



City of Saxman, Alaska -- Letter to the City Council

For the Year Ended June 30, 2022

January 4, 2023

To the Honorable Mayor and City Council of the City of Saxman
Saxman, Alaska

I have audited the financial statements of the City of Saxman (the City) as of and for the year ended June 30, 2022, and have issued my report thereon dated January 4, 2023. Professional standards require that I advise you of the following matters relating to my audit.

My Responsibility in Relation to the Financial Statement Audit

As communicated in my engagement letter dated May 1, 2022, my responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. My audit of the financial statements does not relieve you or management of its respective responsibilities.

My responsibility, as prescribed by professional standards, is to plan and perform my audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of my audit, I considered the internal control of the City solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

I am also responsible for communicating significant matters related to the audit that are, in my professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, I am not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

I conducted my audit consistent with the planned scope and timing that I previously communicated to you.

Compliance with all Ethics Requirements Regarding Independence

I have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. During

the fiscal year ended June 30, 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement 87 – *Leases*, and GASB Statement 96 - *Subscription-based Information Technology Arrangements*, as further described in Note 17. No matters have come to my attention that would require me, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered During the Audit

I encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that I believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require me to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require me to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of my audit procedures. Management requested that I determine the following adjustments as part of my professional services. These were brought to the attention of, and recorded by, management:

- Adjustments to the PERS and OPEB and PERS related accounts as of June 30, 2022. For the government as a whole, the adjustments decreased net pension liability by \$12,000 and increased the net OPEB asset by \$237,000, decreased deferred outflows of resources by \$18,000, increased deferred inflows of resources by \$244,000, and increased pension and OPEB expense by \$12,000 for the year ended June 30, 2022.
- Adjustment to implement GASB 87 for the year ended June 30, 2022. This entry increased leases receivable and related deferred inflows of resources at the beginning of the fiscal year by \$44,502.
- Adjustments to record prior year's audit adjustments that had not been recorded by the City in order for fund balances and net position to properly rollforward totaling \$81,922 in net debit to fund balances and net position for the government as a whole.
- Adjustment to record principal and interest payments on a loan to the bank in the debt service fund totaling \$26,798. The payments were made in the general fund, but not recognized in the debt service fund.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

I have requested certain written representations from management, which are included in the attached letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed me that, and to my knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of my professional association with the City, I generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to my retention as the City's auditor.

Internal Control and Other Matters

During my current audit, I noted the following opportunities for strengthening internal controls and operating efficiency.

Complete Saxman Building and Property Lease

The City has been in negotiation with an unrelated corporation for well over a year for a long-term lease of the Seaport Building and surrounding property in order for the corporation to convert the building into a retail facility. A draft agreement was completed over a year ago, but it has not been completed and signed. The City more recently entered into an agreement with the corporation to provide access to the building so it could begin its conversion work pending completion of the lease agreement, which expires December 31, 2022. Providing access to the building in the absence of a completed lease agreement potentially weakens the City's negotiating position for the ultimate terms of the lease. The City has been represented by its outside legal counsel for drafting the lease, but legal counsel has not been involved in negotiation.

I recommend that the City work to complete the lease agreement with the corporation as soon as possible. The City may consider engaging with its outside legal to complete the negotiation on the City's behalf in order for it to be completed in the most judicious and advantageous manner possible.

Formalize ARPA Agreement with Organized Village of Saxman (OVS)

The City has an agreement with OVS to administer OVS's ARPA funds on behalf of OVS. An initial written agreement for these services was completed, but follow-up amendments were only verbally agreed to between management and OVS. The absence of written agreements can lead to lack of clarity with respect to performance obligations by the City and related funding amounts by OVS.

I recommend that the City develop and enter into amendments with OVS for its ARPA agreement.

Record Audit Adjustments

As noted above, the City had not recorded all of the prior year audit adjustments. Most of these related to the PERS pension related accounts, but some also related to the Seaport and General Funds. Not recording these adjustments will cause the subsequent-period financial reports to be incorrect, and increases the difficulty in closing the City's books and records at the following year-end.

I recommend that management ensure it records all audit adjustments.

Balance Interfund Accounts

The City has set up QuickBooks so that the sub-funds (for the various general fund activity such as administration, public works, public safety, Council, etc.) within the general fund record balance sheet activity for interfund activity. The balance sheet related sub-funds accounts have not been fully reconciled at the sub-fund level causing some confusion about what amounts should be recorded. One impact of this in fiscal year 2022 was that petty cash for the community center was double recorded in two general fund sub-funds. The City also has two non-departmental General Fund sub-funds that appear to be used interchangeably.

I recommend that management reconcile the balance sheet sub-funds and clear unneeded balances as necessary. In addition, management should consider collapsing the two non-departmental general fund sub-funds and inactivating the one no longer needed. Going forward, these sub-funds should be periodically reconciled.

Review Account Receivables for Uncollectable Amounts and Adjust Related Reserves

During the fiscal year under audit the City did not analyze its accounts receivable for potentially uncollectable amounts and then update allowances recorded in prior years.

I recommend that management review its accounts receivable at least annually for potentially uncollectible amounts and update allowances as needed.

This report is intended solely for the information and use of the Board of Directors and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,





January 4, 2023

Max E. Mertz, CPA
3140 Nowell Ave.
Juneau, Alaska 99801

This representation letter is provided in connection with your audit of the financial statements of the City of Saxman, Alaska, (City) which comprise the statement of financial position as of June 30, 2022, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the City in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated May 1, 2022, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.

- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;

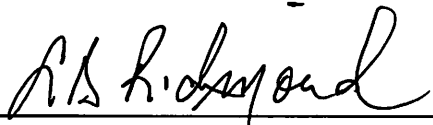
- Employees who have significant roles in internal control; or
- Others when the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
- We have no knowledge of any noncompliance or suspected noncompliance with laws, regulations, contracts, and grant agreements whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors, regulators, or others.
- We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
- We have a process to track the status of audit findings and recommendations.
- We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- We have provided views on your reported audit findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The City has no plans or intentions that may materially affect the carrying value of classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which The City is contingently liable.
- We have identified and disclosed to you the laws, regulations and provisions of contracts or grant agreements that could have a direct and material effect on financial statements amounts.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - Unasserted claims or assessments that a lawyer has advised are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification™ (ASC) 450, Contingencies.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC-450.
- The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Supplementary Information in Relation to the Financial Statements as a Whole

- With respect to the supplementary information accompanying the financial statements:
 - We acknowledge our responsibility for the presentation of the supplementary information.
 - We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.
 - The methods of measurement or presentation have not changed from those used in the prior period.
 - We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
 - When the supplementary information is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.

To the best of our knowledge and belief, no events have occurred subsequent to the date of the statement of financial position and through the date of this letter that would require adjustment to, or disclosure in, the aforementioned financial statements, other than already disclosed to you.

City of Saxman



Lori Richmond, City Clerk and Administrator



Courtney Kemble, Contract Accountant