

November 19, 2004

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, as of and for the year ended June 30, 2004, 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 and fiduciary funds presented in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2004, 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 2003 financial statements and, in our report dated December 18, 2003, 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 and fiduciary funds.

The financial statements include partial prior-year comparative information. 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 government's financial statements for the year ended June 30, 2003, from which such partial information was derived.

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 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.

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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, 2004, and the respective changes in financial position and cash flows, where applicable, 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 and fiduciary fund of the Fairbanks North Star Borough, as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 19, 2004, 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 grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying required supplementary information, which includes management's discussion and analysis and the schedule of funding progress for pension and post employment health care benefits, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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. These 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 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.

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