NEW ISSUE – Book-Entry Only **RATING: FITCH: "AA"**
S&P: "AA"

Fairbanks North Star Borough, Alaska

$11,500,000

General Obligation School Bonds, 2012 Series R

Dated: Date of delivery **Due:** May 1, as shown below

Tax Exemption: In the opinion of K&L Gates LLP, Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law. See "Tax Matters."

Bank Qualification: The Bonds are not "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

Redemption: The Bonds are subject to optional redemption prior to their stated dates of maturity. Page 1.

Security: To secure payment of the Bonds, the Borough has covenanted that, unless the principal of and interest on the Bonds are paid from other sources, it will levy taxes annually without limitation as to rate or amount upon all property within the Borough subject to taxation in amounts sufficient to pay such principal and interest as the same shall become due. See "Security."

The Bonds are eligible for reimbursement of 70 percent of debt service from the State of Alaska. Page 14.

Purpose: The Bonds will be used to finance school improvements in the Borough. Page 13.

Interest Payments: May 1 and November 1, beginning November 1, 2012 as shown on the schedule below.

Sale: May 15, 2012 **Bond Counsel:** K&L Gates LLP, Seattle, WA

Closing: June 1, 2012 **Borough Attorney:** René Broker, Fairbanks, AK

Denominations: $5,000 or multiples thereof **Financial Advisor:** Bartle Wells Associates, Berkeley, CA

Paying Agent: U.S. Bank, National Association

Maturity Schedule

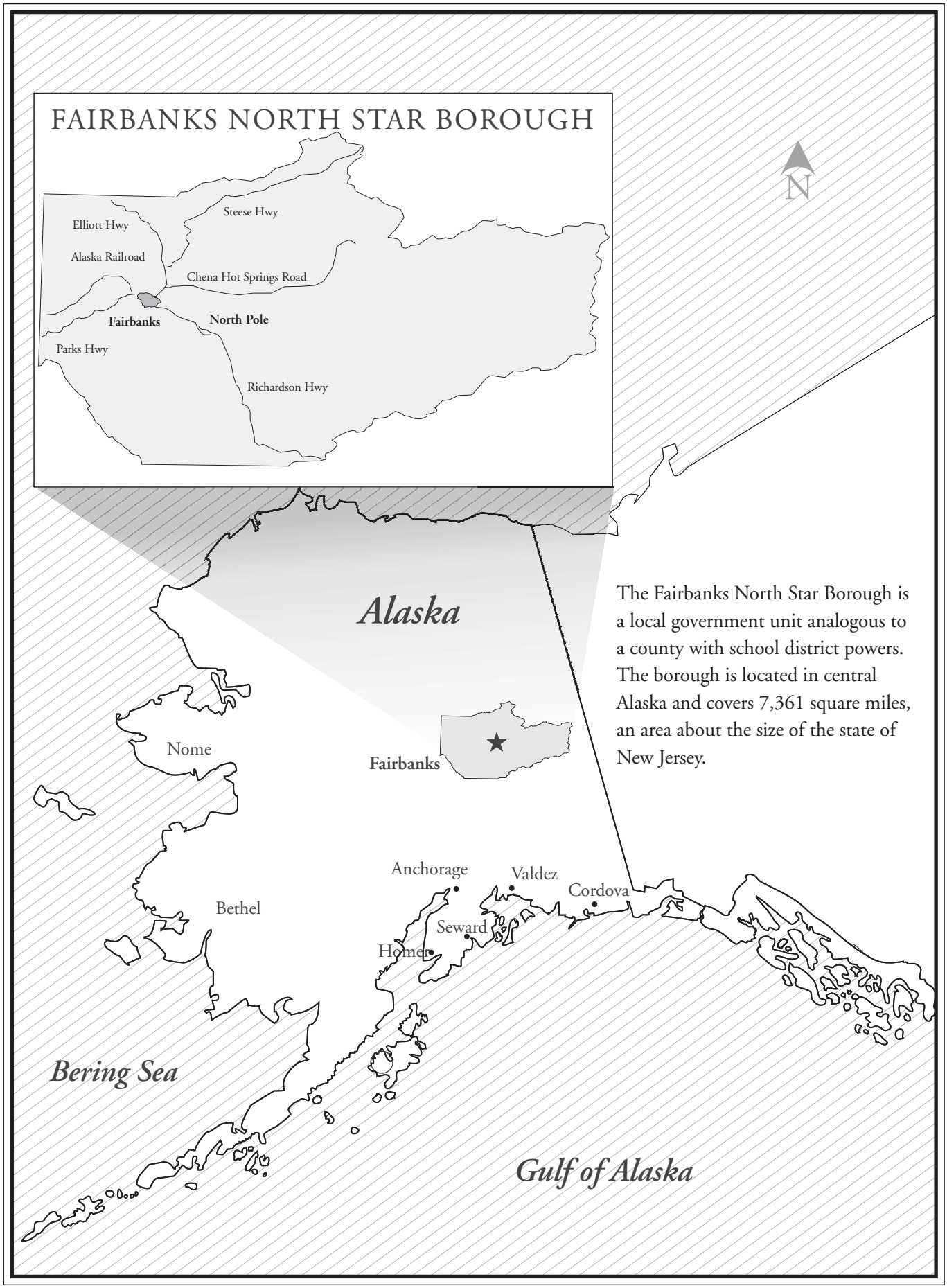
Year May 1	Principal Amount	Interest Rate	Yield	Price	CUSIP(+) 303531	Year May 1	Principal Amount	Interest Rate	Yield	Price	CUSIP(+) 303531
2013	$485,000	2.00%	0.40%	101.462	C62	2019	$515,000	3.00%	1.33%	110.999	D46
2014	490,000	2.00%	0.50%	102.857	C70	2020	525,000	3.00%	1.56%	110.684	D53
2015	495,000	2.00%	0.60%	104.041	C88	2021	535,000	3.00%	1.85%	108.863 *	D61
2016	500,000	2.00%	0.80%	104.617	C96	2022	550,000	3.00%	2.10%	106.955 *	D79
2017	500,000	3.00%	1.00%	109.571	D20	2023	560,000	3.00%	2.35%	105.084 *	D87
2018	510,000	3.00%	1.14%	110.612	D38	2024	575,000	3.00%	2.50%	103.972 **	D95

$1,200,000 3.0% Term Bonds due May 1, 2026 - Yield 2.75% - Price 101.963** - CUSIP E29
$1,270,000 3.0% Term Bonds due May 1, 2028 - Yield 3.00% - Price 100.000 - CUSIP E37
$1,350,000 3.0% Term Bonds due May 1, 2030 - Yield 3.08% - Price 98.903 - CUSIP E45
$1,440,000 3.1% Term Bonds due May 1, 2032 - Yield 3.18% - Price 98.824 - CUSIP E52

* Priced to May 1, 2020 call date
** Priced to May 1, 2021 call date

+ CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers herein are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The Borough takes no responsibility for the accuracy of such CUSIP numbers.

This official statement is dated May 15, 2012



The Fairbanks North Star Borough is a local government unit analogous to a county with school district powers. The borough is located in central Alaska and covers 7,361 square miles, an area about the size of the state of New Jersey.

Official Statement
Fairbanks North Star Borough, Alaska
Mail: PO Box 71267
Fairbanks, Alaska 99707-1267
Location: 809 Pioneer Road
Fairbanks, Alaska 99701-2813

Incorporated January 1964

Luke Hopkins, *Mayor*

Borough Assembly Members

John Davies	Mike Musick
Michael Dukes	Guy Sattley
Natalie Howard	Matt Want
Diane Hutchison	Nadine Winters
Karl Kassel	

School Board Members

Kristina Brophy	Sean Rice
Silver Chord	John Thies
Wendy Dominique	Brooke Wilson, *Student Representative*
Sue Hull	Colonel Thomas Daack, *Base Representative*
Sharon McConnell	Colonel Ron Johnson, *Post Representative*

Borough Administration
Jeff Jacobson, *Chief of Staff*
Michael E. Lamb, *Chief Financial Officer*
René Broker, *Borough Attorney*
Mona Lisa Drexler, *Borough Clerk*

Professional Services
K&L Gates LLP, Seattle, Washington, *Bond Counsel*
Bartle Wells Associates, Berkeley, California, *Financial Advisor*
U.S. Bank, National Association, *Registrar/Paying Agent*

This official statement provides information about the Borough and its bonds. The official statement includes:

1. data supplied by the Borough and by others, as indicated herein;
2. estimates or projections, which may or may not be realized and which should not be construed as assertions of fact; and
3. summaries and descriptions of legal and financial documents, or their contents, which do not purport to describe such documents completely and which are made expressly subject to the full provisions of the documents cited.

This official statement does not constitute a recommendation, express or implied, to purchase or not to purchase these bonds or any other previous bonds of the Borough.

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THE BONDS

Description: Fairbanks North Star Borough
General Obligation School Bonds, 2012 Series R
$11,500,000

Date: Date of delivery

Denomination: $5,000 or multiples thereof.

Maturities: The Bonds are payable **May 1, 2013** through **May 1, 2032** in the amounts shown on the cover of this official statement.

Interest: Interest on the Bonds is payable on **May 1** and **November 1** of each year to the respective dates of maturity, beginning **November 1, 2012.**

Registrar / Paying Agent: U.S. Bank, National Association will be the paying agent and registrar for the Bonds.

Payment: The Bonds will be executed, sold, and delivered in fully registered form, without coupons. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, as the initial securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Purchasers of the Bonds will not receive certificates representing their ownership interests in the Bonds purchased. Principal and interest payments with respect to the Bonds are payable directly to DTC by the paying agent. Upon receipt of such payments of principal and interest, DTC in turn is obligated to distribute such payments to the beneficial owners of the Bonds. See Appendix B - "Book-Entry System."

Optional Redemption: Bonds maturing on or before May 1, 2020 are not subject to optional redemption prior to maturity. Bonds maturing on or after May 1, 2021 are subject to redemption at the option of the Borough on any date on or after May 1, 2020, as a whole or in part, from any source of available funds, at the following redemption prices (expressed as a percentage of the principal amount of the Bonds to be prepaid), plus accrued interest to the date of redemption:

Redemption Period	Redemption Price
From May 1, 2020 through April 30, 2021	100.5 percent of par
On or after May 1, 2021	100.0 percent of par

Mandatory Redemption: The Bonds maturing on May 1, 2026, May 1, 2028, May 1, 2030, and May 1, 2032, respectively, are term bonds subject to mandatory redemption in part by lot on May 1 in each year commencing May 1, 2025 at the principal amount thereof plus accrued interest thereon to the date fixed for redemption in accordance to the following schedule:

Term Bonds Maturing May 1, 2026

2025.....$590,000
2026.....$610,000

Term Bonds Maturing May 1, 2028

2027.....$625,000
2028.....$645,000

Term Bonds Maturing May 1, 2030

2029.....$665,000
2030.....$685,000

Term Bonds Maturing May 1, 2032

2031.....$710,000
2032.....$730,000

Authority for Issuance

The Bonds will fund $11,500,000 in school improvements out of a total of $20,290,000 authorized by Ordinance No. 2011-39 and approved by Borough voters on October 4, 2011.

Additional Bonds

Following issuance of the Bonds, the Borough will have approximately $8,650,000 of authorized but unissued general obligation bonds. The Borough plans to issue the remaining general obligation bonds before the end of calendar year 2013.

Purpose

Proceeds of the Bonds will be used to finance capital improvements for Borough school facilities, as more fully described in the section "The Construction Program."

Security

The Bonds are general obligations of the Borough. To secure payment of the Bonds, the Borough has covenanted that, unless the principal of and interest on the Bonds are paid from other sources, it will levy taxes annually without limitation as to rate or amount upon all property within the Borough subject to taxation in amounts sufficient to pay such principal and interest as the same shall become due. The full faith, credit and resources of the Borough are irrevocably pledged for the annual levy and collection of such taxes and for the prompt payment of such principal and interest.

In addition, the State of Alaska partially reimburses municipalities for debt service on bonds issued for State-approved school construction projects. The State of Alaska, acting through the Department of Education and Early Development ("DEED"), will reimburse the Borough 70 percent of the principal and interest on the Bonds.

State reimbursement payments are subject to annual appropriation by the Alaska legislature.

See “State Aid to Education.”

Refunding or Defeasance of the Bonds

As provided by Ordinance No. 2012-18, approved by the Borough Assembly on April 26, 2012, the Borough may issue refunding bonds or use money available from any other lawful source to pay when due the principal of and interest on the Bonds, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, refund or defease such Bonds.

In the event that money or obligations issued by, or the principal and interest of which are guaranteed by, the United States, or a combination of such money and obligations, maturing at such time or times and bearing interest to be earned thereon in amounts (together with such money, if necessary) sufficient to redeem and retire, refund or defease part or all of the Bonds in accordance with their terms, are set aside in a special account of the Borough to effect such redemption and retirement, refunding or defeasance, and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the debt service accounts established for the Bonds for the payment of the principal of and interest on the Bonds so provided for, and such Bonds shall cease to be entitled to any lien, benefit or security of the Bond Ordinance except the right to receive the money so set aside and pledged, and such Bonds shall be deemed not to be outstanding under the Bond Ordinance.

Anticipated Sources and Uses of Funds

The following table shows the sources and uses of funds for the Bonds.

Fairbanks North Star Borough
Sources and Uses

Sources	
Par amount of bonds	$11,500,000.00
Original issue premium	407,681.05
Total sources	11,907,681.05
Uses	
Project fund	11,641,462.30
Underwriter's discount	171,218.75
Issuance costs/contingency	95,000.00
Total uses	11,907,681.05

Projected Debt Service

The following table shows the projected annual debt service by fiscal year for the Bonds.

Fairbanks North Star Borough
Debt Service – $11,500,000 General Obligation School Bonds, 2012 Series R

Year	November 1	May 1		Total Debt Service	DEED 70% Payment	Net Borough Payment
FYE	Interest	Interest	Principal			
2013	$136,141.67	$163,370.00	$485,000	$784,511.67	$549,158.17	$235,353.50
2014	158,520.00	158,520.00	490,000	807,040.00	564,928.00	242,112.00
2015	153,620.00	153,620.00	495,000	802,240.00	561,568.00	240,672.00
2016	148,670.00	148,670.00	500,000	797,340.00	558,138.00	239,202.00
2017	143,670.00	143,670.00	500,000	787,340.00	551,138.00	236,202.00
2018	136,170.00	136,170.00	510,000	782,340.00	547,638.00	234,702.00
2019	128,520.00	128,520.00	515,000	772,040.00	540,428.00	231,612.00
2020	120,795.00	120,795.00	525,000	766,590.00	536,613.00	229,977.00
2021	112,920.00	112,920.00	535,000	760,840.00	532,588.00	228,252.00
2022	104,895.00	104,895.00	550,000	759,790.00	531,853.00	227,937.00
2023	96,645.00	96,645.00	560,000	753,290.00	527,303.00	225,987.00
2024	88,245.00	88,245.00	575,000	751,490.00	526,043.00	225,447.00
2025	79,620.00	79,620.00	590,000	749,240.00	524,468.00	224,772.00
2026	70,770.00	70,770.00	610,000	751,540.00	526,078.00	225,462.00
2027	61,620.00	61,620.00	625,000	748,240.00	523,768.00	224,472.00
2028	52,245.00	52,245.00	645,000	749,490.00	524,643.00	224,847.00
2029	42,570.00	42,570.00	665,000	750,140.00	525,098.00	225,042.00
2030	32,595.00	32,595.00	685,000	750,190.00	525,133.00	225,057.00
2031	22,320.00	22,320.00	710,000	754,640.00	528,248.00	226,392.00
2032	11,315.00	11,315.00	730,000	752,630.00	526,841.00	225,789.00
	$1,901,866.67	$1,929,095.00	$11,500,000	$15,330,961.67	$10,731,673.17	$4,599,288.50

Continuing Disclosure

In the Bond Ordinance, the Borough has covenanted for the benefit of the owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Borough and certain material events relating to the Bonds. See Appendix C - "Continuing Disclosure Undertaking." The Borough entered into similar written undertakings under Securities and Exchange Commission Rule 15c2-12(b)(5) with respect to all of its other bonds subject to the Rule. The Borough has complied with these undertakings.

Approval of Legal Proceedings

Legal matters incident to the authorization and issuance of the Bonds are subject to the approval of K&L Gates LLP, Bond Counsel, whose approving legal opinion in substantially the form attached herein as Appendix D, will be delivered with the Bonds.

Tax Matters

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the Bonds and the facilities financed with proceeds of the Bonds and certain other matters. The Borough has covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the Borough comply with the above-referenced covenants and, in addition, will rely on representations by the Borough and its advisors with respect to matters solely within the knowledge of the Borough and its advisors, respectively, which Bond Counsel has not independently verified. If the Borough fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing taxability occurs.

Except as expressly stated herein, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations such as the Bonds, are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel gives no assurance that any future legislation or clarifications or amendments to the Code, if enacted into law, will not cause the interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of the interest on the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal legislation, as to which Bond Counsel expresses no view.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and on the Borough's compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Bonds. Owners of the Bonds are advised that, if the IRS does audit the Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the Borough as the taxpayer, and the owners of the Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Bond Counsel is also of the opinion that interest on the Bonds is not included in taxable income for purposes of the Alaska income tax imposed on corporations. Interest on the Bonds may be indirectly subject to the Alaska alternative minimum tax imposed on corporations to the extent that interest on the Bonds is subject to the federal alternative minimum tax.

Not Qualified Tax-Exempt Obligations: The Bonds are not "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

Absence of Litigation

There is no action, suit, or proceeding of any nature now pending or, to the knowledge of the Borough, threatened to restrain or enjoin the sale, issuance, execution or delivery of the Bonds, or in any way contesting the validity of the Bonds or any proceedings of the Borough taken with respect to the sale or issuance thereof, or the pledge or application of any money or security provided for the payment of the Bonds, or the existence or powers of the Borough. Lawsuits and other claims incidental to the ordinary course of operations of the Borough are largely covered by

the Borough's self-insurance designation on fund balance, claim accruals and reserves, and insurance purchased from private insurers and will not have a materially adverse effect upon the financial position of the Borough in the opinion of the Borough's management and, with respect to litigation, the Borough Attorney.

Upon delivery of the Bonds, the Borough will furnish a certificate, in a form satisfactory to Bond Counsel, to the effect that, among other things, there is no litigation pending in any court to restrain or enjoin the issuance or delivery of the Bonds or in any way contesting the validity or enforceability of the Bonds or the Bond Ordinance.

Ratings

Fitch Ratings has assigned a municipal bond rating of "AA" to the Bonds. Standard & Poor's Ratings Services has assigned a municipal bond rating of "AA" to the Bonds. Such ratings reflect only the views of Fitch and Standard & Poor's, respectively, and any desired explanation of the significance of the ratings should be obtained from the rating agencies at the following addresses: Fitch, 650 California Street, San Francisco, CA, 94108 and Standard & Poor's, Steuart Tower, Suite 1500, One Market, San Francisco, CA, 94105. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by a rating agency, if, in the judgment of the rating agency, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Underwriting

The Bonds are being purchased by Robert W. Baird & Co., Inc. (the "Underwriter"). The Underwriter has agreed to purchase all of the Bonds, subject to certain conditions, at a purchase price of $11,736,462.30 which reflects the $11,500,000 par amount of the Bonds, plus an original issue premium of $407,681.05 less an underwriter's discount of $171,218.75.

Miscellaneous

The summaries or descriptions of provisions of the Bond Ordinance, and all references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof. They do not constitute complete statements of such documents or provisions and reference is hereby made to the complete documents relating to such matters. For further information, the Borough will furnish copies of such documents or provisions upon request.

At the time of payment for and delivery of the Bonds, the Borough will provide a certificate executed by the proper officer of the Borough to the effect that to the best of his knowledge and belief the statements in the official statement as of its date are true and correct in all material respects and the official statement does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein in the light of the circumstances under which they were made, not misleading.

Execution of the Official Statement

The execution and delivery of this official statement on behalf of the Borough by its Chief Financial Officer has been duly authorized by the Borough Assembly.

/s/ Michael E. Lamb
Michael E. Lamb, CPA, CGFM
Chief Financial Officer

FAIRBANKS NORTH STAR BOROUGH

Organization

The Borough is a second-class borough, incorporated in 1964 under the laws of the State of Alaska. An organized borough is a unit of regional local government similar to a combination of a county and a school district. A borough generally encompasses a large geographical area and may include incorporated cities and fringe urbanized areas. All areas of the State not within an organized borough constitute a single unorganized borough, which is administered by the State.

Alaska has three classes of boroughs: first, second, and third. They differ in the mandatory and optional powers and duties they assume. Each organized borough is also a school district and is required to establish, maintain, and operate a system of public schools on an areawide basis. Areawide functions are exercised by a borough both inside and outside cities. Each organized borough is responsible for the property assessment and collection of all property taxes levied within its boundaries. First- and second-class boroughs are also responsible for areawide planning, platting, and zoning. Boroughs differ from counties in most states in that the boroughs are not responsible for court and state law enforcement functions, welfare, recording of deeds, or major highway construction and maintenance, which are state responsibilities in Alaska.

The Borough's governing body is a nine-member Assembly. Assembly members are elected at large for staggered three-year terms. The Assembly elects one of its members annually to serve as presiding officer. Assembly members are limited to two consecutive three-year terms. The Borough's chief executive officer is the mayor, who is elected for a three-year term. The mayor has no vote, but may participate in Assembly meetings, introduce legislation and veto Assembly actions. The mayor is also limited to two consecutive three-year terms. The Borough is organized into administrative departments, each supervised by a department head. A chief of staff, appointed by the mayor, serves as the Borough's chief administrator.

Luke Hopkins was elected Borough mayor in November 2009. Prior to being elected Mayor, Mr. Hopkins served on the Borough Assembly from 2004 - 2009, serving as Presiding Officer of the Assembly for two of those years.

Mr. Hopkins has served the Fairbanks community and the State in many capacities since 1974. He has served as Board Member and Secretary of the Alaska Gasline Port Authority (AGPA), as Vice Chair and member of the Borough's planning commission, on the Vocational Education Task Force, on the Fairbanks North Star Borough (FNSB) School District Recruitment Roundtable, on the Climate Change Task Force, on the Policy Committee for the Fairbanks Metropolitan Area Transportation system, as board member on the Alaska Municipal League, on the National Association of Counties Public Lands Steering Committee, and as FNSB representative to ICLEI, a national organization for local governments for sustainability.

Michael Lamb is the chief financial officer (CFO) of the Borough. He received a degree in Business Administration from the University of Washington and is a Certified Public Accountant and a Certified Government Financial Manager. He has over 22 years' experience as a chief financial officer for municipalities and has served as the Borough's CFO for the last 13 years. Prior to that, for almost 9 years, Michael was the CFO for the City of St. Paul, Alaska. He is very active in professional organizations and currently serves as a Board Member and President of the Alaska Municipal League Investment Pool and is chair for the Alaska Municipal League Revenue and Finance Legislative Subcommittee. Michael is also a past president of the Alaska Government Finance Officers Association, and is currently a national Government Finance Officers Association popular reports reviewer.

Responsibilities

As a second-class borough, the Borough may acquire additional powers with voter approval or, where authorized by statute, by adoption of an ordinance. Any areawide power assumed by a borough must be exercised inside and outside cities.

Mandatory Areawide Responsibilities:
Assessment and tax collection
Education
Planning, platting, and zoning

Other Areawide Responsibilities Exercised by the Borough:
Air pollution control
Animal control
Emergency communications (enhanced 911)
Flood control
Libraries
Limited health and social services
Parks and recreation
Public transportation
Solid waste disposal

Areawide hospital powers have been voter approved; however, this power has not been exercised except to previously provide conduit financing for the hospital.

The Borough also provides fireworks control, emergency medical services, disaster and civil defense, and economic development on a non-areawide basis, outside the cities of Fairbanks and North Pole and economic development on an areawide basis under a Memorandum of Understanding (MOU) with the two cities. The Borough provides solid waste collection services outside of the City of Fairbanks, which provides its own solid waste pick-up service.

The Borough may also establish service areas outside the cities either upon petition by property owners or the introduction of an ordinance, followed by Assembly and voter approval. Service areas are smaller units within the Borough boundaries, created to provide certain services or different levels of service. The Borough may levy additional taxes within service areas and disburse them for payment for services within that area. Service areas may be formed to provide any municipal service not otherwise exercised on an areawide or non-areawide basis, such as road construction and maintenance, street

lighting, fire protection, and water and sewer service. Commissioners, appointed by the mayor and confirmed by the Assembly, oversee the affairs of service areas. The administrative management is the responsibility of the Borough's divisions of rural services and emergency management. The Assembly approves service area budgets and tax levies. There are currently over 100 service areas within the Borough.

Cities

The Borough includes two cities within its boundaries, Fairbanks and North Pole. The cities provide complementary municipal functions within their boundaries. In Fairbanks, these services include police and fire protection, emergency medical services, parking, roads, and solid waste pick-up services. In North Pole, they include police and fire protection, emergency medical services, roads, and water and sewer services.

Relation to the School District

One of the Borough's mandatory duties is to provide for elementary and secondary education. The Borough shares responsibility for the education system with the elected School Board. The Borough provides local funding and facilities, while the School Board provides management and operations. The Borough and School District each have their own administrative and finance departments. The Borough's public works department manages the construction, renovation, and major maintenance of school facilities, which the Borough owns, in addition to its own general government facilities.

By April 1 of each year, the School District adopts its annual fiscal year budget and submits it to the Borough Assembly for approval of bottom line spending authority. One revenue source in the School District budget is a lump-sum Borough appropriation. The Assembly is required to determine the minimum local funding within 30 days of receipt of the School District budget. The Assembly holds hearings on its own budget and determines its appropriation for education, as part of the Borough's annual operating budget. Upon adoption of the budget, the Assembly establishes the local property tax mill rate to provide the funds required for Borough operation and the local contribution to education.

The Borough Assembly also approves the borrowing of funds and the issuance of bonds for school projects. Debt incurred for the construction of school facilities is a Borough responsibility. All land and school buildings are owned and accounted for by the Borough and are provided to the School District without charge. Schools located on military bases are operated by the School District through agreements with the State and U.S. Department of Education. The Borough has assumed ownership of on-base schools.

FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT

Organization

The School District operates a public school system under a seven-member elected School Board pursuant to Title 14 Alaska Statutes ("AS"). The board also includes, as appointed advisory voting members, a base representative from Eielson Air Force Base, a post representative from Fort Wainwright Army Post, and a student representative. The superintendent of schools carries out goals and objectives set by the School Board. Other principal officials of the School District include assistant superintendents of elementary supervision and instruction, secondary supervision and instruction, facilities management, chief financial officer, and departmental directors.

Responsibilities

The School Board oversees the curricular and administrative functions of all schools currently operating within the District, including schools located on Fort Wainwright Army Post and Eielson Air Force Base. All schools are operated with a combination of local, state, and federal funds.

Enrollment and Facilities

The following inset shows public school enrollments for the last nine school years and a projection for the 2012/13 school year as provided by the School District. Enrollment includes students at both in-town schools and on-base schools. After increasing in 2009/10, enrollment dipped in 2010/11, partly due to deployment of Fort Wainwright's 1st Stryker Brigade Team, 25th Infantry Division, and remained stable in 2011/12.

School District Enrollment		
Fiscal Year	Actual	Projected
2003/04	14,593	15,080
2004/05	14,576	14,316
2005/06	14,516	14,588
2006/07	14,466	14,598
2007/08	14,103	14,443
2008/09	14,132	14,227
2009/10	14,402	14,348
2010/11	14,226	14,653
2011/12	14,267	14,297
2012/13	n/a	14,344

The School District operates nineteen elementary schools, nine secondary schools, four charter schools, a correspondence study program for both elementary and secondary students, and various alternative programs. Three of those elementary schools and one of the secondary schools are located on military installations. The School District employs about 2,000 benefit-eligible employees.

THE CONSTRUCTION PROGRAM

Proceeds of the Bonds will be used to fund a portion of the costs of renovations of the gym wing of Ryan Middle School and the planning for additional improvements to Ryan Middle School. In addition, proceeds will fund a portion of upgrades and renovations for Salcha and Woodriver Elementary Schools, North Pole Middle School, and North Pole High School.

The upgrade, renovation, and improvement projects described above have received state DEED approvals. See "State Aid to Education."

STATE AID TO EDUCATION

The State of Alaska has a central role in financing education. The State provides assistance for school construction through both direct grants and partial reimbursement of debt service on local bonds for State-approved school projects. The State also provides aid to local school districts for operating expenses through the public school foundation program.

School Debt Service Reimbursement

The State contributes to local school construction and related debt retirement through a program created by the state legislature in 1970 under AS 14.11.100 (as amended), "State Aid for Costs of School Construction Debt." The program reimburses municipalities that are school districts for a portion of the costs of school construction. State reimbursement applies to debt service on locally-issued voter-approved school bonds.

Funds to provide state aid to school construction must be appropriated to the school construction account annually by the Alaska legislature. Appropriations may not always be sufficient to fully fund the level of payments authorized by statute. If amounts in the account are insufficient to fully fund the program in any year, the available funds are distributed pro rata among the eligible local governments. Actual state reimbursements have varied from year to year. Reimbursements have been 100 percent of entitlement in each fiscal year since 1991/92.

Under the State's program of debt service reimbursement for school construction, the level of reimbursement eligibility has varied since the program began. Currently school construction projects approved by DEED are eligible for 70 percent debt service reimbursement. Other projects are eligible for 60 percent debt service reimbursement. See Table 1 below for the level of reimbursement applicable to the Borough's outstanding bonds.

Costs of school construction eligible for reimbursement include the cost of acquiring, constructing, enlarging, repairing, remodeling, equipping, or furnishing public elementary, secondary, and other school buildings. Costs include the costs of financing and carrying out the project, such as studies, surveys, plans, and specifications; architectural, engineering, or other services; site acquisition, preparation, and development; financing costs including bond interest; insurance; and fees and expenses of legal advisors, trustees, financial advisors, depositories, and paying agents. Project costs may also include an allocation of administrative and operating expenses of the recipient.

To obtain reimbursement, the Borough must provide DEED with an estimate of school-related debt service expenditures for the upcoming fiscal year by October 15 of each year. Claims must be supported by a statement from the paying agent of amounts paid by the Borough in the current fiscal year. As each debt service payment is due, the Borough transmits funds to the paying agent. The paying agent notifies the State and the State then reimburses substantially the entire eligible amount. The State makes final payments on August 1 of the fiscal year based on the availability of funds. For the 2010 Series M

Bonds, the DEED reimbursement is payable after application of a Federal Recovery Zone Economic Development Bonds 45 percent interest subsidy.

In 2002, the Alaska State Legislature approved a special 100 percent reimbursement eligibility for $4.5 million in projects for the Eielson Project under AS 29.60.700. These bonds were sold as a portion of the 2006 Series I General Obligation School Bonds and the debt service on that portion is currently being met at 100 percent.

Borough Reimbursement Eligibility

Table 1 summarizes the outstanding Borough bonds, including the Bonds, and their reimbursement eligibility.

Table 1 ■ Fairbanks North Star Borough
Outstanding Borough Bonds as of May 1, 2012

Series	Purpose	Outstanding Principal	Final Payment	Reimbursement Eligibility
2004G	Schools	$9,610,000	10/1/2023	70.0%
2005H	Schools	10,040,000	10/1/2024	70.0%
2006 I (1)	Schools	7,715,000	11/1/2025	83.8%
2007J	Schools	9,950,000	11/1/2026	70.0%
2007K Refunding (2)	Schools	5,940,000	11/1/2016	33.2%
2008L	Schools	9,680,000	11/1/2027	70.0%
2010M (3)	Schools	11,115,000	7/1/2029	70.0%
2010N Refunding (4)	Schools & Library	13,550,000	11/1/2017	67.5%
2010O Refunding (5)	Schools	10,845,000	4/1/2019	67.4%
2011P Refunding (6)	Schools	5,095,000	12/1/2020	70.0%
2011Q Refunding (7)	Schools	21,000,000	9/1/2022	70.0%
2012R (8)	Schools	11,500,000	5/1/2032	70.0%
Total		$126,040,000		

Source: Fairbanks North Star Borough 2011/12 Approved Budget, adjusted for payments through May 1, 2012.

1 - The 2006I Bonds include 53.846% of the principal and interest reimbursable at 70%; the balance is reimbursable at 100% by the Dept. of Transportation and Public Facilities.

2 - The 2007K Refunding Bonds refunded the 1996U Bonds; 47.479% of the principal and interest paid on these bonds is reimbursable at 70%; the balance is ineligible.

3 - The 2010M Bonds are reimbursable by DEED at 70% payable after application of the federal interest subsidy.

4 - The 2010N Refunding Bonds refunded the 1997A Bonds; 96.454% of the principal and interest paid on these bonds is reimbursable at 70%; the balance is ineligible.

5 - The 2010O Refunding Bonds refunded the 1999B Bonds. The 1999B Bonds include about $959,000 used for a local match for State grants; 96.343% of the principal and interest paid on these bonds is reimbursable at 70%; the balance is ineligible.

6 - The 2011P Refunding Bonds refunded the 2000C Bonds and are reimbursable at 70%.

7 - The 2011Q Refunding Bonds refunded the Series D, E, and F Bonds and are reimbursable at 70%.

8 - The 2012R Bonds are reimbursable at 70%.

Including the Bonds, the Borough will have twelve issues of outstanding school bonds eligible for State reimbursement, including the Bonds. The Borough's outstanding bonds are eligible for reimbursement as shown in Table 1. Of note:

- The entire Series 2004G, 2005H, 2007J, 2008L, 2011P, 2011Q, and 2012R Bonds are eligible for reimbursement at 70 percent.
- Approximately 53.846 percent of the Series 2006I Bonds are reimbursable at 70 percent; the remaining 46.154 percent are eligible for reimbursement at 100 percent.
- The debt service on 47.479 percent of the Series 2007K Bonds is reimbursable at 70 percent.
- All projects funded by the Series 2010M Bonds are eligible for the 70 percent DEED reimbursement. The 70 percent DEED reimbursement is payable **after** application of the 45 percent Federal Recovery Zone Economic Development Bonds interest subsidy.
- Approximately 96.454 percent of the Series 2010N Bonds are eligible for reimbursement at 70 percent.
- Approximately 96.343 percent of the Series 2010O Bonds are eligible for reimbursement at 70 percent.

Table 2 summarizes the total annual debt service on outstanding bonds, debt service on the Bonds included in this issuance, reimbursement entitlement, and the net Borough expense. Table 2 is presented on a cash flow basis, to project the net local cost to the Borough's taxpayers each year. Overall, the projected net local cost is about 30.4 percent of total annual debt service.

Table 2 ■ Fairbanks North Star Borough
Debt Service Reimbursement Eligibility as of May 1, 2012

Fiscal Year	Outstanding Issues	2012 Series R	Total	Reimbursement Entitlement	Net Borough Expense	Reimbursement Percentage
2012/13	$14,329,241	$784,512	$15,113,752	$10,210,866	$4,902,886	67.6%
2013/14	14,381,778	807,040	15,188,818	10,254,215	4,934,603	67.5%
2014/15	14,368,458	802,240	15,170,698	10,242,105	4,928,593	67.5%
2015/16	14,372,628	797,340	15,169,968	10,226,944	4,943,025	67.4%
2016/17	14,343,771	787,340	15,131,111	10,193,769	4,937,341	67.4%
2017/18	12,976,437	782,340	13,758,777	9,727,370	4,031,407	70.7%
2018/19	10,464,244	772,040	11,236,284	8,020,567	3,215,716	71.4%
2019/20	8,623,474	766,590	9,390,064	6,725,063	2,665,001	71.6%
2020/21	8,640,748	760,840	9,401,588	6,730,312	2,671,276	71.6%
2021/22	7,324,900	759,790	8,084,690	5,804,676	2,280,014	71.8%
2022/23	7,330,731	753,290	8,084,021	5,800,788	2,283,233	71.8%
2023/24	5,455,228	751,490	6,206,718	4,483,583	1,723,135	72.2%
2024/25	4,427,628	749,240	5,176,868	3,758,502	1,418,366	72.6%
2025/26	3,407,003	751,540	4,158,543	3,041,381	1,117,161	73.1%
2026/27	2,658,085	748,240	3,406,325	2,405,718	1,000,607	70.6%
2027/28	1,738,501	749,490	2,487,991	1,757,080	730,911	70.6%
2028/29	859,862	750,140	1,610,002	1,136,433	473,569	70.6%
2029/30	843,575	750,190	1,593,765	1,118,818	474,947	70.2%
2030/31	0	754,640	754,640	528,248	226,392	70.0%
2031/32	0	752,630	752,630	526,841	225,789	70.0%
Totals	$146,546,289	$15,330,962	$161,877,251	$112,693,280	$49,183,971	

Source: Prepared by Bartle Wells Associates from information supplied by the Borough

School Operating Aid

The State provides aid to local school districts for the payment of operating expenses under the public school foundation program. The purpose of the foundation program is to provide a uniform system of public school aid throughout the State. Under the program, the State makes appropriations to districts and for centralized correspondence study programs. State funding also includes contract fees for schools located at Fort Wainwright Army Base and Eielson Air Force Base.

Foundation funding for Alaska's public schools represents the largest single appropriation by the legislature each year. The State's system of providing school operating aid is based on a formula that is intended to equalize funding to school districts around the State.

BOROUGH FINANCES

The Borough's accounting policies conform to generally accepted accounting principles as applicable to governments. The annual financial report also conforms to applicable provisions of the Alaska Statutes and the Borough's Code of Ordinances. The Borough has received the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report yearly since 1991, except for 1993, and has received the GFOA Distinguished Budget Presentation Award yearly since 1990.

The School District is presented as a component unit in the Borough's financial statement. The School District issues a separate financial report which has received the GFOA's Certificate of Achievement for Excellence in Financial Reporting every year since 1991. Financial reports of both entities are audited annually by an independent certified public accountant.

Funds and Accounts

The Borough's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Borough's fund financial statements and accounts are organized on the basis of funds, each representing a separate accounting entity. The Borough maintains three broad fund categories–governmental, proprietary, and fiduciary. The Borough maintains its accounting records on a modified accrual basis for the governmental funds and on the accrual basis for its proprietary funds and government-wide financial statements.

Governmental funds are those through which most of the Borough's governmental functions are financed, and include the following fund types:

- **General Fund:** Accounts for all financial resources except those required to be accounted for in another fund. Revenue is received from such sources as general property taxes, intergovernmental revenues, and charges for services. Expenditures are authorized in the annual budget and include administration, recreation, public facilities, library, planning and zoning, land management, and other areawide community activities. With the implementation of Governmental Accounting Standards Board Statement No. 54 (GASB 54) for FY 2010/11, this fund includes both annual and inception-to-date cost centers' activities. These inception-to-date cost centers are included in the Special Revenue Funds pre-GASB 54.

- **Special Revenue Funds:** Account for the proceeds of specific revenue sources provided by local taxation and State or Federal revenues that are legally restricted to expenditures for specific purposes. Certain annual operating activities are conducted with this fund type, usually on a geographical basis. These include solid waste collection, emergency medical services, emergency management, economic development, emergency communication services (enhanced 911), and various service area functions. Additional special revenue funds are used for multi-year, non-capital

construction projects funded by grants from the state, federal pass-through grants, federal grants, and revenue from a trust that has designated the Fairbanks North Star Borough Public Library as a beneficiary.

- **Debt Service Fund:** Accounts for the payment of interest, principal, and related costs on general obligation debt. Debt service requirements are funded by the general fund and by state reimbursements for school construction and a federal interest subsidy both received through the general fund.

- **Capital Projects Funds:** Account for financial resources to be used for the acquisition, construction, renovation, or major repair or maintenance of capital facilities and assets.

The Borough's proprietary funds include:

- **Enterprise Funds:** Account for the Borough's ongoing operations that are similar to those conducted in the private sector. Enterprise funds include transportation, solid waste disposal, and the John A. Carlson Community Activity Center.

- **Internal Service Fund:** Accounts for the financing of goods or services provided by one department to other departments of the Borough on a cost-reimbursement basis. The Borough's vehicle and equipment replacements are funded and purchased through the Vehicle and Equipment Fleet Fund.

The Borough's fiduciary fund includes:

- **Agency Fund:** Accounts for assets held for other governmental units. These are custodial funds. The agency fund is used to account for taxes collected by the Borough for the two cities located within the FNSB boundaries.

General Fund Financial Information

Table 3 summarizes the general fund revenues, expenditures, and changes in fund balance for the past five fiscal years. The Borough's largest combined source of general fund revenue is taxes, totaling $100.7 million in 2010/11 and accounting for about 85 percent of general fund revenue. Tax revenue includes tobacco taxes collected areawide and hotel-motel and alcohol taxes collected outside the City of Fairbanks and the City of North Pole. The balance of tax revenue is from property taxes. Tax revenues increased over the past year.

Table 3 ■ Fairbanks North Star Borough
General Fund Revenues, Expenditures, and Changes in Fund Balance

	2006/07	2007/08	Restated 2008/09	2009/10	2010/11
Revenues					
Taxes	$79,119,557	$82,560,500	$82,268,806	$85,721,429	$100,724,466
Intergovernmental revenues	14,370,392	12,389,669	10,647,858	16,666,406	14,287,055
Charges for services	1,325,144	1,492,060	1,433,299	1,382,084	1,590,635
Other revenues	5,491,974	5,490,453	2,225,618	2,993,110	1,942,570
Total revenues	100,307,068	101,932,682	96,575,581	106,763,029	118,544,725
Expenditures					
General government	11,598,270	11,936,192	12,412,136	14,711,193	19,443,000
Education	40,022,700	42,222,700	44,222,700	45,522,700	46,522,700
Community planning	1,714,293	1,870,234	1,679,291	1,969,061	2,133,510
Public works	3,962,569	4,522,013	4,899,169	5,118,233	5,300,641
Parks and recreation	5,623,455	6,076,031	6,398,281	6,676,372	6,898,658
Library	4,207,605	4,481,792	4,704,807	4,943,528	5,194,081
Emergency operations	1,706,389	1,863,856	1,883,822	1,885,994	2,018,782
Capital outlay	350,658	400,891	371,553	332,715	363,101
Total expenditures	69,185,940	73,373,709	76,571,758	81,159,795	87,874,472
Transfers in (out) [1]	(24,276,963)	(29,121,283)	(22,547,543)	(22,956,683)	(19,520,620)
Excess (deficiency) of revenues over expenditures and transfers	6,844,165	(562,310)	(2,543,721)	2,646,551	11,149,633
Fund balance, July 1	18,737,301	25,581,467	25,019,157	22,475,436	25,121,987
Fund balance, June 30	$25,581,467	$25,019,157	$22,475,436	$25,121,987	$36,271,620

Source: Fairbanks North Star Borough Comprehensive Annual Financial Reports
Totals may not add due to rounding.
1 - Includes transfer to debt service fund.

General fund revenues increased in 2010/11 by nearly $12 million over 2009/10, due to a $15 million increase in taxes. Included in this amount is $7.7 million of additional property tax and related interest received as a result of settlement of the trans-Alaska pipeline system (TAPS) valuation litigation for tax year 2006 and approximately $4.6 million of property tax on new construction. Intergovernmental and other revenues decreased by over $3 million from the previous year. Intergovernmental revenues include state reimbursement of school debt service. The State's reimbursement for school construction is discussed elsewhere in this official statement, under the heading "State Aid to Education."

The general fund's contribution to education in 2010/11 was $46.5 million, and is shown as an operating expenditure. The general fund contribution to debt service was $13.5 million, of which nearly $9.2 million (over 68 percent) was reimbursed by the State, and

is included as a portion of the transfers in and out. Beginning in 2010/11 with implementation of GASB 54, the general fund includes multi-year programs.

Table 4 summarizes the 2010/11 and 2011/12 general fund budgets. The Borough's current general fund budget totals about $116.6 million. Property tax is the largest revenue source and accounts for over 75 percent of budgeted general fund revenues. Various forms of state aid, of which school construction reimbursement is the largest, make up another 8.7 percent of general fund revenues.

Table 4 ■ Fairbanks North Star Borough General Fund Budget FY 2010/11 and 2011/12

	Revised 2010/11	Revised 2011/12
Revenue Sources		
Property tax	$86,562,796	$87,302,480
State and federal revenues	14,795,995	11,311,570
Hotel-motel, alcohol, and tobacco taxes	3,607,100	4,106,100
Charges for services	1,514,890	1,558,080
Intragovernmental charges	5,741,040	6,195,180
Other local revenue	57,192	55,000
Interest earnings	856,150	344,020
Contribution from fund balance and transfers	5,299,780	5,706,070
Total revenues	118,434,943	116,578,500
Expenditures and Other Financing Uses		
Mayor and assembly	2,775,610	2,779,730
Law	1,023,490	1,059,820
Assessing	2,699,180	2,783,000
Community planning	2,244,180	2,322,950
Computer services	3,702,930	3,824,020
Education	46,522,700	46,760,700
Emergency operations	2,297,032	1,870,220
Financial services	3,422,770	3,672,800
General services	1,560,910	1,629,670
Human resources	3,102,800	3,205,280
Land management	1,151,080	1,149,480
Library services	5,726,370	5,928,150
Parks and recreation	7,160,660	7,290,650
Public works	7,910,570	8,057,820
Nondepartmental	528,450	305,470
Total operating expenditures	91,828,732	92,639,760
Transfers to Other Funds		
Capital projects	2,197,080	1,827,450
Debt service	13,471,850	14,484,800
Other transfers	7,345,886	7,626,490
Total transfers	23,014,816	23,938,740
Contribution to fund balance	3,591,395	0
Total expenditures	$118,434,943	$116,578,500

Source: Fairbanks North Star Borough 2011/12 Approved Budget

The Borough has budgeted operating expenditures of $92.6 million. Education expenditures, at $46.8 million, are approximately 50.5 percent of total operating expenditures. The balance of general fund expenditures consists of contributions to other funds. The contribution to debt service is $14.5 million, up about $1.0 million from the previous year.

Table 5 shows the general fund balance sheet as of June 30, 2007 through 2011. Total assets have increased by nearly $17.0 million or by 46.7 percent over 2009. Most of this increase is due to an increase in equity in central treasury cash. Beginning in 2010/11 with implementation of GASB 54, the general fund includes multi-year programs.

Table 5 ■ Fairbanks North Star Borough
General Fund Balance Sheet, June 30

	2007	2008	Restated 2009	2010	2011
Assets					
Equity in central treasury cash	$29,892,638	$29,779,652	$30,524,265	$34,142,149	$46,919,033
Net taxes receivable	2,378,449	2,531,187	2,099,818	2,928,175	2,691,325
Net accounts receivable	65,563	2,541,963	38,946	41,811	216,246
Accrued interest receivable	269,838	252,457	44,728	10,074	11,778
Interfund receivables	852,600	732,065	2,838,613	3,303,702	1,956,654
Due from School District	0	0	0	2,183,369	0
Due from governmental agencies	116,638	566,812	592,191	540,225	554,111
Other assets	1,450,975	136,692	101,773	115,323	815,728
Total assets	35,026,702	36,540,828	36,240,334	43,264,826	53,164,875
Liabilities and Fund Balance					
Liabilities					
Accounts payable	613,005	784,880	958,821	989,293	1,780,529
Wages and payroll taxes	944,033	876,877	960,017	1,183,136	1,263,954
Accrued self-insurance losses	749,036	980,138	953,746	1,006,660	1,344,930
Interfund payable	0	0	0	2,183,369	0
Due to School District	880	4,208	136	6,335	13,372
Deposits from others	273,119	223,114	192,414	192,895	182,016
Deferred revenues	1,695,081	1,755,483	1,443,048	2,184,605	2,552,898
Advance tax payments	5,170,081	6,896,972	9,256,715	10,396,545	9,755,556
Total liabilities	9,445,235	11,521,671	13,764,897	18,142,839	16,893,255
Fund Balance					
Reserved for encumbrances	401,549	286,354	233,114	224,738	
Reserved for deposit	1,345,000	0	0	0	
Unreserved, designated for:					
Compensated absences	1,662,378	1,700,187	1,772,713	1,964,222	
Self-insurance losses	1,500,000	1,500,000	1,500,000	1,500,000	
Net unrealized gains	281,029	93,833	0	0	
Subsequent year's expenditures	2,413,373	3,773,030	4,800,000	4,478,100	
Tax or retirement system relief	523,033	0	0	0	
Pipeline assessment	392,000	0	0	0	
Unreserved, undesignated	17,063,104	17,665,754	14,169,609	16,954,927	
Restricted					344,454
Committed					14,213,903
Assigned					5,271,233
Unassigned					16,442,029
Total fund balance	25,581,467	25,019,157	22,475,436	25,121,987	36,271,620
Total liabilities and fund balance	$35,026,702	$36,540,828	$36,240,334	$43,264,826	$53,164,875

Source: Fairbanks North Star Borough Comprehensive Annual Financial Reports
Totals may not add due to rounding.

Assessed Valuation and Property Taxes

Under State law, the Borough is required to assess property at 100 percent of its true market value as of January 1 of each year, with minor exceptions. The Borough assessor assesses taxable real property within the Borough, except for oil and gas pipeline-related property. Oil and gas pipeline-related property is assessed by the State, but is subject to the property tax levied by the Borough.

Table 6 shows the Borough's certified real property assessed valuation from 2002 through 2011. The Borough's 2011 tax year assessed value, before exemptions, is nearly $8.6 billion, which represents an increase of 3.0 percent over the previous year.

Table 6 ■ Fairbanks North Star Borough Assessed Valuation History ($000) (1)

Tax Year	Within Cities	Outside Cities	Pipeline-Related (2)	Borough Total	Percentage Increase
2002	$1,617,351	$2,687,795	$263,366	$4,568,512	5.2%
2003	1,714,449	2,869,516	270,806	4,854,771	6.3%
2004	1,859,523	3,108,669	271,188	5,239,380	7.9%
2005	2,005,396	3,458,915	275,303	5,739,614	9.5%
2006	2,215,277	3,824,463	377,817	6,417,557	11.8%
2007	2,401,475	4,272,547	369,500	7,043,522	9.8%
2008	2,556,378	4,531,220	508,805	7,596,403	7.8%
2009	2,665,997	4,622,128	694,078	7,982,203	5.1%
2010	2,776,247	4,800,899	763,391	8,340,537	4.5%
2011	2,913,132	4,970,953	705,618	8,589,703	3.0%

Source: Fairbanks North Star Borough Approved Budgets

1 - Full value, before exemptions.

2 - Assessed by state.

Alaska law provides for both optional and mandatory property tax exemptions. Senior citizens, disabled veterans, and widows/widowers receive mandatory exemptions of up to $150,000 of assessed valuation. An exemption for 20 percent of the assessed valuation of residential property, up to a maximum of $20,000 per residence, is permitted under State law if locally adopted. The Borough has adopted this exemption. In its 2002 legislative session, the Alaska Legislature approved additional optional exemptions of $10,000 per residence for certain types of lands and landowners starting in 2004. These exemptions have also been adopted and apply to primary residential properties owned by volunteer EMS medics and firefighters. Other local exemptions include personal property, economic development, and senior citizens housing. For tax year 2011, the estimated optional residential and fire exemptions totaled $283 million; mandatory exemptions totaled $538 million.

The Borough's 2011 estimated net taxable assessed value (NTAV) is $7.768 billion, as shown in Table 7. This is an increase of 2.8 percent over 2010.

Table 7 ■ Fairbanks North Star Borough Estimated Assessed Valuation, 2011

Borough assessor's full value	$8,589,702,505
Less:	
Mandatory exemptions	(538,314,499)
Optional residential exemptions	(282,894,273)
Borough net taxable assessed value (NTAV)	$7,768,493,733

Source: Fairbanks North Star Borough 2011/12 Approved Budget

Property owners are notified during each February of their assessments as of January 1. The Borough's Board of Equalization annually hears assessment appeals during the month of April. Tax rates are established by the Assembly before June 15, following the adoption of the Borough budget. Current taxes levied on real property are due and payable on July 1 of each year, but may be paid in two equal installments on September 1 and November 1 without incurring penalties or interest.

Delinquent property taxes are charged a penalty equal to two percent of the principal amount of the tax for each business day or part of a business day that the tax is unpaid, up to a maximum penalty of ten percent; plus interest at 8 percent per year. The three year foreclosure process for delinquent taxes begins approximately three months after the second half due date in each taxing year. Under Alaska law, properties with delinquent taxes are awarded to the Borough when a foreclosure judgment is filed. Delinquent property owners have one year from the filing date to redeem their property. Unredeemed property may be sold to recover the collection costs, taxes, interest and penalty due. Title is transferred to the Borough by tax deed prior to the annual foreclosure sale.

Largest Taxpayers

About 90 miles of the Trans Alaska oil pipeline and a pumping station are located within the Borough. The Alyeska Pipeline Service Company (Alyeska), the primary owner of pipeline assets with a local assessed value of $669 million (tax year 2012), is the Borough's largest taxpayer. The pipeline's valuation has increased significantly since tax year 2005, in response to a change in valuation from a tariff-based approach, which no longer reflected the pipeline's true value, to a cost-based approach. The pipeline's estimated assessed valuation within the Borough is about 7.7 percent of the Borough's estimated total assessed valuation of $8.72 billion in tax year 2012.

Alyeska Pipeline Service Company has paid fiscal years 2007, 2008, 2009, 2010, 2011, and 2012 taxes under protest, due to the assessed valuation of the trans-Alaska pipeline system (TAPS) and related properties. The Alaska Department of Revenue is responsible for the valuation. The Department's valuation was appealed by the pipeline owners as

being too high and by certain affected municipalities, including the Borough, as being too low. The State Assessment Review Board (SARB) heard the appeals and sided with the municipalities when establishing the valuation. The owners have appealed the Board's decision to the Superior Court, and certain municipalities, including the Borough, have cross-appealed.

The trial for the tax year 2006 taxes took place in August and September, 2009. On October 26, 2010 the Superior Court rendered its final decision on the matter, setting the value favorable to the municipalities; there has been a Supreme Court appeal by the owners. The Borough has voluntarily deposited its settlement funds in a court account, pending the Alaska Supreme Court trial and decision.

The Superior Court heard the appeal cases for tax years 2007, 2008, and 2009 taxes as a consolidated case. The Superior Court again rendered its decision in the municipalities' favor, but an appeal of this ruling to the Alaska Supreme Court is expected.

No trial date has been set for tax year 2010 or 2011 taxes.

The Borough is required to use the State-set valuations in building its budgets. These valuations affect mill rate calculations and actual taxes collected from TAPS. There exists a possibility that the Borough may have to refund taxes in the future; said amounts (if any) of course are unknown at this time and are not quantifiable, but the Borough considers this to be a material financial issue.

Table 8 shows the Borough's ten largest commercial/industrial taxable properties for 2011. Together they account for about 19.5 percent of total assessed valuation, a decrease from 19.7 percent in 2010.

Table 8 ■ Fairbanks North Star Borough
Largest Commercial/Industrial Taxable Properties, 2011

Taxpayer	Type of Property	Assessed Valuation (000)	Percent of Borough Total
Alyeska [1]	Oil transportation	$705,618	8.21%
Fairbanks Gold Mining (Fort Knox)	Mining	390,933	4.55%
Doyon Utilities	Utilities	220,152	2.56%
Flint Hills Resources	Oil refining	147,119	1.71%
Alaska Communications Systems	Communications	48,783	0.57%
GCI Cable Fairbanks	Utillities	41,887	0.49%
Wal-Mart Stores	Shopping center	33,579	0.39%
Westmark Hotel	Hotel	33,251	0.39%
Alaska Hotel Properties, Inc. (Princess)	Hotel	27,754	0.32%
Fred Meyer Stores (west)	Shopping center	26,648	0.31%
Total		$1,675,724	19.51%

Source: Fairbanks North Star Borough Assessing Department
1 - Assessed value set by state.

Tax Rates

Table 9 shows the tax rates levied by the Borough and its two cities for the last ten years.

Table 9 ■ Fairbanks North Star Borough Ad Valorem Tax Rate History Mills per $1 Assessed Value[1]

Tax Year	Borough	Non-Areawide [2]	Solid Waste Collection [3]	City of Fairbanks	City of North Pole
2002	13.693	0.525	1.187	6.511	3.000
2003	13.693	0.523	1.187	6.516	3.000
2004	13.606	0.435	1.183	7.171	3.000
2005	13.219	0.425	1.167	6.804	3.000
2006	12.923	0.418	1.150	6.700	3.000
2007	12.209	0.409	1.126	6.594	3.000
2008	11.287	0.400	1.103	5.991	3.000
2009	11.186	0.393	1.121	5.927	3.000
2010	11.432	0.400	1.141	5.803	3.000
2011	11.294	0.511	1.194	5.843	3.000

Source: Fairbanks North Star Borough 2011/12 Approved Budget
1 - Rates do not include service area levies.
2 - Outside the cities of Fairbanks and North Pole.
3 - Includes area outside the City of Fairbanks.

The Borough's 2011 areawide tax rate is 11.294 mills. An additional 0.511 mills is levied on property outside the cities for ambulance service, disaster and civil defense, and economic development (non-areawide). A mill rate of 1.194 mills is levied outside the City of Fairbanks for solid waste collection. Properties outside the cities may also be included in service areas and subject to service area taxes. The city tax rates are 5.843 mills in Fairbanks and 3.000 mills in North Pole.

Table 10 shows total tax rates in the cities and outside, exclusive of service area taxes. Areawide taxes levied for debt service on the Borough's school and library bonds are shown separately. They are included in the Borough's mill rate of 11.294.

Table 10 ■ Fairbanks North Star Borough
Total Tax Rates, 2011
Mills per $1 of Assessed Value

	City of Fairbanks	City of North Pole	Outside Cities[1]
Borough areawide, excluding debt service	10.550	10.550	10.550
Borough debt service			
School bonds	0.732	0.732	0.732
Library bonds	0.012	0.012	0.012
Total debt service	0.744	0.744	0.744
Total Borough areawide	11.294	11.294	11.294
City of Fairbanks	5.843		
City of North Pole		3.000	
Solid waste collection	[2]	1.194	1.194
Non-areawide			0.511
Total[1]	17.137	15.488	12.999

Source: Fairbanks North Star Borough 2011/12 Approved Budget
1 - Does not include service area tax rates.
2 - Fairbanks provides its own solid waste pick-up service.

Tax Levies and Delinquencies

Table 11 shows property tax levies and current and delinquent collections for the Borough from 2006/07 through 2010/11. The Borough's total tax levy includes taxes levied on property which is exempt from property taxes. The net tax levy excludes local optional residential and State-mandated property tax exemptions for senior citizens, disabled veterans, and widows/widowers. In 2010/11, the Borough's current tax collections increased to $85.6 million, a 7.6 percent increase over 2009/10. Current collections totaled 98.67 percent of the net tax levy. As protection against potential tax delinquencies, the Borough includes a delinquency allowance of two percent of the taxes on taxable property when estimating its property tax revenues for budget purposes.

The Borough collects property taxes for the Borough and for the cities of Fairbanks and North Pole. Taxes collected on behalf of the cities are transmitted as collected to the cities. These are not included in Table 11, nor are the Borough taxes collected on a non-areawide, solid waste collection district, or service area basis.

Table 11 ■ Fairbanks North Star Borough
Areawide Property Tax Levies and Collections

	2006/07	2007/08	2008/09	2009/10	2010/11
Net tax levy[1]	$74,858,658	$77,824,971	$77,549,577	$80,813,908	$86,709,188
Current tax collections	73,722,859	76,656,864	76,584,056	79,548,208	85,555,956
Collections in subsequent years	724,339	1,144,384	930,833	715,897	0
Total collections[2]	$74,447,199	$77,801,248	$77,514,889	$80,264,105	$85,555,956
Current net levy collected	98.48%	98.50%	98.75%	98.43%	98.67%
Total net levy collected	99.45%	99.97%	99.96%	99.32%	98.67%

Source: Fairbanks North Star Borough Comprehensive Annual Financial Report 2010/11
Totals may not add due to rounding.
1 - Areawide taxes levied by Borough only, net of excluded state-mandated and local property tax exemptions.
2 - Excludes penalty, interest, legal fees, and collections for other governmental units.

Bonded Indebtedness

Under Alaska law, the Borough may issue general obligation bonds, revenue bonds, and assessment bonds. Only general obligation bonds are currently outstanding. General obligation bonds may be issued without limitation upon approval by a majority of Borough voters. There are no constitutional or statutory debt limitations under Alaska law.

Table 12 shows the Borough's outstanding direct bonded debt as of May 1, 2012. All of the Borough's outstanding bonds have been issued for school construction, except a portion of the 2010 Series N Bonds, which refunded the 1997 Series A Bonds. The 1997 Series A Bonds included $1.25 million to finance an addition to and renovation of the Noel Wien Library.

As of May 1, 2012 total gross direct debt, including the Bonds, is $126.0 million. Table 12 also shows direct and total Borough debt in relation to the Borough's net taxable assessed valuation (NTAV). As Table 12 shows, $86.5 million of the Borough's direct debt (68.6 percent) is eligible for state reimbursement. The underlying debt applies only to property owners in the cities of Fairbanks and North Pole, which represent 35 percent of Borough total NTAV.

In addition to the debt included in Table 12, the Borough has outstanding leases totaling about $1.15 million as of June 30, 2011.

Table 12 ■ Fairbanks North Star Borough
Direct and Underlying Bonded Debt

	Applicable	May 1, 2012
Direct Debt		
Outstanding school and library bonds	100%	$114,540,000
Series R Bonds	100%	11,500,000
Total gross direct debt		126,040,000
Less: School bonds eligible for state reimbursement		86,498,423
Total net direct bonded debt		$39,541,577
Direct and Underlying Debt		
Underlying debt:		
City of Fairbanks	100%	$1,685,000
City of North Pole	100%	1,672,470
Less: City of Fairbanks bonds eligible for state reimbursement	100%	(1,685,000)
Direct debt		126,040,000
Total gross direct and underlying debt		127,712,470
Less: School bonds eligible for state reimbursement		86,498,423
Total net direct and underlying bonded debt		$41,214,047
Taxable assessed value		$7,768,493,733
Ratio of Direct Debt to Assessed Value		
Gross $126,040,000		1.62%
Net 39,541,577		0.51%

Source: Prepared by Bartle Wells Associates from information supplied by the Borough

Table 2 in the section entitled "State Aid to Education," shows total debt service on a fiscal year basis for all outstanding Borough bonds, including the Bonds. The Borough has paid all bond interest and principal promptly when due. Tables 2 and 12 also display the effect of state reimbursement on the Borough's debt service payments. With full funding of the debt service reimbursement program, the Borough's net local cost will be less than one-third of its total annual debt service through the life of the Bonds.

Borough Tax Limitation

At the October 1987 regular election, Borough voters approved a tax cap proposition, which voters must renew every two years to avoid legislative action. In October 1996, Borough voters approved a change in the property tax cap to require inclusion of other tax revenues within the tax cap computation and to require publication of tax cap computations by May 31 of each year. This measure limits the amount of taxes that the Borough can levy to the prior year's tax levy with certain permitted adjustments. Voters have re-approved this measure every two years, most recently in 2010. The prior year's total taxes levied can be adjusted to:

- pay debt service on bonds;
- adjust for increases due to inflation as measured by the Consumer Price Index-Anchorage;
- account for new construction and property improvements;
- pay for new services approved by the voters;
- pay for legal judgments against the Borough; and
- pay for expenses in emergencies.

The 2011/12 budget is $8,894,500 below the areawide maximum property tax. Under the current tax cap, one year's actual tax levy is the beginning basis for the following year's limit. Levying less than the full amount permitted reduces future caps, except for amounts used from fund balance that were designated as tax reductions for one year.

Budgetary Process

The budget process includes several steps, starting with the submission of initial budget recommendations from Borough departments to the mayor, who reviews the submissions and makes changes. According to Borough ordinance, the mayor's recommended budget must be presented to the Assembly on or before the first Thursday following April 1 of each year. At least one public hearing must be held. The Assembly adopts the budget and appropriates funds by passing an appropriating ordinance by May 31. In addition to its Comprehensive Annual Financial Report awards, every year since 1989/90 the Borough has been awarded the GFOA Distinguished Budget Presentation Award for its annual budget document. In order to receive this award from GFOA, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications device.

Fiscal Policies

The Borough manages its finances in compliance with a variety of Assembly-adopted fiscal policies, including the following:

I. Operating Budget Policies

A. All general government current operating expenditures are to be paid from current and from excess revenues. The Borough will avoid budgetary and accounting procedures that balance the current budget at the expense of meeting future years' obligations. The use of one-time revenues for on-going operations will not be encouraged.

B. All budgetary procedures will conform to existing state law and FNSB Code.

C. The budget development process will examine and effect changes in program delivery responsibilities or management to improve productivity, lower costs, enhance service, and further communication with the public.

D. Where appropriate, the Borough's Boards and Commissions will be encouraged to be involved in the planning, programming, and budgeting process in order that the annual budget best reflects the current requirements of the Borough residents.

E. The Borough's annual operating budget is to reflect known salary and benefits adjustments.

F. The Borough will maintain a budgetary control system to ensure adherence to the budget and will prepare monthly reports comparing actual expenditures to current appropriations.

G. As is practical, the various taxing jurisdictions, special functions, and operating and capital grant projects will be charged for the services received from general government.

H. If it becomes apparent that revenue shortfalls or extraordinary expenses will create a deficit, efforts will be made first to reduce the deficiency through budgetary management techniques. On an exception basis and not depleting the fund balances to an inappropriate level, the use of existing reserve funds may be recommended to cover revenue shortfalls.

I. Debt will not be used to cover current operating expenses.

J. The Borough is expected to continue its scheduled level of facility maintenance and replacement of its facilities and equipment in order to maintain its facilities and equipment in good operating condition.

II. Revenue Policies

A. The Borough will attempt to develop a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source.

B. The Borough will aggressively seek Federal and State grants, with a target emphasis to capital improvements funding.

C. The voter approved tax limitation (tax caps) will be conservatively applied.

D. Additionally, whenever possible, other revenue sources will be designed or modified to include provisions to automatically allow the collections to grow at a rate that keeps pace with the cost of providing the service.

E. The Borough will endeavor to pursue that the Borough receives a fair proportion of all State shared taxes and revenue.

F. The Borough will take all cost-effective actions available to collect delinquent revenues.

G. The Borough will set fees and rates for each enterprise fund (e.g. Transportation - except Transit Operations, Community Activity Center, Solid Waste Disposal), at a level that as fully as possible supports the total direct, indirect, and capital costs of the activity.

H. Investment income, including interest earnings, is allocated to the funds and accounts provided for in the FNSB Code on the basis of cumulative, month-end cash equity balances.

III. Reserve Policies

A. Adequate reserves shall be maintained for all known liabilities, including employees' leave liabilities, workers' compensation liabilities, and self-insured retention limits.

B. The Borough will endeavor to maintain a reserve in each operating fund to cover cash flow requirements, normal variance in revenue and expenditure estimates, abnormal variance in state revenue estimates versus state appropriations, potential for unreserved litigation expenses and judgments, and expenditures of an emergency nature. The target amount of reserves for operating funds with expenditure levels in excess of $500,000 is 7 to 10 percent of the prior year's expenditure level (approximately one month's cash flow); the target amount for each operating fund with expenditure levels of less than $500,000 is 20 percent of the prior year's expenditure level (approximately 90 days' cash flow).

   The amount of the reserve requirement will be reviewed annually and may be increased by the amount necessary to meet future identified, one-time, and specific expenditures requiring the accumulation of funds over a given period.

IV. Debt Policies

A. Tax and revenue anticipation borrowing shall be consistent with state and federal laws and regulations.

B. Under Alaska law, the Borough may issue general obligation bonds, revenue bonds, and assessment bonds. To date, it has issued only general obligation bonds. General obligation bonds may be issued without limitation upon approval by a majority of Borough voters. There are no constitutional or statutory debt limitations under Alaska law, but the voters must approve all general obligation debt.

   The issuance of long-term debt will be only for construction and acquisition of land, capital improvements, or equipment when the useful life of the asset will exceed the term of the debt.

C. Debt financing will not be considered appropriate for current operating or maintenance expenses or for any recurring purposes.

D. Debt financing based on a project's revenue generating capacity will be used only when the project revenues or other identified revenue sources are sufficient to service the debt.

E. The Borough will endeavor to consolidate small debt issues or financing of equipment through lease-purchase financing to the maximum extent possible in order to obtain the lowest market rate of interest.

F. When the Borough obtains debt financing on behalf of or benefiting a third party (as with a special assessment district) such debt will be issued in conformance with existing Borough priorities and policies without contingent liability of the Borough and with all costs of issuance and administration fully reimbursed. When the Borough obtains debt financing on behalf of or benefiting a third party (non-Borough entity), the Borough will charge a debt issuance fee to cover the cost of the administrative time required in preparation of the issuance, in addition to the cost of issuance.

G. The Borough's preference is to issue fixed-rate long-term debt with level debt service. Other debt service structures may be considered if an economic advantage is identified for a particular project. The Borough's preference is to place the debt through a public bid process. It is recognized that a sale through negotiation may be considered due to fluctuating market conditions, time constraints, size, or nature of the issue.

H. The Borough will actively endeavor to maintain a minimum bond rating objective for all debt issues with at least two rating agencies. Credit enhancements will be used to achieve higher ratings when there is an economic benefit.

Investments and Investment Practices

The Borough invests its ending daily cash balance in accordance with an overnight repurchase agreement, which normally results in a zero bank balance. The overnight repurchase agreement is collateralized by securities held in the Borough's name.

Borough Code Section 3.04 specifies the following authorized investments and maximum maturity schedule:

- U.S. Treasuries - 5 years;
- other obligations guaranteed by the U.S. Government or its agencies and instrumentalities - 5 years;
- repurchase agreements of securities specified above, subject to qualification of the financial institution and specified margin requirements - 5 years;
- collateralized certificates of deposits and other deposits - 5 years;
- bank or credit union deposits insured by FDIC, NCUA, or FSLIC - 5 years;
- bonds or notes of any state or political subdivision thereof, rated A or higher - 5 years;
- prime commercial paper graded A1/P1 or higher - 270 days;
- prime bankers acceptances of the fifty largest international banks - 180 days;
- money market mutual funds consisting entirely of instruments specified above, maturity date not applicable; and

- the Alaska Municipal League Investment Pool, Inc., created in accordance with AS 37.23.020.

The Borough's Code also establishes an Investment Advisory Committee, composed of at least five members serving three-year terms. Members cannot be elected officials or Borough employees, and neither Investment Advisory Committee members nor members of their immediate families, can be an officer, director, employee, or have a substantial financial interest in any financial institution listed on the Borough's qualified bidders list.

The Committee reports annually to the Assembly on the status of the Borough's investment program, its compliance with Borough Code Section 3.04, and the outlook for future investments. The Committee makes recommendations and suggestions to the mayor and Assembly for the conduct and improvement of the Borough investment program. The Committee also consults with the mayor concerning the adoption of administrative procedures and internal controls needed to implement the investment code.

Risk Management and Insurance

The Borough's risk management program includes both the Borough and the School District. The program employs a combination of insurance provided by commercial carriers, and self-insured retention amounts. Commercial insurance with small deductibles is secured for the following coverages: auto, general liability, and property for fire service areas; general liability for road and street light service areas; physical damage to Borough vehicles; employee life insurance; and employee fidelity bonds. The program self-insures some portion of the following risk exposures: employee and dependent medical, auto and general liability, workers' compensation, errors and omissions/public officials, property, and employment practices. Commercial insurance has also been obtained for excess coverage above self-retention limits for all risk exposures except environmental. Settled claims have not exceeded commercial coverage in any of the past four fiscal years.

Management Discussion

The Borough has consistently funded a Facilities Maintenance Reserve Fund, a sinking fund for facilities maintenance. The Borough maintains over three million square feet of facilities in an extreme environment. Using annual revenues and reserves from this fund, the Borough is able to complete outstanding maintenance requirements. About $31.9 million has been deposited in the fund since its creation in 1999. The reserve currently has approximately $1.6 million available for appropriation to facility maintenance.

The Borough also created a Vehicle and Equipment Fleet Internal Service Fund (VEFF) within the Transportation Department in 1999 to serve as a revolving fund for vehicle and equipment replacement. The fund has stabilized annual cash requirements and has allowed the Borough to keep its fleet of vehicles and equipment in a well-maintained state in a cost effective manner with minimum downtime. Further, the VEFF program allows for better cost allocations to Borough functions, thus improving management decision-making. In 2004 the Borough created the Asset Replacement Reserve Fund (ARRF). The purpose of ARRF is to fund replacement of equipment and host-based software during the fiscal year that was not otherwise specifically budgeted. Over $1.8 million has been deposited in this fund since its creation.

Though the Borough annually issues over 800 W-2's to its entire workforce, it currently employs about 398 benefit-eligible people, of which approximately 94 percent are covered by a collective bargaining unit. Current agreements are valid through June 30, 2012 for two of the bargaining units. The third bargaining unit is newly formed and is in the initial phase of negotiating a contract.

Substantially all regular employees of the Borough and of the School District component unit are either members of the Alaska Public Employees' Retirement System (PERS) or the Alaska Teachers' Retirement System (TRS). PERS consists of a defined benefit plan (Tiers I, II, and III) and a defined contribution plan with a component of defined benefit post-employment healthcare (Tier IV). The defined benefit plan is closed to new members. Eligible employees who first enter PERS after June 30, 2006 participate in the defined contribution plan. Contribution and benefit provisions for both plans are established by State law and may be amended only by the State Legislature.

In April 2008, State legislation was enacted changing the PERS defined benefit plan from a single agent, multiple-employer plan to a cost-sharing, multiple-employer plan. The legislation was enacted to correct a current under-funded status. Effective July 1, 2008, the employer contribution rate is statutorily set at 22.0 percent. When the normal cost rate is less than 22.0 percent, the excess is applied to the past service liability of the plan. When the normal cost rate combined with the past service cost rate exceeds 22.0 percent, the state pays the difference between the 22.0 percent employer rate and the actuarially-determined rate.

The Borough is in compliance with all applicable, effective Governmental Accounting Standards Board statements with issuance of the FY 2011 comprehensive annual financial report. The Borough received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year ended June 30, 2010.

During the current national and global recession, the Borough's economy, while showing some signs of strain, continues to hold its own. The Mayor is actively engaged with Borough issues and is proactive in encouraging employment, business, and economic development.

The Borough continues to be the service center for northern and interior Alaska. Commercial construction over the last several years has included new branch bank locations, hotels, restaurants, office/medical buildings, and a variety of retail stores.

A gold find at Livengood (north of Fairbanks) is deemed to be one of the largest new discoveries in the world in the past decade. A mine there could be operational in five to six years. In addition, Fort Knox gold mine bucked the nationwide trend and forged ahead on major exploration and expansion projects this last year.

While BP and Conoco Philips chose to redirect their current interests from Alaska oil, citing concerns over the voter approved change in taxation, Exxon Mobil began exploration drilling at the Point Thompson gas field in December 2009. If successful, the firm estimates it could begin producing gas from the wells in 2014. The in-state gasline, Alaska Stand-Alone Gas Pipeline (ASAP), created by state law in 2009, continues to move forward with the Alaska Department of Natural Resources. The ASAP right of way lease application has been approved for the full route for up to a 24-inch diameter natural gas pipeline with a 24-inch branch line to Fairbanks. This project is scheduled to be completed by 2018.

As the nation looks at alternative energy sources, Alaskans have been looking at the State's rich resources. Natural gas, propane, coal, geothermal power, and wind power are some of the areas of greatest interest and funding. Denali Education Center in Denali Park became a test site for using a solar thermal system to heat water and reduce fossil fuel consumption. Alaskans' energy costs are very high and the need to reduce the costs is important for individuals and businesses. The University of Alaska has received $4.6 million for geothermal research. Chena Hot Springs, 50 miles northeast of Fairbanks, has become a hub for researchers to see how a resort can be self-contained energy-wise, by using geothermal technology. GVEA, the electrical utility serving the Borough and most of the interior of Alaska, approved on June 27, 2011 a 24 megawatt wind generating project, the Eva Creek Wind Project, which will be the largest wind project in Alaska and the first by any Railbelt utility. As the Eva Creek project comes online, GVEA projects that the project won't require rates increases and estimates user savings of about $13.6 million over the next 20 years.

SCHOOL DISTRICT FINANCES

The School District is included as a component unit in the Borough's Comprehensive Annual Financial Report and issues its own Comprehensive Annual Financial Report to ensure compliance with DEED and Borough GAAP-based audit requirements. The School District's financial reports have received awards for excellence in reporting from both the Government Finance Officers Association and the Association of School Business Officials (since 1991). The School District must adhere to specific reporting procedures in order to receive revenue under the state foundation program.

The School District accounts for all funds using the modified accrual basis with the exception of its risk management internal service fund, which is accounted for on a full accrual basis, in accordance with generally accepted accounting principles. The School operating fund accounts for all revenues and expenditures applicable to the District's general operations, and the special revenue funds account for legally restricted revenue. The School District only accounts for capital projects directly contracted and funded through state or federal agencies. The majority of school construction projects are accounted for on the Borough's books.

Table 13 shows five years of School District operating fund revenues and expenditures.

Table 13 ■ Fairbanks North Star Borough School District Operating Fund Revenues and Expenditures

	2006/07	2007/08	2008/09	2009/10	2010/11
Revenues					
Borough appropriation	$40,022,700	$42,222,700	$44,222,700	$43,339,901	$45,299,502
Local sources	940,657	845,985	669,383	732,818	1,071,607
State sources (1)	91,479,160	122,430,200	121,216,124	129,952,827	135,862,553
Federal pass-through	371,249	412,090	0	0	0
Federal sources	11,405,933	11,118,081	9,596,676	12,022,690	14,442,420
Total revenues	144,219,699	177,029,056	175,704,883	186,048,236	196,676,082
Expenditures and net transfers					
Instruction	88,801,574	106,336,057	106,111,390	111,810,917	115,578,281
Supporting services	36,482,346	42,390,696	45,971,090	47,275,449	52,941,604
Operation and maintenance	20,039,480	21,775,769	22,049,314	22,678,492	24,153,731
Student activities	2,204,195	2,405,649	2,488,308	2,519,510	2,634,885
Debt service	0	0	0	0	601,883
Net transfers out/(in)	(471,089)	2,148,898	1,479,641	1,453,030	1,552,370
Total expenditures	$147,056,506	$175,057,069	$178,099,743	$185,737,398	$197,462,754

Source: Fairbanks North Star Borough School District Comprehensive Annual Financial Reports
1 - Increase in state sources in 2007/08 due to State "on behalf" payments to PERS and TRS retirement system. Revenue is offset by recording expenses.

Of the District's $196.7 million operating fund revenues in 2010/11, State funding provided about 69 percent and the Borough and other local sources provided almost 24 percent. The balance (over 7 percent) was provided by Federal sources. The State

reduces foundation formula funding by a percentage of the amount received from the federal government.

Of note, the large increase in revenues (and offsetting expenditures) between 2006/07 and 2007/08 was due to increases in State "on behalf" payments for PERS and TRS retirement systems.

School District Budget

Table 14 shows the District's 2010/11 and 2011/12 operating fund budgets. The School District establishes its final budget following action by the Borough Assembly setting the local funding level. If the School District's local funding request is fully funded by the Borough, the budget process is complete. If not, the School Board must adjust its budget based on the local contribution.

Table 14 ■ Fairbanks North Star Borough School District Operating Fund Budget

	2010/11	2011/12
Revenues		
Borough appropriation	$46,522,700	$47,359,300
Local sources	1,112,000	1,109,000
State sources		
Foundation funding	112,927,380	112,429,150
TRS and PERS on-behalf payments	22,614,950	25,646,580
Other (1)	1,854,030	4,006,290
Federal sources	10,211,110	13,985,250
Fund balance utilization	7,726,910	2,079,820
Total revenues	202,969,080	206,615,390
Expenditures		
Instruction	120,283,152	121,305,001
Supporting services	52,513,438	54,970,857
Operation and maintenance	24,692,547	25,927,471
Student activities	2,810,633	2,803,371
Transfers to other funds	2,669,310	1,608,690
Total expenditures	$202,969,080	$206,615,390

Source: Fairbanks North Star Borough School District 2011/12 Approved Budget

1 - Includes $2,137,890 one-time state supplemental aid funding in 2011/12.

The School Board is solely responsible for the allocation of its resources to programs. The Borough Assembly cannot veto individual expenditure items in the School District budget. The School District budget must balance after the Borough appropriation is finalized. Consequently, school services are affected by the policies of both the Borough Assembly and the School Board.

State statute requires that the School District submit its budget to the Commissioner of the State DEED by July 15.

The Borough's Code of Ordinances states that the School District may carry over from one year to the next unreserved local appropriation fund balances, not exceeding seven percent of the local contribution to education for the fiscal year. The first 28.5 percent of the total annual lapse shall, to the extent permitted by law, lapse to the Borough's School District facilities reserve fund for the purpose of major maintenance, repairs and upgrades of Borough School District facilities.

GENERAL AND ECONOMIC DATA

Location, History, Climate

The Borough lies in the Tanana River Valley in the interior of Alaska. It is bounded on the north by the foothills of the White Mountains. The Alaska Range, which includes Mt. McKinley (elevation 20,300 feet), is about 150 miles to the south, and the Arctic Circle is about 125 miles to the north. The City of Fairbanks is about 260 air miles north of Anchorage.

The Borough covers 7,361 square miles in central Alaska. About one percent of the land is developed for urban, residential, agricultural, or other purposes. Two first-class cities are located within the Borough - Fairbanks and North Pole. Developed, non-military land in and around the cities totals about 35 square miles.

The City of Fairbanks was founded in 1901, after the discovery of gold in the area. A U.S. District Courthouse was established in Fairbanks in 1904. In 1923, Fairbanks became the northern terminus of the Alaska Railroad, which links the city to the seaports of Anchorage, Seward, and Whittier. The railroad provided Fairbanks with a dependable, year-round transportation and communication system, enabling it to become the distribution center for central and northern Alaska.

In 1924, Noel Wien completed the first nonstop flight between Anchorage and Fairbanks in 3 hours and 45 minutes, a trip that took two days by train. At that time, Alaska was a nearly roadless territory, and settlements were widely scattered. Air transportation has played a vital role in Alaska ever since.

World War II further opened Alaska's Interior region. The construction of the Alaska Highway, terminating in Fairbanks, established the State's strategic importance. Military and defense establishments constitute an important segment of the Borough's economy. Fort Wainwright Army Post and Eielson Air Force Base are located within the Borough.

In 1968, oil and gas reserves were discovered on Alaska's North Slope, north of the Borough. The Borough was the staging, service, and supply center for the construction of the trans-Alaska pipeline. The discovery of oil and the construction of the transmission pipeline accelerated growth in nearly all sectors of the Borough's economy from 1974 through 1977. Two refineries operate within the Borough.

Fairbanks weather is continental interior, meaning lots of sun and very definite seasons. Winter extremes of -40 degrees (Fahrenheit) are balanced by summer days in the 70's and 80's. The average winter runs from October, with the first snowfall, through breakup in April, when the snow melts. Average winter temperature is -13 degrees. There is very little wind in Fairbanks, particularly during cold winter days. From November to March, daily sunshine ranges from four to ten hours. During June and July, the sun is above the horizon for 18 to 21 hours per day. Although total annual precipitation averages less than 11 inches, winter snowfall averages 65 inches.

Population and Housing

Table 15 shows the populations of the Borough, the cities of Fairbanks and North Pole, and the State of Alaska. Since the 2000 census, the Borough's population has increased by nearly 18 percent.

The Alaska Department of Labor population for the Borough in 2011 is 97,615. The City of Fairbanks has 30,547 inhabitants and the City of North Pole has 2,115. Years 1970, 1980, 1990, 2000, and 2010 are actual census counts; figures for intervening years are estimated by either the Alaska Department of Commerce or Labor.

Table 15 ■ Fairbanks North Star Borough Population

Year	Borough[1]	City of Fairbanks[2]	City of North Pole	State of Alaska
1970	45,864	18,053	265	302,583
1980	53,983	22,645	724	401,851
1990	77,720	30,843	1,456	550,043
1995	81,797	32,386	1,540	601,581
1996	82,435	31,633	1,523	605,212
1997	82,278	31,850	1,631	609,655
1998	83,928	31,601	1,619	617,082
1999	83,773	31,697	1,616	622,000
2000	82,840	30,215	1,570	626,932
2001	83,872	29,611	1,474	632,716
2002	85,860	29,941	1,612	641,729
2003	83,714	29,156	1,617	649,466
2004	87,555	30,402	1,548	659,653
2005	90,381	31,478	1,624	667,146
2006	90,953	30,580	1,675	674,583
2007	95,354	32,266	2,013	680,169
2008	96,423	31,694	2,233	686,818
2009	96,631	32,346	2,199	697,828
2010	97,581	31,535	2,117	710,231
2011	97,615	30,547	2,115	722,190

Source: State of Alaska Deptartment of Labor and Workforce Development
1 - Includes Fairbanks, North Pole, Fort Wainwright, and Eielson AFB.
2 - Includes population living on Fort Wainwright.

As of September 30, 2011, the number of military personnel and family members totaled 21,674, about 22.2 percent of the total Borough population. (See also: Military section)

Table 16 shows the number of residential housing units sold and the average price per unit since 2007. Housing sales have fluctuated annually from 2007 to 2011. Sales dipped by nearly 300 units in 2011. However, during this entire period, housing prices have remained relatively constant.

Table 16 ■ Fairbanks North Star Borough Residential Housing Sales

	Units Sold	Average Unit Price
2007		
1st Quarter	206	$222,600
2nd Quarter	272	224,000
3rd Quarter	289	224,900
4th Quarter	243	216,100
	1,010	
2008		
1st Quarter	154	218,400
2nd Quarter	260	220,700
3rd Quarter	278	216,000
4th Quarter	173	197,600
	865	
2009		
1st Quarter	101	226,300
2nd Quarter	217	214,900
3rd Quarter	287	219,100
4th Quarter	271	215,700
	876	
2010		
1st Quarter	137	201,300
2nd Quarter	274	227,000
3rd Quarter	256	223,500
4th Quarter	269	207,400
	936	
2011		
1st Quarter	165	226,000
2nd Quarter	211	218,900
3rd Quarter	174	215,100
4th Quarter	89	221,500
	639	

Source: FNSB Community Research Quarterly, Winter 2011

As with many areas in the country, the Borough has seen an increase in notices of default and foreclosures. Table 17 summarizes the default notice and foreclosure activity in the Borough over the last five years. Foreclosure activity peaked from approximately 70 per year in 2007 to just over 180 in 2009. Foreclosures dropped in 2010 and again in 2011.

With over 35,000 total housing units in the Borough, the rate of foreclosure activity remains very low compared to other parts of the country.

Table 17 ■ Fairbanks North Star Borough Notices of Default and Foreclosures

	2007	2008	2009	2010	2011
Notices of default	124	195	202	194	205
Foreclosures	69	102	181	165	144

Source: FNSB Community Research Quarterly, Winter 2011

Cities

Fairbanks: The City of Fairbanks, with a 2011 population of 30,547, is the largest in the Borough and the second largest in the State, after Anchorage. Fairbanks is located at the confluence of the Chena and Tanana Rivers and has long served as the trade, transportation, medical, government, education, finance, services, and information center for the interior and northern regions of Alaska. It is a transfer point for materials arriving by rail to the terminus at Fairbanks and continuing on to the North Slope over the Dalton Highway. The urbanized area of the City of Fairbanks covers about 10.5 square miles.

North Pole: North Pole is located 11 miles southeast of Fairbanks, and is the only other incorporated city in the Borough. The city's major industry is the Flint Hills Resources, a division of Koch Industries, Inc., a refinery which produces heating oil, jet fuel, and gasoline from North Slope crude oil.

Employment

Table 18 shows a five-year history of civilian employment by industry segment. The Alaska Department of Labor estimates average 2011 employment at 39,000, an increase of about 0.5 percent from the previous year.

Table 18 ■ Fairbanks North Star Borough
Average Annual Civilian Employment (by Industry)

Industry	2007	2008	2009	2010	2011
Mining and logging	1,000	1,100	1,100	1,100	1,300
Construction	2,800	2,800	2,500	2,700	2,500
Manufacturing	700	700	700	600	600
Trade/Transportation/Utilities	7,800	7,800	7,700	7,700	7,700
Information	600	600	500	500	500
Financial activities	1,600	1,500	1,600	1,500	1,500
Professional and business services	2,300	2,400	2,200	2,400	2,500
Educational and health services	4,200	4,400	4,600	4,900	5,000
Leisure and hospitality	4,300	4,200	4,000	4,100	4,100
Other services	1,300	1,200	1,200	1,200	1,300
Government					
Federal government	3,500	3,500	3,500	3,500	3,500
State government	5,200	5,200	5,300	5,500	5,500
Local government	3,200	3,200	3,200	3,300	3,300
Total	38,500	38,600	38,100	38,900	39,000

Source: State of Alaska Department of Labor and Workforce Development, Current Employment Statistics (CES)
Totals may not add due to rounding.

Table 19 lists the largest civilian employers in the Borough. New reporting requirements prohibit the release of exact employment data without consent, so ranges are given instead. The rankings, however, do reflect the exact number of employees.

The largest individual employers are government related.

Table 19 ■ Fairbanks North Star Borough Largest Employers, 2010

Employer	Business Activity	Employees[1]
Federal government[2]	Government	1,000 - 3,500
University of Alaska Fairbanks[3]	Education	1,000 - 3,500
Fairbanks North Star Borough School District	Education	1,000 - 3,500
State government[4]	Government	1,000 - 3,500
Banner Health[5]	Hospital	1,000 - 3,500
Sam's Club/Wal-Mart	Grocery/Retail	500 - 749
Fred Meyer Stores Inc.	Grocery/Retail	500 - 749
ASRC Energy Services - Houston Contracting	Oilfield services	250 - 499
Fairbanks North Star Borough (FNSB)	Government	250 - 499
Fairbanks Gold Mining, Inc. (Fort Knox)	Mining	250 - 499

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section
1 - Federal regulations prohibit the release of exact employment numbers without consent. The rankings, however, are based on actual employment figures.
2 - Excludes military uniformed personnel.
3 - Student employment not included.
4 - State government is total except for the University of Alaska.
5 - Fairbanks Memorial Hospital/Denali Center/Tanana Valley Clinic.

Government Sector: The Federal government, including civilian employees at both Fort Wainwright Army Post and Eielson AFB, is the largest employer in the Borough. The University of Alaska Fairbanks (UAF) is the second largest. UAF accounts for approximately 65 percent of state employees within the Borough. In total, over 30 percent of employment in the Borough is with Federal, State, and local government agencies.

Retail and Leisure/Hospitality Sectors: The trade, transportation, and utilities sector is the largest provider of non-government employment. About 7,700, or 20 percent, of all employment is in this sector. This includes about 4,600 retail jobs. The leisure and hospitality sector employs 4,100 people, and includes food service and hotel employment.

Other Employment: The largest non-governmental employers include the Banner Health System (which runs Fairbanks Memorial Hospital, Denali Center, and Tanana Valley Clinic), Sam’s Club/Wal-Mart, and Fred Meyer stores.

Unemployment

Prior to the recent national recession, Alaska's unemployment rate consistently ran higher than the national average. However, it has been lower than the national average since 2009. The Borough's unemployment rate has consistently been lower than Alaska's unemployment rate. The Borough's 2011 unemployment rate stood at 6.7 percent, the lowest level since 2008.

Table 20 ■ Fairbanks North Star Borough Unemployment Rate: FNSB, Alaska, and United States[(1)]

	2005	2006	2007	2008	2009	2010	2011
Fairbanks North Star Borough MSA	5.8%	5.6%	5.3%	5.8%	7.1%	6.9%	6.7%
Alaska	6.9%	6.5%	6.1%	6.4%	7.8%	8.0%	7.6%
United States	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	9.0%

Source: State of Alaska, Department of Labor and Workforce Development and US Department of Labor, Bureau of Labor Statistics

MSA = Metropolitan Statistical Area

1 - Annual averages.

Military

The military installations close to Fairbanks continue to be a strong part of the Borough economy, and the community works hard to keep officials aware of the strategic advantages of the Fort Wainwright and Eielson facilities.

Fort Wainwright Army Post: Fort Wainwright (FWW), formerly known as Ladd Army Air Field, was built in 1941 as a cold weather test station and is comprised of 916,000 acres. During World War II, it served as the transfer point for nearly 8,000 aircraft transferred from the U. S. to the Soviet Union. Ladd Airfield was transferred to the Army in 1961. The current base footprint is 1.1 million acres extending to the east and south of Fairbanks.

In 2003, First Stryker Brigade Combat Team (SBCT 1) 25th Infantry Division composed of 3,600 men was assigned to Fort Wainwright. SBCT 1 is one of four Stryker Brigades being deployed as a crucial step in the Army's efforts to transform its forces into rapidly deployable, sustainable and survivable force units. The SBCT is an infantry-centric unit that can deploy anywhere in the world within 96 hours, and is built around a medium-weight 19-ton Stryker combat vehicle. A rapid deployment force of infantry occurs at the nearly decade old Joint Mobility Center on nearby Eielson Air Force Base. Both the Army combat and medic helicopters along with ground based troops rapidly load out in C-17 aircraft, taking advantage of Fairbanks' strategic position in having the shortest flying distances to most conflicts.

The Army now uses SBCTs as a prototype for the future of the entire Army, a transformation that has taken place over the last decade, making SBCT 1 (and by extension, Fort Wainwright) an important element in the Army's force structure. A strategic decision has been made that medium-weight units such as the SBCT will be more valuable assets in the new global security environment than the current mix of light-weight infantry units, which can be delivered to a theater quickly but do not have staying power against enemy armor, and heavy-weight armor units, which cannot be rapidly deployed. The SBCT concept is to combine the rapid deployment abilities of light-weight forces, with the strength and counterattack survivability attributes of heavy-weight forces. To that end, recent military construction appropriations have provided a new railroad load-out facility for rapid deployment to tidewater valued at more than $25 million. The President's recent "Sustaining U.S. Global Leadership: Priorities for 21st Century Defense" called for major importance on responding to and maintaining military superiority in the Asia – Pacific regions while reducing the importance of United States (US) forces in the European region. Following the buildup of the SBCT, the Army placed a helicopter Combat Aviation Brigade (CAB) on FWW army post. All these units have deployed several times to Iraq and Afghanistan and are in the process of returning to FWW. There is no repositioning of Army forces expected during this redeployment back to Alaska. The Secretary of the Army has stated during a 2012 visit that Alaskan Army strength will not be reduced and could be increased in Alaska with this new emphasis.

Eielson Air Force Base: Eielson Air Force Base (Eielson AFB) is located 26 miles south of Fairbanks and consists of 22,035 acres with access to an additional 40,000 acres. Originally built in 1944 as an auxiliary weather-alternate field for Ladd Army Field, the base was known as Mile-26-Strip. After being mothballed at the end of World War II, the base was reopened in 1946 and transformed into a large bomber base because of the onset of the Cold War. Eielson AFB is home to the 354th Fighter Wing, 18th Aggressor Squadron, 353rd Combat Training Squadron, and the 168th Air Refueling Wing.

Eielson AFB is the main base for "Red Flag - Alaska" exercises; these exercises utilize the Allies' largest instrumented air force training space in the world. This controlled area provides real fire and aerial combat dog fight simulations over 111,000 square miles of designated air space, including low altitude flying for about 3,600 U.S. and international participants, with more than 9,000 troops from all branches of the military participating. This air space surrounding Eielson, known as JPARC (Joint Pacific Alaska Range Complex) includes live fire ocean area in the Gulf of Alaska. The opportunity to host four international events for fighter squadrons of Allied air forces in North America this year is unique to Eielson AFB. The availability of unscheduled and unreserved flying time is the main reason for Eielson to be the home base for these tactical pilot training and qualifying opportunities. Eielson has recently received military construction appropriations and will begin the replacement of 2 of the 5 combined heat and power coal fired boilers to ensure more efficient energy usage, lowering the base operational costs. A contract signing is expected to place most of the base housing under a privatized agreement similar to most other bases.

Currently, the US Air Force (AF) force restructuring documents have proposed to relocate 191 F-16 training squadron and approximately 668 AF personnel to Anchorage. A site assessment team (SATAF) will visit Eielson in April 2012 to fully evaluate the proposed action for operational feasibility and budgetary savings that were proposed in February 2012. The 168th Air National Guard Refueling Wing will remain on base continuing their mission to provide the Air Force's "Pacific Air Bridge", utilizing the nine KC-135 refueling air tankers and Eielson's almost 24 million gallons of jet fuel, with mid-air refueling for military aircraft. During Red Flag operations several hundred fighter aircraft require many Air Guard refueling operations. Eielson AFB is expected to issue a privatized housing contract in July 2012 similar to those at other US bases. Most family housing will be under this contact. The renovation of the oldest base dormitory facility is funded but currently on-hold. Other on-base facilities are available for the Red Flag international pilots, allowing lower cost exercises as military budget reductions are considered. Additionally, a new morning and evening Fairbanks / North Pole / Eielson / Salcha express bus service began in March 2012 serving the Eielson AFB military families along with the civilian workforce with cost-saving transportation options.

Table 21 shows military personnel and family members at Fort Wainwright AP and Eielson AFB. As of September 30, 2011, 7,736 military personnel and 9,097 family members were stationed at Fort Wainwright. During the same period, 1,887 military personnel were stationed at Eielson Air Force Base, exclusive of the 168th Air Refueling Wing.

Table 21 ■ Fairbanks North Star Borough Military Population

	2007	2008	2009	2010	2011
Fort Wainwright					
Military personnel	5,466	7,214	6,921	6,996	7,736
Family members	8,238	11,940	7,841	8,517	9,097
Eielson Air Force Base					
Military personnel	2,265	2,039	1,867	1,909	1,887
Family members	3,409	3,103	3,071	2,974	2,954

Source: FNSB Community Research Quarterly, Winter 2011

As of the end of the year, except 2011 is for the end of the third calendar quarter.

Health Care

The Fairbanks Memorial Hospital/Denali Center/Tanana Valley Clinic (FMH/DC/TVC) is the Borough's largest employer outside of government and education. The hospital, nursing home, and clinic are managed by Banner Health, a nonprofit health care system operating facilities in Alaska and six other western states. Banner Health employs approximately 1,600 people in the Borough, generating in excess of $80 million in annual gross salaries. FMH/DC/TVC offers a full complement of ambulatory, acute and skilled

nursing services to the approximately 127,000 persons residing in the FMH/DC/TVC service area. The large size of the FMH/DC/TVC service area and the degree of isolation of the residents directly impacts the scope and delivery of health care needed in the region, thereby requiring FMH/DC/TVC to provide a comprehensive scope of services and programs.

The facilities' nonprofit owner, The Greater Fairbanks Community Hospital Foundation, has, through the hospital, made significant steps towards improving quality and access to care for the Fairbanks North Star Borough and the interior region since 1972. Recent community developments include:

- A cardiology cath lab was opened in December of 2007 with the first full year of operation (2008) performing 472 cardiology cath lab cases. In the year ended December 31, 2011, 897 cath lab cases were performed. Additionally, the Harry and Sally Porter Heart Center opened in 2009 accommodating four cardiologists and support services, including echocardiography, nuclear medicine, and cardiac rehabilitation programs all in one setting.

- In July 2008, a newly renovated and expanded emergency department was opened, with 27,000 square feet of modern emergency care space.

- In February 2008, the Foundation purchased the Tanana Valley Clinic, the largest multi-specialty physician clinic in the State, and contracted with Banner Health to operate the clinic. This merger has helped provide access to primary care for Medicare patients and strengthen the community physician recruitment effort in partnership with the hospital and other medical providers.

The Borough is also home to numerous independent physician practices, an ambulatory surgery center, and multiple ancillary care facilities including: physical therapy services, medical laboratories, and medical imaging centers. The US Army (DOD and VA) operates a hospital and clinic on Fort Wainwright serving some of the population of active duty military, dependents, and retirees.

In addition, two significant new medical facilities in Fairbanks are as follows:

- A new $23 million outpatient surgery center opened in November 2010. The 14,000 square-foot surgery center contains two operating rooms, six pre-op rooms, and 16 recovery rooms. It is specifically designed for outpatient surgeries that require less than 23.5 hours of on-site recovery time.

- Groundbreaking was held in May 2011 for a new 100,000 square-foot, $72 million Alaska Native health center, to replace and quadruple the space of the existing Alaska Native health facility. The new health center will provide basic medical care, and possibly limited radiology and physical therapy, to Alaska Natives and American Indians, and will employ roughly 100 people. The facility will be located in

Fairbanks, just west of Fairbanks Memorial Hospital and Denali Center, and is expected to open in 2013.

These new facilities add to Fairbanks' role as the medical center for the central and northern regions of Alaska.

Oil and Gas Industry

Oil Pipeline: The discovery in 1968 of a vast oil and gas region on the arctic North Slope of Alaska marked the opening of another era in the economic development of the state. The 800-mile, $8 billion trans-Alaska pipeline system began transporting crude oil from Prudhoe Bay on the North Slope to shipping facilities in south-central Alaska at Valdez in 1977. The pipeline is permitted for operations through 2034.

The State receives a royalty on all gas and oil production from both state and federal lands; the State receives 90 percent of royalties received by the federal government from leases of federal lands in the state. The proven reserves of the Prudhoe Bay region on the North Slope are within state lease areas. The State's royalty is one-eighth of the oil production, which it may take in-kind or as royalty payments based on the dollar value of the production. Petroleum production activities also provide the State with revenue from oil and gas severance taxes, corporate taxes, and ad valorem taxes on petroleum production and transportation facilities in the state.

Gas Pipeline: The Alaska State Legislature has passed legislation that funds a gas liquefaction plant on the North Slope and local gasification facilities in the Borough. Additionally, legislation has been introduced to establish a low interest loan program for residential gas heating appliance change out to rapidly convert from the predominant fuel oil heating method to lower cost and cleaner natural gas. These combined actions have been shown to provide the short term energy solution residents and commercial operations need, and these energy solutions will be an economic benefit and reduce out of pocket heating expenses.

Three mid-term energy solutions benefiting the Borough's economy have received legislative actions for the proposals and have millions of dollars being authorized and spent on project development, engineering and permitting. Susitna Hydroelectric Watana Dam has more than $75 million in state funding. This electric power project would serve the whole rail belt area with lower kilowatt costs. The Alaska Stand-Alone Gas Pipeline (ASAP) in-state gasline from the North Slope to Cook Inlet, serving Fairbanks with a spur line, currently has over $200 million in state funding plus major legislation authorizing accelerated permitting actions. A less expensive in-state gasline from Cook Inlet to Fairbanks has been added to the ASAP project development. This shorter line could bring an even lower cost natural gas supply to the Borough within 10 years.

For many years, Alaskans have been advocating for world class commercialization of the state's vast natural gas reserves on the North Slope, estimated at 155 trillion cubic feet (mean value), of which 35 trillion cubic feet are known reserves. Key federal incentives for an Alaska natural gas pipeline were obtained in October 2004 when Congress passed

legislation providing for up to $18 billion in loan guarantees, accelerated depreciation, tax credits, and expedited permitting and judicial review.

In October 1999 voters in the Borough, the North Slope Borough, and the City of Valdez approved creation of the Alaska Gasline Port Authority, to develop, own and operate a natural gas pipeline. In November 2002 an initiative was presented to state voters that would create a gas pipeline development authority as a public corporation of the State. This measure received a 61 percent yes vote. In 2010 the North Slope Borough withdrew from the Authority.

In recent years two competing large diameter gasline projects have spent hundreds of millions of dollars developing applications under the Federal Energy Regulatory Commission (FERC). Under the State's Alaska Gasline Inducement Act (AGIA), TransCanada Corporation was approved for a license, qualifying it for special incentives in advancing the construction of a pipeline. In June 2009, ExxonMobil agreed to work together with TransCanada on the project. The State of Alaska Administration awaits the “open season” bidding results for the AGIA process that will determine natural gas binding commitments by shippers and buyers.

The other large diameter gas pipeline project, Denali Alaska gas line project, jointly owned by BP and Conoco-Phillips has closed its offices and ended further work on their large diameter pipeline project.

While the State’s AGIA license issued to TransCananda, and joint-ventured with Exxon, calls for continued work on the proposed Alaska-to-Canada pipeline route traversing land within the Borough and terminating in Alberta, Canada, no open season commitments have been announced. A second open season is considered based on FERC filings. In march 2012 the major producers BP, ConocoPhillips, and Exxon, who currently hold leases for most of the known reserves, have announced their gasline project for a large diameter gasline to Alaska tidewater due to the global natural gas market focused on long-term Asian contracts. This is significant as there has not been a three-producer-based large diameter instate gasline project proposed before for LNG export. There remains high level state and leaseholders’ continued discussions over gas taxes; it is likely gasline project commitments will come with conditions.

An AGIA gasline proposal, either into Canada or for Alaskan export, is an enormous, multi-year undertaking with international, federal, and State regulatory and environmental hurdles to overcome. A project is expected to take, at the earliest, ten years to permit and construct once a complete application is filed with the FERC, which would occur after financing is obtained, secured by the open season commitments.

FNSB Oil and Gas Operations

Two oil refineries are located in the Borough. The Flint Hills Resources (FHR) Alaska refinery (formerly Williams Alaska Petroleum, Inc.) began North Pole operations in 1977. The FHR refinery currently processes about 115,000 barrels per day of crude oil off the trans-Alaska Pipeline System and refines approximately 30,000 barrels per day

into products that are sold in Alaska and Asia. The balance of 85,000 barrels per day is returned to the pipeline. Flint Hills Resources, a division of Koch Industries, Inc., purchased its North Pole refinery on April 1, 2004.

The PetroStar refinery, constructed in 1985, has a capacity of 22,000 barrels per day and supplies jet fuel directly to Eielson Air Force Base and helicopter fuel to Fort Wainwright via a buried pipeline. The refinery produces kerosene, diesel, heating, and jet fuels.

Mining

Gold was discovered in Fairbanks in 1901. The eastern interior region of Alaska, centered at Fairbanks, is not only the state's leading gold-producing region, but also holds potential for the discovery and development of new mines. The proposed gas pipeline has been received warmly by local mining interests, as inexpensive local delivery of natural gas could make new mining operations and techniques economically feasible and allow further extraction of mineral wealth.

As the second largest taxpayer in the FNSB, Fort Knox open-pit gold mine is a world class operation. Original estimates of mine life have recently been extended to 2020 due to the high value of gold and the ability to process lower grade ore. This extension may go out further in time depending on the economic success of the recent $104 million investment allowing for the use of a heap-leaching process that dramatically reduces operational costs.

In addition, the Pogo Mine is located in the Goodpaster District southeast of the Borough and draws its support services, resources and personnel largely from the Borough. This is a below ground mine and its mine life continues to be extended as more resources are found. Corvus Gold Inc. announced that it granted Alix Resources Corp. the right to earn an interest in the West Pogo project. Alix holds the adjoining ground to the north of West Pogo and has indicated that it will be drilling targets on their ground as well as the Corvus block this year.

Future mine development includes the ongoing development of International Tower Hills project in Livengood which is 70 miles north of Fairbanks on the Elliott Highway. A significant amount of drill and assay work indicates that an open pit cyanide heap leach operation like Fort Knox could generate as much as 12.5 million troy ounces of gold. This facility would have to rely on the Fairbanks economy in the same manner and to a larger degree than the Pogo Mine.

Three additional gold ore exploratory drilling operations have occurred within the Borough and, with the continued high value of gold, the results to date show further drilling operations this year to define the extent of economic ore deposits. 1) Miranda Gold Corp. and partner Agnico-Eagle (USA) Ltd. announced approval of a $700,000 2012 drilling program for their Ester Dome project near Fairbanks. 2) Teryl Resources Corp. announced that it intends to explore both placer and lode gold prospects on its Westridge project near Fairbanks. 3) Freegold Ventures Ltd. announced additional 2012 drilling results from its Golden Summit project near Fairbanks. At the Cleary Hill

prospect, drilling designed to fill in the undrilled gap between Cleary Hill and the company's 1.3 million ounce Dolphin deposit intersected significant grade-thickness intervals, including 127 meters grading 0.69 grams-per-metric-ton (g/t) gold, including 21.3 meters grading 1.46 g/t gold.

Usibelli Coal Mine, Inc. (UCM), Alaska's only coal producer, was founded in 1943. It is located about 120 miles south of Fairbanks. Today, the mine has a workforce of about 130 employees and operates year-round. UCM produces approximately 2.0 million tons of ultra-low sulfur subbituminous coal annually with half utilized in interior Alaska power plants to produce electricity and space heat. The remaining tons are shipped by railroad to Seward, Alaska for export to South Korea, South America, and other Pacific Rim destinations.

Capacity exists to double annual production, including a planned mining expansion further south along the Parks Highway, with minimal capital expenditures. UCM has identified a surface mineable reserve of approximately 700 million tons on current lease lands – hundreds of years of available coal at current production levels.

University of Alaska

The University of Alaska Fairbanks (UAF) is the largest single, non-military employer in the Borough, with about 3,400 faculty and staff members. Established in 1917 as the Alaska Agricultural College and School of Mines, UAF's 2,250-acre campus is located about four miles from downtown Fairbanks. UAF is the only doctoral-granting institution in Alaska and the principal research center for the statewide university system. Research expenditures for the Fairbanks campus were $134.1 million in fiscal year 2011.

UAF saw enrollment remain constant for the fall of 2011 compared with the fall of 2010. Concurrently, the number of student credit hours increased 2.6 percent over the previous year. Current capital construction at UAF includes the $108.6 million Life Sciences research and teaching facility. The university also received over $20 million in deferred maintenance funding from the legislature in 2010 and again in 2011. Critical electrical, utility, wastewater, and other facilities infrastructure work will be accomplished with this funding.

In total, UAF has more than a dozen research institutes. The International Arctic Research Center was established in 1999 as a cooperative research institute and is funded by both the U.S. and Japanese governments. The Geophysical Institute was established in 1946 to study geophysical processes from the center of the Earth to the center of the sun. The Arctic Region Supercomputing Center has, since 1993, served the computational needs of researchers throughout the UA system, as well as other academic institutes and federal agencies. UAF has the nation's only university owned and operated sounding rocket launching facility. Poker Flat Research Range is located about 30 minutes from Fairbanks.

Transportation

Fairbanks International Airport is owned and operated by the State. From Fairbanks it is fifty minutes by air to Anchorage, four hours to Seattle, eight hours to Tokyo, eight and one-half hours to New York and nine and one-half hours to London. Several airlines operate passenger and cargo service from the airport. The airport is also used by airplane manufacturers to test new planes for use in cold weather. Table 22 shows a history of passengers, freight operations, and landings at the airport.

Fairbanks International Airport completed a major renovation of its main runway and terminal in 2009. The main runway renovation included paving, electrical wiring, and lighting improvements. The new terminal provides curbside improvements, an expanded ticket lobby, new boarding gates, and other improvements for air travel.

Regarding additional air capacity, since 2004 Japan Airlines (JAL) has offered direct charters serving Fairbanks in late summer and winter primarily for aurora viewing. Winter 2011-2012 is seeing an unprecedented number of 19 total JAL charter flights. In the summers of 2010 and 2011, Frontier Airlines – operating out of its Denver hub – offered regularly scheduled flights to Fairbanks which it will continue in summer 2012. United will enter the market with a flight seven days a week direct to Fairbanks also out of Denver for summer 2012. Condor Airlines has offered a Fairbanks-Frankfurt flight since summer 2001.

Fairbanks is the terminus of the Alaska Railroad, which extends about 480 miles from Seward through Anchorage to Fairbanks. During the summer, the railroad operates daily passenger service between Fairbanks and Anchorage, with a stop at Denali National Park. The railroad's most important role is cargo transportation, primarily coal, fuel, trailer and container shipments, motor vehicles, and heavy equipment. About one-half of the annual coal production from the Usibelli Coal Mine in Healy is shipped north each year by railroad.

Flint Hills refinery in North Pole ships jet fuel south on the railroad. A reduction in demand for jet fuel out of Anchorage created a ripple effect to Fairbanks oil refining and the railroad. The Flint Hills refinery shut down one of its three refining units and the Alaska Railroad had to decrease its operating costs.

Table 22 ■ Fairbanks International Airport Operating Statistics

	2007	2008	2009	2010	2011
Passengers - incoming	494,879	492,964	470,702	466,903	471,911
Passengers - outgoing	472,019	480,380	452,434	462,231	466,326
Revenue landings	24,940	25,678	24,083	24,259	24,627
Freight - incoming (1)	11,197	10,845	13,411	9,903	8,347
Freight - outgoing (1)	41,192	34,723	36,872	33,916	33,565

Source: FNSB Community Research Quarterly, Winter, 2011
1 - Thousands of pounds.

Community Facilities

Education: In addition to the public school system and the University of Alaska, a number of private schools are located in the Borough. Tanana Valley College, a non-baccalaureate part of the university system, offers academic, technical-vocational, and personal-interest programs.

Library: The Borough library system consists of the Noel Wien Library, the North Pole Branch Library, and van delivery service to homebound patrons and small communities throughout the Borough. The Noel Wien Library also provides grant-funded mail library service to northern and south-central Alaska.

John A. Carlson Community Activity Center: The Carlson Center provides space for sports, meetings, and conventions. The center, opened in 1990, is a multi-purpose facility, which can be configured from hockey rink to basketball court to concert seating. The 118,000 square-foot center has a seating capacity of 6,500. The center hosts an average of 250 event days per year (not including ice rentals) with an attendance of 150,000 to 175,000 per year.

Tourism and Recreation

Tourism is of increasing importance to the economic diversity of the Borough. Fairbanks has abundant indoor and outdoor recreational facilities, including swimming pools, downhill and cross-country skiing, hiking and bicycle trails, golf courses, and softball and soccer fields. Community events include the annual Yukon Quest, a Fairbanks-to-Whitehorse, Canada, sled dog race; the North American Sled Dog Racing Championships; Fairbanks Winter Carnival and the World Ice Art Championships; Tanana Valley Fair; and the World Eskimo Indian Olympics. Winter activity and event offerings are robust.

The University of Alaska Museum of the North is also a major year-round visitor attraction. The museum includes Alaskan Native artifacts, botanical and natural history exhibits, and mineral and fossil samples. The museum has a continuous research program. Newer additions to the year-round attraction inventory are the 30,000 square-foot Fountainhead Antique Auto Museum at Wedgewood Resort and the 38,720 square-foot Morris Thompson Cultural and Visitors Center. The newly-configured and expanded Gold Dredge 8 will be introduced in summer 2012.

The 2,200-acre Chena Lake Recreation Area was completed in 1984 by the Army Corps of Engineers as part of the Chena River flood control project. The $190 million project, about 15 miles south of downtown Fairbanks, is the Corps' largest project in Alaska and its only recreation project in the State. Facilities include a 260-acre lake, two campgrounds with 88 campsites, boat launch, swimming beach, playground, volleyball facilities, and numerous picnic areas including three covered pavilions. The park draws about 115,000 visitors annually.

Denali National Park is located about 150 miles south of Fairbanks. The park, open year-round, covers 4.3 million acres and includes Mt. McKinley, the highest peak in North America. Adjoining the park is the Denali National Preserve, covering 1.3 million acres.

Preliminary figures from the Summer 2011 Alaska Visitors Statistics Program (AVSP) show that about 325,000 people visited the Fairbanks area that summer.

During 2008 and 2009, the effects of the global recession were felt on the tourism industry. Hotel-motel tax (bed tax) is a reflection of the variables of occupancy and room rates. During the five year period from 2003 through 2007, the Fairbanks area (including collections by the Fairbanks North Star Borough and the cities of Fairbanks and North Pole) saw an average of eight percent increase in bed tax annually. In 2008, the increase was not quite two percent for the year. In 2009, the hotel-motel tax collections for the City of Fairbanks declined 14 percent from the same period in 2008, primarily reflecting the reduced deployment of cruise ships from the Gulf of Alaska from which land tours to Fairbanks and interior Alaska emanate. The recession, combined with a seven percent increase of year-round hotel inventory in the Fairbanks area, also contributed to the 2009 percentage decline. January through December 2010, the hotel-motel tax collections for Fairbanks increased by nine percent in comparison with 2009. Through December 2011, bed tax collections decreased by one percent from 2010.

The outlook for 2012 summer visitor numbers indicates a slight increase from 2011, but is not expected to return to 2008 levels. In Fairbanks, this expected increase will be in part due to the return of a Princess ship that had been redeployed from Alaska and is now scheduled to return to a Gulf of Alaska itinerary in summer 2012. This generally increases capacity for land tours along the rail belt. In summer 2013, Norwegian Cruise Line will introduce – for the first time ever – a Gulf of Alaska cruise itinerary.

According to the Winter 2006-2007 AVSP, winter visitation to the Fairbanks region is the only area in Alaska that had seen an increase in market share of winter visitors to the state since 1993-1994. At that time (2006-2007), the total number of Fairbanks' winter visitors was estimated to be 56,000. The AVSP is now out in the field collecting primary data for Winter 2011-2012.

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APPENDIX A

BASIC FINANCIAL STATEMENTS,

JUNE 30, 2011

Cook & Haugeberg LLC
CERTIFIED PUBLIC ACCOUNTANTS

December 16, 2011

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Assembly
Fairbanks North Star Borough

We have audited the accompanying 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, 2011, which collectively comprise the Borough's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Borough's nonmajor governmental, internal service, and fiduciary funds presented in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements and schedules are the responsibility of the management of the Fairbanks North Star Borough. Our responsibility is to express opinions on these financial statements and schedules based on our audit. The prior year partial comparative information has been derived from the Borough's June 30, 2010 financial statements and, in our report dated December 13, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, the aggregate remaining fund information, and on each of the Borough's nonmajor governmental, internal service, and fiduciary funds.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 June 30, 2011 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and major special revenue funds with annual budgets for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements and schedules referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental, internal service, and fiduciary fund of the Fairbanks North Star Borough, as of June 30, 2011, and the respective changes in financial position and cash flows,

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Senior Consultants: James F. Dieringer, Jr., CPA and Michael T. Cook, CPA FAX 907-452-6184

where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, effective July 1, 2010 the Borough implemented Governmental Accounting Standards Board Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards,* we have also issued our reports dated December 16, 2011, on our consideration of the Fairbanks North Star Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying required supplementary information, which includes management's discussion and analysis, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairbanks North Star Borough's basic financial statements. The accompanying schedules listed as additional information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The June 30, 2011 additional information schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2011, taken as a whole. We also have previously audited, in accordance with auditing standards generally accepted in the United States, the Borough's basic financial statements for the year ended June 30, 2010, which are not presented with the accompanying financial statements. In our report dated December 13, 2010, we expressed unqualified opinions on the respective 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. In our opinion, the June 30, 2010 additional information schedules are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010, taken as a whole. The accompanying introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cook & Haugeberg LLC

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fairbanks North Star Borough

Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Linda C. Davidson

President

Jeffrey R. Esser

Executive Director

FAIRBANKS NORTH STAR BOROUGH

Fairbanks, Alaska

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Luke T. Hopkins, Borough Mayor

Prepared by
Financial Services Department:

Michael E. Lamb, Chief Financial Officer
Debra L. R. Brady, Controller

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements consolidate and report on all of the Borough's nonfiduciary financial activities on an accrual basis of accounting. These statements have separate columns for the Borough's governmental activities, its business-type activities, and its component unit, the School District.

Fund Financial Statements

The fund financial statements report the Borough's financial position and operations of the governmental funds and proprietary funds, and the financial position of the Borough's fiduciary fund. Governmental funds and the fiduciary fund are accounted for on a modified accrual basis of accounting. Proprietary funds are accounted for on an accrual basis of accounting. In addition, the governmental fund statements are reconciled to the governmental activities columns of the government-wide financial statements.

Notes to Financial Statements

The notes to the financial statements provide a summary of significant accounting policies and other disclosures required for a fair presentation of the basic financial statements.

FAIRBANKS NORTH STAR BOROUGH

Statement of Net Assets
June 30, 2011

	Primary Government		Primary Government Totals		Component Unit
	Governmental Activities	Business-type Activities	2011	2010	School District
Assets					
Equity in central treasury cash	$60,353,238	$14,746,117	$75,099,356	$64,637,773	$22,281,187
Restricted equity in central treasury cash	57,329,792	697,013	58,026,805	61,904,303	2,953
Taxes receivable (net of allowance for uncollectibles 2011 - $613,167; 2010 - $726,273)	2,691,325		2,691,325	2,928,175	
Restricted taxes receivable	404,154		404,154	355,286	
Accounts receivable (net of allowance for uncollectibles 2011 - $33,953; 2010 - $13,679)	1,016,246	554,095	1,570,341	688,232	10,703,675
Restricted accounts receivable (net of allowance for uncollectibles 2011 - $744,375; 2010 - $315,000)	496,230	6,593	502,823	472,306	
Accrued interest receivable	11,778		11,778	10,074	
Restricted accrued interest receivable	306		306	329	
Internal balances (payable from restricted assets: governmental activites $95,485; business-type activities $1,510,271)	1,405,226	(1,405,226)			
Due from Borough					91,219
Due from School District	1,223,198		1,223,198	2,183,369	
Due from governmental agencies	554,111		554,111	540,225	
Restricted due from governmental agencies	1,384,296	1,749,952	3,134,248	4,111,169	
Inventories		220,459	220,459	304,551	1,010,288
Other assets	1,331,578		1,331,578	1,366,368	45,036
Notes receivable - land sales	667,811		667,811	803,253	
Long-term receivable (net of allowance for uncollectibles 2011 - $207,668; 2010 - $207,668)					
Capital assets (See Note 6)					
Non-depreciable	260,740,225	2,386,459	263,126,684	267,747,109	
Depreciable, net of accumulated depreciation	320,885,848	29,915,434	350,801,283	357,185,060	4,449,676
Assets total	710,495,363	48,870,897	759,366,259	765,237,580	38,584,034

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Statement of Net Assets
June 30, 2011

	Primary Government		Primary Government Totals		Component Unit
	Governmental Activities	Business-type Activities	2011	2010	School District
Liabilities					
Advance tax payments	$9,755,556	$	$9,755,556	$10,396,545	$
Accounts payable	2,063,886	501,310	2,565,196	3,491,506	1,461,956
Due to Borough					1,223,198
Due to School District	13,372		13,372	21,705	
Wages and payroll taxes	1,186,455	226,486	1,412,941	1,314,233	1,176,244
Payable from restricted assets					
Accounts payable	4,042,920	177,331	4,220,252	2,862,456	
Due to School District	77,847		77,847	7,030	
Unearned revenues	2,125,691	202,483	2,328,174	2,992,019	2,953
Deposits from others	28,212		28,212		
Due to governmental agencies					848
Accrued interest payable	1,773,023		1,773,023	1,246,331	
Deposits from others	182,016	4,800	186,816	784,645	
Long-term liabilities (See Note 10)					
Due within one year	13,015,092	1,669,418	14,684,511	13,146,111	7,290,189
Due in more than one year	122,002,525	17,673,288	139,675,814	151,360,519	2,231,939
Liabilities total	156,266,597	20,455,116	176,721,713	187,623,100	13,387,327
Net Assets					
Invested in capital assets, net of related debt	489,022,291	31,030,372	520,052,662	524,630,990	4,449,676
Restricted for					
Debt service				383,248	
Employee healthcare and labor relations	2,702,370		2,702,370	2,694,107	
Grant-funded special programs	530,280		530,280	959,042	
Service areas	16,457,001		16,457,001	15,170,427	
Non-areawide	2,246,401		2,246,401	1,430,995	
Solid waste collection	4,238,541		4,238,541	3,254,683	
Enhanced 911	2,375,009		2,375,009	2,507,152	
Library special revenue (donor-restricted)	8,986,216		8,986,216	8,131,122	
Grant-funded capital projects	6,106,195		6,106,195	6,049,376	
School bond capital projects	2,332,516		2,332,516	5,507,357	
Proprietary fund grants and asset replacement		563,473	563,473	563,398	
Unrestricted	19,231,946	(3,178,064)	16,053,882	6,332,583	20,747,031
Net assets total	$554,228,766	$28,415,781	$582,644,546	$577,614,480	$25,196,707

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Totals 2011	Primary Government: Totals 2010	Component Unit: School District
Primary government										
Governmental activities										
General government	$24,806,210	($2,942,332)	$1,199,254	$1,281,223	$32,465	($19,350,936)	$	($19,350,936)	($18,688,701)	$
Community planning	2,294,671	488		109,030	6,387	(2,179,742)		(2,179,742)	(2,120,578)	
Public works	13,206,139	(1,538,445)	43,602			(11,624,093)		(11,624,093)	(10,719,625)	
Parks and recreation	9,316,782	19,426	1,223,243	16,023	631,435	(7,465,508)		(7,465,508)	(7,588,163)	
Library	6,172,718	794	90,904	170,140	3,547	(5,908,921)		(5,908,921)	(5,639,129)	
Road and other service areas	4,657,063	516,480		34,566	4,080,574	(1,058,403)		(1,058,403)	(3,747,759)	
Education	63,404,301				1,071,703	(62,332,598)		(62,332,598)	(61,348,983)	
Emergency operations	5,741,986	245,362	1,196,018	549,151	118,733	(4,123,445)		(4,123,445)	(3,993,946)	
Fire service areas	6,157,193	16,215		2,959	27,641	(6,142,808)		(6,142,808)	(5,951,996)	
Interest on long-term debt	5,302,775					(5,302,775)		(5,302,775)	(5,484,528)	
Total governmental activities	141,059,839	(3,682,011)	3,753,021	2,163,092	5,972,484	(125,489,229)		(125,489,229)	(125,283,407)	
Business-type activities										
Transit	7,982,785	895,455	810,882	2,290,786	704,275		(5,072,297)	(5,072,297)	(4,836,172)	
Carlson Center	1,830,612	448,329		109,186	672,408		(1,497,346)	(1,497,346)	(1,371,449)	
Solid waste disposal	6,936,008	843,307	7,370,161		340,000		(69,154)	(69,154)	3,380,096	
Total business-type activities	16,749,405	2,187,091	8,181,043	2,399,972	1,716,683		(6,638,797)	(6,638,797)	(2,827,526)	
Total primary government	$157,809,244	($1,494,920)	$11,934,065	$4,563,065	$7,689,168	(125,489,229)	(6,638,797)	(132,128,026)	(128,110,932)	
Component unit										
School District	$231,707,037	$1,494,920	$2,128,703	$54,664,159	$69,000					(176,340,095)
General revenues										
Property taxes						115,170,486		115,170,486	98,489,612	
Hotel-motel taxes						1,695,265		1,695,265	1,698,466	
Alcoholic beverage taxes						1,001,201		1,001,201	1,358,690	
Tobacco excise taxes						1,521,730		1,521,730	1,684,657	
Grants and contributions not restricted to specific programs						14,154,365		14,154,365	16,604,140	
Foundation program										112,387,761
Other federal and state aid										16,403,207
Unrestricted investment earnings						75,424	12,714	88,138	190,665	
Borough direct appropriation										46,522,700
Other						3,521,672	5,235	3,526,907	2,999,052	1,088,510
Transfers						(5,646,084)	5,646,084			
Total general revenues and transfers						131,494,059	5,664,033	137,158,092	123,025,282	176,402,178
Change in net assets						6,004,830	(974,764)	5,030,066	(5,085,650)	62,083
Net assets, beginning						548,223,936	29,390,545	577,614,480	582,700,131	25,134,624
Net assets, ending						$554,228,766	$28,415,781	$582,644,546	$577,614,480	$25,196,707

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Governmental Funds

Balance Sheet
June 30, 2011

	General	Service Areas	Debt Service	State Grants Capital Projects	Bond Projects	Other Governmental Funds	Total Governmental Funds
Assets							
Equity in central treasury cash	$46,919,033	$15,441,569	$1,428,267	$7,564,909	$11,297,681	$34,198,402	$116,849,860
Taxes receivable (net of allowance for uncollectibles - $613,167)	2,691,325	220,400				183,754	3,095,479
Accounts receivable (net of allowance for uncollectibles - $768,041)	216,246					496,230	712,476
Accrued interest receivable	11,778				305		12,084
Interfund receivable	1,956,654			50,267			2,006,921
Due from School District						1,223,198	1,223,198
Due from governmental agencies	554,111			157,569		1,226,727	1,938,407
Other assets	147,917						147,917
Notes receivable - land sales	667,811						667,811
Assets total	$53,164,875	$15,661,969	$1,428,267	$7,772,746	$11,297,986	$37,328,311	$126,654,154
Liabilities and Fund Balances							
Liabilities							
Accounts payable	$1,780,529	$330,626	$	$213,630	$2,113,435	$1,659,536	$6,097,757
Wages and payroll taxes	1,263,954						1,263,954
Accrued self-insurance losses	1,344,930						1,344,930
Interfund payables		123,401		36,719		432,016	592,135
Due to School District	13,372					77,847	91,220
Deposits from others	182,016					28,212	210,228
Deferred revenues	2,552,898	204,076				451,217	3,208,191
Unearned revenues				1,743,811		381,881	2,125,691
Advance tax payments	9,755,556						9,755,556
Liabilities total	16,893,255	658,103		1,994,160	2,113,435	3,030,709	24,689,662
Fund balances (deficit)							
Restricted	344,454	15,003,866		5,778,586	9,184,551	21,835,243	52,146,700
Committed	14,213,903		1,428,267			12,471,441	28,113,611
Assigned	5,271,233						5,271,233
Unassigned	16,442,029					(9,082)	16,432,947
Fund balances (deficit) total	36,271,620	15,003,866	1,428,267	5,778,586	9,184,551	34,297,602	101,964,492
Liabilities and fund balances (deficit) total	$53,164,875	$15,661,969	$1,428,267	$7,772,746	$11,297,986	$37,328,311	$126,654,154

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Governmental Funds

Reconciliation of Balance Sheet to the Statement of Net Assets June 30, 2011

Fund balances - total governmental funds		$ 101,964,492
Amounts reported for governmental activities in the statement of net assets are different because		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets cost	$ 799,800,603	
Less accumulated depreciation	(221,386,622)	
		578,413,981
Deferred bond issuance costs are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		1,183,661
An internal service fund is used by management to charge the costs of vehicle and equipment fleet acquisitions and financing to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		2,875,699
Earned revenues that are not available to pay current period expenditures are reported as deferred revenues in the funds.		4,008,191
Long-term and related liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
General obligation bonds payable	(127,260,000)	
Deferred premiums on bonds	(3,158,677)	
Deferred refunding bonds difference	51,080	
Accrued interest payable on bonds	(1,773,023)	
Accrued compensated absences	(2,076,639)	
		(134,217,258)
Net assets of governmental activities		$554,228,766

See accompanying notes to financial statements.

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FAIRBANKS NORTH STAR BOROUGH

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2011

	General	Service Areas	Debt Service	State Grants Capital Projects	Bond Projects	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes	$100,724,466	$10,166,587	$	$	$	$8,733,281	$119,624,335
Intergovernmental revenues	14,287,055			3,164,217		3,241,308	20,692,580
Charges for services	1,590,635					2,121,185	3,711,819
Land sales and interest on land notes receivable	762,790						762,790
Other revenues	1,179,780	231,128	1	4,722	2,429	1,288,726	2,706,786
Revenues total	118,544,725	10,397,715	1	3,168,939	2,429	15,384,500	147,498,310
Expenditures							
Current							
General government	19,443,000			27,731	19,111	1,765,441	21,255,283
Community planning	2,133,510					155,662	2,289,171
Public works	5,300,641					6,470,763	11,771,404
Parks and recreation	6,898,658			98,966		676,551	7,674,175
Library	5,194,081					327,745	5,521,826
Road and other service areas		2,286,330		1,617,215		1,269,655	5,173,201
Education	46,522,700			742,288	4,202,272	433,389	51,900,649
Emergency operations	2,018,782					3,709,174	5,727,956
Fire service areas		5,486,188		24,754		102,163	5,613,105
Capital outlay	363,101	10,147		579,246	1,403,108	2,017,936	4,373,537
Debt service							
Principal retirement			8,755,000				8,755,000
Interest and other debt service costs			5,413,909				5,413,909
Expenditures total	87,874,472	7,782,665	14,168,909	3,090,200	5,624,491	16,928,478	135,469,215
Excess (deficiency) of revenues over expenditures	30,670,253	2,615,050	(14,168,908)	78,740	(5,622,062)	(1,543,978)	12,029,095
Other financing sources (uses)							
Transfers in	3,690,880	2,573	14,979,722			9,727,803	28,400,978
Transfers out	(23,211,500)	(715,164)		(126)	(1,507,872)	(8,612,400)	(34,047,062)
Bond issuance			13,680,000				13,680,000
Premium on bond debt			1,294,921				1,294,921
Payment to refunded bond escrow agent			(14,875,000)				(14,875,000)
Other financing sources (uses) total	(19,520,620)	(712,591)	15,079,644	(126)	(1,507,872)	1,115,403	(5,546,163)
Net change in fund balances	11,149,633	1,902,459	910,736	78,614	(7,129,934)	(428,575)	6,482,932
Fund balances (deficit), beginning	25,121,987	13,101,406	517,531	5,699,972	16,314,486	34,726,177	95,481,559
Fund balances (deficit), ending	$36,271,620	$15,003,866	$1,428,267	$5,778,586	$9,184,551	$34,297,602	$101,964,492

(Continued)

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Governmental Funds

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances To the Statement of Activities For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds		$6,482,932
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.		
Capital outlay	$4,373,537	
Depreciation expense	(14,916,965)	
		(10,543,428)
The net effect of other transactions involving capital assets (i.e., dispositions, trade-ins, donations and transfers to/from other funds) is to increase (decrease) net assets.		946,650
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		3,355,933
Tax revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the statement of activities.		(2,898,681)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Debt proceeds	(13,680,000)	
Premiums on debt	(1,294,921)	
Debt service refunding	13,515,000	
Deferred bond issuance costs	85,270	
Debt principal payments	10,115,000	
Accrued interest and amortization	(188,180)	
		8,552,168
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(111,548)
An internal service fund is used by management to charge the cost of vehicle and equipment fleet acquisition and financing to individual funds. The change in net assets of the internal service fund is reported with governmental activities.		235,032
The internal service fund lookback adjustment results in a balance between governmental and business-type activities.		(14,229)
Change in net assets of governmental activities		$6,004,830

See accompanying notes to financial statements.

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FAIRBANKS NORTH STAR BOROUGH

General Fund - Operating

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property tax	$85,508,396	$85,508,396	$92,286,744	$6,778,348
Hotel-motel tax	1,500,000	1,500,000	1,692,522	192,522
Alcoholic beverage tax	1,000,000	1,000,000	994,626	(5,374)
Tobacco excise tax	1,100,000	1,100,000	1,799,328	699,328
Interest and penalties on taxes	732,100	732,100	3,208,746	2,476,646
Payment in lieu of taxes for privatized military housing		742,500	742,500	
Taxes total	89,840,496	90,582,996	100,724,466	10,141,470
Intergovernmental revenues				
State of Alaska				
Aid for school construction	9,218,400	9,218,400	9,167,996	(50,404)
Aid to local government	3,813,595	3,813,595	3,813,595	
Other shared revenue and assistance	470,500	470,500	465,392	(5,108)
Grants	150,000	150,000	116,571	(33,429)
Federal government				
Payment in lieu of taxes	1,143,500	401,000	412,257	11,257
Aid for debt service			311,244	311,244
Intergovernmental revenues total	14,795,995	14,053,495	14,287,055	233,560
Charges for services	1,844,290	1,844,290	1,538,460	(305,830)
Charges to School District	1,713,600	1,713,600	1,494,920	(218,680)
Other revenues				
Charges to other funds	3,477,440	3,477,440	3,191,073	(286,367)
Investment income, including net unrealized investment gains/losses	856,150	856,150	66,830	(789,320)
Indirect charges to grants	550,000	550,000	638,142	88,142
Various	55,000	57,242	434,358	377,116
Other revenues total	4,938,590	4,940,832	4,330,404	(610,428)
Revenues total	113,132,971	113,135,213	122,375,305	9,240,092

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

General Fund - Operating

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Expenditures				
Current				
General government				
Non-departmental	$587,450	$391,494	$245,391	$146,103
Mayor	1,011,498	1,006,798	946,839	59,960
Assembly	1,701,990	1,707,887	1,614,826	93,061
Legal	1,023,490	1,023,490	989,084	34,406
Computer services	3,702,930	3,684,656	3,439,177	245,479
Financial services	3,422,770	3,440,364	3,249,443	190,921
Assessing	2,699,180	2,694,359	2,510,051	184,309
General services	1,546,910	1,540,480	1,367,632	172,848
Human resources	3,100,800	3,082,305	2,834,635	247,670
Land management	1,140,080	1,151,080	1,043,868	107,212
General government total	19,937,098	19,722,913	18,240,944	1,481,968
Community planning	2,244,180	2,243,404	2,124,739	118,665
Public works	7,902,570	7,895,935	7,059,761	836,174
Parks and recreation	7,137,060	7,127,944	6,860,908	267,035
Library	5,167,540	5,135,891	5,004,018	131,873
Education	46,522,700	46,522,700	46,522,700	
Emergency operations	2,296,840	2,297,953	2,094,023	203,930
Capital outlay	600,430	727,620	719,231	8,389
Expenditures total	91,808,418	91,674,360	88,626,325	3,048,035

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

General Fund - Operating

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Excess (deficiency) of revenues over expenditures	$21,324,554	$21,460,853	$33,748,980	$12,288,127
Other financing sources (uses)				
Transfers in				
Special revenue funds	810,680		16,742	16,742
Capital projects funds			229	229
General fund - multi-year		810,680	810,684	4
Transfers out				
Special revenue funds	(2,804,004)	(214,142)	(212,598)	1,545
Debt service fund	(13,471,850)	(13,471,850)	(13,471,850)	
Capital projects funds	(1,100,000)	(3,765,539)	(3,764,969)	570
Enterprise funds	(5,646,084)	(5,646,084)	(5,646,084)	
General fund - multi-year		(3,881,215)	(3,881,215)	
Other financing sources (uses) total	(22,211,258)	(26,168,151)	(26,149,061)	19,090
Net change in fund balance	($886,705)	($4,707,297)	$7,599,919	$12,307,216

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Air Park				
Total revenues and transfers in	$50	$50	$5	($45)
Total expenditures and transfers out	$8,954	$8,954	$810	$8,144
Airway				
Total revenues and transfers in	$12,630	$12,630	$12,504	($126)
Total expenditures and transfers out	$36,033	$51,033	$8,375	$42,658
Arctic Fox				
Total revenues and transfers in	$5,260	$5,260	$5,110	($150)
Total expenditures and transfers out	$35,807	$35,807	$1,712	$34,095
Aztec				
Total revenues and transfers in	$20,340	$20,340	$20,632	$292
Total expenditures and transfers out	$84,815	$84,815	$16,875	$67,939
Ballaine Lake Sewer & Water				
Total revenues and transfers in	$24,590	$24,590	$21,550	($3,040)
Total expenditures and transfers out	$46,050	$46,050	$15,389	$30,661
Bear's Den Road				
Total revenues and transfers in	$	$	$1	$1
Total expenditures and transfers out	$1,815	$1,815	$710	$1,105
Becker Ridge				
Total revenues and transfers in	$107,980	$107,980	$106,141	($1,839)
Total expenditures and transfers out	$274,205	$274,205	$99,807	$174,398
Birch Hill				
Total revenues and transfers in	$109,940	$109,940	$109,628	($312)
Total expenditures and transfers out	$295,752	$295,752	$44,892	$250,860
Bluebird Road				
Total revenues and transfers in	$6,210	$6,210	$6,124	($86)
Total expenditures and transfers out	$30,352	$30,352	$7,188	$23,163

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Borda Road				
Total revenues and transfers in	$28,080	$28,080	$27,448	($632)
Total expenditures and transfers out	$117,151	$117,151	$9,148	$108,003
Brookside				
Total revenues and transfers in	$8,300	$8,300	$8,082	($218)
Total expenditures and transfers out	$43,937	$43,937	$5,580	$38,357
Chena Goldstream Volunteer Fire				
Total revenues and transfers in	$994,450	$994,450	$1,050,842	$56,392
Total expenditures and transfers out	$1,190,906	$1,190,906	$796,110	$394,796
Chena Hills Road				
Total revenues and transfers in	$95,010	$95,010	$95,882	$872
Total expenditures and transfers out	$171,517	$170,770	$98,745	$72,025
Chena Hot Springs II				
Total revenues and transfers in	$640	$640	$643	$3
Total expenditures and transfers out	$640	$595	$570	$25
Chena Marina				
Total revenues and transfers in	$21,650	$21,650	$21,354	($296)
Total expenditures and transfers out	$55,802	$55,802	$12,879	$42,923
Chena Point Road				
Total revenues and transfers in	$97,940	$97,940	$97,074	($866)
Total expenditures and transfers out	$124,565	$124,565	$49,085	$75,481
Chena Spur				
Total revenues and transfers in	$40,830	$40,830	$41,148	$318
Total expenditures and transfers out	$125,476	$125,476	$25,796	$99,680
Cleary Summit				
Total revenues and transfers in	$690	$690	$687	($3)
Total expenditures and transfers out	$1,694	$1,694	$630	$1,064

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
College				
Total revenues and transfers in	$507,500	$507,500	$498,809	($8,691)
Total expenditures and transfers out	$2,307,376	$2,307,376	$317,954	$1,989,423
College Hills				
Total revenues and transfers in	$25,150	$25,150	$24,631	($519)
Total expenditures and transfers out	$30,143	$30,143	$23,904	$6,239
Cooper Estates				
Total revenues and transfers in	$25,520	$25,520	$24,869	($651)
Total expenditures and transfers out	$144,558	$144,558	$49,640	$94,917
Cordes Drive				
Total revenues and transfers in	$24,900	$24,900	$24,907	$7
Total expenditures and transfers out	$45,247	$45,247	$15,432	$29,815
Cripple Creek				
Total revenues and transfers in	$64,060	$64,060	$64,856	$796
Total expenditures and transfers out	$195,743	$195,743	$42,378	$153,365
Deep Forest				
Total revenues and transfers in	$18,450	$18,450	$19,789	$1,339
Total expenditures and transfers out	$37,376	$37,376	$15,339	$22,037
Diane Subdivision				
Total revenues and transfers in	$3,800	$3,800	$3,539	($261)
Total expenditures and transfers out	$28,107	$28,107	$2,096	$26,011
Drake Estates				
Total revenues and transfers in	$7,800	$7,800	$7,760	($40)
Total expenditures and transfers out	$28,020	$28,020	$6,212	$21,808
Edanella Heights Road				
Total revenues and transfers in	$30,840	$30,840	$30,683	($157)
Total expenditures and transfers out	$65,402	$65,402	$28,298	$37,104

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Ester Lump Road				
Total revenues and transfers in	$30,520	$30,520	$30,148	($372)
Total expenditures and transfers out	$110,690	$108,690	$29,717	$78,974
Ester Volunteer Fire				
Total revenues and transfers in	$376,370	$376,370	$378,949	$2,579
Total expenditures and transfers out	$620,801	$620,801	$353,552	$267,250
Fairfields				
Total revenues and transfers in	$15,620	$15,620	$15,621	$1
Total expenditures and transfers out	$63,349	$63,349	$4,110	$59,239
Fairhill				
Total revenues and transfers in	$22,650	$22,650	$22,312	($338)
Total expenditures and transfers out	$54,070	$54,070	$6,223	$47,847
Fairwest				
Total revenues and transfers in	$23,780	$23,780	$22,951	($829)
Total expenditures and transfers out	$228,617	$238,391	$6,322	$232,069
Garden				
Total revenues and transfers in	$38,860	$38,860	$38,443	($417)
Total expenditures and transfers out	$163,413	$163,413	$6,315	$157,098
Golden Valley Road				
Total revenues and transfers in	$14,910	$14,910	$14,787	($123)
Total expenditures and transfers out	$14,910	$14,910	$10,937	$3,973
Goldstream Alaska				
Total revenues and transfers in	$26,060	$26,060	$25,113	($947)
Total expenditures and transfers out	$88,157	$88,157	$6,673	$81,484
Goldstream Moose Creek				
Total revenues and transfers in	$51,340	$51,340	$51,309	($31)
Total expenditures and transfers out	$92,966	$92,966	$46,771	$46,195

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Gordon				
Total revenues and transfers in	$52,630	$52,630	$51,916	($714)
Total expenditures and transfers out	$309,122	$309,122	$29,601	$279,521
Granola Estates				
Total revenues and transfers in	$4,790	$4,790	$4,787	($3)
Total expenditures and transfers out	$29,505	$34,505	$2,921	$31,584
Grieme Road				
Total revenues and transfers in	$18,940	$18,940	$18,804	($136)
Total expenditures and transfers out	$76,523	$76,523	$10,266	$66,257
Haystack				
Total revenues and transfers in	$36,170	$36,170	$35,555	($615)
Total expenditures and transfers out	$56,722	$56,722	$32,952	$23,770
Herning Hills				
Total revenues and transfers in	$25,710	$25,710	$25,365	($345)
Total expenditures and transfers out	$47,768	$47,768	$12,967	$34,801
Hopeless				
Total revenues and transfers in	$22,660	$22,660	$22,969	$309
Total expenditures and transfers out	$71,146	$71,146	$16,821	$54,325
Horseshoe Downs				
Total revenues and transfers in	$15,250	$15,250	$14,869	($381)
Total expenditures and transfers out	$17,872	$17,872	$10,140	$7,732
Jennifer Drive				
Total revenues and transfers in	$5,370	$5,370	$5,332	($38)
Total expenditures and transfers out	$7,152	$14,152	$10,683	$3,469
Jones Road				
Total revenues and transfers in	$61,190	$61,190	$61,502	$312
Total expenditures and transfers out	$104,297	$104,297	$38,624	$65,674

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Joy Road				
Total revenues and transfers in	$7,840	$7,840	$8,566	$726
Total expenditures and transfers out	$29,993	$29,993	$5,038	$24,955
Keeney Road				
Total revenues and transfers in	$2,100	$2,100	$2,061	($39)
Total expenditures and transfers out	$9,829	$9,829	$1,412	$8,417
Kendall				
Total revenues and transfers in	$10,830	$10,830	$10,433	($397)
Total expenditures and transfers out	$73,197	$73,197	$4,658	$68,539
Keystone				
Total revenues and transfers in	$14,700	$14,700	$14,730	$30
Total expenditures and transfers out	$79,113	$79,113	$8,079	$71,034
Kris Kringle				
Total revenues and transfers in	$13,320	$13,320	$13,045	($275)
Total expenditures and transfers out	$72,453	$72,453	$6,149	$66,304
Lakloey Hill				
Total revenues and transfers in	$35,800	$35,800	$35,040	($760)
Total expenditures and transfers out	$147,914	$147,914	$26,854	$121,060
Lee Lane				
Total revenues and transfers in	$5,940	$5,940	$5,819	($121)
Total expenditures and transfers out	$30,518	$30,518	$2,529	$27,989
Loose Moose				
Total revenues and transfers in	$6,230	$6,230	$6,055	($175)
Total expenditures and transfers out	$18,968	$18,968	$4,679	$14,289
Martin				
Total revenues and transfers in	$28,960	$28,960	$28,078	($882)
Total expenditures and transfers out	$64,133	$64,133	$13,781	$50,352

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
McCloud				
Total revenues and transfers in	$20,400	$20,400	$19,563	($837)
Total expenditures and transfers out	$120,764	$119,164	$33,186	$85,978
McGrath Estates				
Total revenues and transfers in	$67,920	$67,920	$66,762	($1,158)
Total expenditures and transfers out	$204,131	$204,131	$30,996	$173,135
McKinley View				
Total revenues and transfers in	$7,160	$7,160	$7,068	($92)
Total expenditures and transfers out	$32,752	$32,752	$1,698	$31,054
Mellow Woods Road				
Total revenues and transfers in	$15,750	$15,750	$15,548	($202)
Total expenditures and transfers out	$71,751	$71,751	$5,408	$66,343
Miller Hill Extension				
Total revenues and transfers in	$59,620	$59,620	$58,763	($857)
Total expenditures and transfers out	$113,914	$113,914	$41,237	$72,677
Moose Creek				
Total revenues and transfers in	$15,380	$15,380	$20,357	$4,977
Total expenditures and transfers out	$88,180	$83,180	$49,045	$34,135
Moose Meadows				
Total revenues and transfers in	$71,630	$71,630	$72,454	$824
Total expenditures and transfers out	$170,129	$170,129	$26,568	$143,561
Mt. View				
Total revenues and transfers in	$26,330	$26,330	$25,855	($475)
Total expenditures and transfers out	$133,859	$133,859	$16,669	$117,190
Murphy				
Total revenues and transfers in	$13,080	$13,080	$12,873	($207)
Total expenditures and transfers out	$37,018	$44,018	$27,825	$16,193

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Musk Ox				
Total revenues and transfers in	$34,980	$34,980	$34,545	($435)
Total expenditures and transfers out	$92,912	$92,912	$29,303	$63,609
Newby Park				
Total revenues and transfers in	$16,180	$16,180	$16,164	($16)
Total expenditures and transfers out	$24,352	$23,342	$20,340	$3,003
North Ridge				
Total revenues and transfers in	$9,390	$9,390	$9,288	($102)
Total expenditures and transfers out	$33,140	$33,140	$5,082	$28,058
North Star Volunteer Fire				
Total revenues and transfers in	$1,589,310	$1,589,310	$1,672,757	$83,447
Total expenditures and transfers out	$1,678,202	$1,676,239	$1,489,420	$186,818
O'Connor Creek				
Total revenues and transfers in	$117,420	$117,420	$223,117	$105,697
Total expenditures and transfers out	$237,892	$237,892	$58,817	$179,075
Old Wood Road				
Total revenues and transfers in	$12,330	$12,330	$11,937	($393)
Total expenditures and transfers out	$37,794	$37,794	$8,982	$28,812
Our				
Total revenues and transfers in	$3,740	$3,740	$3,697	($43)
Total expenditures and transfers out	$8,983	$11,483	$4,478	$7,005
Parksridge				
Total revenues and transfers in	$11,720	$11,720	$11,314	($406)
Total expenditures and transfers out	$65,644	$63,644	$12,207	$51,437
Peede Country Estates				
Total revenues and transfers in	$5,600	$5,600	$5,468	($132)
Total expenditures and transfers out	$23,091	$23,091	$2,824	$20,267

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Pine Stream				
Total revenues and transfers in	$21,180	$21,180	$20,763	($417)
Total expenditures and transfers out	$109,089	$109,089	$7,169	$101,920
Pleasureland				
Total revenues and transfers in	$7,830	$7,830	$7,643	($187)
Total expenditures and transfers out	$74,735	$74,715	$7,894	$66,821
Polar Heights				
Total revenues and transfers in	$18,010	$18,010	$21,430	$3,420
Total expenditures and transfers out	$41,033	$41,033	$23,281	$17,752
Potlatch				
Total revenues and transfers in	$11,920	$11,920	$12,106	$186
Total expenditures and transfers out	$17,631	$17,631	$4,904	$12,727
Prospect Park				
Total revenues and transfers in	$7,560	$7,560	$7,465	($95)
Total expenditures and transfers out	$33,934	$33,934	$6,454	$27,480
Reed Acres Road				
Total revenues and transfers in	$8,330	$8,330	$7,818	($512)
Total expenditures and transfers out	$63,444	$63,444	$7,582	$55,862
Ridgecrest				
Total revenues and transfers in	$2,080	$2,080	$2,071	($9)
Total expenditures and transfers out	$3,103	$3,103	$1,336	$1,767
Salchaket Heights				
Total revenues and transfers in	$3,930	$3,930	$3,791	($139)
Total expenditures and transfers out	$14,751	$13,951	$7,190	$6,761
Scenic Heights				
Total revenues and transfers in	$17,830	$17,830	$17,424	($406)
Total expenditures and transfers out	$113,381	$113,381	$9,590	$103,791

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Seavy				
Total revenues and transfers in	$9,850	$9,850	$10,605	$755
Total expenditures and transfers out	$60,568	$60,568	$6,647	$53,920
Secluded Acres				
Total revenues and transfers in	$7,780	$7,780	$7,631	($149)
Total expenditures and transfers out	$47,803	$47,803	$5,695	$42,108
Serendipity Hill				
Total revenues and transfers in	$6,650	$6,650	$6,484	($166)
Total expenditures and transfers out	$45,095	$45,095	$15,470	$29,625
Six Mile Village Road				
Total revenues and transfers in	$8,580	$8,580	$8,081	($499)
Total expenditures and transfers out	$45,461	$45,461	$3,365	$42,095
Smallwood Trail Road				
Total revenues and transfers in	$6,550	$6,550	$6,420	($130)
Total expenditures and transfers out	$26,748	$26,748	$1,010	$25,738
Smith Ranch				
Total revenues and transfers in	$40,930	$40,930	$40,690	($240)
Total expenditures and transfers out	$121,993	$121,993	$4,658	$117,336
Spring Glade				
Total revenues and transfers in	$29,170	$29,170	$29,157	($13)
Total expenditures and transfers out	$138,762	$130,762	$59,285	$71,477
Spruce Acres				
Total revenues and transfers in	$6,230	$6,230	$6,031	($199)
Total expenditures and transfers out	$40,076	$40,076	$4,579	$35,498
Steamboat Landing				
Total revenues and transfers in	$16,520	$16,520	$16,562	$42
Total expenditures and transfers out	$66,479	$66,479	$11,161	$55,318

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Steese Volunteer Fire				
Total revenues and transfers in	$1,273,110	$1,273,110	$1,433,000	$159,890
Total expenditures and transfers out	$1,579,112	$1,579,112	$1,389,716	$189,396
Straight Creek				
Total revenues and transfers in	$17,240	$17,240	$16,763	($477)
Total expenditures and transfers out	$27,326	$27,326	$9,770	$17,555
Summerwood				
Total revenues and transfers in	$38,020	$38,020	$37,129	($891)
Total expenditures and transfers out	$167,455	$167,455	$17,348	$150,107
Summit Drive				
Total revenues and transfers in	$110,460	$110,460	$109,590	($870)
Total expenditures and transfers out	$432,815	$432,815	$71,762	$361,053
Sunny Hills Terrace				
Total revenues and transfers in	$30,140	$30,140	$29,569	($571)
Total expenditures and transfers out	$72,173	$72,173	$19,015	$53,158
Sunrise				
Total revenues and transfers in	$11,820	$11,820	$11,868	$48
Total expenditures and transfers out	$64,779	$64,779	$3,873	$60,906
Tan Terra				
Total revenues and transfers in	$27,040	$27,040	$27,421	$381
Total expenditures and transfers out	$61,589	$61,589	$13,570	$48,019
Thomas				
Total revenues and transfers in	$11,380	$11,380	$11,208	($172)
Total expenditures and transfers out	$17,364	$17,364	$5,910	$11,454
Timberlane Road				
Total revenues and transfers in	$7,820	$7,820	$7,605	($215)
Total expenditures and transfers out	$81,286	$81,286	$51,368	$29,918

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Tungsten				
Total revenues and transfers in	$42,160	$42,160	$41,700	($460)
Total expenditures and transfers out	$62,944	$62,944	$15,065	$47,879
Twenty Three Mile Slough				
Total revenues and transfers in	$47,830	$47,830	$46,972	($858)
Total expenditures and transfers out	$147,080	$147,080	$55,639	$91,441
Ullrhaven				
Total revenues and transfers in	$4,150	$4,150	$4,072	($78)
Total expenditures and transfers out	$20,464	$20,464	$2,330	$18,134
University Fire				
Total revenues and transfers in	$2,256,360	$2,256,360	$2,262,939	$6,579
Total expenditures and transfers out	$3,915,952	$3,915,952	$1,700,470	$2,215,482
University Heights				
Total revenues and transfers in	$54,250	$54,250	$54,546	$296
Total expenditures and transfers out	$179,513	$229,513	$196,237	$33,275
University West Street Light				
Total revenues and transfers in	$62,200	$62,200	$61,316	($884)
Total expenditures and transfers out	$238,288	$238,288	$44,006	$194,282
Vienna Wood				
Total revenues and transfers in	$23,510	$23,510	$27,286	$3,776
Total expenditures and transfers out	$68,941	$68,941	$12,779	$56,162
Viewpointe				
Total revenues and transfers in	$17,330	$17,330	$16,849	($481)
Total expenditures and transfers out	$138,136	$138,136	$12,041	$126,095
Violet Drive				
Total revenues and transfers in	$59,520	$59,520	$59,206	($314)
Total expenditures and transfers out	$131,440	$131,440	$58,811	$72,629

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Vista Gold Road				
Total revenues and transfers in	$39,960	$39,960	$39,920	($40)
Total expenditures and transfers out	$77,216	$77,216	$31,842	$45,373
Vue Crest				
Total revenues and transfers in	$30,930	$30,930	$30,323	($607)
Total expenditures and transfers out	$145,722	$145,722	$28,853	$116,869
Whitman				
Total revenues and transfers in	$4,010	$4,010	$3,927	($83)
Total expenditures and transfers out	$24,938	$24,938	$2,338	$22,600
Wildview				
Total revenues and transfers in	$181,730	$181,730	$178,738	($2,992)
Total expenditures and transfers out	$451,138	$451,138	$134,449	$316,689
Woodland				
Total revenues and transfers in	$2,440	$2,440	$2,271	($169)
Total expenditures and transfers out	$7,243	$7,243	$1,143	$6,100
Yak Road				
Total revenues and transfers in	$78,040	$78,040	$77,111	($929)
Total expenditures and transfers out	$259,953	$259,953	$151,347	$108,606
Total All Service Areas				
Total revenues and transfers in	$10,011,470	$10,011,470	$10,400,288	$388,818
Total expenditures and transfers out	$20,822,102	$20,895,191	$8,485,363	$12,409,828

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Net Assets
June 30, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities
	Transit	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund
Assets					
Current assets					
Equity in central treasury cash	$1,982,013	$848,412	$11,915,693	$14,746,117	$833,170
Restricted equity in central treasury cash	83,468	613,545		697,013	
Accounts receivable (net of allowance for uncollectibles - $10,288)	14,183	97,704	442,208	554,095	
Restricted accounts receivable		6,593		6,593	
Interfund receivable			95,485	95,485	
Restricted due from governmental agencies	1,312,675	97,277	340,000	1,749,952	
Inventories	206,442		14,017	220,459	
Current assets total	3,598,780	1,663,531	12,807,403	18,069,714	833,170
Noncurrent assets					
Long-term receivables (net of allowance for uncollectibles - $207,668)					
Capital assets - non-depreciable					
Land and land improvements	595,234	509,032	746,003	1,850,269	
Works of art		120,790		120,790	
Construction work in progress	23,758		391,642	415,400	
Capital assets - depreciable					
Land			346,044	346,044	
Buildings	4,032,842	16,757,312	6,616,901	27,407,056	
Improvements other than buildings	268,627	1,608,028	16,992,749	18,869,405	
Equipment	4,682,890	1,567,305	3,668,796	9,918,991	6,472,565
Intangible assets - software	204,769			204,769	
Accumulated depreciation	(3,755,410)	(7,254,503)	(15,820,918)	(26,830,830)	(3,260,472)
Noncurrent assets (net) total	6,052,711	13,307,964	12,941,218	32,301,894	3,212,092
Assets total	$9,651,491	$14,971,495	$25,748,621	$50,371,608	$4,045,262

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Net Assets
June 30, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities
	Transit	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund
Liabilities and Net Assets					
Current liabilities					
Accounts payable	$96,729	$74,423	$330,158	$501,310	$9,050
Wages and payroll taxes	165,761	1,581	59,144	226,486	
Accrued compensated absences	222,252	3,161	52,820	278,233	
Accrued self-insurance losses	66,197		53,466	119,663	
Deposits from others	4,800			4,800	
Payable from restricted assets					
Accounts payable	177,331			177,331	
Interfund payable	1,072,994	97,277	340,000	1,510,271	
Unearned revenues	2,483	200,000		202,483	
Capital leases payable					369,209
Loans payable			1,271,522	1,271,522	
Current liabilities total	1,808,546	376,442	2,107,110	4,292,099	378,259
Long-term liabilities					
Accrued compensated absences	60,446	1,169	21,120	82,735	
Accrued self-insurance losses	84,059		87,274	171,334	
Capital leases payable					781,743
Landfill closure and postclosure care			17,419,219	17,419,219	
Long-term liabilities total	144,505	1,169	17,527,614	17,673,288	781,743
Liabilities total	1,953,052	377,611	19,634,724	21,965,387	1,160,003
Net assets					
Invested in capital assets, net of related debt	6,052,711	13,307,964	11,669,696	31,030,372	2,061,140
Restricted for					
Asset replacement		420,138		420,138	
Grants	143,335			143,335	
Unrestricted (deficit)	1,502,394	865,782	(5,555,800)	(3,187,624)	824,120
Net assets total	7,698,440	14,593,884	6,113,897	28,406,221	2,885,259
Liabilities and net assets total	$9,651,491	$14,971,495	$25,748,621		$4,045,262

Reconciliation to government-wide statement of net assets:

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	9,560
Net assets of business-type activities	$28,415,781

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities
	Transit	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund
Operating revenues					
Fares	$381,075	$	$	$381,075	$
Advertising	18,593			18,593	
Charges for services	411,215	109,186	7,370,161	7,890,562	564,890
Operating revenues total	810,882	109,186	7,370,161	8,290,230	564,890
Operating expenses					
Wages and benefits	4,843,404	66,983	1,900,676	6,811,062	
Fuels, lubricants, and parts	709,284		264,799	974,083	
Other commodities	4,398	9,072		13,470	3,850
Contractual services	1,072,606	960,981	2,330,988	4,364,575	685
Utilities	120,066		142,671	262,737	
Professional services	550,807	51,764	567,669	1,170,240	
Depreciation	457,597	504,239	1,472,944	2,434,780	431,553
Training, dues, and professional expenses	46,709	46	17,717	64,472	
Repairs and maintenance	109,122	1,740	355,088	465,950	4,182
Supplies	51,070	51,748	66,548	169,366	
Management contractor fee		186,166		186,166	
Landfill closure and postclosure care costs			(206,722)	(206,722)	
Interest expense - capital leases					54,241
Intragovernmental charges	892,746	447,500	837,761	2,178,007	51,728
Operating expenses total	8,857,808	2,280,239	7,750,139	18,888,186	546,239
Operating income (loss)	(8,046,926)	(2,171,052)	(379,978)	(10,597,956)	18,651

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities
	Transit	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund
Non-operating revenues (expenses)					
Interest expense	$	$	($37,864)	($37,864)	$
Grants revenue	2,290,786			2,290,786	
Investment income	803	495	11,416	12,714	
Gain (loss) on sales of capital assets	(24,676)			(24,676)	103,551
Miscellaneous revenue (expense)	2,316	1,281	1,638	5,235	7,448
Non-operating revenues (expenses) total	2,269,229	1,776	(24,810)	2,246,195	110,999
Income (loss) before contributions and transfers	(5,777,697)	(2,169,276)	(404,788)	(8,351,761)	129,650
Transfers in	4,506,004	1,140,080		5,646,084	
Capital contributions	704,275	672,408	340,000	1,716,684	105,381
Change in net assets	(567,418)	(356,788)	(64,788)	(988,994)	235,032
Net assets total, beginning	8,265,857	14,950,672	6,178,685		2,650,228
Net assets total, ending	$7,698,440	$14,593,884	$6,113,897		$2,885,259

Reconciliation to government-wide statement of activities:

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	14,229
Change in net assets of business-type activities	($974,764)

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Cash Flows
Increases (Decreases) in Equity in Central Treasury Cash
For the Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities
	Transit	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund
Cash flows from operating activities					
Cash received from customers	$821,809	$183,156	$7,340,644	$8,345,609	$564,350
Cash payments to suppliers for goods and services	(3,543,525)	(1,708,971)	(6,104,527)	(11,357,023)	(50,855)
Cash payments to employees for services	(4,820,406)	(67,646)	(1,797,240)	(6,685,292)	
Cash from surplus sale	2,316	1,281	1,638	5,235	7,448
Net cash provided by (used for) operating activities	(7,539,806)	(1,592,180)	(559,485)	(9,691,471)	520,943
Cash flows from noncapital financing activities					
Grants received	1,498,616			1,498,616	
Transfers from other funds	4,506,004	1,140,080		5,646,084	
Proceeds from interfund financing activity	801,250			801,250	
Net cash provided by (used for) noncapital financing activities	6,805,870	1,140,080		7,945,950	
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(550,838)	(100,162)	(368,083)	(1,019,084)	(126,814)
Capital grants received	775,240	654,377	340,000	1,769,617	87,181
Capital lease payments					(430,681)
Interest on capital lease payments					(54,241)
Proceeds from disposal of capital assets	4,460			4,460	103,993
Proceeds from (repayment of) interfund financing activity	(40,322)	97,200		56,878	
Payments on loan			(1,290,595)	(1,290,595)	
Net cash provided by (used for) capital and related financing activities	188,540	651,415	(1,318,678)	(478,724)	(420,562)
Cash flows from investing activities					
Investment income allocation from central treasury	803	495	11,416	12,714	
Payments received on loan			196,558	196,558	
Net cash provided by investing activities	803	495	207,974	209,272	
Net increase (decrease) in equity in central treasury cash	(544,593)	199,810	(1,670,189)	(2,014,973)	100,381
Equity in central treasury cash at beginning of year	2,610,074	1,262,147	13,585,882	17,458,103	732,789
Equity in central treasury cash at end of year	$2,065,481	$1,461,957	$11,915,693	$15,443,130	$833,170

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Cash Flows
Increases (Decreases) in Equity in Central Treasury Cash
For the Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities
	Transit	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund
Reconciliation of equity in central treasury cash to Statement of Net Assets accounts					
Equity in central treasury cash	$1,982,013	$848,412	$11,915,693	$14,746,117	$833,170
Restricted equity in central treasury cash	83,468	613,545		697,013	
Equity in central treasury cash at end of year	$2,065,481	$1,461,957	$11,915,693	$15,443,130	$833,170
Reconciliation of operating income (loss) to net cash provided by (used for) operating activites					
Operating income (loss)	($8,046,926)	($2,171,052)	($379,978)	($10,597,956)	$18,651
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation	457,597	504,239	1,472,944	2,434,780	431,553
Miscellaneous non-operating income	2,316	1,281	1,638	5,235	7,448
Interest expense for capital leases					54,241
Change in assets and liabilities					
(Increase) decrease in receivables	10,926	73,969	(22,527)	62,368	
(Increase) decrease in inventories	(18,083)		102,176	84,093	
Increase (decrease) in accounts payable	31,350		(1,630,377)	(1,599,027)	9,050
Increase (decrease) in deposits from others	16			16	
Increase (decrease) in wages and payroll taxes	20,555	(980)	(3,563)	16,012	
Increase (decrease) in accrued compensated absences	18,029	363	6,805	25,197	
Increase (decrease) in accrued self-insurance losses	(15,586)		100,119	84,533	
Increase (decrease) in landfill closure and postclosure care liability			(206,722)	(206,722)	
Adjustments total	507,120	578,872	(179,507)	906,485	502,292
Net cash provided by (used for) operating activities	($7,539,806)	($1,592,180)	($559,485)	($9,691,471)	$520,943
Noncash investing, capital and financing activities					
Capital leases					$332,403

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Fiduciary Fund

Statement of Net Assets
June 30, 2011

	Taxes Agency Fund
Assets	
Equity in central treasury cash	$199,924
Property tax liens receivable	377,583
Assets total	$577,507
Liabilities	
Due to other governmental agencies for collected taxes	$7,149
Due to other governmental agencies for uncollected taxes	377,583
Advance tax payments	192,775
Liabilities total	$577,507

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements
June 30, 2011

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Fairbanks North Star Borough (the Borough) was incorporated January 1, 1964 as a second class borough under the provisions of the State of Alaska Borough Act (1963), as amended. The Borough operates under a Mayor-Assembly form of government and provides the following services:

Areawide: property assessment and collection of taxes, public schools, planning and zoning, animal control, flood control, library, air pollution control, solid waste disposal (landfill), parks and recreation, transportation system, child care assistance (pursuant to a grant from the State of Alaska), health and social services (limited), emergency communication services (enhanced 911), and tourism marketing funded by hotel-motel room taxes. These services are provided throughout the entire Borough. The Borough also has hospital and housing financing powers, neither of which are exercised.

Non-areawide: emergency medical services, emergency disaster, economic development, and fireworks control. These activities service the area of the Borough outside the two cities of Fairbanks and North Pole.

Service area: road construction and maintenance is provided to 107 neighborhoods and regions, fire protection to five regions, water supply and sewage disposal to one neighborhood, and streetlights to one neighborhood. There are 114 service areas.

Solid Waste Collection District: solid waste collection and transfer to the landfill. The District services the area of the Borough outside the City of Fairbanks.

The accompanying financial statements present the Borough (primary government) and its discretely presented component unit, the Fairbanks North Star Borough School District (School District). The School District is the Borough's only component unit.

Although the School District is governed by an independently elected school board, it is included in these financial statements because it is financially accountable to the Borough in the following ways:

Any year-end fund balance surplus in excess of seven percent of the local appropriation to the School District lapses to the Borough's general fund, and 28.5 percent of the annual lapse is returned to the Borough and deposited in the School District facilities maintenance reserve.

The Borough Assembly is responsible for approving and appropriating the amount for local support for education to the School District.

The Borough has responsibility for funding any deficits of the School District.

The Borough is responsible for the levying and collecting of taxes. The School District has no taxing authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

The School District cannot borrow funds, but the Borough may and does issue bonds to finance school construction, renovation, technology upgrades, and major maintenance.

All land, buildings, and improvements other than buildings used by the School District are owned by the Borough and provided to the School District at no charge. School buildings located on Fort Wainwright army post and on Eielson air force base are owned by the Borough; the land is leased through agreements with the Secretary of the Army and the Secretary of the Air Force.

The School District is required to deposit all school money in the Borough's central treasury.

The School District is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Borough. Complete financial statements of the School District can be obtained from the School District's Department of Administrative Services at 520 Fifth Avenue, Fairbanks, Alaska 99701-4756; telephone number (907) 452-2000. The report is also available on their website at http://www.k12northstar.org/sites/default/files/2010-11_Comprehensive_Annual_Financial_Report_0.pdf .

B. FUNDS

The accounts of the Borough are organized and operated on the basis of funds. A fund is an independent fiscal and accounting unit with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid Borough management in demonstrating compliance with finance-related legal and contractual provisions. There are eleven fund types, of which the Borough uses seven. The fund types used by the Borough are general, special revenue, debt service, capital projects, enterprise, internal service, and agency. All fund types can be categorized into three broad classifications: governmental, proprietary, and fiduciary.

Governmental Funds

The Borough has five major governmental funds:

The general fund is the government's primary operating fund. It is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund. Programs in the multi-year general subfund are of a non-capital, non-enterprise nature.

The service areas special revenue fund is used to account for property taxes, other revenues and expenditures that are restricted for or committed to the Borough's four service area activities: road maintenance and construction, fire protection, streetlights, and water supply and sewage disposal. There are 107 active road service areas, five fire service areas, one streetlights service area, and one sewer and water service area.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUNDS (continued)

The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest, and related costs.

The state grants capital projects fund is used to account for State grant-funded capital projects.

The bond capital projects fund is used to account for all bond-funded capital projects.

In addition, the Borough has twelve nonmajor governmental funds. The nonmajor special revenue funds are State grants, federal pass-through grants, federal grants, local programs, enhanced 911, non-areawide, solid waste collection district, and library. The nonmajor capital projects funds are federal pass-through grants, federal grants, local projects, and capital purchases.

Proprietary Funds

In the proprietary fund type, the Borough reports all of its enterprise funds as major:

The transit enterprise fund is used to account for the activities of the public transportation system (the MACS Metropolitan Area Commuter System and the paratransit Van Tran service), the air quality function, and maintenance of the Borough's vehicle fleet.

The Carlson Center enterprise fund is used to account for the operations of the John A. Carlson Community Activity Center.

The solid waste disposal enterprise fund is used to account for the activities of the Borough's solid waste disposal function, which includes operation of the landfill, household hazardous waste disposal, and recycling of various materials.

Additionally, the Borough has one internal service fund (proprietary fund type):

The vehicle and equipment fleet fund is used to account for the acquisition and financing of Borough vehicles and equipment.

Fiduciary Fund

The Borough also has only one fiduciary fund, an agency fund:

The taxes agency fund is used to account for real property taxes collected by the Borough as an agent for the two cities, Fairbanks and North Pole.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

There are two government-wide financial statements, the statement of net assets and the statement of activities. These statements report information on all of the nonfiduciary activities of the Borough as a primary government and its component unit, the School District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities (the Borough's enterprise funds), which use some amount of fees and charges for support. The Borough is reported separately from the School District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Indirect expense allocations made in the funds are reversed and presented in a separate column. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All nonmajor governmental funds are combined into a single, aggregated column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the transit enterprise fund, the Carlson Center enterprise fund, the solid waste disposal enterprise fund, and the Borough's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that proprietary funds follow all GASB pronouncements. It also allows enterprise funds the option of either following Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 that are not in conflict with GASB pronouncements, or following all FASB pronouncements that are not in conflict with GASB pronouncements. For its enterprise funds and business-type activities, the Borough has elected to follow FASB pronouncements issued on or before November 30, 1989 that are not in conflict with GASB pronouncements.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include interfund goods and services provided and used between

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)

Borough functions. Elimination of these charges would distort direct costs and program revenues for the various functions concerned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within 45 days of the end of the current fiscal period, except for land sales which use a 30-day availability period.

Property taxes are levied by June 15 but not accrued until July 1 of the succeeding fiscal year when they are available to finance expenditures of that period. Taxes collected prior to July 1 are recorded as advance tax payments. State entitlements and shared revenues are recorded as revenue in the period of allocation. Certain grant revenues are dependent upon expenditures or other criteria, and revenues from these grants are recognized when the expenditures are made, or the criteria are met. Revenues from other grants are recognized on the cash basis. Interest income is accrued when earned. For investments with maturities greater than one year, unrealized gains and losses are recorded at the end of the reporting period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

The School District reports district-wide information using the economic resources measurement focus and the accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the district-wide information.

E. EQUITY IN CENTRAL TREASURY CASH - DEPOSITS AND INVESTMENTS

Cash resources of all Borough funds, and of the School District component unit, are combined and invested with the following objectives: ensure safety of principal, maintain sufficient liquidity to meet cash flow requirements, and achieve a reasonable market rate of return. Central treasury investments are reported at fair value.

Investment income is earned by or allocated to the following funds and accounts based upon their cumulative, month-end cash equity balances: land revenue reserve general fund - multi-year program and any capital projects funded by the land revenue reserve, service areas special revenue fund and any capital projects funded by service areas, health care contingency reserve local special revenue program, enhanced 911 special revenue fund, the library special revenue fund and any capital projects funded by the library fund, federal grants in all funds, all bond-funded capital projects, capital projects to renovate the Mary Siah tennis courts funded by a donation, Chena Riverfront Trust local capital project, enterprise funds, and the School District for pupil activities. The balance of investment income is allocated to the general fund.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

F. STATEMENT OF CASH FLOWS

For purposes of the statement of cash flows, the cash and cash equivalents of the enterprise funds and the internal service fund are their equity in central treasury cash.

G. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, interfund receivables and payables transactions arise. On the government-wide statement of net assets, the internal balances represent the amounts that are receivable or payable between business-type activities and governmental activities.

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond the current year-end are recorded as prepaid items in both government-wide and fund financial statements.

I. INVENTORIES

Inventories of the transit enterprise fund and the solid waste disposal enterprise fund are stated at cost. An average cost method is used for parts. The first-in, first-out method is used for fuel. Inventories of the School District are valued at cost, using various methods. All inventories are recorded as expenditures when used (consumption method).

J. CAPITAL ASSETS

In the government-wide financial statements and the fund financial statements of the proprietary funds, land, buildings, improvements, machinery and equipment, library materials, artwork, software, and construction in progress, are reported as capital assets. Capital assets are defined by the Borough as tangible or intangible property for use in operations with an initial, individual cost of $5,000 or more for machinery and equipment and for artwork and $50,000 or more for all other assets except library materials, and an estimated useful life of over one year; library materials with a useful life greater than one year are grouped by type for capitalization purposes. Such assets are recorded at cost at the time of acquisition or construction. Donated capital assets are recorded at estimated fair value at the date of donation. During the conversion to GASB No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* if the cost of an asset was not readily available, the historical cost was estimated. This was done using the current replacement cost of the asset and applying a relevant index to back-trend this amount to the date of acquisition or construction.

Land and land improvements includes entitlement land, received by the Borough under the State of Alaska's Municipal Entitlement Act, which is recorded as a donation in the statement of activities. The land donated by the State is valued at $1 per acre when tentative approval for the land is received from the State until such time as the estimated fair value is readily determinable. When the fair value of the land can be determined, it is back-trended to the date of donation and that portion exceeding $1 per acre is then recorded as donation revenue.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. CAPITAL ASSETS (continued)

The cost of the road service areas' rights-of-way and roadbeds is also included in the amount of land and land improvements. Due to its road service powers, the Borough manages and maintains the roads on rights-of-way located on public land. Roadbeds are considered a non-exhaustible land improvement. Additions to the road service areas' rights-of-way and roadbeds due to annexation, subdivision development, and construction are recorded as donations. In addition, the amount of land and land improvements includes the cost of the Tanana River levee. The Tanana River levee includes the levee itself, drainage channels, and protective groins and is considered to be a permanent land improvement. As a second class borough, the Borough has no major general infrastructure assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Most capital assets of the Borough are depreciated or amortized over their estimated useful lives using the straight-line method, half-year convention. Beginning in fiscal year 2007, land put into service for solid waste disposal is being depreciated using the activity method. All land for solid waste disposal put into service prior to fiscal year 2007 is depreciated using the straight-line method, half-year convention. Land not in service for solid waste disposal, land improvements, works of art, and construction in progress are not depreciated. In addition, the following categories of library materials are non-circulating permanent collections that are appreciating in value and as such, they are not depreciated: microfilm, Alaskana materials, and the antiquarian collection. Estimated useful lives are as follows:

	Years
Buildings	15-50
Improvements	20-50
Equipment	4-35
Library materials - books and media	6
Software	5-20

The capital assets of the School District consist only of minor improvements, furniture, equipment, and certain intangible assets (software). Capital assets are defined by the School District as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of two years. School District equipment is valued at cost or estimated historical cost when original cost is not available. Donated equipment is valued at its estimated fair market value on the date received. The Borough owns and provides to the School District all school land, buildings, and improvements, except for certain land that is leased.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. CAPITAL ASSETS (continued)

The School District records straight-line depreciation and amortization over the following estimated useful lives:

	Years
Furniture and equipment	5-25
Intangible assets (software)	5-10

K. ACCRUED COMPENSATED ABSENCES

It is the Borough's policy to permit employees to accumulate earned but unused annual leave. Annual leave is subject to certain restrictions and maximum accumulations. Employees are paid for any accumulated annual leave upon use or at termination. All annual leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

L. DEFERRED AND UNEARNED REVENUES

In the financial statements of the governmental funds, deferred revenues arise when a legal claim exists, but the resources are not available to pay liabilities of the current period, as when property taxes are levied but not collected within the availability period.

Unearned revenues arise when resources are received before the Borough or School District has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when the Borough or School District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

M. OTHER LONG-TERM LIABILITIES

In the government-wide financial statements and the fund financial statements of the proprietary funds, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental funds recognize bond premiums as revenues and discounts, as well as bond issuance costs, as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

N. ENVIRONMENTAL LIABILITIES

The Borough's policy requires accrual of material pollution remediation obligation amounts when (a) a specific obligating event is met and (b) the amount can be reasonably estimated. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the Borough's pollution remediation obligation. Costs incurred for pollution remediation obligations are recorded as environmental expenditures unless specific criteria are met that allow them to be capitalized.

O. FUND EQUITY

Fund equity is classified in the government-wide and the proprietary fund statements as net assets. The governmental fund statements classify fund equity as fund balance. The Borough's governmental fund balances are classified based on the nature and extent of any constraints on it, defined as follows:

Restricted – fund balances are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, by the State through laws or regulations, or by law through enabling legislation or constitutional provisions.

Committed – fund balances are constrained by limitations that the Borough Assembly and the Mayor formally and officially impose upon the Borough itself and which remain binding unless removed in the same manner. The Borough Assembly commits fund balance through the passage of an ordinance. This can occur as part of the annual budget appropriation, or through supplemental appropriations amending the budget.

Assigned – fund balances reflect the Borough's intended use of resources. These intentions may be established by the Assembly, a committee of the Assembly, the Mayor, or by a designated official such as the Chief Financial Officer.

Unassigned – fund balance is reported in the general fund and represents the residual amount that is not constrained by any other fund balance classifications. In addition, any governmental fund in a deficit position reports that deficit as negative unassigned fund balance.

When both restricted and unrestricted resources are available for a particular purpose, restricted grant funds are used first, except when there are matching requirements; then the grant funds and matching funds are expended proportionately. For the library special revenue fund, unrestricted interest earnings are used first, then restricted donations. In the Carlson Center enterprise fund, use of the restricted reserve funds is determined on a case-by-case basis. The use of restricted donations is also determined on a case-by-case basis. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed. For unrestricted amounts of fund balance it is the Borough and School District's policy to use fund balance in the following order: committed, assigned, unassigned.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

P. IN-KIND SUPPORT TO THE SCHOOL DISTRICT

Certain services are provided by the Borough to the School District. These include use of various Borough facilities, debt service on school facilities, certain administrative functions, major facility maintenance, and certain equipment purchases. The costs of these services and assets have not been charged to the School District.

Q. COMPARATIVE DATA/RECLASSIFICATION

The financial statements include partial prior-year comparative information in order to provide an understanding of the changes in the financial position and operations of the Borough's funds. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Borough's financial statements for the year ended June 30, 2010, from which such partial information was derived. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

R. ROUNDING

Each amount in the financial statements is rounded to its natural whole number. As a result, some subtotals and totals may not equal the sum of the detail amounts.

2. **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

A. BUDGETARY PROCESS

The budgetary data presented in the financial statements are established by the following procedures:

1. On or before the first Thursday following April 1, the Mayor submits to the Borough Assembly a proposed operating budget for the following fiscal year. The annual operating budget includes proposed expenditures and the means of financing them. In accordance with Alaska Statutes 14.14.060(c) and Fairbanks North Star Borough Code of Ordinances (FNSBC) 3.03.010A, the School District's Board of Education is required to adopt and submit its annual budget to the Borough Assembly by April 1 for approval of the amount of local support for education.

2. At least one public hearing is held.

3. By May 31, the budget is legally enacted through the passage of an appropriating ordinance, including the local support share of School District funding.

4. The Mayor is authorized to transfer budgeted amounts within an appropriation, generally a department or a service area, if equal to or less than $20,000. Transfers above that amount and transfers between departments, between service areas, or between funds require Borough Assembly approval.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

Annual budgets are legally adopted for the operating portion of the general fund, certain special revenue funds (enhanced 911, non-areawide, solid waste collection district, and service areas), and the debt service fund. Differences in accounting for encumbrances exist between the basis of accounting used for budgetary purposes and that used for reporting in accordance with generally accepted accounting principles. The multi-year general subfund, the remaining special revenue funds, except library, and all the capital projects funds are controlled through project or program budgets. Adopted project or program budgets provide authorization to complete projects or programs that extend beyond one fiscal year. Multi-fiscal year projects and programs are controlled by comparing inception-to-date expenditures with project or program budgets.

Annual budgets are also adopted for the enterprise funds and the internal service fund. However, generally accepted accounting principles do not require the adoption of budgets for enterprise funds and internal service funds, and budgetary comparisons are not included for these funds because the measurement focus is based upon determination of net income and financial position.

Formal budgetary integration is employed as a management control device for all funds of the Borough. Appropriations are authorized by ordinance at the department level for the operating portion of the general fund, enhanced 911 special revenue fund, non-areawide special revenue fund, solid waste collection district special revenue fund, enterprise funds, and internal service fund; at the service area level in the service areas special revenue fund; and at the project or program level for the multi-year general subfund, the remaining special revenue funds, and the capital projects funds. All other appropriations are at the fund level.

Expenditures may not exceed these appropriations which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed, object-level budgets.

B. RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS

The following schedule reconciles revenues and expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balances presented in accordance with generally accepted accounting principles (GAAP) to revenues and expenditures on the Statement of Revenues and Expenditures - Budget and Actual for the general fund and all service areas:

	General Fund	Service Areas
Revenues reported on the basis of budgeting	$122,375,305	$10,400,288
Adjustment for other financing sources (transfers in)		(2,573)
Adjustment for intragovernmental cost plan revenues	(4,685,993)	
Revenues reported on the basis of GAAP	117,689,312	$10,397,715

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

B. RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS (continued)

	General Fund	Service Areas
Expenditures reported on the basis of budgeting	$88,626,325	$8,485,363
Expenditures on prior year encumbrances	193,942	19,988
Current year encumbrances	(343,801)	(7,522)
Adjustment for other financing sources (transfers out)		(715,164)
Adjustment for intragovernmental cost plan revenues	(4,685,993)	
Adjustment for accrued compensated absences	(131,832)	
Expenditures reported on the basis of GAAP	$83,658,641	$7,782,665

Since encumbrances constitute the equivalent of expenditures for budgetary purposes, the accompanying statements present comparisons of actual results to the annual budgets of the general fund and all service areas on the basis of budgeting. Adjustments to convert actual expenditures to the basis of budgeting are reflected in the actual on budgetary basis column in the accompanying statements. The adjustments include the addition for current year encumbrances and the deduction for expenditures of prior year encumbrances.

The intragovernmental cost plan revenues and expenditures are reflected for budgetary purposes as a revenue and an expenditure in the applicable cost units. For GAAP purposes, the actual intragovernmental cost plan revenues are subtracted from actual expenditures and the net amount is shown as expenditures for the corresponding cost pool.

For budgetary purposes, the accrual basis of accounting is used and the entire amount of the accrued compensated absences that was earned is reported as a liability. For GAAP purposes, the modified basis of accounting is used and only that portion of the accrued compensated absences that is due and payable is shown as a liability.

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no excesses of actual expenditures over appropriations for the year ended June 30, 2011.

D. DEFICIT FUND EQUITY

There was a deficit fund balance at June 30, 2011 in Golden Valley road service area of $4,696 resulting from a loan to cover a 10 percent match to a project. At June 30, 2011, the nonmajor federal grants capital projects fund reported a deficit of $9,082 caused by a timing difference with a federal grant reimbursement.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

E. TAXES LEVIED IN EXCESS OF MAXIMUM TAX COMPUTATION

Forty-seven service areas and the non-areawide taxing authority levied a total of $8,330 of taxes in excess of the maximum tax computation. (See Note 4.)

F. SCHOOL DISTRICT FUND BALANCE LIMIT

In accordance with Alaska Statutes 14.14.060(c) and FNSBC 3.03.040, the Assembly annually appropriates the amount of local support for school purposes. FNSBC 3.01.060 E limits the amount of the School District's local appropriation fund balance. Local appropriation fund balance in excess of seven percent lapses to the Borough's general fund. At June 30, 2011, the School District's local appropriation fund balance was within the seven percent limitation.

3. DEPOSITS AND INVESTMENTS

Equity in central treasury cash is composed of deposits and investments for all Borough funds and all funds of the School District component unit.

Deposits – Banking services are provided to the Borough under a contract with Wells Fargo Bank Alaska N.A. (WFB). These services were paid for monthly through a fee based structure. The contract requires that WFB sweep the Borough's central treasury accounts daily and invest all available funds in an overnight investment.

Investments – FNSBC 3.04 (Code) describes the objectives, policies, and procedures for the investment of Borough funds. Moneys may be invested only in the following instruments, with the listed maximum maturities from date of purchase: 1) U.S. Treasuries – 5 years; 2) other obligations guaranteed by the United States government or its agencies and instrumentalities – 5 years; 3) repurchase agreements of securities specified in 1) and 2) above, subject to qualifications of the financial institution and specified margin requirements – 5 years; 4) collateralized certificates of deposit and other deposits – 5 years; 5) bank deposits insured by FDIC, NCUA, or FSLIC – 5 years; 6) bonds or notes of any state or political subdivision thereof, rated A or higher – 5 years; 7) prime commercial paper graded A1/P1 or higher – 270 days; 8) prime bankers acceptances of the fifty largest international banks – 180 days; 9) money market mutual funds consisting entirely of instruments specified in 1), 2), and 3) above – maturity date not applicable; and 10) the Alaska Municipal League Investment Pool, Inc.

FNSBC 3.04.050 (Code) describes the diversification of investments to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, and class of security or a specific financial institution. The total amount of principal and accumulated interest which will be paid to the Borough at maturity of all certificates of deposit, other deposits, and/or repurchase agreements invested with any one financial institution shall not at any time exceed 20 percent of the total net worth of the financial institution, as shown on said financial institution's most current annual financial statements. At no time shall the total value of Borough monies invested in repurchase agreements, certificates of deposit, and/or other deposits with a single financial institution, including interest which will be payable to the Borough at the maturity of each investment, exceed 30 percent of the total principal value of the entire Borough investment portfolio.

3. DEPOSITS AND INVESTMENTS (continued)

The Borough's investments are subject to "interest rate risk" – the risk that changes in interest rates will adversely affect the fair value of an investment. The Borough's policies to manage the interest rate risk of its investments include limiting their time to maturity at the date of purchase, as noted above. In addition, the Borough's entire investment portfolio cannot have an average maturity exceeding three years. Further, at the time of purchasing an investment, not more than 30 percent of the prior 12-month moving average value of the portfolio may be in the three- to five-year range.

The Borough's investments in debt securities are also subject to "credit risk" – the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured by nationally recognized statistical rating organizations (rating agencies), such as Standard & Poor's (S&P), Moody's, and Fitch in the form of credit quality ratings. As noted above, the Borough's policies limit its investments in debt securities to obligations of the U.S. government, which are to be considered free of any credit risk in accordance with GAAP, and to the highest-rated debt securities where the credit risk is low.

The Alaska Municipal League Investment Pool, Inc. (Pool) is not SEC-registered, but is a 2a7-like money market fund, operating in a manner consistent with that rule. In May 2009, Standard & Poor's assigned its AAAm principal stability fund rating to the Pool. Stand-alone financial statements can be obtained by writing to the Alaska Permanent Capital Management Co., 900 West Fifth Avenue, Suite 601, Anchorage, Alaska 99501.

Regulatory oversight of the Pool is established by Alaska Statutes 37.23. The law sets forth numerous requirements regarding authorized investments and reporting. The Pool is incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statutes 37.23.050 require the retention of an investment manager. The manager is required to produce monthly disclosure statements for the Pool. The Pool also has retained an investment advisor who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the Pool is voluntary. The Pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the Pool are reviewed for fair value by an independent pricing service. As of June 30, 2011, the fair value of the investments in the Pool approximates the amortized cost at which the investments were reported. The fair value of the Borough's investments in the Pool is the same as the value of its Pool units.

The Borough's investments, by investment type, at June 30, 2011 are:

Investment Type	Fair Value	Maturity	Ratings
Overnight investments:			
Wells Fargo Bank Alaska N.A.	$370,459		n/a
Wells Fargo Bank Alaska N.A.	6,407,973		n/a
Denali State Bank	500		n/a

3. DEPOSITS AND INVESTMENTS (continued)

Investment Type	Fair Value	Maturity	Ratings
Government securities money market funds:			
Fidelity Institutional Money Market Government Fund	$8,908,731		AAAm/Aaa
BNY Goldman Sachs Financial Square Government Fund	146,207		AAAm/Aaa
Dreyfus Government Cash Management	25,000		AAAm/Aaa
Federated Government Obligations Tax Managed	2,500,007		AAAm/Aaa
Federated Government Obligations Institutional	2,500,007		AAAm/Aaa
Fidelity Government Class I	8,701,485		AAAm/Aaa
Goldman Sachs Financial Square Government Institutional	18,701,804		AAAm/Aaa
Invesco Government & Agency Portfolio Cash Management	15,000,088		AAAm/Aaa
Invesco Government TaxAdvantage Portfolio Cash Management	16,125,314		AAAm/Aaa
JPMorgan US Government Institutional	150,270		AAAm/Aaa
Morgan Stanley Government Portfolio Institutional	18,204,568		AAAm/Aaa
Wells Fargo Advantage Government Municipal Money Market Fund Institutional	7,375,452		AAAm/Aaa
External investment pool – money market fund:			
Alaska Municipal League Investment Pool	38,741,797		AAAm
Certificates of Deposit:			
Certificate of Deposit Account Registry Service – CDARS	5,000,000	14 July 2011	n/a
Certificate of Deposit Account Registry Service – CDARS	10,000,000	13 October 2011	n/a
	$158,859,662		

4. PROPERTY AND OTHER TAXES

During the preceding fiscal year, property was assessed as of January 1 and taxes were levied by June 15. During the current fiscal year, these taxes attached on property as an enforceable lien on July 1 and were payable in two installments on September 1 and November 1. Property tax revenues were accrued on July 1 when they became available to finance expenditures of the current fiscal year.

4. PROPERTY AND OTHER TAXES (continued)

Property taxes receivable, including associated penalties and interest receivable, are shown net of an allowance for doubtful accounts. The vast majority of property taxes are ultimately collectible through the lien and foreclosure process. The allowance is based on an estimate of those delinquent properties not subject to that process. All penalties and interest on delinquent property taxes of the Borough belong to the general fund.

Alaska Statutes 29.45.090 limits the amount of taxes levied to three percent of the assessed value of the property within the Borough. Furthermore, no Borough, or combination of municipalities occupying the same geographical area, may levy taxes which will result in tax revenues from all sources exceeding $1,500 a year for each person residing in the Borough or which exceed the product of 225 percent of the average per capita assessed full and true value of property in the state multiplied by the number of residents of the Borough. However, there is no taxing limitation for debt service per Alaska Statutes 29.45.100.

FNSB 3.08.141 (Code) limits the Borough's taxing authority. The total amount of tax that can be levied during a year cannot exceed the total amount levied for the preceding year (see Note 2E). For computation purposes, the preceding year's tax levy is adjusted for inflation, new construction, additional voter-approved services, new judgments against the Borough, special appropriations necessary on an emergency basis, and any appropriations from fund balance designated by the Borough Assembly as a tax reduction. The limitation does not apply to any appropriation for payments on bonds. The Code requires inclusion of both property tax and other tax revenues within the tax cap computation and requires publication of tax cap computations by May 31 of each year. In October of 2010, the voters reconfirmed the Code provision limiting the Borough's taxing authority.

The Borough received $8,619,639 from Alyeska Pipeline Service Company as a result of a favorable decision in the trial to settle the assessed valuation dispute for the trans-Alaska pipeline system for the 2006 tax year (Note 18). This amount represents additional taxes and includes penalties and interest of $2,268,876 due for the fiscal year 2007. The detail for this payment, by fund, is as follows:

Major governmental funds	
General	$7,713,696
Service areas special revenue	245,301
Nonmajor governmental funds	
Non-areawide	176,115
Solid waste collection district	484,527
	$8,619,639

Part of this decision includes the recovery of attorney fees. A final determination of this amount is pending with the court and has been estimated at $800,000, for which a receivable has been recorded in the government-wide statement of net assets.

5. NOTES RECEIVABLE – LAND SALES

All real estate sales financed by the Borough use notes receivable secured by deeds of trust. Annual installments are due over a period of ten years from the time of sale with a stated interest rate of 6.50 percent to

5. NOTES RECEIVABLE – LAND SALES (continued)

10.00 percent and a weighted average interest rate of 8.84 percent. The annual installments of principal due for the next five years on notes receivable – land sales are as follows:

June 30	Annual Installments
2012	$120,525
2013	108,844
2014	100,179
2015	99,819
2016	79,051

No allowances for uncollectible notes are recorded as the Borough expects non-judicial foreclosure actions to recoup at least the outstanding receivable amount on each delinquent property. As of June 30, 2011, the total receivable for delinquent accounts amounted to $133,382.

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	$251,577,484	$1,549,985	($443,082)	$252,684,387
Works of art	156,800			156,800
Library materials	1,117,485	27,915		1,145,401
Construction in progress	12,841,327	2,414,060	(8,501,749)	6,753,638
Total capital assets, not being depreciated	265,693,096	3,991,960	(8,944,831)	260,740,225
Capital assets, being depreciated:				
Buildings	446,403,946	6,329,705	(2,855,165)	449,878,485
Improvements other than buildings	70,740,961	2,172,044		72,913,005
Machinery and equipment	18,922,215	1,907,336	(1,246,792)	19,582,759
Library materials	1,839,275	345,908	(332,249)	1,852,934
Intangible assets - software	1,305,759			1,305,759
Total capital assets, being depreciated	539,212,156	10,754,993	(4,434,206)	545,532,942

6. CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	($173,432,867)	($11,612,514)	$2,855,165	($182,190,215)
Improvements other than buildings	(27,836,166)	(2,278,004)		(30,114,170)
Machinery and equipment	(10,416,450)	(1,088,023)	1,223,633	(10,280,839)
Library materials	(924,097)	(307,684)	332,249	(899,532)
Intangible assets - software	(1,100,044)	(62,293)		(1,162,337)
Total accumulated depreciation	(213,709,624)	(15,348,518)	4,411,047	(224,647,094)
Total capital assets, being depreciated, net	325,502,532	(4,593,525)	(23,159)	320,885,848
Governmental activities capital assets, net	$591,195,628	($601,565)	($8,967,990)	$581,626,073
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	$1,850,269	$	$	$1,850,269
Works of art	120,790			120,790
Construction in progress	82,953	478,432	(145,985)	415,400
Total capital assets, not being depreciated	2,054,012	478,432	(145,985)	2,386,459
Capital assets, being depreciated:				
Land and land improvements	346,044			346,044
Buildings	27,296,708	110,348		27,407,056
Improvements other than buildings	18,869,405			18,869,405
Machinery and equipment	9,409,224	586,474	(76,707)	9,918,991
Intangible assets - software	204,769			204,769
Total capital assets, being depreciated	56,126,149	696,822	(76,707)	56,746,265
Less accumulated depreciation for:				
Land and land improvements	(279,949)	(11,681)		(291,630)
Buildings	(9,796,195)	(593,737)		(10,389,932)
Improvements other than buildings	(10,838,885)	(978,390)		(11,817,275)
Machinery and equipment	(3,438,561)	(830,111)	47,571	(4,221,100)
Intangible assets - software	(90,032)	(20,861)		(110,893)
Total accumulated depreciation	(24,443,621)	(2,434,780)	47,571	(26,830,830)
Total capital assets, being depreciated, net	31,682,528	(1,737,958)	(29,136)	29,915,434
Business-type activities capital assets, net	$33,736,540	($1,259,526)	($175,121)	$32,301,894

6. CAPITAL ASSETS (continued)

Component Unit - School District

	Beginning Balance	Additions	Deductions	Ending Balance
Furniture and equipment	$9,256,859	$868,896	($1,178,323)	$8,947,432
Less accumulated depreciation	(6,096,399)	(591,002)	1,169,708	(5,517,693)
Total, net of accumulated depreciation	3,160,460	277,894	(8,615)	3,429,739
Intangible assets (software)	1,121,733	115,190		1,236,923
Less accumulated amortization	(101,849)	(115,137)		(216,986)
Total, net of accumulated amortization	1,019,884	53		1,019,937
Component unit capital assets, net	$4,180,344	$277,947	($8,615)	$4,449,676

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	$252,822
Community planning	4,099
Public works	89,792
Parks and recreation	1,674,124
Library	625,617
Education	11,435,741
Emergency operations	252,305
Fire service areas	582,466
In addition, depreciation on capital assets held by the Borough's internal service fund is charged to the various functions based on their usage of the assets.	431,553
Total depreciation expense – governmental activities	$15,348,518
Business-type activities:	
Transit	$457,597
Carlson Center	504,239
Solid waste disposal	1,472,944
Total depreciation expense – business-type activities	$2,434,780

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances for the purpose of the government-wide statements have been eliminated with the exception of internal balances that represent the amounts that are receivables or payables among business-type activities and governmental activities. The composition of interfund balances in the fund financial statements as of June 30, 2011, were as follows:

Receivable	Payable	Amount
General	State grants capital projects	$36,719
General	Nonmajor governmental funds	409,664
General	Transit enterprise	1,072,994
General	Carlson Center enterprise	97,277
General	Solid waste disposal enterprise	340,000
State grants capital projects	Nonmajor governmental funds	22,351
State grants capital projects	Service areas	27,916
Solid waste disposal enterprise	Service areas	95,485
Total interfund receivable/payable		$2,102,406

- The general fund receivable totaling $1,956,654 is due to the individual funds' overdrafts of pooled cash in the central treasury, primarily for expenditure-driven grants for which grantor reimbursement has not yet been received.
- The state grants capital projects receivable of $50,267 is two loans to Golden Valley and Potlatch Heritage Hills road service areas from the road service revolving loan fund for road reconstruction projects. The balances are to be paid over 10 years at an interest rate of 8.25 percent with $27,916 payable through July 2018 and the $22,351 payable through May 2019, respectively.
- The solid waste disposal enterprise fund receivable of $95,485 represents an outstanding loan to Chena Point road service area for a resurfacing project. The loan has a 10-year term, through November 15, 2015, with a variable interest rate calculated on the Bond Buyer's 20-Bond G.O. Index.

Transfers are used for funding of capital projects, debt service, and subsidies for various Borough operations accounted for in other funds in accordance with budgetary authorizations.

Transfers for the year ended June 30, 2011, were as follows:

	Transfers In	Transfers Out
Major governmental funds		
General	$3,690,880	$23,211,500
Service areas special revenue	2,573	715,164
Debt service	14,979,722	
State grants capital projects		126
Bond capital projects		1,507,872

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (continued)

	Transfers In	Transfers Out
Nonmajor governmental funds	$9,727,803	$8,612,400
	28,400,978	34,047,062
Major proprietary funds		
Transit enterprise	4,506,004	
Carlson Center enterprise	1,140,080	
	5,646,084	
Total – all funds	$34,047,062	$34,047,062

8. OPERATING LEASES

The Borough is obligated under certain site and equipment leases accounted for as operating leases. Operating leases do not give rise to property rights or recorded lease obligations; and therefore, the results of the lease agreements are not reflected as assets or liabilities. Operating lease expenditures for the year ended June 30, 2011 were $1,003,136.

The Borough has several significant operating leases:

- land lease for West Valley High School. In fiscal year 1996, the Borough paid a one-time lease payment to the University of Alaska for an extension to 2043.
- land lease for Hutchison High School which is housed within the Hutchison Institute of Technology. In fiscal year 2000, the Borough paid a one dollar, one-time lease payment to the University of Alaska. The lease expires in 2043.
- five land leases for the following school sites: Crawford Elementary School, Anderson Elementary School, Ladd Elementary School/Tanana Middle School, Arctic Light Elementary School, and Ben Eielson High School. All land lease agreements are for twenty-five years expiring in 2021, 2023, 2024, 2028, and 2030 respectively, and are revocable at will by either the Secretary of the Army or the Secretary of the Air Force, as applicable. Payment is made through ongoing maintenance, repairs, operations, protection and improvement of the schools, except for Ladd Elementary School/Tanana Middle School for which a $25 annual lease payment is made by the School District.
- land lease for School District central kitchen facility and food supply warehouse. In fiscal year 2008, the Borough paid a one-time lease payment of $163,491 to the Alaska Railroad Corporation. The lease expires in 2057.

8. OPERATING LEASES (continued)

- Chena Lakes Recreation Area land lease with the U.S. Army. Fifty-year lease expires in 2034. Payment is made through ongoing operation and management for park and recreation purposes.
- biathlon range and certain ski trails at the Birch Hill Recreation Area. The five-year lease expires in January 2013, but is revocable at will by the Secretary of the Army. Payment is made through trail construction and ongoing maintenance for public use.
- Tanana Lakes Recreation Area land lease with the State of Alaska, Department of Natural Resources. Fifty-five year lease expires in August 2062. Payment is made through maintenance and repairs of the recreation area.

The future minimum lease payments for all operating leases are as follows:

Year Ending June 30	Amount
2012	$715,135
2013	423,225
2014	327,847
2015	187,250
2016	103,900
Total	$1,757,357

There are no other operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2011.

9. CAPITAL LEASES

The Borough has entered into a master lease agreement as lessee for financing the acquisition of vehicles and equipment. The leases from this agreement qualify as capital leases for accounting purposes. The leased assets and their related obligations are all accounted for in the internal service proprietary fund. The assets acquired through capital leases are as follows:

	Proprietary Fund
Machinery and equipment	$2,469,696
Less: Accumulated depreciation	(576,709)
Total	$1,892,987

9. CAPITAL LEASES (continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

Year Ending June 30	Proprietary Fund
2012	$411,170
2013	369,636
2014	268,847
2015	154,484
2016	31,721
Total minimum lease payments	1,235,858
Less: Amount representing interest	(84,905)
Present value of minimum lease payments	$1,150,953

10. LONG-TERM LIABILITIES AND SUBSEQUENT EVENTS

A. GENERAL OBLIGATION BONDS

The Borough issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities only. General obligation bonds are direct obligations and pledge the full faith and credit of the Borough. These bonds generally are issued as 20-year serial bonds. General obligation bonds currently outstanding are as follows:

	Amount
$9,000,000 2000 Series C school facilities bonds due in annual installments of $450,000 to $710,000 through December 1, 2020 at 4.5% interest	$5,710,000
$9,050,000 2001 Series D school facilities bonds due in annual installments of $445,000 to $695,000 through February 1, 2021 at 4.125 to 4.250% interest	5,580,000
$14,000,000 2002 Series E school facilities bonds due in annual installments of $620,000 to $1,085,000 through August 1, 2022 at 4.0 to 4.8% interest	9,940,000
$13,500,000 2003 Series F school facilities bonds due in annual installments of $615,000 to $1,075,000 through October 1, 2022 at 3.75 to 4.75% interest	9,845,000
$14,164,000 2004 Series G school facilities bonds due in annual installments of $620,000 to $1,005,000 through October 1, 2023 at 3.25 to 4.25% interest	10,230,000

10. LONG-TERM LIABILITIES AND SUBSEQUENT EVENTS (continued)

A. GENERAL OBLIGATION BONDS (continued)

	Amount
$13,750,000 2005 Series H school facilities bonds due in annual installments of $585,000 to $985,000 through October 1, 2024 at 3.750 to 4.375% interest	$10,625,000
$9,750,000 2006 Series I school facilities bonds due in annual installments of $390,000 to $735,000 through November 1, 2025 at 4.25 to 4.30% interest	8,105,000
$12,000,000 2007 Series J school facilities bonds due in annual installments of $465,000 to $880,000 through November 1, 2026 at 4.0 to 4.5% interest	10,415,000
$10,460,000 2007 Series K refunding bonds due in annual installments of $1,025,000 to $1,320,000 through November 1, 2016 at 4.0% interest	6,965,000
$11,128,000 2008 Series L school facilities bonds due in annual installments of $415,000 to $835,000 through November 1, 2027 at 3.5 to 4.5% interest	10,095,000
$11,950,000 2010 Series M school facilities bonds due in annual installments of $835,000 to $820,000 through July 1, 2029 at 1.00 to 5.75% interest	11,950,000
$17,480,000 2010 Series N refunding bonds due in annual installments of $2,045,000 to $2,450,000 through November 1, 2017 at 2.0 to 5.0% interest	15,595,000
$13,680,000 2011 Series O refunding bonds due in annual installments of $1,360,000 to $1,760,000 through April 1, 2019 at 2.0 to 5.0% interest	12,205,000
Total	$127,260,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	$9,870,000	$5,560,001
2013	9,805,000	4,822,995
2014	10,170,000	4,503,181
2015	10,570,000	4,106,183
2016	11,050,000	3,657,227
2017-2021	45,375,000	11,586,843
2022-2026	24,780,000	3,785,885
2027-2030	5,640,000	460,023
Total	$127,260,000	$38,482,338

10. LONG-TERM LIABILITIES AND SUBSEQUENT EVENTS (continued)

A. GENERAL OBLIGATION BONDS (continued)

On November 23, 2010, the Borough sold $13,680,000 in general obligation bonds with an interest rate of 2.0 percent to 5.0 percent, to refund $14,875,000 of outstanding 1999 Series B general obligation bonds, carrying interest at 4.75 percent. The newly issued Series O bonds were sold at a premium of $1,294,921. In addition to the amount provided by Series O, the Borough directly contributed an additional $198,309 to complete the refunding. The new bonds were issued on December 10, 2010 and $14,874,921 was deposited in an irrevocable trust with an escrow agent who redeemed the 1999 Series B bonds on January 12, 2011. The Borough completed the refunding to reduce its total debt service payments over the next seven years by $1,874,944 and to obtain an economic gain (the difference between the present value of the old and new debt service payments) of $1,691,445.

On June 9, 2011, the Borough Assembly approved the refunding of outstanding 2000 Series C bonds. The 2011 Series P Refunding bonds were sold on August 16, 2011.

On November 3, 2011, the Borough Assembly approved the refunding of outstanding 2001 Series D bonds, 2002 Series E bonds, and 2003 Series F bonds. The 2011 Series Q Refunding bonds were sold on November 15, 2011.

B. SOLID WASTE DISPOSAL ENTERPRISE FUND

The long-term debt in the solid waste disposal enterprise fund at June 30, 2011 is as follows:

Loan payable	$1,271,522

$6,172,203 of Alaska Clean Water Fund loan drawdowns ($5,865,425 plus accrued interest through September 30, 2006). Interest accrual of 2.5 percent commenced May 1999 on project-to-date borrowings. Interest accrual was reduced to 1.5 percent for balances owed as of April 28, 2005. Payments due in five equal annual installments beginning October 1, 2007.

In 1997, the Borough negotiated a $10 million Alaska Clean Water Fund loan with the Alaska Department of Environmental Conservation (ADEC) for construction of a 36-acre solid waste landfill expansion (cell 1 and cell 2). In 2001, ADEC made an additional $2.5 million of loan funds available to the Borough for cell 2 completion. Repayment is due in annual installments beginning one year after substantial completion and initiation of operations for each cell. The $6,634,575 portion of the loan for cell 1 was paid off in fiscal year 2006. Cell 2 was substantially complete and operations were initiated in September 2006. The initial repayment for cell 2 was made on October 1, 2007.

10. LONG-TERM LIABILITIES AND SUBSEQUENT EVENTS (continued)

B. SOLID WASTE DISPOSAL ENTERPRISE FUND (continued)

The annual requirements for the loan are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2012	$1,271,522	$19,073

C. SCHOOL DISTRICT COMPONENT UNIT

The School District has $4,182,802 in liabilities for compensated absences at June 30, 2011. The current portion of this balance is $3,858,959.

D. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	$137,210,000	$13,680,000	($23,630,000)	$127,260,000	$9,870,000
Plus deferred amounts:					
For issuance premiums	2,372,830	1,294,921	(509,075)	3,158,677	
For deferred revenue	(68,990)		17,910	(51,080)	
Capital leases	1,249,231	332,403	(430,681)	1,150,953	369,209
Self-insurance losses	1,006,660	7,477,071	(7,138,800)	1,344,930	1,161,161
Accrued compensated absences	2,044,470	2,785,005	(2,675,336)	2,154,138	1,614,722
Governmental activities long-term liabilities	$143,814,201	$25,569,40	($34,365,982)	$135,017,618	$13,015,092

10. LONG-TERM LIABILITIES AND SUBSEQUENT EVENTS (continued)

D. CHANGES IN LONG-TERM LIABILITIES (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Loans payable	$2,524,253	$	($1,252,731)	$ 1,271,522	$1,271,522
Landfill closure and postclosure care	17,625,940	1,739,321	(1,946,043)	17,419,219	
Self-insurance losses	206,465	151,437	(66,906)	290,996	119,663
Accrued compensated absences	335,771	539,872	(514,674)	360,969	278,233
Business-type activities long-term liabilities	$20,692,429	$2,430,630	($3,780,354)	$19,342,706	$1,669,418

The internal service fund predominantly serves the governmental funds. Accordingly, its long-term liabilities, the capital leases, are included as part of the above totals for governmental activities. Also, for governmental activities, self-insurance losses and accrued compensated absences are primarily liquidated by the general fund.

11. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Borough to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Landfill closure and postclosure care costs, and their related liability, are recognized in the solid waste disposal enterprise fund and are based on the amount of landfill capacity used during the year. As of June 30, 2011, the estimated liability for landfill closure and postclosure care costs was $17,419,219, which was based on 80.3 percent of the landfill used (filled) to date. It is estimated an additional $1,292,190 will be recognized as closure and postclosure expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2086). The estimated total cost for future landfill closure and postclosure care ($24,106,657) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2011. However, the actual cost of closure and postclosure care may be higher or lower due to inflation or deflation, changes in technology, or changes in landfill laws and regulations.

The Borough is required by state and federal laws and regulations to demonstrate financial responsibility for future closure and postclosure care costs by meeting the requirements of a specially designed local government financial test. This test includes a financial component, a public notice component, and a record-keeping component. The Borough is in compliance with these requirements at June 30, 2011.

While not required by state or federal laws and regulations, the Borough Assembly established a landfill closure reserve account in 1994. In many of the years since, the Borough has contributed varying amounts to the reserve and in more recent years, has used varying amounts from the reserve toward closure and postclosure costs of closed portions of the landfill. The landfill closure reserve is accounted for as a separate cost center within the solid waste disposal enterprise fund and has a balance of $1,334,316 in central treasury cash at June 30, 2011. It is anticipated that future inflation costs

11. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS (continued)

will be financed in part from earnings on contributions. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure care requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

12. COMMITMENTS

The Borough's capital improvement and other multi-year programs in effect at June 30, 2011 contain authorizations for numerous programs and projects in the multi-year general subfund, four multi-year special revenue funds, six capital projects funds, and three enterprise funds.

The programs in the multi-year general subfund and in the multi-year special revenue funds are multi-year activities of a non-capital, non-enterprise nature. The projects undertaken in the capital projects funds include Borough facilities, fire and emergency medical services, public athletic and recreational sites, roads, School District projects, and sewer and utilities. In the enterprise funds, projects include facilities and major equipment, air quality initiatives, mass transit assistance, and solid waste landfill cell closures and construction.

The Borough has hundreds of commitments for architectural, engineering, construction services and other professional and contractual services under various continuing contracts that are recorded as encumbrances. Funding sources for the capital and other projects and programs include general obligation bonds, state revenues, federal revenues, contributions from the general and special revenue operating funds, and net assets of the enterprise funds.

As of June 30, 2011 the Borough has encumbered amounts that it intends to honor in the subsequent year for the following governmental and business-type funds:

Major governmental funds	
General fund	$621,535
Service areas special revenue	7,618
State grants capital projects	1,421,290
Bond capital projects	3,264,677
Nonmajor governmental funds	2,870,171
	8,185,291
Major business-type funds	
Transit enterprise	553,361
Carlson Center enterprise	101,132
Solid waste disposal enterprise	1,316,791
	1,971,284
Total – all funds	$10,156,575

13. FUND BALANCE – GOVERNMENTAL FUNDS AND SCHOOL DISTRICT COMPONENT UNIT

The Borough is reporting restricted, committed, and assigned fund balances at June 30, 2011. The dollar amounts and purposes for each of these classifications follow:

	General Fund	Service Areas	State Grants Capital Projects	Bond Capital Projects	Nonmajor Governmental	Total
Restricted						
Road and fire service areas	$	$15,003,866	$	$	$	$15,003,866
Enhanced 911	100,000				1,803,763	1,903,763
Nonareawide					1,701,339	1,701,339
Economic development	244,454					244,454
Health and social services					9,964	9,964
Parks and recreation					13,155	13,155
Health care and labor relations					2,702,370	2,702,370
Public works					59,619	59,619
Solid waste collections					4,088,805	4,088,805
Library					8,997,183	8,997,183
Capital projects			5,778,586	9,184,551	2,024,630	16,987,767
Multi-year programs					434,417	434,417
	$344,454	$15,003,866	$5,778,586	$9,184,551	$21,835,244	$52,146,770

	General Fund	Debt Service	Nonmajor Governmental	Total
Committed				
Compensated absences	$2,076,639	$	$	$2,076,639
Self insurance losses	1,500,000			1,500,000
Pipeline valuation deposit	7,713.696			7,713.696
Health and social services	191,236			191,236
Health care and labor relations	83,530			83,530
Community planning	35,843			35,843
Emergency operations	240			240
General Government	2,082,978			2,082,978
Economic development	232,239			232,239
Public works	265,759			265,759
Parks and recreation	31,744		29,183	60,927
Library			770,802	770,802

13. FUND BALANCE – GOVERNMENTAL FUNDS AND SCHOOL DISTRICT COMPONENT UNIT (continued)

	General Fund	Debt Service	Nonmajor Governmental	Total
Committed (continued)				
Debt service	$	$1,428,267	$	$1,428,267
Capital projects			11,671,456	11,671,456
	$14,213,903	$1,428,267	$12,471,441	$28,113,611

	General Fund
Assigned	
Encumbrances	$313,423
Subsequent year's expenditures	4,957,810
	$5,271,233

Details for the fund balance classifications of the School District's general fund are as follows:

Nonspendable	
Inventories	$510,556
Prepaid Items	45,036
Assigned	
Encumbrances	5,678,997
Impact aid advance	13,321,294
Subsequent year's expenditures	2,079,820
	$21,635,703

14. LIBRARY SPECIAL REVENUE FUND

The Fairbanks North Star Borough public library is a 15 percent beneficiary of the Bentley Beneficiaries Trust, a successor trust to two trusts from Bentley family members that are now dissolved. The successor Trust was formed to manage assets that are to be sold and proceeds distributed to the beneficiaries. Income received from all three trusts is recorded as a donation in the library special revenue fund and $10,213,765 has been received as of June 30, 2011.

The beneficiaries signed an agreement dated March 22, 2011 approving the liquidation and distribution of the remaining trust assets. The Library's share of the assets yet to be distributed to the Borough consists of cash and cash equivalents in the amount of $45,192, at June 30, 2011. The final distribution is expected in fiscal year 2012.

15. RISK MANAGEMENT

The Borough and its component unit, the School District, are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to, and illnesses of, employees and their dependents; and natural disasters. The Borough's risk management program includes both the Borough and the School District. The program employs various combinations of insurance policies provided by commercial carriers, and self-insured retention amounts, depending upon the type of risk. Commercial insurance with zero or small deductibles is secured for the following coverages: auto and general liability, and property for fire service areas; general liability for road and streetlight service areas; physical damage to Borough vehicles; employee life insurance; and employee fidelity bonds. The program self-insures some portion of the following risk exposures: employee and dependent medical, auto and general liability, workers' compensation, errors and omissions/public officials, property, and employment practices. Commercial insurance has also been obtained for excess coverage above self-retention limits for all risk exposures except environmental. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

In addition, the Borough has committed fund balance in the amount of $1,500,000 to provide resources for catastrophic losses up to self-retention limits and for contractual indemnification purposes, as well as to demonstrate financial responsibility to insurance carriers of excess coverage. The adequacy of this committed amount is re-evaluated periodically.

Furthermore, in conjunction with employee union contracts and in accordance with Assembly ordinance, the Borough instituted a health care contingency reserve (HCCR) in September 1997. The purpose of the HCCR is to smooth employee healthcare benefit costs over time. Contributions from employee payroll deductions of $10 per pay period, along with an equal match from the Borough and interest earnings, are deposited into the HCCR. When annual actual costs are less than budgeted costs, the savings are deposited into the HCCR, subject to a target balance, above which no savings are deposited. The target balance is one third of the health care costs budgeted for that fiscal year. Withdrawals are made when healthcare costs exceed budgeted costs. In addition, for fiscal year 2010 through fiscal year 2012, withdrawals have been scheduled from the HCCR to offset budgeted costs. During fiscal year 2010 the amount was $55 per employee per month, resulting in a withdrawal of $257,400. In fiscal year 2011, the amount was $45 per employee per month with a withdrawal of $204,120. In fiscal year 2012, it is $35 per employee per month. The June 30, 2011 HCCR restricted fund balance of $2,621,139 is reported in local programs, a nonmajor special revenue fund.

The joint Borough/School District risk management program is accounted for within the Borough's general fund with charge backs to the School District and other funds. Self-insurance losses are accrued when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Accrued self-insurance losses include estimates for expected future development on claims already reported, as well as considering known and unknown events that might create claims, but for which none have been reported. Based on the type of claim, estimates of the ultimate cost of settling these claims are made by using a case-by-case review of claims or by extrapolating historical experience, and may include specific, incremental claim adjustment expenditures, net of any recoveries. Both methods adjust for current trends and other information and the estimates include the effects of inflation and other economic and social factors.

15. RISK MANAGEMENT (continued)

Changes in the self-insured claims liabilities for fiscal years 2011 and 2010 follow:

	2010-11 Accrued Self-Insurance Losses	2009-10 Accrued Self-Insurance Losses
Borough		
July 1	$1,213,124	$1,282,880
Current year claims	7,142,194	7,722,707
Changes in estimates	486,314	(63,985)
Claims payments	(7,205,706)	(7,728,478)
June 30	$1,635,926	$1,213,124

	2010-11 Accrued Self-Insurance Losses	2009-10 Accrued Self-Insurance Losses
School District		
July 1	$5,662,339	$4,413,105
Current year claims	30,124,948	29,284,128
Changes in estimates	(405,054)	791,924
Claims payments	(30,042,907)	(28,826,818)
June 30	$5,339,326	$5,662,339

16. RETIREMENT PLANS

Substantially all regular employees of the Borough and of the School District component unit are either members of the Alaska Public Employees' Retirement System (PERS) or the Alaska Teachers' Retirement System (TRS). Stand-alone financial statements for either system can be obtained by writing to the Alaska Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0203, by calling (800) 821-2251, or by sending a request by e-mail to doa.drb.accountingsection@alaska.gov. The financial statements are also available on the web at doa.alaska.gov/drb/resources/publications.html . The Borough and the School District participate in the PERS under separate agreements.

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

System Description

The Alaska Public Employees' Retirement System (PERS) was established and is administered by the State of Alaska (State) to provide pension, post-employment healthcare, survivor, and disability benefits to eligible

16. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

System Description (continued)

employees. PERS consists of a defined benefit plan (Tiers I, II, and III) and a defined contribution plan with a component of defined benefit postemployment healthcare (Tier IV). The defined benefit plan is closed to new members. Eligible employees who first enter PERS after June 30, 2006 participate in the defined contribution plan. Contribution and benefit provisions for both plans are established by State law and may be amended only by the State Legislature. In April 2008, State legislation was enacted changing the PERS defined benefit plan from a single agent, multiple-employer plan to a cost-sharing, multiple-employer plan.

Funding Policy for the Defined Benefit Plan (Tiers I, II, and III)

Employee contribution rates for the defined benefit plan are 6.75 percent of eligible compensation for general members and 7.50 percent for firefighters. The PERS funding policy provides for the determination of actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the assets to pay both pension and postemployment healthcare benefits when due. In accordance with Alaska Statutes, those actuarially determined rates are paid by a combination of periodic employer contributions and a direct contribution by the State.

Effective July 1, 2008, the employer contribution rate is statutorily set at the greater of 22.00 percent or the actuarially determined normal cost rate. When the 22.00 percent exceeds the normal cost rate, the excess is applied to the past service liability of the plan. The employers' actuarially determined rates for fiscal year 2011 were calculated when the PERS was a single agent, multiple-employer plan. The average employer contribution rate for fiscal year 2011 was 27.96 percent (9.98 percent for pension costs and 17.98 percent for post-employment healthcare costs). The average normal cost rate portion was 9.33 percent (2.65 percent for pension costs and 6.68 percent for post-employment healthcare costs) and the average past service rate portion was 18.63 percent (7.33 percent for pension costs and 11.30 percent for post-employment healthcare costs).

The Alaska Legislature appropriated $165,841,171 for the State's direct contribution for the fiscal year ending June 30, 2011. The adoption of the cap on the employers' rate and the statutorily-required additional State contribution was, in part, a recognition of the State's obligation to the Plan arising from its fiduciary duty to, and its administrative control of, the PERS. Hence, although the Borough acknowledges the State's direct contribution, no portion of it is recorded in these financial statements. However, the Alaska Department of Education and Early Development requires that "on-behalf" payments be recorded for the portion allocated to the School District by the State. For fiscal year 2011, this amount was $2,772,197.

16. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Funding Policy for the Defined Benefit Plan (Tiers I, II, and III) (continued)

The amounts contributed to the PERS defined benefit plan by the Borough and the School District for the last three years were equal to the required employer contributions for each year and were as follows:

Fiscal Year Ended June 30	Borough	School District
2011	$4,085,985	$5,359,714
2010	4,130,230	5,322,003
2009	3,920,167	5,217,527

The Borough and School District contributed additional amounts to the defined benefit plan, beyond those required for defined benefit employees, through their payments to the defined contribution plan, as described in the next section.

The funding ratio as of June 30, 2010 (the most recent actuarial valuation) for the PERS defined benefit plan was 52.8 percent, up from 51.5 percent at June 30, 2009.

Contributions to the Defined Contribution Plan (Tier IV)

The employee contribution rate for the defined contribution plan is 8.00 percent of eligible compensation. Effective July 1, 2008, the employer contribution rate is statutorily set at the same rate as the defined benefit plan. That rate is the greater of 22.00 percent or the actuarially determined normal cost rate of the defined benefit plan. The 22.00 percent rate for the defined contribution plan is comprised of five elements: for both firefighters and general members the rates are 5.00 percent to each member's individual pension account, 0.55 percent into the retiree medical plan, 1.18 percent for firefighters and 0.31 percent for general members for occupational death and disability benefits, a flat dollar amount per employee based on 3.00 percent of the employers' average annual employee compensation (into the employee's Health Reimbursement Arrangement account), and a residual contribution applied as a payment to the defined benefit plan's unfunded liability. For both the Borough and the School District, the flat dollar amount per employee for fiscal year 2011 was $66.18 per pay period for full-time employees and $1.10 per hour for part-time employees.

16. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Contributions to the Defined Contribution Plan (Tier IV) (continued)

The amounts paid by the Borough and the School District to the PERS through the defined contribution plan for the fiscal year ended June 30, 2011 were as follows:

	Fiscal Year Ended June 30	Employer Contributions to the Defined Contribution Plan	Residual Contributions to the Defined Benefit Plan's Unfunded Liability	Total Employer Payments	Total Employee Contributions
Borough	2011	$203,823	$520,897	$724,720	$326,473
School District	2011	$1,010,806	$1,022,035	$2,032,841	$738,983

B. ALASKA TEACHERS' RETIREMENT SYSTEM

System Description

The Alaska Teachers' Retirement System (TRS) was established and is administered by the State of Alaska (State) to provide pension, postemployment healthcare, survivor, and disability benefits to eligible employees. TRS consists of a cost-sharing, multiple-employer, defined benefit plan (Tiers I and II) and a defined contribution plan with a component of defined benefit post-employment healthcare (Tier III). The defined benefit plan is closed to new members. Eligible employees who first enter TRS after June 30, 2006 participate in the defined contribution plan. Contribution and benefit provisions for both plans are established by State law and may be amended only by the State Legislature.

Funding Policy for the Defined Benefit Plan (Tiers I and II)

The employee contribution rate for the defined benefit plan is 8.65 percent of eligible compensation. The TRS funding policy provides for actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the assets to pay both pension and postemployment healthcare benefits when due. In accordance with Alaska Statutes, those actuarially determined rates are paid by a combination of periodic employer contributions and a direct contribution by the State.

Effective July 1, 2008, the employer contribution rate is statutorily set at the greater of 12.56 percent or the actuarially determined normal cost rate. When the 12.56 percent exceeds the normal cost rate, the excess is applied to the past service liability of the plan. The actuarially determined employer/state contribution rate for fiscal year 2011 was 38.56 percent (20.32 percent for pension costs and 18.24 percent for post-employment healthcare costs). The normal cost rate portion was 7.56 percent (2.56 percent for pension costs and 5.00

16. RETIREMENT PLANS (continued)

B. ALASKA TEACHERS' RETIREMENT SYSTEM (continued)

Funding Policy for the Defined Benefit Plan (Tiers I and II) (continued)

percent for post-employment healthcare costs) and the past service rate portion was 31.00 percent (17.76 percent for pension costs and 13.24 percent for post-employment healthcare costs). The Alaska Legislature appropriated $190,850,258 for the State's direct contribution.

The amounts contributed to the TRS defined benefit plan by the School District for the last three years ended June 30, 2011, 2010, and 2009 were $7,607,419, $7,615,146, and $7,402,443, respectively, equal to the required employer contributions for each year. For fiscal years 2011, 2010, and 2009, the TRS "on-behalf" payments allocated to the School District by the State were $18,728,033, $16,615,652, and $19,640,125, respectively. The School District contributed additional amounts to the defined benefit plan, beyond those required for defined benefit employees, through its payments to the defined contribution plan, as described in the next section.

The funding ration as of June 30, 2010 (the most recent actuarial valuation) for the TRS defined benefit plan was 45.5 percent, down from 47.5 percent at June 30, 2009.

Contributions to the Defined Contribution Plan (Tier III)

The employee contribution rate for the defined contribution plan is 8.00 percent of eligible compensation. Effective July 1, 2008, the employer contribution rate is statutorily set at the same rate as the defined benefit plan. That rate is the greater of 12.56 percent or the actuarially determined normal cost rate of the defined benefit plan. The 12.56 percent rate for the defined contribution plan is comprised of five elements: 7.00 percent to each member's individual pension account, 0.68 percent into the retiree medical plan, 0.28 percent for occupational death and disability benefits, a flat dollar amount per employee based on 3.00 percent of the employer's average annual employee compensation (into the employee's Health Reimbursement Arrangement account), and a residual contribution applied as a payment to the defined benefit plan's unfunded liability. The flat dollar amount per employee for fiscal year 2011 was $66.18 per pay period for full-time employees. The rate for part-time employees is based on the contract percentage worked multiplied by the flat dollar amount per pay period for full-time employees.

The amounts paid by the School District to the TRS through the defined contribution plan for the fiscal year ended June 30, 2011 were $1,486,241. The employer residual contributions to the defined benefit plan's unfunded liability, for fiscal year 2011, were $210,781. Employee contributions to the plan were $1,080,781 for fiscal year 2011.

17. FUND RECLASSIFICATIONS

Effective July 1, 2010 the Borough implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement clarified the definition of special revenue funds. "Special

17. FUND RECLASSIFICATIONS (continued)

revenue funds are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects."

The Borough created two funds, the general fund - multi-year subfund and the capital purchases fund, to account for activities that did not meet the specific revenue source criteria. The balances in any program funds reported in the nonmajor special revenue fund - local programs, whose resources were comprised of transfers from other funds, were reclassified to the new funds. The amounts and funds affected are summarized below:

	Transfers In	Transfers Out
Major governmental fund		
General		
Multi-year	$3,240,179	$
Nonmajor governmental funds		
Special revenue		
Local programs		6,258,195
Capital projects		
Capital purchases	3,018,016	
	$6,258,195	$6,258,195

18. CONTINGENCIES AND SUBSEQUENT EVENTS

A. LITIGATION

The Borough and the School District, in the normal course of their activities, are involved in various claims, litigation, environmental matters, and tax assessment disputes and have accrued amounts they consider sufficient to cover settlements that may be payable as a result of unfavorable outcomes. An accrual is generally made when a potential loss is probable and the loss can be estimated, and for environmental matters, when the Borough has committed to a formal plan of action. Depending upon the circumstances and amount of a potential loss, an accrual may be made when the potential loss is only reasonably possible.

A property tax exemption appeal from tax year 2006, in which Tanana Chiefs Conference (TCC) claimed the Borough failed to properly apply a charitable exemption to one or more of TCC's properties was decided on November 10, 2011 by the Alaska Supreme Court in favor of TCC on all issues. The Borough acknowledges a refund obligation to TCC, but due to certain ambiguities regarding the decision, the Borough is unable to estimate its liability to TCC at this time.

In the opinion of management and the borough attorney, the disposition of these matters is not expected to have a material positive or adverse effect on the borough's financial statements, except for the TAPS taxation matter described below. Accruals for claims and litigation covered by the borough's risk management program,

18. CONTINGENCIES AND SUBSEQUENT EVENTS (continued)

A. LITIGATION (continued)

excluding environmental claims, are recorded as accrued self-insurance losses. Any environmental matters, and all other accrued claims and litigation, are recorded in accounts payable or estimated claims, judgments, and settlements payable.

Advance tax payments at June 30, 2011, for fiscal year 2012, included amounts paid under protest by Alyeska Pipeline Service Company, due to the assessed valuation dispute of the trans-Alaska pipeline system (TAPS) and related properties. Fiscal year 2007, 2008, 2009, 2010 and 2011 taxes were also paid under protest. The Alaska Department of Revenue is responsible for setting the valuation. The Department's valuations were appealed by the pipeline owners as being too high and by certain affected municipalities, including the Borough, as being too low. The State Assessment Review Board heard the appeals and established valuations favoring the municipalities. The owners appealed the Board's decisions to the Superior Court, and certain municipalities, including the Borough, cross-appealed. The trial for the fiscal year 2007 taxes (2006 tax year) took place in August and September, 2009. On October 26, 2010 the Court rendered its final decision on the matter, setting the value favorable to the municipalities. The owners have appealed this decision to the Alaska Supreme Court, and the Borough has voluntarily deposited its settlement funds in a Court account, pending the Alaska Supreme Court trial and decision. Trial for the fiscal year 2008, 2009 and 2010 taxes was heard September through November, 2011. The Court has not yet issued its decision in these proceedings. No trial date has been set for fiscal year 2011 or 2012 taxes.

B. GRANTS AND OTHER FINANCIAL ASSISTANCE

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, would become a liability of the general or other applicable funds. Disallowances, if any, cannot be determined at this time. In the Borough's opinion, any such disallowances would be immaterial.

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APPENDIX B

DTC AND BOOK-ENTRY ONLY ISSUANCE

The information in this Appendix B concerning the Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the Borough takes no responsibility for the completeness or accuracy thereof.

The DTC, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose, trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities Bonds. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds and DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited which may or may

not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Borough as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting right to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC s records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the Borough, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Borough or Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Borough or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered

The Borough may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

APPENDIX C

CONTINUING DISCLOSURE UNDERTAKING

By the Bond Ordinance, the Borough has undertaken for the benefit of the owners and beneficial owners of the Bonds, as follows:

Undertaking to Provide Ongoing Disclosure

A. Contract/Undertaking. Section 18 of the Bond Ordinance constitutes the Borough's written undertaking for the benefit of owners and beneficial owners of the Bonds as required by Section (b)(5) Securities and Exchange Commission Rule 15c2-12 under the Securities and Exchange Act of 1934 (the "Rule").

B. Financial Statements/Operating Data. The Borough agrees to provide or cause to be provided to the MSRB, in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2013 for the fiscal year ended June 30, 2012):

1. Annual financial statements, which may or may not be audited, showing ending fund balances prepared in accordance with generally accepted accounting principles applicable to governmental entities and generally of the type included in Appendix A of this official statement and titled "Basic Financial Statements;"

2. The assessed valuation of taxable property in the Borough;

3. Property taxes due, property taxes collected and property taxes delinquent;

4. Property tax levy rates per $1,000 of assessed valuation; and

5. Authorized, issued and outstanding general obligation debt of the Borough.

Items 2 through 5 are required only to the extent that such information is not included in the annual financial statements.

The Borough may modify the information and data described above as necessary to comply with statutory and regulatory requirements. The information and data described above will be so provided on or before the expiration of nine months after the end of the Borough's fiscal year. The Borough's fiscal year currently ends on June 30. The Borough may adjust its fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing annual financial information and operating data, the Borough may cross-refer to other documents available to the public on the MSRB's internet website or filed with the Commission.

If not provided as part of the annual financial information discussed above, the Borough will provide to the MSRB the Borough's audited annual financial statement prepared in accordance with generally accepted accounting principles applicable to governmental entities from time to time when and if available.

C. Specified Events. The Borough agrees to provide or cause to be provided to the MSRB in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to the rights of Bond owners, if material;

8. Bond calls, if material, and tender offers for the Bonds;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of any "obligated person" (as such term is defined in the Rule);

13. The consummation of a merger, consolidation, or acquisition involving an "obligated person"; or the sale of all or substantially all of the assets of the "obligated person", other than in the ordinary course of business; the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Solely for purposes of disclosure and not intending to modify this undertaking, the Borough advises that no debt service reserves or property secures the repayment of the Bonds and the Borough is currently the only "obligated person" with respect to the Bonds.

D. Notification Upon Failure to Provide Financial Data. The Borough agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual information described in Section B above on or prior to the date set forth in Section B above.

E. EMMA; Format for Filings with the MSRB. Until otherwise designated by the MSRB or the Commission, any information or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at www.emma.msrb.org. All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

F. Termination/Modification. The Borough's obligations to provide the annual financial information and notices of specified events terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Any provision of this undertaking will be null and void if the Borough (i) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires such provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds; and (ii) notifies the MSRB of such opinion and the cancellation of such provision. Notwithstanding any other provision of this undertaking or the Bond Ordinance, the Borough may amend this undertaking with an opinion of nationally recognized bond counsel in accordance with the Rule. In the event of any amendment of this undertaking, the Borough will describe the amendment in the next annual report, and include, as applicable, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borough. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change will be given in the same manner as for a specified event under Section C of this undertaking, and (ii) the annual report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) complying with applicable requirements of the body that established the changed accounting principles between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

G. Bond Owner's Remedies. The right of any Bond owner or beneficial owner of Bonds to enforce the provisions of the undertaking is limited to a right to obtain

specific enforcement of the Borough's obligations hereunder, and any failure by the Borough to comply with the provisions of this undertaking is not an event of default with respect to the Bonds under the Bond Ordinance. For purposes of this undertaking, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bonds, including persons holding Bonds through nominees or depositories.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

June 1, 2012

Fairbanks North Star Borough
Fairbanks, Alaska

Robert W. Baird & Co., Inc.
Red Bank, New Jersey

Re: Fairbanks North Star Borough, Alaska
General Obligation School Bonds, 2012 Series R - $11,500,000

Ladies and Gentlemen:

We have acted as bond counsel to Fairbanks North Star Borough, Alaska (the "Borough"), and have examined a certified transcript of the proceedings taken in the matter of the issuance by the Borough of its General Obligation School Bonds, 2012 Series R, in the aggregate principal amount of $11,500,000 (the "Bonds"). The Bonds are issued pursuant to Ordinance No. 2012-18 of the Borough, passed by the Borough Assembly on April 26, 2012 (the "Bond Ordinance"), to finance the cost of capital improvements to school facilities in the Borough, as approved by Borough voters at an election held on October 4, 2011.

The Bonds are subject to redemption as provided therein.

Regarding questions of fact material to our opinion, we have relied upon representations of the Borough contained in the Bond Ordinance and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding general obligations of the Borough, except to the extent that the enforcement of the rights and remedies of the owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles, and by the exercise of judicial discretion.

2. By the Bond Ordinance, the Borough has covenanted that, unless the principal of and interest on the Bonds are paid from other sources, it will levy taxes annually without limitation as to rate or amount upon all property within the Borough subject to taxation in amounts sufficient to pay such principal and interest as the same shall become due. The full faith, credit and resources of the Borough are irrevocably pledged for the annual levy and collection of such taxes and for the prompt payment of such principal and interest.

3. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Borough comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Borough has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

4. Interest on the Bonds is not included in taxable income for purposes of the Alaska income tax imposed on corporations. Interest on the Bonds may be indirectly subject to the Alaska alternative minimum tax imposed on corporations to the extent that interest on the Bonds is subject to the federal alternative minimum tax.

The Borough has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement). We express no opinion

relating to the undertaking by the Borough to provide ongoing disclosure pursuant to SEC Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

K&L GATES LLP

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