



**REPORTS ON SINGLE AUDIT REQUIREMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2008**



Fairbanks North Star Borough



Reports On Single Audit Requirements

For the Year Ended June 30, 2008

December 22, 2008

FAIRBANKS NORTH STAR BOROUGH
REPORTS ON SINGLE AUDIT REQUIREMENTS
For The Year Ended June 30, 2008

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**FEDERAL
SINGLE AUDIT**

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 (Borough), as of and for the year ended June 30, 2008, 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, 2008 and have issued our report thereon dated December 22, 2008. 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 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 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.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Mayor, members of the Borough Assembly, management of the Fairbanks North Star Borough, 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 22, 2008

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 (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, 2008. The 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 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 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, 2008.

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 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, 2008, 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, 2008 and have issued our report thereon dated December 22, 2008. 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 Mayor, members of the Borough Assembly, management of the Fairbanks North Star Borough, 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 22, 2008

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
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U.S. DEPARTMENT OF AGRICULTURE

Direct Programs

State and Community Fire Assistance FFY05	10.664		\$ 134,123
State and Community Fire Assistance FFY06	10.664		424,966
Tanana River Floodplain Acquisition Project	10.904		19,974
Total U.S. Department of Agriculture			\$ 579,063

U.S. DEPARTMENT OF COMMERCE

Passed-through State of Alaska

**Department of Commerce, Community
and Economic Development:**

Coalition for Economic Development in Alaska	11.307	AR32738-10	\$ 8,537
Total U.S. Department of Commerce			\$ 8,537

U.S. DEPARTMENT OF THE INTERIOR

Direct Programs

Payment in Lieu of Taxes FY08	15.226		\$ 292,807
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Bureau of Land Management

Chena River Greenbelt Land Acquisition *	15.225		644,015
GIS Data Internet Availability	15.DDD		38,795

National Park Service

Passed through State of Alaska

Department of Natural Resources:

Historic Signage Plan	15.904	#07481	953
Historic Preservation Travel FY08	15.904	#07496	4,767

Total U.S. Department of the Interior

\$ 981,337

U.S. DEPARTMENT OF TRANSPORTATION

Federal Highway Administration

Passed through Federal Transit Administration:

Coordinated Transportation Program	20.205	AK-90-X029 -01	\$ 26,050
06 CMAQ Ops Demo-New Buses New Routes	20.205	AK-90-X044 -00	124,748

Passed through State of Alaska

Department of Transportation and Public Facilities:

FHWA-PL Highway Planning & Research FFY07	20.205	ACPL-1260(3) 76557	34,994
FHWA-PL Highway Planning & Research FFY08	20.205	ACPL-1260(3) 76557	105,085

*Federal Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2008
(continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Ryan Middle School Electrical Plug-In Operations	20.205	CM0002(102)/CMOA45(21)	\$ 1,226
Oxygen Sensor Replacement Program	20.205	62624	166,859
Federal Transit Administration			
Transit Bus and Equipment Replacement	20.205	AK-15-X001-00	2,867,501
Transit Facility Replacement and Equipment	20.500	AK-03-0045-00	(167)
Section 5307 Operating Assistance - FFY07	20.507	AK-90-X041-00	27,468
Section 5307 Operating Assistance - FFY08	20.507	AK-90-X041-00	686,989
Jobs Access Reverse Commute - North Pole Transit	20.516	AK-37-X009-00	101,424
Passed through State of Alaska			
Department of Transportation and Public Facilities:			
FTA 5303 Highway Planning and Research FFY06	20.514	TORA AK-80-X015	1,875
FTA 5303 Highway Planning and Research FFY07	20.514	TORA AK-80-X016	29,292
Total U.S. Department of Transportation			\$ 4,173,344
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Passed through Alaska State Library:			
Regional Library Services FY07 *	45.310	RS-07-733-102	\$ 18,646
Regional Library Services FY08 *	45.310	RS-08-733-101	114,354
Continuing Education FY08 - Noel Wien Library *	45.310	CED-08-733-179	1,000
Continuing Education FY08 - North Pole Branch *	45.310	CED-09-733-100	1,000
Total Institute of Museum and Library Services			\$ 135,000
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Direct Programs			
Clean-Up Universal Recycling Property *	66.818	BF-9604-52-01-0	\$ 143,327
Old City Landfill Environmental Site Assessment *	66.818	BF-96015 5-01-0	195,796
Universal Recycling Environmental Site Assessment *	66.818	BF-97092 2-01-0	96,118
Reduce Carbon Monoxide in Non-Attainment Area	66.606	X 97071 15-01-3	101,331
Passed through State of Alaska			
Department of Environmental Conservation:			
Air Quality Program FY 2007-08	66.001		72,500
Passed through National Association of Counties (NACo)			
NACo Tanana Lakes Recreation Area Clean-Up	66.474	NACO 8/06	9,218
Total U.S. Environmental Protection Agency			\$ 618,290

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2008
(continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Passed through State of Alaska			
Department of Military and Veterans Affairs:			
Federal Emergency Management FFY07	83.534		\$ 25,000
Federal Emergency Management FFY08	83.534		53,894
Total Federal Emergency Management Agency			\$ 78,894
U.S. DEPARTMENT OF EDUCATION			
Passed through Fairbanks North Star Borough			
School District:			
School District Kitchen Replacement	84.041	SD #S04 1E 040002	\$ 99,495
Total U.S. Department of Education			\$ 99,495
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through State of Alaska			
Department of Health and Social Services:			
Child Care Assistance -- FY2006-07 ^{3*}	93.575	604-07-903	\$ 735
Child Care Assistance -- FY2007-08 ^{2*}	93.575	604-08-903	442,265
Child Care Information Resource and Referral FY08 *	93.575	08MOA PLAYNLEARN	134,000
Total U.S. Department of Health and Human Services			\$ 577,000
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through State of Alaska			
Department of Military and Veterans Affairs:			
Sewell Drive Floodplain Acquisition - DSR #1440 *	97.039	1440.0008b	\$ 208,926
Sewell Drive Floodplain Acquisition - DSR #1571 *	97.039	1571.0008	17,662
State Homeland Security Program FFY06	97.073	2006-GE-T6-0015	457,815
State Homeland Security Program FFY07	97.073	2007-GE-T7-0003	65,947
Total U.S. Department of Homeland Security			\$ 750,350
Grand Total - Federal Financial Assistance			\$ 8,001,310

*Federal Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2008
(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 2007-08
U.S. Department of Health and Human Services

A schedule of budgeted and actual revenues and expenditures for the Child Care Assistance -- FY2007-08 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	423,030	423,431	(401)
Travel	-	-	-
Facility Expense	13,200	13,208	(8)
Supplies	4,000	4,455	(455)
Equipment	270	764	(494)
Other Direct Expense	2,500	407	2,093
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, 2008 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, 2008, 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, 2008
(continued)

³ **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	1,991	1,109
Total Direct Expense	<u>443,000</u>	<u>443,000</u>	<u>-</u>
Indirect Costs	-	-	-
Total Expenditures	<u>443,000</u>	<u>443,000</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 \$735 greater than as footnoted in the Schedule of Expenditures of Federal Awards as of June 30, 2007; \$735 was the amount expended during the current fiscal year for a required program audit, which was completed and invoiced after June 30, 2007 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, 2007.

Loan Outstanding

The Fairbanks North Star Borough has the following loan balance outstanding at June 30, 2008. The balance outstanding includes federal expenditures incurred in prior fiscal years. No federal expenditures were incurred in FY 2007-08. 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, 2008, 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 took effect in FY 2006-07, and the first repayment was made on September 30, 2007, one year following substantial completion of the second cell. At June 30, 2008, 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>CFDA Number</u>	<u>Amount Available</u>	<u>Amount Outstanding</u>
Solid Waste Landfill Cell Expansion Loan	66.458	\$12,500,000	\$4,974,449

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**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

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 deficiency(ies) 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 deficiency(ies) 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:

CFDA No.	Name of Federal Program or Cluster
15.225	Recreation Resource Management
45.310	Grants to States
66.818	Brownfields Assessment and Cleanup Cooperative Agreements
93.575	Child Care and Development Block Grant
97.039	Hazard Mitigation Grant

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.

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**STATE
SINGLE AUDIT**

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 (Borough), as of and for the year ended June 30, 2008, 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, 2008 and have issued our report thereon dated December 22, 2008. 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 Borough's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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.

Honorable Mayor and
Members of the Assembly
Fairbanks North Star Borough

Page 2

Compliance and Other Matters

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

December 22, 2008

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 (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, 2008. The 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 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 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, 2008.

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 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, 2008, 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, 2008 and have issued our report thereon dated December 22, 2008. 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 Mayor, members of the Borough Assembly, management of the Fairbanks North Star Borough, and the State of Alaska and is not intended to be and should not be used by anyone other than these specified parties.

December 22, 2008

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2008

Name of Award	Grantor's Number	State Expenditures
STATE OF ALASKA DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT		
Alaska Regional Development ARDOR -- FY 2007-08 *		\$ 56,363
Bandwidth Upgrade at North Pole Schools *	08-DC-265	12,393
Becker Ridge Service Area Rosie Creek Trail *	08-DC-266	1,645
Borough-Wide Road Improvements and Upgrades *	07-DC-508	597,308
Capital Projects	05-MGR-004	14,065
Capital Projects on the School District Small Grants List *	06-DC-349	4,092
Carlson Center Sound System Upgrade *	07-DC-287	227,945
Chena Lakes Outdoor Showers *	07-DC-288	79,641
Chena Lakes Recreation Area Restroom Accessibility	07-MGR-004	6,299
Chena Lakes Recreation Area Restroom Accessibility	07-MGR-005	26,857
Chena Lakes Recreation Area/Restroom Access Improvements *	06-DC-180	18,516
Class Performance Systems for District 11 Schools *	08-DC-267	10,996
Classroom Performance Systems for Schools in HD 7 & 8 *	08-DC-274	14,362
Community Projects and Improvements	05-MG-014	15
District 11 Road Service Area Improvements *	07-DC-289	55,474
District 12 Road Service Area Improvements *	07-DC-290	3,033
Districts 3, 4, and 5 Existing Road Maintenance *	07-DC-286	59,338
Ester Fire Service Area - Fire Station Addition *	03-DC-110	132,796
FNSB School District Central Kitchen Replacement *	07-DC-291	1,127,780
Future Farmers of America Classroom Instruction Support *	08-DC-268	10,000
Golden Heart Project, Repair and Improve Downtown Park *	07-DC-293	26,959
Graehl Landing Improvements and Upgrades *	03-DC-103	8,992
Haystack Drive Ice Overflow Repair and Prevention *	05-DC-045	11,258
House District 11 Road Service Area Improvements *	06-RR-023	9,513
House District 12 Road Service Area Improvements *	06-DC-183	30,585
Municipal Energy Assistance Program (MEAP) -- FY 2007-08 *	SB 53 SEC 55(B)	2,861,393
N. Pole High and Middle School Texas Instrument Navigators *	08-DC-269	7,000
N. Pole High School Greenhouse Ventilation System *	08-DC-270	9,197
N. Pole High School Mobile Computer Lab *	07-DC-294	20,000
N. Pole Middle School Mobile Learning Labs *	08-DC-271	89,708
N. Pole Middle School Security System *	07-DC-299	12,991
Network Switch Upgrades-Two Rivers and Pearl Creek Elem *	08-DC-275	70,000
North Star VFD Facility Exhaust and Ventilation Improvements *	06-DC-184	27,256
Parks and Recreation Graehl Park Improvements *	07-DC-295	7,161
Road Service Area Maintenance & Improvements - District 11 *	08-DC-272	5,209
Service Area Road Revolving Loan Fund or Service Area Road *	07-DC-296	814,288

*State Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2008
(continued)

Name of Award	Grantor's Number	State Expenditures
Steese FSA-Replacement of Pumper/Engine E-61 *	08-DC-141	\$ 52
Tanana Lakes Recreational Area Construction *	07-DC-298	1,872
Two Rivers Elementary School Gym Floor Replacement *	06-DC-185	2,110
Woodriver Elementary School Mobile Computer Learning Lab *	08-DC-276	<u>83,685</u>
Total Alaska Department of Commerce, Community and Economic Development		\$ <u>6,558,147</u>
ALASKA HOUSING FINANCE CORPORATION		
State Payments in Lieu of Taxes -- FY 2007-08		\$ <u>16,990</u>
Total Alaska Housing Finance Corporation		\$ <u>16,990</u>
ALASKA DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT		
State Aid for Debt Service -- FY 2006-07 *		\$ 104,138
State Aid for Debt Service -- FY 2007-08 *		11,451,800
Audio-Visual Equipment to Preserve Native Oral Histories	AID-FY08	1,989
Public Library Assistance -- FY 2007-08	PLA-08- 733-21	<u>6,031</u>
Total Alaska Department of Education and Early Development		\$ <u>11,563,958</u>
ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION		
Oil Spill Response Capabilities - Equipment and Training	CC1855 8002	\$ <u>10,951</u>
Total Alaska Department of Environmental Conservation		\$ <u>10,951</u>
ALASKA DEPARTMENT OF HEALTH AND SOCIAL SERVICES		
Human Services Community Matching Grant -- FY 2006-07 ³ *	605-07-011	\$ 735
Human Services Community Matching Grant -- FY 2007-08 ² *	605-08-011	<u>314,201</u>
Total Alaska Department of Health and Social Services		\$ <u>314,936</u>
INTERIOR REGIONAL HOUSING AUTHORITY		
Interior Regional Housing Authority -- FY 2007-08		\$ <u>64,948</u>
Total Interior Regional Housing Authority		\$ <u>64,948</u>
ALASKA DEPARTMENT OF REVENUE		
State Telephone and Electric Co-op -- FY 2007-08 *		\$ 401,777
FNSB Senior Quality of Life Assessment (FY08)	GIFTS I.D. 1510	<u>6,856</u>
Total Alaska Department of Revenue		\$ <u>408,633</u>

*State Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2008
(continued)

Name of Award	Grantor's Number	State Expenditures
ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES		
FNSB Coordinated Transit Program	MOA# 61283	\$ <u>2,585</u>
Total Alaska Department of Transportation and Public Facilities		\$ <u>2,585</u>
Grand Total - State Financial Assistance		\$ <u>18,941,148</u>

Unsubstantiated by the Fairbanks North Star Borough:

ALASKA DEPARTMENT OF ADMINISTRATION		
PERS Defined Benefit Plan Employer Relief Funding according to letter #3 dated September 8, 2008 ¹ *	PERS ER 116	\$ <u>719,129</u>
Total Alaska Department of Administration		\$ <u>719,129</u>
Grand Total - Adjusted for Inclusion of PERS Relief Assignment		\$ <u>19,660,277</u>

¹ **PERS Defined Benefit Plan**
Employer Relief Funding -- PERS ER 116
Alaska Department of Administration

The Alaska Legislature appropriated funds for a deposit to the PERS to produce a contribution rate, for all employers, that would be no greater than 22 percent for fiscal year 2008. The State apportioned this deposit among all PERS employers. The \$719,129 reflects the final amount assigned to the Borough by the State. However, the assignment was calculated using individual employer rates of the PERS as a single agent, multiple-employer plan at June 30, 2005. Senate Bill 125 changed the PERS to a cost-sharing plan, in part, as a consequence of acknowledging decades of commingling of individual employer assets and liabilities, which resulted in, among other things, individual employer rates without valid computational bases. An assignment based on these rates is likewise invalid, and therefore, inaccurate. Hence, the Borough has not recorded any portion of this deposit in its financial statements. Nevertheless, the Borough does acknowledge the State's total payment into the PERS and the receipt of the three letters from the Department of Administration, Division of Retirement and Benefits, assigning a portion of the total deposit to the Borough.

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2008
(continued)

² BUDGET TO ACTUAL COMPARISON

Human Services Community Matching Grant -- FY 2007-08
 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	\$ 314,983	\$ 314,936	\$ 47
Expenditures			
Other Direct Expense	299,984	299,204	780
Indirect Costs	14,999	14,997	2
Total Expenditures	<u>314,983</u>	<u>314,201</u>	<u>782</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ 735</u>	<u>\$ (735)</u>

The \$735 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, 2008 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, 2008, show all encumbered amounts as expended on the final Cumulative Fiscal Report, and footnote any outstanding encumbrances.

³ 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

	Final Budget	Actual Expenditures	Variance with Final Budget
Revenues from State of Alaska	\$ 295,872	\$ 295,827	\$ 45
Expenditures			
Other Direct Expense	281,783	281,738	45
Indirect Costs	14,089	14,089	-
Total Expenditures	<u>295,872</u>	<u>295,827</u>	<u>45</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The amount in the "Actual Expenditures" column for "Other Direct Expense" is \$735 greater than as footnoted in the Schedule of Expenditures of State Awards as of June 30, 2007; \$735 was the amount expended during the current fiscal year for a required program audit, which was completed and invoiced after June 30, 2007 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, 2007. The required program audit was budgeted at \$780 but ended up costing only \$735; the \$45 savings was returned to the State.

**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

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 deficiency(ies) 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 Financial Assistance

Internal control over major programs:	
Material weakness(es) identified?	Yes <input type="checkbox"/> <input checked="" type="checkbox"/> No
Significant deficiency(ies) 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
Dollar threshold used to distinguish a major program:	<u>\$ 100,000</u>

Identification of major programs:

- Department of Commerce, Community and Economic Development
 - Program #23 - Grants to Municipalities
 - Municipal Energy Assistance Program (MEAP) - FY 2007-08
- Department of Education and Early Development
 - Program #02 - Debt Retirement Program
- Department of Health and Social Services
 - Program #25 - Human Services Community Matching Grants
- Department of Revenue
 - Program #03 - Shared Taxes, Electric and Telephone Cooperatives
- Department of Administration
 - PERS Defined Benefit Plan Employer Relief Funding

SECTION II - FINANCIAL STATEMENT FINDINGS

The Fairbanks North Star Borough did not have any findings that relate to the financial statements that are required to be reported in accordance with GAGAS.

SECTION III - STATE AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reportable.

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