



**REPORTS ON SINGLE AUDIT REQUIREMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2012**



Fairbanks North Star Borough



Reports On Single Audit Requirements

For the Year Ended June 30, 2012

December 14, 2012

FAIRBANKS NORTH STAR BOROUGH
REPORTS ON SINGLE AUDIT REQUIREMENTS
For The Year Ended June 30, 2012

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**FEDERAL
SINGLE AUDIT**

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough (Borough) as of and for the year ended June 30, 2012, 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, 2012 and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Borough is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Borough's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Borough's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

December 14, 2012

Cook + Haugeberg LLC

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

REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

Compliance

We have audited the compliance of the Fairbanks North Star Borough (Borough) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Borough's major federal programs for the year ended June 30, 2012. The Borough's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Borough's management. Our responsibility is to express an opinion on the Borough's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, 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. Our audit does not provide a legal determination of the Borough's compliance with those requirements.

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

Internal Control Over Compliance

Management of the Fairbanks North Star Borough is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Borough's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough as of and for the year ended June 30, 2012, 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, 2012 and have issued our report thereon dated December 14, 2012, which contained an unqualified opinion on those financial statements. Our audit conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Borough's 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

December 14, 2012

Cook + Haugelsberg LLC

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2012

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

Direct Programs

2011 Economic Development Assistance Cluster	11.302	07-87-06611	\$ 28,854
Total U.S. Department of Commerce			\$ 28,854

U.S. DEPARTMENT OF THE INTERIOR

Direct Programs

Federal Payments in Lieu of Taxes FY12	15.226		\$ 420,248
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Fish and Wildlife Service

Tanana Lakes Riparian Bank Restoration	15.608	70181 AJ085	4,099
Tanana Lakes Wetlands Restoration	15.608	FWS #7018 1AJ048	13,451
Tanana Lakes Revegetate Road Corridors	15.608	FWS #7018 1AJ041	2,200

National Park Service

Pass-through Programs from:

Alaska Department of Natural Resources:

Tanana Lakes Recreation Area Development-LWCF 06	15.916	02-00392	108,171
Tanana Lakes Recreation Area Development-LWCF 12	15.916	02-00404	9,291
Historic Preservation Project - Phase 2	15.904	#11550	1,655

Total U.S. Department of the Interior			\$ 559,115
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U.S. DEPARTMENT OF TRANSPORTATION

Highway Planning and Construction Cluster

Federal Transit Administration (FTA)

Direct Programs

Transit Bus and Equipment Replacement	20.205	AK-15-X001-00	\$ 34,991
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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-X034-00	77,166
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FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2012
(continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Alaska Department of Transportation:			
FHWA-PL Highway Planning & Research FFY11	20.205	ACPL1260-(5) 80674	\$ 39,410
FHWA-PL Highway Planning & Research FFY12	20.205	ACPL1260-(5) 80674	48,685
PM 2.5 Reduction & Air Quality Studies - Phase I	20.205	60226	3,182
PM 2.5 Reduction & Air Quality Studies - Phase II	20.205	60990	8,626
PM 2.5 Measurement and Analysis	20.205	63302	283,215
Fairbanks Fine Particulate Matter Planning & Control	20.205	63720	829,420
Air Quality Education Outreach	20.205	60900	5,374
Air Quality State Implementation Plan (SIP)	20.205	60891	113,098
3-Year Free UAF MACS Bus Service	20.205	AKSAS #60877	100,000
Total Highway Planning and Construction Cluster			\$ 1,543,167
Federal Transit Cluster			
Federal Transit Administration (FTA)			
Direct Programs			
Transit Equipment Acquisitions	20.500	AK-04-0008	\$ 9,859
06 CMAQ Ops Demo-New Buses New Routes	20.507	AK-90-X044-00	6,309
06 CMAQ-Bus Shelter and Bus Stop Facilities	20.507	AK-90-X038-00	102,182
07 CMAQ Ops Demo-New Buses New Routes	20.507	AK-95-X001-00	338,881
Section 5307 Operating Assistance - FFY11	20.507	AK-90-X060-00	34,604
Section 5307 Operating Assistance - FFY12	20.507	AK-90-X063-00	537,699
ARRA Transit Vans, Services and Equipment	20.507	AK-96-X002-00	51,329
Transit Route Salcha-North Pole-Fairbanks	20.507	AK-95-X010	95,618
Transit Route Van Horn Road	20.507	AK-95-X009	96,805
Total Federal Transit Cluster			\$ 1,273,286
Pass-through Programs from:			
Alaska Department of Transportation:			
FTA 5303 Highway Planning and Research FFY09	20.514	TORA AK-80-X018	\$ 39,806
FTA 5303 Highway Planning and Research FFY10	20.514	TORA AK-80-0019	1,146
Total U.S. Department of Transportation			\$ 2,857,405

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2012
(continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
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INSTITUTE OF MUSEUM AND LIBRARY SERVICES

Pass-Through Programs from:

Alaska State Library:

Regional Library Services FY12	45.310	RS-12-733-101	\$ 130,000
Library Continuing Education Grant FY12 - #1	45.310	CED-12-733-188	1,500
Library Continuing Education Grant FY12 - #2	45.310	CED-12-733-187	1,500
Library Continuing Education Grant FY12 - #3	45.310	CED-12-733-208	1,500
Library Continuing Education Grant FY12 - #4	45.310	CED-12-733-157	175
Library Continuing Education Grant FY12 - #5	45.310	CED-12-733-186	125
Library Continuing Education Grant FY12 - #6	45.310	CED-12-733-156	125

Total Institute of Museum and Library Services **\$ 134,925**

U.S. ENVIRONMENTAL PROTECTION AGENCY

Direct Programs

Clean-Up Old City Landfill Property	66.818	BF-960452-01-0	\$ 11,787
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Pass-through Programs from:

Alaska Department of Environmental Conservation:

Solid Waste Landfill Expansion Cells 3 & 4 - Subsidy ²	66.458	AWCF LOAN #339081	4,759
Solid Waste Landfill Expansion Cells 3 & 4 - Loan ²	66.458	AWCF LOAN #339081	40,246
Air Quality Program FY 2011-12	66.605	MOA 2010 FY12 AM#1	119,300

Total U.S. Environmental Protection Agency **\$ 176,092**

U.S. DEPARTMENT OF ENERGY

Direct Program

ARRA Energy Efficiency Education Program	81.128	ARRA DE-SC000-1498	\$ 101,178
Fairbanks Geothermal Energy Project	81.087 R&D	DE-EE000 3219	402,600

Total U.S. Department of Energy **\$ 503,778**

FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2012
(continued)

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

CCDF Cluster

Pass-through Programs from:

Alaska Department of Health and Social Services:

Child Care Assistance - FY2010-11 ³	93.575	604-11-903	\$ <u>815</u>
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<i>Total CCDF Cluster</i>		\$ <u>815</u>
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Total U.S. Department of Health and Human Services		\$ <u><u>815</u></u>
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CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Direct Program

AmeriCorps*VISTA Umbrella Leader Travel	94.013	07VSPA K005	\$ <u>535</u>
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Total Corporation for National and Community Service		\$ <u><u>535</u></u>
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U.S. DEPARTMENT OF HOMELAND SECURITY

Homeland Security Cluster

Pass-through Programs from:

Alaska Department of Military and Veterans Affairs:

2009 Homeland Security Grant Program	97.067	2009-SS-T9-0007	\$ 91,837
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2010 Homeland Security Grant Program	97.067	2010-SS-T0-0023	140,537
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2011 Homeland Security Grant Program	97.067	EMW-2011-SS-00053	<u>9,133</u>
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<i>Total Homeland Security Cluster</i>		\$ <u><u>241,507</u></u>
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Pass-through Program from:

Alaska Department of Military and Veterans Affairs:

Emergency Operations Center Construction	97.052	2010-EO-MX-0042	\$ 322,306
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Federal Emergency Management Agency (FEMA)

Pass-through Programs from:

Alaska Department of Military and Veterans Affairs:

Emergency Management Performance Grant FFY11	97.042	EMW-2011-EP-00002	120,000
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FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2012
(continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
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Pass-through Programs from:

Alaska Department of Commerce, Community &

Economic Development:

Benerth Repetitive Flood claim	97.092	EMS-2010-RC-0001	\$ <u>53,515</u>
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Total U.S. Department of Homeland Security			\$ <u>737,328</u>
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Grand Total - Federal Financial Assistance			\$ <u>4,998,847</u>
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FAIRBANKS NORTH STAR BOROUGH
Schedule of Expenditures of Federal Awards ¹
For the Year Ended June 30, 2012
(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, 2012 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 reported on the SEFA are reported on the accrual basis of accounting. Such 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, 2012. The first loan agreement governs amounts borrowed to pay for Solid Waste Partial Closure - Cell 1. As of June 30, 2012, the entire \$2,840,000 in ARRA debt forgiveness subsidy has been recovered and no amounts have 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 \$365,255. Federal expenditures against this loan and a proportionate amount of forgiveness subsidy were incurred in FY 2011-12 and are presented in this schedule.

Program Title	CFDA Number	Total Loan Amount Available	Debt Forgiveness Subsidy	Unsubsidized Loan Amount Outstanding
Solid Waste Partial Closure - Cell 1	ARRA 66.458	\$ 6,340,000	\$ 2,840,000	\$ 0
² Solid Waste Expansion - Cells 3 & 4 ^	66.458	\$ 8,000,000	\$ 365,255	\$ 40,246

^The terms of the loan for the Solid Waste Expansion - Cells 3 & 4 loan are that 95% of expenditures are considered loan principal and 5% debt forgiveness subsidy; the 95% 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 Budget to Actual Comparison

Child Care Assistance Grant -- FY 2010-11
U.S. Department of Health and Human Services

A schedule of budgeted and actual revenues and expenditures for the Child Care Assistance - FY 2010-11 grant from the U.S. Department of Health and Human Services, passed through the State of Alaska Department of Health and Social Services (DHSS) follows:

	Final Budget	Final Expenditures	Budget Variance
Revenues from State of Alaska	\$ 463,378	\$ 463,378	\$ -
Expenditures			
Personal services	462,355	462,355	-
Supplies	208	208	-
Other direct expense	815	815	-
Total direct expense	463,378	463,378	-
Indirect costs	-	-	-
Total expenditures	463,378	463,378	-
Excess of revenue over expenditures	\$ -	\$ -	\$ -

The amount in the "Final Expenditures" column for "Other direct expense" is \$815 greater than as footnoted in the Schedule of Expenditures of Federal Awards as of June 30, 2011; \$815 was the amount expended during the current fiscal year for a required program audit, which was completed and invoiced after June 30, 2011 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, 2011.

**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No
 Significant deficiency(ies) identified? Yes None reported
 Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No
 Significant deficiency(ies) identified? Yes None reported

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

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

Identification of major programs:

<u>CFDA Number(s):</u>	<u>Name of Federal Program or Cluster</u>
15.226	Federal Payments in Lieu of Taxes
20.205	Highway Planning and Construction Cluster
20.500	Federal Transit Cluster
66.605	Air Quality Program FY 2011-12
81.087	Fairbanks Geothermal Energy Program

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

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.

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**STATE
SINGLE AUDIT**

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough (Borough) as of and for the year ended June 30, 2012, 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, 2012 and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Borough's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

December 14, 2012

Cook + Haugeberg LLC

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

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH STATE OF ALASKA AUDIT GUIDE AND
COMPLIANCE SUPPLEMENT FOR STATE SINGLE AUDITS

Independent Auditor's Report

Compliance

We have audited the compliance of the Fairbanks North Star Borough (Borough) with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the Borough's major state programs for the year ended June 30, 2012. The Borough's major state programs are identified in the accompanying schedule of state financial assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Borough's management. Our responsibility is to express an opinion on the Borough's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Borough's compliance with those requirements.

In our opinion, the Fairbanks North Star Borough complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of State Financial Assistance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough as of and for the year ended June 30, 2012, 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, 2012 and have issued our report thereon dated December 14, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Fairbanks North Star Borough's 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 other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare 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 financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.

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

December 14, 2012

Cook + Haugeberg LLC

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2012

Name of Award	Grantor's Number	State Expenditures
ALASKA DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT		
<i>Grants to Municipalities</i>		
After School Program *	11-DC-213	\$ 9,938
Airway Service Area Road Improvements *	09-DC-455	11,678
Arctic Winter Games Host Society *	12-DC-354	168,080
Barnette Magnet School Renovation and Reconstruction *	12-DC-623	657,123
Birch Hill Disaster Communications Project and the Fairbanks North Star Borough Library Fiber Optic Project *	11-RR-014	14,852
Borough-Wide Road Improvements and Upgrades *	07-DC-508	191,473
Carlson Activity Center (CAC) Phase 2 Improvements *	11-DC-215	75,000
Carlson Center Improvements *	10-DC-012	103,803
Central Kitchen Phase II *	08-DC-403	2,200
Community Social Service Agency Assistance *	11-DC-216	3,800
Deferred Maintenance of the Stampede Room in the Pioneer Museum at Pioneer Park *	12-RR-004	104,655
Fire Engine (North Star VFD Sub-Award to FNSB) *	11-DC-564	63
FNSB School District Central Kitchen Replacement *	07-DC-291	93,651
Haystack Drive Ice Overflow Repair and Prevention *	05-DC-045	18,467
Haystack Road Service Area - Haystack, Leuthold, Duffy, Middle Fork Repair and/or Restore Drainage *	08-DC-264	49,962
Hutchison High School Distance Learning System *	11-DC-217	4,519
Hutchison High School Security Upgrades *	09-DC-459	960
Natural Gas Distribution Study *	12-DC-347	486,354
North Pole Elementary School Classroom Furniture Replacement *	11-DC-218	7,530
North Pole High School Physical Education/Athletic Equipment Replacement *	11-DC-219	22,804
North Pole Library Equipment Upgrades *	11-DC-220	11,505
North Pole Middle School Classroom Technology Equipment *	11-DC-221	49,860
Parks and Recreation Facility Improvements *	12-DC-349	164,521
Pearl Creek Elementary School Classroom Upgrade *	11-DC-222	3,324
Pioneer Park Deferred Maintenance *	12-DC-350	347,147
Road Service Area Improvements *	11-DC-223	186,762
Road Service Area Projects *	09-DC-467	2,143,530
School District Area-wide Fuel Oil Tank Replacement *	09-DC-207	178,086
School District Classroom Performance Systems for Public Schools in House Districts 7 & 8 *	08-DC-274	5,488
Steese Fire Service Area Station #2 Repair and Upgrade *	11-DC-593	5,928
Ticasuk Brown Elementary School Septic Replacement *	11-DC-225	240,213
Tourism and Community Development and an Ice Park *	11-RR-015	93,664
Two Rivers Elementary School Classroom Improvements *	11-DC-226	15,010

* State Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2012
(continued)

Name of Award	Grantor's Number	State Expenditures
University Park Elementary School Mobile Computer Lab *	11-DC-227	\$ 801
Volunteer Fire Department Station #3 Exhaust & Ventilation *	08-DC-277	23
West Valley High School Distance Learning System *	11-DC-229	7,280
Wood Stove Conversion Program *	12-DC-353	1,501,504
Capital Matching Grants		
Haystack Drive Ice Overflow Repairs	04-MGR-009	24,565
Alaska Regional Development Organization Grant		
Alaska Regional Development ARDOR -- FY 2011-12	DCCED FY12 ENC	62,122
Community Revenue Sharing Direct Payment		
Community Revenue Sharing Program -- FY 2011-12 *		<u>5,045,901</u>
Total Alaska Department of Commerce, Community and Economic Development		\$ <u>12,114,146</u>
ALASKA HOUSING FINANCE CORPORATION		
Residential Energy Conservation Outreach & Public Relations	NO. FSB-08-FSB-1	\$ 23,159
State Payments in Lieu of Taxes - FY2011-12		<u>2,618</u>
Total Alaska Housing Finance Corporation		\$ <u>25,777</u>
ALASKA DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT		
FY12 State Aid for Costs of School Construction Debt *		\$ 9,797,544
Division of State Libraries, Archives & Museums		
Library Services Grants		
Net Lender Reimbursement Program - FY 2011-12	ILC-12-733-140	1,824
Public Library Assistance - FY2011-12	PLA-12- 733-22	19,500
Division of Teaching and Learning Support		
Passed-through Best Beginnings		
Early Learning - FNSB Best Beginnings Partnership FY12	FY12 MOU BEST BEG	36,165
Division of School Finance		
Facilities Construction Grant		
Fairbanks District-Wide Fuel Oil Tank Replacement *	EED #GR-09-006	<u>396,697</u>
Total Alaska Department of Education and Early Development		\$ <u>10,251,730</u>
ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION		
Oil Spill Response Capabilities - Equipment and Training	CC1855 8605 11/11	\$ 9,000
Pioneer Park Water and Sewer Enhancement *	33768	<u>112,124</u>
Total Alaska Department of Environmental Conservation		\$ <u>121,124</u>

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2012
(continued)

Name of Award	Grantor's Number	State Expenditures
ALASKA DEPARTMENT OF HEALTH AND SOCIAL SERVICES		
Human Services Community Matching Grant - FY 2010-11 ²	605-11-011	\$ 815
Human Services Community Matching Grant - FY 2011-12 ^{3*}	605-12-011	<u>342,940</u>
Total Alaska Department of Health and Social Services		\$ <u>343,755</u>
INTERIOR REGIONAL HOUSING AUTHORITY		
Interior Regional Housing Authority - FY 2011-12		\$ <u>53,665</u>
Total Interior Regional Housing Authority		\$ <u>53,665</u>
ALASKA DEPARTMENT OF NATURAL RESOURCES		
Ester-West Ridge Trail Repair		\$ <u>3,000</u>
Total Alaska Department of Natural Resources		\$ <u>3,000</u>
ALASKA DEPARTMENT OF REVENUE		
State Telephone and Electric Co-op - FY 2010-12 *		\$ 424,186
State Fish Tax - FY 2011-12		<u>88</u>
Total Alaska Department of Revenue		\$ <u>424,274</u>
ALASKA DEPARTMENT OF TRANSPORTATION		
State Grant Programs		
Pioneer Park Parking Lot Alterations and Improvements	#62054	\$ 80,442
Pioneer Park Access Safety Improvements	#62058	32,026
FY12 Debt Reimbursement for Municipal Capital Projects *		337,999
State Matches to Federal Grants		
Federal Transit Administration (FTA)		
Direct Programs		
06 CMAQ Ops Demo-New Buses New Routes	DOT&PF Project Agreement 7/07	672
07 CMAQ Ops Demo-New Buses New Routes	DOT&PF Project Agreement 7/07	28,910
06 CMAQ-Bus Shelter and Bus Stop Facilities	DOT&PF Project Agreement 7/07	10,144
Section 5307 Operating Assistance - FFY12	ASGR-12-251	95,709

* State Major Program

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2012
(continued)

Name of Award	Grantor's Number	State Expenditures
Federal Highway Administration (FHWA)		
Pass-through Programs from:		
Federal Transit Administration (FTA)		
05 CMAQ-Bus Shelter and Bus Stop Facilities	DOT&PF Project Agreement 8/07	\$ <u>7,660</u>
Total Alaska Department of Transportation		\$ <u>593,562</u>
Grand Total - State Financial Assistance		\$ <u>23,931,033</u>
Unsubstantiated by the Fairbanks North Star Borough:		
ALASKA DEPARTMENT OF ADMINISTRATION		
PERS Defined Benefit Plan Employer Relief Funding according to letter dated July 27, 2012 ^{1*}	PERS ER 116	\$ <u>2,697,102</u>
Total Alaska Department of Administration		\$ <u>2,697,102</u>
Grand Total - Adjusted for Inclusion of PERS Relief Allocation		\$ <u>26,628,135</u>

Alaska Clean Water Fund (ACWF) Loan Programs

The Fairbanks North Star Borough has two loans available as of June 30, 2012. The first loan agreement governs amounts borrowed to pay for Solid Waste Partial Closure - Cell 1. As of June 30, 2012, the entire \$2,840,000 in ARRA debt forgiveness subsidy has been recovered and no amounts have 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 \$365,255. Federal expenditures against this loan and a proportionate amount of forgiveness subsidy were incurred in FY 2011-12 and are presented in this schedule.

Program Title	CFDA Number	Total Loan Amount Available	Debt Forgiveness Subsidy	Unsubsidized Loan Amount Outstanding
Solid Waste Partial Closure - Cell 1	ARRA 66.458	\$ 6,340,000	\$ 2,840,000	\$ -
Solid Waste Expansion - Cells 3 & 4 ^	66.458	\$ 8,000,000	\$ 365,255	\$ 40,426

^The terms of the loan for the Solid Waste Expansion - Cells 3 & 4 loan are that 95% of expenditures are considered loan principal and 5% debt forgiveness subsidy; the 95% 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 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 2012, the Alaska Legislature appropriated \$242,609,397 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 \$2,697,102 reflects the amount allocated to the Borough by the State for fiscal year 2012.

FAIRBANKS NORTH STAR BOROUGH
Schedule of State Financial Assistance
For the Year Ended June 30, 2012
(continued)

² **Budget to Actual Comparison**

Human Services Community Matching Grant - FY 2010-11
Alaska Department of Health and Social Services

A schedule of budgeted and actual revenues and expenditures for the FY 2010-11 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	\$ 351,109	\$ 351,109	\$ -
Expenditures			
Other direct expense	334,390	334,390	-
Indirect cost	16,719	16,719	-
Total expenditures	<u>351,109</u>	<u>351,109</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, 2011; \$815 was the amount expended during the current fiscal year for a required program audit, which was completed and invoiced after June 30, 2011 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, 2011.

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	326,571	815
Indirect cost	16,369	16,369	-
Total expenditures	<u>343,755</u>	<u>342,940</u>	<u>815</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ 815</u>	<u>\$ -</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, 2012 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, 2012, show all encumbered amounts as expended on the final Cumulative Fiscal Report, and footnote any outstanding encumbrances.

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**FAIRBANKS NORTH STAR BOROUGH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements? Yes No

State Financial Assistance

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

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Dollar threshold used to distinguish a major program: \$ 100,000

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.

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