

**NORTHWEST ARCTIC BOROUGH**

**Federal and State Single Audit Reports**

**Year Ended June 30, 2012**

# NORTHWEST ARCTIC BOROUGH

## Federal and State Single Audit Reports

### Table of Contents

	<u>Page</u>
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 <i>Government Auditing Standards</i>	1-2
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	3-5
Schedule of Expenditures of Federal Awards	6
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With the <i>State of Alaska Audit Guide and Compliance Supplement for State Single Audits</i>	7-9
Schedule of State Financial Assistance	10
Schedule of Findings and Questioned Costs	11-12
Corrective Action Plan	13
Summary Schedule of Prior Audit Findings	14

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  
Members of the Borough Assembly  
Northwest Arctic Borough  
Kotzebue, Alaska

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Northwest Arctic Borough as of and for the year ended June 30, 2012, which collectively comprise Northwest Arctic Borough's basic financial statements and have issued our report thereon dated November 14, 2012. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of Northwest Arctic Borough is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Northwest Arctic Borough's internal control over financial reporting 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 Northwest Arctic Borough's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northwest Arctic Borough's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Honorable Mayor and  
Members of the Borough Assembly  
Northwest Arctic Borough

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Arctic Borough's financial statements are free of 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*.

This report is intended solely for the information and use of management, Honorable Mayor and Borough Assembly, others within the entity, federal and state awarding agencies and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cattrell & Co.*

Anchorage, Alaska  
November 14, 2012

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Honorable Mayor and  
Members of the Borough Assembly  
Northwest Arctic Borough  
Kotzebue, Alaska

Compliance

We have audited Northwest Arctic Borough's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Northwest Arctic Borough's major federal programs for the year ended June 30, 2012. Northwest Arctic Borough's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northwest Arctic Borough's management. Our responsibility is to express an opinion on Northwest Arctic Borough's compliance based on our audit.

Northwest Arctic Borough's basic financial statements include the operations of its component unit, the Northwest Arctic Borough School District, which received \$14,067,657 in federal awards which is not included in the schedule for the year ended June 30, 2012. Our audit, described below, did not include the operations of Northwest Arctic Borough School District because it was subjected to a separate audit in accordance with OMB Circular A-133.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Northwest Arctic Borough'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. Our audit does not provide a legal determination of Northwest Arctic Borough's compliance with those requirements.

In our opinion, Northwest Arctic Borough complied, in all material respects, with the 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, 2012.

Honorable Mayor and  
Members of the Borough Assembly  
Northwest Arctic Borough

### Internal Control Over Compliance

Management of Northwest Arctic Borough is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northwest Arctic Borough's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Northwest Arctic Borough'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Honorable Mayor and  
Members of the Borough Assembly  
Northwest Arctic Borough

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Northwest Arctic Borough as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise Northwest Arctic Borough's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 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 financial statements or to the 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 financial statements as a whole.

This report is intended solely for the information and use of management, Honorable Mayor and Borough Assembly, others within the entity, federal awarding agencies and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
November 14, 2012

**NORTHWEST ARCTIC BOROUGH**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2012**

<u>Federal Grant Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>July 1, 2011 Receivable (Deferred)</u>	<u>Federal Share of Expen- ditures</u>	<u>Federal Receipts</u>	<u>June 30, 2012 Receivable (Deferred)</u>
<b>Department of Interior</b>							
Payment in Lieu of Taxes 2012	15.226	-	\$ 1,065,768	(1,065,768)	1,065,768	-	-
Payment in Lieu of Taxes 2013	15.226	-	1,086,998	-	-	1,086,998	(1,086,998)
Total CFDA 15.226				<u>(1,065,768)</u>	<u>1,065,768</u>	<u>1,086,998</u>	<u>(1,086,998)</u>
<b>Recovery Act - BLM AK Recreational Trails</b>							
Marking & Mapping	15.231	L10AC16141	120,380	30,359	9,135	39,494	-
<b>CIAP Administration - NWAB</b>							
	15.668	F12AF70067	1,285,628	26,364	74,314	100,115	563
<b>CIAP Solar Energy - NWAB</b>							
	15.426	F12AF70184	1,747,500	-	32,416	6,952	25,464
<b>CIAP Energy Conservation - NWAB</b>							
	15.426	F12AF70138	502,800	3,560	93,225	84,251	12,534
<b>CIAP Subsistence - NWAB</b>							
	15.426	F12AF70282	1,845,430	60,695	459,822	421,409	99,108
<b>CIAP Improving Management Capacity</b>							
	15.426	F12AF70304	500,000	-	1,326	1,326	-
Total CFDA 15.426				<u>64,255</u>	<u>586,789</u>	<u>513,938</u>	<u>137,106</u>
Total Department of Interior				<u>(944,790)</u>	<u>1,736,006</u>	<u>1,740,545</u>	<u>(949,329)</u>
<b>Department of Justice</b>							
COPS Grant	16.710	2009CKWX0772	500,000	71,089	176,532	233,955	13,666
<b>Department of Commerce</b>							
Regional Comprehensive Economic Development Strategy	11.307	07 69 06092	50,000	10,790	16,719	7,559	19,950
<b>Department of Homeland Security</b>							
Passed through State of Alaska Department of Military and Veteran Affairs:							
2011 Emergency Management Performance Grant	97.042	11-EMPG-GR35584	12,000	-	558	558	-
2010 Emergency Management Performance Grant	97.042	10-EMPG-GR35581	30,000	19,326	-	19,326	-
Total Department of Homeland Security				<u>19,326</u>	<u>558</u>	<u>19,884</u>	<u>-</u>
<b>Department of Education</b>							
Passed through State of Alaska Department of Commerce, Community and Economic Development -							
Purchase Energy Efficient Equipment and Supplies	84.397	800222	23,230	-	23,230	23,230	-
<b>Department of Transportation</b>							
Passed through State of Alaska Department of Natural Resources - Recreational Trails Program							
	20.219	10795046	50,000	-	2,405	2,405	-
Total Federal Awards			\$	<u>(843,585)</u>	<u>1,955,450</u>	<u>2,027,578</u>	<u>(915,713)</u>

**Note 1: Basis of Presentation**

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of Northwest Arctic Borough and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.



Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With the State of Alaska Audit Guide and Compliance Supplement for State Single Audits

Honorable Mayor and  
Members of the Borough Assembly  
Northwest Arctic Borough  
Kotzebue, Alaska

Compliance

We have audited Northwest Arctic Borough'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 Northwest Arctic Borough's major state programs for the year ended June 30, 2012. Northwest Arctic Borough's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of Northwest Arctic Borough's management. Our responsibility is to express an opinion on Northwest Arctic Borough's compliance based on our audit.

Northwest Arctic Borough's basic financial statements include the operations of its component unit, the Northwest Arctic Borough School District, which received \$39,927,556 in state awards that are not included in the schedule for the year ended June 30, 2012. Our audit, described below, did not include the operations of Northwest Arctic Borough 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*.

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 Northwest Arctic Borough'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. Our audit does not provide a legal determination of Northwest Arctic Borough's compliance with those requirements.

In our opinion, Northwest Arctic Borough complied, in all material respects, with the compliance requirements referred to above that that could have a direct and material effect on each of its major state programs for the year ended June 30, 2012.

Honorable Mayor and  
Members of the Borough Assembly  
Northwest Arctic Borough

### Internal Control Over Compliance

Management of Northwest Arctic Borough is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered Northwest Arctic Borough's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Northwest Arctic Borough'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Honorable Mayor and  
Members of the Borough Assembly  
Northwest Arctic Borough

Schedule of State Financial Assistance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Northwest Arctic Borough as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise Northwest Arctic Borough's 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 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 financial statements or to the 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 financial statements as a whole.

This report is intended solely for the information and use of management, Honorable Mayor and Borough Assembly, others within the entity, and the State of Alaska and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
November 14, 2012

## NORTHWEST ARCTIC BOROUGH

Schedule of State Financial Assistance  
Year Ended June 30, 2012

State Grant Title	Grant Number	Total Grant Award	July 1, 2011 Receivable (Deferred)	State Share of Expend- itures	State Receipts	June 30, 2012 Receivable (Deferred)
<b>Department of Military &amp; Veterans Affairs</b>						
Kivalina Emergency Evacuation	MLP#2	\$ 77,250	(77,250)	-	-	(77,250)
Kivalina Sea Wall	227	128,522	(128,522)	-	-	(128,522)
Kivalina Sea Wall	228	34,633	(34,633)	-	-	(34,633)
Cape Thompson Emergency Shelter	AK-12-236	51,500	-	25,615	-	25,615
2011 LEPC Grant	11 LEPC AR35602	11,279	8,125	-	8,125	-
Total Department of Military & Veterans' Affairs			<u>(232,280)</u>	<u>25,615</u>	<u>8,125</u>	<u>(214,790)</u>
<b>Department of Administration</b>						
* PERS Relief	-	261,886	-	261,886	261,886	-
<b>Department of Commerce, Community &amp; Economic Development</b>						
* 2012 Municipal Revenue Sharing	-	597,332	-	597,332	597,332	-
Kivalina Dump Truck	09-DC-255	250,000	-	1,384	-	1,384
2012 ARDOR Program	811447	62,122	-	62,122	31,061	31,061
2011 ARDOR Program	-	62,122	31,061	-	31,061	-
* Kobuk Electrical Line & Pole Maintenance	12-DC-410	150,000	-	145,424	-	145,424
Ice Road	12-DM-131	50,000	-	50,000	50,000	-
Search & Rescue Fuel & Equipment	09-DC-509	75,000	3,576	15,386	18,962	-
Nikiatchuat Immersion School	11-DC-320	20,000	2,129	-	2,129	-
Noorvik Heavy Equipment	11-DC-322	200,000	2,826	-	2,826	-
* NW Magnet School & Kotzebue High School	11-DC-323	6,000,000	446,831	1,687,063	545,151	1,588,743
Noorvik Storage Shed & Shop	12-DC-412	300,000	-	13,946	13,946	-
Shungnak Playground Equipment	11-DC-324	65,000	-	65,000	-	65,000
* Deering Heavy Equipment	12-DC-408	250,000	-	238,565	170,862	67,703
Total Department of Commerce, Community & Economic Development			<u>486,423</u>	<u>2,876,222</u>	<u>1,463,330</u>	<u>1,899,315</u>
<b>Department of Transportation and Public Facilities</b>						
NWAB Ice Road 2012	-	25,000	-	13,324	13,324	-
<b>Department of Education &amp; Early Development</b>						
Public Library Assistance	PLA-12-735-43	13,000	-	13,000	13,000	-
* 2012 Debt Reimbursement Program (2)	-	4,209,924	-	4,209,924	4,589,886	(379,962)
2011 Debt Reimbursement Program	-	4,344,484	43,446	-	43,446	-
Total Department of Education & Early Development			<u>43,446</u>	<u>4,222,924</u>	<u>4,646,332</u>	<u>(379,962)</u>
<b>Department of Public Safety</b>						
Village Public Safety Officer Program	11-800	490,829	180,543	1,789	182,332	-
* Village Public Safety Officer Program	12-800	786,606	-	784,817	700,641	84,176
Total Department of Public Safety			<u>180,543</u>	<u>786,606</u>	<u>882,973</u>	<u>84,176</u>
<b>Alaska Energy Authority</b>						
* Wind Farm Construction	2195377	831,953	31,647	117,244	74,999	73,892
<b>Department of Revenue</b>						
Electric and Telephone Cooperative	-	6,396	-	6,396	6,396	-
Total State Financial Assistance		<u>\$ 509,779</u>	<u>8,310,217</u>	<u>7,357,365</u>	<u>1,462,631</u>	<u>-</u>

\* Major program

**Note 1: Basis of Presentation**

The Schedule of State Financial Assistance includes the State grant activity of the Northwest Arctic Borough and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

**Note 2:**

This amount is payable to State of Alaska for overpayment as a result of bond refunding.

**NORTHWEST ARCTIC BOROUGH**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

**I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued

Unqualified

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 Financial Assistance**

Internal control over major 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 programs?

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

\_\_\_\_\_ yes   X   no

Identification of major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Department of Interior – Fisheries and Wildlife Service	15.426	Coastal Impact Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

  X   yes \_\_\_\_\_ no

**State Financial Assistance**

Internal control over major programs:

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

## NORTHWEST ARCTIC BOROUGH

### Schedule of Findings and Questioned Costs, continued

#### **Summary of Auditor's Results, continued**

#### **State Financial Assistance, continued**

Type of auditor's report issued on compliance  
for major programs?

Unqualified

Dollar threshold used to distinguish a state  
major program?

\$100,000

#### **II. Financial Statement Findings**

None noted.

#### **III. Federal Award Findings and Questioned Costs**

None noted.

#### **IV. State Award Findings and Questioned Costs**

None noted.

**NORTHWEST ARCTIC BOROUGH**

**Corrective Action Plan**

**Year Ended June 30, 2012**

There are no current year findings; therefore, no corrective action plan is required.

**NORTHWEST ARCTIC BOROUGH**

**Summary Schedule of Prior Audit Findings**

**Year Ended June 30, 2012**

**Federal**

There were no prior year audit findings.

**State of Alaska**

There were no prior year audit findings.