



**REPORTS ON SINGLE AUDIT REQUIREMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2013**



Fairbanks North Star Borough



Reports On Single Audit Requirements

For the Year Ended June 30, 2013

December 20, 2013

FAIRBANKS NORTH STAR BOROUGH
REPORTS ON SINGLE AUDIT REQUIREMENTS
For The Year Ended June 30, 2013

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State Single Audit

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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**

Independent Auditor's Report

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements. We also have audited the financial statements of each of the Borough's nonmajor governmental, internal service, and fiduciary funds presented in the combining and individual fund financial statements and additional information schedules as of and for the year ended June 30, 2013 and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control over.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Borough's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 2013-001.

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

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Borough's Response to Findings

The Borough's response to the findings identified in our audit are described in the accompanying corrective action plan. The Borough's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Borough's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

December 20, 2013
Fairbanks, Alaska

Cook + Haugelsberg LLC

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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited Fairbanks North Star Borough's (Borough) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Borough's major federal programs for the year ended June 30, 2013. 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.

Borough's Responsibility

The Borough is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Borough's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Borough's compliance.

Opinion on Each Major Federal Program

In our opinion, the Borough complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

The Borough's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Borough's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements. We also have audited the financial statements of each of the Borough's nonmajor governmental, internal service, and fiduciary funds presented in the combining and individual fund financial statements and additional information schedules as of and for the year ended June 30, 2013 and have issued our report thereon dated December 20, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements and combining and individual fund financial statements and additional information 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic 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.

December 20, 2013
Fairbanks, Alaska

Cook + Haugeberg LLC

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2013

| 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 & Community Fire Assistance FFY05 | 10.664 | | \$ 1 |
| State & Community Fire Assistance FFY06 | 10.664 | | 551 |
| Cooperative Forestry Assistance FFY09 | 10.664 | | 126,603 |
| Total U.S. Department of Agriculture | | | \$ 127,155 |

U.S. DEPARTMENT OF COMMERCE

Direct Program

| | | | |
|--|--------|---------------|------------------|
| 2012 EDA Agriculture Cluster Development | 11.302 | | \$ 50,000 |
| Pass-Through Program from: | | | |
| Alaska State Library: | | | |
| 2013 On-Line with Libraries (OWL) | 11.557 | 13 USDOC BTOP | 11,812 |
| Total U.S. Department of Commerce | | | \$ 61,812 |

U.S. DEPARTMENT OF DEFENSE

Direct Programs

| | | | |
|--|--------|--|------------------|
| Joint Land Use Study Fort Wainwright / Eielson Air Force Base | 12.610 | | \$ 46,884 |
| Total U.S. Department of Defense | | | \$ 46,884 |

U.S. DEPARTMENT OF THE INTERIOR

Direct Programs

| | | | |
|--|--------|------------------|------------------|
| Federal Payments in Lieu of Taxes FY13 | 15.226 | | \$ 409,639 |
| Tanana Lakes Wetlands Restoration | 15.608 | FWS #7018 | 10,957 |
| Tanana Lakes Revegetate Road Corridors | 15.608 | FWS #7018 | 4,295 |
| Fish and Wildlife Cluster (15.605) | | | |
| National Park Service | | | |
| Pass-Through Program from: | | | |
| Alaska Department of Fish and Game | | | |
| Tanana Lakes Boat Launch & Recreation Facility | 15.605 | ADF&G COOP12-068 | \$ 27,000 |
| Total Fish and Wildlife Cluster | | | \$ 27,000 |

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2013
(continued)

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

National Park Service

Pass-Through Programs from:

Alaska Department of Natural Resources

| | | | |
|---|--------|----------|-----------|
| Tanana Lakes Recreation Area Development-LWCF | 15.916 | 02-00404 | \$ 52,659 |
| Historic Preservation Signage - Phase 2 | 15.904 | #11550 | 7,527 |

| | | | |
|--|--|--|-------------------|
| Total U.S. Department of Interior | | | \$ 512,077 |
|--|--|--|-------------------|

| |
|-----------------------------------|
| U.S. DEPARTMENT OF JUSTICE |
|-----------------------------------|

Pass-through Program from:

City of Fairbanks, Alaska

| | | | |
|---|--------|--------------|-----------|
| Emergency Operations Center Equipment Purchases | 16.710 | 2007CKWX0022 | \$ 65,998 |
|---|--------|--------------|-----------|

| | | | |
|---|--|--|------------------|
| Total U.S. Department of Justice | | | \$ 65,998 |
|---|--|--|------------------|

| |
|--|
| U.S. DEPARTMENT OF TRANSPORTATION |
|--|

Highway Planning and Construction Cluster (20.205, 20.219)

Federal Transit Administration (FTA)

Direct Program

| | | | |
|---------------------------------------|--------|--|-----------|
| Transit Bus and Equipment Replacement | 20.205 | | \$ 44,238 |
|---------------------------------------|--------|--|-----------|

Federal Highway Administration (FHWA)

Pass-through Programs from:

Federal Transit Administration (FTA)

| | | | |
|---|--------|------------|---------|
| 05 CMAQ-Bus Shelter and Bus Stop Facilities | 20.205 | AK-90-X034 | 102,989 |
|---|--------|------------|---------|

Alaska Department of Transportation and Public Facilities

| | | | |
|--|--------|--------------------|---------|
| FHWA-PL Highway Planning & Research FFY11 | 20.205 | ACPL1260-(5) 80674 | 23,817 |
| FHWA-PL Highway Planning & Research FFY12 | 20.205 | ACPL1260-(5) 80674 | 79,675 |
| FHWA-PL Highway Planning & Research FFY13 | 20.205 | MAP21-PL-1260(6) | 92,284 |
| PM 2.5 Measurement and Analysis | 20.205 | 63302 | 5,832 |
| Fairbanks Fine Particulate Matter Planning & Control | 20.205 | 63720 | 511,826 |
| Air Quality Education Outreach | 20.205 | 60900 | 218,429 |
| Air Quality State Implementation Plan (SIP) | 20.205 | AKSAS #60891 | 143,530 |
| 3-Year Free UAF MACS Bus Service | 20.205 | AKSAS #60877 | 100,000 |

Alaska Department of Natural Resources

| | | | |
|---|--------|----------|--------|
| Tanana Lakes Non-Motorized Trail Project | 20.219 | 10795017 | 41,940 |
| Chena Hot Springs Road Trail Safety & Maintenance | 20.219 | 10795986 | 48,639 |

| | | | |
|--|--|--|---------------------|
| Total Highway Planning and Construction Cluster | | | \$ 1,413,199 |
|--|--|--|---------------------|

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2013
(continued)

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

Federal Transit Cluster (20.500, 20.507)

Federal Transit Administration (FTA)

Direct Programs

| | | | |
|---|--------|--|----------------|
| Transit Equipment Acquisitions | 20.500 | | \$ 217,048 |
| 06 CMAQ Ops Demo-New Buses New Routes | 20.507 | | 10,384 |
| 06 CMAQ-Bus Shelter and Bus Stop Facilities | 20.507 | | 126,573 |
| 07 CMAQ Ops Demo-New Buses New Routes | 20.507 | | 375,962 |
| Section 5307 Operating Assistance - FFY12 | 20.507 | | 37,675 |
| Section 5307 Operating Assistance - FFY13 | 20.507 | | 577,397 |
| Transit Route Salcha-North Pole-Fairbanks | 20.507 | | 236,967 |
| Transit Route Van Horn Road | 20.507 | | 187,375 |
| ARRA Transit Vans, Services and Equipment | 20.507 | | <u>291,847</u> |

Total Federal Transit Cluster **\$ 2,061,228**

Pass-through Programs from:

Alaska Department of Transportation and Public Facilities

| | | | |
|--|--------|----------------|---------------|
| FTA 5303 Highway Planning and Research FFY09 | 20.514 | TORAAK-80-X018 | \$ 8,923 |
| FTA 5303 Highway Planning and Research FFY10 | 20.514 | 5303-P-11-251 | 81,245 |
| FTA 5303 Highway Planning and Research FFY11 | 20.514 | 5303-PL-12-251 | <u>50,218</u> |

Total U.S. Department of Transportation **\$ 3,614,813**

INSTITUTE OF MUSEUM AND LIBRARY SERVICES

Pass-Through Programs from:

Alaska State Library:

| | | | |
|--|--------|----------------|--------------|
| Regional Library Services FY13 | 45.310 | RS-13-733-101 | \$ 115,360 |
| Library Continuing Education Grant FY13 - #1 | 45.310 | CED-13-733-140 | 1,000 |
| Library Continuing Education Grant FY13 - #4 | 45.310 | CED-13-733-134 | 1,500 |
| Library Continuing Education Grant FY13 - #5 | 45.310 | CED-13-733-173 | <u>1,500</u> |

Total Institute of Museum and Library Services **\$ 119,360**

U.S. ENVIRONMENTAL PROTECTION AGENCY

Direct Program

| | | | |
|-------------------------------------|--------|--|-----------|
| Clean-Up Old City Landfill Property | 66.818 | | \$ 97,365 |
|-------------------------------------|--------|--|-----------|

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2013
(continued)

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---------------------------|--|-------------------------|
| Pass-through Programs from: | | | |
| Alaska Department of Environmental Conservation | | | |
| Landfill Expansion - Cells 3 & 4 - Subsidy ² | 66.458 | AWCF LOAN #339081 | \$ 269,143 |
| Landfill Expansion - Cells 3 & 4 - Loan ² | 66.458 | AWCF LOAN #339081 | 1,127,383 |
| Partial Landfill Closure - Loan ² | 66.458 | AWCF LOAN #339072 | 1,020,008 |
| Air Quality Program FY 2012-13 | 66.605 | MOA 2010 FY13 MOU | 42,040 |
| Air Quality Program FY 2012-13 | 66.034 | MOA 2010 FY13 MOU | 45,500 |
| Total U.S. Environmental Protection Agency | | | \$ 2,601,439 |

U.S. DEPARTMENT OF ENERGY

Direct Programs

| | | | |
|--|----------|--|-------------------|
| ARRA Energy Efficiency Education Program | 81.128 | | \$ 7,887 |
| Fairbanks Geothermal Energy Project | 81.087RD | | 597,400 |
| Total U.S. Department of Energy | | | \$ 605,287 |

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Direct Program

| | | | |
|---|--------|--|---------------|
| AMERICORPS*VISTA Umbrella Leader Travel | 94.013 | | \$ 113 |
| Total Corporation for National and Community Service | | | \$ 113 |

U.S. DEPARTMENT OF HOMELAND SECURITY

Homeland Security Cluster (97.004, 97.067)

Pass-through Programs from:

Alaska Department of Military and Veterans Affairs:

| | | | |
|--|--------|-------------------|-------------------|
| 2010 Homeland Security Grant Program | 97.067 | 2010-SS-T0-0023 | \$ 91,192 |
| 2011 Homeland Security Grant Program | 97.067 | EMW-2011-SS-00053 | 349,893 |
| 2012 Homeland Security Grant Program | 97.067 | EMW-2012-SS-00127 | 26,118 |
| Total Homeland Security Cluster | | | \$ 467,203 |

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2013
(continued)

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---------------------------|--|----------------------------|
| Pass-through Program from: | | | |
| Alaska Department of Military and Veterans Affairs: | | | |
| Emergency Operations Center Construction | 97.052 | 2010-EO-MX-0042 | \$ 551,143 |
| Federal Emergency Management Agency (FEMA) | | | |
| Pass-through Program from: | | | |
| Alaska Department of Military and Veterans Affairs: | | | |
| Emergency Management Performance Grant FFY12 | 97.042 | EMW-2012-EP-00028 | \$ <u>120,000</u> |
| Total U.S. Department of Homeland Security | | | \$ <u>1,138,346</u> |
| Grand Total - Federal Financial Assistance | | | \$ <u>8,893,284</u> |

¹ Basis of Presentation and Summary of Significant Accounting Policies

This Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Fairbanks North Star Borough under programs of the federal government for the year ended June 30, 2013 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in preparation of, the basic financial statements.

Expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

² Alaska Clean Water Fund (ACWF) Loan Programs

The Fairbanks North Star Borough has two loans available as of June 30, 2013. The first loan agreement governs amounts borrowed to pay for Solid Waste Partial Closure - Cell 1. As of June 30, 2013, the entire \$2,840,000 in ARRA debt forgiveness subsidy has been recovered and \$1,020,008 has been borrowed against the remaining \$3,500,000. The second loan agreement governs amounts borrowed to pay for Solid Waste Expansion - Cells 3 and 4 and includes forgiveness subsidy in the amount of \$503,552. Federal expenditures against this loan and a proportionate amount of forgiveness subsidy were incurred in FY 2012-13 and are presented in this schedule.

| Program Title | CFDA Number | Total Loan Amount Available | Debt Forgiveness Subsidy | Unsubsidized Loan Amount Outstanding |
|------------------------------------|----------------|-----------------------------------|--------------------------------|--|
| Partial Landfill Closure | ARRA 66.458 | \$ 6,340,000 | \$ 2,840,000 | \$ 1,020,008 |
| Landfill Expansion - Cells 3 & 4 ^ | 66.458 | 8,000,000 | 503,552 | 1,167,630 |

^The terms of the loan for the Solid Waste Expansion - Cells 3 & 4 loan are that 85% of expenditures are considered loan principal and 15% debt forgiveness subsidy; the 85% loan principal portion consists of commingled federal and state matching funds. Therefore, the total amount is included in the schedule of expenditures of federal awards.

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**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

| | | | | |
|---|-----|--------------------------|-------------------------------------|---------------|
| Material weakness(es) identified? | Yes | <input type="checkbox"/> | <input checked="" type="checkbox"/> | No |
| Significant deficiency(ies) identified? | 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 |

Federal Awards

Internal control over major programs:

| | | | | |
|---|-----|--------------------------|-------------------------------------|---------------|
| Material weakness(es) identified? | Yes | <input type="checkbox"/> | <input checked="" type="checkbox"/> | No |
| Significant deficiency(ies) identified? | Yes | <input type="checkbox"/> | <input checked="" type="checkbox"/> | None reported |

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No

Indication of major programs:

| <u>CFDA Number(s):</u> | <u>Name of Federal Program of Cluster</u> |
|------------------------|---|
| 20.514 | Highway Planning and Research |
| 66.458 | Partial Landfill Cleanup |
| 97.052 | Emergency Operations Center Construction |

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 reported.

**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013
(continued)**

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS:

| | |
|--|---|
| <p>2013-001: CFDA No. and Name: Award Numbers and Years: Federal Agency: Pass-Through Entity:</p> | <p>Payroll Cost Allocation 20.205 – Highway Planning and Construction Cluster 63720 – 2013, 60900 – 2013, AKSAS#60891 – 2013 U.S. Department of Transportation Alaska Department of Transportation and Public Facilities</p> |
| <p>Criteria:</p> | <p>OMB Circular A-87 Attachment B states when employees work on multiple activities, distribution of their salaries will be supported by personnel activity reports or equivalent documentation which should include a) reports that reflect after-the-fact distribution of actual activity of the employee, b) reports must account for the total activity for which the employee is compensated, c) reports must be prepared at least monthly and must coincide with one or more pay periods, and d) the reports must be signed by the employee.</p> |
| <p>Condition:</p> | <p>Personnel salaries were ratably allocated amongst affected grants, instead of charging actual hours directly to the respective grants based on actual documented personnel timesheets or similar reports.</p> |
| <p>Questioned Costs:</p> | <p>\$35,358. This amount was determined by calculating the payroll costs initially charged to the affected grants that could not be substantiated by the expending department.</p> |
| <p>Context:</p> | <p>During preparation of quarterly reports to the grantor, the Borough found the expending department was allocating payroll costs across grant funded projects without documenting appropriate support for the allocations in accordance with OMB Circular A-87. It was noted that 3 of 7 employees could not substantiate 100% of their time charged against the affected grants. The total unsubstantiated amount equaled \$151,673, of which \$116,315 has been removed from the schedule of expenditures of federal awards. CFDA 20.205 was not audited as a major program for the year ended June 30, 2013.</p> |
| <p>Cause:</p> | <p>The expending department did not appropriately implement the requirements for providing adequate documentation to support distribution of personnel salaries across multiple award programs.</p> |
| <p>Effect:</p> | <p>Disallowed costs of \$151,673 were charged to federal programs during the year ended June 30, 2013. Correction adjustments made subsequent to filing of June 30, 2013 quarterly grant expenditure reports in the amount of \$116,315 are removed from the schedule of expenditures of federal awards for the year ended June 30, 2013. This leaves the remaining \$35,358 to be adjusted in later reports.</p> |
| <p>Recommendation:</p> | <p>Management of the Borough should provide additional training and guidance as necessary to ensure that expending departments are aware of the detailed documentation requirements that apply to expenditures of federal awards in accordance with OMB Circular A-87.</p> |
| <p>Views of responsible officials and planned corrective actions:</p> | <p>See corrective action plan.</p> |

**FAIRBANKS NORTH STAR BOROUGH
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013**

| Federal Award Findings and Questioned Costs | |
|--|--|
| Finding: | 2013-001 Payroll Cost Allocation |
| Name of Contact Person: | Joanne Pascoe, Acting Controller |
| Corrective Action Planned: | <p>The Borough Transportation department submitted inappropriate payroll allocation assignments to the Borough Human Resources department which implemented them. The Grants Accounting section discovered the inappropriate payroll allocation assignments in late October, four months after the fiscal year end of June 30, 2013. The Borough Accounting division was able to adjust the fiscal year 2012-13 general ledger, financial statements, and Schedule of Federal Expenditures for \$116,315 of the total error of \$151,673, which includes the indirect taken on the inappropriate payroll charges. The remaining \$35,358 has been adjusted in the fiscal year 2013-14 general ledger for the inappropriate payroll charges and indirect taken on those charges. The Borough's reports to the Alaska Department of Transportation and Public Facilities for the quarter ended 12/31/2013 will reflect a reduction in grant expenditures of \$151,673. Furthermore, to prevent and detect such errors in the future, the Borough has taken the following three actions: 1) the Borough Chief Financial Officer has explained, in writing, to both the Transportation and Human Resources departments, why the payroll assignment changes were inappropriate and what constitutes an appropriate payroll expenditure for grants; 2) the Borough Accounting division has reviewed all fiscal years 2012-13 and 2013-14 payroll allocations to grants for allowability; and 3) procedures have been implemented for the Grants Accounting section to review all payroll assignment changes each pay period.</p> |
| Anticipated Completion Date: | All actions are anticipated to be completed by January 31, 2014 |

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**STATE
SINGLE AUDIT**

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

**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**

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements. We also have audited the financial statements of each of the Borough's nonmajor governmental, internal service, and fiduciary funds presented in the combining and individual fund financial statements and additional information schedules as of and for the year ended June 30, 2013 and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Borough's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurances about whether the Borough's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2013-1.

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

Page 2

Borough's Response to Findings

The Borough's response to the findings identified in our audit are described in the accompanying corrective action plan. The Borough's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Borough's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

December 20, 2013
Fairbanks, Alaska

Cook + Haugelsberg LLC

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON
SCHEDULE OF STATE FINANCIAL ASSISTANCE REQUIRED BY THE
STATE OF ALASKA AUDIT GUIDE AND COMPLIANCE SUPPLEMENT FOR STATE SINGLE AUDITS**

Report on Compliance for Each Major State Program

We have audited Fairbanks North Star Borough's (Borough) 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 the Borough's major state programs for the year ended June 30, 2013. The Borough's major state programs are identified in the accompanying schedule of state financial assistance.

Borough's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Borough's major state programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major state program. However our audit does not provide a legal determination of the Borough's compliance.

Opinion on Each Major State Program

In our opinion, the Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and which are described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major state program is not modified with respect to these matters.

The Borough's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. The Borough's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Borough's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal controls over compliance in accordance with the *State of Alaska Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of State Financial Assistance required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

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, 2013, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements. We also have audited the financial statements of each of the Borough's nonmajor governmental, internal service, and fiduciary funds presented in the combining and individual fund financial statements and additional information schedules as of and for the year ended June 30, 2013 and have issued our report thereon dated December 20, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements and combining and individual fund financial statements and additional information 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 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.

December 20, 2013
Fairbanks, Alaska

Cook + Haugelsberg LLC

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2013

| Name of Award | Grantor's Number | State Expenditures |
|--|---------------------|-----------------------|
| STATE OF ALASKA DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT | | |
| <i>Grants to Municipalities</i> | | |
| After School Program * | 11-DC-213 | \$ 2,600 |
| Air Quality Mitigation * | 13-DC-526 | 118,719 |
| Ambulance Equipment Purchase * | 13-DC-060 | 71,429 |
| Arctic Winter Games * | 12-RR-006 | 19,852 |
| Arctic Winter Games Host Society * | 12-DC-354 | 147,267 |
| Barnette Magnet School Renovation and Reconstruction * | 12-DC-623 | 6,591,216 |
| Birch Hill Disaster Communications Project and the Fairbanks North Star Borough Library Fiber Optic Project * | 11-RR-014 | 45,470 |
| Borough Emergency Operations Center Funding * | 13-DC-352 | 11,061 |
| Borough-Wide Road Improvements and Upgrades * | 07-DC-508 | 18,661 |
| Carlson Activity Center (CAC) Phase 2 Improvements * | 11-DC-215 | 800,172 |
| Carlson Activity Center Improvements Phase 2 * | 12-DC-346 | 1,085,777 |
| Carlson Center Improvements * | 10-DC-012 | 144,620 |
| Chena-Goldstream Fire & Rescue * | 13-DC-150 | 9,576 |
| Deferred Maintenance of the Stampede Room in the Pioneer Museum at Pioneer Park * | 12-RR-004 | 1,409 |
| Engine Equipment Purchase * | 12-DC-510 | 300,000 |
| Ester Volunteer Fire Department Fire Station Addition * | 09-DC-458 | 2,032 |
| Fire Engine (North Star VFD Sub-Award to FNSB) * | 11-DC-564 | 244,937 |
| Fire Station Addition (Ester Volunteer Fire Department) * | 08-DC-157 | 2,944 |
| FNSB School District We the People Competition * | 13-DC-089 | 24,880 |
| Hunter Elementary School Classroom Technology Upgrade * | 12-DM-104 | 32,855 |
| Hutchison High School Distance Learning System * | 11-DC-217 | 14,940 |
| Kiwanis Field & Fairbanks Youth Soccer Artificial Turf Fields * | 13-DC-558 | 71,031 |
| Mellow Wood Service Area Road Project * | 09-DC-461 | 198 |
| Natural Gas Distribution Study * | 12-DC-347 | 13,634 |
| Natural Gas Distribution System Development * | 13-DC-544 | 1,019,330 |
| North Pole Branch Library * | 13-DC-602 | 190,159 |
| North Pole Elementary School Classroom Furniture Replacement * | 11-DC-218 | 7,261 |
| North Pole High School Physical Education/Athletic Equipment Replacement * | 11-DC-219 | 10,603 |
| North Pole Middle School Classroom Technology Equipment * | 11-DC-221 | 2,854 |
| Parks and Recreation Facility Improvements * | 12-DC-349 | 1,273,610 |
| Parks and Recreation Facility Improvements -- Birch Hill * | 13-DC-472 | 660 |
| Pioneer Park Deferred Maintenance * | 12-DC-350 | 50,428 |

* State Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2013
(continued)

| Name of Award | Grantor's Number | State Expenditures |
|--|---------------------|------------------------------------|
| Protective Equipment for Volunteer Fire Department Personnel * | 13-RR-009 | \$ 77,941 |
| Road Service Area Funding * | 12-DC-351 | 106,681 |
| Road Service Area Improvements * | 11-DC-223 | 1,720,150 |
| Road Service Area Projects * | 09-DC-467 | 2,737,807 |
| Salcha Elementary School Classroom Equipment * | 13-DC-060 | 14,686 |
| School District Area-wide Fuel Oil Tank Replacement * | 09-DC-207 | 16,759 |
| School Technology Upgrades * | 12-DC-352 | 261,724 |
| Senate District D Road Service Area Funding * | 13-DC-585 | 390,038 |
| Steese Fire Service Area Station #2 Repair and Upgrade * | 11-DC-593 | 8,993 |
| Steese VFD Driveway and Parking Lot Improvement Project * | 13-DC-194 | 145,000 |
| Ticasuk Brown Elementary School Septic System Replacement * | 11-DC-225 | 39,773 |
| Two Rivers Elementary School Classroom Improvements * | 11-DC-226 | 960 |
| Weller Elementary School Classroom Improvements * | 11-DC-228 | 17,108 |
| Weller Elementary School for Planning Access Improvements, Safety Upgrades & Demolishing Ice Rink * | 13-RR-007 | 45,072 |
| West Valley High School Distance Learning System * | 11-DC-229 | 20,393 |
| Wood Stove Conversion Program * | 12-DC-353 | 1,178,607 |
| Alaska Regional Development Organization Grant | | |
| Alaska Regional Development ARDOR -- FY 2012-13 | DCCED FY13 0821309 | 63,747 |
| Community Revenue Sharing Direct Payment | | |
| Community Revenue Sharing Program -- FY 2012-13 * | | <u>5,348,361</u> |
| Total State of Alaska Department of Commerce, Community and Economic Development | | \$ <u><u>24,523,985</u></u> |
| ALASKA HOUSING FINANCE CORPORATION | | |
| Residential Energy Conservation Outreach & Public Relations | NO. FSB-08-FSB-1 | \$ 28,412 |
| State Payments in Lieu of Taxes -- FY2012-13 | | <u>4,810</u> |
| Total Alaska Housing Finance Corporation | | \$ <u><u>33,222</u></u> |
| ALASKA DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT | | |
| State Aid for Costs of School Construction Debt -- FY 2012-13 * | | \$ 9,643,721 |

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2013
(continued)

| Name of Award | Grantor's Number | State Expenditures |
|---|---------------------|-----------------------|
| Division of State Libraries, Archives & Museums | | |
| Library Services Grants | | |
| Public Library Assistance -- FY2012-13 | PLA-13-733-22 | \$ 19,500 |
| Division of Teaching and Learning Support | | |
| Passed-through Best Beginnings | | |
| Early Learning - Best Beginnings Partnership FY13 | FY13 MOU | 55,000 |
| Division of School Finance | | |
| Facilities Construction Grant | | |
| Fairbanks District-Wide Fuel Oil Tank Replacement | GR-09-006 | 37,334 |
| Total Alaska Department of Education and Early Development | | \$ 9,755,555 |
| ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION | | |
| Pioneer Park Water and Sewer Enhancement * | 33768 | \$ 909,505 |
| Oil Spill Response Capabilities - Equipment and Training FY13 | CC1855 9082 8/12 | 10,000 |
| State Matches to Federal Grants | | |
| U.S. Environmental Protection Agency | | |
| Pass-Through Program | | |
| Air Quality Program FY 2012-13 | MOA 2010 FY13 MOU | 37,460 |
| Total Alaska Department of Environmental Conservation | | \$ 956,965 |
| ALASKA DEPARTMENT OF FISH AND GAME | | |
| State Matches to Federal Grants | | |
| U.S. Department of the Interior, National Park Service | | |
| Pass-Through Program | | |
| Tanana Lakes Boat Launch & Recreation Facility | ADF&G COOP12-068 | \$ 9,000 |
| Total Alaska Department of Fish and Game | | \$ 9,000 |
| ALASKA DEPARTMENT OF HEALTH AND SOCIAL SERVICES | | |
| Human Services Community Matching Grant -- FY 2011-12 ³ | 605-12-011 | \$ 815 |
| Human Services Community Matching Grant -- FY 2012-13 ^{4*} | 605-13-011 | 358,132 |
| Total Alaska Department of Health and Social Services | | \$ 358,947 |

* State Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2013
(continued)

| Name of Award | Grantor's Number | State Expenditures |
|--|---------------------|-----------------------|
| INTERIOR REGIONAL HOUSING AUTHORITY | | |
| State Payments in Lieu of Taxes -- FY 2012-13 | | \$ 27,070 |
| Total Interior Regional Housing Authority | | \$ 27,070 |
| ALASKA DEPARTMENT OF REVENUE | | |
| State Telephone and Electric Co-op -- FY 2012-13 * | | \$ 423,939 |
| State Fish Tax-- FY 2012-13 | | 118 |
| Total Alaska Department of Revenue | | \$ 424,057 |
| ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES | | |
| State Grant Programs | | |
| Pioneer Park Parking Lot Alterations and Improvements | 62054 | 156,598 |
| Pioneer Park Access Safety Improvements | 62058 | 50,553 |
| Debt Reimbursement for MCP -- FY 2012-13 * | | 335,455 |
| State Matches to Federal Grants | | |
| Federal Transit Administration (FTA) | | |
| Direct Programs | | |
| 06 CMAQ Ops Demo-New Buses New Routes | AKSAS #77111 | 1,088 |
| 06 CMAQ-Bus Shelter and Bus Stop Facilities | AKSAS #60568 | 12,564 |
| 07 CMAQ Ops Demo-New Buses New Routes | AKSAS #77111 | 32,072 |
| Section 5307 Operating Assistance - FFY12 | ASGF-12-251 | 6,738 |
| Section 5307 Operating Assistance - FFY13 | ASGF-13.251 | 218,848 |
| Federal Highway Administration (FHWA) | | |
| Pass-through Program | | |
| 05 CMAQ-Bus Shelter and Bus Stop Facilities | AKSAS #60568 | 10,224 |
| Total Alaska Department of Transportation and Public Facilities | | \$ 824,140 |
| Grand Total - State Financial Assistance | | \$ 36,912,941 |
| Unsubstantiated by the Fairbanks North Star Borough: | | |
| ALASKA DEPARTMENT OF ADMINISTRATION | | |
| PERS Defined Benefit Plan Employer Relief Funding according to letter dated July 30, 2013 ^{2*} | PERS ER 116 | \$ 3,492,520 |
| Total Alaska Department of Administration | | \$ 3,492,520 |
| Grand Total - Adjusted for Inclusion of PERS Relief Allocation | | \$ 40,405,461 |

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2013
(continued)

Alaska Clean Water Fund (ACWF) Loan Programs

The Fairbanks North Star Borough has two loans available as of June 30, 2013. The first loan agreement governs amounts borrowed to pay for Solid Waste Partial Closure - Cell 1. As of June 30, 2013, the entire \$2,840,000 in ARRA debt forgiveness subsidy has been recovered and \$1,020,008 has been borrowed against the remaining \$3,500,000. The second loan agreement governs amounts borrowed to pay for Solid Waste Expansion - Cells 3 and 4 and includes forgiveness subsidy in the amount of \$503,552. Federal expenditures against this loan and a proportionate amount of forgiveness subsidy were incurred in FY 2012-13 and are presented in this schedule.

| Program Title | CFDA Number | Total Loan Amount Available | Debt Forgiveness Subsidy | Unsubsidized Loan Amount Outstanding |
|---|----------------|-----------------------------------|--------------------------------|--|
| Partial Landfill Closure | ARRA 66.458 | \$ 6,340,000 | \$ 2,840,000 | \$ 1,020,008 |
| Landfill Expansion - Cells 3 & 4 [^] | 66.458 | 8,000,000 | 503,552 | 1,167,630 |

[^]The terms of the loan for the Solid Waste Expansion - Cells 3 & 4 loan are that 85% of expenditures are considered loan principal and 15% debt forgiveness subsidy; the 85% loan principal portion consists of commingled federal and state matching funds. Therefore, the total amount is included in the schedule of expenditures of federal awards.

¹ Basis of Presentation and Summary of Significant Accounting Policies

This Schedule of State Financial Assistance (SSFA) includes the state grant activity of the Fairbanks North Star Borough under programs of the state government for the year ended June 30, 2013 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Therefore, some amounts presented in the SSFA may differ from amounts presented in, or used in preparation of, the basic financial statements.

Expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Grantor's (identifying) numbers are presented where available.

² PERS Defined Benefit Plan (Tiers I, II, and III)

Employer Relief Funding -- PERS ER 116
Alaska Department of Administration

In accordance with Alaska Statutes, the State is required to make a direct contribution to the PERS Defined Benefit Plan for the amount by which the actuarially-determined contribution rate exceeds the maximum rate required by the Statutes to be contributed by employers. For fiscal year 2013, the Alaska Legislature appropriated \$307,302,392 for the State's statutorily-required direct contribution. As explained in the Notes to the Financial Statements, although the Fairbanks North Star Borough (Borough) acknowledges the State's direct contribution, no portion of it is recorded in the Borough's financial statements. The \$3,492,520 reflects the amount allocated to the Borough by the State for fiscal year 2013.

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2013
(continued)

³ **Budget to Actual Comparison**

Human Services Community Matching Grant - FY 2011-12
Alaska Department of Health and Social Services

A schedule of budgeted and actual revenues and expenditures for the FY 2011-12 Human Services Community Matching Grant from the Alaska Department of Health and Social Services (DHSS) follows:

| | Final Budget | Actual Expenditures | Variance with Final Budget |
|-------------------------------------|-----------------|------------------------|-------------------------------|
| Revenues from State of Alaska | \$ 343,755 | \$ 343,755 | \$ - |
| Expenditures | | | |
| Other direct expense | 327,386 | 327,386 | - |
| Indirect cost | 16,369 | 16,369 | - |
| Total expenditures | <u>343,755</u> | <u>343,755</u> | <u>-</u> |
| Excess of revenue over expenditures | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The amount in the "Actual Expenditures" column for "Total Expenditures" is \$815 greater than as footnoted in the Schedule of Expenditures of State Awards as of June 30, 2012; \$815 was the amount expended during the current fiscal year for a required program audit, which was completed and invoiced after June 30, 2012 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, 2012.

⁴ **Budget to Actual Comparison**

Human Services Community Matching Grant - FY 2012-13
Alaska Department of Health and Social Services

A schedule of budgeted and actual revenues and expenditures for the FY 2012-13 Human Services Community Matching Grant from the Alaska Department of Health and Social Services (DHSS) follows:

| | Final Budget | Actual Expenditures | Variance with Final Budget |
|-------------------------------------|-----------------|------------------------|-------------------------------|
| Revenues from State of Alaska | \$ 358,947 | \$ 358,947 | \$ - |
| Expenditures | | | |
| Other direct expense | 341,855 | 341,040 | 815 |
| Indirect cost | 17,092 | 17,092 | - |
| Total expenditures | <u>358,947</u> | <u>358,132</u> | <u>815</u> |
| Excess of revenue over expenditures | <u>\$ -</u> | <u>\$ 815</u> | <u>\$ (815)</u> |

The \$815 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, 2013 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, 2013, show all encumbered amounts as expended on the final Cumulative Fiscal Report, and footnote any outstanding encumbrances.

**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|---|--|
| Type of auditor's report issued: | unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | Yes <input type="checkbox"/> <input checked="" type="checkbox"/> No |
| Significant deficiency(ies) identified? | Yes <input type="checkbox"/> <input checked="" type="checkbox"/> None reported |
| Noncompliance material to financial statements? | Yes <input type="checkbox"/> <input checked="" type="checkbox"/> No |

State Financial Assistance

| | |
|---|--|
| Type of auditor's report issued on compliance for major programs: | unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | Yes <input type="checkbox"/> <input checked="" type="checkbox"/> No |
| Significant deficiency(ies) identified? | Yes <input type="checkbox"/> <input checked="" type="checkbox"/> None reported |

| | |
|---|-------------------|
| Dollar threshold used to distinguish a major program: | <u>\$ 300,000</u> |
|---|-------------------|

SECTION II - FINANCIAL STATEMENT FINDINGS

The Fairbanks North Star Borough did not have any findings that relate to the financial statements.

**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013
(continued)**

SECTION III – STATE AWARDS FINDINGS AND QUESTIONED COSTS

| | |
|---|--|
| <p>2013-1: State Grant Name: Grant Number:</p> | <p>Payroll Cost Allocation Wood Stove Conversion Program 12-DC-353</p> |
| <p>Criteria:</p> | <p>In accordance with the Designated Legislative Grant Program Grantee Handbook, Record Keeping & Reporting Requirements, the grantees must keep records of all expenditures related to the grant project which includes copies of payroll records including signed timesheets, payroll checks, and fringe benefit costs.</p> |
| <p>Condition:</p> | <p>Personnel salaries were ratably allocated amongst affected grants, instead of charging actual hours directly to the respective grants based on actual documented personnel timesheets or similar reports.</p> |
| <p>Questioned Costs:</p> | <p>\$9,605. This amount was determined by calculating the payroll costs initially charged to the affected grants that could not be substantiated by the expending department.</p> |
| <p>Context:</p> | <p>During preparation of quarterly reports to another grantor, the Borough found the expending department was allocating payroll costs across grant funded projects without documenting appropriate support for the allocations in accordance with the Designated Legislative Grant Program Grantee Handbook. It was noted that 3 of 7 employees could not substantiate 100% of their time charged against the affected grants. The total unsubstantiated amount equaled \$32,561, of which \$22,956 has been removed from the schedule of state financial assistance.</p> |
| <p>Effect:</p> | <p>Disallowed costs of \$32,561 were charged to the Wood Stove Conversion Program during the year ended June 30, 2013. Correction adjustments made subsequent to filing of June 30, 2013 grant expenditure reports in the amount of \$22,956 are removed from the schedule of state financial assistance for the year ended June 30, 2013. This leaves the remaining \$9,605 to be adjusted in later reports.</p> |
| <p>Cause:</p> | <p>The expending department did not appropriately implement the requirements for providing adequate documentation to support personnel salaries charged to the grant.</p> |
| <p>Recommendation:</p> | <p>Management of the Borough should provide additional training and guidance as necessary to ensure that expending departments are aware of the detailed documentation requirements that apply to expenditures of state financial assistance in accordance with the Designated Legislative Grant Program Grantee Handbook.</p> |

**FAIRBANKS NORTH STAR BOROUGH
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013**

| State Award Findings and Questioned Costs | |
|--|---|
| Finding: | 2013-1 Payroll Cost Allocation |
| Name of Contact Person: | Joanne Pascoe, Acting Controller |
| Corrective Action: | <p>The Borough Transportation department submitted inappropriate payroll allocation assignments to the Borough Human Resources department which implemented them. The Grants Accounting section discovered the inappropriate payroll allocation assignments in late October, four months after the fiscal year end of June 30, 2013. The Borough Accounting division was able to adjust the fiscal year 2012-13 general ledger, financial statements, and Schedule of State Awards for \$22,956 of the total error of \$32,561, which includes the indirect taken on the inappropriate payroll charges. The remaining \$9,605 has been adjusted in the fiscal year 2013-14 general ledger for the inappropriate payroll charges and indirect taken on those charges. The Borough's report to the Alaska Department of Commerce, Community and Economic Development (DCCED) for the month ended 10/31/2013 reflected a reduction in grant expenditures of \$25,252. The Borough's report to the DCCED for the month ended 12/31/2013 will reflect the remaining reduction in grant expenditures of \$7,309. Furthermore, to prevent and detect such errors in the future, the Borough has taken the following three actions: 1) the Borough Chief Financial Officer has explained, in writing, to both the Transportation and Human Resources departments, why the payroll assignment changes were inappropriate and what constitutes an appropriate payroll expenditure for grants; 2) the Borough Accounting division has reviewed all fiscal year 2012-13 and 2013-14 payroll allocations to grants for allowability; and 3) procedures have been implemented for the Grants Accounting section to review all payroll assignment changes each pay period.</p> |
| Proposed Completion Date: | All actions are anticipated to be completed by January 31, 2014 |

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