Agency Financial Report (AFR)

Management Discussion and Analysis

Overview of the Denali Commission

In 1998, national attention was focused on the immense infrastructure and economic challenges faced by rural Alaskan communities by passing the Denali Commission Act. The Act became law on October 21, 1998 (Title III of Public Law 105-277, 42 USC 3121).

Commissioners:

(Seated Left to Right) - Karen Rehfeld, State Co-Chair, Director of the Office of Management & Budget - State of Alaska and *George J. Cannelos,* Federal Co-Chair

(Standing Left to Right) - Kathie Wasserman, Executive Director - Alaska Municipal League, *Richard Cattanach,* Executive Director - Associated General Contractors of Alaska, *Vince Beltrami,* Executive President - Alaska AFL-CIO, and *Karen Perdue,* Associate Vice-President for Health - University of Alaska

(Not Pictured) - Julie Kitka, President - Alaska Federation of Natives

The Denali Commission is an independent federal agency that acts as a regional commission focusing on the basic infrastructure needs of frontier Alaska. Working as a federal-state-local partnership, we provide critical utilities, infrastructure and support for economic development in Alaska by delivering federal services in the most cost-effective manner possible. By creating the Commission, Congress intended for those involved in addressing the unique infrastructure and economic challenges faced by America's most remote communities to work together in new ways to make a lasting difference.

Purpose:

- To deliver the services of the federal government in the most cost-effective manner practicable by reducing administrative and overhead costs.
- To provide job training and other economic development services in rural communities, particularly distressed communities (many of which have a rate of unemployment that exceeds 50%).
- To promote rural development and provide power generation and transmission facilities, modern communication systems, bulk fuel storage tanks, and other infrastructure needs.

The Commission Act required that seven leading Alaskan policy makers form a team as the Denali Commission:

- Federal Co-Chair appointed by the U.S. Secretary of Commerce
- State Co-Chair who is the Governor of Alaska
- Executive President of the Alaska, American Federation of Labor and Congress of Industrial Organizations
- President of the Alaska Federation of Natives
- President of the Alaska Municipal League
- President of the Associated General Contractors of Alaska
- President of the University of Alaska

Commissioners meet at least twice a year to develop and monitor annual work plans that guide its activities. Commissioners draw upon community-based comprehensive plans as well as comments from individuals, organizations and partners to guide funding decisions. This approach helps provide basic services in the most cost-effective manner by moving the problem solving resources closer to the people best able to implement solutions.

The Commission is staffed by a small number of employees, together with additional personnel from partner organizations. The Commission relies upon a special network of federal, state, local, tribal and other organizations to successfully carry out its mission.

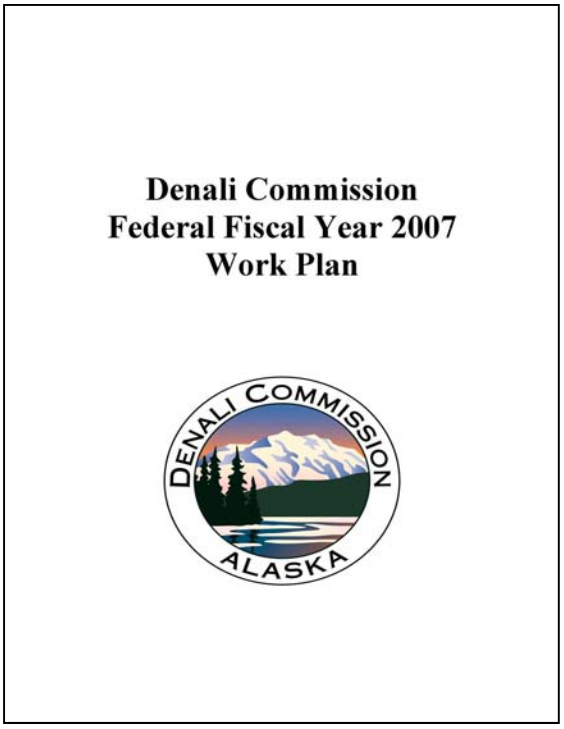
Work Plan

The Act outlines specific duties of the Commission primarily focused upon the development and implementation of an annual work plan. The Commission must develop an annual proposed work plan that solicits project proposals from local governments and other entities and organizations; and provides for a comprehensive work plan for rural and infrastructure development and necessary job training in the area covered under the work plan.

This proposed plan is submitted to the Federal Co-Chair for review who then publishes the work plan in the Federal Register, with notice and a 30 day opportunity for public comment.

The Federal Co-Chair takes into consideration the information, views, and comments received from interested parties through the public review and comment process, and consults with appropriate Federal officials in Alaska including but not limited to Bureau of Indian Affairs, the Department of Housing and Urban Development, Economic Development Administration, and USDA Rural Development.

The Federal Co-Chair then provides the plan to the Secretary of Commerce who issues the Commission a notice of approval, disapproval, or partial approval of the plan.


Denali Commission
Federal Fiscal Year 2007
Work Plan

See Appendix C: for the complete Denali Commission FY 07 Work Plan.

Vision, Mission and Organizational Structure

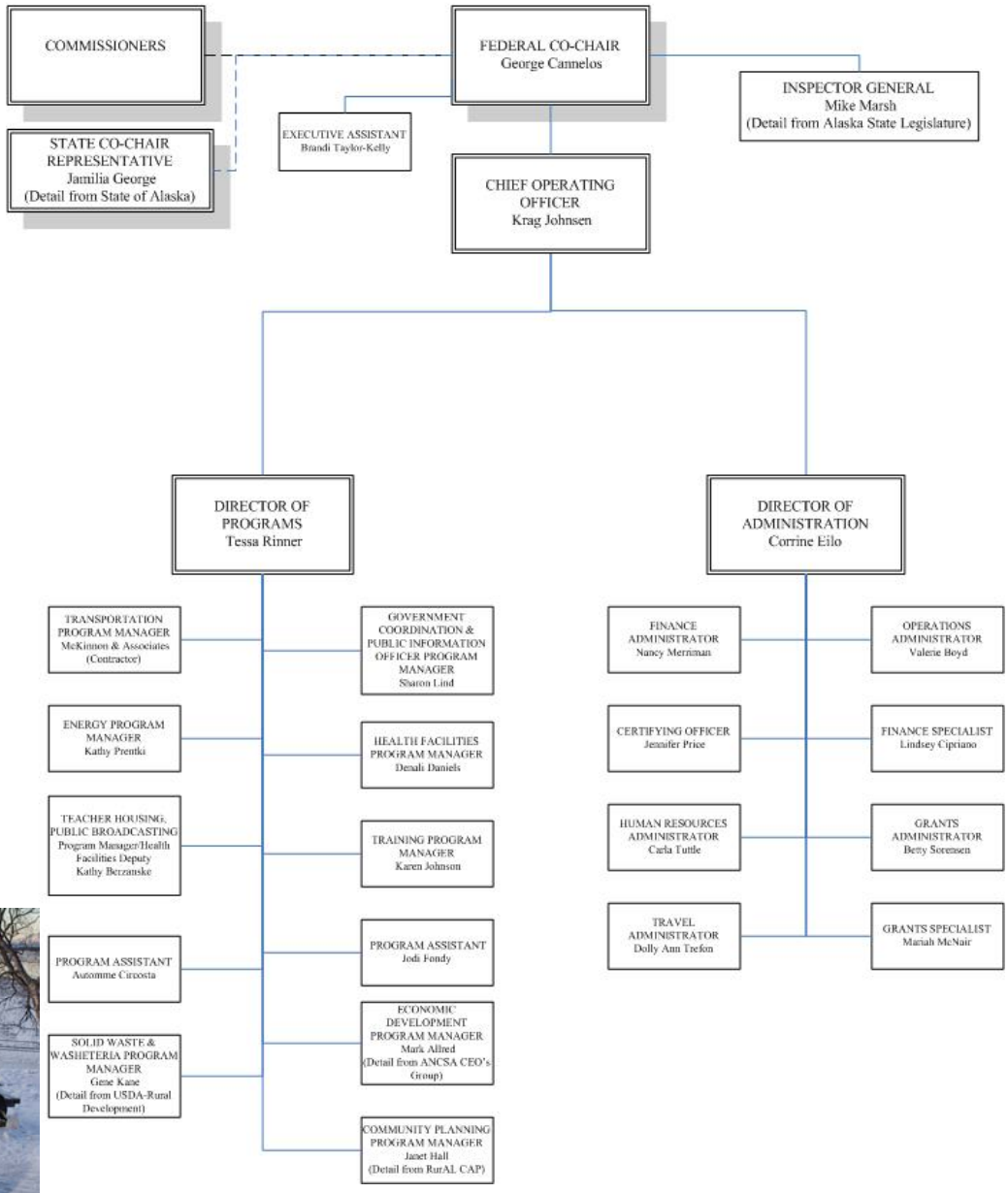
Vision

Alaska will have a healthy, well-trained labor force working in a diversified and sustainable economy that is supported by a fully developed and well-maintained infrastructure.

Mission

The Denali Commission will partner with tribal, federal, state, and local governments and collaborate with all Alaskans to improve the effectiveness and efficiency of government services, to develop a well-trained labor force employed in a diversified and sustainable economy, and to build and ensure the operation and maintenance of Alaska's basic infrastructure.

DENALI COMMISSION ORGANIZATIONAL CHART – October 2007



Denali Commission staff.

Summary of Performance Goals, Objectives and Results

The Commission is staffed by a small number of employees, together with additional personnel from partner organizations. The Commission relies upon a special network of federal, state, local, tribal and other organizations to successfully carry out its mission.

Since inception in 1998, the Denali Commission programs have included:

- Energy
- Health
- Training
- Economic Development
- Transportation
- Government Coordination
- Solid Waste
- Multi-use Facilities
- Washeterias
- Elder Housing
- Teacher Housing
- Domestic Violence

Bulk fuel farm in Buckland.

Historically, Energy, Health and Training represent the largest investments of Commission funding.

The remaining programs were either designated to the Commission by Congress or represent "emerging" programs, the potential of which is still being explored. Transportation, Government Coordination, and, to an extent, Economic Development fall into the last category.

Wind tower in Toksook Bay.

The Denali Commission has been effective at establishing a substantial quantity of badly needed infrastructure in rural Alaska and is widely regarded as essential for that purpose.

For example, Commission-funded projects include:

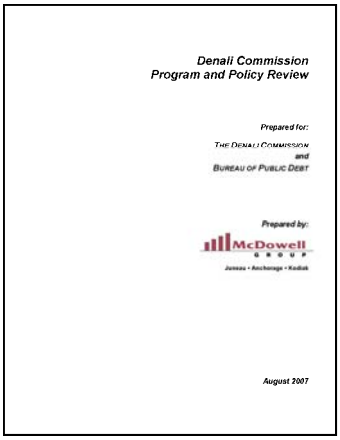
- 160 completed energy projects
- 100 completed health projects
- 100 other completed infrastructure projects
- Employment training for more than 2,000 Alaskans

The work of the Denali Commission has resulted in improved access to healthcare for rural Alaskans, greater environmental safeguards around fuel storage, more efficient power generation, and a better-trained workforce than would have been the case in the absence of the Commission. (See Appendix B: for McDowell findings.)

A wide variety of tribal, non-profit and other service organizations around Alaska are stronger and more effective as a result of receiving Commission grants and partnering with the Commission in carrying out its programs .

In FY 2007, in response to the independent program evaluation conducted for the Denali Commission by the McDowell Group (McDowell), the Commission's output and outcome measures and performance goals are under revision and development. The McDowell study included the evaluation of the Commission's infrastructure and training programs, and was designed to provide both qualitative and quantitative information regarding the success, effect and demonstrated outputs and outcomes of the Commission's programs and major federal investments in the state of Alaska. (See Appendix B: for McDowell findings.)

In response to the evaluation, each of the Commission's programs, which includes the following: Health Facilities, Energy, Training, Transportation, Economic Development and Other Infrastructure, have developed outcome reporting systems that capture both outputs and outcomes. The Commission believes strongly, and the McDowell report confirmed, that discussion of the number and nature of projects completed (output measurements), along with more detailed discussion of the effect of these project completions (outcome measurements) are critical for demonstrating the Commission's success and explaining its unique and critical mission in Alaska.


Denali Commission
Program and Policy Review

Prepared for:
The Denali Commission
and
Bureau of Public Debt

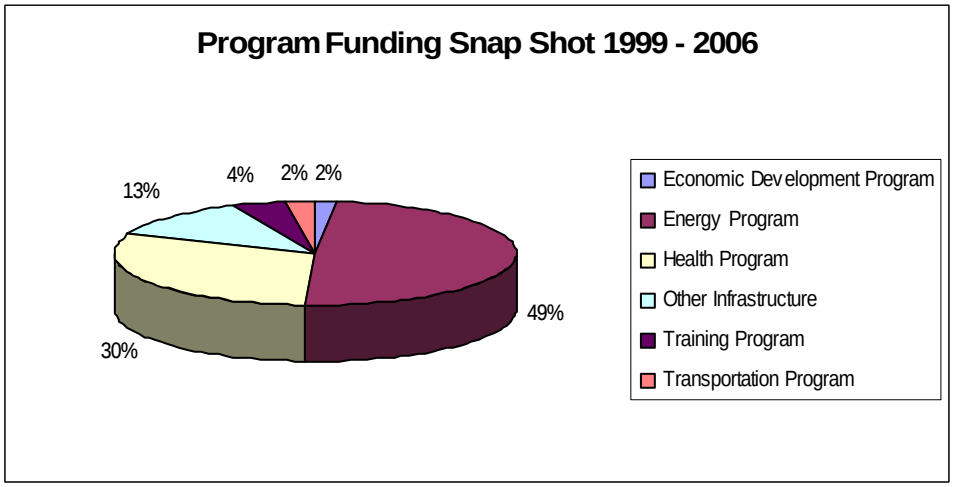
Prepared by:
McDowell Group
Juneau • Anchorage • Kodiak

August 2007

The Commission is in the process of implementing three primary outcome measurements, across all programs, in the areas of *cost*, *quality* and *access*. These outcome meas-

Nilavena sub-regional clinic in Iliamna. Photo inset - new urgent care room in the clinic.

Management Discussion and Analysis



ures, in coordination with the Commission's strategic goals and objectives in the areas of physical infrastructure, acquiring skills and knowledge, providing access to financial and technical resources and enhancing and improving the delivery of services provides a holistic summary of both annual and long-range performance. The Commission has selected the three primary outcome measures of *cost*, *quality* and *access* as they can be applied consistently across both infrastructure and training and economic development programs, and are also uniquely designed to discuss the Commission's work and accomplishments within Alaska.

The Transportation Program provides funds for dust control in rural

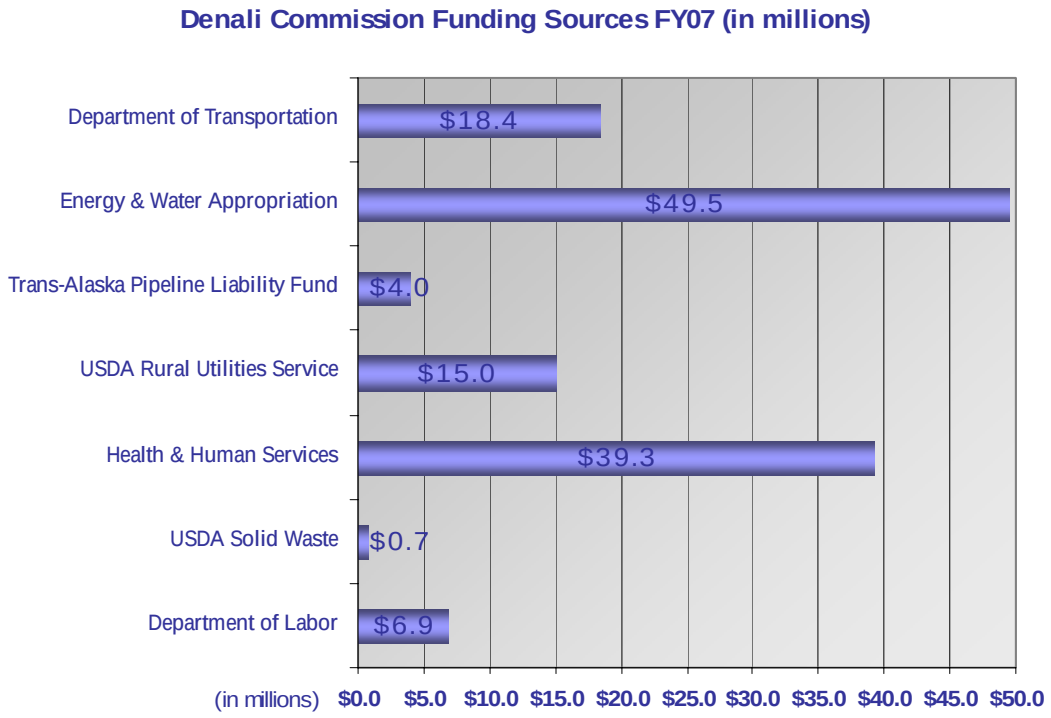
To achieve these outcomes, the Commission has instituted a structural change. This change incorporates a new advisory committee model for all major program areas within the Commission. Modeled after the already successful Transportation Advisory Committee and the Health Steering Committee, the Commission developed advisory groups comprising of experts in the field to assist and advise on future funding by the Commission. New advisory Committees include:

- Economic Development Advisory Committee
- Training Advisory Committee
- Energy Advisory Committee
- Financial Management Advisory Committee

Fiscal Year 2007 Programs Include:

- Energy Program
- Health Facilities Program
- Training Program
- Transportation

Teacher housing in Scammon Bay.



- Solid Waste
- Teacher Housing
- Economic Development
- Government Coordination

As the Commission looks to FY08 the Commission will see all Advisory Committees fully implemented and acting on behalf of the Commission.

- Health Steering Committee
- Transportation Advisory Committee
- Economic Development Advisory Committee
- Training Advisory Committee
- Energy Advisory Committee
- Financial Management Advisory Committee

This is a significant change at the Commission and we look forward to positive outcomes with this new process in FY08.

FY08 also holds a significant milestone for the Commission. The Commission was created through Public Law 105-277 (The Omnibus Appropriations Bill for Fiscal Year 1999). This bill was signed into law by President Clinton on October 21, 1998 and October 21, 2008 marks the Denali Commission's 10 Year Anniversary.

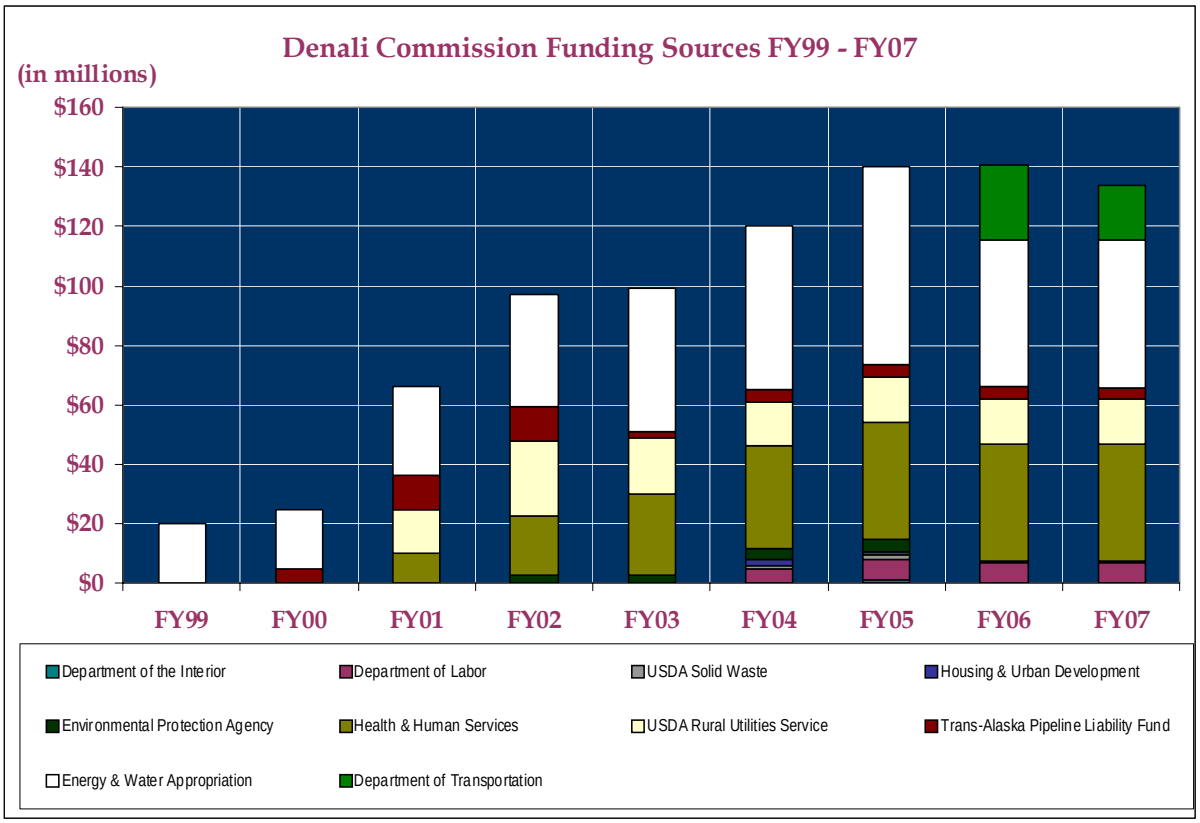
The Commission's focus on the ten year anniversary will be evaluating what still needs to be done in the state of Alaska to bring rural Alaska to equal footing with other rural communities in the lower 48 states.

While this section is intended to serve as a summary of goals, objectives and results for the Commission's programs, it is also important to note that detailed data and information, in each program area cited above, will be provided in the **Annual Performance Report (APR)** component of the Program Accountability Report (PAR) submitted by the Commission in February 2008.

Financial Performance Overview

As of September 30, 2007 the financial condition of the Denali Commission was sound with respect to having sufficient funds to meet program needs and adequate control of these funds in place to ensure obligations did not exceed budget authority. Agency audits are conducted in accordance with auditing standards generally accepted in the United States of America, OMB Bulletin 07-04 (*Audit Requirements for Federal Financial Statements)* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Sources of Funds



The Denali Commission is funded through several appropriations. Primary is the Energy and Water Appropriation. In FY 2007, the US Department of Agriculture transmitted funds by appropriation transfer for solid waste program activities. Both of these sources are direct budget authority; funds are available until expended.

Denali Commission gained spending authority through expenditure transfers from three agencies, with the following appropriation limitations:

- The USDA (Rural Utilities Service). (No-year appropriation)
- The Department of Health and Human Services. (Annual appropriation)
- The Department of Labor (Annual appropriation, with a July through June program year)

Finally, Denali Commission is the recipient of a portion of the interest earned on the trust fund for the Trans-Alaska Pipeline Liability fund. In FY 2007, $4.2 million was transferred to Denali Commission to assist in efforts to make bulk fuel tanks in Alaska EPA code-compliant.

FY 07 Budgetary Authority	
Appropriations Received	$53,710,843
Offsetting Collections	64,397,986
Nonexpenditure Transfers	742,500
Total Budget Authority	$118,851,329

In FY 2007, Denali Commission's total budget authority was $118.8 million. In addition, $12.9 million from prior year appropriations was available to obligate in FY 2007.

Contract Authority from the US Department of Transportation, Federal Highway Administration (FHWA) in the amount of $18.4 million was transferred to the Commission in FY 2007. These funds are held in a joint account with the US DOT, and they are included in the US DOT's financial statements.

Uses of Funds by Function

The Denali Commission incurred obligations of $90.6 million in FY 2007 for program operations. An additional $4.8 million was obligated for administration (including personnel, office lease and office operations).

Unobligated funds in the amount of $36.4 million were carried forward, for obligation in FY 2008.

Financial Statement Highlights

The Denali Commission's financial statements summarize the financial activity and financial position of the agency. The financial statements, footnotes, and the balance of the required supplementary information appear in the Financial Section of this document.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the format prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the US Government, a sovereign entity.

Balance Sheet

Assets

The Commission's assets were $237.1 million as of September 30, 2007. This is an increase of $16.9 million from the end of FY 2006. The assets reported in the Denali Commission's balance sheet are summarized in the accompanying table.

ASSET SUMMARY (in millions)		
	FY 2007	FY 2006
Fund balance with Treasury	$234.1	$215.0
Other assets	3.0	5.2
Total assets	$237.1	$220.2

The Fund Balance with Treasury represents the Denali Commission's largest asset of $234.1 million as of September 30, 2007, an increase of $19.1 million from the FY 2006 end-of-year balance. This balance accounts for over 98 percent of total assets and represents appropriated funds, transfers in, and offsetting collections.

Liabilities

The Denali Commission's liabilities were $9.4 million as of September 30, 2007, a decrease of $7.3 million from the end of FY 2007. This decrease is a direct result of a change in payroll service provider, which decreased the accrued liability for salaries; and improved grant management protocols over recipients' cash management practices, resulting in a decrease of grant payables.

LIABILITIES SUMMARY (in millions)		
	FY 2007	FY 2006
Accounts payable, intragovernmental	$0	$0
Other intragovernmental liabilities	2.7	3.0
Accounts payable, public	0.04	0.03
Other public liabilities	6.6	13.6
Total liabilities	$9.4	$16.7

Net Position

The difference between total assets and total liabilities, net position, was $227.8 million as of September 30, 2007. This is an increase of $24.3 million from the FY 2006 year-end balance.

NET POSITION SUMMARY (in millions)		
	FY 2007	FY 2006
Total Net Position	$227.8	$203.5

Statement of Net Cost

The Statement of Net Cost reports the cost of conducting the Denali Commission programs during the reporting period. The accompanying table displays the net cost for FY 2006 and 2007. The program costs consist of $2.7 million of intragovernmental costs to Commission trading partners; and $92.0 million in direct program costs. Earned revenues ($64.4 million) are transfers from other federal agencies.

NET COST (in millions)		
	FY 2007	FY 2006
Program costs	$94.7	$108.5
Less: earned revenue	64.4	62.0
Net Costs of Operations	$30.3	$46.5

Statement of Changes in Net Position

The Net Position for the year ended September 30, 2007 is $227.8 million, an increase of $24.3 million over FY 2006. This increase is primarily due to improved grants management during FY 2006, during which $27.9 million more was expended on grant payments than the prior year in an effort to have recipients draw payments from the Commission for amounts expended on grant projects. In FY 2007 grant payments normalized, and the net position was buoyed slightly.

Statement of Budgetary Resources

The Statement of Budgetary Resources shows what budget authority the Denali Commission possesses and compares the status of that budget authority. The Commission had $131.8 million in total budgetary resources for FY 2007 – comprised of direct appropriations, transfers from other federal agencies, and an unobligated balance available from FY 2006. During the fiscal year, $90.6 million was obligated for program purposes; $4.8 was obligated and expended on administrative functions; $36.4 million in funds were carried forward, and will be available for obligation in FY 2008. Net outlays in FY 2007 amounted to $35.4 million.

Statement of Financing

The reconciliation provided in the Statement of Financing ensures that the proprietary and budgetary accounts in the financial management system are in balance. The Statement of Financing takes budgetary obligations of $31.1 million and reconciles to the net cost of operations of $30.3 million by deducting non budgetary resources, costs not requiring resources, and financing sources yet to be provided.

Systems, Controls and Legal Compliance

Management Assurances

Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA (or the Integrity Act) provides the statutory basis for management's responsibility for and assessment of accounting and administrative internal controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The FMFIA requires federal agencies to establish controls that reasonably ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The FMFIA also requires the agency head to annually assess and report on the effectiveness of internal controls that protect the integrity of federal program and whether financial management systems conform to related requirements.

FMFIA Statement of Assurance

The Denali Commission management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I am able to provide an unqualified statement of assurance that the Denali Commission internal controls and financial management systems meet the objectives of FMFIA. The Commission's internal controls provide for effective and efficient program operations, reliable financial reporting, and compliance with laws and regulations. The Denali Commission conducted its assessment of the effectiveness of the Commission's internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Denali Commission can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

George J. Cannelos
Federal Co-Chair

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of federal programs. The FFMIA requires agencies to have financial management systems that substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the US Standard General Ledger at the transaction level.

FFMIA Compliance Determination

The Commission is responsible for maintaining its financial management system in compliance with government-wide requirements. These requirements are set forth in OMB Circular A-127 and are mandated in the Federal Financial Management Improvement Act (FFMIA). The Commission can attest that the system is substantially compliant with FFMIA.

Summary of Material Weaknesses, Non-Conformances and Corrective Action Plans

Summary of Financial Statement Audit

Audit Opinion	***Unqualified***				
Restatement	***No***				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
{None noted in FY 2007}	*0*	*0*	*0*	*0*	*0*
{None noted in FY 2006}	*1*		*1*		*0*
Total Material Weaknesses	*1*	*0*	*1*	*0*	*0*

Material Weakness, Non-Conformance and Corrective Actions

The FY 2006 financial audit report contained two findings, categorized as reportable conditions. They are user access to accounting software not being adequately restricted; and lack of timely close-out of grants. A remedy was implemented immediately to resolve the first finding. A disinterested System Administrator was put in place to certify roles and access. Written policies and procedures were developed to prevent the situation from recurring in the future. MD Oppenheim & Co (independent auditor who conducted the FY 2006 audit) acknowledged in their audit report that management had promptly implemented corrective action. In regard to timely grant close-outs, management began to define, implement and test procedures to resolve this weakness during FY 2007. Similarly, MD Oppenheim & Co. remarked in their FY 2006 audit report that management had initiated discussions to address their recommendation for remedy. The Denali Commission received an unqualified audit opinion on its FY 2007 financial statements.

Financial Management Trends

The Denali Commission has been strengthening its grants management practices over the past two years. Quarterly financial status reports have encouraged improved cash management on the part of recipients. Some grant partners are now receiving reimbursement payments rather than advances, a move that simplifies accounting while still delivering the resources necessary to get the project done timely. As a small agency, the Denali Commission values partnership and collaboration. Commission leadership understands and appreciates the vision and goals of the Financial Management Line of Business (FMLOB) initiative – to improve the cost, quality and performance of financial management systems by implementing shared services solutions. The Director of Administration has launched an assessment of each of the approved FMLOB's and anticipates setting a transition timeline during FY 2008.

Improper Payments Information Act (IPIA)

The Improper Payments Information Act (IPIA) requires executive branch agencies to review all programs and activities they administer and identify those that may be susceptible to significant improper payments. Significant improper payments are defined by OMB as annual improper payments in a program exceeding both 2.5 percent of program payments and $10 million.

In accordance with IPIA, the Commission assessed its programs and activities for susceptibility to significant improper payments. Based on this review, the Commission determined that none of its programs or activities is at risk for significant improper payments of both 2.5 percent and $10 million.

Management Discussion and Analysis

Inspector General

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INSPECTOR GENERAL

November 15, 2007

To: George Cannelos, Federal Co-Chair

From: Inspector General

We contracted with the independent certified public accounting firm of Brown & Company, PLLC to audit the financial statements of the Denali Commission as of September 30, 2007 and for the year then ended. The contract required that the audit be done in accordance with generally accepted government auditing standards and OMB's bulletin, *Audit Requirements for Federal Financial Statements.*

In its audit of the Denali Commission, Brown & Company found

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- there were no material weaknesses in internal control,
- there was one significant deficiency in internal control which concerned policies and procedures for grants management and reconciliation, and
- no reportable noncompliance with laws and regulations it tested.

In connection with the contract, we reviewed Brown & Company's report and related documentation and inquired of its representative. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Denali Commission's financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. Brown & Company is responsible for the attached auditor's report dated October 30, 2007 and the conclusions expressed in the report. However, our review disclosed no instances where Brown & Company did not comply, in all material respects, with generally accepted government auditing standards.

Mike Marsh

Mike Marsh
Inspector General