



Fairbanks North Star Borough, Alaska
General Obligation School Bonds
\$12,000,000 2007 Series J

General Obligation Refunding Bonds
\$10,460,000 2007 Series K

Dated: Date of delivery

Due: November 1, as shown on inside cover

Book-Entry Only

Ratings: **Insured:** Fitch Ratings: AAA Standard & Poor's: AAA

Uninsured: Fitch Ratings: A+ Standard & Poor's: A+

Tax Exemption: Interest on the Bonds is excludable from gross income for federal income tax purposes. Page 5

Redemption: The Series J Bonds are subject to redemption prior to their stated date of maturity.
The Series K Bonds are not subject to redemption prior to their stated date of maturity.

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.

In addition, the Series J Bonds are eligible for reimbursement of 70 percent of debt service from the State of Alaska. A portion of the Series K Bonds are also eligible for reimbursement of 70 percent of debt service from the State of Alaska. Page 3

Purpose: The Series J Bonds will be used to finance school improvements in the Borough. Page 12.
The Series K Bonds will be used to refund outstanding 1996 Series U bonds. Page 2.

Interest Payment Dates: May 1 and November 1, beginning November 1, 2007, and according to the schedules shown on inside cover.

Sale: January 24, 2007.

Closing: On or about February 16, 2007.

Denominations: \$5,000 or multiple thereof.

Registrar/Paying Agent: U.S. Bank National Association, Seattle, Washington.

Bond Counsel: K&L Preston Gates Ellis LLP, Seattle, Washington.

Borough Attorney: René Broker, Fairbanks, Alaska.

Financial Advisor: Bartle Wells Associates, Berkeley, California.

This official statement, as supplemented or corrected by the Borough from time to time, is deemed final by the Borough as of the date hereof (or of any such supplement or correction), for purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission.

This official statement is dated January 24, 2007.

\$12,000,000 Series J
PRAGER, SEALY & CO., LLC

\$10,460,000 Series K
LaSalle Financial Services, Inc.

Maturity Schedules

\$12,000,000 Series J - Prager, Sealy & Co., LLC

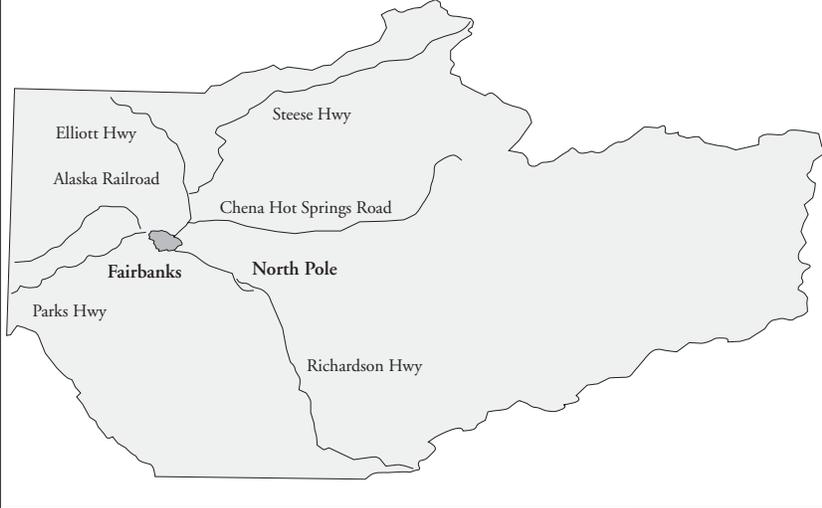
Year Nov. 1	Principal Amount	Interest Rate	Yield	CUSIP (303531)	Year Nov. 1	Principal Amount	Interest Rate	Yield	CUSIP (303531)
2007	\$290,000	4.0000%	3.6500%	WS2	2017*	\$600,000	4.2500%	NRO	XC6
2008	415,000	4.0000%	3.6700%	WT0	2018*	625,000	4.2500%	NRO	XD4
2009	430,000	4.0000%	3.7300%	WU7	2019*	650,000	4.2500%	NRO	XE2
2010	450,000	4.0000%	3.7800%	WV5	2020*	680,000	4.3000%	NRO	XF9
2011	465,000	4.0000%	3.8000%	WW3	2021*	710,000	4.3750%	NRO	XG7
2012	485,000	4.2500%	NRO	WX1	2022	740,000	4.4000%	NRO	XH5
2013	510,000	4.2500%	NRO	WY9	2023	775,000	4.4000%	NRO	XJ1
2014	530,000	4.2500%	NRO	WZ6	2024*	805,000	4.5000%	NRO	XK8
2015	550,000	4.2500%	NRO	XA0	2025*	840,000	4.5000%	NRO	XL6
2016*	570,000	4.2500%	NRO	XB8	2026*	880,000	4.5000%	NRO	XM4

*Priced to 11/01/2015 call date

\$10,460,000 Series K – LaSalle Financial Services, Inc.

Year Nov. 1	Principal Amount	Interest Rate	Yield	CUSIP (303531)
2007	\$745,000	4.0000%	3.6000%	XN2
2008	875,000	4.0000%	3.6200%	XP7
2009	915,000	4.0000%	3.6800%	XQ5
2010	960,000	4.0000%	3.7100%	XR3
2011	1,025,000	4.0000%	3.7200%	XS1
2012	1,065,000	4.0000%	3.7300%	XT9
2013	1,130,000	4.0000%	3.7600%	XU6
2014	1,170,000	4.0000%	3.7900%	XV4
2015	1,255,000	4.0000%	3.8300%	XW2
2016	1,320,000	4.0000%	3.8900%	XX0

FAIRBANKS NORTH STAR BOROUGH



Alaska

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.

Nome

Fairbanks

Anchorage

Valdez

Cordova

Bethel

Seward

Homer

Bering Sea

Gulf of Alaska

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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

Jim Whitaker, *Mayor*

Borough Assembly Members

Luke Hopkins, *Presiding Officer*

Valerie Therrien, *Deputy Presiding Officer*

Randy Frank

Nadine Winters

Hank Bartos

Mike Musick

Tim Beck

Charlie Rex

Victoria Foote

Mona Lisa Drexler, *Borough Clerk*

School Board Members

Jennifer Schmidt, *President*

Leslie Hajdukovich, *Vice President*

Anna Huntington-Kriska, *Treasurer*

Sue Hull, *Clerk*

Sharon McConnell Gillis

Wendy Dominique

Howard Thies

Borough Administration

Bob Shefchik, *Chief of Staff*

Michael E. Lamb, *Chief Financial Officer*

A. René Broker, *Borough Attorney*

Professional Services

K&L Preston Gates Ellis LLP, Seattle, *Bond Counsel*

Bartle Wells Associates, Berkeley, *Financial Advisor*

US Bank National Association, Seattle, *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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June 30, 2005

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THE BONDS

Description: Fairbanks North Star Borough
General Obligation School and Refunding Bonds
\$12,000,000 2007 Series J
\$10,460,000 2007 Series K

Date: Date of delivery

Denomination: \$5,000 or multiple thereof.

Maturities: The Series J Bonds are payable November 1, 2007 through November 1, 2026 in the amounts shown on the inside cover of this official statement. The Series K Bonds are payable November 1, 2007 through November 1, 2016 in the amounts shown on the inside cover of this official statement.

Interest: Interest is payable on May 1 and November 1 of each year to the respective dates of maturity, beginning November 1, 2007.

Registrar / Paying Agent: The paying agent and registrar for the Bonds will be US Bank National Association, Seattle, Washington.

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: Series J Bonds maturing on or before November 1, 2013 are not subject to optional redemption prior to maturity. Series J Bonds maturing on or after November 1, 2014 are subject to redemption at the option of the Borough on any date on or after November 1, 2014, 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 November 1, 2014 through October 31, 2015	100.5 percent of par
On or after November 1, 2015	100.0 percent of par

The Series K Bonds are not subject to optional redemption prior to maturity.

Authority for Issuance

The Series J Bonds will fund \$12,000,000 in school improvements out of a total of \$23,128,000 authorized by Ordinance 2006-41 and approved by Borough voters on October 3, 2006.

The Series K Bonds will refund \$10,375,000 in outstanding principal, in accordance with the terms of issuance, of the 1996 Series U Bonds. The Series U Bonds were authorized by Ordinance No. 93-041, voter approved on October 5, 1993, Ordinance No. 96-008, voter approved on March 28, 1996, and Ordinance No. 96-009, voter approved May 7, 1996.

Additional Bonds

In calendar year 2008, the Borough plans to issue the remaining \$11,128,000 in school bonds authorized by Ordinance 2006-41, approved by voters October 3, 2006.

Purpose

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

Proceeds of the Series K Bonds will be used to refund 1996 Series U school bonds and pay costs of issuance incurred in connection with the issuance.

1996 Series U Refunded Bonds

Principal Amount	Interest Rate	Maturities	Redemption Date	Price
\$10,375,000	5.00%	2007-2016	Feb 27, 2007	Varies*

* The redemption price for the Series U Bonds is equal to 100% of the principal, plus a redemption premium of .25% per year or portion of a year from date of redemption to date of maturity, not to exceed 2%.

The proceeds of the Series K Bonds will be allocated as follows:

■ **Fairbanks North Star Borough
\$10,460,000 General Obligation Refunding Bonds
Series K Sources and Uses**

	Amount
Sources of proceeds	
Par amount of bonds	\$10,460,000.00
Underwriter's premium	50,596.00
<u>Cash payment from Borough</u>	<u>259,375.00</u>
Total sources of proceeds	10,769,971.00
Uses of proceeds	
Outstanding principal 1996 Series U	10,375,000.00
Call premium	145,812.50
Accrued interest	167,152.78
Costs of issuance	76,000.00
<u>Contingency/rounding</u>	<u>6,005.72</u>
Total uses of proceeds	10,769,971.00

Source: Bartle Wells Associates

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 State of Alaska partially reimburses municipalities for debt service on bonds issued for state-approved school construction projects. All project costs financed by the Series J Bonds are eligible for this reimbursement. The State of Alaska, acting through the Department of Education and Early Development (DEED), will reimburse the Borough 70% of the principal and interest on the Series J Bonds.

Approximately 47.479% of the 1996 Series U bonds were eligible to receive 70% reimbursement of debt service. A proportionate amount, or approximately \$4,966,303, of the 2007 Series K bonds are eligible for 70% debt service reimbursement.

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

See "State Aid to Education."

The following tables show the projected annual debt service by fiscal year for the Series J and Series K Bonds.

■ **Fairbanks North Star Borough
\$12,000,000 General Obligation School Bonds, 2007 Series J
Debt Service Schedule With DEED Reimbursement**

FYE	November 1			May 1		Coupon	DEED
	Interest	Principal	Total	Interest	FY total		70% reimb
2008	\$364,570.31	\$290,000.00	\$654,570.31	\$251,543.75	\$906,114.06	4.000%	\$634,279.84
2009	251,543.75	415,000.00	666,543.75	243,243.75	909,787.50	4.000%	636,851.25
2010	243,243.75	430,000.00	673,243.75	234,643.75	907,887.50	4.000%	635,521.25
2011	234,643.75	450,000.00	684,643.75	225,643.75	910,287.50	4.000%	637,201.25
2012	225,643.75	465,000.00	690,643.75	216,343.75	906,987.50	4.000%	634,891.25
2013	216,343.75	485,000.00	701,343.75	206,037.50	907,381.25	4.250%	635,166.88
2014	206,037.50	510,000.00	716,037.50	195,200.00	911,237.50	4.250%	637,866.25
2015	195,200.00	530,000.00	725,200.00	183,937.50	909,137.50	4.250%	636,396.25
2016	183,937.50	550,000.00	733,937.50	172,250.00	906,187.50	4.250%	634,331.25
2017	172,250.00	570,000.00	742,250.00	160,137.50	902,387.50	4.250%	631,671.25
2018	160,137.50	600,000.00	760,137.50	147,387.50	907,525.00	4.250%	635,267.50
2019	147,387.50	625,000.00	772,387.50	134,106.25	906,493.75	4.250%	634,545.63
2020	134,106.25	650,000.00	784,106.25	120,293.75	904,400.00	4.250%	633,080.00
2021	120,293.75	680,000.00	800,293.75	105,673.75	905,967.50	4.300%	634,177.25
2022	105,673.75	710,000.00	815,673.75	90,142.50	905,816.25	4.375%	634,071.38
2023	90,142.50	740,000.00	830,142.50	73,862.50	904,005.00	4.400%	632,803.50
2024	73,862.50	775,000.00	848,862.50	56,812.50	905,675.00	4.400%	633,972.50
2025	56,812.50	805,000.00	861,812.50	38,700.00	900,512.50	4.500%	630,358.75
2026	38,700.00	840,000.00	878,700.00	19,800.00	898,500.00	4.500%	628,950.00
2027	<u>19,800.00</u>	<u>880,000.00</u>	<u>899,800.00</u>	<u>0.00</u>	<u>899,800.00</u>	4.500%	<u>629,860.00</u>
	\$3,240,330.31	\$12,000,000.00	\$15,240,330.31	\$2,875,760.00	\$18,116,090.31		\$12,681,263.22

■ **Fairbanks North Star Borough
\$10,460,000 General Obligation Refunding Bonds, 2007 Series K
Debt Service Schedule With DEED Reimbursement**

FYE	November 1			May 1		Coupon	DEED
	Interest	Principal	Total	Interest	FY total		70% reimb (47.479% eligible)
2008	\$296,366.67	\$745,000.00	\$1,041,366.67	\$194,300.00	\$1,235,666.67	4.00%	\$410,677.52
2009	194,300.00	875,000.00	1,069,300.00	176,800.00	1,246,100.00	4.00%	414,145.07
2010	176,800.00	915,000.00	1,091,800.00	158,500.00	1,250,300.00	4.00%	415,540.96
2011	158,500.00	960,000.00	1,118,500.00	139,300.00	1,257,800.00	4.00%	418,033.60
2012	139,300.00	1,025,000.00	1,164,300.00	118,800.00	1,283,100.00	4.00%	426,442.13
2013	118,800.00	1,065,000.00	1,183,800.00	97,500.00	1,281,300.00	4.00%	425,843.90
2014	97,500.00	1,130,000.00	1,227,500.00	74,900.00	1,302,400.00	4.00%	432,856.55
2015	74,900.00	1,170,000.00	1,244,900.00	51,500.00	1,296,400.00	4.00%	430,862.43
2016	51,500.00	1,255,000.00	1,306,500.00	26,400.00	1,332,900.00	4.00%	442,993.31
2017	<u>26,400.00</u>	<u>1,320,000.00</u>	<u>1,346,400.00</u>	<u>0.00</u>	<u>1,346,400.00</u>	4.00%	<u>447,480.08</u>
	\$1,334,366.67	\$10,460,000.00	\$11,794,366.67	\$1,038,000.00	\$12,832,366.67		\$4,264,875.56

Continuing Disclosure

In the Bond Ordinances, the Borough has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Borough. 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 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 Preston Gates Ellis LLP, Bond Counsel, whose approving legal opinions in substantially the forms attached herein as Appendix D, will be delivered with the Bonds.

Tax Exemption

In the opinion of Bond Counsel, assuming compliance with certain covenants of the Borough, 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 or refinanced 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 above, 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 after March 31, 2007 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’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.

Qualified Tax-Exempt Obligations: The Bonds have not been designated as “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 and Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., have assigned their municipal bond ratings of AAA and AAA respectively, to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, 650 California Street, San Francisco, California 94108; and Standard & Poor's, Steuart Tower, Suite 1500, One Market, San Francisco, CA, United States, 94105. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Miscellaneous

The summaries or descriptions of provisions of the Bond Ordinances, 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.

Jim Whitaker was elected Borough mayor in October 2003. He was re-elected to another three-year term in October 2006. From 1995 to 1998, he served on the Fairbanks City Council. From 1999 to 2003, he served in the Alaska State House of Representatives. While in the State House of Representatives, Mr. Whitaker sat on numerous committees, and chaired the Special Committee on Oil and Gas as well as several finance subcommittees. Mr. Whitaker received a degree in journalism from the University of Oregon.

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 16 years' experience as a chief financial officer for municipalities and has served as the Borough's CFO for the last 8½ 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 a co-chair for the Alaska Municipal League Revenue and Finance Legislative

Subcommittee. Michael is also a past president of the Alaska Government Finance Officers Association.

Responsibilities

As a second-class borough, the Borough may acquire additional powers after 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

Libraries

Animal control

Limited health and social services

Child care assistance

Parks and recreation

Disaster and civil defense

Public transportation

Emergency communications (enhanced 911)

Solid waste disposal

Flood control

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

The Borough also provides fireworks control, emergency medical services, and economic development on a non-areawide basis, outside the cities of North Pole and Fairbanks, and on an area-wide basis under an MOU with the two cities. The Borough provides solid waste collection services outside of the City of Fairbanks, which provides its own solid waste collection 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 collection 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, in addition to its own facilities.

By April 1 of each year, the school district adopts its annual fiscal year budget and submits it to the assembly. 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, 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 instruction and supervision, secondary instruction and supervision, 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 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 five school years as provided by the school district. Enrollments include students at both in-town schools and on-base schools. Student enrollments have dropped for the past five years, particularly at the elementary level. Data from the latest student counts show increases in both kindergarten and first grade indicating a stabilization of student enrollment.

	2002-03	2003-04	2004-05	2005-06	2006-07
Elementary	8,113	7,741	7,704	7,688	7,875
Secondary	<u>7,029</u>	<u>6,852</u>	<u>6,872</u>	<u>6,828</u>	<u>6,723</u>
Total	15,142	14,593	14,576	14,516	14,598

The school district operates nineteen elementary schools, nine secondary schools, three 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 2,128 people.

THE CONSTRUCTION PROGRAM

Proceeds of the Series J Bonds will be used for construction, renovation, and upgrade of schools in the Borough, as summarized in Table 1 and described below.

In October 2006, the voters approved a program for capital maintenance and upgrades to school facilities throughout the Borough, including mechanical, lighting and sprinkler system upgrades, roof repairs and replacements, and Americans with Disabilities Act and other code required updates.

District-wide projects, including technology, interior and exterior facilities upgrades, and maintenance projects, are ongoing. Many projects have been completed. Projects approved in 2006 will be completed in 2007 through 2008.

**Table 1 ■ Fairbanks North Star Borough
School Construction Program**

Projects	Estimated Project Cost	Project Status
Approved in 2004		
District-wide capital maintenance and upgrades	\$9,000,000	under design
Barnette Elementary School and Ryan Middle School	<u>3,000,000</u>	under design
Total	\$12,000,000	

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

- **District-wide Improvements:** The Project consists of a program for capital maintenance and upgrades to Borough school facilities, including roof, flooring, and siding replacements, upgrading classroom and auditorium facilities, and safety and site improvements, to Weller, Pearl Creek, University Park and Woodridge Elementary Schools, North Pole Middle School, and Lathrop, West Valley, and North Pole High Schools.
- **Revovation Projects for Barnette Elementary School and Ryan Middle School:** The Project consists of (i) Phase II of the renovation of Barnette Elementary School, including asbestos abatement, upgrades to mechanical, lighting, and electrical systems, replacing siding, roofing, and other exterior improvements, remodeling interior spaces to serve education program requirements, and (ii) Phase I of the renovation of Ryan Middle School, including design and planning for renovation of the entire building and beginning the interior refurbishments and remodeling and exterior upgrades.

The district-wide improvement projects and renovation projects described above have received the 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, 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 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 2 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, then the state reimburses substantially all of the eligible amount. The state makes final payments on August 1 of the fiscal year based on the availability of funds.

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 debts service on these projects is currently being met at 100%.

Borough Reimbursement Eligibility

Table 2 summarizes the Borough's outstanding school bonds and their reimbursement eligibility.

**Table 2 ■ Fairbanks North Star Borough
Outstanding School Bonds as of February 16, 2007**

Series	Purpose	Outstanding Principal	Final Payment	Reimbursement Eligibility
1993S Refunding ⁽¹⁾	Schools	\$5,865,000	3/1/2008	80-90%
1997A ⁽³⁾	Schools, library	24,500,000	11/1/2017	70%
1999B ⁽²⁾	Schools	19,750,000	4/1/2019	70%
2000C	Schools	7,315,000	12/1/2020	70%
2001D	Schools	7,165,000	2/1/2021	70%
2002E	Schools	12,165,000	8/1/2022	70%
2003F	Schools	12,055,000	10/1/2022	70%
2004G	Schools	12,545,000	10/1/2023	70%
2005H	Schools	12,820,000	10/1/2024	70%
2006 I	Schools	9,530,000	11/1/2025	70%-100%
2007J	Schools	12,000,000	11/1/2026	70%
<u>2007K Refunding⁽⁴⁾</u>	Schools	<u>10,460,000</u>	11/1/2016	70%
Total		\$146,170,000		

Source: Fairbanks North Star Borough Budget

1 - The 1993S refunding bonds refunded 3 series, reimbursable at 80 and 90 percent.

2 - Series 1996U and 1999B include about \$9.5 million of local match for state grants, ineligible for reimbursement. Balance reimbursable at 70 percent.

3 - Series 1997A includes \$1,250,000 library bonds ineligible for reimbursement.

4 - The 2007K refunding bonds refunded the 1996U Series bonds; 47.479% of the principal of the Series K bonds is reimbursable at 70%

The Borough has twelve issues of outstanding school bonds eligible for state reimbursement, including the Bonds. The Borough's outstanding bonds are eligible for reimbursement of between 70 percent and 90 percent:

- Part of the Series 1993S refunding bonds is reimbursable at 90 percent, and the balance is reimbursable at 80 percent. The 1993S refunding bonds refunded three series of prior bonds. One series was reimbursable at 90 percent; the other two series were reimbursable at 80 percent. Each year's debt service is allocated to the prior issues and retains the reimbursement eligibility of the prior issues. About 9 percent is reimbursable at 90 percent and 91 percent at 80 percent.

- Portions of the Series 1997A, and Series 1999B are eligible for reimbursement at 70 percent. Series 1996U and 1999B included about \$9.5 million of local funds to match state grants on a 70/30 basis. Debt service on the local match is not reimbursable. Series 1997A included \$1,250,000 for library purposes, which is payable solely by the Borough. The entire Series 2000C, 2001D, 2002E, 2003F, 2004G, 2005H are eligible for reimbursement at 70 percent. 54 percent of the Series 2006I bonds are reimbursable at 70 percent; the remaining 46 percent are eligible for reimbursement at 100 percent.
- The debt service on the Series 2007J bonds included in this offering is reimbursable at 70 percent. The debt service on 47.479 percent of the Series 2007K bonds (or, \$4,966,303) is reimbursable at 70 percent.

Table 3 summarizes the total annual debt service on outstanding bonds, estimated debt service on the Bonds included in this issuance, reimbursement entitlement, and the net local expense. Table 3 is presented on a cash flow basis, to project the net local cost to the Borough's taxpayers each year. Overall, the net local cost is about one-third of total annual debt service.

**Table 3 ■ Fairbanks North Star Borough
Debt Service Reimbursement Eligibility**

Fiscal Year	Debt Service				Reimbursement Entitlement	Net Borough Expense	Reimbursement Proportion
	Prior Issues	2007J	2007K	Total			
2006/07	\$15,224,284	\$0	\$0	\$15,224,284	\$10,664,652	\$4,559,632	70.1%
2007/08	14,488,759	906,114	1,235,667	16,630,540	11,462,286	5,168,254	68.9%
2008/09	11,236,061	909,788	1,246,100	13,391,949	8,878,857	4,513,092	66.3%
2009/10	11,214,080	907,888	1,250,300	13,372,268	8,863,573	4,508,695	66.3%
2010/11	11,185,155	910,288	1,257,800	13,353,243	8,849,598	4,503,644	66.3%
2011/12	11,190,211	906,988	1,283,100	13,380,299	8,854,118	4,526,181	66.2%
2012/13	11,173,369	907,381	1,281,300	13,362,050	8,848,104	4,513,946	66.2%
2013/14	11,229,424	911,238	1,302,400	13,443,061	8,892,313	4,550,748	66.1%
2014/15	11,226,600	909,138	1,296,400	13,432,138	8,890,971	4,541,167	66.2%
2015/16	11,190,813	906,188	1,332,900	13,429,900	8,872,483	4,557,417	66.1%
2016/17	11,302,043	902,388	1,346,400	13,550,830	8,942,050	4,608,780	66.0%
2017/18	11,237,207	907,525	0	12,144,732	8,478,457	3,666,275	69.8%
2018/19	8,396,296	906,494	0	9,302,790	6,558,549	2,744,241	70.5%
2019/20	6,337,748	904,400	0	7,242,148	5,170,805	2,071,342	71.4%
2020/21	6,380,204	905,968	0	7,286,171	5,202,775	2,083,396	71.4%
2021/22	4,945,238	905,816	0	5,851,054	4,197,687	1,653,367	71.7%
2022/23	4,968,989	904,005	0	5,872,994	4,212,411	1,660,583	71.7%
2023/24	2,769,971	905,675	0	3,675,646	2,676,443	999,204	72.8%
2024/25	1,748,957	900,513	0	2,649,469	1,957,079	692,391	73.9%
2025/26	748,203	898,500	0	1,646,703	1,256,885	389,818	76.3%
2026/27	<u>0</u>	<u>899,800</u>	<u>0</u>	<u>899,800</u>	<u>629,860</u>	<u>269,940</u>	70.0%
Totals	\$178,193,609	\$18,116,090	\$12,832,367	\$209,142,066	\$154,428,750	\$66,782,112	

Source: Prepared by Bartle Wells Associates

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 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 since 1991, except for 1993, and has received the GFOA Distinguished Budget Award Presentation since 1990. The school district issues a separate financial report, which is incorporated into the Borough's financial statement and has also received the GFOA's Certificate of Achievement for Excellence in Financial Reporting. 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, and other areawide community activities.
- **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, economic development, emergency communication services, 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 certain local funds and includes revenue for the Borough's trust.
- **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 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, land management program, 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 4 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 \$69.6 million in 2004/05 and accounting for 82 percent of general fund revenue. Tax revenue includes hotel, motel, alcohol, and tobacco taxes collected outside the City of Fairbanks. The balance of tax revenue is from property taxes.

**Table 4 ■ Fairbanks North Star Borough
General Fund Revenues, Expenditures, and Change in Fund Balance**

	2000/01	2001/02	2002/03	2003/04	2004/05 Restated
Revenues					
Taxes	\$54,174,196	\$57,261,548	\$58,508,210	\$63,547,779	\$69,565,848
Intergovernmental revenues	10,039,324	12,273,453	11,973,317	11,918,127	12,328,741
Charges for services	1,268,606	1,270,557	1,216,277	1,341,740	1,340,993
Charges to school district ⁽¹⁾	855,683	796,814	-	-	-
Other revenues	<u>7,019,140</u>	<u>4,963,745</u>	<u>2,159,771</u>	<u>1,043,996</u>	<u>1,881,034</u>
Total revenues	73,356,949	76,566,117	73,857,575	77,851,642	85,116,617
Expenditures					
General government	10,006,431	9,981,127	8,760,047	9,207,117	9,678,631
Community planning	1,065,850	1,117,465	1,216,560	1,280,795	1,348,512
Public works	3,569,783	3,513,069	2,539,377	2,559,173	3,284,743
Parks and recreation	3,831,937	4,051,609	4,186,349	4,376,174	4,726,082
Library	2,804,724	2,943,106	3,136,426	3,250,739	3,385,302
Direct services	1,217,117	1,265,690	1,393,661	1,423,538	-
Education ⁽²⁾	-	-	33,545,700	34,545,700	36,545,700
Emergency operations	84,470	223,075	213,548	215,269	1,438,477
Capital outlay	<u>494,297</u>	<u>546,579</u>	<u>343,370</u>	<u>296,753</u>	<u>363,367</u>
Total expenditures	23,074,607	23,641,721	55,335,039	57,155,258	60,770,815
Excess of revenues over expenditures	50,282,342	52,924,396	18,522,536	20,696,384	24,345,802
Transfers In (Out)					
Other funds ⁽³⁾	(17,023,030)	(18,898,952)	(19,748,568)	(21,521,819)	(22,595,785)
School district ⁽²⁾	<u>(32,045,700)</u>	<u>(32,555,700)</u>	-	-	-
Total other financing uses	(49,068,730)	(51,454,652)	(19,748,568)	(21,521,819)	(22,595,785)
Excess (deficiency) of revenues over expenditures & other uses	1,213,611	1,469,744	(1,226,032)	(825,435)	1,750,017
Fund balance, July 1	15,091,351	16,242,766	19,015,238	17,789,206	16,373,929
Residual equity transfers ⁽⁴⁾	(62,196)	150,000	-	-	-
Adjustments ⁽⁵⁾⁽⁶⁾	-	<u>1,152,727</u>	-	<u>(589,843)</u>	-
Fund balance, June 30	\$16,242,766	\$19,015,238	\$17,789,206	\$16,373,929	\$18,123,945

Source: Financial Statements of the Borough

Totals may not add due to rounding.

1- Not shown beginning in FY 2002/03 due to accounting changes required by GASB Statement No. 34.

2- Contributions to the School District classified as education expenditures beginning in FY 2002/03 as required by GASB Statement No. 34.

3- Includes transfer to debt service fund.

4- Residual equity transfers eliminated by GASB Statement No. 34 beginning in FY 2002/03.

5- FY 2002/03 beginning balance restated due to GASB Interpretation No. 6.

6- FY 2004/05 beginning balance restated to correct error which recognized penalties and interest on property taxes on the full accrual basis of accounting instead of the modified accrual basis required.

In 2004/05, intergovernmental revenues amounted to \$12.3 million. This included approximately \$11.3 million in 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."

In 2004/05, total expenditures were \$24.3 million, an increase of about 7 percent from 2003/04. The general fund's contribution to education was \$36.5 million, shown as an operating transfer to the school district. General fund contribution to debt service was \$16.1 million, and is included as a portion of the transfer to other funds.

Table 5 summarizes the 2006/07 general fund budget. The Borough's general fund budget totals \$99.6 million. Taxes, the largest revenue source, account for about 76 percent of budgeted general fund revenues, and consist primarily of areawide property taxes. Various categories of state aid, of which school construction reimbursement is the largest, make up another 12 percent of general fund revenues.

**Table 5 ■ Fairbanks North Star Borough
Approved General Fund Budget**

	2006/07
Revenue Sources	
Taxes	\$75,332,410
State and federal revenues	11,481,280
Alcohol and tobacco taxes	2,194,000
Charges for services	1,362,290
Intragovernmental charges	4,827,270
Other local revenue	3,421,360
Contribution from fund balance and transfers	<u>1,000,000</u>
Total local revenue	\$99,618,610
Expenditures and Other Financing Uses	
Mayor and assembly	2,395,700
Law	858,880
Assessing	2,387,720
Community planning	1,757,340
Computer services	2,688,860
Emergency operations	1,848,730
Facilities maintenance	-
Financial services	2,806,850
General services	1,436,050
Human resources	2,644,250
Library services	4,612,250
Parks and recreation	5,781,870
Public works	5,981,490
Nondepartmental	753,190
Intergovernmental charges	<u>65,520</u>
Total operating expenditures	\$36,018,700
Contributions to Other Funds	
Capital projects	1,808,000
Debt service	15,748,920
Education	40,022,700
Other operating transfers	<u>6,020,290</u>
Total contributions	\$63,599,910
Total expenditures and contributions	\$99,618,610

Source: Fairbanks North Star Borough 2006/07 Approved Budget

The Borough has budgeted operating expenditures of \$36 million. The balance of general fund expenditures consists of contributions to other funds. The contribution to education, at \$40 million, is 40 percent of the total general fund budget. The 2006/07 budget increased 3.4 percent from the prior year.

Table 6 shows the general fund balance sheet as of June 30, 2001 through 2005.

**Table 6 ■ Fairbanks North Star Borough
General Fund Balance Sheet, June 30**

	2001	2002	2003	2004	2005
		Restated		Restated	Restated
Assets					
Equity in central treasury cash	\$20,454,722	\$22,251,165	\$21,543,345	\$20,023,623	\$20,295,791
Taxes receivable	588,189	602,306	2,197,273	2,500,103	2,300,767
Accounts receivable	43,319	72,528	104,655	66,525	25,095
Accrued interest receivable	820,217	282,047	218,271	148,691	337,163
Interfund receivables	290,733	386,761	655,478	888,025	1,359,168
Due from governmental agencies	510,023	558,353	392,042	563,475	576,496
Other assets	<u>1,144,465</u>	<u>1,249,876</u>	<u>1,228,859</u>	<u>1,232,616</u>	<u>1,211,712</u>
Total assets	\$23,851,719	\$25,403,036	\$26,339,923	\$25,423,058	\$26,106,191
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$708,656	\$651,249	\$584,593	\$746,443	\$658,466
Wages and payroll taxes	460,013	500,490	984,412	760,988	622,226
Accrued annual leave	1,089,708	-	-	-	-
Accrued self-insurance losses	746,036	750,724	622,686	591,883	513,367
Due to School District	-	-	7,194	4,246	1,620
Deposits from others	151,331	128,831	177,388	241,421	142,406
Deferred revenues	-	-	1,599,735	2,012,090	1,687,590
Advance tax payments	<u>4,453,209</u>	<u>4,356,503</u>	<u>4,574,708</u>	<u>4,692,059</u>	<u>4,356,570</u>
Total liabilities	7,608,953	6,387,797	8,550,717	9,049,130	7,982,245
Fund Balance					
Reserved for encumbrances	286,112	231,960	316,869	284,465	247,848
Reserved for deposit	-	-	1,060,880	1,060,880	1,060,880
Unreserved, designated for:					
Net unrealized investment gains	306,315	146,009	-	-	-
Education	-	1,000,000	-	-	-
Compensated absences	-	1,152,728	1,199,830	1,394,310	1,487,591
Subsequent year's expenditures	500,000	880,740	1,060,990	10,000	833,000
Self-insurance losses	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Unreserved, undesignated	<u>13,650,339</u>	<u>14,103,801</u>	<u>12,650,637</u>	<u>12,124,274</u>	<u>12,994,626</u>
Total fund balance	16,242,766	19,015,238	17,789,206	16,373,929	18,123,945
Total liabilities and fund balance	\$23,851,719	\$25,403,036	\$26,339,923	\$25,423,058	\$26,106,191

Source: Financial Statements of the Borough

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 7 shows the Borough’s certified real property assessed valuation from 2002 through 2006. The Borough’s 2006 assessed value is about \$6.4 billion, which represents an increase of 11.8 percent over 2005.

**Table 7 ■ Fairbanks North Star Borough
Assessed Valuation History (000)**

Tax Year	Within Cities	Outside Cities	Pipeline-Related*	Borough Total	Percentage Increase
2002	1,617,351	2,687,795	263,366	4,568,512	5.2%
2003	1,715,449	2,868,516	270,806	4,854,771	6.3%
2004	1,857,523	3,110,669	271,188	5,239,380	7.9%
2005	2,005,314	3,458,998	275,303	5,739,614	9.5%
2006	2,215,276	3,824,480	377,800	6,417,556	11.8%

Source: Fairbanks North Star Borough Budget

*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 2005, the estimated optional residential and fire exemptions totaled \$263 million; mandatory exemptions totaled \$378 million.

The Borough's 2006 estimated net taxable value is \$5.776 billion as shown in Table 8.

**Table 8 ■ Fairbanks North Star Borough
Estimated Assessed Valuation, 2006**

Borough assessor's value	\$6,417,556,567
Less:	
Mandatory exemptions	(378,066,524)
Optional residential exemptions	<u>(263,134,132)</u>
Borough net taxable value	\$5,776,355,911

Source: Fairbanks North Star Borough Budget

Property owners are notified during each March 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 taxes carry a penalty of 10 percent plus interest at 8 percent per year. The 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, the primary owner of pipeline assets with an assessed value of \$378 million, is thus the Borough's largest taxpayer. The pipeline's valuation is generally declining, based on the expected life of the pipeline and the oil fields. Pipeline related value increased in 1999 due to personal property brought into the Borough by the company, which was subsequently removed. Pipeline related value increased again in 2001 due to the state Assessment Board's decision to change the depreciation schedule on the pipeline as negotiated with Alyeska Pipeline Service Company, resulting in an increase in the assessed value, and in 2005 due to additions. The pipeline's assessed valuation is expected to continue to decline gradually. The pipeline's 2006 estimated assessed valuation within the Borough is about 5.9 percent of the Borough's total assessed valuation of \$6.4 billion.

Table 9 shows the Borough's ten largest commercial/industrial taxpayers for 2006. Together they account for 14.8 percent of total assessed valuation, a slight increase from 14.5 percent in 2005.

**Table 9 ■ Fairbanks North Star Borough
Largest Commercial/Industrial Taxpayers, 2006**

Taxpayer	Type of Property	Assessed Valuation (000)	Percent of Borough Total ⁽¹⁾
Alyeska	Oil transportation	\$377,800	5.89%
Fort Knox	Mining	224,400	3.50%
Flint Hills Resources ⁽²⁾	Oil refining	142,700	2.22%
Alaska Communications Systems	Telephone	41,600	0.65%
HEBL Housing (Eielson)	Military housing	34,100	0.53%
Westmark Hotel	Hotel	32,600	0.51%
Alaska Hotel Properties, Inc. (Princess)	Hotel	26,700	0.42%
Wal-Mart Stores	Shopping center	24,900	0.39%
North Star Alaska Housing	Military housing	20,300	0.32%
Fred Meyer of Alaska, Inc.	Shopping center	<u>22,900</u>	<u>0.36%</u>
		\$948,000	14.77%

Source: Fairbanks North Star Borough

1- Total assessor's value, 2006:

\$6,417,557

2- The former Williams Alaska Petroleum.

Tax Rates

Table 10 shows the tax rates levied by the Borough and its two cities for the last five years.

**Table 10 ■ Fairbanks North Star Borough
Ad Valorem Tax Rate History
Mills per \$1,000 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

Source: Fairbanks North Star Borough 2006/07 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 2006 areawide tax rate is 12.923 mills per \$1,000 of assessed valuation. An additional 0.418 mills is levied on property outside the cities for ambulance service and economic development. 1.150 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 6.700 mills in Fairbanks and 3.000 mills in North Pole.

Table 11 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 12.923.

**Table 11 ■ Fairbanks North Star Borough
Total Tax Rates, 2006/07
Mills per \$1,000 of Assessed Value**

	City of Fairbanks	City of North Pole	Outside Cities ⁽¹⁾
Borough areawide, excluding debt service	12.014	12.014	12.014
Borough debt service			
School bonds	0.891	0.891	0.891
Library bonds	<u>0.018</u>	<u>0.018</u>	<u>0.018</u>
Total debt service	0.909	0.909	0.909
Total Borough areawide	12.923	12.923	12.923
City of Fairbanks	6.700		
City of North Pole		3.000	
Solid waste collection	(2)	1.150	1.150
Non-areawide			0.418
Total ⁽¹⁾	19.623	17.073	14.491

Source: Fairbanks North Star Borough 2006/07 Budget

1- Does not include service area tax rates.

2- Fairbanks provides its own solid waste collection service.

Tax Levies and Delinquencies

Table 12 shows property tax levies and current and delinquent collections for the Borough from 2000/01 through 2004/05. 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 2003/04, the Borough's current tax collections were 98.9 percent of the net current year levy on taxable property. Total collections, including delinquent taxes, totaled \$61.0 million, or 100.1 percent of the net current year 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 12, nor are the Borough taxes collected on a non-areawide, district, or service area basis.

**Table 12 ■ Fairbanks North Star Borough
Areawide Property Tax Levies and Collections**

	2000/01	2001/02	2002/03	2003/04	2004/05
Net tax levy ⁽¹⁾	\$52,599,980	\$55,267,748	\$57,373,161	\$60,902,054	\$65,289,393
Current tax collections	51,710,487	54,516,342	56,643,449	60,228,158	64,576,590
Delinquent collections	<u>693,678</u>	<u>792,432</u>	<u>628,933</u>	<u>750,265</u>	<u>781,837</u>
Total collections ⁽²⁾	\$52,404,165	\$55,308,774	\$57,272,382	\$60,978,423	\$65,358,427
Current year, percent of net levy collected	98.31%	98.64%	98.73%	98.89%	98.91%

Source: Fairbanks North Star Borough Comprehensive Annual Financial Report

Totals may not add due to rounding.

1- Areawide taxes levied by Borough only, not of excluded state-mandated and local optional 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 13 shows the Borough's outstanding direct bonded debt as of February 16, 2007. All of the Borough's outstanding bonds have been issued for school construction, except a portion of 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 February 16, 2007 total gross direct debt, including the Bonds, is \$146.170 million. Table 13 also shows direct and total Borough debt in relation to the Borough's taxable assessed valuation (AV) and population. As Table 13 shows, \$106.4 million of the Borough's direct debt (73 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 AV.

**Table 13 ■ Fairbanks North Star Borough
Direct and Underlying Bonded Debt**

	Percent Applicable	2/16/2007
Direct Debt		
Outstanding school and library bonds	100%	123,710,000
2007J bonds	100%	12,000,000
2007K bonds	100%	<u>10,460,000</u>
Total gross direct debt		146,170,000
Less: School bonds eligible for state reimbursement		<u>(106,350,812)</u>
Total net direct bonded debt		39,819,188
Direct and Underlying Debt		
Underlying debt:		
City of Fairbanks	100%	9,965,000
City of North Pole	100%	2,067,655
Net solid waste enterprise revolving fund loan	100%	6,172,203
Less: City of Fairbanks bonds eligible for state reimbursement	100%	(5,460,000)
Direct debt		146,170,000
Total gross direct and underlying debt		<u>158,914,858</u>
Less: School bonds eligible for state reimbursement		<u>(106,350,812)</u>
Total net direct and underlying bonded debt		52,564,046
		Percent of Taxable Assessed Value 5,776,000,000
Ratio of Direct Debt to Assessed Value		
Gross	\$146,170,000	2.53%
Net	39,819,188	0.69%

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

Table 3 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 3 and 13 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 about 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 re-approved these measures in October 2004, and then again in October of 2006. 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;
- 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 2006/07 budget is \$2.1 million below the current cap. 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.

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 Award Presentation 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:

Operating Budget Policies

- All general government current operating expenditures are to be paid from current and excess revenues. The Borough will avoid budgetary and accounting procedures which balance the current budget at the expense of meeting future years' obligations. The use of one-time revenues for ongoing operations will not be encouraged.
- All budgetary procedures will conform to existing state law and the Borough Code.
- 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. The Borough's annual operating budget is to reflect known salary and benefits adjustments.
- 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.
- 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. Debt will not be used to cover current operating expenses.
- 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.
- 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.

Revenue Policies

- The Borough will attempt to develop a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source.
- The Borough will aggressively seek federal and state grants, with a target emphasis on capital improvements funding.
- The voter-approved tax limitation will be conservatively applied.
- The Borough will take all cost-effective actions available to collect delinquent revenues.
- The Borough will set fees and rates for each enterprise fund at a level that as fully as possible supports the total direct, indirect, and capital costs of the activity.

Reserve Policies

- Adequate reserves will be maintained for all known liabilities, including employee leave liabilities, workers' compensation liabilities, and self-insured retention amounts.
- The Borough will endeavor to maintain a reserve in each operating fund to cover revenue and expense variations and emergencies. The target reserve for operating funds with expenditures of more than \$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.

Debt Policies

- 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.
- Debt financing will not be considered appropriate for current operating or maintenance expenses or for any recurring purposes.
- 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.
- The Borough will actively endeavor to maintain a minimum bond rating of A for all debt issues.

A complete listing of the Borough fiscal policies is found in the appropriations section of the Borough's annual budget.

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 of 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 and general liability, property, and workers' compensation 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.

From July 2000 through June 2004, the Borough was a member of the Alaska Municipal League Joint Insurance Association (AML/JIA), a public entity risk pool formed to provide pooled property and liability insurance coverage to AML members. Commercial insurance as described above has replaced this insurance. The AML/JIA has the option of requiring supplemental contributions from its members if annual contributions and other income are not sufficient to cover AML/JIA's aggregate pooled losses and expenses for any coverage year. Due to the Borough's high self-insurance threshold

levels, the Borough has reduced exposure to any supplemental contributions. No supplemental contributions have been required of members in the last 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 \$17 million has been deposited in the fund since its creation.

The Borough also created a Vehicle and Equipment Fleet Internal Service Fund (VEFF) within the Transportation Department 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 efficient manner. 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.

The Borough currently employs about 400 benefit eligible people, of which approximately 80 percent are covered by collective bargaining units. Current agreements are valid through June 30, 2009. The Borough has historically fully funded its retirement program, and had a net pension asset until fiscal year 2005. Then in actuarial valuation year 2002, the statewide Public Employees' Retirement System funding ratio decreased dramatically, which has caused an increase in the Borough's contribution rate each year beginning in FY 2005, capped at 5 percentage points a year through FY 2007 at least. The Borough School District is faced with similar shortfalls and increasing contribution rates in its PERS and Teachers' Retirement System accounts.

The mayor and Borough assembly and other municipalities throughout the state continue to work with the state legislature to find funding solutions for PERS and TRS, and to reinstate other funding to local governments. Many believe that the State should assist local governments in funding the increased pension costs.

The Borough is in compliance with all applicable, effective Governmental Accounting Standards Board statements with issuance of the FY 2006 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, 2005.

The Borough is still expanding as a service center for northern and interior Alaska. Growth in retail, medical services, and other areas of the economy remains strong. The Borough anticipates this trend to continue, which bodes well for the Borough's finances.

The Borough's budget document and annual financial report both contain additional management discussion sections, and can be found on the Borough's website, www.co.fairbanks.ak.us.

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 meet compliance requirements of DEED. 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. 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 14 shows five years of school district operating fund revenues and expenditures. Of the district's \$133.1 million operating fund revenues in 2005/06, state funding provided 61 percent and the Borough provided 29 percent. Federal pass-through revenues have varied due to changes in the timing of payments to the state and district. The state reduces foundation formula funding by a percentage of the amount received from the federal government.

**Table 14 ■ Fairbanks North Star Borough School District
Operating Fund Revenues and Expenditures**

	2001/02	2002/03	2003/04	2004/05	2005/06
Revenues					
Borough appropriation	\$ 32,555,700	\$ 33,545,700	\$ 34,545,700	\$ 36,545,700	\$38,850,319
Local sources	353,586	958,150	709,784	727,017	-
State sources	68,819,817	70,215,375	67,224,480	74,502,157	81,842,665
Federal pass-through	13,425,434	11,144,790	11,943,538	14,267,731	12,387,574
Federal sources	<u>207,831</u>	<u>248,837</u>	<u>246,585</u>	<u>99,358</u>	<u>-</u>
Total revenues	\$115,362,368	\$116,112,852	\$114,670,087	\$126,141,963	\$133,080,558
Expenditures					
Instruction	70,268,181	71,788,492	70,765,104	74,655,922	79,742,527
Supporting services	24,309,678	26,652,324	27,065,756	28,261,974	31,458,438
Operation & maint.	14,665,825	14,887,254	14,790,910	16,888,220	18,303,539
Pupil activities	1,425,684	1,483,249	1,333,434	1,544,539	2,148,068
Debt Service	-	205,484	205,484	206,836	-
Transfers	<u>3,426,956</u>	<u>2,433,012</u>	<u>1,724,852</u>	<u>351,230</u>	<u>(527,073)</u>
Total expenditures	\$114,096,324	\$117,449,815	\$115,885,540	\$121,908,721	\$131,125,499

Source: Financial statements of the Fairbanks North Star Borough School District

School District Budget

Table 15 shows the district's 2006/07 operating fund budget. 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.

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.

**Table 15 ■ Fairbanks North Star Borough School District
Operating Fund Budget**

	2006/07
Revenues	
Borough appropriation	\$40,022,700
Local sources	796,300
State sources	93,366,660
Federal pass-through	9,551,450
Fund balance utilization	<u>5,868,940</u>
Total revenues	\$149,606,050
Expenditures	
Instruction	91,745,637
Supporting services	34,014,595
Operation and maintenance	21,339,880
Pupil activities	2,097,176
Transfers to other funds	<u>408,762</u>
Total expenditures	\$149,606,050

Source: Fairbanks North Star Borough School District

The Borough's Code of Ordinances allows for the retention and carryover, from one year to the next, by the school district of no more than 7 percent of that fiscal year's state revenues and local contribution to education.

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 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 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 16 shows the populations of the Borough, the cities of Fairbanks and North Pole, and the State of Alaska. According to the 2000 census, the Borough's population was 82,840, an increase of about 7 percent from the 1990 population of 77,720 and 53 percent since 1980. The Borough's 2005 population was 87,650.

**Table 16 ■ Fairbanks North Star Borough
Population**

Year	Borough ⁽¹⁾	City of Fairbanks ⁽²⁾	City of North Pole	State of Alaska
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	82,289	31,600	1,516	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	30,224	1,570	628,800
2001	83,266	29,554	1,462	626,932
2002	84,749	29,815	1,590	626,932
2003	83,123	29,301	1,621	648,818
2004	84,979	30,151	1,534	655,435
2005	87,650	31,182	1,595	663,661

Source: AK Department of Labor

1 - Includes Fairbanks, North Pole, Fort Wainwright, and Eielson AFB.

2 - Includes population living on Fort Wainwright.

As of 2006, the number of military personnel and family members totaled 18,376. The total military population comprises about 20 percent of total Borough population. The US Congress has recently appropriated over \$128 million for improvements and expansion of family housing facilities at the Borough's two military bases, Fort Wainwright and Eielson Air Force Base. Due to military base realignment and closures recently approved by the US Congress, a small net gain in military population is expected over the next several years (see "Base Realignment and Closure Commission Impact" section under the Military heading).

Table 17 shows the number of residential housing units sold and the average price per unit since 2001.

**Table 17 ■ Fairbanks North Star Borough
Residential Housing Sales**

	Units Sold	Average Price Per Unit
2001		
1st Quarter	148	141,400
2nd Quarter	242	136,400
3rd Quarter	253	134,200
4th Quarter	292	137,800
2002		
1st Quarter	132	142,700
2nd Quarter	213	141,700
3rd Quarter	128	167,500
4th Quarter	220	157,100
2003		
1st Quarter	138	149,800
2nd Quarter	241	162,900
3rd Quarter	263	159,100
4th Quarter	251	162,900
2004		
1st Quarter	130	154,300
2nd Quarter	242	167,500
3rd Quarter	273	173,400
4th Quarter	211	178,500
2005		
1st Quarter	223	182,900
2nd Quarter	311	188,200
3rd Quarter	324	185,800
4th Quarter	214	195,400
2006		
1st Quarter	148	204,300
2nd Quarter	260	217,700

Source: FNSB Community Research Quarterly, Summer 2006

Income

Table 18 shows median household effective buying income (EBI) for the Borough, the state, and the U.S. for the period from 2001 through 2005. Effective buying income is reported annually by *Sales & Marketing Management* magazine's "Survey of Buying Power." It is defined as money income less personal tax payments, a number often referred to as "disposable" or "after-tax" income. Between 2001 and 2005, the Borough's EBI increased at an annual average rate of 1.6 percent. EBI is based on "money income," provided by the Census Bureau. Money income does not include certain sources, such as pay-in-kind income, lump-sum payments such as bonuses, interest and rent from property, and some proprietor's income and transfer payments.

**Table 18 ■ Fairbanks North Star Borough
Median Household Effective Buying Income**

Year	Borough	State of Alaska	United States
2000	43,924	47,965	39,129
2001	45,890	48,987	38,365
2002	44,600	45,882	38,035
2003	45,359	47,047	38,201
2004	46,762	48,862	39,324

Source: Sales & Marketing Management Magazine, Survey of Buying Power

Cities

Fairbanks: The City of Fairbanks, with a 2005 population of 31,182, is the largest in the Borough and the third largest in the state, after Anchorage and Juneau. The city's population has remained steady over the last five years. Fairbanks is located at the confluence of the Chena and Tanana Rivers and has long served as the trade, transportation, government, education, finance, services, and information center for the Alaskan Interior and the North Slope. 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. Its 2005 population of 1,595 has increased about 6 percent since 1990. 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 19 shows a four-year history of civilian employment by industry segment. The Alaska Department of Labor estimates average 2005 employment at 37,600, an increase of 700 jobs from the previous year.

**Table 19 ■ Fairbanks North Star Borough
Average Annual Civilian Employment (by Industry) and Unemployment Rate**

Industry	2002	2003	2004	2005
Mining, construction, & manufacturing	3,650	3,900	4,300	4,100
Trade, transportation, & utilities	7,250	7,100	7,300	7,600
Information	600	600	600	600
Financial activities	1,300	1,400	1,400	1,500
Professional & business services	1,850	2,100	2,200	2,100
Educational & health services	3,800	4,000	4,100	4,300
Leisure & hospitality	3,850	4,000	4,100	4,100
Other services	1,800	1,400	1,400	1,400
Government - federal	3,300	3,400	3,300	3,400
Government - state	5,000	5,100	5,200	5,300
Government - local	<u>3,050</u>	<u>3,000</u>	<u>3,000</u>	<u>3,200</u>
Total	35,450	36,000	36,900	37,600
Unemployment rate	6.5%	7.0%	6.6%	5.8%

Source: Alaska Department of Labor
Totals may not add due to rounding.

Table 20 lists the largest employers in the Borough. The largest individual employers are government related.

**Table 20 ■ Fairbanks North Star Borough
Largest Employers, 2005**

Employer	Business Activity	Employees
University of Alaska, Fairbanks	Education	3,450
Military-related employment	Government	2,925
Fairbanks North Star Borough School District	Education	2,128
State government ⁽¹⁾	Government	1,747
Banner Health System	Hospital	1,245
Federal government (Agency personnel)	Government	1,122
Fred Meyer, Inc.	Grocery/retail	662
ARSC Energy Services	Oilfield Services	617
Wal-Mart/Sam's Club	Retail	551
Fairbanks North Star Borough	Government	437
Fairbanks Gold Mining Co.	Hard rock mining	423
Safeway	Grocery/retail	317
Tanana Chiefs Conference	Social services	268
Westours Motor Coaches	Tourism	266
Fairbanks Native Association	Social services	237

Source: Fairbanks North Star Borough

1 - Total state government minus University of Alaska.

Government Sector: The University of Alaska Fairbanks (UAF) employs 3,450 and is the Borough's largest employer. UAF accounts for 66 percent of persons employed by the state within the Borough. Along with other federal, state, and school district employees, and with civilian jobs at Fort Wainwright and Eielson Air Force Base, government is the largest sector in terms of employment with 32 percent of the Borough's workforce. Nine percent of the work force is federally employed, 14 percent is state employed, and nine percent is locally employed.

Services and Trade Sectors: Hotel/motel room receipts amounted to \$45.4 million in 2005, a 25 percent increase from 2002. The services sector, to which tourism significantly contributes, has grown to become the largest employment sector with 57 percent of total Borough employment. The trade and transportation sectors account for about 21 percent of the Borough's employment.

Construction, Manufacturing and Mining Sectors: These employment sectors provide 13 percent of total employment. Although mining is a small employer, it provides local jobs and brings in new money to the local economy, including property tax revenues. Mining also includes the oil and gas industries which are important to the statewide economy.

Other Employment: The Banner Health System is the largest non-governmental employer with 1,245 full-time employees. Tanana Chiefs Conference is a nonprofit corporation representing Interior Athabaskan Indian villages. Tanana Chiefs manages social service programs for 43 interior villages and employs 268 in Fairbanks. Wal-Mart and Sam's Club employ 551, and preliminary plans have been filed to construct a second Wal-Mart super-center in the Borough. Fred Meyer, Inc., a grocery and retail store chain with two stores in Fairbanks, employs 662.

Military

The two main military installations within the Borough, Fort Wainwright and Eielson Air Force Base, continue to be an important economic asset to the region. In addition to the military and family population centers the bases represent, the bases bring significant levels of civilian employment, last reported by the Federal Government as a combined 2,925 in fiscal year 2004/05, representing a payroll of about \$134 million.

The military also continues to attract added investment into local projects. The recently enacted Defense, Military Construction, and Homeland Security Appropriations Bills have allocated over \$300 million in federal funds to projects in and around the Borough. These projects include over \$128 million in family housing construction and improvements at the Borough's two bases and \$20 million allocated to the local governments of the Borough, the City of Fairbanks, and the City of North Pole, for homeland security preparedness purposes.

Base Realignment and Closure Commission (BRAC) Impact: In 2005, BRAC considered a list of recommended military base realignment and closures submitted by the Department of Defense. Included on the list was the recommended closure of Eielson Air Force Base. In the course of its hearings, BRAC removed the closure of Eielson Air Force Base from the list of recommended actions. Rather than recommending closure of the base, BRAC recommended that the base remain open and that the base's A-10 fighter planes be transferred to another base out of state. Eielson will retain its F-16 fighter jets, Alaska National Guard assets and other units. The transfer of the A-10 fighters represented the loss of about 500 military personnel.

BRAC also recommended that a contingent of 44 helicopters be transferred to Fort Wainwright from outside of Alaska. These helicopters, including 30 Kiowas, 8 Black Hawks, and 6 medical evacuation helicopters, are supported by 880 military personnel. The military estimates that approximately 65 percent of the soldiers assigned to the unit are married, and 400 dependants will accompany the relocating soldiers to the Borough.

The US Congress recently approved in full the BRAC recommendations; transfers are expected to begin no later than two years from approval, and be completed after no more than six years. The net impact on military installations in the Borough is expected to be a gain of nearly 300 military personnel and a proportionate increase in military family population.

Fort Wainwright: Fort Wainwright, 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.

In 2003, Stryker Brigade Combat Team 3 (SBCT 3) composed of 3,600 men was assigned to Fort Wainwright as the 172nd Infantry Brigade. SBCT 3 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.

The Army plans to use SBCTs as a prototype for the future of the entire Army, a transformation to take place over the next decade, making SBCT 3 (and by extension, Fort Wainwright) an important element in the Army's future. 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.

Eielson Air Force Base: Eielson Air Force Base 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 Air Force Base is home to the 354th Fighter Wing, 18th Fighter Squadron, 355th Fighter Squadron, 353rd Combat Training Squadron, and the 168th Air Refueling Wing.

Table 21 shows military personnel and family members at Fort Wainwright and Eielson Air Force Base. In 2005, 4,817 military personnel and 4,892 family members were stationed at Fort Wainwright. In 2005, 2,661 military personnel and 3,605 family members were stationed at Eielson Air Force Base.

**Table 21 ■ Fairbanks North Star Borough
Military Population**

	2002	2003	2004	2005	2006
Fort Wainwright					
Military personnel	4,401	4,462	4,904	4,817	5,923
Family members	6,601	5,797	5,320	4,892	6,002
Eielson Air Force Base					
Military personnel	2,793	3,030	3,094	2,661	2,850
Family members	3,579	3,639	3,376	3,605	3,601

Source: As of second quarter of listed year in FNSB Community Research Quarterly, Summer 2006

Health Care

The Fairbanks Memorial Hospital and Denali Center (FMH/DC) is the Borough's largest employer outside of government and education. The hospital is managed by Banner Health, a nonprofit health care system operating facilities in Alaska and six other western states. FMH/DC offers a full complement of ambulatory, acute and skilled nursing services to the approximately 115,000 persons residing in the FMH/DC service area. The large size of the FMH/DC 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 to provide a comprehensive scope of services and programs.

The hospital is currently undergoing a \$110 million expansion. A state of the art outpatient Imaging Center was completed and opened in the summer of 2005 and FMH/DC continues to expand, working on a 10-15 year masterplan. The Borough continues to expand its role as a major medical center for the interior of Alaska.

Retail Sales

Retail sales totaled \$1.3 billion in 2004, according to *Sales & Marketing Management Magazine*. This is an increase of about 9.6 percent from 2003. In the past few years, the Borough has witnessed growth in major national retailers. Stores such as Home Depot, Lowe's, Wal-Mart, and Fred Meyers have recently opened locations in Fairbanks, and Petco, Sportsman's Warehouse, Barnes & Noble, Old Navy, and others have locations under construction or have recently opened. In addition, Wal-Mart has submitted preliminary planning documents to add footage and create the only Alaska super-center, as the Borough expands its service center role. Retail sales increased at an average annual rate of 4 percent between 2000 and 2004. Table 22 shows retail sales by category from 2000 through 2004.

**Table 22 ■ Fairbanks North Star Borough
Retail Sales (\$000)**

	2000	2001	2002	2003	2004
Food	\$108,481	\$92,370	\$82,569	\$88,315	\$94,407
Eating & drinking places	60,254	69,986	66,670	79,720	87,650
General merchandise	326,652	305,277	373,312	399,485	384,312
Furniture & appliances	29,312	27,139	29,735	33,980	37,179
Automotive	351,692	327,139	301,991	319,495	330,165
All Other	<u>293,027</u>	<u>262,773</u>	<u>273,860</u>	<u>304,285</u>	<u>409,139</u>
Total	\$1,169,418	\$1,084,684	\$1,128,137	\$1,225,280	\$1,342,852

Source: Sales & Marketing Management Magazine, Survey of Buying Power

Construction

Table 23 shows building permits and valuation inside of the Cities of Fairbanks and North Pole since 2001. Building permits are not required outside of the legal jurisdictions of the cities, and data are not available for public and military construction, so the building permit data shown in Table 23 are only indicators of actual construction activity.

**Table 23 ■ Fairbanks North Star Borough
Recorded Building Permits and Valuation in Thousands of Dollars⁽¹⁾**

Year	Residential Units	Residential	New Commercial	Other ⁽²⁾	Total
2001	270	27,177	65,816	6,831	99,824
2002	218	29,506	73,514	21,069	124,089
2003	309	41,757	52,956	5,255	99,968
2004	411	51,880	116,004	32,632	200,516
2005	229	40,247	107,199	23,779	171,225
2006 (through 2nd quarter)	197	33,750	30,153	26,920	90,823

Source: FNSB Community Research Quarterly, Summer 2006

1 - Excludes value of federal and state construction.

2 - Includes new structures, alterations and additions.

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: In October 1999 voters in the Borough, the North Slope Borough, and Valdez approved creation of the Alaska Gasline Port Authority, to develop, own and operate a natural gas pipeline. The Port Authority's proposed pipeline would transport natural gas from the North Slope to Tidewater in Alaska for liquefied natural gas shipments to west coast markets. 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.

The governor of Alaska is currently negotiating terms and conditions for an alternative natural gas pipeline that would transport natural gas from the North Slope to the Canadian border for transport to the lower 48 states.

The recent Natural Gas Pipeline Act signed into law by President Bush contains significant incentives, including expedited permitting, \$20 billion of federally guaranteed loans, and certain tax advantages for the construction of the gas pipeline.

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 220,000 barrels per day of crude oil off the Trans Alaska Pipeline System and refines approximately 70,000 barrels per day into products that are sold in Alaska and Asia. The balance of 150,000 barrels per day is returned to the pipeline. Flint Hills Resources, a division of Koch Industries, Inc., purchased their North Pole refinery on April 1, 2004. The PetroStar refinery, constructed in 1985, has a capacity of 16,000 barrels per day and supplies jet fuel directly to Eielson Air Force Base by 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.

The Fort Knox gold mine is located 15 miles northeast of Fairbanks. Commercial production started in March 1997 and continues 24 hours a day, 365 days a year. The mine has produced more than 3 million ounces of gold since it began operations at a rate of approximately 400,000 ounces per year. The estimated remaining reserves of 3 million ounces should be sufficient to sustain operations beyond 2010.

Development and construction of a mile-long exploratory tunnel to access the Pogo gold deposit, outside the Borough's southern boundary, was begun in 1999. The Pogo deposit is believed to contain 5.6 million ounces of gold. The mine became fully operational in late 2006. Estimated production is 375,000 ounces annually, with a mine life of 11 years. During primary construction, lasting approximately 30 months, the mine employed 700; regular mining operations will provide 300 jobs.

Usibelli Coal Mine, Inc. (UCM), Alaska's only coal producer, was founded in 1943. It is located about 120 miles south of the Borough. Today, the mine has a workforce of about 95 employees and operates year-round. UCM produces an average of 1.3 million tons of low sulfur coal annually with about 70 percent sold in interior Alaska where it is used in

power plants to produce heat and electricity. The remaining tons are shipped by railroad to Seward, Alaska for export to South Korea and other pacific rim destinations. Capacity exists to increase total production to approximately 3 million tons per year with minimal capital expenditure. UCM has ample reserves of 50 million tons of proven reserves permitted for mining, an additional 100 million tons of proven reserves amenable to mining, and unproven reserve estimates of an additional 250 million tons.

University of Alaska

The University of Alaska Fairbanks was established in 1917 as the Alaska Agricultural College and School of Mines. The main 2,250-acre campus is located about four miles from downtown Fairbanks, and is the flagship of the state university system, which also includes campuses in Anchorage and Juneau. UAF also operates campuses distributed around the state under the College of Rural Alaska banner; one of these, the Tanana Valley Campus, is located in Fairbanks. The campus is made up of four colleges and five professional schools. UAF is the largest single, non-military employer in the Borough with about 3,450 faculty and staff.

In 1999 the \$30 million International Arctic Research Center, an expansion of the Geophysical Institute on UAF's main campus was completed, adding 80,000 square feet of research and laboratory space for scientists. Nearly 60 percent of the project was an investment from the Japanese government. At the Institute scientists can study a whole spectrum of geophysical processes ranging from the center of the earth to the center of the sun and beyond. In 2004, the West Ridge Research Building opened providing an additional 60,000 square feet of research space at UAF. Research funding has been steadily climbing at UAF and topped \$117.8 million in 2006.

UAF has the nation's only university owned and operated sounding rocket launching facility. Poker Flats Research Range is located about 30 minutes from Fairbanks. The University's Geophysical Institute houses the Alaska Satellite Facility, set up to receive, process and archive information from polar orbiting earth observation satellites. UAF is also home to the Arctic Region Supercomputing Center.

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 24 shows a history of passengers, freight operations, and landings at the airport.

In 1998, the airport completed a \$9.6 million federal and state-funded project to lengthen a runway and improve service for cargo carriers. The extension of the runway allows larger, heavier planes to use the airport as a service center. In 2006 the airport facility began undergoing an expansion and renovation project totaling approximately \$96

million. About 90,000 square feet of new space is being built, with an expected opening date of summer 2008. Additionally, 60,000 square feet will be renovated; completion of this phase is expected in the summer of 2009. By the end of project, 80,000 square feet of the existing facility will have been demolished, for a net gain of 10,000 square feet resulting in a final facility layout that totals of 150,000 square feet.

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-third of the annual coal production from the Usibelli Coal Mine in Healy is shipped north each year by railroad. Gasoline from the Flint Hills refinery in North Pole is shipped south on the railroad. The US Senate has recently agreed to provide \$2 million to study the feasibility of expanding the railroad into Canada, along the route of a proposed gas pipeline.

**Table 24 ■ Fairbanks International Airport
Operating Statistics**

	2002	2003	2004	2005
Passengers - incoming	420,856	423,834	463,477	462,522
Passengers - outgoing	409,626	417,959	455,821	457,621
Revenue landings	28,943	29,738	29,683	27,600
Freight - incoming*	14,533	17,153	17,805	76,450
Freight - outgoing*	59,659	52,806	59,972	123,996

Source: FNSB Community Research Quarterly, Summer 2006

*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 100,000 square-foot center has a seating capacity of 6,500. The center hosts an

average of 175 event days per year (not including ice rental) with an attendance of 150,000 to 175,000 per year.

Tourism and Recreation

Tourism is of increasing importance to the Borough. The Alaska Visitors Statistics Program reports that about 440,000 people annually visit the area. Investment in tourism infrastructure is reflected in the Borough's increased assessed valuation. Recently enacted federal appropriations bills include \$6 million for completion of a cultural visitors center in the Borough.

While most of Fairbanks visitation is in the summer, winter has been dubbed the "opportunity season." The aura and challenge of "Far North" outdoor activities are gaining attention from international and domestic media. Privately owned and operated riverboat and gold mining attractions host thousands of visitors during the summer season. Visitors are lured by the midnight sun in the summer and the aurora borealis in the winter. Facilities and amenities available for visitors to enjoy are also available for residents. An exemplary use of the community's human and infrastructure resources occurred in Fairbanks hosting the 2005 Convention of the Alaska Federation of Natives (AFN), the largest annual gathering of Native peoples in the United States and the largest meeting held in Alaska. This was only the second time in 40 years that the conference was held outside of Anchorage. Fairbanks proved its ability to host a gathering of this size and the community looks forward to hosting the AFN again in 2007.

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.

The University of Alaska Museum of the North is a major visitor attraction and completed a \$34 million renovation and expansion project in the summer of 2005. The museum includes Alaskan Native artifacts, botanical and natural history exhibits, and mineral and fossil samples. The museum has a continuous research program.

The 2,200-acre Chena Lakes 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 78,000 visitors annually.

Pioneer Park (formerly Alaskaland), owned by the Borough, is a 44-acre theme park built in 1967 to commemorate the centennial of the Alaska purchase. It is a recreated gold rush town of the 1900s, and includes restored original buildings moved in from the Fairbanks area,

which now house retail businesses and restaurants. The park hosts conventions, fairs, and carnivals, and includes a civic center and art gallery which operates year-round. The park also includes playgrounds and picnic facilities.

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.

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**APPENDIX A
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005**

Cook & Haugeberg LLC
CERTIFIED PUBLIC ACCOUNTANTS

November 10, 2005

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, 2005, 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, 2005, 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, 2004 financial statements and, in our report dated November 19, 2004, 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.

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.

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, 2005, 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

119 North Cushman Street, Suite 300 • Fairbanks, Alaska 99701 • 907-456-7762
www.ch-cpa.com e-mail: contact@ch-cpa.com

Senior Consultant James F. Dieringer, Jr. CPA

FAX 907-452-6184

nonmajor governmental and fiduciary fund of the Fairbanks North Star Borough, as of June 30, 2005, 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 10, 2005, 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 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 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, 2005 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, 2005, 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, 2004, which are not presented with the accompanying financial statements. In our report dated November 19, 2004, 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, 2004 additional information schedules are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2004, 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 & Haugberg LLC

FAIRBANKS NORTH STAR BOROUGH
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs Primary government:	Net (Expense) Revenue and Changes in Net Assets					Component Unit School District	
	Expenses	Indirect Expenses Allocation	Charges for Services	Program Revenues			Totals
				Operating Grants and Contributions	Capital Grants and Contributions		
Governmental activities:							
General government	\$15,774,591	(\$2,178,197)	\$615,595	\$1,160,381	\$3,567	\$	
Community planning	1,624,068	240		138,655		(1,288,235)	
Public works	8,469,833	(1,141,603)	108,732		214,068	(6,377,508)	
Parks and recreation	6,651,657	8,872	1,023,574	35,260	171,758	(4,487,155)	
Library	4,393,059	240	32,522	497,207	14,745	(2,300,624)	
Direct services	1,961,853	178,570		130,863	1,109,187	(1,554,324)	
Road and other service areas	49,459,962			16,717	40,861,760	(1,044,708)	
Education	5,609,041	129,653	938,942	397,838	2,634,216	(34,719,809)	
Emergency operations	4,530,974	7,732		66,721	136,694	(1,195,941)	
Fire service areas	6,532,239					(3,971,580)	
Interest on long-term debt	105,007,277	(2,984,494)	2,719,365	2,444,643	45,145,996	(6,468,535)	
Total governmental activities						(51,702,780)	
Business-type activities:						(73,555,300)	
Transit	4,798,827	588,450	1,267,108	1,237,334	260,873	(2,382,398)	
Land	979,892	134,127	653,142		1,350	(459,526)	
Carlson Center	1,039,230	361,083	5,379,272	83,381	52	(1,316,880)	
Solid waste disposal	8,287,356	563,603				(3,471,690)	
Total business-type activities						(7,870,059)	
Total primary government						(59,572,839)	
School District						(78,115,039)	
Component units:						(124,125,997)	
General revenues:							
Property taxes	77,031,587					77,031,587	
Hotel/motel taxes	1,531,027					1,531,027	
Alcoholic beverage taxes	1,247,562					1,247,562	
Tobacco excise taxes	968,613					968,613	
Grants and contributions not restricted to specific programs	12,227,556					12,227,556	
Foundation program						50,973	
Other federal and state aid	2,040,316					445,019	
Unrestricted investment earnings	549,821					3,496	
Borough direct appropriation	(3,167,359)					3,167,359	
Other	92,449,322					3,666,847	
Transfers	40,746,542					96,116,169	
Total general revenues and transfers	483,983,317					507,730,366	
Net assets, beginning	\$504,729,859					\$544,273,686	
Net assets, ending						\$507,730,366	

See accompanying notes to financial statements

FAIRBANKS NORTH STAR BOROUGH
Governmental Funds

Balance Sheet
June 30, 2005

	General	Service Areas	Debt Service
Assets			
Equity in central treasury cash	\$20,295,791	\$8,909,979	\$114,129
Taxes receivable (net of allowance for uncollectibles - \$649,442)	2,300,767	114,959	
Accounts receivable (net of allowance for uncollectibles - \$37,357)	25,095	2,013	
Accrued interest receivable	337,163		
Interfund receivable	1,359,168		
Due from School District	576,496		
Due from governmental agencies	1,211,712		
Other assets			
Assets total	\$26,106,191	\$9,026,950	\$114,129
Liabilities and Fund Balances (Deficit)			
Liabilities			
Accounts payable	\$658,466	\$144,708	\$
Wages and payroll taxes	622,226		
Accrued self-insurance losses	513,367	20,741	
Interfund payable			
Due to School District	1,620		
Deposits from others	142,406		
Deferred revenues	1,267,121	102,842	
Advance tax payments	4,356,570		
Liabilities total	7,561,776	268,291	
Fund balances (deficit)			
Reserved			
Reserved for encumbrances	247,848	276,334	
Reserved for deposit	1,060,880		
Unreserved, designated for			
Compensated absences	1,487,591		
Subsequent year's expenditures	833,000	495,730	102,320
Self-insurance losses	1,500,000		
Reported in special revenue funds			
Undesignated, reported in			
General fund	13,395,095	7,986,596	11,809
Special revenue funds			
Debt service fund			
Capital projects funds			
Fund balances (deficit) total	18,524,414	8,758,659	114,129
Liabilities and fund balances (deficit) total	\$26,106,191	\$9,026,950	\$114,129

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See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Governmental Funds

Reconciliation of Balance Sheet
to the Statement of Net Assets
June 30, 2005

<u>Bond Projects</u>	<u>Local Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
\$13,799,785	\$10,476,203	\$13,906,374	\$67,502,261	\$61,251,821
		114,027	2,529,752	
4,182	25	337,011	364,118	
		2,319	343,689	
11,667	88,201	1,359,168	1,359,168	
		99,868	99,868	
		1,151,291	1,727,786	
		\$15,511,021	1,211,712	
<u>\$13,815,635</u>	<u>\$10,564,429</u>	<u>\$15,511,021</u>	<u>\$75,138,355</u>	
\$2,594,069	\$148,161	\$724,876	\$4,270,280	
			622,226	
			513,367	
	188,074	959,911	1,168,726	
195,405		12,828	209,853	
		9,461	151,867	
		1,203,681	2,593,644	
			4,356,570	
<u>2,789,474</u>	<u>336,235</u>	<u>2,910,758</u>	<u>13,886,534</u>	
3,052,622	693,382	898,436	5,168,622	
			1,060,880	
			1,487,591	
	100,000		1,531,050	
			1,500,000	
		5,401,464	5,401,464	
		6,225,718	13,395,095	
7,973,538	9,434,812	74,646	14,212,314	
	10,228,194		11,809	
11,026,160		12,600,266	17,482,996	
<u>\$13,815,635</u>	<u>\$10,564,429</u>	<u>\$15,511,021</u>	<u>\$75,138,355</u>	

Total fund balances of governmental funds

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.

Deferred bond issuance costs are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

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.

Earned revenues that are not available to pay current period expenditures are reported as deferred revenues in the funds.

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 (\$140,325,000)
- Deferred bond issuance premiums (565,843)
- Accrued interest payable on bonds (1,667,336)
- Accrued annual leave (1,448,748)
- Net pension obligation (685,978)

Net assets of governmental activities

\$504,729,859

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, 2005

	General	Service Areas	Debt Service
Revenues			
Taxes	\$69,376,474	\$6,249,058	\$
Intergovernmental revenues	12,328,741		
Charges for services	1,340,993	719,833	
Other revenues	1,881,034		
Revenues total	84,927,243	6,968,891	
Expenditures			
Current			
General government	9,678,631		
Community planning	1,348,512		
Public works	3,284,743		
Parks and recreation	4,726,082		
Library	3,385,302		
Road and other service areas		2,072,019	
Education	36,545,700		
Emergency operations	1,438,477		
Fire service areas		3,768,560	
Capital outlay		14,184	
Debt service	363,367		9,639,000
Principal retirement			6,482,728
Interest and fiscal agent fees			16,121,728
Expenditures total	60,770,815	5,854,763	16,121,728
Excess (deficiency) of revenues over expenditures	24,156,428	1,114,128	(16,121,728)
Other financing sources (uses)			
Transfers in		30,544	16,123,540
Transfers out	(22,595,785)	(128,369)	
Bond issuance			
Premium on bond debt			
Other financing sources (uses) total	(22,595,785)	(97,824)	16,123,540
Net change in fund balances	1,560,643	1,016,304	1,812
Fund balances (deficit), beginning	16,963,772	7,742,356	112,317
Fund balances (deficit), ending	\$18,524,414	\$8,758,659	\$114,129

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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, 2005

	Bond Projects	Local Projects	Other Governmental Funds	Total Governmental Funds	
Net change in fund balances - total governmental funds					(\$10,418,023)
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 capital outlay exceeded depreciation in the current period.					\$28,747,744
Capital outlay	310,492	1,041,197	695,029	4,647,584	(12,099,940)
Depreciation expense	310,492	1,041,197	10,420,888	103,668,711	16,647,804
The net effect of other transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets.					40,572,529
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.					1,537,214
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.					(1,627,767)
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	3,751,318		68,404	2,140,423	(13,750,000)
Premium on debt			97,661	40,394,679	(175,853)
Deferred bond issuance costs	29,306,574	2,428,665	2,329,880	3,818,549	170,773
Debt principal payments	(28,996,082)	(1,387,468)	201,239	4,014,101	9,639,000
Accrued interest and amortization			899,783	28,747,744	(61,522)
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.					(4,177,602)
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.					(1,743,585)
The internal service fund lookback adjustment results in a balance between governmental and business-type activities.					(46,671)
Change in net assets of governmental activities	\$11,026,160	\$10,228,194	\$12,600,266	\$61,251,821	2,644
					\$40,746,542

(Continued)

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

General Fund

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property tax	\$64,644,480	\$64,644,480	\$65,254,892	\$610,412
Hotel-motel and sales taxes	1,400,000	1,400,000	1,526,252	126,252
Alcoholic beverage tax	800,000	800,000	1,230,495	430,495
Tobacco excise tax	1,100,000	1,100,000	982,644	(117,356)
Interest and penalties on taxes	550,000	550,000	382,192	(167,808)
Taxes total	68,494,480	68,494,480	69,376,474	881,994
Intergovernmental revenues				
Aid for school construction	11,272,870	11,272,870	11,297,081	24,211
Other shared revenue	307,740	307,740	326,771	19,031
Grants	50,000	50,000	104,181	54,181
Federal government				
Payment in lieu of taxes	580,000	580,000	600,708	20,708
Intergovernmental revenues total	12,210,610	12,210,610	12,328,741	118,131
Charges for services	1,398,490	1,398,490	1,340,993	(57,497)
Charges to School District	1,682,520	1,682,520	1,347,231	(335,289)
Other revenues				
Charges to other funds	2,446,780	2,446,780	2,238,448	(208,332)
Investment income, including net unrealized investment gains/losses	1,204,450	1,204,450	1,637,942	433,492
Indirect charges to grants	300,000	300,000	196,440	(103,560)
Various	149,992	152,146	46,652	(105,494)
Other revenues total	4,101,222	4,103,376	4,119,482	16,106
Revenues total	87,887,322	87,889,476	88,512,922	623,446

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See accompanying notes to financial statements.

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FAIRBANKS NORTH STAR BOROUGH
General Fund
Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

FAIRBANKS NORTH STAR BOROUGH
General Fund
Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
Expenditures				
Current				
General government	\$637,010	\$450,189	\$241,033	\$209,156
Non-departmental	769,060	769,060	711,196	57,864
Mayor	1,144,340	1,170,675	1,100,037	70,638
Assembly	713,100	711,776	665,187	46,589
Legal	2,199,780	2,210,653	1,979,830	230,823
Computer services	2,292,880	2,292,880	2,069,817	223,063
Financial services	2,036,600	2,036,600	1,882,788	153,812
Assessing	1,257,200	1,257,361	1,191,134	66,228
General services	2,449,220	2,449,220	2,231,552	217,668
Human resources	13,499,190	13,348,414	12,072,573	1,275,841
General government total	1,487,370	1,487,370	1,343,460	143,910
Community planning	1,303,110	1,303,110	1,154,664	148,446
Public works	3,212,390	3,388,890	3,298,242	90,648
Facilities maintenance	4,888,940	4,899,865	4,701,882	197,983
Parks and recreation	3,492,360	3,488,123	3,243,693	244,430
Library	1,566,110	1,569,475	1,447,453	122,022
Emergency operations	589,910	593,116	590,063	3,052
Capital outlay	30,039,380	30,078,363	27,852,031	2,226,332
Expenditures total				

Excess (deficiency) of revenues over expenditures

Other financing sources (uses)

Transfers out

Special revenue funds

Debt service fund

Capital projects funds

Enterprise funds

School District

Other financing sources (uses) total

Net change in fund balance

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
	\$57,847,942	\$57,811,113	\$60,660,891	\$2,849,779
	(\$1,052,352)	(\$1,652,533)	(\$1,625,976)	\$26,557
	(16,123,540)	(16,123,540)	(16,123,540)	4,036
	(670,500)	(1,336,379)	(1,332,343)	11,082
	(3,384,700)	(3,525,008)	(3,513,926)	
	(36,545,700)	(36,545,700)	(36,545,700)	
	(57,776,792)	(59,183,160)	(59,141,485)	41,675
	\$71,150	(\$1,372,047)	\$1,519,406	\$2,891,453

See accompanying notes to financial statements.

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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, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
<u>Air Park</u>				
Total revenues and transfers in	\$250	\$250	\$298	\$48
Total expenditures and transfers out	\$14,914	\$14,914	\$2,570	\$12,344
<u>Airway</u>				
Total revenues and transfers in	\$9,640	\$9,640	\$9,838	\$198
Total expenditures and transfers out	\$18,257	\$24,257	\$8,538	\$115,719
<u>Arctic Fox</u>				
Total revenues and transfers in	\$4,110	\$4,110	\$4,182	\$72
Total expenditures and transfers out	\$16,429	\$16,429	\$2,798	\$13,631
<u>Aztec</u>				
Total revenues and transfers in	\$15,110	\$15,110	\$15,317	\$207
Total expenditures and transfers out	\$61,279	\$121,279	\$62,195	\$59,084
<u>Ballaine Lake Sewer & Water</u>				
Total revenues and transfers in	\$18,060	\$27,534	\$18,222	(\$9,312)
Total expenditures and transfers out	\$18,060	\$27,534	\$23,003	\$4,531
<u>Bear's Den Road</u>				
Total revenues and transfers in	\$90	\$90	\$107	\$17
Total expenditures and transfers out	\$1,080	\$5,378	\$1,755	\$3,623
<u>Becker Ridge</u>				
Total revenues and transfers in	\$66,390	\$66,390	\$66,349	(\$41)
Total expenditures and transfers out	\$104,850	\$104,830	\$66,371	\$38,459
<u>Birch Hill</u>				
Total revenues and transfers in	\$65,590	\$65,590	\$65,756	\$166
Total expenditures and transfers out	\$71,546	\$71,546	\$64,729	\$6,817
<u>Bluebird Road</u>				
Total revenues and transfers in	\$4,760	\$4,760	\$4,935	\$175
Total expenditures and transfers out	\$14,332	\$14,332	\$1,276	\$13,057

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FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas
 Statement of Revenues and Expenditures
 Budget and Actual
 Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
<u>Borca Road</u>				
Total revenues and transfers in	\$20,490	\$20,490	\$20,954	\$464
Total expenditures and transfers out	\$37,157	\$52,157	\$16,347	\$35,810
<u>Brookside</u>				
Total revenues and transfers in	\$6,750	\$6,750	\$7,151	\$401
Total expenditures and transfers out	\$33,265	\$40,008	\$13,085	\$26,923
<u>Chena Goldstream Volunteer Fire</u>				
Total revenues and transfers in	\$607,540	\$607,540	\$614,515	\$6,975
Total expenditures and transfers out	\$827,641	\$835,455	\$654,015	\$181,440
<u>Chena Hills Road</u>				
Total revenues and transfers in	\$53,160	\$53,160	\$54,715	\$1,555
Total expenditures and transfers out	\$83,206	\$78,206	\$70,471	\$7,734
<u>Chena Marina</u>				
Total revenues and transfers in	\$12,730	\$12,730	\$12,644	(\$86)
Total expenditures and transfers out	\$13,113	\$11,208	\$6,627	\$4,581
<u>Chena Point Road</u>				
Total revenues and transfers in	\$24,190	\$24,190	\$24,610	\$420
Total expenditures and transfers out	\$41,646	\$41,646	\$5,864	\$35,782
<u>Chena Spur</u>				
Total revenues and transfers in	\$9,740	\$9,740	\$10,378	\$638
Total expenditures and transfers out	\$36,999	\$46,999	\$13,774	\$33,225
<u>Clearly Summit</u>				
Total revenues and transfers in	\$20	\$20	\$23	\$3
Total expenditures and transfers out	\$1,412	\$1,412	\$950	\$462
<u>College</u>				
Total revenues and transfers in	\$374,960	\$374,960	\$391,361	\$16,401
Total expenditures and transfers out	\$1,692,938	\$1,690,938	\$326,283	\$1,364,655

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas
Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
<u>Collage Hills</u>				
Total revenues and transfers in	\$21,260	\$21,260	\$21,434	\$174
Total expenditures and transfers out	\$28,832	\$28,832	\$12,220	\$16,611
<u>Cooper Estates</u>				
Total revenues and transfers in	\$15,360	\$15,360	\$15,595	\$235
Total expenditures and transfers out	\$45,858	\$43,858	\$8,055	\$35,803
<u>Cordes Drive</u>				
Total revenues and transfers in	\$15,820	\$15,820	\$16,007	\$187
Total expenditures and transfers out	\$29,443	\$35,443	\$21,536	\$13,907
<u>Cripple Creek</u>				
Total revenues and transfers in	\$36,200	\$36,200	\$36,973	\$773
Total expenditures and transfers out	\$96,618	\$98,618	\$30,194	\$68,424
<u>Deep Forest</u>				
Total revenues and transfers in	\$14,970	\$14,970	\$15,049	\$79
Total expenditures and transfers out	\$15,420	\$15,420	\$10,687	\$4,733
<u>Deep Forest/Conifer & Dagan</u>				
Total revenues and transfers in	\$25,920	\$25,920	\$26,177	\$257
Total expenditures and transfers out	\$21,600	\$21,600	\$12,711	\$8,889
<u>Diane Subdivision</u>				
Total revenues and transfers in	\$3,360	\$3,360	\$3,665	\$305
Total expenditures and transfers out	\$37,414	\$41,414	\$2,551	\$38,863
<u>Drake Estates</u>				
Total revenues and transfers in	\$11,640	\$11,640	\$12,000	\$360
Total expenditures and transfers out	\$18,128	\$18,128	\$1,468	\$16,660
<u>Edanella Heights Road</u>				
Total revenues and transfers in	\$16,500	\$16,500	\$16,678	\$178
Total expenditures and transfers out	\$44,683	\$44,683	\$11,893	\$32,790

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas
Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
<u>Estes Lump Road</u>				
Total revenues and transfers in	\$13,560	\$13,560	\$14,206	\$646
Total expenditures and transfers out	\$72,936	\$79,436	\$14,224	\$65,212
<u>Estes Volunteer Fire</u>				
Total revenues and transfers in	\$216,180	\$216,180	\$282,109	\$65,929
Total expenditures and transfers out	\$237,587	\$251,217	\$231,176	\$20,042
<u>Fairfields</u>				
Total revenues and transfers in	\$13,510	\$13,510	\$13,348	(\$162)
Total expenditures and transfers out	\$31,102	\$31,102	\$5,817	\$25,285
<u>Fairhill</u>				
Total revenues and transfers in	\$9,730	\$9,730	\$9,648	(\$82)
Total expenditures and transfers out	\$12,702	\$17,702	\$11,183	\$6,519
<u>Fairwest</u>				
Total revenues and transfers in	\$17,220	\$17,220	\$18,416	\$1,196
Total expenditures and transfers out	\$125,278	\$125,278	\$4,182	\$121,096
<u>Garden</u>				
Total revenues and transfers in	\$11,270	\$11,270	\$12,360	\$1,090
Total expenditures and transfers out	\$22,759	\$23,559	\$11,481	\$12,078
<u>Golden Valley Road</u>				
Total revenues and transfers in	\$4,800	\$4,800	\$5,138	\$338
Total expenditures and transfers out	\$8,121	\$10,621	\$3,786	\$6,835
<u>Goldstream Alaska</u>				
Total revenues and transfers in	\$10,560	\$10,560	\$10,688	\$128
Total expenditures and transfers out	\$18,776	\$25,776	\$12,939	\$12,837
<u>Goldstream Moose Creek</u>				
Total revenues and transfers in	\$32,470	\$35,320	\$35,470	\$150
Total expenditures and transfers out	\$32,498	\$73,543	\$53,988	\$19,555

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget- Positive (Negative)
	Original	Final		
<u>Gordon</u>				
Total revenues and transfers in	\$27,530	\$27,530	\$29,271	\$1,741
Total expenditures and transfers out	\$139,485	\$143,465	\$14,882	\$128,602
<u>Granola Estates</u>				
Total revenues and transfers in	\$3,920	\$3,920	\$4,106	\$186
Total expenditures and transfers out	\$38,100	\$38,000	\$3,619	\$34,380
<u>Grime Road</u>				
Total revenues and transfers in	\$8,910	\$8,910	\$8,961	\$51
Total expenditures and transfers out	\$32,308	\$32,308	\$2,975	\$29,333
<u>Haystack</u>				
Total revenues and transfers in	\$17,660	\$28,188	\$17,866	(\$10,322)
Total expenditures and transfers out	\$21,666	\$32,194	\$17,082	\$15,112
<u>Herring Hills</u>				
Total revenues and transfers in	\$18,990	\$18,990	\$19,374	\$384
Total expenditures and transfers out	\$24,300	\$24,300	\$8,572	\$15,728
<u>Hopless</u>				
Total revenues and transfers in	\$320	\$320	\$422	\$102
Total expenditures and transfers out	\$22,692	\$23,292	\$9,136	\$14,156
<u>Horseshoe Downs</u>				
Total revenues and transfers in	\$8,250	\$8,250	\$8,996	\$746
Total expenditures and transfers out	\$11,373	\$11,173	\$8,766	\$2,406
<u>Jennifer Drive</u>				
Total revenues and transfers in	\$990	\$990	\$1,014	\$24
Total expenditures and transfers out	\$3,235	\$3,135	\$1,245	\$1,890
<u>Jones Road</u>				
Total revenues and transfers in	\$37,500	\$37,500	\$37,231	(\$269)
Total expenditures and transfers out	\$43,561	\$50,561	\$25,865	\$24,697

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget- Positive (Negative)
	Original	Final		
<u>Joy Road</u>				
Total revenues and transfers in	\$5,330	\$5,330	\$5,336	\$6
Total expenditures and transfers out	\$18,134	\$17,734	\$6,694	\$11,041
<u>Keeney Road</u>				
Total revenues and transfers in	\$1,580	\$1,580	\$1,605	\$25
Total expenditures and transfers out	\$4,794	\$4,784	\$1,630	\$3,154
<u>Kendall</u>				
Total revenues and transfers in	\$7,800	\$7,800	\$8,133	\$333
Total expenditures and transfers out	\$31,277	\$31,277	\$4,149	\$27,128
<u>Keystone</u>				
Total revenues and transfers in	\$8,180	\$8,180	\$8,330	\$150
Total expenditures and transfers out	\$31,690	\$36,690	\$7,668	\$29,023
<u>Kris Kringle</u>				
Total revenues and transfers in	\$10,350	\$10,350	\$10,567	\$217
Total expenditures and transfers out	\$46,208	\$46,008	\$8,635	\$37,372
<u>Lakloev Hill</u>				
Total revenues and transfers in	\$25,270	\$25,270	\$24,742	(\$528)
Total expenditures and transfers out	\$99,377	\$99,377	\$11,802	\$87,575
<u>Lee Lane</u>				
Total revenues and transfers in	\$4,160	\$4,160	\$4,435	\$275
Total expenditures and transfers out	\$24,704	\$28,704	\$2,474	\$26,230
<u>Loose Moose</u>				
Total revenues and transfers in	\$4,980	\$4,980	\$5,115	\$135
Total expenditures and transfers out	\$5,114	\$20,114	\$2,432	\$17,681
<u>Martin</u>				
Total revenues and transfers in	\$9,400	\$9,400	\$9,501	\$101
Total expenditures and transfers out	\$12,972	\$27,472	\$19,759	\$7,712

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas
Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget- Positive (Negative)
	Original	Final		
<u>McCloud</u>				
Total revenues and transfers in	\$11,130	\$11,130	\$12,209	\$1,079
Total expenditures and transfers out	\$39,256	\$49,256	\$19,296	\$29,959
<u>McGrath Estates</u>				
Total revenues and transfers in	\$58,150	\$58,150	\$58,874	\$724
Total expenditures and transfers out	\$72,674	\$72,674	\$19,666	\$53,008
<u>McKinley View</u>				
Total revenues and transfers in	\$2,390	\$2,390	\$2,499	\$109
Total expenditures and transfers out	\$12,957	\$12,957	\$1,440	\$11,517
<u>Mellow Woods Road</u>				
Total revenues and transfers in	\$12,810	\$12,810	\$12,919	\$109
Total expenditures and transfers out	\$28,689	\$28,689	\$19,726	\$8,962
<u>Miller Hill Extension</u>				
Total revenues and transfers in	\$36,220	\$36,220	\$35,868	(\$352)
Total expenditures and transfers out	\$36,220	\$47,613	\$38,125	\$9,488
<u>Moose Creek</u>				
Total revenues and transfers in	\$14,060	\$14,060	\$14,699	\$639
Total expenditures and transfers out	\$51,145	\$51,145	\$17,567	\$33,578
<u>Moose Meadows</u>				
Total revenues and transfers in	\$44,100	\$44,100	\$44,153	\$53
Total expenditures and transfers out	\$45,805	\$45,805	\$20,242	\$25,564
<u>Mountain View</u>				
Total revenues and transfers in	\$19,630	\$19,630	\$20,183	\$553
Total expenditures and transfers out	\$47,844	\$47,844	\$7,741	\$40,103
<u>Murphy</u>				
Total revenues and transfers in	\$7,210	\$7,210	\$7,313	\$103
Total expenditures and transfers out	\$20,424	\$20,424	\$5,890	\$14,534

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas
Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget- Positive (Negative)
	Original	Final		
<u>Musk Ox</u>				
Total revenues and transfers in	\$18,580	\$18,580	\$18,967	\$387
Total expenditures and transfers out	\$67,923	\$67,923	\$16,964	\$50,959
<u>Newby Park</u>				
Total revenues and transfers in	\$8,270	\$8,270	\$8,168	(\$102)
Total expenditures and transfers out	\$11,350	\$21,250	\$18,429	\$2,821
<u>North Ridge</u>				
Total revenues and transfers in	\$4,100	\$4,100	\$4,374	\$274
Total expenditures and transfers out	\$6,537	\$10,537	\$7,002	\$3,535
<u>North Star Volunteer Fire</u>				
Total revenues and transfers in	\$1,026,960	\$1,026,960	\$1,046,490	\$19,530
Total expenditures and transfers out	\$1,030,801	\$1,303,715	\$1,162,232	\$141,483
<u>O'Connor Creek</u>				
Total revenues and transfers in	\$86,740	\$86,740	\$87,904	\$1,164
Total expenditures and transfers out	\$128,778	\$128,778	\$65,244	\$63,534
<u>Old Wood Road</u>				
Total revenues and transfers in	\$8,510	\$8,510	\$8,689	\$179
Total expenditures and transfers out	\$12,984	\$18,484	\$4,019	\$14,465
<u>Our</u>				
Total revenues and transfers in	\$2,510	\$2,510	\$2,546	\$36
Total expenditures and transfers out	\$7,996	\$7,796	\$2,106	\$5,890
<u>Parkside</u>				
Total revenues and transfers in	\$5,380	\$5,380	\$5,623	\$243
Total expenditures and transfers out	\$19,335	\$33,835	\$11,575	\$22,259
<u>Peede County Estates</u>				
Total revenues and transfers in	\$3,640	\$3,640	\$3,785	\$145
Total expenditures and transfers out	\$30,780	\$30,780	\$1,234	\$29,546

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas
Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
<u>Pine Stream</u>				
Total revenues and transfers in	\$14,750	\$14,750	\$15,556	\$806
Total expenditures and transfers out	\$54,841	\$62,841	\$10,441	\$52,400
<u>Pleasureland</u>				
Total revenues and transfers in	\$6,070	\$6,070	\$6,485	\$415
Total expenditures and transfers out	\$35,240	\$35,240	\$1,166	\$34,074
<u>Polar Heights</u>				
Total revenues and transfers in	\$14,480	\$14,480	\$14,382	(\$98)
Total expenditures and transfers out	\$22,583	\$27,583	\$7,515	\$20,068
<u>Pollatch</u>				
Total revenues and transfers in	\$7,100	\$7,100	\$6,961	(\$139)
Total expenditures and transfers out	\$9,984	\$14,984	\$10,470	\$4,514
<u>Prospect Park</u>				
Total revenues and transfers in	\$4,420	\$4,420	\$4,602	\$182
Total expenditures and transfers out	\$22,038	\$22,038	\$4,330	\$17,708
<u>Reed Acres Road</u>				
Total revenues and transfers in	\$6,150	\$6,150	\$6,602	\$452
Total expenditures and transfers out	\$49,499	\$49,499	\$2,020	\$47,479
<u>Ridgecrest</u>				
Total revenues and transfers in	\$1,740	\$1,740	\$1,741	\$1
Total expenditures and transfers out	\$4,470	\$4,470	\$1,255	\$3,215
<u>Satchel Heights</u>				
Total revenues and transfers in	\$1,820	\$1,820	\$2,021	\$201
Total expenditures and transfers out	\$7,551	\$6,596	\$1,777	\$4,818
<u>Scenic Heights</u>				
Total revenues and transfers in	\$14,820	\$14,820	\$15,397	\$577
Total expenditures and transfers out	\$47,943	\$67,943	\$18,363	\$49,580

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas
Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget-Positive (Negative)
	Original	Final		
<u>Seavy</u>				
Total revenues and transfers in	\$8,690	\$8,690	\$8,989	\$299
Total expenditures and transfers out	\$37,313	\$37,313	\$12,791	\$24,522
<u>Secluded Acres</u>				
Total revenues and transfers in	\$6,120	\$6,120	\$6,468	\$348
Total expenditures and transfers out	\$19,841	\$19,841	\$2,619	\$17,222
<u>Serendipity Hill</u>				
Total revenues and transfers in	\$5,390	\$5,390	\$5,598	\$208
Total expenditures and transfers out	\$20,159	\$21,159	\$2,370	\$18,789
<u>Six Mile Village Road</u>				
Total revenues and transfers in	\$4,480	\$4,480	\$4,606	\$126
Total expenditures and transfers out	\$14,790	\$14,790	\$2,252	\$12,538
<u>Smallwood Trail Road</u>				
Total revenues and transfers in	\$4,520	\$4,520	\$4,739	\$219
Total expenditures and transfers out	\$19,060	\$20,060	\$4,080	\$15,980
<u>Smith Ranch</u>				
Total revenues and transfers in	\$660	\$660	\$990	\$330
Total expenditures and transfers out	\$43,974	\$50,974	\$5,586	\$45,388
<u>Spring Glade</u>				
Total revenues and transfers in	\$19,870	\$19,870	\$20,606	\$736
Total expenditures and transfers out	\$66,940	\$66,940	\$14,924	\$52,015
<u>Spruce Acres</u>				
Total revenues and transfers in	\$4,640	\$4,700	\$4,841	\$141
Total expenditures and transfers out	\$24,662	\$24,710	\$2,410	\$22,300
<u>Steamboat Landing</u>				
Total revenues and transfers in	\$9,450	\$9,450	\$9,395	(\$55)
Total expenditures and transfers out	\$26,266	\$26,266	\$4,042	\$22,224

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget- Positive (Negative)
	Original	Final		
Steese Volunteer Fire				
Total revenues and transfers in	\$814,120	\$814,120	\$902,567	\$88,447
Total expenditures and transfers out	\$1,355,804	\$1,373,406	\$619,019	\$754,387
Straight Creek				
Total revenues and transfers in	\$8,230	\$8,230	\$8,229	(\$1)
Total expenditures and transfers out	\$10,801	\$10,481	\$9,068	\$1,412
Summerwood				
Total revenues and transfers in	\$25,270	\$25,270	\$25,392	\$122
Total expenditures and transfers out	\$51,640	\$51,640	\$21,066	\$30,575
Summit Drive				
Total revenues and transfers in	\$46,580	\$46,580	\$48,252	\$1,662
Total expenditures and transfers out	\$219,691	\$219,691	\$52,211	\$167,480
Sunny Hills Terrace				
Total revenues and transfers in	\$22,090	\$22,090	\$22,876	\$786
Total expenditures and transfers out	\$59,919	\$59,919	\$7,489	\$52,430
Sunrise				
Total revenues and transfers in	\$8,910	\$8,910	\$9,055	\$145
Total expenditures and transfers out	\$51,337	\$51,337	\$5,580	\$45,757
Tan Terra				
Total revenues and transfers in	\$7,970	\$7,970	\$7,843	(\$127)
Total expenditures and transfers out	\$12,970	\$17,475	\$6,484	\$10,991
Thomas				
Total revenues and transfers in	\$3,930	\$3,930	\$3,942	\$12
Total expenditures and transfers out	\$8,695	\$11,695	\$4,059	\$7,637
Timberlane Road				
Total revenues and transfers in	\$6,680	\$6,680	\$7,206	\$526
Total expenditures and transfers out	\$59,581	\$58,381	\$7,417	\$50,964

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget- Positive (Negative)
	Original	Final		
Tungsten				
Total revenues and transfers in	\$21,290	\$21,290	\$21,537	\$247
Total expenditures and transfers out	\$21,546	\$21,546	\$16,309	\$5,238
Twenty Three Mile Slough				
Total revenues and transfers in	\$11,520	\$11,520	\$11,692	\$172
Total expenditures and transfers out	\$86,922	\$87,922	\$1,833	\$86,089
Ulkraven				
Total revenues and transfers in	\$2,780	\$2,780	\$2,969	\$189
Total expenditures and transfers out	\$18,879	\$18,879	\$1,480	\$17,399
University Fire				
Total revenues and transfers in	\$1,510,200	\$1,510,200	\$1,913,750	\$403,550
Total expenditures and transfers out	\$1,878,539	\$1,961,006	\$1,501,783	\$459,223
University Heights				
Total revenues and transfers in	\$42,060	\$42,060	\$42,607	\$547
Total expenditures and transfers out	\$90,434	\$90,434	\$29,688	\$60,747
University West Street Light				
Total revenues and transfers in	\$46,290	\$46,290	\$47,383	\$1,093
Total expenditures and transfers out	\$134,511	\$154,511	\$35,453	\$119,058
Vienna Wood				
Total revenues and transfers in	\$14,040	\$14,040	\$14,486	\$446
Total expenditures and transfers out	\$40,229	\$42,029	\$17,002	\$25,027
Viewpointe				
Total revenues and transfers in	\$14,790	\$14,790	\$15,871	\$1,081
Total expenditures and transfers out	\$130,666	\$113,666	\$60,357	\$53,308
Violet Drive				
Total revenues and transfers in	\$28,410	\$28,410	\$28,555	\$145
Total expenditures and transfers out	\$32,631	\$32,631	\$14,612	\$18,019

(Continued)

FAIRBANKS NORTH STAR BOROUGH
Special Revenue Fund - All Service Areas

Statement of Revenues and Expenditures
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual on Budgetary Basis	Variance from Final Budget- Positive (Negative)
	Original	Final		
<u>Visa Gold Road</u>				
Total revenues and transfers in	\$27,810	\$27,810	\$27,903	\$93
Total expenditures and transfers out	\$31,087	\$31,087	\$26,083	\$5,004
<u>Vue Crest</u>				
Total revenues and transfers in	\$21,140	\$21,140	\$22,157	\$1,017
Total expenditures and transfers out	\$102,271	\$102,271	\$15,578	\$86,693
<u>Whitman</u>				
Total revenues and transfers in	\$2,960	\$2,960	\$3,105	\$145
Total expenditures and transfers out	\$14,106	\$14,106	\$2,620	\$11,487
<u>Wildview</u>				
Total revenues and transfers in	\$120,890	\$120,890	\$124,342	\$3,452
Total expenditures and transfers out	\$418,482	\$618,482	\$236,833	\$381,649
<u>Woodland</u>				
Total revenues and transfers in	\$1,930	\$1,930	\$1,945	\$15
Total expenditures and transfers out	\$2,667	\$2,667	\$1,358	\$1,309
<u>Yak Road</u>				
Total revenues and transfers in	\$55,180	\$60,380	\$61,209	\$829
Total expenditures and transfers out	\$130,439	\$134,599	\$51,299	\$83,300
<u>Total All Service Areas</u>				
Total revenues and transfers in	\$6,353,660	\$6,381,772	\$6,999,435	\$617,663
Total expenditures and transfers out	\$11,761,366	\$12,707,976	\$6,249,718	\$6,458,259

FAIRBANKS NORTH STAR BOROUGH
Proprietary Funds

Statement of Net Assets
June 30, 2005

	Business-type Activities -	
	Transit	Land
Assets		
Current assets		
Equity in central treasury cash	\$1,635,719	\$4,140,048
Restricted equity in central treasury cash	111,018	198,538
Taxes receivable - foreclosure reimbursement		76,830
Accounts receivable (net of allowance for uncollectibles - \$524)		
Restricted accounts receivable		
Accrued interest receivable (net of allowance for uncollectibles - none)		39,918
Land contracts receivable, current portion	238,045	202,303
Restricted due from governmental agencies	171,874	1,350
Inventories		873,579
Current assets total	2,156,655	5,532,566
Noncurrent assets		
Land inventory - long-term		8,488,876
Land contracts receivable		1,047,528
Long-term receivable (net of allowance for uncollectibles - \$124,218)		
Capital assets - non-depreciable	595,234	
Land and land improvements		
Works of art	93,162	
Construction work in progress		
Capital assets - depreciable		
Land		
Buildings	2,680,789	314,927
Improvements other than buildings	131,493	
Equipment	2,358,944	
Intangible assets - software		18,864
Accumulated depreciation	(2,834,221)	(254,923)
Noncurrent assets (net) total	3,025,401	9,615,272
Assets total	\$5,182,056	\$15,147,839

See accompanying notes to financial statements.

Sheet 1 of 3

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Net Assets
June 30, 2005

Enterprise Funds	Governmental Activities - Internal Service Fund		Total	Business-type Activities -	
	Carlson Center	Solid Waste Disposal		Transit	Land
\$203,655	\$16,191,495	\$22,170,917	\$253,187	\$43,668	\$66,764
456,658		567,676	6,163	67,575	16,191
		198,538			
6,098	725,902	808,829	197,500	123,165	35,382
2,718		2,718		18,581	
		39,918		3,209	23,379
		202,303		57,416	
		239,396		189,091	1,350
		1,045,453		84,494	
669,128	16,917,396	25,275,747	456,850		
		8,488,876		587,200	63,971
		1,047,528			207,038
		62,109		62,613	11,461
509,032	836,876	1,941,142		17,178	363,896
120,790		120,790			
	6,830,580	6,923,742			
		255,171		114,184	23,597
14,815,299	4,542,614	22,353,628		193,976	398,954
1,607,048	8,648,743	10,387,284		781,175	605,992
161,723	2,491,560	5,012,227			
	18,864	18,864			
(4,707,297)	(11,819,549)	(19,615,990)		3,025,401	78,868
12,506,595	11,848,103	36,995,371			
\$13,175,724	\$28,765,500	\$62,271,119	\$3,587,473		
		8,488,876			
		1,047,528			
		62,109			
		1,941,142			
		120,790			
		6,923,742			
		255,171			
		22,353,628			
		10,387,284			
		5,012,227			
		18,864			
		(19,615,990)			
		36,995,371			
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		22,353,628			
		10,387,284			
		5,012,227			
		18,864			
		(19,615,990)			
		36,995,371			
		\$62,271,119			

FAIRBANKS NORTH STAR BOROUGH
Proprietary Funds

Reconciliation of Net Assets Between the
Government-wide and Fund Financial Statements
June 30, 2005

Enterprise Funds		Governmental Activities - Internal Service Fund	
Carlson Center	Sold Waste Disposal	Vehicle and Equipment/Fleet	Total
\$	\$167,916	\$534	\$278,348
831	36,662		121,259
	312,661	43,986	312,661
2,714	26,080		187,342
	161,453		180,034
			26,588
1,188			58,603
			190,442
27,536			112,030
	38,044		38,044
	1,720,520	375,522	1,720,520
			63,971
32,268	2,463,336	420,043	3,289,842
516	13,435		88,025
	137,430		154,608
			363,896
	16,261	894,836	16,261
	5,865,425		5,865,425
	12,722,845		12,722,845
	40,931		178,713
516	18,796,327	894,836	19,389,773
32,784	21,259,664	1,314,878	22,679,615
12,506,595	4,145,745	1,860,265	19,756,608
430,653			430,653
			18,062
205,692	3,360,092	406,166	19,386,182
13,142,940	7,505,836	2,272,595	39,591,504
\$13,175,724	\$28,765,500	\$3,587,473	\$62,271,119

Total net assets of enterprise funds

\$39,591,504

Adjustment to reflect the consolidation of internal service fund activities to enterprise funds.

(47,668)

Net assets of business-type activities

\$39,543,836

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2005

	Business-type Activities -	
	Transit	Land
Operating revenues		
Fares	\$193,344	\$
Land sales, net of cost		139,459
Land leases		77,763
Interest on land contracts receivable		151,222
Charges for services	1,078,066	249,963
Other revenues		50,973
Operating revenues total	1,271,411	669,379
Operating expenses		
Wages and benefits	3,251,851	717,038
Fuels, lubricants, and parts	429,167	
Other commodities	101,923	4,233
Contractual services	415,023	103,852
Utilities	78,592	
Professional services	90,487	8,106
Depreciation	199,453	7,242
Training, dues and professional expenses	90,705	4,772
Repairs and maintenance	95,820	500
Supplies	46,110	8,253
Management contractor fee		
Landfill closure and postclosure care costs		
Interest expense - capital leases		
Intragovernmental charges		
Operating expenses total	567,731	133,887
Operating income (loss)	5,386,860	987,884
	(4,115,449)	(318,505)

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See accompanying notes to financial statements

Proprietary Funds

Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2005

	Enterprise Funds		Governmental Activities - Internal Service Fund		Business-type Activities -	
	Carlson Center	Solid Waste Disposal	Total	Vehicle and Equipment Fleet	Transit	Land
	\$	\$	\$	\$	\$	\$
Non-operating revenues (expenses)						
Interest expense			\$193,344		1,306,834	1,350
Grants revenue			139,459		191,373	
Fares from grants			77,763		31,307	83,972
Investment income			151,222		(7,672)	
Gain (loss) on sales of capital assets	83,381	5,383,976	6,795,386	468,480	1,656	(90,399)
Miscellaneous revenue (expense)			50,973			
Decline in market value of land inventory						
Non-operating revenues (expenses) total	83,381	5,383,976	7,408,146	468,480	1,523,498	(5,077)
Income (loss) before contributions and transfers	34,013	1,600,881	5,603,783		(2,591,951)	(323,582)
Capital contributions		126,168	555,335			72,433
Transfers in		15,242	121,398	6,249	2,520,590	(100,000)
Transfers out	507,018	756,013	1,781,907	302		
Change in net assets	4,261	73,784	152,376		(71,361)	(351,149)
Net assets total, beginning	337,318	141,158	244,012		4,472,242	14,892,996
Net assets total, ending	2	1,126,109	1,670,121	445,646		
	5,000	188,707	115,318	6,987		
	1,315	140,003	290,027			
	150,403	4,025,346	195,681			
			150,403			
			4,025,346			
	360,843	560,246	1,642,707	52,805		
	1,400,174	8,773,496	23,979	23,979		
	(1,316,793)	(3,385,520)	16,548,413	535,968		
			(9,140,267)	(67,488)		
					\$4,400,881	\$14,541,847

See accompanying notes to financial statements.

Proprietary Funds

Reconciliation of Statement of Revenues,
Expenses, and Changes in Net Assets
To the Statement of Activities
For the Year Ended June 30, 2005

Enterprise Funds			Governmental Activities - Internal Service Fund
Carson Center	Solid Waste Disposal	Total	Vehicle and Equipment Fleet
\$ 52	(\$75,517)	(\$75,517)	\$
13,490	316,250	1,308,236	191,373
979	(1,885)	445,019	20,052
14,520	552	(9,558)	765
	239,399	3,187	(90,399)
		1,772,341	20,817
(1,302,273)	(3,150,121)	(7,367,927)	(46,671)
848,110	129,226	72,433	
(303,000)		3,497,926	
		(403,000)	
(757,163)	(3,020,895)	(4,200,568)	(46,671)
13,900,103	10,526,731	43,792,072	2,319,266
\$13,142,940	\$7,505,836	\$39,591,504	\$2,272,595

Change in net assets - total enterprise funds (\$4,200,568)

Amounts reported for business-type activities in the statement of activities are different because:

The internal service fund lookback adjustment results in a balance between governmental and business-type activities. (2,644)

Change in net assets of business-type activities (\$4,203,212)

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Cash Flows
Increases (Decreases) in Equity in Central Treasury Cash
Year Ended June 30, 2005

	Business-Type Activities -	
	Transit	Land
Cash flows from operating activities		
Cash received from customers	\$1,271,411	\$945,887
Cash payments to suppliers for goods and services	(1,967,609)	(391,764)
Cash payments to employees for services	(3,016,167)	(656,097)
Net cash provided by (used for) operating activities	(3,712,365)	(101,974)
Cash flows from noncapital financing activities		
Acquisition and construction of capital assets	(12,607)	
Grants received	1,573,707	
Transfers from other funds	2,520,990	
Transfers to other funds		(100,000)
Net cash provided by (used for) noncapital financing activities	4,081,690	(100,000)
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(223,874)	
Capital grants received	255,764	
Capital lease payments		
Interest on capital lease payments		
Proceeds from sale of capital assets	9,660	
Proceeds from surplus sale	1,656	
Proceeds from interfund financing activity	(297,950)	
Proceeds from loan		
Payments on loan		
Net cash provided by (used for) capital and related financing activities	(254,744)	
Cash flows from investing activities		
Investment income allocation from central treasury	31,307	83,972
Net cash provided by investing activities	31,307	83,972
Net increases (decreases) in equity in central treasury cash	145,888	(118,002)
Equity in central treasury cash at beginning of year	1,600,849	4,258,050
Equity in central treasury cash at end of year	\$ 1,746,737	\$ 4,140,048

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See accompanying notes to financial statements.

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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 has the following powers:

Areawide: assessment and collection of taxes, public schools, planning and zoning, animal control, flood control, hospital (not exercised), library, air pollution control, disaster and civil defense, solid waste disposal (landfill), parks and recreation, transportation system, child care assistance, health and social services (limited), emergency communication services (enhanced 911), and housing financing (not exercised). These services are provided throughout the entire Borough.

Non-areawide: fireworks control, emergency medical services, economic development, and debt service for solid waste transfer station bonds. These activities service the area of the Borough outside the two cities of Fairbanks and North Pole.

Service area: road construction and maintenance, fire protection, water supply, sewage disposal, and streetlights. These services are currently provided to 113 neighborhoods and regions.

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 back to the Borough's general fund.

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

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.

The School District cannot borrow funds, but the Borough may and does issue bonds to finance school construction, renovation, 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 military

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

bases 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.

B. 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. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, 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 fund-level financial statements are provided for governmental funds and proprietary funds. 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.

The Borough reports the following 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.

The Service Areas Fund is used to account for the revenues and expenditures of the Borough's four service area activities: road maintenance and construction, fire protection, streetlights, and sewer and water. There are 106 active road service areas, five fire service areas, one streetlights service area, and one sewer and water service area.

The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

The Bond Capital Projects Fund is used to account for all bond-funded capital projects.

The Local Capital Projects Fund is used to account for Assembly appropriations for multi-fiscal year capital projects not funded by grants or bonds.

The Borough reports the following major enterprise funds:

The Transit Enterprise Fund is used to account for the activities of the public transportation system (Metropolitan Area Commuter System-MACS), the air quality function, and maintenance of the Borough's vehicle fleet.

The Land Enterprise Fund is used to account for the acquisition, development, and management of all Borough lands, including those received under the State of Alaska Municipal Land Act. It also accounts for the Chena Riverfront Trust.

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 paper and other materials.

Additionally, the Borough has one internal service fund type:

The Vehicle and Equipment Fleet Fund is used to account for the acquisition and financing of Borough vehicles and equipment.

The Borough also has one fiduciary fund type:

The Taxes Agency Fund is used to account for real property taxes collected by the Borough as an agent for other governmental units.

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 land 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements, as well as the financial statements of the proprietary funds, are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, except for revenue from land disposals, which is recognized on the installment method. Expenditures are recognized when they are incurred, except for estimated landfill closure and postclosure care costs which are recognized based on landfill usage.

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.

Property tax revenues are accrued when they are levied and available to finance expenditures of the current period. Delinquent sales tax revenues are recognized when collected. 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 are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long-term debt as well as expenditures related to compensated absences which are recognized when due and payable.

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.

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 enterprise activities follow all GASB pronouncements. It also allows for 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. The Borough and School District have both elected to follow FASB pronouncements issued on or before November 30, 1989 that are not in conflict with GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is both the Borough's and School District's policy to use restricted resources first, then unrestricted resources as they are needed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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 (FNSB) 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 a department or within a service area. Transfers between departments, between service areas, or between funds require Borough Assembly approval.

Formal budgetary integration is employed as a management control device during the year, for the general fund, certain special revenue funds, enhanced 911, non-areawide, solid waste collection district, and service areas; debt service fund; enterprise funds; and internal service fund. In addition, formal budgetary integration is employed as a management control device in the remaining special revenue funds and all the capital projects funds for the life of the related grants or projects.

Annual budgets are legally adopted for the general, certain special revenue (enhanced 911, non-areawide, solid waste collection district, and service areas), and debt service funds. Differences in accounting for encumbrances, as described below, exist between the basis of accounting used for budgetary purposes and that used for reporting in accordance with generally accepted accounting principles. The remaining special revenue funds and all the capital projects funds are controlled through project budgets. Adopted project budgets provide authorization to complete projects that extend beyond one fiscal year. Multi-fiscal year projects are controlled by comparing project-to-date expenditures with project 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 upon determination of net income and financial position.

Appropriations are authorized by ordinance at the department level for the general, enhanced 911 special revenue, non-areawide special revenue, solid waste collection district special revenue, enterprise funds, and internal service fund; at the service area level in the service areas special revenue fund; and at the project level for the capital projects and the remaining special revenue 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 market value.

Investment income is allocated to the following funds and accounts based upon their cumulative, month-end cash equity balances: enhanced 911 special revenue fund, service areas special revenue fund, Alaska Regional Development Organization special revenue grants, health care contingency reserve special revenue program, any Alaska Department of Education grants to the Borough and to the School District, federal grants in all funds and of the School District plus certain State grants matching some of those federal grants, capital projects to renovate the Mary Siah tennis courts funded by a donation, the library special revenue fund and any capital projects funded by the library fund, enterprise funds, and the pupil activities agency fund of the School District. For bond-funded projects authorized since September 1993, investment income is allocated back to the respective projects authorized. The balance of investment income is allocated to the general fund.

F. STATEMENT OF CASH FLOWS

For purposes of the statement of cash flows, all the enterprise funds and the internal service fund consider their Equity in Central Treasury Cash to be cash equity.

G. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, interfund receivables and payable transactions arise. On the statement of net assets, the internal balances represent the amounts that are receivable/payable between business-type activities and governmental activities. All other interfund transactions have been eliminated on the statement of net assets.

H. INVENTORIES

Inventories of the transit enterprise fund are stated at cost. An average cost method is used for parts and the first-in, first-out method is used for fuel. Inventories of the School District are valued at cost, using the weighted average cost method, except for School District inventories of the U.S. Department of Agriculture food commodities. Food commodities are valued at the allocated cost provided by the State of Alaska, which approximates fair market value. All inventories are recorded as expenditures when used (consumption method).

I. LAND INVENTORIES

Entitlement land received by the Borough under the State of Alaska Municipal Land Act is recorded as a donation in the land enterprise fund. 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 market 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.

All land inventory of the land enterprise fund is valued at the lower of cost (specific identification method) or market. Cost includes the donated value described above, plus development expenses recorded at cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. LAND INVENTORIES (continued)

Lands that are ready for sale or being developed for sale are recorded as a current asset, inventories. Lands that are not currently for sale, whether they are being withheld from sale, leased or otherwise managed by the land management department, are recorded as a long-term asset, Land inventory - long-term.

Lands to be retained for a public purpose are reflected as capital assets in governmental activities on the government-wide statement of net assets.

J. CAPITAL ASSETS

Capital assets, which include land, buildings, improvements, machinery and equipment, library materials, artwork, software, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Borough as tangible or intangible property for use in operations with an initial, individual cost of more than \$5,000 for machinery and equipment and artwork and \$50,000 for all other assets except library materials, and an estimated useful life of over one year. Such assets are recorded at cost at the time of acquisition or construction. 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 using an applicable index to back-trend this amount to the date of acquisition or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

Included in the amount of land and land improvements is the cost of the road service areas' rights-of-way and roadbeds. 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. Also included in the amount of land and land improvements is 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. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. (See Note 8.)

Capital assets of the Borough are depreciated and amortized over their estimated useful lives using the straight-line method, half-year convention. Estimated useful lives are as follows:

	Years
Land - solid waste disposal	led to cell's life
Buildings	15-50
Improvements	20-50
Equipment	5-35
Library materials	6
Software	5-20

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. CAPITAL ASSETS (continued)

The capital assets of the School District consist only of furniture, equipment, and certain intangible assets. 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. (See Note 10.)

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

	<u>Years</u>
Furniture and equipment	5-25
Intangible assets	5-10

K. ADVANCE TAX PAYMENTS

Property taxes are levied by June 15 but not accrued until July 1 of the succeeding fiscal year. Taxes collected prior to July 1 are recorded as advance tax payments.

L. 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. The governmental funds have no liabilities for accrued compensated absences at June 30.

M. DEFERRED REVENUES

Deferred 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 deferred revenue is removed and revenue is recognized.

In the financial statements of the governmental funds, deferred revenues can also 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.

N. UNREALIZED GAIN ON LAND CONTRACTS

In accordance with FASB Statement No. 66, retail land sales of the land enterprise fund are accounted for using the installment method because the extended length of the collection period casts doubt on the collectibility of the land contracts receivable. The unrealized gain on land contracts represents that portion of the gross profit that has not been recovered through collections of the receivables.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. 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 in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, 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.

P. ENVIRONMENTAL LIABILITIES

Environmental liabilities are recorded when assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the commitment of the Borough to a formal plan of action. The Borough has no environmental liabilities at June 30.

Q. FUND EQUITY

Reserved fund balances indicate that a portion of fund equity is not available for expenditure, as in the case of reserves for encumbrances, or a portion of fund equity is legally segregated for a specific future use.

Designated fund balances indicate tentative plans for future use. Fund balances designated for subsequent year's expenditures represent commitments for expenditures in excess of anticipated revenues for the following year. Undesignated fund balances indicate that a portion of fund equity is available for budgeting in a future period.

R. INTERGOVERNMENTAL REVENUES

State entitlements and shared revenues are recorded as revenue in the period of allocation. Certain other grant revenues are dependent upon expenditures or other criteria, and revenues from these grants are recognized when expenditures are made, or the other criteria are met. Revenues from all other grants are recognized on the cash basis.

S. 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 have not been charged to the School District.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. IN-KIND SUPPORT TO THE SCHOOL DISTRICT (continued)

The School District operates school facilities at Fort Wainwright Army Post and Eielson Air Force Base. Prior to fiscal year 2004-05 two of four on-base schools were owned and financed by the United States government, through the State of Alaska, in their entirety and no Borough funds or appropriations had been used to fund their operation. In fiscal year 2004-05, ownership of the remaining two on-base schools was individually transferred to the Borough. At this time, the Borough owns all four on-base schools.

T. 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 those 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, 2004, from which such partial information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

U. 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. 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 Schedule of Revenues and Expenditures-Budget and Actual for the general fund and all service areas:

Revenues reported on the basis of budgeting	General Fund	Service Areas
Adjustment for intragovernmental cost plan revenues	\$88,512,922	\$6,968,891
Revenues reported on the basis of GAAP	<u>\$(3,585,679)</u>	<u>\$6,968,891</u>
Expenditures reported on the basis of budgeting	\$27,852,031	\$6,121,349
Expenditures on prior year encumbrances	231,697	9,748
Current year encumbrances	(210,350)	(276,334)
Adjustment for intragovernmental cost plan expenditures	(3,585,679)	
Adjustment for accrued compensated absences	(62,584)	
Adjustment for School District appropriation	<u>36,545,700</u>	<u>\$5,854,763</u>
Expenditures reported on the basis of GAAP	<u>\$80,770,815</u>	<u>\$5,854,763</u>

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

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

Since encumbrances constitute the equivalent of expenditures for budgetary purposes, the accompanying schedules 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 adjustment includes the addition for current year encumbrances and the deduction for expenditures of prior year encumbrances. The original budget column is that adopted by the assembly in its annual appropriation. The final budget column combines the original budget column, encumbrances automatically carried forward from the prior fiscal year, and budget amendments made during the current fiscal year.

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

The School District's appropriation is shown as a transfer for budgetary purposes and as an expenditure for financial statement purposes.

The threshold for capitalizing machinery and equipment is \$5,000. However, for control purposes, assets with a cost of greater than \$750 are tracked and referred to as "controlled" assets. These "controlled" assets are included as part of capital outlay for budgeting purposes, but they are included as a current expenditure in the actual expenditures for the financial statements.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no excesses of actual expenditures over appropriations for the year ended June 30, 2005.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

C. SUPPLEMENTAL APPROPRIATIONS TO ANNUAL BUDGETS

Supplemental appropriations were made during the year as follows:

Fund/Purpose	<u>Amount</u>
General fund:	
Tax reduction reserve	\$500,000
Respond to the Base Realignment and Closure commission report on Eielson Air Force Base	500,000
South Davis Park land acquisition and development	333,000
South Davis Park and Albridge capital project	300,000
Additional funds to cover fuel costs	196,150
Other	<u>147,943</u>
	<u>\$1,977,093</u>

Negotiations for the acquisition of South Davis Park land were unsuccessful. The \$333,000 appropriation was lapsed back to general fund balance by the 2005-06 annual appropriating budget.

D. DEFICIT FUND EQUITY

There was a deficit fund balance at June 30, 2005 in Ballaine Lake sewer and water service area of \$5,503, resulting from expenditures made in fiscal year 2004 to make short-term repairs to the sewage disposal system. These repairs were funded by a \$21,000 six-year loan from the general fund.

E. TAXES LEVIED IN EXCESS OF MAXIMUM TAX COMPUTATION

Forty-three service areas and Solid Waste Collection District levied a total of \$103,694 of taxes in excess of the maximum tax computation. The amount in excess of the maximum tax computation is predominately due to a 2004 clerical error and to timing differences, which resulted in an understatement of construction assessed values. (See Note 5)

F. SCHOOL DISTRICT FUND BALANCE LIMIT

In accordance with Alaska Statutes 14.14.060(c) and Fairbanks North Star Borough Code of Ordinances (FNSB) 3.03.040, the Assembly annually appropriates the amount of local support for school purposes, while FNSB 3.01.060 E limits the amount of the School District's unreserved local appropriation fund balance. Unreserved local appropriation fund balance not exceeding seven percent may carry over to the next fiscal year. This carry-over fund balance is not required to show as revenues for the following fiscal year's budget. At June 30, 2005, unreserved fund balance originating from all revenue sources, including local support, exceeded seven percent of fiscal year 2004-05 expenditures and other financing uses. However, unreserved fund balance includes a \$4,234,180 designation for fiscal year 2005-06 expenditures. (See Note 16.) This amount adequately covers the excess over the seven percent limit.

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. These services are paid for with a restricted, non-interest bearing compensating balance of \$1,060,880 that is recorded as an other asset in the general fund. The contract requires that WFB sweep the Borough's central treasury accounts daily and invest all available funds in an overnight investment.

Investments – FNSB 3.04 (Code) describes the objectives, policies, and procedures for the investment of funds. Borough 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 deposits 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.

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. Call options increase the sensitivity of the fair value of an investment to interest rate changes. Call options of investments held by the Borough at June 30 are footnoted in the table below.

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 not considered to have any credit risk, and to the highest-rated debt securities where the credit risk is low.

The Alaska Municipal League Investment Pool (AMLIP) is not SEC-registered, but is a 2a7-like pool, operating in a manner consistent with that rule. Stand-alone financial statements can be obtained by writing to the Investment Advisor, AML Investment Pool, 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 on the pool. The pool also has retained an investment adviser who monitors the

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

3. DEPOSITS AND INVESTMENTS (continued)

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, 2005, 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 AMLIP is the same as the value of its pool units.

The Borough's investments, by investment type, at June 30, 2005 are:

Investment Type	Fair Value	Maturity	Rating
Overnight investment	\$ 3,308,794		n/a
Wells Fargo Bank Alaska N.A.			
Government securities money market funds			
Fidelity Institutional Money Market -			
Treasury Portfolio Class I	30,155,522		AAAmi/Aaa
BNY Hamilton Money Fund	331,987		AAAmi/Aaa
External investment pool			
Alaska Municipal League Investment Pool	33,629,934		unrated
U.S. securities and agencies			
Federal Farm Credit Banks bonds	2,989,063	7 July 2005*	AAA/Aaa
Federal Home Loan Banks bonds	2,996,250	22 July 2005	AAA/Aaa
Federal Home Loan Banks bonds	1,995,000	26 August 2005	AAA/Aaa
Federal Home Loan Banks bonds	1,995,625	9 September 2005	AAA/Aaa
Federal Home Loan Banks bonds	2,491,406	12 October 2005*	AAA/Aaa
Federal Home Loan Mortgage Corp reference notes	2,985,000	15 November 2005	AAA/Aaa
Federal Home Loan Mortgage Corp medium-term notes	1,989,660	28 November 2005	AAA/Aaa
Federal Home Loan Banks bonds	3,971,250	27 January 2006	AAA/Aaa
Federal Home Loan Banks bonds	1,984,375	28 February 2006	AAA/Aaa
Federal Farm Credit Banks bonds	4,990,625	28 June 2006*	AAA/Aaa
Federal Home Loan Mortgage Corp medium-term notes	4,956,550	29 June 2006*	AAA/Aaa
Commercial paper			
General Electric Capital Corporation discount	4,904,500	25 September 2005	A1/P1/F1
General Electric Capital Corporation discount	2,970,529	14 October 2005	A1/P1/F1
Lockhart Funding, LLC discount	2,966,525	28 October 2005	P1/F1
Lockhart Funding, LLC discount	2,960,360	22 November 2005	P1/F1
Lockhart Funding, LLC discount	2,954,796	12 December 2005	P1/F1
	<u>\$117,537,751</u>		

* redeemable on any day on or after January 7, 2004
 † redeemable quantity beginning January 28, 2005
 ‡ redeemable on any day on or after June 28, 2004

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

4. DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Property taxes receivable - general fund	\$1,269,602	
Property taxes receivable - service areas	102,842	
Property taxes receivable - non-area-wide fund	29,183	
Property taxes receivable - solid waste collection district fund	74,947	
Tobacco excise tax	2,463	
Alcoholic beverage tax, penalties, and interest	1,106	
Enhanced E-911 surcharge	43,121	
Hotel/motel tax, penalties, and interest	1,730	
Payment in lieu of taxes - Interior Regional Housing Authority	12,020	
Advance grant payments		\$1,056,430
Total deferred revenue	<u>\$1,537,214</u>	<u>\$1,056,430</u>

5. 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.

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. Prior to fiscal year 2004, the allowance for penalties and interest receivable was based on an estimated percentage.

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 exceeds 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 3.08.145 (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 adjustment for

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

5. PROPERTY AND OTHER TAXES (continued)

tax reductions was added by the voters in October of 2003, and became effective October 2004. 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 2002, the voters reconfirmed the Code provision limiting the Borough's taxing authority.

6. DEEDS OF TRUST AND CONTRACTS RECEIVABLE

Deeds of Trust Receivable - All real estate sales of the Borough using secured indebtedness are sold as deeds of trust. In addition, the Borough gave prior contract buyers an option to convert to deeds of trust. Annual installments are due over a period of ten years from the time of conversion or sale with a stated interest rate of 6.75 percent to 10.00 percent and a weighted average interest rate of 8.85 percent. The annual installments of principal due for the next five years on contracts converted to deeds of trust and parcels originally sold as deeds of trust are as follows:

Year Ending June 30	Annual Installments
2006	\$202,303
2007	199,103
2008	193,098
2009	181,155
2010	156,047

No allowances for uncollectible receivables are recorded as the Borough does not transfer title of the land to contract buyers until the contract is paid in full and the revenue related to all land sale receivables is only recognized on the installment method. As of June 30, 2005, the total receivable for delinquent accounts amounted to \$200,537.

7. LAND INVENTORIES

Under provisions of the State of Alaska Municipal Land Act, the Borough was granted an entitlement of 112,000 acres. The Borough has received title (patent or tentative approval) to about 99 percent of those acres. Of this acreage, about nine percent has been sold into private ownership. Over five percent has been dedicated for recreation, public use or other activities. A small portion is being leased. The remaining acreage and currently leased land is recorded as land inventory, current and long-term, in the land enterprise fund.

Land inventory is segregated into current and long-term portions. Current inventory includes parcels and developments offered for sale over-the-counter or to be included in the Borough's annual land auction and subdivisions currently being developed for sale. Long-term land inventory consists of undeveloped acreage, currently leased land that may be sold in the future, and other property not currently for sale, but over which the Borough's land management department retains control.

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:	\$227,012,449	\$1,072,362	(\$53,880)	\$228,030,931
Land and land improvements	134,200			134,200
Works of art	963,119	25,990		989,110
Library materials	31,649,126	27,720,473	(30,450,351)	28,919,249
Construction in progress				
Total capital assets, not being depreciated	259,758,894	28,818,826	(30,504,231)	258,073,489
Capital assets, being depreciated:				
Buildings	344,589,433	59,098,929	(6,015,154)	397,673,208
Improvements other than buildings	50,219,140	11,260,222	(827,766)	60,651,594
Equipment	14,966,196	1,556,404	(1,240,178)	15,282,422
Library materials	1,372,599	332,249	(207,830)	1,497,018
Intangible assets - software	1,286,895			1,286,895
Total capital assets, being depreciated	412,434,262	72,247,804	(8,290,930)	476,391,137
Less accumulated depreciation for:				
Buildings	(116,547,622)	(9,512,541)	5,942,720	(120,117,442)
Improvements other than buildings	(16,933,361)	(1,641,113)	662,455	(17,912,019)
Equipment	(8,516,409)	(1,053,449)	1,089,697	(8,480,162)
Library materials	(653,903)	(239,135)	207,830	(685,208)
Intangible assets - software	(521,294)	(98,349)		(620,643)
Total accumulated depreciation	(143,172,588)	(12,545,586)	7,902,702	(147,815,473)
Total capital assets, being depreciated, net	269,261,674	59,702,218	(388,228)	328,575,664
Governmental activities capital assets, net	\$529,020,568	\$68,521,043	(\$30,892,459)	\$566,649,153

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

8. CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,941,142	\$	\$	\$ 1,941,142
Works of art	120,790			120,790
Construction in progress	5,217,781	1,759,726	(53,765)	6,923,742
Total capital assets, not being depreciated	7,279,714	1,759,726	(53,765)	8,985,674
Capital assets, being depreciated:				
Land and land improvements	255,171			255,171
Buildings	22,036,701	314,927		22,353,628
Improvements other than buildings	10,373,301	13,963		10,387,264
Equipment	5,160,089	143,319	(291,181)	5,012,227
Intangible assets - software	18,864			18,864
Total capital assets, being depreciated	37,846,126	472,229	(291,181)	38,027,174
Less accumulated depreciation for:				
Land and land improvements	(229,237)	(15,523)		(244,760)
Buildings	(7,055,965)	(692,047)		(7,748,012)
Improvements other than buildings	(7,586,829)	(848,193)		(8,437,022)
Equipment	(3,091,349)	(355,908)	267,192	(3,180,065)
Intangible assets - software	(5,188)	(943)		(6,131)
Total accumulated depreciation	(17,970,567)	(1,912,615)	267,192	(19,615,990)
Total capital assets, being depreciated, net	19,875,559	(1,440,386)	(23,989)	18,411,184
Business-type activities capital assets, net	\$27,155,272	\$319,340	(\$77,755)	\$27,396,858
Capitalized interest costs for business-type activities construction in progress decreased by \$39,782 in fiscal year 2005. (See Note 12B.)				

The increase in business-type activities accumulated depreciation includes \$242,494 of accumulated depreciation on a building transferred from governmental activities.

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

8. CAPITAL ASSETS (continued)

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

Governmental activities:		
General government	\$251,529	
Community planning	3,389	
Public works	87,234	
Parks and recreation	1,336,211	
Library	581,766	
Education	9,175,888	
Emergency operations	166,609	
Fire service areas	497,315	
In addition, depreciation on capital assets held by the Borough's internal service fund is charged to the various functions on their usage of the assets	445,646	
Total depreciation expense - governmental activities	\$12,545,586	
Business-type activities:		
Transit	\$199,453	
Land	7,242	
Carlson Center	337,318	
Solid waste disposal	1,126,109	
Total depreciation expense - business-type activities	\$1,670,121	

Component Unit - School District

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Furniture and equipment	\$10,516,707	\$881,112	(\$262,480)	\$11,135,339
Intangible assets - software	205,056			205,056
Total capital assets, being depreciated	10,721,763	881,112	(262,480)	11,340,395
Less accumulated depreciation for:				
Furniture and equipment	(6,825,854)	(787,330)	220,672	(7,392,512)
Intangible assets - software	(59,406)	(31,199)		(90,605)
Total accumulated depreciation	(6,885,260)	(818,529)	220,672	(7,483,117)
Component unit capital assets, net	\$3,836,503	\$62,583	(\$41,808)	\$3,857,278

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances for the purpose of the entity-wide statements have been eliminated with the exception of interfund balances that represent the amounts that are receivables/payables between business-type activities and governmental activities. The composition of interfund balances in the fund level statements as of June 30, 2005, is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Service areas	\$20,741
General fund	Local capital projects	188,074
General fund	Nonmajor governmental funds	959,911
General fund	Transit enterprise fund	189,091
General fund	Land enterprise fund	1,350
		<u>\$1,359,188</u>

Total interfund receivables/payables

The \$20,741 represents outstanding loans that Ballaine Lake sewer and water service area has from the general fund for the repair of their sewage disposal system. The first loan has a remaining five-year payback with interest at 5 percent. A payment of \$4,137 is due during the next fiscal year. The second loan has a six-year payback with interest at 5 percent. A payment of \$1,810 is due during the next fiscal year. The remaining amount due to the general fund is a result from individual funds' overdrafts of pooled cash in the central treasury.

	Transfers In					Total
	General Fund	Local Capital Projects	Nonmajor Governmental Funds	Land Enterprise Fund	Carlson Center Enterprise Fund	
Transfers Out						
General fund	\$ 16,123,540					\$ 16,123,540
Debt service						
Service areas		128,369				128,369
Local capital projects	1,332,343	1,010,603	188,900	100,000	303,000	2,934,846
Nonmajor governmental funds	1,625,976		1,644,884			3,270,860
Transit enterprise	2,536,590					2,536,590
Carlson Center enterprise	848,110					848,110
Solid waste disposal enterprise	129,226					129,226
General capital assets				72,433		72,433
Total	<u>\$22,585,785</u>	<u>\$1,138,972</u>	<u>\$1,833,784</u>	<u>\$172,433</u>	<u>\$303,000</u>	<u>\$26,043,974</u>

The \$72,433 transfer from general capital assets into the land enterprise fund, reflects the transfer of assets from governmental activities into business-type activities. The remaining transfers were made to provide working capital for operations or projects.

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

10. 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 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, 2005 were \$643,401.

The Borough has several significant operating leases:

- Two school sites, including the land on which West Valley High School is located. In fiscal year 1995-96, the Borough paid a one-time lease payment to the University of Alaska for an extension of the West Valley lease to the year 2043.
- Five land leases for the following school sites: Crawford Elementary School, Anderson Elementary School, Arctic Lights Elementary School, Ben Eielson High School, and Ladd Elementary School/Tanana Middle School. All land lease agreements are for twenty-five years expiring in 2021, 2023, 2028, 2030, and 2024 respectively, and are revocable at will by either the Secretary of the Army or the Secretary of the Air Force. 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 a year lease payment is made by the School District.
- Chena Lakes Recreation Area. 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. Long-term lease expires in January 2008, but is revocable at will by the Secretary of the Army. Payment is made through trail construction and ongoing maintenance for public use.

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

Year Ending June 30,	Amount
2006	\$276,232
2007	213,781
2008	95,934
2009	3,867
2010	350
2011-2014	1,400
2015-2016	700
Total	<u>\$592,264</u>

There are no other operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005.

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

11. 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 proprietary funds. The assets acquired through capital leases are as follows:

	Proprietary Funds
Asset:	
Machinery and equipment	\$2,920,696
Less: Accumulated depreciation	(786,019)
Total	\$2,134,677

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

	Year Ending June 30	
	2006	Proprietary Funds \$458,887
	2007	342,631
	2008	266,571
	2009	224,277
	2010	140,815
Total minimum lease payments		1,433,181
Less: Amount representing interest		(108,519)
Present value of minimum lease payments		\$1,324,662

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

12. LONG-TERM LIABILITIES

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.

On October 3, 2000, the voters of the Fairbanks North Star Borough approved bond propositions totaling \$29,450,000 for renovations and upgrades to Hutchison Institute of Technology and to five other schools, plus improvements to playgrounds at several elementary schools. On December 7, 2000, the Borough sold the first \$9,000,000 of these bonds. On January 11, 2001, the Borough sold an additional \$9,050,000 of these bonds. On December 11, 2002, the final \$11,400,000 was sold.

On October 8, 2002, the voters approved bond propositions totaling \$42,264,000 to replace two elementary schools and for capital maintenance and upgrades to school facilities throughout the School District. The first \$2,600,000 of these bonds were sold on December 11, 2002. On March 27, 2003, March 17, 2004, and January 12, 2005, an additional \$13,500,000, \$14,164,000, and \$12,000,000 of these bonds were sold, respectively.

On October 5, 2004 the voters approved bond propositions totaling \$11,500,000 for school district-wide capital maintenance and upgrades and capital improvements to Anderson Elementary and Ben Eielson Junior-Senior High School. The first \$1,750,000 of these bonds were sold on January 12, 2005. The Borough plans to sell the remaining \$9,750,000 of these bonds in January of 2006.

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
\$42,615,000 1993 Refunding Series S bonds due in annual installments of \$2,830,000 to \$4,755,000 through March 1, 2008 at 5.45 to 5.50% interest	\$10,620,000
\$16,320,000 1996 Series U school facilities bonds due in annual installments of \$700,000 to \$1,350,000 through November 1, 2016 at 5.0 to 8.0% interest	11,825,000
\$35,250,000 1997 Series A school facilities and library bonds due in annual installments of \$1,500,000 to \$2,800,000 through November 1, 2017 at 5.0 to 6.5% interest	27,600,000
\$26,210,000 1999 Series B school facilities bonds due in annual installments of \$1,090,000 to \$1,990,000 through April 1, 2019 at 4.10 to 6.25% interest	20,840,000
\$9,000,000 2000 Series C school facilities bonds due in annual installments of \$340,000 to \$710,000 through December 1, 2020 at 4.5 to 7.5% interest	8,010,000
\$9,050,000 2001 Series D school facilities bonds due in annual installments of \$340,000 to \$695,000 through February 1, 2021 at 4.125 to 7.125% interest	7,860,000

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 2005

12. LONG-TERM LIABILITIES (continued)

A. GENERAL OBLIGATION BONDS (continued)

\$14,000,000 Series E school facilities bonds due in annual installments of \$485,000 to \$1,085,000 through August 1, 2022 at 4.0 to 4.8% interest	\$13,150,000
\$13,500,000 Series F school facilities bonds due in annual installments of \$480,000 to \$1,075,000 through October 1, 2022 at 3.75 to 4.75% interest	13,035,000
\$14,164,000 Series G school facilities bonds due in annual installments of \$540,000 to \$1,005,000 through October 1, 2023 at 3.125% to 4.250% interest	13,635,000
\$13,750,000 Series H school facilities bonds due in annual installments of \$415,000 to \$985,000 through October 1, 2024 at 3.500% to 4.375% interest	<u>13,750,000</u>
	<u>\$140,325,000</u>

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2006	\$10,645,000	\$6,587,115
2007	9,095,000	5,912,690
2008	9,570,000	5,410,809
2009	6,840,000	4,920,546
2010	7,160,000	4,583,815
2011-2015	41,295,000	17,583,940
2016-2020	39,895,000	7,627,573
2021-2025	<u>15,825,000</u>	<u>1,335,624</u>
Total	<u>\$140,325,000</u>	<u>\$63,962,112</u>

B. SOLID WASTE DISPOSAL ENTERPRISE FUND

The long-term debt in the solid waste disposal enterprise fund at June 30, 2005 is as follows:

Loan payable	\$7,585,945
\$7,585,945 of Alaska Clean Water Fund loan drawdowns. 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 nine annual installments beginning January 1, 2003.	<u>\$7,585,945</u>

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 2005

12. LONG-TERM LIABILITIES (continued)

B. SOLID WASTE DISPOSAL ENTERPRISE FUND (continued)

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. Interest accrual of 2.5 percent commenced one year from the date of the first loan drawdown, in May 1998. Interest was reduced to 1.5 percent on the balances outstanding as of April 28, 2005. Repayment is due in annual installments beginning one year after substantial completion and initiation of operations for each cell. Substantial completion and initiation of operations for cell 1 occurred December 31, 2001; the initial repayment for cell 1 was due January 1, 2003. Cell 2 is estimated for substantial completion and initiation of operations in September 2006.

Although one loan agreement governs drawdowns for both cell 1 and cell 2, repayment terms are separately negotiated and may be different for each cell. The repayment terms for cell 1 were negotiated and finalized in fiscal year 2003. Repayment terms for cell 2 are still in process. Under the loan agreement, repayment options may include equal total payments, equal principal payments, or another repayment method if agreed to by both parties. For purposes of the following disclosure, an "equal principal payments" method is used. However, the actual repayment method ultimately negotiated is likely to vary from this method.

The annual requirements for the loan are as follows:

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2006	\$1,720,520	\$43,013
2007		
2008	1,173,085	395,004
2009	1,173,085	70,385
2010	1,173,085	52,789
2011 - 2012	<u>2,346,170</u>	<u>52,789</u>
Total	<u>\$7,585,945</u>	<u>\$613,980</u>

C. SCHOOL DISTRICT COMPONENT UNIT

The School District has \$2,679,900 in liabilities for compensated absences at June 30, 2005. The current portion of this balance is \$2,515,965.

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

12. LONG-TERM LIABILITIES (continued)

D. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$136,214,000	\$13,750,000	(\$9,639,000)	\$140,325,000	\$10,645,000
Plus deferred amounts:					
For issuance premiums	433,110	175,853	(43,120)	565,843	
Capital leases	861,029	844,239	(434,910)	1,270,358	375,522
Self-insurance losses	591,883	97,019	(175,536)	513,366	474,385
Accrued compensated absences	1,323,934	2,166,317	(2,002,660)	1,487,591	1,049,913
Net pension obligation		685,978		685,978	
Governmental activity					
Long-term liabilities	\$139,423,956	\$17,719,405	(\$12,235,226)	\$144,848,136	\$12,564,820

Business-type Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Unrealized gain on land contracts	\$452,672	\$69,912	(\$114,717)	\$407,867	\$63,971
Loans payable	6,249,509	3,014,992	(1,678,556)	7,585,945	1,720,520
Landfill closure and postclosure care	8,697,499	4,025,346		12,722,845	
Capital leases	91,002		(36,697)	54,305	38,044
Self-insurance losses	117,360	224,142	(6,859)	334,643	180,034
Accrued compensated absences	258,075	455,333	(438,041)	275,367	187,342
Net pension obligation		178,713		178,713	
Business-type activity					
Long-term liabilities	\$15,866,117	\$7,988,438	(\$2,274,870)	\$21,579,685	\$2,189,911

The internal service fund predominantly serves the governmental funds. Accordingly, long-term liabilities for it are included as part of the above totals for governmental activities. At year-end, \$1,270,358 for capital leases were included in the above amounts. Also, for the governmental activities, self-insurance losses, accrued compensated absences and net pension obligation are generally liquidated by the general fund.

13. 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, 2005, the estimated liability for landfill closure and postclosure care costs was \$12,722,845, which was based on 79.95 percent of the landfill used (filled) to date. It is estimated an additional \$3,190,756 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 (2015). The estimated total cost for future landfill closure and postclosure care (\$15,913,601) 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, 2005. 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, 2005.

While not required by state or federal laws and regulations, the borough assembly established a landfill closure reserve fund account in 1994. Beginning in fiscal year 1994-95, \$440,000 has been contributed annually to this account. The landfill closure reserve is accounted for as a separate cost center within the solid waste disposal enterprise fund and has a balance of \$4,940,548 at June 30, 2005. Additional yearly contributions are anticipated. It is also anticipated that future inflation costs will be financed in part from earnings on these 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.

14. COMMITMENTS

The Borough's capital improvement and other multi-year programs in effect at June 30, 2005 contain authorizations for hundreds of projects in five active capital projects funds and four enterprise funds.

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 and mass transit assistance, development of real property for sale, and solid waste landfill expansion.

The Borough has hundreds of commitments for architectural, engineering, and construction services under various continuing contracts that are recorded as encumbrances. Funding sources for the capital improvement and other 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.

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

15. CONDUIT DEBT

From time to time, the Borough has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Borough, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

In July 1994, a nonrecourse revenue bond for the Greater Fairbanks Community Hospital Foundation, Inc. was authorized with an aggregate principal amount of \$7,990,000. The last payment on this bond was made on July 28, 2004; there is no outstanding balance at June 30, 2005.

16. FUND BALANCE - SCHOOL DISTRICT COMPONENT UNIT

The School District's governmental funds financial statements can be obtained from the District's Department of Administrative Services (see Note 1A). These statements reported combined ending fund balance of \$26,075,646, an increase of \$4,156,124 over the prior year. Of the total combined ending fund balance, \$2,094,721 is reserved for encumbrances, \$525,729 is reserved for inventories, and \$11,129,962 is reserved impact aid funding received in advance for fiscal year 2005-06. The remaining \$12,325,234 of fund balance is unreserved.

17. LIBRARY SPECIAL REVENUE FUND AND SUBSEQUENT EVENT

The Fairbanks North Star Borough Public Library was a 15 percent beneficiary of two trusts. One of the trusts was dissolved in March 2000. The remaining trust provides that, for a period of 15 years beginning September 10, 1987, income after administrative expenses would be distributed. From the 15th year after September 10, 1987, income and principal may be distributed to the beneficiaries. The trust mandates that distribution in full be completed no later than September 10, 2005 (18 years later). Income received from both trusts is recorded as donations in the library special revenue fund and \$5,680,542 had been received as of June 30, 2005. The Library's share of the carrying value and market value of the remaining trust's net assets yet to be distributed to the Borough was \$1,898,832 and \$4,695,646, respectively, at June 30, 2005, as reported by the trust's trustee.

In September 2005 the beneficiaries agreed that the remaining assets of the Beniley Family Trust should be transferred to a new trust called the Beniley Beneficiaries Trust. The new trust was formed so the remaining assets can continue to be managed and sold and the proceeds distributed. The Fairbanks North Star Borough Public Library retains a 15 percent beneficial interest in the trust.

18. 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

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

18. RISK MANAGEMENT (continued)

with zero or small deductibles is secured for the following coverages: auto and general liability, property, and workers' compensation 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 four fiscal years.

The Borough was a member of the Alaska Municipal League Joint Insurance Association (AML/JIA), a public entity risk pool formed to provide pooled property and liability insurance coverage to AML members at lower costs than would be available if the members obtained coverage on their own, from July 2000 through June 2004. The AML/JIA has the option of requiring supplemental contributions from its members if annual contributions and income earned thereon are not sufficient to cover AML/JIA's aggregate pooled losses and expenses for any coverage year. Due to the Borough's high self-insurance threshold levels, which were higher than most other pooled members' self-insurance threshold levels, the Borough had limited exposure to any supplemental contributions. No supplemental contributions have been required of members during the last four fiscal years that the Borough was a member of AML/JIA.

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

Furthermore, in accordance with current labor contracts and Assembly ordinance, a cost center has been established in the local special revenue fund as a "Health Care Contingency Reserve" (HCCR). 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. The terms of the HCCR also provide that the Borough deposit any budget in excess of the negotiated reserve cap into the HCCR. The cap for FY2005 was established at \$1,718,080. The Borough must also pay for any excess health care costs up to 105 percent of budgeted costs. Excess costs above the 105 percent are covered by the HCCR. The undesignated fund balance of the HCCR at June 30, 2005 is \$1,851,585.

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.

18. RISK MANAGEMENT (continued)

Changes in the self-insured claims liabilities for fiscal years 2005 and 2004 follow:

	2004-05 Accrued Self- Insurance Losses	2003-04 Accrued Self- Insurance Losses
Borough		
July 1	\$709,243	\$742,198
Current year claims and changes in estimates	4,133,387	4,378,565
Claims payments	<u>(3,994,621)</u>	<u>(4,411,520)</u>
June 30	<u>\$848,009</u>	<u>\$709,243</u>
School District		
July 1	\$3,790,902	\$4,406,857
Current year claims and changes in estimates	20,429,320	18,038,699
Claims payments	<u>(20,335,451)</u>	<u>(18,654,654)</u>
June 30	<u>\$3,884,771</u>	<u>\$3,790,902</u>

19. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Funding policy

Fremont are required to contribute 7.50 percent of their eligible compensation (usually equal to gross wages) and all other employees contribute 6.75 percent. Employee contributions are deducted before federal income tax is withheld. The PERS funding policy provides for periodic employer contributions and actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the funds necessary to meet all expected future obligations to pay both pension and postemployment health care benefits to participants when due. The Borough's total rate for fiscal year 2005 was 22.44 percent (13.96 percent for pension, 8.48 percent for postemployment health care), an increase of 16.51 percent. A five (5) percentage point cap was applied to the fiscal year 2004 mandatory rate of 5.93 percent making the mandatory adjusted Borough rate for fiscal year 2005 10.93 percent (6.80 percent for pension, 4.13 percent for postemployment health care). The School District's total rate for fiscal year 2005 was 22.79 percent (14.18 percent for pension, 8.61 percent for postemployment health care). The School District's mandatory adjusted rate for 2005 was 10.91 percent (6.79 percent for pension, 4.12 percent for postemployment health care.)

Annual pension cost and net pension obligation (asset)

Actuarial valuations are required to be performed at least biennially. Generally, PERS actuarial valuations are performed annually, as of June 30 of each year. The actuarial methods and significant actuarial assumptions used to determine annual required contributions (ARC) for pension and postemployment health care for the current year were those listed in the actuarial valuation as of June 30, 2002. The June 30, 2002 actuarial valuation for employers was used for determining the ARC for the year ending June 30, 2005.

Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. Under this method each participant's total pension is projected to retirement with salary increases broken down into units, each associated with a year of past or future service, the objective being that each unit is funded in the year for which it is credited and accrued. The initial unfunded accrued liability and future gains/losses are amortized over a 25-year fixed period as a level percentage of pay.

19. RETIREMENT PLANS

As of June 30, 2005, substantially all 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 plan can be obtained by writing to the Alaska Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0203, or by calling (907) 465-4460. The financial statements are also available on the web at www.state.ak.us/drbb. Effective July 1, 1993, the Borough and the School District participate in the PERS under separate agreements. Prior to that date, they participated under a joint agreement. Employer contributions are actuarially determined and have been paid or accrued by both the Borough and the School District.

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan description

The Alaska Public Employees' Retirement System (PERS) is a defined benefit, agent, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension, postemployment health care, death and disability benefits to eligible employees. Postemployment health care benefits are provided to retirees without cost for all employees first hired before July 1, 1986, and employees who are disabled or age sixty-five or older, regardless of initial hire dates. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Local government participation in PERS is optional. Employee participation in the PERS is mandatory for permanent employees scheduled to work at least 20 hours a week. There is no optional participation for other employees.

19. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Annual pension cost and net pension obligation (asset) (continued)

Actuarial assumptions are as follows:

	Borough		School District	
	Pension	Postemployment Health Care	Pension	Postemployment Health Care
Employer contribution rate	13.96%	8.48%	14.18%	8.61%
Investment return	8.25%	same	8.25%	same
Projected salary increases:				
Inflation	3.50%	n/a	3.50%	n/a
Productivity and merit	2.00%	n/a	2.00%	n/a
Total inflation rate	3.50%	same	3.50%	same
Health cost trend - ultimate rate	n/a	5.00%	n/a	5.00%
Target funding ratio	100%	same	100%	same

In 2002 an actuarial audit was performed and an asset valuation method that recognizes 20 percent of the investment gain or loss in each of the current and preceding four years became effective June 30, 2002. This method will be phased in over the next five years. All assets are valued at market value. The accumulated corridor adjustment from the prior method is now included in the amortization of the unfunded liability, increasing the average employer contribution rate by 4.11 percent. In addition, valuation assets cannot be outside the range of 80 percent to 120 percent of the market value of assets. The target funding ratio is 100 percent.

Past years' contributions in excess of the annual required contributions have resulted in negative net pension obligations (net pension assets) for both the Borough and the School District component unit. These excess contributions were made while and immediately after the two entities participated in the PERS under a joint agreement. As noted earlier, the Borough and the School District have participated in the PERS under separate agreements since July 1, 1993. However, in fiscal year 2002, employer rates were significantly increased due to rising costs in health care and investment losses over the prior three years; thus, the annual required contributions have resulted in a net pension obligation. The net pension obligation is being amortized using factors provided by the PERS actuary. The components of the Borough's and School District's annual pension cost and net pension obligation for the year ended June 30, 2005 were as follows:

19. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Annual pension cost and net pension obligation (asset) (continued)

	Borough	Postemployment		Total
		Health Care	Health Care	
Annual required contribution	\$2,449,460	\$1,488,258	\$3,937,718	
Interest on net pension asset	(58,055)	(35,273)	(93,328)	
Adjustment to annual required contribution	43,312	26,315	69,628	
Annual pension cost	2,434,718	1,479,300	3,914,018	
Contributions made	1,193,141	724,936	1,918,077	
Increase in net pension obligation	1,241,577	754,365	1,995,941	
Net pension asset, beginning of year	(822,782)	(308,468)	(1,131,250)	
Net pension obligation, end of year	\$418,795	\$445,896	\$864,691	
School District				
Annual required contribution	\$3,524,428	\$2,141,359	\$5,665,787	
Interest on net pension asset	(49,285)	(29,944)	(79,229)	
Adjustment to annual required contribution	36,770	22,339	59,109	
Annual pension cost	3,511,913	2,133,754	5,645,667	
Contributions made	1,686,557	1,024,712	2,711,269	
Increase in net pension obligation	1,825,355	1,109,043	2,934,398	
Net pension asset, beginning of year	(698,208)	(262,147)	(960,355)	
Net pension obligation, end of year	\$1,127,147	\$846,896	\$1,974,043	

19. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Annual pension cost and net pension obligation (asset) (continued)

Annual pension cost (APC), percentage of APC contributed, and net pension obligation (asset) information as of June 30, 2005, 2004, and 2003 are as follows:

	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Borough Pension benefits	2003	\$589,435	99%	(\$828,365)
	2004	694,414	99	(822,781)
	2005	2,434,718	49	418,795
Post-employment health care benefits	2003	238,958	99	(310,833)
	2004	294,023	99	(308,469)
	2005	1,479,300	49	445,896
School District Pension benefits	2003	1,286,916	100%	(\$696,591)
	2004	994,017	100	(698,208)
	2005	3,511,913	48	1,127,147
Post-employment health care benefits	2003	521,707	100	(261,463)
	2004	420,868	100	(262,147)
	2005	2,133,754	48	846,896

19. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Funding status

A schedule of funding progress for each of the three most recent actuarial valuations is included in this report as required supplementary information, which follows these notes to the basic financial statements. Funding status for the most recent actuarial valuation, June 30, 2003, (shown in 000's) follows here:

	Actuarial Value of Plan Assets	Actuarial Liability (AAL) - Projected Unit Credit	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
Borough Pension benefits	\$47,874	\$60,217	(\$12,543)	79%	\$15,923	(79%)
Post-employment health care benefits	31,864	40,247	(8,383)	79%	\$15,923	(53%)
Totals	\$79,738	\$100,464	(\$20,926)	79%	\$15,923	(131%)
School District Pension benefits	\$67,568	\$89,859	(\$22,291)	75%	\$23,234	(96%)
Post-employment health care benefits	45,160	60,058	(14,898)	75%	\$23,234	(64%)
Totals	\$112,728	\$149,917	(\$37,189)	75%	\$23,234	(160%)

Investment losses and increasing health care costs, along with changes to the asset valuation method and the health care cost trend assumption, were the primary reasons for a decrease in the PERS funding ratio to approximately 75 percent at June 30, 2002. At June 30, 2002 the PERS eliminated the 102 percent target funding ratio. The methodology is now calculated based on 100 percent of the System's accrued liability. Due to investment deficiencies, demographic experiences greater than valuation assumptions, and the contribution shortfall compared to the actuarially calculated rate, it is anticipated that the funding ratio at June 30, 2004 will be down from the June 30, 2003 funding ratio of 79 percent. The funding ratio at June 30, 2004 has not yet been released because the Supplement to the Actuarial Valuation Report as of June 30, 2004 will not be available from the State of Alaska Division of Retirement & Benefits until December 2005.

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

19. RETIREMENT PLANS (continued)

B. ALASKA TEACHERS' RETIREMENT SYSTEM

Plan description

The Alaska Teachers' Retirement System (TRS) is a defined benefit, cost-sharing, multiple-employer retirement system created and administered by the State of Alaska (State) to provide pension, postemployment health care, death and disability benefits for eligible employees. Postemployment health care benefits are provided to retirees without cost for all employees first hired before July 1, 1990, and employees who are disabled or age sixty-five or older, regardless of initial hire dates. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Membership in the TRS is compulsory for each certificated employee scheduled to work at least 17.5 hours a week in positions that require teaching certificates as a condition of employment.

Funding policy

Employee contribution rates are 8.65 percent of base salary as required by State statute. The TRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the funds necessary to meet all expected future obligations to pay both pension and postemployment health care benefits to participants when due.

During the year ended June 30, 2005, the required employer contribution rate was 16.00 percent. The amounts contributed to TRS by the School District during the years ended June 30, 2005, 2004, and 2003 were \$9,331,781, \$6,903,968, and \$6,399,078, respectively, equal to the required employer contributions for each year.

Funding status

The funding ratio as of June 30, 2003 (the most recent actuarial valuation), for the system as a whole was 64.3%.

20. CONTINGENCIES

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.

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. Accruals for claims and litigation covered by the Borough's risk management program, excluding environmental claims, are recorded as accrued

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 2005

20. CONTINGENCIES (continued)

A. LITIGATION (continued)

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.

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; but, in the Borough's opinion, any such disallowances would be immaterial.

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APPENDIX B BOOK ENTRY SYSTEM

The following information has been provided by DTC. The Issuer makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the bonds ("the Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond 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. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, 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 and provides asset servicing for over 2.2 million issues of U. S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, 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 Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates 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 Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not effect any 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 Direct and Indirect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. 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. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. 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 Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

APPENDIX C CONTINUING DISCLOSURE UNDERTAKING

By Ordinance No. 2006-41, approved by Borough voters on October 3, 2006, Ordinance No. 93-041, voter approved on October 5, 1993, Ordinance No. 96-008, voter approved on March 28, 1996, and Ordinance No. 96-009, voter approved May 7, 1996 (the "Bond Ordinances"), the Borough has undertaken for the benefit of the owners and beneficial owners of the Borough's General Obligation School Bonds, 2007 Series J, and General Obligation Refunding Bonds, 2007 Series K, in the aggregate principal amounts of \$12,000,000 and \$10,650,000* respectively ("Bonds"), as follows:

Undertaking to Provide Ongoing Disclosure

A. Contract/Undertaking. Section 18 of the Bond Ordinances constitutes the Borough's written undertaking for the benefit of 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 each NRMSIR and to the State Information Depository for the State of Alaska, if one is created, (the "SID"), in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2007 for the fiscal year ended June 30, 2006):

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 the official statement for the Bonds and titled "General Purpose 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 2-5 shall be required only to the extent that such information is not included in the annual financial statements.

* Preliminary, subject to change

The information and data described above shall 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 such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the Borough may cross-reference to other documents provided to the NRMSIRs, the SID, if any, or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the Borough shall provide 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, to each then existing NRMSIR and the SID, if any.

C. Material Events. The Borough agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
 2. Non-payment related defaults;
 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 or events affecting the tax-exempt status of the Bonds;
 7. Modifications to the rights of Bond owners;
 8. Bond calls (optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to the SEC's Exchange Act Release 34-23856);
 9. Defeasances;
 10. Release, substitution or sale of property securing repayment of the Bonds;
- and

11. Rating changes.

Solely for purposes of disclosure and not intending to modify this undertaking, the Borough advises that no debt service reserves secure payment of the Bonds, there are no credit or liquidity providers, and no property secures the repayment of 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 SID, if any, and to each NRMSIR or to the MSRB, notice of its failure to provide the annual information described in subsection B above on or prior to the date set forth in subsection B above.

E. Termination/Modification. The Borough's obligations to provide the annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Any provision of this undertaking shall 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 each NRMSIR and the SID, if any, of such opinion and the cancellation of such provision.

Notwithstanding any other provision of this undertaking or the Bond Ordinances, 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 shall describe such amendment in the next annual report, and shall 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 shall be given in the same manner as for a material event under Section C of this undertaking, and (ii) the annual report for the year in which the change is made shall 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.

F. DisclosureUSA. The Borough may elect to cause any information or notices required by this Section 18 to be provided to the NRMSIRs and the SID, if any, by using the services of DisclosureUSA or other authorized service unless or until the SEC withdraws its approval of this submission process.

G. Bond Owner's Remedies Under This Section. The right of any Bond owner or beneficial owner of Bonds to enforce the provisions of this section and the agreement hereunder shall be 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 shall not be an event of default with respect to the Bonds

under this Ordinances. For purposes of this section, “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.

APPENDIX D
FORM OF BOND COUNSEL OPINION

K&L | GATES

K&L Preston Gates Ellis LLP
925 Fourth Avenue
Suite 2900
Seattle, WA 98104-1158
T 206.623.7580 www.klgates.com

February __, 2007

Fairbanks North Star Borough
Fairbanks, Alaska

Re: Fairbanks North Star Borough, Alaska
 General Obligation School Bonds, 2007 Series J - \$12,000,000

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, 2007 Series J, in the aggregate principal amount of \$12,000,000 (the “Bonds”). The Bonds are issued pursuant to Ordinance No. 2007-__ of the Borough, passed by the Borough Assembly on January __, 2007 (the “Bond Ordinance”), for the purpose of providing funds to pay for certain school capital projects approved by Borough voters at an election held on October 3, 2006.

The Bonds are subject to redemption as provided in the Bond Ordinance.

As to 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 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 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, 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.

The Bonds have not been designated “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code.

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.

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.

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.

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 PRESTON GATES ELLIS LLP

By
David O. Thompson

DOT:bg

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February __, 2007

Fairbanks North Star Borough
Fairbanks, Alaska

Re: Fairbanks North Star Borough, Alaska
General Obligation Refunding Bonds, 2007 Series K - \$_____

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 Refunding Bonds, 2007 Series K, in the aggregate principal amount of \$_____ (the “Bonds”). The Bonds are issued pursuant to Ordinance No. 2007-__ of the Borough, passed by the Borough Assembly on January __, 2007 (the “Bond Ordinance”), for the purpose of providing funds to refund certain outstanding general obligation bonds of the Borough.

The Bonds are not subject to redemption prior to their stated maturities.

As to 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 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 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, 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.

The Bonds have not been designated “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code.

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.

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.

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.

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 PRESTON GATES ELLIS LLP

By

David O. Thompson

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APPENDIX E
BOND INSURANCE AND
FINANCIAL GUARANTY INSURANCE POLICY

STANDARD FORM FOR MBIA DISCLOSURE FOR OFFICIAL STATEMENTS

[September 30, 2006]

[The section entitled "The MBIA Insurance Corporation Insurance Policy" is for use in public finance transactions]

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix ___ for a specimen of MBIA's policy [(the "Policy")].

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading ["_____"]. Additionally, MBIA makes no representation regarding the [Bonds/Securities] or the advisability of investing in the [Bonds/Securities].

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the [Issuer] to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the [Bonds/Securities] as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the [Bonds/Securities] pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any [Bonds/Securities]. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of [Bonds/Securities] upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the [Bonds/Securities] resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the [Bonds/Securities].

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a [Bond/Security] the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such [Bonds/Securities] or presentment of such other proof of ownership of

the [Bonds/Securities], together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the [Bonds/Securities] as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the [Bonds/Securities] in any legal proceeding related to payment of insured amounts on the [Bonds/Securities], such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such [Bonds/Securities], less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA “AAA.”

Fitch Ratings rates the financial strength of MBIA “AAA.”

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the [Bonds/Securities], and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the [Bonds/Securities]. MBIA does not guaranty the market price of the [Bonds/Securities] nor does it guaranty that the ratings on the [Bonds/Securities] will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006, MBIA had admitted assets of \$11.5 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$4.4 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine month periods ended September 30, 2006 and September 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the [Bonds/Securities] offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

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FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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