension benefits for all eligible employees through the State of Alaska Public Employees Retirement System (PERS). The Municipality and Hospital has no obligations in connection with the employee benefits offered through this plan beyond its annual required payment to the pension plan.

The Sitka School District provides pension benefits for all eligible employees through PERS and Teachers Retirement System (TRS). The School District has no obligations in connection with employee benefits offered through these plans beyond its annual required payments to the pension plans.

Additional information on pension arrangements and postemployment benefits can be found starting on page 60 in the notes to the financial statements.

Acknowledgments

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the staff of the Finance Department, especially Larry Fitzsimmons, Janet Schwartz, Sally Kimmel, and Lesly Peters. My appreciation is extended to all members of the Finance Department who assisted and contributed to the preparation of this report. We also want to thank you, the members of the City and Borough of Sitka's Assembly, for your interest and support in conducting the financial operations of the City and Borough of Sitka in a responsible and progressive manner.

Respectfully submitted,

David L. Wolff
Finance Director

CITY AND BOROUGH OF SITKA, ALASKA

Elected Officials

ASSEMBLY

Scott McAdams, Mayor

Nancy Cavanaugh

Phyllis Hackett

Jack Ozment

Larry Crews

Reber Stein

Cheryl Westover

ADMINISTRATION

Jim Dinley, Municipal Administrator

Theresa Hillhouse, Municipal Attorney

Colleen Ingman, Municipal Clerk

Michael Harmon, Public Works Director

Chris Brewton, Electric Utility Director

David Wolff, Finance Director