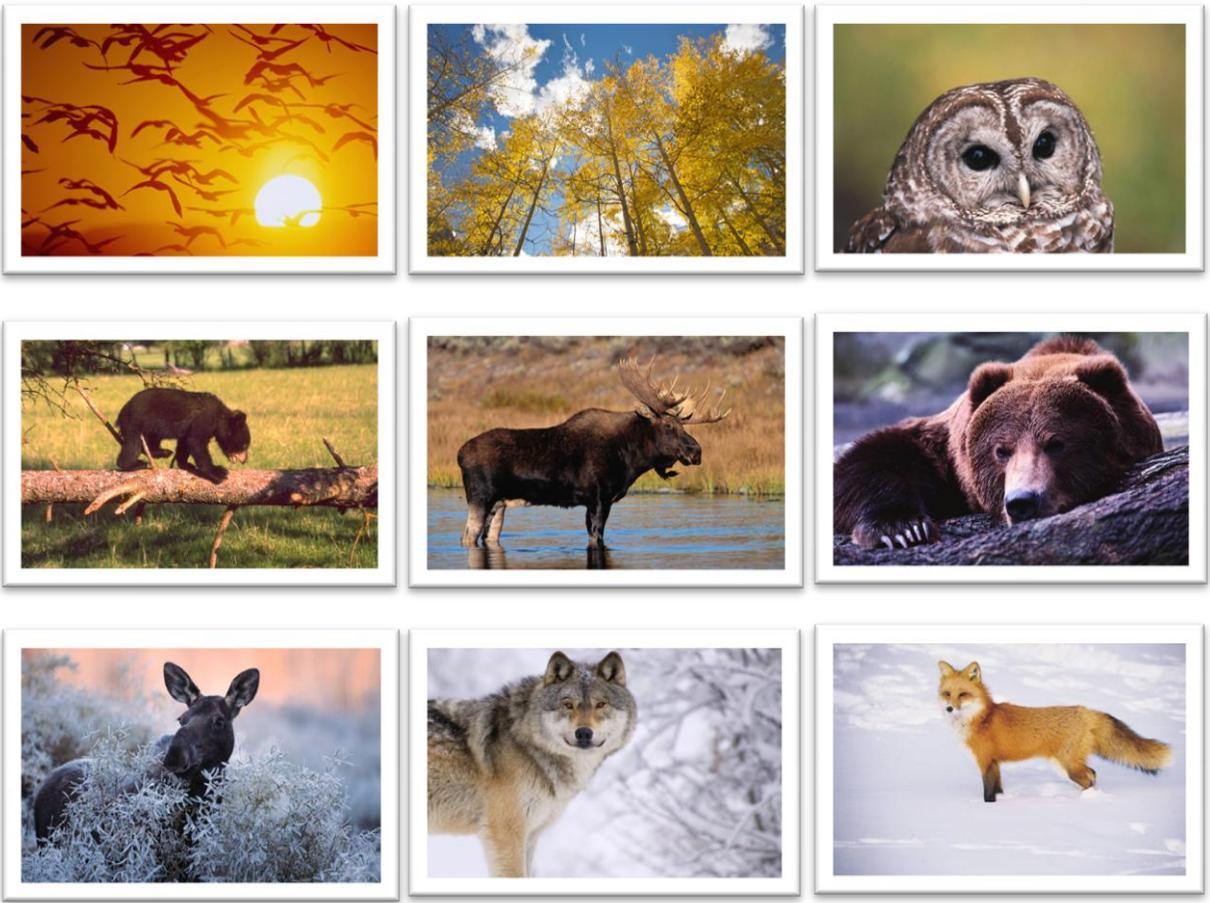




**REPORTS ON SINGLE AUDIT REQUIREMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2014**



Fairbanks North Star Borough



Reports On Single Audit Requirements

For the Year Ended June 30, 2014

December 31, 2014

FAIRBANKS NORTH STAR BOROUGH
REPORTS ON SINGLE AUDIT REQUIREMENTS
For The Year Ended June 30, 2014

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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 the 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 units, 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, 2014, 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 as supplementary information, as defined by the Governmental Auditing Standards Board, as of and for the year ended June 30, 2014, as displayed in the Borough's financial statements, and have issued our report thereon dated December 31, 2014.

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 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 2014-001.

The Borough's Responses to Findings

The Borough's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Borough's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

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 31, 2014
Fairbanks, Alaska

Cook + Haugeberg 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 *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, 2014. 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

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

Basis for Qualified Opinion on Highway Planning and Construction Cluster

As described in the accompanying schedule of findings and questioned costs, the Borough did not comply with requirements regarding CFDA 20.205 Highway Planning and Construction Cluster as described in finding number 2014-001 for Allowable Costs. Compliance with such requirements is necessary, in our opinion, for the Borough to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Highway Planning and Construction Cluster for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

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.

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

The Borough's response to the internal control over compliance finding 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.

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 units, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough, as of and for the year ended June 30, 2014, 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 as supplementary information, as defined by the Government Accounting Standards Board, in the combining and individual fund financial statements and schedules as of and for the year ended June 30, 2014 and have issued our report thereon dated December 31, 2014, 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 basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 basic financial statements as a whole.

Cook + Haugeberg LLC

December 31, 2014
Fairbanks, Alaska

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2014

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 Program			
Cooperative Forestry Assistance FFY09	10.664		\$ 4,860
Total U.S. Department of Agriculture			\$ 4,860
U.S. DEPARTMENT OF COMMERCE			
Direct Program			
2013 Economic Development District	11.302		\$ 42,224
Pass-Through Program from:			
<i>Alaska State Library</i>			
2014 On-Line with Libraries (OWL)	11.557	14 USDOC BTOP	5,284
Total U.S. Department of Commerce			\$ 47,508
U.S. DEPARTMENT OF DEFENSE			
Direct Program			
Joint Land Use Study Fort Wainwright / Eielson Air Force Base	12.610		\$ 80,355
Total U.S. Department of Defense			\$ 80,355
U.S. DEPARTMENT OF THE INTERIOR			
Direct Programs			
Federal Payments in Lieu of Taxes FY14	15.226		\$ 438,822
Tanana Lakes Riparian Bank Restoration	15.608		20,893
Tanana Lakes Revegetate Road Corridors	15.608		9,001
<i>Fish and Wildlife Cluster (15.605)</i>			
National Park Service			
Pass-Through Program from:			
<i>Alaska Department of Fish and Game</i>			
Tanana Lakes Boat Launch & Recreation Facility	15.605	ADF&G COOP12-068	\$ 392,178
Total Fish and Wildlife Cluster			\$ 392,178
U.S. Fish and Wildlife Service			
Pass-Through Program from Festival Fairbanks, Inc.			
Non-Cash Assistance - River Bank Restoration ³	15.631	F13AC01021	\$ 35,000

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2014
(continued)

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

Pass-Through Programs from:

Alaska Department of Natural Resources

Tanana Lakes Recreation Area Development	15.916	02-00404	\$ 20,097
Historic Preservation Signage - Phase 3	15.904	#13594	4,544

Total U.S. Department of Interior **\$ 920,535**

U.S. DEPARTMENT OF JUSTICE

Pass-through Program from:

City of Fairbanks, Alaska

Emergency Operations Center Equipment Purchases	16.710	2007CKWX0022	\$ 364,241
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Total U.S. Department of Justice **\$ 364,241**

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		\$ 14,741
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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	67,490
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Alaska Department of Transportation and Public Facilities

FHWA-PL Highway Planning & Research FFY13 ⁴	20.205	MAP21-PL-1260(6)	35,133
FHWA-PL Highway Planning & Research FFY14 ⁴	20.205	MAP21-PL-1260(6)	104,089
Air Quality Education Outreach	20.205	60900	141,007
Fairbanks Fine Particulate Matter Planning & Control	20.205	63720	217,820
West Valley HS / North Pole HS Plug-In Operations	20.205	AKSAS #61041	8,220
PM 2.5 Measurement and Analysis	20.205	63302	7,719
Air Quality State Implementation Plan (SIP)	20.205	AKSAS #60891	191,016
Woodriver Elementary Sidewalk Construction	20.205	LU20-14-0005	26,058
3-Year Free UAF MACS Bus Service	20.205	AKSAS #60877	100,000

Non-Cash Assistance ³

Plug-Ins at West Valley and North Pole High Schools	20.205	AKSAS #61041	1,777,769
FMATS 2013 Preventative Maintenance Projects	20.205	AKSAS #62358	480,120

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2014
(continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<i>Alaska Department of Natural Resources</i>			
Isberg Recreation Trailhead	20.219	10793310	\$ 3,044
<i>Total Highway Planning and Construction Cluster</i>			<u>\$ 3,174,226</u>
<i>Federal Transit Cluster (20.500, 20.507)</i>			
Federal Transit Administration (FTA)			
Direct Programs			
Transit Equipment Acquisitions	20.500	AK-04-0008	\$ 1,156,443
06 CMAQ-Bus Shelter and Bus Stop Facilities	20.507	AK-90-X038	57,800
10 CMAQ-Bus Shelter and Bus Stop Facilities	20.507	AK-95-X006	55,090
12 CMAQ Fort Wainwright Transit Route/MACS	20.507	AK-95-X011	303,590
07 CMAQ Ops Demo-New Buses New Routes	20.507	AK-95-X001	408,636
Section 5307 Operating Assistance - FFY14	20.507	AK-90-X071	737,531
Paratransit Van Fleet Replacement	20.507	AK-95-X002	29,997
Transit Route Salcha-North Pole-Fairbanks	20.507	AK-95-X010	105,757
Transit Route Van Horn Road	20.507	AK-95-X009	269,868
ARRA Transit Vans, Services and Equipment	20.507	AK-96-X002	1,947
Pass-through Program from:			
<i>Alaska Department of Transportation and Public Facilities</i>			
Articulated Tractor Trailer Purchase	20.507	DOT&PF #62802	123,385
<i>Total Federal Transit Cluster</i>			<u>\$ 3,250,044</u>
Federal Transit Administration (FTA)			
Pass-through Programs from:			
<i>Alaska Department of Transportation and Public Facilities</i>			
FTA 5303 Highway Planning and Research FFY11	20.514	5303-PL-12-251	\$ 23,962
FTA 5303 Highway Planning and Research FFY12	20.514	5303-PL-13-251	36,238
Total U.S. Department of Transportation			<u>\$ 6,484,470</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Pass-Through Programs from:			
<i>Alaska State Library</i>			
Regional Library Services FY14	45.310	RS-14-733-101	\$ 154,245
Library Continuing Education Grant FY14 - #1	45.310	CED-14-733-187	1,000
Library Continuing Education Grant FY14 - #2	45.310	CED-14-733-150	1,000
Library Continuing Education Grant FY14 - #3	45.310	CED-14-733-188	1,000
Library Continuing Education Grant FY14 - #5	45.310	CED-14-733-148	2,000
Library Continuing Education Grant FY14 - #6	45.310	CED-14-733-149	937
Total Institute of Museum and Library Services			<u>\$ 160,182</u>

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2014
(continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Pass-through Programs from:			
<i>Alaska Department of Environmental Conservation</i>			
Landfill Expansion - Cell 3 & 4 - Subsidy ²	66.458	ACWF LOAN #339081	\$ 229,650
Landfill Expansion - Cell 3 & 4 - Loan ²	66.458	ACWF LOAN #339081	3,967,586
Partial Landfill Closure - Loan	66.458	ACWF LOAN #339072	334,826
Air Quality Program FY 2013-14	66.605	MOU 2010 AMEND #7	42,016
Air Quality Program FY 2013-14	66.034	MOU 2010 AMEND #7	45,500
Total U.S. Environmental Protection Agency			\$ 4,619,578
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Homeland Security Cluster (97.067)</i>			
Pass-through Programs from:			
<i>Alaska Department of Military and Veterans Affairs</i>			
2011 Homeland Security Grant Program	97.067	EMW-2011-SS-00053	\$ 100,710
2012 Homeland Security Grant Program	97.067	EMW-2012-SS-00127	267,636
2013 Homeland Security Grant Program	97.067	EMW-2013-SS-00098	7,155
Total Homeland Security Cluster			\$ 375,501
Federal Emergency Management Agency (FEMA)			
Pass-through Program from:			
<i>Alaska Department of Military and Veterans Affairs</i>			
Emergency Management Performance Grant FFY14	97.042	EMW-2013-EP-00048	142,500
Pass-through Program from:			
<i>Alaska Department of Commerce, Community & Economic Development</i>			
Floodplain Conference Travel Grant	97.023	29820	4,369
Total U.S. Department of Homeland Security			\$ 522,370
Grand Total - Federal Financial Assistance			\$ 13,204,099

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2014
(continued)

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, 2014 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, 2014. The first loan agreement governs amounts borrowed to pay for Solid Waste Partial Closure - Cell 1. As of June 30, 2014, the entire \$2,840,000 in ARRA debt forgiveness subsidy has been recovered and \$1,354,835 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 the remaining amount of forgiveness subsidy were incurred in FY 2013-14 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	\$ 1,354,835
Landfill Expansion - Cells 3 & 4 ^	66.458	8,000,000	503,552	5,135,216

^The terms of the loan for the Solid Waste Expansion - Cells 3 & 4 loan are that 85% of the first \$3,357,013 expenditures are considered loan principal and 15% debt forgiveness subsidy; after the debt forgiveness subsidy has been fully recovered, which occurred in FY 2013-14, remaining expenditures are considered 100% loan principal; the 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.

³ Non-Cash Assistance

In FY 2013-14, entities other than the Fairbanks North Star Borough received federal grants that were expended by those entities to enhance Borough-owned assets. The value of this non-cash assistance was determined in accordance with the provisions of OMB Circular A-133. Festival Fairbanks, Inc. was the recipient of U.S. Department of the Interior, Fish and Wildlife Service grant funds for the Chena River Bank Restoration Project and expended those funds to stabilize the Chena Riverbank located on Borough land. The Alaska Department of Transportation and Public Facilities was the recipient of U.S. Department of Transportation federal-aid highway funds and expended those funds to install electrical plug-ins at Borough school facilities and to resurface a bicycle path and roadways located on Borough property.

⁴ FHWA-PL Highway Planning & Research Grants - FFY13 and FFY14

In FY 2013-14, inappropriate personnel salaries and indirect charges on those amounts were ratably allocated to the FHWA-PL FFY13 and FFY14. The total unapproved amount allocated to these grants was \$19,617. The 2013-14 schedule of expenditures of federal awards has been adjusted to remove the unapproved amounts.

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**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

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 ___ X No

Significant deficiency(ies) identified? Yes ___ X None reported

Noncompliance material to financial statements noted? Yes ___ X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes ___ X No

Significant deficiency(ies) identified? Yes X ___ None reported

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

Highway Planning and Construction Cluster qualified

All other 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 X ___ No

Indication of major programs:

<u>CFDA Number(s):</u>	<u>Name of Federal Program of Cluster</u>
15.605	Fish and Wildlife Cluster
16.710	Emergency Operations Center Equipment Purchases
20.205, 20.219	Highway Planning and Construction Cluster
20.500, 20.507	Federal Transit Cluster
45.310	Regional Library Services and Library Continuing Education Grants
97.067	Homeland Security Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 396,123

Auditee qualified as low-risk auditee? Yes ___ X No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

**FAIRBANK NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014
(continued)**

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS:

2014-001: CFDA No. and Name: Award Numbers and Years: Federal Agency: Pass-Through Entity:	Improper Payroll Cost Allocation; Commingled Direct and Indirect Payroll Charged as Direct 20.205 - Highway Planning and Construction Cluster MAP21-PL-1260(6) - 2013; MAP21-PL-1260(6) - 2014 U.S. Department of Transportation Alaska Department of Transportation and Public Facilities
Criteria:	In accordance with U.S. OMB Circular A-87, costs charged to grants must conform to the terms and conditions of the federal award. Attachment B to the Circular further states when employees work on multiple activities, distribution of their salaries will be supported by personnel activity reports or equivalent documentation that reflects after-the-fact distribution of actual activity of the employee, and accounts for the total activity for which the employee is compensated. Such documentation must be prepared at least monthly and must coincide with one or more pay periods, and the reports must be signed by the employee. Substitute systems for allocating salaries to Federal awards may be used in place of activity reports. However, such systems are subject to approval if required by the cognizant agency. Indirect costs are defined as those incurred for a common or joint purpose benefiting more than one cost objective. Requirements for development of a cost allocation plans for the distribution of indirect cost pools are contained in Attachments C and E. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose has been assigned to a Federal award as a direct cost.
Condition:	Personnel salaries were ratably allocated amounts for specific tasks performed on affected grants, instead of charging actual hours directly to the respective grants based on actual documented personnel timesheets or similar reports. This allocation method was not pre-approved by the cognizant agency as required by U.S. OMB Circular A-87. In addition, indirect salaries were commingled with direct salaries and allocated as direct charges to the grant.
Questioned Costs:	\$19,617. This amount was determined by calculating the total commingled direct and indirect payroll costs initially allocated to the affected grants as direct charges. Direct payroll costs included in total questioned costs, which would otherwise be allowable grant expenditures, cannot be separately determined from this total amount.
Context:	During payroll testwork performed on the cluster, it was determined that the expending department was allocating payroll costs without prior approval from the cognizant agency for this alternative salary allocation method. In addition a portion of allocated charges totaling \$19,617, which has been removed from the schedule of expenditures of federal awards, included commingled disallowed salary charges of an indeterminate amount. CFDA 20.205 was audited as a major program for the year ended June 30, 2014.
Cause:	The expending department 1) did not obtain the required pre-approval of the allocation methods for personnel salaries, and 2) commingled both direct and indirect personnel salaries in a pool which was then allocated as direct charges to the grant using this unapproved allocation methodology.
Effect:	Commingled disallowed costs of \$19,617 were charged to federal programs during the year ended June 30, 2014. Correction adjustments made subsequent to the filing of the June 30, 2014 quarterly grant expenditure reports in the amount of \$19,617 have been removed from the schedule of expenditures of federal awards for the year ended June 30, 2014.
Recommendation:	Management of the Borough should provide additional training and guidance to project managers to ensure that expending departments are aware of their responsibilities for ensuring compliance with the requirements that apply to expenditures of federal awards in accordance with U.S. OMB Circular A-87.
Views of responsible officials and planned corrective actions:	The Borough agrees with the finding and questioned costs. See the Borough's Corrective Action Plan.

**FAIRBANK NORTH STAR BOROUGH
CORRECTIVE ACTION PLAN FOR CURRENT YEAR FEDERAL SINGLE AUDIT FINDING
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Awards Findings and Questioned Costs – Corrective Action Plan	
Finding:	2014-001 Improper Payroll Cost Allocation; Commingled Direct and Indirect Payroll Charged as Direct
Name of Contact Person:	Joanne Pascoe, Controller
Corrective Action Planned:	<p>1. The Geographic Information System (GIS) division of the Borough Computer Services department reported inappropriate payroll hours to the Borough Payroll section for FHWA Grant No. MAP21-PL-1260(6) (FFYs13/14 FMATS Grant). The auditors discovered the inappropriate payroll charges during fieldwork in November 2014, five months after the fiscal year-end of June 30, 2014. The total disallowed amount was \$19,617. The Borough Accounting division adjusted the fiscal year 2013-14 single audit schedule of expenditures of federal awards to reduce expenditures reported by that amount. The Borough's general ledger was adjusted in fiscal year 2014-15 to remove the inappropriate payroll charges to the grant. The FFYs13/14 FMATS grant report to the Alaska Department of Transportation and Public Facilities (DOT&PF) for the quarter ended June 30, 2014 will be amended to reflect reductions in grant expenditures of \$4,490 (FFY13 FMATS) and \$15,127 (FFY14 FMATS). The total reduction on the amended June 30, 2014 FFYs13/14 FMATS grant report will be \$19,617. Furthermore, the FFYs13/14 FMATS grant report for the quarter ended September 30, 2014 (final report) will be amended to reflect the removal of additional disallowed costs partially offset by other allowable costs. The amended June 30, 2014 grant report and the amended September 30, 2014 grant report will be submitted to DOT&PF along with the report for the quarter ended December 31, 2014.</p> <p>2. Moreover, to prevent and detect such errors in the future, the Borough has taken or will take the following actions:</p> <ul style="list-style-type: none"> a) The Borough Grants Accountant notified DOT&PF in December 2014 that some employee hours for GIS-related tasks were allocated and not direct-charged to the FFYs13/14 FMATS grant and that a substitute system for allocating salaries and wages was used. DOT&PF concurred that the substitute allocation methodologies were appropriate. b) The Borough Controller has had discussions with the Computer Services department and explained why the payroll cost allocation to the grant was inappropriate and what constitutes appropriate payroll expenditures for grants. There have also been discussions with the auditors, the Borough Administration, and both the Human Resources and Computer Services departments about the finding. c) The Borough Accounting division has reviewed all GIS payroll charges in fiscal years 2013-14 and 2014-15 to the FFYs13/14 FMATS grant for allowability. d) The Borough administration will undertake activities to provide training in time and effort documentation requirements and in appropriate supervisory and management oversight to all Borough employees who charge time to federal grants, to their supervisors and managers, and to the employees in the Borough's Payroll and Personnel division in accordance with the newly effective U.S. OMB "Uniform Guidance."
Anticipated Completion Date:	Action item 1 will be completed no later than January 31, 2015. Action items 2a and 2b are already complete. Action item 2c will be completed no later than January 31, 2015. Action item 2d will be completed no later than the 3 rd quarter of 2015 for all affected employees, with most occurring in the 1 st quarter of 2015.

FAIRBANKS NORTH STAR BOROUGH
Summary Schedule of Prior Federal Single Audit Findings
For the Year Ended June 30, 2014

FINDING:

2013-001: Payroll Cost Allocation

CFDA No. and Name: 20.205 – Highway Planning and Construction Cluster

Award Numbers and Years: 63720 – 2013, 60900 – 2013, AKSAS#60891 – 2013

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: Alaska Department of Transportation and Public Facilities

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.

The Borough Transportation department, the expending department, did not appropriately implement these requirements and was unable to provide adequate documentation to support distribution of personnel salaries across multiple award programs. 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. The total unsubstantiated amount equaled \$151,673, of which \$116,315 was removed from the schedule of expenditures of federal awards, resulting in questioned costs of \$35,358.

CORRECTIVE ACTION TAKEN AND COMPLETED:

The Borough Grants Accounting section discovered the inappropriate payroll allocation assignments in late October 2013 and was able to adjust the fiscal year 2012-13 general ledger, financial statements, and Schedule of Expenditures of Federal Awards for \$116,315 of the total error of \$151,673, which included indirect amounts taken on the inappropriate payroll charges. The remaining \$35,358 was adjusted in the fiscal year 2013-14 general ledger for the inappropriate payroll charges and indirect amounts taken on those charges. Borough reports to the Alaska Department of Transportation and Public Facilities for the quarter ended December 31, 2013 reflected a reduction in grant expenditures of \$151,673.

To prevent and detect such errors in the future, the Borough took the following four actions:

- 1) The Borough Chief Financial Officer explained, in writing, to both the Transportation and Human Resources departments, why the payroll allocation assignments were inappropriate and what constitutes an appropriate payroll expenditure for grants; and
- 2) The Borough Accounting division reviewed all fiscal years 2012-13 and 2013-14 Transportation department payroll charges to grants for allowability; and
- 3) Procedures have been implemented for the Grants Accounting section to review changes to employee payroll assignments involving grant cost centers each pay period; and
- 4) In fiscal year 2013-14, Borough Transportation department employees who charged time to multiple cost objectives maintained Personnel Activity Reports (PARs) that accounted by pay period for actual time and effort charged to each cost objective. The PARs were completed after-the-fact and displayed the entire pay period, not just the hours charged to grants. The PARs were signed by both the employee and the supervisor.

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 units, 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, 2014, 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 as supplementary information, as defined by the Governmental Auditing Standards Board, as of and for the year ended June 30, 2014 and have issued our report thereon dated December 31, 2014.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Cook + Haugeberg LLC

December 31, 2014
Fairbanks, Alaska

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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 THE
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, 2014. 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, 2014.

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 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 control 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 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.

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

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 units, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough as of and for the year ended June 30, 2014, 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 as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2014 and have issued our report thereon dated December 31, 2014, 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.

Cook + Haugeberg LLC

December 31, 2014
Fairbanks, Alaska

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2014

Name of Award	Grantor's Number	State Expenditures
STATE OF ALASKA DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT		
<i>Grants to Municipalities</i>		
Senate District D Road Service Area Funding *	13-DC-585	\$ 729,007
Borough Emergency Operations Center Funding	13-DC-352	26,968
Kiwanis Field & Fairbanks Youth Soccer Association Artificial Turf Fields *	13-DC-558	421,491
Parks and Recreation Facility Improvements -- Birch Hill	13-DC-472	144,336
Road Service Area Projects *	09-DC-467	988,447
Road Service Area Improvements *	11-DC-223	1,858,955
Carlson Activity Center (CAC) Phase 2 Improvements	11-DC-215	109,056
Road Service Area Funding	12-DC-351	188,356
Barnette Magnet School Renovation and Reconstruction *	12-DC-623	1,334,208
Parks and Recreation Facility Improvements	12-DC-349	16,441
Pioneer Park Deferred Maintenance	12-DC-350	428
Carlson Activity Center Improvements Phase 2 *	12-DC-346	2,324,493
School District Area-wide Fuel Oil Tank Replacement	09-DC-207	64,299
Road Maintenance in Road Service Areas	14-RR-003	404,463
Ambulance Equipment Purchase	13-DC-060	3,571
Air Quality Mitigation *	13-DC-526	1,119,409
Classroom Digital Technology Upgrade	13-DC-339	254,686
Chena-Goldstream Fire & Rescue	13-DC-150	77,853
Senate District D Schools Classroom Technology Upgrade	13-DC-279	176,842
Growden Park/Gold Panner Restrooms	13-DC-365	7,343
Natural Gas Distribution System Development *	13-DC-544	630,450
North Pole Branch Library *	13-DC-602	6,609,841
Noel Wien Library Maintenance *	13-DC-545	214,870
FNSB School District We the People Competition	13-DC-089	118
Salcha Elementary School Classroom Equipment	13-DC-060	2,314
Weller Elementary School for Planning Access Improvements, Safety Upgrades & Demolishing Ice Rink	13-RR-007	94,524
Moose Meadows Service Area Road	09-DC-462	53,886
Mellow Wood Service Area Road Project	09-DC-461	42,831
After School Program	11-DC-213	2,826
Birch Hill Disaster Communications Project and the Fairbanks North Star Borough Library Fiber Optic Project	11-RR-014	84
Badger Road Elementary School Classroom Chalk Board Replacement	11-DC-214	5,131

* State Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2014
(continued)

Name of Award	Grantor's Number	State Expenditures
North Pole High School Physical Education / Athletic Equipment Replacement	11-DC-219	\$ 723
North Pole Elementary School Classroom Furniture Replacement	11-DC-218	2,821
North Pole Middle School Classroom Technology Equipment	11-DC-221	6,286
Steese Fire Service Area Station #2 Repair and Upgrade	11-DC-593	48,119
Ticasuk Brown Elementary School Septic System Replacement	11-DC-225	956
Two Rivers Elementary School Classroom Improvements	11-DC-226	2,016
West Valley High School Distance Learning System	11-DC-229	399
Hunter Elementary School Classroom Technology Upgrades	12-DM-104	13
School Technology Upgrades	12-DC-352	19,246
Steese Area Volunteer Fire Department Equipment	12-DC-568	169,500
Wood Stove Conversion Program	12-DC-353	293,775
Arctic Light Elementary School Security Systems	14-DM-008	21,520
Big Dipper PA and Sound System Improvements	14-DC-051	250,000
Badger Road Elementary School Security Systems	14-DM-010	30,000
Road Maintenance in the Borda Road Service Area	14-RR-004	3,847
Hutchison High School Classroom and Vocational Technology Upgrade	14-DM-013	35,000
Lathrop High School Classroom Technology & Physical Education Equipment	14-DC-052	30,764
Ladd Elementary School Security Systems	14-DM-014	26,520
Conversion of the School Heating System to a Natural Gas Heating System	14-RR-005	220,304
School District - We the People Competition	14-DM-017	46,871
Ryan Middle School Classroom Digital Technology	14-DM-016	6,537
Replacement of Ryan Middle School	14-DC-013	281,846
Weller Elementary School Classroom Upgrades	14-RR-007	38,000
Weller Elementary School Parking Lot Safety Upgrade *	14-DC-054	363,073
Alaska Regional Development Organization Grant		
Alaska Regional Development ARDOR -- FY 2012-13	DCCED FY13 0821309	9,670
Alaska Regional Development ARDOR -- FY 2013-14	DCCED FY14 841133	64,508
Community Revenue Sharing Direct Payment		
Community Revenue Sharing Program -- FY 2013-14 *		<u>3,756,906</u>
Total State of Alaska Department of Commerce, Community and Economic Development		\$ <u>23,636,747</u>

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2014
(continued)

Name of Award	Grantor's Number	State Expenditures
ALASKA DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT		
State Aid for Costs of School Construction Debt - FY 2013-14 *		\$ 332,699
Division of State Libraries, Archives & Museums		
Library Services Grants		
Public Library Assistance - FY2013-14	PLA-14-733-23	19,800
Division of Teaching and Learning Support		
Passed-through Best Beginnings		
Early Learning - FNSB Best Beginnings Partnership FY14	FY14 MOU	52,500
Division of School Finance		
Facilities Construction Grant		
Fairbanks District-Wide Fuel Oil Tank Replacement	GR-09-006	143,289
Total Alaska Department of Education and Early Development		\$ 548,288
ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION		
Pioneer Park Water and Sewer Enhancement	33768	\$ 91,823
Oil Spill Response Capabilities - Equipment and Training FY14	CC18559082 10/13	9,995
State Matches to Federal Grants		
U.S. Environmental Protection Agency		
Pass-Through Program		
Air Quality Program FY 2013-14	MOU 2010 AMEND #7	37,484
Total Alaska Department of Environmental Conservation		\$ 139,302
ALASKA DEPARTMENT OF FISH AND GAME		
State Matches to Federal Grants		
U.S. Department of the Interior, National Park Service		
Pass-Through Program from Alaska Department of Fish and Game		
Tanana Lakes Boat Launch & Recreation Facility	ADF&G COOP12-068	\$ 130,726
U.S. Fish and Wildlife Service		
Pass-Through Program from Festival Fairbanks		
Non-Cash Assistance - River Bank Restoration ³	F13AC01021	32,000
Total Alaska Department of Fish and Game		\$ 162,726

* State Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2014
(continued)

Name of Award	Grantor's Number	State Expenditures
ALASKA DEPARTMENT OF HEALTH AND SOCIAL SERVICES		
Human Services Community Matching Grant - FY 2012-13 ⁴	605-13-011	\$ 815
Human Services Community Matching Grant - FY 2013-14 ^{5*}	605-14-011	358,947
Total Alaska Department of Health and Social Services		\$ 359,762
ALASKA DEPARTMENT OF REVENUE		
State Telephone and Electric Co-op -- FY 2013-14 *		\$ 416,866
Total Alaska Department of Revenue		\$ 416,866
ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES		
State Grant Programs		
Pioneer Park Parking Lot Alterations and Improvements *	62054	\$ 1,192,113
Pioneer Park Access Safety Improvements *	62058	670,992
Debt Reimbursement for MCP - FY 2013-14 *		10,018,026
State Matches to Federal Grants		
Federal Transit Administration (FTA)		
Direct Programs		
06 CMAQ-Bus Shelter and Bus Stop Facilities	AKSAS #60568	5,737
12 CMAQ Fort Wainwright Transit Route/MACS	AKSAS #62441	30,135
07 CMAQ Ops Demo-New Buses New Routes	AKSAS #77111	34,860
Section 5307 Operating Assistance - FFY14	2514-14-0100	124,876
Paratransit Van Fleet Replacement	AKSAS #60614	2,717
Federal Highway Administration (FHWA)		
Pass-through Program		
05 CMAQ-Bus Shelter and Bus Stop Facilities	AKSAS #60568	6,699
Total Alaska Department of Transportation and Public Facilities		\$ 12,086,155
Grand Total - State Financial Assistance		\$ 37,349,846
Unsubstantiated by the Fairbanks North Star Borough:		
ALASKA DEPARTMENT OF ADMINISTRATION		
PERS Defined Benefit Plan Employer Relief Funding according to letter dated July 1, 2014 ^{2*}	PERS ER 116	\$ 3,554,757
Total Alaska Department of Administration		\$ 3,554,757

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2014
(continued)

Alaska Clean Water Fund (ACWF) Loan Programs

The Fairbanks North Star Borough has two loans available as of June 30, 2014. The first loan agreement governs amounts borrowed to pay for Solid Waste Partial Closure - Cell 1. As of June 30, 2014, the entire \$2,840,000 in ARRA debt forgiveness subsidy has been recovered and \$1,354,835 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 the remaining amount of forgiveness subsidy were incurred in FY 2013-14 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	\$ 1,354,835
Landfill Expansion - Cells 3 & 4 [^]	66.458	8,000,000	503,552	5,135,216

[^]The terms of the loan for the Solid Waste Expansion - Cells 3 & 4 loan are that 85% of the first \$3,357,013 expenditures are considered loan principal and 15% debt forgiveness subsidy; after the debt forgiveness subsidy has been fully recovered, which occurred in FY 2013-14, remaining expenditures are considered 100% loan principal; the 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, 2014 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 2014, the Alaska Legislature appropriated \$312,472,952 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 \$3,554,757 reflects the amount allocated to the Borough by the State for fiscal year 2014.

³ Non-Cash Assistance

In FY 2013-14, Festival Fairbanks, a non-Borough entity, received funds from the State of Alaska Department of Fish and Game as a match to a federal grant from the U.S. Department of the Interior, Fish and Wildlife Service. The federal and state matching funds were expended to stabilize the Chena Riverbank located on Borough land and enhanced a Borough-owned asset.

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance ¹
For the Year Ended June 30, 2014
(continued)

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	341,855	-
Indirect costs	17,092	17,092	-
Total expenditures	<u>358,947</u>	<u>358,947</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, 2013; \$815 was the amount expended during the current fiscal year for a required program audit, which was completed and invoiced after June 30, 2013 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, 2013.

⁶ Budget to Actual Comparison

Human Services Community Matching Grant - FY 2013-14
Alaska Department of Health and Social Services

A schedule of budgeted and actual revenues and expenditures for the FY 2013-14 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	341,854	341,000	854
Indirect costs	17,093	17,093	-
Total expenditures	<u>358,947</u>	<u>358,093</u>	<u>854</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ 854</u>	<u>\$ (854)</u>

The \$854 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, 2014 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, 2014, 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, 2014**

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 No

Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements? Yes 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 No

Significant deficiency(ies) identified? Yes None reported

Dollar threshold used to distinguish a major program: \$ 300,000

SECTION II - FINANCIAL STATEMENT FINDINGS

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

SECTION III - STATE AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.

FAIRBANKS NORTH STAR BOROUGH
Summary Schedule of Prior State Single Audit Findings
For the Year Ended June 30, 2014

FINDING:

2013-1: Payroll Cost Allocation

State Grant Name: Wood Stove Conversion Program

State Agency: Alaska Department of Commerce, Community and Economic Development

Grant Number: 12-DC-353

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.

The Borough Transportation department, the expending department, did not appropriately implement the requirements for providing adequate documentation to support personnel salaries charged to the grant. 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. 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 was removed from the schedule of state financial assistance, resulting in questioned costs of \$9,605.

CORRECTIVE ACTION TAKEN AND COMPLETED:

The Borough Grants Accounting section discovered the inappropriate payroll allocation assignments in late October 2013 and was able to adjust the fiscal year 2012-13 general ledger, financial statements, and Schedule of State Financial Assistance for \$22,956 of the total error of \$32,561, which included indirect amounts taken on the inappropriate payroll charges. The remaining \$9,605 was adjusted in the fiscal year 2013-14 general ledger for the inappropriate payroll charges and indirect amounts taken on those charges. The Borough's report to the Alaska Department of Commerce, Community and Economic Development (DCCED) for the month ended October 31, 2013 reflected a reduction in grant expenditures of \$25,252. The Borough's report to the DCCED for the month ended December 31, 2013 reflected the remaining reduction in grant expenditures of \$7,309.

To prevent and detect such errors in the future, the Borough took the following four actions:

- 1) The Borough Chief Financial Officer 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; and
- 2) The Borough Accounting division reviewed all fiscal years 2012-13 and 2013-14 Transportation department payroll charges to grants for allowability; and
- 3) Procedures have been implemented for the Grants Accounting section to review changes to employee payroll assignments involving grant cost centers each pay period; and
- 4) In fiscal year 2013-14, Borough Transportation department employees who charged time to multiple cost objectives maintained Personnel Activity Reports (PARs) that accounted by pay period for actual time and effort charged to each cost objective. The PARs were completed after-the-fact and displayed the entire pay period, not just the hours charged to grants. The PARs were signed by both the employee and the supervisor.