



REPORT TO THE HONORABLE MAYOR AND MEMBERS  
OF THE BOROUGH ASSEMBLY

# CITY AND BOROUGH OF SITKA, ALASKA

2025 AUDIT RESULTS

JANUARY 27, 2026

**BDO**<sup>®</sup>

# Welcome

January 21, 2026

Honorable Mayor and Members of the Borough Assembly

City and Borough of Sitka, Alaska

We look forward to discussing with you the current year audit results for City and Borough of Sitka. We presented an overview of our plan for the audit of the financial statements of the City and Borough of Sitka (the Borough) as of and for the year ended June 30, 2025.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Borough's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Borough is responsible.

We are pleased to be of service to the Borough and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

*BDO USA*

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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors) and, if appropriate, management of the Borough, and is not intended and should not be used by anyone other than these specified parties.

# Executive Summary



# Executive Summary

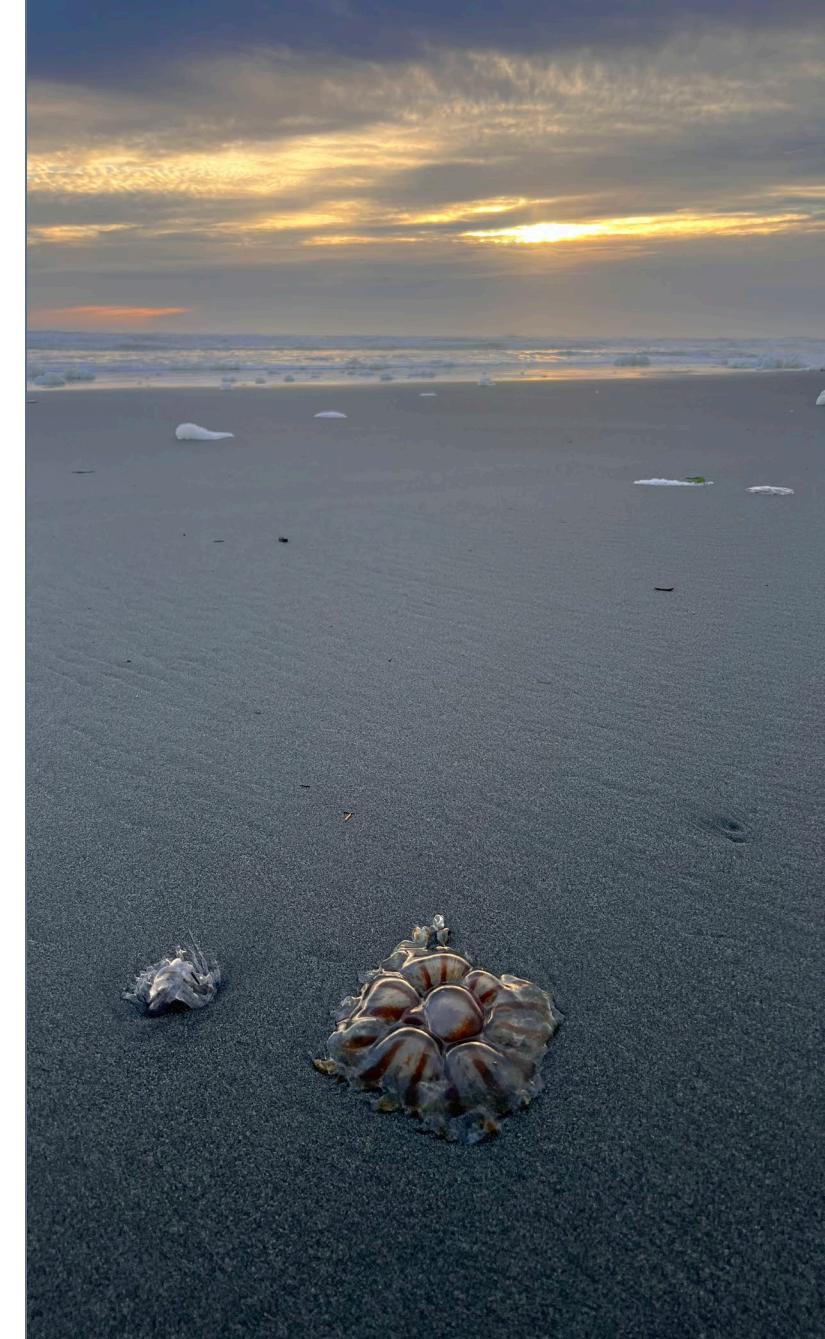
## Results of Our Audit

- Overview and Status :We have substantially completed our audit work with respect to the financial statements for the year ended June 30, 2025.
- Quality of the Borough's Financial Reporting
- Significant Risk Overview & Discussion
- Corrected and Uncorrected Misstatements
- Internal Control Over Financial Reporting

## Required Communications

- No significant items

## Open Discussion and Questions



# Audit Results



# Overview & Status of Our Audit

We have substantially completed our audit of the financial statements as of and for the year ended June 30, 2025. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Plan communications.
- ▶ We plan to issue an unmodified opinion on the financial statements and release our report when the School District financial statements are available.
- ▶ We plan to issue an unmodified opinion on the Borough's Single Audit reports, including the Schedule of Expenditures of Federal Awards (SEFA), Schedule of State Financial Assistance (SSFA), and Schedule of Passenger Facility Charges and release our reports when the School District financial statements are available.
- ▶ In planning and performing our audit of the SEFA and SSFA, we considered the Borough's internal control over compliance with requirements that could have a direct and material effect on its major federal and state programs to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with GAS and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the *State of Alaska Single Audit Guide and Compliance Supplement*, and the Federal Aviation Administration's *Passenger Facility Charge Audit Guide for Public Agencies*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.
- ▶ Our responsibility for other information in documents containing the Borough's audited financial statements (e.g. budgetary comparisons, schedules of pension and OPEB amounts) does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Borough and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.



# Quality of the Borough's Financial Reporting

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

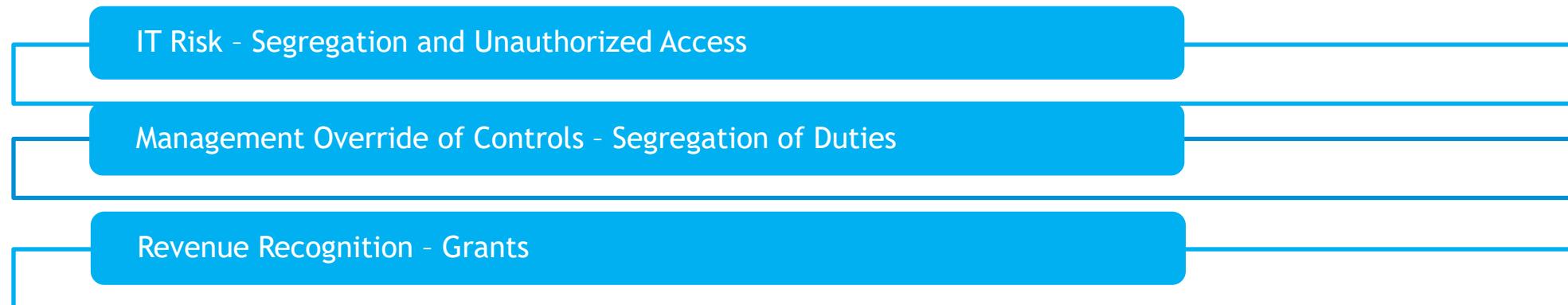
- ▶ Qualitative aspects of significant accounting policies and practices
  - No concerns.
- ▶ Our assessment of critical accounting estimates, accounting policies and practices
  - No concerns.
- ▶ Significant unusual transactions
  - None identified.
- ▶ Financial statement presentation
  - No new presentation or disclosures.
- ▶ New accounting pronouncements
  - No new accounting pronouncements.
- ▶ Alternative accounting treatments
  - None identified.



# Areas of Significant Risk, Corrected and Uncorrected Misstatements

## AREAS OF SIGNIFICANT RISK

- Our areas of significant risk, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations, are as follows.



## CORRECTED AND UNCORRECTED MISSTATEMENTS

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

# Internal Control Over Financial Reporting



# Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Borough's internal control over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Control Deficiency	A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Borough's financial statements will not be prevented or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

# Internal Control Over Financial Reporting

- We have communicated to management of the Borough control deficiencies that were identified as a result of our audit that we did not consider to be material weaknesses or significant deficiencies.

Control Deficiency	Comments
Superuser Access	The Finance Director has administrative access to the financial accounting system. In addition, the Finance Director, Controller, Accountant, and Senior Accountant have the ability to enter, post and approve their own journal entries within the financial accounting system. Sitka should continue to perform audit trail reporting and monitoring to ensure controls over this access and authority.

# Detail of Significant Accounting Practices, Policies, Estimates and Disclosures



# Significant Accounting Practices (including Policies, Estimates and Disclosures)

## ACCOUNTING PRACTICES, POLICIES, ESTIMATES, AND DISCLOSURES

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

the Borough's significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with the applicable financial reporting framework and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 16 to the Borough's financial statements.
- ▶ There were no changes in significant accounting policies and practices during 2025.
- ▶ Critical accounting estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. the Borough's critical accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Note 1 of the financial statements.

### Critical Accounting Estimates

**Allowance for Uncollectible Accounts** - Grant receivables are considered by 100% collectible. Customer accounts receivables are evaluated periodically and an allowance for uncollectible amounts is recorded.

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

**Landfill Closure and Post Closure Obligations** - The Borough has estimated the cost of closure based on engineering estimates of material and labor.

**Depreciation** - Capital assets are depreciated over an estimated useful life.

**Discount Rate** - The Borough is determining discount rate based on lessee or lessor relationship as well as length of agreement for calculations related to leases receivable and payable and SBITA's.

- ▶ Management did not make any significant changes to the processes or significant assumptions used to develop the critical accounting estimates in 2025.

# Additional Required Communications



# Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the Borough:

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Plan communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Borough's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Alternative accounting treatment	No alternative accounting treatments permissible under the applicable financial reporting framework for policies and practices related to material items were identified and discussed with management.
Significant unusual transactions	During the year ended, June 30, 2025, we were not aware of any significant unusual transactions.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of requirements of an applicable financial reporting framework.
Significant matters identified by component auditors	During the component auditor's procedures, there were no significant matters identified that were deemed necessary to bring to group management's attention.
Significant findings and issues arising during the audit in connection with the Borough's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.

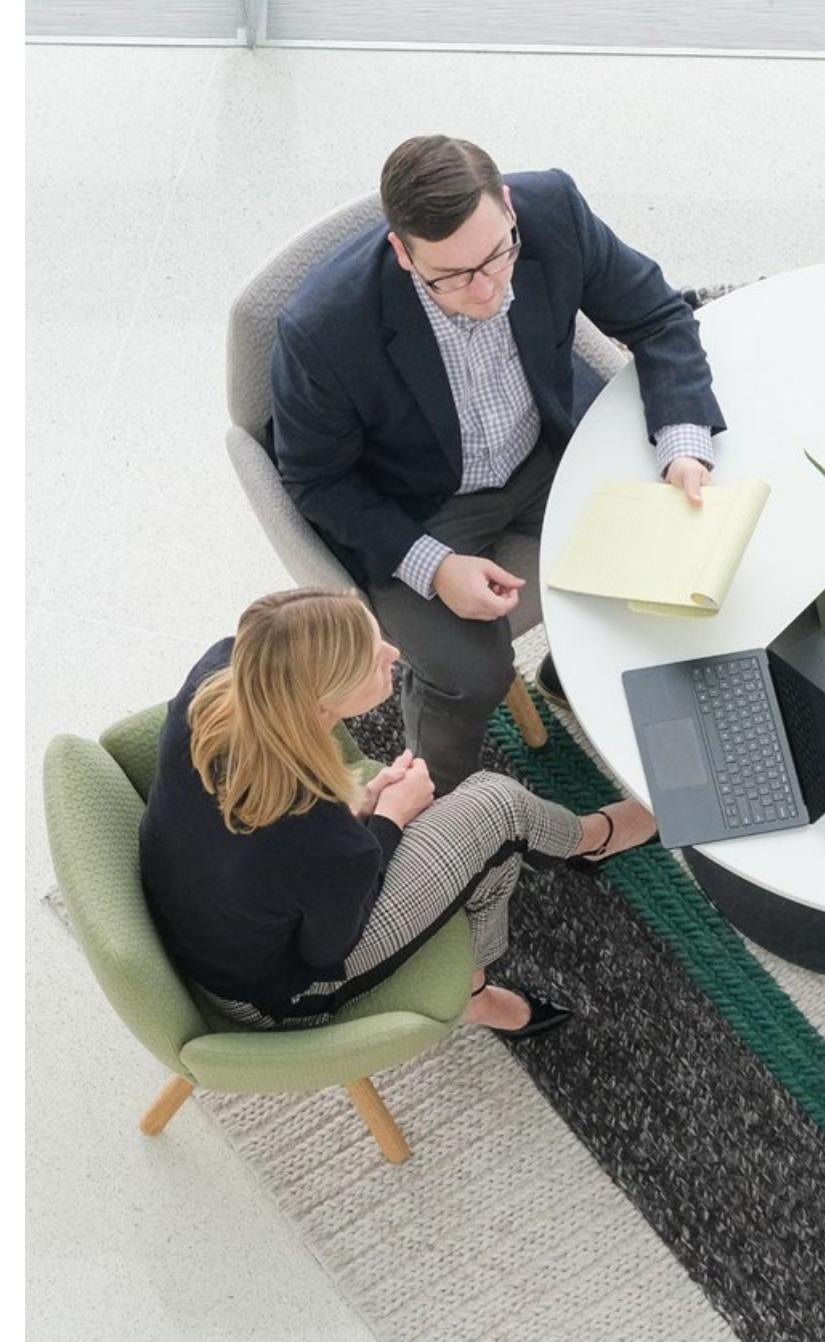
# Other Required Communications (cont.)

Following is a summary of other required items, along with specific discussion points as they pertain to the Borough:

Requirement	Discussion Point
Significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management	There were no significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management.
Results of procedures performed related to other information included in annual report	the Borough releases additional annual information with their financial statements, and as a result, additional procedures were required to be performed on this information. See additional procedures listed below with their results.
Representations requested from management	Please refer to the management representation letter.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Borough's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to those charged with governance regarding their oversight of the financial reporting process.

# Independence

Our engagement letter to you dated June 13, 2025, describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* regarding independence and the performance of our services. This letter also stipulates the responsibilities of the Borough with respect to independence as agreed to by the Borough. Please refer to that letter for further information.



## Other Topics



# BDO's System of Quality Management

An audit firm's effective system of quality management ("SoQM") is crucial for supporting the consistent performance of high-quality audits and reviews of financial statements, or other assurance or related services engagements under professional standards, and applicable legal and regulatory requirements.

Accordingly, BDO has implemented a SoQM designed to provide reasonable assurance that its professionals fulfill their responsibilities and conduct engagements in accordance with those standards and requirements. The firm's SoQM supports the consistent performance of quality audits through many ongoing activities including, at least annually, certification by leaders with responsibility for key controls and related processes. Our Assurance Quality Management team performs regular reviews and testing of key controls and processes throughout the SoQM and identifies and communicates areas for improvement. In addition, our Audit Quality Advisory Council supports our SoQM by providing guidance and input on audit quality initiatives.

As required by International Standard on Quality Management 1 (ISQM 1) under the International Auditing and Assurance Standards Board (IAASB), BDO has conducted an evaluation of the effectiveness of its system of quality management and concluded, as of July 31, 2024, that, except for certain deficiencies related to the execution of its issuer audits, that system provides the reasonable assurance that our professionals will perform audits and reviews of financial statements or related assurance services engagements in accordance with professional standards, and applicable legal and regulatory requirements. BDO has either implemented or is designing remedial actions to address those deficiencies prior to our next evaluation.



We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO's system of quality management within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).

[CLICK HERE TO ACCESS IAASB ISQM-1 IN ITS ENTIRETY >](#)

## About BDO USA

Our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes and value for our people, our clients, and our communities. BDO is proud to be an ESOP Borough, reflecting a culture that puts people first. BDO professionals provide assurance, tax, and advisory services for a diverse range of clients across the U.S. and in over 160 countries through our global organization.

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Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

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