



# City and Borough of Sitka, Alaska

Federal and State Single Audit Reports  
Year Ended June 30, 2019

# City and Borough of Sitka, Alaska

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Federal and State Single Audit Reports  
Year Ended June 30, 2019

# City and Borough of Sitka, Alaska

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3601 C Street, Suite 600  
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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*

Honorable Mayor and Borough Assembly  
City and Borough of Sitka, 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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City and Borough of Sitka, Alaska, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City and Borough of Sitka's basic financial statements and have issued our report thereon dated December 27, 2019. Our report includes a reference to other auditors who audited the financial statements of Sitka Community Hospital and Sitka School District, as described in our report on City and Borough of Sitka's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City and Borough of Sitka's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of City and Borough of Sitka's internal control. Accordingly, we do not express an opinion on the effectiveness of City and Borough of Sitka's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether City and Borough of Sitka's 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*.

## 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 City and Borough of Sitka'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 City and Borough of Sitka's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, LLP*

Anchorage, Alaska  
December 27, 2019



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

Honorable Mayor and Borough Assembly  
City and Borough of Sitka, Alaska

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

We have audited City and Borough of Sitka's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City and Borough of Sitka's major federal programs for the year ended June 30, 2019. City and Borough of Sitka's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

City and Borough of Sitka's basic financial statements include the operations of its component unit, the Sitka School District which received \$2,498,922 of federal awards which is not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2019. Our audit, described below, did not include the operations of Sitka School District because it was subjected to a separate audit in accordance with the Uniform Guidance.

#### ***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 City and Borough of Sitka's 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 City and Borough of Sitka's 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 federal program. However, our audit does not provide a legal determination of City and Borough of Sitka's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, City and Borough of Sitka 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 major federal programs for the year ended June 30, 2019.

### **Report on Internal Control Over Compliance**

Management of City and Borough of Sitka 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 City and Borough of Sitka's 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 City and Borough of Sitka's 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 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. 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City and Borough of Sitka as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City and Borough of Sitka's basic financial statements. We issued our report thereon dated December 27, 2019 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*BDO USA, LLP*

Anchorage, Alaska  
December 27, 2019





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

Honorable Mayor and Borough Assembly  
City and Borough of Sitka, Alaska

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

We have audited City and Borough of Sitka's 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 City and Borough of Sitka's major state programs for the year ended June 30, 2019. City and Borough of Sitka's major state programs are identified in the accompanying Schedule of State Financial Assistance.

City and Borough of Sitka's basic financial statements include the operations of its component unit, the Sitka School District which received \$15,297,092 of state awards which is not included in the Schedule of State Financial Assistance for the year ended June 30, 2019. Our audit, described below, did not include the operations of Sitka School District because it was subjected to a separate audit in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

#### ***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 City and Borough of Sitka's 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 City and Borough of Sitka's 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 City and Borough of Sitka's compliance.

### *Opinion on Each Major State Program*

In our opinion, City and Borough of Sitka 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 major state programs for the year ended June 30, 2019.

### **Report on Internal Control Over Compliance**

Management of City and Borough of Sitka 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 City and Borough of Sitka's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 City and Borough of Sitka's 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. 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.

**Report on Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits***

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City and Borough of Sitka as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City and Borough of Sitka's basic financial statements. We issued our report thereon dated December 27, 2019 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the basic financial statements. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of State Financial Assistance is fairly stated in all material respects, in relation to the basic financial statements as a whole.

*BDO USA, LLP*

Anchorage, Alaska  
December 27, 2019

**City and Borough of Sitka, Alaska**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>Department of Agriculture</b>				
Forest Service Schools and Roads Cluster: Schools and Roads - Grants to States	10.665		\$ -	\$ 529,232
Passed through the State of Alaska Division of Forestry: Cooperative Forest Assistance	10.664	16DG11100106810	-	3,285
Total Department of Agriculture			-	532,517
<b>Department of the Homeland Security</b>				
Passed through the State of Alaska Department of Military and Veterans Affairs: Hazard Mitigation Grant	97.039	4244.0001	-	9,750
Electronic Baggage Screening Program	97.117		-	39,043
Total Department of Homeland Security			-	48,793
<b>Department of the Interior</b>				
Payments in Lieu of Taxes	15.226		-	714,261
Passed through the State of Alaska Department of Natural Resources:				
Historic Preservation Fund Grants-In-Aid	15.904	17004	21,536	21,562
Historic Preservation Fund Grants-In-Aid	15.904	18002	-	21,736
Historic Preservation Fund Grants-In-Aid	15.904	18003	18,196	39,932
Total passed through the State of Alaska Department of Natural Resources			39,732	83,230
Passed through the U.S. Fish and Wildlife Service Fish and Wildlife Management Assistance	15.608	F18AC00848	-	31,087
Total Department of the Interior			39,732	828,578
<b>Department of Justice</b>				
Bullet Proof Vest Partnership Program	16.607		-	879
Bullet Proof Vest Partnership Program	16.607		-	443
Total CFDA 16.607			-	1,322
Passed through the State of Alaska Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program	16.738	19-JAG3	-	31,090
Total Department of Justice			-	32,412

*See accompanying notes to the schedule.*

**City and Borough of Sitka, Alaska**  
**Schedule of Expenditures of Federal Awards, continued**  
**Year Ended June 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>Environmental Protection Agency</b>				
Passed through State of Alaska Department of Environmental Conservation:				
Drinking Water State Revolving Fund Cluster:				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	783111	\$ -	\$ 184,524
Capitalization Grants for Drinking Water State Revolving Funds	66.468	783531	-	173,164
Total Drinking Water State Revolving Fund Cluster			-	357,688
<b>Department of Transportation</b>				
Passed through the Western Federal Lands				
Highway Division:				
Highway Planning and Construction Cluster	20.205	DTFH70-16-E-00028	-	46,529
<b>Department of Education</b>				
Grants to States	45.310		-	1,226
Total Expenditures of Federal Awards			\$ 39,732	\$ 1,847,743

*See accompanying notes to the schedule.*

**City and Borough of Sitka, Alaska**  
**Schedule of State Financial Assistance**  
**Year Ended June 30, 2019**

State Grant Title	Grant Number	Total Grant Award	Passed Through to Subrecipients	State Share of Expenditures
<b>Department of Military &amp; Veteran Affairs</b>				
Passed through the Alaska State Library Association - Alaska Public Library Assistance Grant	PLA-19-751-01	\$ 7,000	\$ -	\$ 7,000
Local Hazard Mitigation Plan Update	4244.0001	23250	-	3,250
Local Emergency Planning Committee Grant	20LEPC-GY19	16,551	-	16,551
Total Department of Military & Veteran Affairs			-	26,801
<b>Department of Commerce, Community and Economic Development</b>				
Eagle Way and Old Harbor Mountain Road Upgrades	13-DC-481	1,500,000	-	17,139
Baranof Warm Spring Dock Improvement & Ownership Transfer	13-DC-497	1,900,000	-	11,330
* Nelson Logging Road Upgrade and Ownership Transfer	13-DC-517	2,343,000	-	575,958
Marijuana License Fees	2019	2,400	-	2,400
Shared Fisheries Business Tax	2019	26,537	-	26,537
* Community Assistance Program	2019	543,229	-	543,229
Total Department of Commerce, Community and Economic Development			-	1,176,593
<b>Alaska Energy Authority</b>				
* Blue Lake Hydroelectric Expansion Project	7910013	28,450,000	-	394,405
<b>Department of Education and Early Development</b>				
* Debt Reimbursement Program	FY19	2,458,721	-	2,458,721
<b>Department of Administration</b>				
* State PERS Relief	2019	690,780	-	690,780
Auto Tax	2019	84,188	-	84,188
Total Department of Administration			-	774,968
<b>Department of Revenue</b>				
Liquor License Revenue Sharing	2019	24,700	-	24,700
* Commercial Passenger Vessel	2019	396,800	-	396,800
* Fisheries Raw Fish Tax	2019	1,188,722	-	1,188,722
Total Department of Revenue			-	1,610,222
<b>Department of Transportation and Public Facilities</b>				
Sitka Transient Float Replacement Program	15-HG-002	2,576,118	-	64,947
<b>Total State Financial Assistance</b>			<b>\$ -</b>	<b>\$ 6,506,657</b>

*See accompanying notes to the schedule.*

\* Indicates a State Major Program

# City and Borough of Sitka, Alaska

## Notes to the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance *Year Ended June 30, 2019*

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### 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance (the "Schedules") includes the federal and state grant activity of City and Borough of Sitka, Alaska under programs of the federal and state government for the year ended June 30, 2019. The information in these schedules 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) and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedules present only a selected portion of the operations of the City and Borough of Sitka, they are not intended to and do not present the financial position, changes in net position or cash flows of City and Borough of Sitka.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the modified accrual basis of accounting. Such expenditures are recognized following 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, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

### 3. Indirect Cost Rate

The City and Borough of Sitka has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

### 4. PERS On-Behalf

The City and Borough of Sitka has recorded \$690,780 in PERS On-Behalf payments in the Schedule of State Financial Assistance. This represents the PERS relief payment appropriated and transferred into the plan during FY2019.

In the governmental fund financial statements, on-behalf revenue and expenditures have been recognized in the year appropriated and transferred to the plan. However, in the full accrual financial statements, GASB 68 provisions prescribe that on-behalf pension contributions in a special funding situation may only be recognized during the measurement period in which the plan recognizes the contributions, effectively creating a one-year timing difference between the cash contribution and revenue and expense recognition by the City and Borough.

As a result of these perspective and timing differences, amounts reported in the financial statements do not agree to the amounts reported on the Schedule of State Financial Assistance.

# City and Borough of Sitka, Alaska

## Schedule of Findings and Questioned Costs Year Ended June 30, 2019

**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?                        yes                      X  no  
 Significant deficiency(ies) identified?               yes                      X  none reported

Noncompliance material to financial statements noted?       yes                      X  no

***Federal Awards***

Internal control over major federal 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 federal programs: Unmodified

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

Identification of major federal programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Agency</i>
15.226	Payment in Lieu of Taxes	U.S Department of the Interior

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?                      X  yes                        no

***State Financial Assistance***

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

Internal control over major state programs:

Material weakness(es) identified?                        yes                      X  no  
 Significant deficiency(ies) identified?               yes                      X  (none reported)

Dollar threshold used to determine a state major program: \$ 150,000



# City and Borough of Sitka, Alaska

## Schedule of Findings and Questioned Costs, continued

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

There were no findings required to be reported in accordance with *Government Auditing Standards*.

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

There were no findings and questioned costs for federal awards (as defined in section 2 CFR 200.516(a)) that are required to be reported.

### Section IV - State Award Findings and Questioned Costs

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