



REPORTS ON SINGLE AUDIT REQUIREMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2007



Fairbanks North Star Borough



Reports On Single Audit Requirements

For the Year Ended June 30, 2007

December 13, 2007

FAIRBANKS NORTH STAR BOROUGH
REPORTS ON SINGLE AUDIT REQUIREMENTS
For The Year Ended June 30, 2007

TABLE OF CONTENTS

Federal Single Audit

I.	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
II.	Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	3
III.	Schedule of Expenditures of Federal Awards	5
IV.	Schedule of Findings and Questioned Costs	11

State Single Audit

I.	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>	13
II.	Report on Compliance with Requirements Applicable to 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>	15
III.	Schedule of State Financial Assistance	17
IV.	Schedule of Findings and Questioned Costs	21

**FEDERAL
SINGLE AUDIT**

To the Honorable Mayor and
Members of the Borough Assembly
Fairbanks North Star Borough

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough, as of and for the year ended June 30, 2007, which collectively comprise the Borough's basic financial statements. We also have audited the financial statements of each of the Borough's nonmajor governmental and fiduciary funds presented in the combining and individual fund financial statements and schedules as of and for the year ended June 30, 2007 and have issued our report thereon dated December 13, 2007. 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

In planning and performing our audit, we considered the Fairbanks North Star Borough's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fairbanks North Star Borough's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fairbanks North Star Borough's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

To the Honorable Mayor and
Members of the Borough Assembly
Fairbanks North Star Borough

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fairbanks North Star 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 the Fairbanks North Star Borough Assembly, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 13, 2007

To the Honorable Mayor and
Members of the Borough Assembly
Fairbanks North Star Borough

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Fairbanks North Star Borough with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Fairbanks North Star 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 the Fairbanks North Star Borough's management. Our responsibility is to express an opinion on the Fairbanks North Star Borough's compliance based on our audit.

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 the Fairbanks North Star 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 the Fairbanks North Star Borough's compliance with those requirements.

In our opinion, the Fairbanks North Star Borough complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of the Fairbanks North Star 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 the Fairbanks North Star Borough's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Fairbanks North Star Borough's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough, as of and for the year ended June 30, 2007, which collectively comprise the Borough's basic financial statements. We also have audited the financial statements of each of the Borough's nonmajor governmental and fiduciary funds presented in the combining and individual fund financial statements and schedules as of and for the year ended June 30, 2007 and have issued our report thereon dated December 13, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Fairbanks North Star Borough's basic financial statements and combining and individual fund financial statements and schedules. 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Fairbanks North Star Borough Assembly, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 13, 2007

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2007

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
---	---------------------------	--	-------------------------

U.S. DEPARTMENT OF AGRICULTURE

Direct Programs

State and Community Fire Assistance FFY05 *	10.664		\$ 281,014
State and Community Fire Assistance FFY06 *	10.664		32,221
Tanana River Floodplain Acquisition Project	10.904	68-0150-4-022	<u>114,303</u>
Total U.S. Department of Agriculture			\$ <u><u>427,538</u></u>

U.S. DEPARTMENT OF DEFENSE

Direct Programs

Military Base Economic Adjustment Assistance	12.614	AP0556-05-01	\$ <u>112,354</u>
Total U.S. Department of Defense			\$ <u><u>112,354</u></u>

U.S. DEPARTMENT OF THE INTERIOR

Direct Programs

Payment in Lieu of Taxes FY07	15.226		\$ 606,732
-------------------------------	--------	--	------------

Bureau of Land Management

Chena River Greenbelt Land Acquisition	15.225	LAA 000003	58,496
--	--------	------------	--------

Passed through State of Alaska

Department of Natural Resources:

GIS Data Internet Availability	15.DDD	LAA-02-0021-03	51,364
--------------------------------	--------	----------------	--------

National Park Service

Passed through State of Alaska

Department of Natural Resources:

Allridge Park Renovation and Development	15.916	02-00382	214,239
Historic Preservation Travel FY06	15.904	#05475	<u>2,902</u>

Total U.S. Department of the Interior

\$ 933,733

U.S. DEPARTMENT OF JUSTICE

Direct Programs

Community Oriented Policing	16.710	2001CKWX 0006	\$ <u>125,189</u>
-----------------------------	--------	---------------	-------------------

Total U.S. Department of Justice

\$ 125,189

*Federal Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2007
(Continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Highway Administration			
Passed through Federal Transit Administration:			
Coordinated Transportation Program	20.205	AK-90-X029 -01	\$ 170,452
Passed through State of Alaska			
Department of Transportation and Public Facilities:			
FHWA-PL Highway Planning & Research FFY05-06	20.205	ACPL-1260(2) 75975	22,510
FHWA-PL Highway Planning & Research FFY07-08	20.205	ACPL-1260(3) 76557	103,736
Hutchison Vo-Tech HS Electrical Plug-In Operations	20.205	CM-0668 (11) 62406	3,401
Ryan Middle School Electrical Plug-In Operations	20.205	CM0002(102)/CMOA45(21)	64,287
Oxygen Sensor Replacement Program	20.205	#62624	152,159
Federal Transit Administration			
Transit Bus and Equipment Replacement	20.205	AK-15-X001-00	9,551
Transit Facility Replacement and Equipment	20.500	AK-03-0045-00	70,851
Section 5307 Operating Assistance - FFY04-06 *	20.507	AK-90-X025-02	25,125
Section 5307 Operating Assistance - FFY07-09 *	20.507	AK-90-X025 03	446,096
Jobs Access Reverse Commute - North Pole Transit	20.516	AK-37-X009-00	47,258
Passed through State of Alaska			
Department of Transportation and Public Facilities:			
FTA 5303 Highway Planning and Research FFY04-05	20.514	TORA AK-80-X014	8,053
FTA 5303 Highway Planning and Research FFY05-06	20.514	TORA AK-80-X015	48,125
Total U.S. Department of Transportation			\$ 1,171,604
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Passed through Alaska State Library:			
Regional Library Services FY07	45.310	RS-07-733-102	\$ 146,354
Total Institute of Museum and Library Services			\$ 146,354
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Direct Programs			
Clean-Up Universal Recycling Property	66.818	BF-9604-52-01-0	\$ 6,770
Old City Landfill Environmental Site Assessment	66.818	BF-96015 5-01-0	1,901
Universal Recycling Environmental Site Assessment	66.818	BF-97092 2-01-0	6,715
Demolish Old City Sewage Treatment Plant *	66.606	XP-9602 8101-0	562,987
Reduce Carbon Monoxide in Non-Attainment Area *	66.606	X97071 15- 01-3	190,574

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2007
(Continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed through State of Alaska			
Department of Environmental Conservation:			
Air Quality Program FY 2006-07	66.001		\$ 72,500
Passed through National Association of Counties (NACo)			
NACo Tanana Lakes Recreation Area Clean-Up	66.474	NACO 8/06	243
Total U.S. Environmental Protection Agency			\$ 841,690
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Passed through State of Alaska			
Department of Military and Veterans Affairs:			
Federal Emergency Management FFY06	83.534		\$ 12,500
Federal Emergency Management FFY07	83.534		37,500
Total Federal Emergency Management Agency			\$ 50,000
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through State of Alaska			
Department of Health and Social Services:			
Child Care Assistance -- FY2006-07 ²	93.575	604-07-903	\$ 442,265
Child Care Assistance -- FY2005-06 ³	93.575	604-06-903	700
Child Care Information Resource and Referral FY06	93.575	07MOA PLAYNLEARN	126,690
Total U.S. Department of Health and Human Services			\$ 569,655
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through State of Alaska			
Department of Military and Veteran's Affairs:			
Sewell Drive Floodplain Acquisition - DSR #1440	97.039	1440.0008b	\$ 148,930
Sewell Drive Floodplain Acquisition - DSR #1571	97.039	1571.0008	60,929
State Homeland Security Program FFY05 *	97.073	05SHSP 16.16c10	324,891
State Homeland Security Program FFY06 *	97.073	06SHSP GR34053	193,818
Total U.S. Department of Homeland Security			\$ 728,568
Grand Total - Federal Financial Assistance			\$ 5,106,685

*Federal Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2007
(Continued)

¹ Basis of Presentation

This Schedule of Expenditures of Federal Awards includes the federal grant activity of the Fairbanks North Star Borough and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

² Budget to Actual Comparison

Child Care Assistance Grant -- FY 2006-07
U.S. Department of Health and Human Services

A schedule of budgeted and actual revenues and expenditures for the Child Care Assistance -- FY2006-07 grant from the U.S. Department of Health and Human Services, passed through the State of Alaska Department of Health and Social Services (DHSS) follows:

	Final Budget	Actual Expenditures	Variance with Final Budget
Revenues from State of Alaska	\$ 443,000	\$ 443,000	\$ -
Expenditures			
Personal Services	418,026	422,770	(4,744)
Travel	-	-	-
Facility Expense	15,700	13,639	2,061
Supplies	4,324	3,384	940
Equipment	1,850	1,216	634
Other Direct Expense	3,100	1,256	1,844
Total Direct Expense	<u>443,000</u>	<u>442,265</u>	<u>735</u>
Indirect Costs	-	-	-
Total Expenditures	<u>443,000</u>	<u>442,265</u>	<u>735</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ 735</u>	<u>\$ (735)</u>

The \$735 excess of revenue over expenditures is in Other Direct Expense and represents an encumbrance for a required program audit, to be completed and invoiced after June 30, 2007 in conjunction with the Fairbanks North Star Borough's annual audit. Per DHSS instructions, the Borough is to bill for all amounts expended and encumbered at June 30, 2007, show all encumbered amounts as expended on the final Cumulative Fiscal Report, and footnote any outstanding encumbrances.

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2007
(Continued)

³ **BUDGET TO ACTUAL COMPARISON**

Child Care Assistance Grant -- FY 2005-06
U.S. Department of Health and Human Services

A schedule of budgeted and actual revenues and expenditures for the Child Care Assistance -- FY2005-06 grant from the U.S. Department of Health and Human Services, passed through the State of Alaska Department of Health and Social Services (DHSS) follows:

	Final Budget	Actual Expenditures	Variance with Final Budget
Revenues from State of Alaska	\$ 443,000	\$ 443,000	\$ -
Expenditures			
Personal Services	420,440	422,201	(1,761)
Travel	-	-	-
Facility Expense	13,500	12,951	549
Supplies	4,000	3,701	299
Equipment	1,850	1,565	285
Other Direct Expense	3,210	2,582	628
Total Direct Expense	443,000	443,000	-
Indirect Costs	-	-	-
Total Expenditures	443,000	443,000	-
Excess of revenue over expenditures	\$ -	\$ -	\$ -

The amount in the "Actual Expenditures" column for "Other Direct Expense" is \$700 greater than as footnoted in the Schedule of Expenditures of Federal Awards as of June 30, 2006; \$700 was the amount expended during the current fiscal year for a required program audit, which was completed and invoiced after June 30, 2006 in conjunction with the Fairbanks North Star Borough's annual audit. Per DHSS instructions, the Borough billed for amounts expended and encumbered (for the program audit) at June 30, 2006.

Loan Outstanding

The Fairbanks North Star Borough has the following loan balance outstanding at June 30, 2007. The balance outstanding includes federal expenditures incurred in prior fiscal years. No federal expenditures were incurred in FY 2006-07. One loan agreement governs amounts borrowed to pay for the construction of two landfill cells. Repayment terms are distinct for each cell. At June 30, 2007, there is no amount outstanding for the first cell. During FY 2005-06, the loan terms for the second cell were renegotiated to roll the remaining balance of accrued interest in to the amount of principal outstanding, then to amortize the combined balance over five years at a reduced interest rate. The renegotiated terms, however, did not take effect until FY 2006-07, and the first repayment is not due until September 30, 2007, one year following substantial completion of the second cell. At June 30, 2007, the principal amount outstanding includes only the remaining unpaid loan funds that were drawn down in prior fiscal years to pay for project expenditures and does not include the accrued interest.

<u>Program Title</u>	<u>Number</u>	<u>Available</u>	<u>Outstanding</u>
Solid Waste Landfill Cell Expansion Loan	66.458	\$12,500,000	\$5,865,425

THIS PAGE INTENTIONALLY LEFT BLANK

**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION 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 No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes 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 OMB Circular A-133? Yes No

Identification of major programs:

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
10.664	Cooperative Forestry Assistance
20.507	Federal Transit Formula Grants
66.606	Surveys, Studies, Investigations and Special Purpose Grants
97.073	State Homeland Security Program

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reportable.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reportable.

THIS PAGE INTENTIONALLY LEFT BLANK

**STATE
SINGLE AUDIT**

To the Honorable Mayor and
Members of the Borough Assembly
Fairbanks North Star Borough

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough, as of and for the year ended June 30, 2007, which collectively comprise the Borough's basic financial statements. We also have audited the financial statements of each of the Borough's nonmajor governmental and fiduciary funds presented in the combining and individual fund financial statements and schedules as of and for the year ended June 30, 2007 and have issued our report thereon dated December 13, 2007. 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

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

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fairbanks North Star 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 the Fairbanks North Star Borough Assembly, management, and the State of Alaska and is not intended to be and should not be used by anyone other than these specified parties.

December 13, 2007

To the Honorable Mayor and
Members of the Assembly
Fairbanks North Star Borough

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
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

Compliance

We have audited the compliance of the Fairbanks North Star Borough with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that are applicable to each of its major state programs for the year ended June 30, 2007. The Fairbanks North Star 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 Fairbanks North Star Borough's management. Our responsibility is to express an opinion on the Fairbanks North Star Borough's compliance based on our audit.

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 the Fairbanks North Star 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 the Fairbanks North Star Borough's compliance with those requirements.

In our opinion, the Fairbanks North Star Borough complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Fairbanks North Star 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 the Fairbanks North Star Borough's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Fairbanks North Star Borough's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a state program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Schedule of State Financial Assistance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough, as of and for the year ended June 30, 2007, which collectively comprise the Borough's basic financial statements. We also have audited the financial statements of each of the Borough's nonmajor governmental and fiduciary funds presented in the combining and individual fund financial statements and schedules as of and for the year ended June 30, 2007 and have issued our report thereon dated December 13, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Fairbanks North Star Borough's basic financial statements and combining and individual fund financial statements and schedules. 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Fairbanks North Star Borough Assembly, management, and the State of Alaska and is not intended to be and should not be used by anyone other than these specified parties.

December 13, 2007

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2007

Name of Award	Grantor's Number	State Expenditures
STATE OF ALASKA DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT		
Alaska Regional Development ARDOR -- FY 2006-07 *		\$ 61,060
Arctic Winter Games Planning *	03-DC-100	3,440
Borough-Wide Road Improvements and Upgrades *	07-DC-508	111,950
Buried Water Tanks at Steese Fire Station/Farmer's Loop *	07-DC-297	100,000
Capital Projects on the School District Small Grants List *	06-DC-349	64,166
Carlson Activity Center Electronic Upgrade *	05-DC-044	75,000
Carlson Center Electronics Upgrade *	03-DC-102	45,738
Carlson Center Scoreboard *	06-DC-179	201,320
Carlson Center Sound System Upgrade *	07-DC-287	10,153
Chena Hot Springs Road Public Safety Radio Upgrade	06-MGR-001	988
Chena Lakes Outdoor Showers *	07-DC-288	10,478
Chena Lakes Recreation Area/Restroom Access Improvements *	06-DC-180	15,659
Community Projects and Improvements	05-MG-014	508
District 11 Road Service Area Improvements *	07-DC-289	48,333
District 12 Road Service Area Improvements *	07-DC-290	17,507
Districts 3, 4, and 5 Existing Road Maintenance *	07-DC-286	156,593
Ester Fire Service Area - Fire Station Addition *	03-DC-110	53,507
Farmers Loop New Fire Station Facility Construction *	06-DC-182	627,311
Fire/Life/Safety Grant -- FY 2002-03	03-MG-077	1,764
FNSB School District Central Kitchen Replacement *	07-DC-291	25,696
Graehl River Landing Improvements and Upgrades *	03-DC103	15,981
Haystack Drive Ice Overflow Repair and Prevention *	05-DC-045	2,909
House District 11 Road Service Area Improvements *	06-RR-023	36,282
House District 12 Road Service Area Improvements *	06-RR-024	20,007
House District 12 Road Service Area Improvements *	06-DC-183	24,106
Lathrop High School Technical Upgrades *	05-DC-046	21
Mass Transit Buses and Transit Facilities Improvements *	03-DC-104	32,634
Municipal Energy Assistance Program (MEAP) -- FY 2006-07 *		6,506,447
North Pole Middle School Security System *	07-DC-299	4,499
North Star VFD Facility Exhaust and Ventilation Improvements *	06-DC-184	5,866
North Star Volunteer Fire Department #1 Exhaust System	03-MGR-009	323
Retirement System (PERS) Relief *		929,023
Scoreboard for the Carlson Center *	06-DC-347	564,300
Service Area Road Revolving Loan Fund or Service Area Road *	07-DC-296	40,116
Tanana Lakes Recreational Area Construction *	07-DC-298	37,938
Two Rivers Elementary School Gym Floor Replacement *	06-DC-185	37,565
Two Rivers Elementary School Gym Improvements *	07-RR-004	57,920
Total Alaska Department of Commerce, Community and Economic Development		\$ 9,947,108

*State Major Program

FAIRBANKS NORTH STAR BOROUGH
 Schedule of State Financial Assistance
 For the Year Ended June 30, 2007
 (continued)

Name of Award	Grantor's Number	State Expenditures
ALASKA DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT		
State Aid for Debt Service -- FY 2006-07 *		\$ 10,413,595
Net Lender Reimbursement Program -- FY 2006-07	ILC-07- 733-107	4,464
Public Library Assistance -- FY 2006-07	PLA-07- 733-23	12,500
Total Alaska Department of Education and Early Development		\$ 10,430,559
ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION		
Oil Spill Response Capabilities - Equipment and Training	CC1855 8002	\$ 15,241
Total Alaska Department of Environmental Conservation		\$ 15,241
ALASKA DEPARTMENT OF HEALTH AND SOCIAL SERVICES		
Human Services Community Matching Grant -- FY 2005-06 ¹	605-06-111	\$ 580
Human Services Community Matching Grant -- FY 2006-07 ^{2*}	605-07-011	295,092
Total Alaska Department of Health and Social Services		\$ 295,672
INTERIOR REGIONAL HOUSING AUTHORITY		
Interior Regional Housing Authority -- FY 2006-07		\$ 14,244
Total Interior Regional Housing Authority		\$ 14,244
ALASKA DEPARTMENT OF REVENUE		
State Telephone and Electric Co-op -- FY 2006-07 *		\$ 338,866
Total Alaska Department of Revenue		\$ 338,866
ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES		
FNSB Coordinated Transit Program	MOA# 61283	\$ 16,920
Total Alaska Department of Transportation and Public Facilities		\$ 16,920
Grand Total - State Financial Assistance		\$ 21,058,610

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2007
(continued)

¹ BUDGET TO ACTUAL COMPARISON

Human Services Community Matching Grant -- FY 2006-07
Alaska Department of Health and Social Services

A schedule of budgeted and actual revenues and expenditures for the Human Services Community Matching Grant from the State of Alaska Department of Health and Social Services (DHSS) follows:

	Final Budget	Actual Expenditures	Variance with Final Budget
Revenues from State of Alaska	\$ 295,872	\$ 295,872	\$ -
Expenditures			
Other Direct Expense	281,783	281,003	780
Indirect Costs	14,089	14,089	-
Total Expenditures	<u>295,872</u>	<u>295,092</u>	<u>780</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ 780</u>	<u>\$ (780)</u>

The \$780 excess of revenue over expenditures in Other Direct Expense represents an encumbrance for a required program audit, to be completed and invoiced after June 30, 2007 in conjunction with the Fairbanks North Star Borough's annual audit. Per DHSS instructions, the Borough is to bill for all amounts expended and encumbered at June 30, 2007, show all encumbered amounts as expended on the final Cumulative Fiscal Report, and footnote any outstanding encumbrances.

² BUDGET TO ACTUAL COMPARISON

Human Services Community Matching Grant -- FY 2005-06
Alaska Department of Health and Social Services

A schedule of budgeted and actual revenues and expenditures for the Human Services Community Matching Grant from the State of Alaska Department of Health and Social Services (DHSS) follows:

	Final Budget	Actual Expenditures	Variance with Final Budget
Revenues from State of Alaska	\$ 242,650	\$ 242,650	\$ -
Expenditures			
Other Direct Expense	231,095	231,095	-
Indirect Costs	11,555	11,555	-
Total Expenditures	<u>242,650</u>	<u>242,650</u>	<u>-</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The amount in the "Actual Expenditures" column for "Other Direct Expense" is \$580 greater than as footnoted in the Schedule of Expenditures of State Awards as of June 30, 2006; \$580 was the amount expended during the current fiscal year for a required program audit, which was completed and invoiced after June 30, 2006 in conjunction with the Fairbanks North Star Borough's annual audit. Per DHSS instructions, the Borough billed for amounts expended and encumbered (for the program audit) at June 30, 2006.

THIS PAGE INTENTIONALLY LEFT BLANK

**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION 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 <input type="checkbox"/> <input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes <input type="checkbox"/> <input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	Yes <input type="checkbox"/> <input checked="" type="checkbox"/> No

State Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes <input type="checkbox"/> <input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes <input type="checkbox"/> <input checked="" type="checkbox"/> None reported

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

Identification of major programs:

- Department of Commerce, Community and Economic Development
 - Program #23 - Grants to Municipalities
 - Municipal Energy Assistance Program (MEAP) - FY 2006-07
 - Retirement System (PERS) Relief
- Department of Education and Early Development
 - Program #02 - Debt Retirement Program
- Department of Health and Social Services
 - Program #31 - Human Services Community Matching Grants
- Department of Revenue
 - Program #03 - Shared Taxes, Electric and Telephone Cooperatives

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reportable.

SECTION III - STATE AWARDS FINDINGS AND QUESTIONED COSTS