
**Fairbanks North Star Borough
\$16,320,000 1996 Series U
General Obligation Bonds**



**Sale Date: October 29, 1996
Bartle Wells Associates**

Official Statement

Fairbanks North Star Borough, Alaska
\$16,320,000 Series 1996 U
General Obligation Bonds



New Issue: Book-Entry Only
Sale Date: October 29, 1996

Ratings (MBIA Insured):
Moody's Investors Service: Aaa
Standard & Poor's Corp: AAA

The 1996 Series U Bonds (the "Bonds") described in this official statement are general obligations of the Fairbanks North Star Borough ("Borough"), a second-class Borough organized under the laws of the State of Alaska. The Bonds were authorized by Borough voters for construction and remodeling of school facilities, as further described herein. To secure payment of the Bonds, the Borough has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all taxable property in the Borough, sufficient to pay principal and interest on the Bonds. In addition, \$7,748,571 of the Bonds are eligible for reimbursement of 70 percent of debt service from the State of Alaska.

Bonds Dated: November 1, 1996
Denominations: \$5,000 or multiple thereof

Date	Amount	Rate	Yield	Date	Amount	Rate	Yield
1997	\$ 445,000	8.00	3.90	2007	\$ 775,000	5.00	5.20
1998	500,000	8.00	4.20	2008	825,000	5.00	5.30
1999	525,000	8.00	4.50	2009	875,000	5.00	5.40
2000	550,000	8.00	4.70	2010	925,000	5.00	5.50
2001	575,000	8.00	4.80	2011	1,000,000	5.00	5.55
2002	600,000	8.00	4.90	2012	1,050,000	5.00	5.60
2003	625,000	8.00	5.00	2013	1,125,000	5.00	5.65
2004	675,000	8.00	5.10	2014	1,175,000	5.00	5.70
2005	700,000	8.00	5.20	2015	1,275,000	5.00	5.75
2006	750,000	5.50	5.10	2016	1,350,000	5.00	5.75

The Bonds are to be delivered in fully registered form, without coupons. The Bonds will be registered in the name of Cede & Co., as nominee for the Depository Trust Company ("DTC"), New York, New York. DTC will act as security depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Purchasers will not receive physical delivery of the Bonds purchased by them. Principal and interest are payable directly to DTC by First Trust National Association, Seattle, Washington, as Paying Agent and Registrar for the Bonds. Payment of principal, redemption price, if applicable, and interest on the Bonds are to be made to purchasers by DTC through the DTC participants (as such term is defined herein). Interest is payable semiannually on May 1 and November 1, beginning May 1, 1997.

The Bonds are subject to redemption prior to their respective scheduled maturities as more fully described herein.

The Borough is offering these bonds when, as, and if issued, subject to the legal opinion of Preston Gates & Ellis, Bond Counsel, of Anchorage, Alaska, as to the validity of the Bonds and the exemption of interest on the Bonds from federal income taxes under existing statutes, regulations, and court decisions. In the opinion of Bond Counsel, interest on the Bonds is excluded from federal income taxation pursuant to the Internal Revenue Code of 1986 (the "Code"), subject to certain conditions and assumptions described herein under "Tax Exemption." The Bonds are not private activity bonds. Interest on the Bonds is included in the computation of certain federal taxes on corporations.

The 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 page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

This official statement is dated October 29, 1996.

Underwriter: Griffin, Kubik, Stephens & Thompson, Inc.

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INTRODUCTION

Issuer: The Fairbanks North Star Borough (the "Borough") is a unit of local government, similar to a county and a school district, although with areawide powers which are exercised both inside and outside cities within the Borough, as well as powers which are provided on a less than areawide basis.

The Borough covers 7,361 square miles in central Alaska and includes within its boundaries the first-class cities of Fairbanks and North Pole. Incorporated in January 1964 as a second-class borough, the Borough performs three mandatory functions throughout its boundaries (areawide powers), as prescribed by Alaska statutes: (1) property assessment and tax collection; (2) planning, zoning, and platting; and (3) primary and secondary education. Additional powers may be conferred by the electorate or by legislation. In addition to its three mandated powers, the Borough has assumed areawide responsibility for animal control, flood control, libraries, air quality control, disaster and civil defense, solid waste disposal, parks and recreation, public transportation, child care assistance, limited health and social services, and housing financing. The Borough may also provide any municipal services in specific areas, with voter approval. The Borough provides solid waste collection in the area outside the city of Fairbanks, emergency medical services and economic development in the area outside the cities of Fairbanks and North Pole, and provides road maintenance, sewer, street lighting, and fire protection in 109 specific service areas.

The Borough is governed by an 11-member assembly elected at large for overlapping three-year terms. The Borough's chief executive officer is an elected mayor. Assembly members and the mayor are limited to two consecutive three-year terms. The mayor has no vote in assembly meetings but may introduce legislation and veto assembly actions.

The school district is governed by an independent, seven-member elected school board. However, the school district is considered a component unit of the Borough as it is financially dependent upon and accountable to the Borough. The Borough assembly must approve the school district's total budget, although the school board is solely responsible for the operation of school programs and for the allocation of resources to those programs. The school district has no taxing authority, cannot issue bonds, and owns no facilities. Those powers and responsibilities rest with the Borough.

Purpose: The Bonds currently being offered are the first phase, \$16,320,000, of a total of \$76,530,129 of bonds authorized by Borough voters for various school construction and rehabilitation projects, in conjunction with certain state grant funds. The construction program includes the following projects:

- **Elementary Schools:** one new elementary and renovations and/or additions to seven existing elementary schools.
- **Junior High Schools:** one new junior high school and renovation of an existing junior high school.
- **Districtwide technology and electrical upgrades.**
- **High Schools:** renovations to one high school, and renovations and addition to another high school.

One new elementary school has been completed and the renovation of one existing high school is in process. The Bonds, in conjunction with existing state grant funds, will finance these projects as well as phase one, initial design and construction, of the various other voter approved school construction projects.

Security: The Bonds are general obligations of the Borough. To secure payment of the Bonds the Borough has the power and is obligated to levy a direct annual ad valorem tax on all taxable property within the Borough sufficient, with all other taxes or revenues made available for debt service, to pay principal and interest on the Bonds promptly when and as they come due.

The State of Alaska reimburses municipalities for debt service for construction of state-approved school projects. The level of state reimbursement varies, depending upon the dates that bonds were authorized and issued. The Borough's bonds, outstanding as of November 1, 1996, fall into three reimbursement categories:

- \$14.635 million of bonds authorized or issued between January 1, 1981 and July 1, 1983 are eligible for reimbursement of 90 percent of debt service in the year in which debt service is paid.
- \$37.195 million of bonds authorized after June 30, 1983 and before March 31, are eligible for reimbursement at 80 percent of debt service in the year in which debt service is paid.
- \$7.4875 million of bonds authorized after April 30, 1993, including the Bonds, are eligible for reimbursement at 70 percent of debt service in the year in which debt service is paid.

Funding of the state reimbursement program is subject to annual appropriation by the state legislature. If the program is not fully funded, all eligible local governments are reimbursed on a pro rata basis. Actual appropriations have been 100 percent of statewide entitlements since 1991/92, and are expected to be 100 percent of statewide entitlements in 1996/97.

Economic Factors: The Borough has an estimated population of 84,380, a 9 percent increase from the 1990 population of 77,720. It includes two incorporated cities. Fairbanks is the second-largest city in Alaska (population 32,655), and the seat of Borough government. Fairbanks is the transportation, trade, government, education, finance, and services center for the interior and northern portions of the state. North Pole (population 1,649) is the Borough's other city. About 41 percent of the Borough's population lives in the two cities.

The Borough's 1996 assessed valuation is \$3.2 billion, an increase of 6.2 percent over the preceding year. The increase in assessed valuation is due mainly to the start up of the Fort Knox Mine, a gold mine being developed in the Borough at an estimated cost of \$370 million. Real estate prices in the Borough declined in the 1980's, and in 1989 the real estate market bottomed out. Prices have shown a slow but steady gain since 1990. The housing market has experienced the greatest recovery, demonstrating an appreciation rate of nearly 7 percent per year. Between 1992 and 1996, the Borough's overall assessed valuation increased at an average annual rate of 3.6 percent. During that same period, the value of property in the

Borough related to the trans-Alaska pipeline decreased, both in dollar amount and as a percentage of total assessed valuation. In 1992, the pipeline's \$427 million assessed valuation accounted for 14.9 percent of the Borough's total assessed valuation. In 1996, the pipeline's assessed valuation of \$307 million is 9.3 percent of the Borough's total. It is expected that the assessed valuation of large-scale gold mining enterprise properties within the Borough, including Fort Knox, will exceed that of the pipeline in the next several years.

In 1987, Borough voters approved a property tax limitation. The measure limits the amount of property taxes which the Borough can levy to the prior year's levy, adjusted for inflation, new construction, debt service, new voter-approved services, legal judgments, and emergency expenses. Each year, since the imposition of this property tax limitation, the areawide property tax levy has been substantially under that year's tax limitation.

Employment in the Borough in the first five months of 1996 was estimated at 30,160. Government is the largest category of employment in the Borough, accounting for 30 percent of total employment. Government employment includes state and federal employees, employees of the Borough and school district, and military and civilian employment at Fort Wainwright Army Base and Eielson Air Force Base. Most state and federal operations for interior and northern Alaska are based in Fairbanks. The University of Alaska, with faculty and staff of 3,300, accounts for over half of the Fairbanks-based state employment. The largest sector of private employment is trade, with 22 percent of total nonagricultural employment. Although mining is a small employer, it is on the upswing. Fort Knox, one of the largest known gold reserves in North America, is located within the Borough. Construction at the hard-rock, open pit mine began in 1995, and production is anticipated to begin in the fall of 1996, with about 250 year-round jobs being created during the mine's 15-to 20-year production period.

Two oil refineries are located in the Borough. MAPCO Petroleum Inc., in North Pole, began operations in 1977 and currently produces a maximum of 130,000 barrels per day of jet, diesel, and heating fuel. The \$57 million refinery expansion in 1985 doubled its maximum refinery capacity. A further expansion is currently underway. MAPCO employs over 100 people in the Borough. The PetroStar refinery, constructed in 1985, just increased its capacity to 14,000 barrels per day and is currently constructing a \$750,000 pipeline to directly serve Eielson Air Force Base. PetroStar produces kerosene, diesel, heating, and jet fuels.

This introduction is not a summary of this official statement. Information presented in this section is treated more completely elsewhere in the official statement, which should be read in its entirety.

THE BONDS

Description: Fairbanks North Star Borough
\$16,320,000 General Obligation Bonds
Series 1996 U

Date: November 1, 1996

Denomination: \$5,000 or multiple thereof

Maturities: November 1, 1997 through November 1, 2016 in the amounts shown on the cover of the official statement.

Interest: Interest is payable on May 1 and November 1 of each year to the respective dates of maturity, beginning May 1, 1997.

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 will in turn distribute such payments to the beneficial owners of the Bonds. See "Book-Entry System" following.

Optional Redemption: The Bonds maturing on or before November 1, 2006 are not subject to optional redemption prior to maturity. The Bonds maturing on or after November 1, 2007 are subject to redemption at the option of the Borough on any date on or after November 1, 2006, as a whole or in part, from any source of available funds, at a redemption price equal to 100 percent of the principal amount of the Bonds to be prepaid together with a premium (expressed as a percentage of the principal amount of the Bonds to be prepaid), as set forth in the following table, plus accrued interest to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Premium</u>
November 1, 2006 through October 31, 2008	0.25% per year or portion of a year from date of redemption to date of maturity, but not to exceed 2%
November 1, 2008 and thereafter	0

Authority for Issuance: The Bonds are Phase I of a \$76,530,129 school facilities construction program authorized by the voters in two elections in October 1993 and May 1996. The Bonds include \$12,320,000 of a total of \$25,380,000 of the bonds authorized by Ordinance No. 93-041, and voter approved on October 5, 1993. The remainder of the Bonds authorized by Ordinance No. 93-041, \$13,060,000, were canceled by Ordinance No. 96-008,

adopted March 28, 1996. The Bonds also include \$4,000,000 of bonds authorized by Ordinance No. 96-009 and voter approved May 7, 1996.

Purpose: Proceeds of the Bonds will be used to finance school improvements, as more fully described in the section "The Construction Program."

Security: The Bonds are general obligations of the Borough. To secure payment of the Bonds, the Borough has the power and is obligated to levy a direct annual ad valorem tax on all taxable property within the Borough sufficient, with all other taxes or revenues available for debt service, to pay principal and interest on the Bonds promptly when and as they become due. In addition, the State of Alaska partially reimburses municipalities for debt service on Bonds issued for state-approved school construction projects; \$7,748,571 of the Bonds are eligible for reimbursement of 70 percent of debt service. See "State Aid to Education."

Continuing Disclosure

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 A, "Continuing Disclosure Undertaking." The Borough has not entered into any other written undertakings under Securities and Exchange Commission Rule 15c2-12(b)(5) with respect to any of its obligations.

Book-Entry-Only System

The Depository Trust Company (DTC), New York, New York, will act as securities depository for the Bonds. The ownership of one fully registered Bonds for each maturity as set forth on the cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of which (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

The DTC Participants shall receive a credit balance in the records of DTC. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") will be recorded though the records of the DTC Participant. Beneficial Owners are expected to receive a written confirmation of their purchase providing details of the transaction from the seller. Transfers of ownership interests in the Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds.

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

Principal and interest payments on the Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of moneys, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Paying Agent and Registrar or the Borough, subject to any statutory and regulatory requirements as may be in effect from time to time.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Borough believes to be reliable, but the Borough takes no responsibility for the accuracy thereof.

Approval of Legal Proceedings

All legal matters incident to the authorization and issuance of the Bonds are subject to the approval of Preston Gates & Ellis, Bond Counsel, of Anchorage, Alaska, whose approving legal opinion in substantially the form attached herein as Appendix B, will be delivered with the Bonds.

Tax Exemption

General: In the opinion of Preston Gates & Ellis, Bond Counsel, interest on the Bonds is excluded from gross income subject to federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the "Code").

The Bonds are not private activity bonds, and interest on the Bonds is not an item of tax preference for purposes of determining alternative minimum taxable income for individuals or corporations under the Code. However, interest on the Bonds is taken into account in the computation of the corporate alternative minimum tax under Section 55 of the Code and in the computation of the environmental tax on corporations under Section 59A of the Code as more fully described in this section under the heading "Certain Federal Income Tax Consequences."

Bond Counsel expresses no opinion on any other federal tax consequences arising with respect to ownership of the Bonds.

The Bonds and the interest thereon are excluded from taxation by the State except for transfer, estate and inheritance taxes, and except to the extent that inclusion of said interest in computing the corporate alternative minimum tax under Section 55 of the Code may affect the corresponding provisions of the State corporate income tax.

Continuing Requirements: Section 148 of the Code has continuing arbitrage requirements that must be met subsequent to the issuance of the Bonds for the interest on the Bonds to be, and to remain, exempt from regular federal income taxation. These requirements include provisions that prescribe investment yield limitations for the proceeds of the Bonds and that certain investment earnings be paid on a periodic basis to the federal government. The Bond ordinance contains covenants of the Borough to comply with these continuing arbitrage requirements.

Certain Federal Income Tax Consequences: The following is a discussion of certain federal tax matters under the Code. This discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular owners of the Bonds. Prospective owners of Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Alternative Minimum Tax on Corporations: Section 55 of the Code imposes an alternative minimum tax on corporations equal to the excess of the tentative minimum tax for the taxable year over the regular tax for such year. The tentative minimum tax is based upon alternative minimum taxable income, which is regular taxable income, with certain adjustments, increased by the amount of certain items of tax preference. One of the adjustments is a portion of the amount by which a corporation's adjusted current earnings exceeds the corporation's alternative minimum taxable income (determined without regard to such adjustment and the alternative tax net operating loss deduction). Interest on tax-exempt obligations, such as the Bonds, is included in a corporation's adjusted current earnings.

Environmental Tax on Corporations: Section 59A of the Code imposes an environmental tax on corporations for taxable years beginning before January 1, 1996 (subject to certain exceptions) equal to 0.12 percent of modified alternative minimum taxable income (determined, in part, without regard to the alternative tax net operating loss deduction) that is in excess of \$2 million. Interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of this environmental tax. The environmental tax is payable whether or not an alternative minimum tax is payable.

Financial Institutions: The Code denies banks, thrift institutions, and other financial institutions a deduction for 100 percent of their interest expense allocable to tax-exempt obligations, such as the Bonds, acquired after August 7, 1986.

Borrowed Funds: The Code provides that interest paid on funds borrowed to purchase or carry tax-exempt obligations during a tax year is not deductible. In addition, under rules used

by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

Property and Casualty Insurance Companies: The deduction for loss reserves for property and casualty insurance companies is reduced by 15 percent of the sum of certain items including the interest received on tax-exempt bonds such as the Bonds.

Social Security and Railroad Retirement Benefits: The Code also requires recipients of certain Social Security or Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest that are exempt from federal income tax.

Branch Profits Tax: Certain foreign corporations doing business in the United States may be subject to a branch profits tax on their effectively connected earnings and profits, including tax-exempt interest on obligations such as the Bonds.

S Corporations: Certain S Corporations that have subchapter C earnings and profits at the close of a taxable year and gross receipts more than 25 percent of which are passive investment income, which includes interest on tax-exempt obligations such as the Bonds, may be subject to a tax on net passive income.

Tax Treatment of Original Issue Discount: The initial offering prices of the Series 1996 U Bonds maturing on November 1 of the years 2007 through 2016 (the "Discount Bonds") are less than the respective amounts payable at maturity. Under existing statutes, regulations, rulings and judicial decisions, the difference between the amount payable at maturity of each Discount Bond and the respective initial offering price at which a substantial amount of such Discount Bonds of the same maturity is sold to the public (the "Offering Price"), to the extent properly allocable to each registered owner of a Discount Bond, constitutes interest on such Discount Bond and is exempt from federal income taxes with respect to such registered owner assuming continuing compliance with the Code as described above. Any excess over such amount is treated as taxable gain upon the sale or exchange of such Discount Bond.

Under Section 1288 of the Code, for purposes of determining the adjusted basis of an owner in a Discount Bond, interest on the Discount Bond is treated as compounding semiannually, on each May 1 and November 1, at a rate sufficient to produce the yield to maturity of the Discount Bond based on the Offering Price thereof, and on a daily, ratable basis for any day between such dates. The adjusted basis is used to determine taxable gain or loss upon disposition (including acceleration, redemption or payment at maturity).

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 moneys

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 reservation on fund balance, claim 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.

Detachment Petition

On January 4, 1995, a petition was filed with the Alaska Local Boundary Commission (the "Commission") to detach approximately 5,400 square miles from the Fairbanks North Star Borough and to incorporate the detached territory, along with approximately 3,950 square miles of abutting, essentially uninhabited, unincorporated territory, as a new borough.

After a review of the petition, the briefs filed, and after conducting its own independent investigation of the proposed detachment and incorporation, the staff to the Commission found the arguments against the proposed detachment to be "clear and compelling" and recommended to the Commission that the proposal be denied.

On August 6 and 7, 1996, the Commission held hearings on the petitions. At the conclusion of the hearings, the Commission made specific findings of fact regarding each of the relevant standards to be considered in a detachment proceeding and found that none of the relevant standards for detachment had been met. The Commission voted unanimously to deny the detachment and incorporation petitions. The written Statement of Decision denying the petition for detachment was approved by the Commission and mailed on August 30, 1996. The time for filing an appeal of the denial expired on October 21, 1996 without an appeal being filed; further, as of the date of this official statement, no appeal of the Commission's decision has been filed.

Ratings

Moody's Investors Service 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 with the understanding that upon delivery of the Bonds, a policy insuring the payment of principal of and interest on the Bonds will be issued by MBIA Insurance Corporation. 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: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; Standard & Poor's, 15 Broadway, New York, New York, 10004. 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 Ordinance, and all references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof. They do not constitute complete statements of such documents or provisions and reference is hereby made to the complete documents relating to such matters. For further information, copies of such documents or provisions will be furnished by the Borough upon request.

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.

Judith A. Slajer
Chief Financial Officer

THE CONSTRUCTION PROGRAM

Proceeds of the Bonds will be used to finance a school construction program approved by Borough voters. A total of \$76.530 million of bonds were authorized to finance the construction of two new schools, additions to several schools, and a variety of renovations and improvements to existing schools throughout the Borough school system.

Table 1 summarizes the status of the school construction program. Proceeds of the Bonds, along with existing grant funds, will finance an elementary school (opened in September 1995), renovations already underway to a high school, and the initial design and construction phases of the various other voter-approved school construction projects.

The school construction projects consist of the following projects, to be funded with the bonds authorized in 1993 and 1996:

New Anne Hopkins Wien Elementary School Construction and Lathrop High School Renovations: Proceeds of the 1993 bond authorization will be used to match a \$20 million state grant (70% State/30% Borough), as well as provide the balance of the funding needed to construct a new elementary school and renovate Lathrop High School. The new 600 student, 60,000 square foot elementary school (kindergarten - grade 6) was constructed and opened in the fall of 1995. Renovations of Lathrop High School are currently in progress and are scheduled to be completed in 1997/98. Reconstruction of the existing spaces and an additional 23,500 square feet of space will be added to Lathrop High School for a total of 224,000 square feet and a new capacity of 1,440 students. Upgrade, replacement, reconstruction, or addition of major heating/ventilation/air conditioning, electrical, architectural, communications, physical education and teaching facilities will be made to extend the school's life and provide educational facilities suitable for well into the 21st century.

A portion of the Lathrop High School renovation project is not required as matching grant funds. This non-grant portion of the project financing, \$3,748,571, is eligible for 70 percent state school debt reimbursement.

1996 School Facilities Construction Projects: A portion of the Bonds, \$4,000,000, will finance the initial design and construction of the 1996 School Facilities Projects, which were voter-approved in May 1996. This project financing is for an estimated 12- to 14-month period. Designs for the new junior high school and addition and renovations of West Valley High School will begin in the fall of 1996, with bids expected to be awarded in the spring of 1998. Design of the addition and renovation of North Pole Elementary School will begin in the fall of 1996, with project construction expected to begin in the summer of 1997. Design and construction of the remainder of the 1996 School Facilities Projects will commence in the fall of 1996. Descriptions of the 1996 School Facilities Construction Projects follow:

**TABLE 1 ■ Fairbanks North Star Borough
School Construction Program
Cash Flow from Bond Proceeds and Other Project Funds (\$000)**

Project	Estimated Expenditures			
	Project Budgets*	Through 6/97	1997/98	1998/99 Through Completion
Elementary Schools				
North Pole Elementary School Renovations and Addition	\$ 6,581.2	\$ 500.0	\$ 2,000.0	\$ 4,081.2
Badger Elementary School Heating and Ventilation Systems Renovations	1,000.0	100.0	600.0	300.0
Hunter Elementary School Renovations and Addition (\$2,456,400 in bonds and \$2,238,600 of anticipated supplemental state grant funds)	4,695.0	200.0	1,800.0	2,695.0
Salcha Elementary and Two Rivers Elementary Renovations	300.0	40.0	250.0	10.0
Denali Elementary School Renovations	750.0	75.0	665.0	10.0
Nordale Elementary School Renovations	750.0	75.0	665.0	10.0
Anne Hopkins Wien Elementary School Construction	12,083.3	12,083.3		
Junior High Schools				
Ryan Junior High School Renovations	1,250.0	125.0	1,095.0	30.0
New Junior High School	16,500.0	1,500.0	2,500.0	12,500.0
High Schools				
Lathrop High School Renovations	22,011.4	16,586.7	5,424.7	
West Valley High School Renovations and Addition	32,870.2	1,700.0	2,900.0	28,270.2
Districtwide Schools				
Technology and Electrical Upgrades	2,250.0	250.0	500.0	1,500.0
Expenditures Totals	101,041.1	33,235.0	18,399.7	49,406.4
Project Financing				
Grant and Interest Funds Anticipated	24,511.0	20,774.7	350.0	3,386.3
Bonds Issued	76,530.1	16,320.0	20,000.0	40,210.1
Financing Totals	\$101,041.1	\$37,094.7	\$20,350.0	\$43,596.4

*Includes allowance for bond issuance costs.
Source: Fairbanks North Star Borough

Elementary Schools

- **North Pole Elementary School Renovations and Addition:** consists of planning, design, and renovations to the existing facility, removal of the existing annex and replacement of 6,360 square feet of space to remedy existing Uniform Building Code violations.
- **Badger Elementary School Heating and Ventilation Systems Renovations:** consists of planning, design, and renovations of the heating and ventilation systems.
- **Hunter Elementary School Renovations and Addition:** consists of planning, design, and renovations of the existing facility, and construction of 6,200 square feet of new classrooms and support spaces.
- **Salcha Elementary and Two Rivers Elementary Renovations:** consists of planning, design, and renovations to address health, safety, and disability access requirements at both schools; and Uniform Building Code violations, hazardous materials storage, and other renovations at Two Rivers Elementary School.
- **Denali Elementary School Renovations:** consists of planning, design, and renovations, including upgrades at parking, parent, and bus pick-up sites; new gym floor, gym storage, and audio-visual systems; library lighting upgrades; public address system; soundproofing of orchestra room; and associated work.
- **Nordale Elementary School Renovations:** consists of planning, design, and renovations, including upgrades at parking, parent, and bus pick-up sites; telephone and audio-visual systems; exterior door replacement; and associated work.

Junior High Schools

- **Ryan Junior High School Renovations:** consists of planning, design, and renovations, including electrical upgrades, disability access upgrades, safety upgrades, exterior wall and window upgrades to meet 1994 Uniform Building Code standards, and associated work.
- **New Junior High School:** consists of planning, design, and construction of a new 60,000 square foot, 400 student, junior high school, with expansion for an additional 200 students, to be located on Danby Street adjacent to Anne Hopkins Wien Elementary School.

High School

- **West Valley High School Renovations and Addition:** consists of planning, design, and renovations to the existing facility and addition of 83,250 square feet of new space.

Districtwide Schools

- **Technology and Electrical Upgrades:** consists of the installation and/or upgrading of electrical systems to meet current codes and the installation and/or upgrading of networks and other technology wiring in fifteen existing school facilities.

STATE AID TO EDUCATION

State Contributions Toward School Debt Service

As of June 30, 1996, the Borough had the principal amount of \$52,578,400 in general obligation school bonds outstanding.

The state contributes to local school construction and related debt retirement through state cigarette tax revenues and through a program created by the state legislature in 1970, Alaska Statute (AS) 14.11.100, State Aid for Costs of School Construction Debt. The program reimburses municipalities which are school districts for the costs of school construction. State reimbursement applies both to cash expenditures for projects over \$200,000 beginning April 30, 1993 (between June 30, 1983 and April 29, 1993 the project minimum was \$25,000) and to debt service on locally-issued school bonds. The Borough is required to provide the state legislature an estimate of school-related debt service costs and cash expenditures for the coming fiscal year, as reimbursement is subject to annual appropriation by the legislature. To be eligible for reimbursement, school construction projects must be approved by the state Commissioner of Education before bonds are authorized or construction undertaken. Levels of reimbursement vary from 70 to 100 percent, depending on authorization, issue, and/or expenditure dates. The school construction reimbursement, allocated by the state in accordance with AS 14.11.100, is offset by the cigarette tax allocated to the school district.

The Borough's bonds, as of November 1, 1996, fall into three categories for reimbursement:

- Debt service on bonds issued after December 31, 1981 and authorized by the voters before July 1, 1983 is reimbursed at 90 percent in the fiscal year in which the Borough pays the debt service. The Series 1988 Refunding bonds and a portion of the Series 1993S Refunding bonds totaling \$14.635 million are reimbursable at 90 percent.
- Debt service on bonds authorized after June 30, 1983 and before March 31, 1990 is reimbursed at 80 percent in the fiscal year in which the Borough pays the debt service. The Series 1988R bonds and a portion of the Series 1993S Refunding bonds, \$37.195 million, are reimbursable at 80 percent.
- Debt service on bonds authorized after April 30, 1993 is reimbursed at 70 percent in the fiscal year in which the Borough pays the debt service. A portion of the Bonds, \$7,748,571, will be eligible for reimbursement at 70 percent.

Costs of school construction eligible for reimbursement include the cost of acquiring, constructing, enlarging, repairing, remodeling, equipping, or furnishing public elementary and secondary 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. Costs for projects begun after July 1, 1982 exclude most single-purpose sports or recreational facilities. The Commissioner of Education excludes from total construction cost all state and federal funds included in the project costs.

To qualify for state reimbursement of debt service, school construction projects must be approved by the state Department of Education prior to bond authorization or construction. The local agency must submit the school design, schematics, and contract documents to the state for approval. The state and local school officials must agree on design, enrollment, and distribution of space in the school to the various required uses. The state uses overall space guidelines of 100 square feet per secondary student.

For the Borough to obtain reimbursement, the school district must file an annual claim with the state Commissioner of Education. Claims must be supported by a certified audit report of the school district, including applicable Borough school construction accounts, prepared in accordance with state regulations, or by a statement from the paying agent of amounts paid by the Borough in the current fiscal year.

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 and are expected to be 100 percent of entitlement in 1996/97.

Table 2 shows total statewide entitlements and actual state aid payments reported by the Alaska Department of Education since 1983/84.

The allocations received by the Borough pursuant to these programs and available for debt service on school bonds since 1983/84 are shown in Table 3.

Borough Reimbursement Entitlement

On June 30, 1996 the Borough had four issues of outstanding school bonds eligible for state reimbursement, excluding the Bonds currently being offered. Table 4 shows the outstanding principal balance as of November 1, 1996, the final payment date, and the reimbursement eligibility for each series. Series 1976K was paid in full on August 1, 1996 and is, therefore, not shown as outstanding. The State reimbursement program at the time of issuance of Series 1976K provided for reimbursement on a two-year lag basis. Therefore, state reimbursement on the debt service for Series 1976K will be received through 1998/99.

Table 5 summarizes the total annual debt service on outstanding bonds, the reimbursement entitlement, and the net local expense through final maturity of all the bonds. Table 5 is presented on a cash flow basis, to project the net local cost to the Borough's taxpayers each year.

**TABLE 2 ■ Alaska Department of Education
Statewide School Construction Reimbursement**

Fiscal Year	Statewide Entitlement	Actual State Aid	Percentage of Entitlement
1983/84	\$ 90,600,074	\$ 90,600,074	100.00
1984/85	93,090,766	95,000,000	102.05
1985/86	110,851,035	105,345,000	95.14
1986/87	125,272,615	115,845,000	92.47
1987/88	118,701,313	109,472,700	92.23
1988/89	118,469,048	110,193,451	93.01
1989/90	113,923,479	107,374,886	94.25
1990/91	123,959,155	116,276,078	93.80
1991/92	127,245,080	127,245,080	100.00
1992/93	124,948,218	124,948,218	100.00
1993/94	98,648,541	98,648,541	100.00
1994/95	93,742,116	93,742,116	100.00
1995/96	79,212,669	79,212,669	100.00
1996/97*	68,616,577	68,616,577	100.00

*Estimate

Source: Alaska Department of Education

**TABLE 3 ■ Fairbanks North Star Borough
School Construction Reimbursement Received from Alaska Dept. of Education**

Fiscal Year	Cigarette Tax Allocation	State Aid Allocation	Total
1983/84	\$751,249	\$10,491,423	\$11,242,672
1984/85	307,232	12,235,373	12,542,605
1985/86	314,810	13,041,077	13,355,887
1986/87	431,414	13,647,459	14,078,873
1987/88	490,082	13,811,123	14,301,205
1988/89	498,158	15,157,675	15,655,833
1989/90	375,877	12,988,371	13,364,248
1990/91	361,205	12,178,318	12,539,523
1991/92	349,025	16,034,455	16,383,480
1992/93	376,592	12,173,770	12,550,362
1993/94	376,249	11,981,563	12,357,812
1994/95	362,401	12,814,973	13,177,374
1995/96	356,099	7,765,366	8,121,465

Source: Fairbanks North Star Borough

**TABLE 4 ■ Fairbanks North Star Borough
Outstanding School Bonds as of November 1, 1996**

Series	Outstanding Balance	Final Payment	Reimbursements Eligibility Percentage
1988R	\$ 2,600,000	3/1/98	80
1988 Refunding	9,510,000	6/1/00	90
1993S Refunding	39,720,000	3/1/08	80 to 90
1996U*	16,320,000	11/1/16	70*

*Portions of Series 1996U Bonds are being used for local match requirements to state grants and are ineligible for reimbursement under the state's school construction reimbursement program. Eligible portions are reimbursed at 70%.

Source: Fairbanks North Star Borough

The figures in Table 5 include the final three years of reimbursement on Series 1976K and the debt service and reimbursement on all bonds outstanding on November 1, 1996. Included in total debt service is Series 1994T issued to finance solid waste transfer stations construction. These bonds, with an outstanding balance of \$1,665,000 as of November 1, 1996, are ineligible for state reimbursement. A portion of the Bonds is a required local match for grants. Debt service on the grant match portion of Series 1996U and the entire debt service on Series 1994T is a local responsibility.

School Operating Aid

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

Foundation funding for Alaska's public schools represents the largest single fund set aside 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. Foundation funding in 1996/97 is estimated to provide 60.6 percent of total operating fund and pupil transportation costs.

Other estimated state support includes reimbursement of transportation expenses, educating wards of the state, and a fee for administering schools located on military bases. This support amounts to 6.8 percent of total operating fund and pupil transportation costs.

The school district received \$62.3 million from the public school foundation program in 1994/95 and \$65.5 million in 1995/96. The 1996/97 budget anticipates receipts of \$66.3 million.

**TABLE 5 ■ Fairbanks North Star Borough
Reimbursement for Outstanding Bond Service
November 1, 1996**

Fiscal Year	Debt Service			Borough Expense		
	Actual	1996U	Total	Reimbursement Entitlement	Net Expense	Percentage of Total Current Debt Service
1996/97	\$9,194,635	\$ 487,800	\$9,682,435	\$7,697,801	\$1,984,634	20.50%
1997/98	8,144,273	1,402,800	9,547,073	7,942,005	1,605,068	16.81
1998/99	8,098,330	1,420,000	9,518,330	7,883,134	1,635,196	17.18
1999/00	8,155,618	1,404,000	9,559,618	7,155,818	2,403,799	25.15
2000/01	5,330,923	1,386,000	6,716,923	4,608,743	2,108,180	31.39
2001/02	5,376,963	1,366,000	6,742,963	4,640,320	2,102,643	31.18
2002/03	5,402,588	1,344,000	6,746,588	4,655,137	2,091,451	31.00
2003/04	5,487,598	1,320,000	6,807,598	4,714,369	2,093,228	30.75
2004/05	5,282,563	1,318,000	6,600,563	4,757,198	1,843,365	27.93
2005/06	5,336,723	1,288,000	6,624,723	4,791,510	1,833,212	27.67
2006/07	3,152,575	1,289,375	4,441,950	3,006,153	1,435,797	32.32
2007/08	3,201,925	1,274,375	4,476,300	3,041,518	1,434,783	32.05
2008/09		1,284,375	1,284,375	426,866	857,509	66.76
2009/10		1,291,875	1,291,875	429,358	862,517	66.76
2010/11		1,296,875	1,296,875	431,020	865,854	66.76
2011/12		1,323,750	1,323,750	439,952	883,798	66.76
2012/13		1,322,500	1,322,500	439,537	882,963	66.76
2013/14		1,343,125	1,343,125	446,392	896,733	66.76
2014/15		1,335,625	1,335,625	443,899	891,726	66.76
2015/16		1,374,375	1,374,375	456,778	917,597	66.76
2016/17		1,383,750	1,383,750	459,893	923,857	66.76
	\$72,164,711	\$27,256,600	\$99,421,311	\$68,867,399	\$30,553,911	

Source: Fairbanks North Star Borough

THE SCHOOL DISTRICT

Organization

The Fairbanks North Star Borough School District operates a public school system under a seven-member elected school board pursuant to Alaska Statutes, Title 29.35.160. The board also includes, as appointed non-voting members, a base representative from Eielson Air Force Base, a post representative from Fort Wainwright Army Base, 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 schools, secondary schools, business and finance, and twelve departmental directors.

Responsibilities

The school board is responsible for operating schools in the district (currently 28) and for other curricular and administrative functions. The school district operates in-town schools provided by the Borough, as well as on-base schools provided by the State of Alaska, located on Fort Wainwright Army Base and Eielson Air Force Base. The state finances operating costs for on-base schools through a contract with the federal government; no Borough funds or appropriations are allocated to these operations.

Relation to the Borough

State statute requires that the school district present its budget request to the Borough assembly by April 1. Within 30 days, the assembly must specify the level of local funding it will grant to the school district. The Borough must appropriate local school funds by May 31 of each year. State statute also requires that the school district submit its budget to the State Commissioner of Education by July 15.

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. 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.

Enrollment and Facilities

Table 6 shows public school enrollments and average daily membership for the last five years. Enrollments include students at both in-town schools and on-base schools. Average daily membership is the unit used to determine state support under the public school program. Enrollments have increased at an average annual rate of 1 percent, adding a total of 660 new students. Total enrollment has grown about 4 percent since 1991/92.

Due to downsizing efforts, the military has proposed closing Fort Greendock approximately 100 miles south of the city of Fairbanks. The closure and relocation of both military and civilian families to the Borough. It is expected that 150 elementary and 100 secondary students will relocate to the Borough, expected to begin in the fall of 1997.

TABLE 6 ■ Fairbanks North Star Borough School District Enrollments

	School Year Ending In:				
	1992	1993	1994	1995	1996
Elementary schools	9,197	9,201	9,132	9,061	9,129
Secondary schools	<u>6,199</u>	<u>6,428</u>	<u>6,737</u>	<u>6,655</u>	<u>6,927</u>
Total	15,396	15,629	15,869	15,716	16,056
Average daily membership	14,883	15,251	15,408	15,407	15,894

Source: Fairbanks North Star Borough School District

The school district operates fifteen elementary and eight secondary in-town schools, and four elementary and one secondary on-base schools, plus correspondence study at both the elementary and secondary levels. Since September 1991, the Borough has opened three new schools and closed four. The school district employs about 1,517 people, including 998 teachers and principals, 43 building administrators, and 476 support staff.

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 the Alaska Department of Education. 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, 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 accounts only for capital projects funded by the state and directly passed on to the district. The majority of school construction projects are carried on the Borough's books.

Table 7 shows five years of school district operating fund revenues and expenditures. Of the district's \$100.7 million operating fund revenues in fiscal year 1995/96, state funding provided 66.7 percent and the Borough provided 26.1 percent. Table 8 shows the district's 1996/97 operating fund budget as adopted June 4, 1996. 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.

TABLE 7 ■ Fairbanks North Star Borough School District Operating Fund Revenues and Expenditures

	1991/92	1992/93	1993/94	1994/95	1995/96
Revenues					
Borough appropriation	\$23,400,000	\$ 24,000,000	\$25,000,000	\$25,380,000	\$26,280,000
Local sources	320,662	267,771	263,490	241,059	282,367
State sources	59,153,078	62,235,556	64,506,121	64,143,260	67,211,303
Federal pass-through	7,982,574	18,854,596	9,511,561	7,887,872	6,685,519
Federal sources	<u>233,698</u>	<u>194,184</u>	<u>129,456</u>	<u>157,807</u>	<u>262,937</u>
Total revenues	91,090,012	105,552,107	99,410,628	97,809,998	100,722,126
Expenditures					
Instruction	60,389,211	61,235,026	63,788,926	65,057,198	65,849,692
Supporting services	16,788,053	17,461,889	18,313,455	18,001,956	17,806,783
Operation and maintenance	13,099,308	13,028,431	13,874,298	14,218,917	13,934,113
Pupil activities	1,202,218	1,267,463	1,273,683	1,432,353	1,329,670
Transfers to other funds	660,425	566,660	244,254	798,716	929,572
Debt retirement	<u>168,367</u>	<u>168,367</u>	<u>274,571</u>	<u>151,646</u>	<u>303,292</u>
Total expenditures	\$92,307,582	\$93,727,836	\$97,769,187	\$99,660,786	\$100,153,122

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

TABLE 8 ■ Fairbanks North Star Borough School District 1996/97 Operating Fund Budget

Revenues	
Borough appropriation	\$ 26,830,000
Local sources	350,000
State sources	68,067,310
Federal pass-through	6,704,690
Federal sources	125,000
Fund balance	<u>1,750,000</u>
Total revenues	103,827,000
Expenditures	
Instruction	68,458,120
Supporting services	18,702,342
Operation and maintenance	14,401,911
Pupil activities	1,425,087
Transfers to other funds	<u>839,540</u>
Total expenditures	\$103,827,000

Source: Fairbanks North Star Borough School District

FAIRBANKS NORTH STAR BOROUGH

Organization

The Borough is a second-class borough, incorporated in 1964 under the laws of the State of Alaska. Alaska has two forms of municipal government: borough and city. 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 metropolitan areas. All areas of the state not within an organized borough constitute a single unorganized borough, which is administered by the state. The unorganized borough includes 52.5 percent of the land area of 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 an eleven-member assembly, elected at large for overlapping, 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. As for assembly members, 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.

James A. Sampson was elected mayor in October 1991. Prior to his election as mayor, he was commissioner of labor for the State of Alaska. The mayor has many years of prior management experience representing the interests of a statewide construction union.

Responsibilities

As a second-class borough, the Borough may acquire additional areawide powers after voter approval or, where authorized by statute, by adoption of an ordinance. Any areawide power assumed by a borough must be surrendered by its cities. In addition to its statutory responsibilities for property assessment and tax collection; education; and planning, platting, and zoning; the Borough has assumed areawide responsibility for animal control, flood control, libraries, air quality control, disaster and civil defense, solid waste disposal, parks and recreation, public transportation, child care assistance, limited health and social services, and housing financing. Areawide hospital powers have been voter approved, however, this power has not been exercised except to provide 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. The Borough provides solid waste collection services in the Solid Waste Collection District, the entire area outside the city of Fairbanks.

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; parking; roads; and telephone, power, water, and sewer services. In North Pole, they include police and fire protection, roads, and water and sewer services.

The Borough may also establish service areas outside the first-class cities upon petition by property owners and 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 of the service areas is the responsibility of the division of rural services, a division within the direct services department of the Borough. There are currently 110 active and separate road, fire protection, and miscellaneous service areas created within the Borough. Service area budgets and tax levies are approved by the assembly.

Relation to the School District

One of the Borough's mandated duties is elementary and secondary education. The Borough shares responsibility for the functioning of the education system with the elected school board. The Borough and school district each have their own administrative and finance departments. The Borough's public works department manages the construction and major maintenance of school district facilities.

By April 1 of each year, the school district adopts its budget and submits it to the assembly. One revenue source in the school district budget is a lump-sum Borough appropriation. When the assembly holds hearings on its budget, the school district budget is considered along with the Borough's operating budget. The assembly determines its appropriation to the school district, which is included as part of the Borough budget. Upon adoption of the budgets, 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's 1996/97 local contribution appropriation to the school district is \$26.8 million.

The Borough assembly also approves the borrowing of funds and the issuance of bonds for school projects. Debt incurred for the construction of school district 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 Borough school district through school district, state, and U.S. Department of Education agreements. Ownership of the on-base schools is being individually transferred to the Borough as new on-base schools are constructed or existing schools renovated to Borough standards with State and federal construction funds.

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 report is prepared by the department of finance and computer services. The Borough received the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year ended June 30, 1995. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. The school district issues a separate financial report, which is incorporated into the Borough's financial statement. Financial reports of both entities are audited annually by an independent certified public accountant. Copies of the Borough's audited 1995/96 financial statement will be available from the Borough, upon request, after November 7, 1996.

Funds and Accounts

The Borough's accounts are organized on the basis of funds and account groups, each representing a separate accounting entity. The Borough maintains three broad fund categories — governmental, proprietary, and fiduciary. Within these categories are seven fund types. The Borough maintains its accounting records on a modified accrual basis for the governmental and trust funds and on the accrual basis for its proprietary funds.

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 that are legally restricted to expenditures for specific purposes. Certain annual operating activities are conducted in this fund type, usually on a neighborhood, community, or other non-areawide geographic basis. These activities include solid waste disposal (landfill), solid waste collection, fire protection, road maintenance and construction, sewer and water service, and streetlights. Revenues for these activities are provided by local taxation and state revenues. Additional special revenue funds are used for multi-year, non-capital projects funded by grants from the state, federal pass-through grants, federal grants, and certain local funds.
- **Debt Service Fund:** Accounts for the payment of interest, principal, and related costs on general obligation debt for education and general government construction. Debt service requirements are funded by the general and non-areawide funds, a state-shared cigarette tax, and by state-funded 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. The Borough uses enterprise funds to account for its transit operations, its land management program, and the John A. Carlson Community Activity Center.

The Borough's fiduciary funds include:

- **Expendable Trust Fund:** Accounts for donations received and revenues earned on those donations, plus the expenditures of both those resources. The Borough has one trust fund into which it deposits proceeds, restricted for its public library, received as a fifteen percent beneficiary of two trusts.
- **Agency Funds:** Account for assets held for other organizations, other governmental units, and the employee deferred compensation plan. These funds are custodial in nature.

The Borough also maintains records for fixed assets and long-term liabilities, which are not funds but account groups, and which are concerned only with the measurement of financial position.

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. Every year since 1989/90, the Borough has been awarded the Distinguished Budget Award Presentation for its annual budget document from GFOA. In order to receive this award from GFOA, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device.

Fiscal Policies

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

Operating Budget Policies

- All general government current operating expenditures are to be paid from current and from 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 with 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 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 replace 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.
- 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 Borough will endeavor to ensure that it receives a fair proportion of all State shared taxes and revenues.
- The voter-approved tax limitation will be conservatively applied.
- The Borough will take all cost-effective actions available to collect delinquent revenues.

Reserve Policies

- Adequate reserves will be maintained for all known liabilities, including payable employee leave balances, workers' compensation liabilities, and self-insured retention amounts.
- The Borough will endeavor to maintain a reserve in each operating fund to cover cash flow requirements, normal variance in revenue and expenditure estimates, abnormal variance in state revenue estimates versus state appropriations, potential for unreserved litigation expenses and judgments, and expenditures of an emergency nature. The target amounts of reserves for operating funds with expenditure levels in excess of \$500,000 is 7 to 10 percent of the prior year's expenditure level (approximately one month's cash flow); the target amount for each operating fund with expenditure levels of less than \$500,000 is 20 percent of the prior year's expenditure level (approximately 90 days' cash flow).
- The amount of the reserve requirement will be reviewed annually and may be increased by the amount necessary to meet future identified, one-time and specific expenditures requiring the accumulation of funds over a given period.

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.

- When the Borough obtains debt financing on behalf of or benefiting a third party, such debt will be issued in conformance with existing Borough priorities and policies without contingent liability of the Borough and with all costs of issuance and administration fully reimbursed. The Borough may charge a debt issuance fee for administrative time required in preparation of the issuance, in addition to the costs of issuance.

General Fund Financial Information

Table 9 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 property taxes, totaling over \$40 million in 1995/96 and accounting for 68.3 percent of general fund revenue.

On January 1, 1993, the Borough implemented an 8 percent hotel/motel room tax. The Borough collects hotel/motel taxes only outside the city of Fairbanks, which levies its own tax. The principal function of the tax is to offset the general fund subsidy to the John A. Carlson Community Center.

State reimbursement for school construction amounted to \$7.8 million, or 13.2 percent of general fund revenue. The state's reimbursement for school construction is discussed elsewhere in this official statement, under the heading "State Aid to Education." Other state assistance and subventions amounted to \$3.8 million, or 6.5 percent of general fund revenue.

In 1995/96, general government expenditures were \$8.1 million, a decrease of 16.6 percent from 1994/95. A large part of the decrease resulted from the Borough's purchase of its administration building, which had been previously leased, and from the transfer of the Borough's solid waste disposal/landfill operation to a special revenue fund. The Borough's contributions to education, debt service, and other funds amounted to \$26.3, \$8.6, and \$6.8 million, respectively.

Table 10 summarizes the 1996/97 general fund budget. The Borough's general fund budget totals \$59.39 million. Property taxes, the largest revenue source, account for 68.8 percent of budgeted general fund revenues. Various categories of state aid, of which school construction reimbursement is the largest, make up another 17.9 percent of general fund revenues. The Borough has budgeted operating expenditures of \$20.1 million. The balance of general fund expenditures consist of contributions to other funds. The contribution to education, at \$26.8 million, equals 45.2 percent of the total general fund budget.

Table 11 shows a general fund balance sheet as of June 30, 1992 through 1996. The June 30, 1996 undesignated fund balance of \$8.6 million was down from \$9.8 million at June 30, 1995. In 1995/96, supplemental appropriations from fund balance included over \$600,000 for the purchase of the previously leased warehouse/facilities maintenance building and \$1.75 million for expansion of the Noel Wien Library.

**TABLE 9 ■ Fairbanks North Star Borough
General Fund Revenues, Expenditures, and Changes in Fund Balance**

	1991/92	1992/93	1993/94	1994/95	1995/96
Revenues					
Taxes and special assessments	\$34,391,727	\$37,687,669	\$42,430,289	\$41,911,693	\$40,149,598
Intergovernmental revenues	22,011,483	17,362,723	16,559,667	16,831,705	11,918,932
Charges for services	3,101,959	4,081,764	4,037,175	4,346,366	1,167,811
Charges to school district	1,579,498	1,748,011	1,257,145	927,259	880,111
Other revenues	<u>4,853,797</u>	<u>3,758,618</u>	<u>3,129,434</u>	<u>4,598,950</u>	<u>4,657,904</u>
Total revenues	65,938,464	64,638,785	67,413,710	68,615,973	58,774,356
Expenditures					
General government	9,322,926	10,051,527	9,180,429	9,666,231	8,065,622
Community planning	939,321	829,684	788,020	782,420	845,023
Public works	3,069,586	4,596,196	4,814,563	4,805,266	3,339,813
Health and safety	2,753,435				
Direct services			956,190	916,649	951,006
Parks and recreation	2,537,681	2,596,203	2,801,264	2,953,504	3,049,872
Library	<u>2,018,715</u>	<u>2,064,527</u>	<u>2,119,051</u>	<u>2,202,728</u>	<u>2,312,924</u>
Total expenditures	20,641,664	20,138,137	20,659,517	21,326,798	18,564,260
Excess of revenues over expenditures	45,296,800	44,500,648	46,754,193	47,289,175	40,210,096
Other financing sources (uses)					
Operating transfers in	48,914				
Operating transfers out	(22,266,313)	(18,632,259)	(17,668,941)	(22,267,064)	(15,353,471)
Operating transfers to school district	<u>(23,400,000)</u>	<u>(24,000,000)</u>	<u>(25,000,000)</u>	<u>(25,380,000)</u>	<u>(26,280,000)</u>
Total other financing sources (uses)	(45,617,399)	(42,632,259)	(42,668,941)	(47,647,064)	(41,633,375)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(320,599)	1,868,389	4,085,252	(357,889)	(1,423,375)
Fund balance, July 1	6,422,074	6,101,475	7,969,864	12,055,116	11,697,227
Residual equity transfer					205,908
Fund balance, June 30	\$6,101,475	\$7,969,864	\$12,055,116	\$11,697,227	\$10,479,760

Source: General purpose financial statements of the Borough.

**TABLE 10 ■ Fairbanks North Star Borough
1996/97 Approved General Fund Budget**

Revenue Sources	
Taxes	\$41,491,250
Intergovernmental revenues	10,939,100
Charges for services	2,966,610
Charges to school district	953,030
Other revenues	<u>3,040,000</u>
Total revenue	59,389,990
Expenditures and Other Financing Uses	
General government	8,993,800
Community planning	920,560
Public works	3,357,130
Direct services	1,034,100
Parks and recreation	3,341,470
Library	<u>2,464,640</u>
Total operating expenditures	20,111,700
Contributions to Other Funds	
Operating transfers out	12,448,290
Operating transfer to school district	<u>26,830,000</u>
Total other financing uses	<u>39,278,290</u>
Total expenditures and other financing uses	\$59,389,990

Source: Fairbanks North Star Borough

**TABLE 11 ■ Fairbanks North Star Borough
General Fund Balance Sheet, June 30**

	1992	1993	1994	1995	1996
Assets					
Equity in central treasury cash	\$ 8,682,758	\$14,257,440	\$16,737,288	\$17,354,071	\$13,843,694
Taxes and special assessments receivable	488,321	576,218	1,923,499	609,178	399,015
Accounts receivable	288,759	450,632	331,633	262,127	42,863
Accrued interest receivable	538,695	571,302	718,166	521,592	637,169
Due from other funds	495,662	378,151	333,686	431,607	2,814,111
Due from governmental agencies	3,854,175	139,461	731,990	273,362	239,445
Other assets	<u>1,042,021</u>	<u>882,457</u>	<u>279,044</u>	<u>77,764</u>	<u>77,944</u>
Total assets	\$15,390,391	\$17,255,661	\$21,055,306	\$19,529,701	\$18,054,241
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$395,893	\$634,782	\$696,608	\$586,697	\$571,977
Wages and payroll taxes	725,190	811,495	532,007	495,919	511,163
Accrued annual leave	666,442	791,552	827,817	856,267	857,935
Accrued self-insurance losses	157,971	81,684	755,538	972,730	726,794
Deposits from others	73,182	57,658	82,737	51,463	56,188
Deferred revenues	3,161				
Advance tax payments	6,681,364	6,608,626	5,703,483	4,869,398	4,850,424
Estimated claims, judgments and settlements payable	<u>585,713</u>	<u>300,000</u>	<u>402,000</u>	<u>0</u>	<u>0</u>
Total liabilities	<u>9,288,916</u>	<u>9,285,797</u>	<u>9,000,190</u>	<u>7,832,474</u>	<u>7,574,481</u>
Fund balance:					
Reserved for encumbrances	227,929	182,487	301,817	406,060	364,397
Unreserved:					
Designated for self-insurance losses	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Undesignated	<u>4,373,546</u>	<u>6,287,377</u>	<u>10,253,299</u>	<u>9,791,167</u>	<u>8,615,363</u>
Total fund balance	<u>6,101,475</u>	<u>7,969,864</u>	<u>12,055,116</u>	<u>11,697,227</u>	<u>10,479,760</u>
Total liabilities and fund balance	\$15,390,391	\$17,255,661	\$21,055,306	\$19,529,701	\$18,054,241

Source: General purpose financial statements of the Borough.

Bonded Indebtedness

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

Table 12 shows the Borough's outstanding bonded debt as of November 1, 1996, including the Bonds. All Borough outstanding bonds, except Series 1994T, have been issued exclusively for school construction. Series 1994T was issued in the amount of \$2 million for solid waste transfer stations.

As of November 1, 1996, school-related debt, including the Bonds, is \$68,150,000 and solid waste-related debt is \$1,665,000. Table 12 also shows direct and total Borough debt in relation to the Borough's assessed valuation and population. Table 5, in the section entitled "State Aid to Education," shows actual debt service on all outstanding Borough bonds, including the Bonds. The Borough has historically paid all bond interest and principal promptly when due.

Tables 5 and 12 also display the effect of state reimbursement of the Borough's debt service payments. With full funding of the debt service reimbursement program, the Borough's net local cost will be less than 35 percent of its total annual debt service through 2007/08, and will increase beyond that time to 66.76 percent in the final years that the Bonds are outstanding. As Table 12 shows, about \$48 million of the Borough's direct debt of \$69.8 million (69.3 percent) is eligible for state reimbursement.

Table 13 describes the Borough's authorized, but unissued, bonds after the sale of the Bonds.

Table 14 summarizes the debt service fund revenues, expenditures, and changes in fund balance (deficit) for the past five fiscal years. State-funded reimbursements for school construction, received through the general fund, comprise most of the operating transfers in. Operating transfers from both the general fund and the non-areawide fund (for Series 1994T) accounted for 96 percent of the dollars coming into the debt service fund in 1995/96. In the prior years, approximately 97 percent came from operating transfers in. Intergovernmental revenues are a state-shared cigarette tax. Two years after its receipt, the amount of the tax is used to offset the state aid for school construction reimbursement. Interest earnings on bond proceeds are used to fund debt service and are included in other revenues.

Operating Leases

The Borough has one significant operating lease for two school sites, including the land on which West Valley High School is located. The Borough has paid the one-time lease payment to the University of Alaska for an extension of the West Valley lease to the year 2043.

**TABLE 12 ■ Fairbanks North Star Borough
Estimated Direct and Underlying Bonded Debt**

	Percentage Applicable to Borough	Debt as of November 1, 1996
Fairbanks North Star Borough		
Outstanding school bonds (Series 1988R, Series 1988 Refunding, Series 1993S Refunding)	100	\$51,830,000
Solid waste transfer bonds (Series 1994T)	100	1,665,000
Series 1996U bonds ⁽¹⁾	100	16,320,000
Total gross direct debt		\$69,815,000
City of Fairbanks ⁽²⁾		325,000
City of North Pole ⁽³⁾		0
Total gross direct and underlying bonded debt		\$70,140,000
Less: State reimbursement of FNSB school bonds ⁽⁴⁾		(48,351,500)
Total net direct and underlying bonded debt		\$21,788,500

	1996 Assessed Valuation (\$3,282,761,225)	Estimated Market Value (\$3,300,425,046) ⁽⁵⁾	Population (84,380)
Ratio to Direct Debt			
Gross (\$69,815,000)	2.13%	2.12%	\$827.39
Net (\$21,581,117)	0.66%	0.65%	255.76
Ratio to Total Direct and Underlying Debt			
Gross (\$70,140,000)	2.14%	2.13%	831.24
Net (\$21,906,117)	0.67%	0.66%	259.61

⁽¹⁾ To be sold October 29, 1996

⁽²⁾ City of Fairbanks general obligation debt as of November 1, 1996. Information received by telephone from City of Fairbanks.

⁽³⁾ City of North Pole general obligation debt as of December 31, 1995 per audited financial statements—no anticipated debt to be issued.

⁽⁴⁾ Series 1988R is eligible for reimbursement of 80%. The Series 1988 Refunding is eligible for reimbursement at 90%. Series 1993S Refunding is eligible for reimbursement at 80% to 90%. Series 1994T is not eligible for reimbursement. Portions of Series U are eligible for reimbursement at 70%. Actual reimbursements in any year may be lower.

⁽⁵⁾ Derived using state's '1995 Sales Ratio' of 99.41%, plus state-assessed pipeline.

Source: Compiled by Fairbanks North Star Borough

**TABLE 13 ■ Fairbanks North Star Borough
Bonds Authorized and Unissued**

Purpose and Year of Authorization	Authorized and Unissued
Library Facilities - 1995	\$ 2,000,000
School Facilities Projects - 1996	60,210,129
Total	\$62,210,129

Source: Fairbanks North Star Borough

**TABLE 14 ■ Fairbanks North Star Borough
Debt Service Fund Revenues, Expenditures, and
Changes in Fund Balance (Deficit)**

	1991/92	1992/93	1993/94	1994/95	1995/96
Revenues					
Intergovernmental revenues	\$349,025	\$376,592	\$376,249	\$362,401	\$356,099
Other revenues	10,363	1,399	14,929	30,289	53,058
Total revenues	359,388	377,991	391,178	392,690	409,157
Expenditures					
Principal retirement of bonds	7,530,000	8,015,000	9,630,000	8,135,000	5,760,000
Interest and fiscal agent fees	7,101,855	6,686,124	4,257,667	4,150,332	3,588,418
Total expenditures	14,631,855	14,701,124	13,887,667	12,285,332	9,348,418
Deficiency of revenues over expenditures	(14,272,467)	(14,323,133)	(13,496,489)	(11,892,642)	(8,939,261)
Other financing sources (uses)					
Operating transfers in	13,888,350	14,092,937	13,703,210	11,868,270	8,841,470
Bond proceeds			72		
Proceeds of refunding bonds		42,064,556			
Payment to refunded bond escrow agent		(41,732,146)			
Total other financing sources (uses)	13,888,350	14,425,347	13,703,282	11,868,270	8,841,470
Excess (deficiency) of revenues and other sources over expenditures and other uses	(384,117)	102,214	206,793	(24,372)	(97,791)
Fund balance (deficit), July 1	341,451	(42,666)	59,548	266,341	241,969
Fund balance (deficit), June 30	(\$42,666)	\$59,548	\$266,341	\$241,969	\$144,178

Source: General purpose financial statements of the Borough.

Assessed Valuations and Property Taxes

Under Alaska law, the Borough assessor is directed to assess taxable property, except oil and gas pipeline-related property which is assessed by the State, at 100 percent of true market value, with certain minor exceptions. According to actual values estimated by the State Assessor, the ratio of Borough assessed valuation to actual value of property in 1995 was 94.9 percent. The Borough exempts in excess of \$120 million of residential, housing and community purpose properties which the State Assessor includes in total value.

Property owners are notified during February of each year of their assessments as of January 1. Tax rates are established by June 15, following the adoption of the Borough and school district budgets. Taxes levied on real property become an enforceable lien on July 1 and are payable in two equal installments, due September 1 and November 1.

Penalties are 10 percent plus 8 percent interest on delinquent taxes. Foreclosure for delinquent taxes begins approximately two months after the final tax due date in each taxing year. Under Alaska law, delinquent property owners have one year from foreclosure judgment in which to redeem their property. Title to unredeemed property is transferred to the Borough, and the property may be sold to recover the taxes, interest, and penalty due.

Table 15 shows Borough assessed valuation from 1992 through 1996. The Borough's 1996 assessed valuation of \$3.3 billion represents an increase of 6.2 percent over 1995, and is due mainly to the start-up of the Fort Knox mine (Fairbanks Gold Mining, Inc.), located on one of the largest known gold deposits in North America. In 1989, the real estate market bottomed out; real estate values have shown a slow but steady gain since 1990. The housing market has experienced the greatest recovery, increasing almost 7 percent per annum. Between 1992 and 1996, the Borough's overall assessed valuation increased at an average annual rate of 3.6 percent. During that same period, the value of pipeline-related property decreased, both in dollar amount and as a percentage of total assessed valuations. In 1992, the pipeline's \$426 million assessed valuation accounted for 14.9 percent of the Borough's total assessed valuation. In 1996, the pipeline's assessed valuation is 9.3 percent of the Borough's total.

**Table 15 ■ Fairbanks North Star Borough
Assessed Valuation (\$000)**

Tax Year	Within Cities ⁽¹⁾	Outside Cities ⁽²⁾	Pipeline-Related ⁽³⁾	Borough Total ⁽⁴⁾	Percentage Increase
1992	\$1,059,424	\$1,365,269	\$426,774	\$2,851,467	
1993	1,081,504	1,415,451	408,732	2,905,687	1.9%
1994	1,146,135	1,470,999	359,084	2,976,218	2.4
1995	1,183,610	1,589,506	317,708	3,090,824	3.9
1996	1,214,344	1,761,860	306,557	3,282,761	6.2

⁽¹⁾ Within the cities of Fairbanks and North Pole

⁽²⁾ Outside cities of Fairbanks and North Pole

⁽³⁾ Assessed by state

⁽⁴⁾ Includes exempt properties required to be assessed.

Source: Fairbanks North Star Borough

A pumping station and about 90 miles of the trans-Alaska pipeline are located within the Borough. Together, they account for about \$307 million of the Borough's assessed valuation, making the Alyeska Pipeline Service Company the Borough's largest taxpayer. The pipeline's assessed valuation is declining under the terms of an agreement between the oil companies and the state. The 1996 value is 3.5 percent less than the 1995 value. The pipeline's assessed valuation within the Borough is about 2 percent of the pipeline's total statewide assessed valuation of \$15.1 billion. Table 16 shows the Borough's ten largest commercial/industrial taxpayers for 1996. An additional 14 taxpayers hold property valued at over \$5 million.

**TABLE 16 ■ Fairbanks North Star Borough
Largest Commercial/Industrial Taxpayers, 1996**

Taxpayer	Type of Property	Assessed Valuation (\$000)	Percent of Total Assessed Valuation
Alyeska Pipeline	oil transportation	\$306,557	9.34%
Fairbanks Gold Mining, Inc.	mining	95,774	2.92
MAPCO Petroleum, Inc.	oil refining	93,263	2.84
North Star Alaska	military housing	33,895	1.03
Fred Meyers of Alaska	shopping center	17,416	0.53
Polar Star	military housing	17,190	0.52
Dura Corporation	military housing	13,823	0.42
Alaska Hotel Properties, Inc. (Princess)	hotel	13,700	0.42
Walmart (Sam's Club)	shopping center	13,480	0.41
Jillian Square/Mutual Life	apartments	12,260	0.37

Source: Fairbanks North Star Borough

Table 17 shows the tax rates levied by the Borough and its two cities for the last ten years. The Borough's 1996 tax rate per \$1 of assessed valuation is 13.495 mills areawide. Table 17 also shows the total 1996 tax rates in areas outside the cities. An additional 0.542 mills is levied on property outside the cities for ambulance service, community research, and debt service on solid waste bonds; and 1.136 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 4.964 mills in Fairbanks and 2.300 mills in North Pole. Table 18 shows total tax rates in the cities and outside, exclusive of service area taxes.

Table 19 shows property tax levies, and current and delinquent collections for the Borough from 1991/92 through 1995/96. The Borough's total tax levy includes taxes levied on property which is exempt from property taxes. The net tax levy excludes State-mandated property tax exemptions for senior citizens, disabled veterans, and widows and widowers. In 1995/96, the total taxes collected on taxable property totaled \$39,277,062, or 100.03 percent of the \$39,264,121 net levy. Non-delinquent tax collections were 98.07 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

**TABLE 17 ■ Fairbanks North Star Borough
Ad Valorem Tax Rate History (mills per \$1 assessed valuation)**

Tax Year	Borough	Non-Areawide ⁽¹⁾	Solid Waste Collection ⁽²⁾	City of Fairbanks	City of North Pole
1987	9.692	0.825		2.800	2.000
1988	11.178	1.065		2.800	2.000
1989	11.756	0.995		7.000	2.000
1990	12.278	1.126		4.310	2.000
1991	13.112	0.400	0.738	4.967	2.000
1992	14.061	0.424	1.050	5.152	2.000
1993	14.377	0.438	1.088	5.393	2.000
1994	14.340	0.620	1.145	4.803	2.350
1995	13.777	0.594	1.158	5.055	2.350
1996	13.495	0.542	1.136	4.964	2.300

⁽¹⁾ Non-areawide services are provided outside the cities of Fairbanks and North Pole. Mills do not include levies for service area purposes. Prior to 1991, non-areawide functions included ambulance service, solid waste collection, and economic development. After 1990, it included ambulance service, community research, and economic development. Beginning in 1994, it also included debt service on the solid waste transfer station bonds

⁽²⁾ The Solid Waste Collection District was established in 1991/92 for the area outside the city of Fairbanks.

Source: Fairbanks North Star Borough

**TABLE 18 ■ Fairbanks North Star Borough
Total Tax Rates, 1996**

	City of Fairbanks ⁽¹⁾	City of North Pole	Outside Cities ⁽²⁾
Borough	13.495	13.495	13.495
City of Fairbanks	4.964		
City of North Pole		2.300	
Solid waste collection		1.136	1.136
Non-areawide	0	0	0.542
Total ⁽²⁾	18.459	16.931	15.173

⁽¹⁾ Fairbanks has its own solid waste collection service.

⁽²⁾ Does not include service area tax rates.

Source: Fairbanks North Star Borough

**TABLE 19 ■ Fairbanks North Star Borough
Property Tax Levies and Collections**

	1991/92	1992/93	1993/94	1994/95	1995/96
Net tax levy ⁽¹⁾	\$34,147,173	\$37,402,619	\$38,790,878	\$39,505,321	\$39,264,121
Current tax collections	32,879,165	36,020,162	37,802,116	38,811,955	38,507,718
Delinquent collections	<u>1,011,887</u>	<u>1,020,912</u>	<u>2,869,192</u>	<u>1,314,652</u>	<u>769,344</u>
Total collections ⁽²⁾	\$33,891,052	\$37,041,074	\$40,671,308	\$40,126,607	\$39,277,062
Percent of net levy collected	96.29%	96.30%	97.45%	98.24%	98.07%

⁽¹⁾ Areawide taxes levied by Borough only. Excludes state-mandated property tax exemptions.

⁽²⁾ Excludes penalty, interest, legal fees, and collections for other governmental units.

Source: Fairbanks North Star Borough

property tax revenues for budget purposes. The Borough collects property taxes for all Borough services 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 19, nor are the Borough taxes collected on a non-areawide, district, or service area basis.

Property Tax Limitation

At the October 1987 regular election, Borough voters approved a tax cap proposition. This measure limits the amount of taxes which the Borough can levy to the prior year's tax levy with certain permitted adjustments. The prior year's total taxes levied can be increased to:

- pay debt service on bonds;
- adjust for increases due to inflation;
- tax 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 tax limit took effect in the 1988 tax year. Every subsequent year, the Borough areawide levy has been substantially below the property tax limitation.

Investments and Investment Practices

The Borough invests its ending daily cash balance in accordance with an overnight repurchase agreement with Key Bank Alaska, which normally results in a zero bank balance. Key Bank charges fees to cover the costs of the Borough's banking services. The overnight repurchase agreement is collateralized by securities held in the Borough's name by the Borough's custodial bank, Bank of New York.

Cash in excess of the Borough's daily liquidity requirements is invested either in the Pacific Horizon Government Money Market Fund, Fidelity Treasury Money Market Fund, the Alaska

Municipal League Investment Pool, or in direct ownership of United States government securities.

Fairbanks North Star Borough Code 3.04 specifies the following authorized investments and maximum maturity schedule:

1. U.S. Treasuries - 3 years;
2. other obligations of the U.S. Government or its agencies and instrumentalities - 3 years;
3. repurchase agreements of securities specified in 1) and 2) above, subject to qualification of the financial institution and specified margin requirements - 5 years;
4. collateralized certificates of deposits and other deposits - 3 years;
5. bank deposits insured by FDIC or FSLIC - 3 years;
6. bonds or notes of any state or political subdivision thereof, rated A or higher - 3 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., created in accordance with Alaska Statutes 37.23.020.

The Borough's Code also establishes an Investment Advisory Committee, composed of at least five members. Members are neither elected officials, nor employees of the Borough, and serve three-year terms. Neither Investment Advisory Committee members nor members of their immediate families, may 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 FNSB Code 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 (FNSB 3.04).

It is the policy of the Borough's administration that the Borough will not invest in derivatives. This policy is supported by the Committee. The Borough submitted its investment code for review and certification to the Municipal Treasurers' Association and was presented a Certificate of Excellence award in December 1991, meeting the standards for certification.

Risk Management Program

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. In addition, the Borough has a designated fund balance of \$1.5 million to provide resources for catastrophic losses up to self-retention limits, as well as to demonstrate financial responsibility to insurance carriers of excess coverage.

Commercial insurance with zero or small deductibles is secured for the following coverages: auto and general liability for fire and road service areas, workers' compensation for fire service areas, physical damage to vehicles, and employee life insurance. 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, environmental, discrimination, and sexual harassment. Commercial insurance has also been obtained for excess coverage above self-retention limits for all risk exposures except environmental, discrimination, and sexual harassment. The larger risk exposures are covered as follows:

Risk Exposure/Coverage	Self-Insured Retention	Excess Insurance Policies
Employee medical	\$ (a)	\$ (a)
Auto and general liability:		
Road and fire service areas	0	500,000
All other (b)	250,000	9,750,000
Workers' compensation:		
Fire service areas	0	(c)
All other	250,000	2,000,000
Errors and omissions/public officials	10,000-20,000	10,000,000
Property and physical damage (d)	2,500-50,000	760,000-100,000,000

(a) The specific stop loss amount per covered individual is \$150,000 and \$250,000 per year, for the Borough and school district, respectively. The annual aggregate stop loss amount is computed by formula at the end of each year. The maximum claim liability per employee per month is \$537.84 and \$487.39, for the Borough and school district, respectively. Medical coverage offered to employees is limited to a lifetime maximum of \$1,000,000 per individual covered.

(b) The \$9,750,000 is per occurrence. The aggregate coverage is \$12,000,000.

(c) Limited by statute.

(d) Coverage of on-base schools is for contents only. On-base school facilities are covered by the state and federal governments.

Municipal Solid Waste Landfill

State and federal laws and regulations require that the Borough place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the site for thirty years after closure. The Borough is also required to demonstrate financial responsibility for closure and postclosure care by meeting the requirements of a specially designed local government financial test which includes a financial component, a public notice component, and a record keeping component. The Borough is in compliance with these requirements at June 30, 1996.

The Borough's landfill is at 74 percent capacity as of June 30, 1996 and is expected to close in the year 2018. This percentage of the total projected costs is reflected as a liability in the Borough's general long-term debt account group. While not required by state or federal regulations, the Borough established a special revenue fund in September 1994 to accumulate

funds for closure and postclosure care costs. The Borough has made three \$440,000 contributions to this special fund from its general fund, for a total accumulation of \$1,320,000.

Retirement Plans

Substantially all employees of the Borough and of the school district are either members of the Alaska Public Employees Retirement System (PERS) or the Alaska Teachers' Retirement System (TRS). Both plans are subject to regular actuarial reviews.

PERS is a defined benefit, agent, multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions within the state. Employees contribute 6.75 percent of their eligible compensation and employers are required to contribute remaining amounts necessary to fund the plan using the actuarial basis specified by the State Retirement Board. The Borough currently has a funding surplus and has a required contribution rate of only 0.56 percent of eligible compensation. However, in order to even out future contributions, the Borough is voluntarily contributing an additional 3.97 percent. The school district's mandatory employer rate is 11.19 percent of eligible compensation.

The Alaska Teachers' Retirement System is a defined benefit, cost-sharing, multiple-employer retirement system created and administered by the State of Alaska to provide benefits for certified teachers. Covered employees are required to contribute 8.65 percent of their base salary and the school district's mandatory contribution rate is 12.00 percent.

Postemployment health care benefits are provided by both systems. Through PERS and TRS, these benefits are advance funded, on an actuarially determined basis with all other benefits.

GENERAL AND ECONOMIC DATA

Location, History, Climate

The Fairbanks North Star 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. About 150 miles to the south lies the Alaska Range, in which Mt. McKinley (elevation 20,300 feet) is located. Fairbanks is 125 miles south of the Arctic Circle, about 260 miles north of Anchorage, and 1,500 miles northwest of Seattle.

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

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

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

World War II further opened Alaska's Interior region. The construction of the Alaska Highway, terminating in Fairbanks, established the state's strategic importance. Military and defense establishments constitute an important segment of the Borough's economy. Fort Wainwright Army Base 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 during construction in 1974 through 1977. Two refineries currently operate within the Borough.

From 1980 through 1985, the Borough saw steady growth in most areas of the economy, including population, income, employment, banking activity, retail sales, and construction. Since 1960, the Borough's economy has consistently out-performed that of the United States, according to the Alaska Department of Labor.

Fairbanks weather is continental interior, meaning lots of sun and very definite seasons. Winter extremes of -40 degrees 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 eleven inches, winter snowfall averages 65 inches.

Cities

Fairbanks: The city of Fairbanks, with a 1995 population of 32,655, is the largest in the Borough and the second largest in the state, after Anchorage. The city's population has increased about 44 percent since 1980, and about 6 percent since 1990. 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. Fairbanks was named after Indiana Senator Charles W. Fairbanks.

The city was founded in 1901, when a trader named E. T. Barnette became stranded with his riverboat in the shallow waters of the Chena River where the Cushman Street bridge stands today. The same year, a prospector named Felix Pedro struck gold 26 miles north of Fairbanks and the gold rush of 1903-04 was on.

Barnette's friend, Judge Wickersham, moved the headquarters of the Third Judicial District from Eagle to Fairbanks in 1903, a move that made Fairbanks the governmental and judicial administrative center for the Interior. In 1917, the University of Alaska, a land- and sea-grant college, was established in Fairbanks. It received students in 1922 and grew to be one of the mainstays of the local economy.

Fairbanks serves as a service center for Interior Alaska. It is a transfer point for materials going north by rail to the terminus at Fairbanks and continuing on to the North Slope over the Dalton Highway. The urbanized area of Fairbanks covers about ten and one-half square miles.

The city of Fairbanks, a first-class, home rule city within the Borough, recently had a change in the form of its government, from the city-manager form to the elected-mayor form. This change took place with the October 1995 election. Since 1986, the City has been steadily recovering from the impact of post-pipeline declines. The City's charter, through charter amendments, limits all taxes (property, hotel/motel, alcoholic beverage, and tobacco distribution taxes). Although revenue levels are remaining relatively constant from year to year, the diligent efforts of the City officials has resulted in the City being able to maintain past service levels to the citizens.

The mayor and council have reviewed an in-depth independent study regarding the City's utilities. Recognizing the limitations of the Council to respond to fast-paced utility market conditions, a decision to accept bids for the sale of the utilities was made. This has resulted in the acceptance of a proposal for the sale of the utilities. This issue will be a Charter proposition on the ballot of the general election in October 1996.

North Pole: North Pole is located 14 miles southeast of Fairbanks, and is the only other incorporated city in the Borough. Its 1995 population of 1,650 has increased about 13 percent since 1990. The city's major industry is the MAPCO Petroleum refinery, which produces heating oil, jet fuel, and gasoline from North Slope crude oil.

Borough Economic Indicators for 1995

- Bank deposits were up 6.2% from 1994 to 1995.
- Largest number of new homes since 1986 were built.
- Business bankruptcies were down from 1994.
- Airport revenue landings were up 8.4% between 1994 and 1995.
- Hotel receipts were up 6.1% from 1994 to 1995.
- Population increased 0.6% from 1994 to 1995.

Population

Table 20 shows the populations of the Borough, the cities of Fairbanks and North Pole, and the State of Alaska. According to the 1990 census, the Borough's population was 77,720, an increase of over 44 percent from the 1980 population of 53,983. Since 1990, population has increased over 8 percent.

TABLE 20 ■ Population

Year	Borough ⁽¹⁾	Annual Change	City of Fairbanks ⁽²⁾	City of North Pole	State of Alaska
1970	45,864		14,771	265	302,583
1980	53,983	1.6%	22,645	724	401,851
1985	66,100	4.1	27,099	1,640	523,048
1990	77,720	3.3	30,843	1,456	550,043
1992	80,845	2.0	33,200	1,510	587,328
1994	83,842	1.8	33,282	1,601	606,278
1995	84,380	0.6	32,655	1,649	615,900

⁽¹⁾ Includes population for Fairbanks, North Pole, Fort Wainwright, and Eielson Air Force Base.

⁽²⁾ Includes population living on Fort Wainwright.

Source: U.S. Census and Alaska Department of Labor estimates.

Military installations in the Borough account for over one-fifth of its population. About 40 percent of the military population is personnel on active duty. The balance of the military population consists of family members. Military population increased in the early 90's due to the deployment of the 6th Infantry Division (Light) (the "LID") at Fort Wainwright Army Base. The LID was activated in 1986 and inactivated in 1994. It now falls under U. S. Army, Alaska, headquartered at Fort Richardson in Anchorage. Military personnel at Fort Wainwright decreased from a recent high of 5,085 in 1993 to 4,600 in 1995. Military personnel at Eielson Air Force Base decreased from a recent high of 3,465 in 1991 to 2,741 in 1995. However, statistical data indicates that the military population at Fort Wainwright increased 1.9 percent from September 1994 to September 1995. The closure of Fort Greely, about 100 miles south of the city of Fairbanks, will result in the transfer of some active personnel and dependents to Fort Wainwright beginning in 1997.

Income

Table 21 shows median household effective buying income (EBI) for the Borough, the State, and the U.S. for the period from 1990 to 1994. Effective buying income is reported annually by *Sales and Marketing Management* magazine's "Survey of Buying Power." It is defined as income remaining after withholding taxes and Social Security deductions. The Borough's 1994 EBI is 12 percent less than that of the State but 19 percent above the United States average. Between 1990 and 1994, the Borough's EBI increased at an annual average rate of 5.6 percent.

Table 21 ■ Median Household Effective Buying Income

Year	Fairbanks North Star Borough	State of Alaska	United States
1990	\$35,548	\$34,130	\$27,912
1991	36,329	43,676	32,073
1992	38,993	44,022	33,178
1993	42,108	47,318	35,056
1994	44,207	50,132	37,070

Source: *Sales & Marketing Management*, Survey of Buying Power.

Employment

Table 22 shows a five-year history of civilian employment by industry type. The Alaska Department of Labor estimates average 1995 employment at 31,200, an increase of 550 jobs from the previous year. Over the past five years, the Borough has had a steady increase in civilian employment, adding 3,580 new jobs. During the same period, the unemployment rate has been declining.

According to the Alaska Department of Labor, 33 percent of Fairbanksans are employed in government. When military personnel are included that figure rises to 46 percent. Government employment at the state and local level has added 510 new jobs since 1991, but 155 jobs have been lost at the federal level. The other major sectors of employment are services, at 24 percent of total employment, and trade, at 22 percent.

Employment in the services sector has increased 25 percent since 1991. The opening of new retail stores, a Princess Hotel, and a Comfort Inn over the past few years have created new retail and service jobs. The public sector and pipeline employment are the only segments of the Fairbanks economy expected to post job losses. Oil field service companies, performing maintenance on the oil pipeline, expect scaled-back contracts. New gold mine jobs will help offset these losses and raise the annual average in mining employment.

In 1996, construction should turn in its strongest performance in eleven years, adding about 150 jobs. The 1997 forecast anticipates a downturn in construction employment because Fairbanks' most prominent project, the Fort Knox gold mine, will have been completed by then.

**Table 22 ■ Fairbanks North Star Borough
Average Annual Civilian Employment (by Industry) and Unemployment Rate**

Industry	1991	1992	1993	1994	1995
Mining & agriculture	260	630	435	800	700
Construction	1,360	1,490	1,435	1,500	1,900
Manufacturing	605	615	570	550	550
Transportation & communications	2,200	2,300	2,375	2,150	2,300
Trade	6,370	6,660	6,840	7,000	7,000
Finance, insurance & real estate	900	940	955	1,050	950
Services and miscellaneous	5,980	6,250	6,435	7,250	7,500
Government - federal	3,205	3,225	3,240	3,100	3,050
Government - state	4,115	4,355	4,255	4,400	4,350
Government - local	<u>2,625</u>	<u>2,660</u>	<u>2,720</u>	<u>2,850</u>	<u>2,900</u>
Total	27,620	29,125	29,260	30,650	31,200
Unemployment rate	9.4%	9.4%	8.1%	8.0%	7.2%

Source: Alaska Department of Labor

State economist Neal Fried predicts that the Fairbanks area could add 975 new jobs over the next two years, after the gain of 550 jobs in 1995. Service and retail industries will have the most openings, with transportation and mining adding 325 jobs. Fairbanks recently had the second-longest period of uninterrupted growth since statehood in 1959, and it outperforms the rest of Alaska economically, Fried said. Employment growth in Fairbanks will fall within the two percent growth range for 1996 and show a one percent gain for 1997, according to Fried.

Largest Employers

The biggest employer in the Borough is the University of Alaska Fairbanks, employing 3,300 people. This accounts for about 76 percent of State employment within the Borough. The second largest employer is the Fairbanks North Star Borough School District with 1,517 employees. The largest private employer is Fairbanks Memorial Hospital, with 800 full-time employees. Two other large employers are Doyon Ltd. and Tanana Chiefs Conference, respectively, the for-profit and nonprofit corporations representing Interior Athabaskan Indian villages. Doyon, a resource development and construction concern, employs approximately 250 people. Tanana Chiefs, which manages social service programs for 43 Interior villages, employs 450 people. Seekins Ford Lincoln Mercury Inc. employs 215 in automobile sales and service.

Trade

Employment in trade grew from 6,370 jobs in 1991 to 7,000 jobs in 1995, and accounts for about 22 percent of civilian employment. The Borough has five area shopping centers with gross square footage ranging from 97,000 to 166,500 square feet. The retail sector expanded

in the first half of the 90's, with the construction of Fred Meyer (196,500 square feet), Sam's Club (161,430 square feet), Sears (114,000 square feet), and K-Mart (163,556 square feet).

Retail sales totaled \$836,289,000 in 1994, according to *Sales Marketing & Management Magazine*. This is an increase of about 11 percent over 1993. Retail sales increased at an average annual rate of over 8 percent between 1990 and 1994. Table 23 shows retail sales by category from 1990 to 1994.

**Table 23 ■ Fairbanks North Star Borough
Retail Sales**

	Retail Sales (\$000)				
	1990	1991	1992	1993	1994
Food	\$175,544	\$178,467	\$172,633	\$179,603	\$147,628
Eating & drinking places	63,333	74,019	74,437	78,059	78,435
General merchandise	40,621	37,653	51,543	59,316	123,712
Furniture & appliances	28,188	28,258	32,627	41,889	38,632
Automotive	104,679	103,124	132,547	151,493	205,113
Drug	19,263	17,936	13,493	13,663	29,450
Total*	\$612,016	\$622,263	\$681,081	\$755,543	\$836,289

*Includes all other.

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

Consumer Price Index

Table 24 compares the Consumer Price Index (CPI-U) for the City of Anchorage to the U.S. city average. To produce the CPI, the U. S. Department of Labor gathers prices in 85 metropolitan areas throughout the country. Anchorage is the only city in Alaska surveyed. Anchorage price trends reflect changes in the cost of living for most Alaskans. Since 1960, inflation has been significantly lower in Anchorage than it has been for the rest of the nation. This is predominantly due to the difference in the rate of inflation for housing costs in Anchorage compared to the other areas in the CPI survey. From 1990 to 1993, a tighter housing market propelled Anchorage's inflation rate above the rest of the nation's. Recently, Anchorage's housing market has cooled off substantially and inflation has followed suit.

Construction

Table 25 shows construction activity in the Borough since 1990. The last four years have shown a significant increase in new residential construction. Two hundred and eleven permits were issued during 1995, more than in any year since 1986. The high building valuation in 1992 reflects the increase in new commercial buildings, such as Fred Meyer, Sam's Club, and Sears. Total valuation for the first half of 1995 amounted to \$24,592,000, compared to \$30,575,000 for the first half of 1996.

Table 24 ■ Consumer Price Index

Year	City of Anchorage	Percent Change	U.S. City Average	Percent Change
1990	118.6	—	130.7	—%
1991	124.0	4.6%	136.2	4.2
1992	128.2	3.4%	140.3	3.0
1993	132.2	3.1%	144.4	2.9
1994	135.1	2.2%	148.2	2.6
1995	138.9	2.8%	152.4	2.8

*For all urban consumers; 1982-1984 = 100.

Source: U. S. Department of Labor, Bureau of Labor Statistics.

**Table 25 ■ Fairbanks North Star Borough
Building Permits and Valuation (dollars in thousands)⁽¹⁾**

Year	Residential Units	Valuation			Total
		Residential	New Commercial	Other ⁽²⁾	
1990	25	\$1,692	\$11,223	\$9,495	\$22,410
1991	90	5,949	13,876	23,039	42,864
1992	64	5,558	37,060	38,085	80,703
1993	158	14,438	14,244	17,269	45,951
1994	180	16,425	2,134	22,629	41,188
1995	211	29,335	7,595	30,764	67,694
1996 ⁽³⁾	148	16,042	3,509	11,024	30,575

⁽¹⁾ Excludes value of federal and State construction.

⁽²⁾ Includes new structures, alterations and additions.

⁽³⁾ Through June 1996.

Source: Fairbanks North Star Borough, cities of Fairbanks and North Pole.

Poker Flat Research Range, the only rocket launch facility in the United States in the polar regions and the only university-operated range in the world, is spending up to \$20 million on improvements, new instruments and facilities. The upgrade is being funded through the Goddard Space Flight Center's Wallops Flight Facility, the center of operations responsible for NASA's scientific sounding rocket program.

Industrial construction in progress includes Earthwatch's satellite ground station. In 1996, Space Imaging, an affiliate of Lockheed-Martin, began construction of a satellite communication center. Other projects, either under construction or completed, within the Borough include a \$12 million outpatient addition, electrical upgrade, and other related projects to Fairbanks Memorial Hospital; a \$9 million expansion of MAPCO refinery; a three-story hotel for \$8 to \$9 million; a two-story substance abuse center addition to the Ralph Purdue Building; a three-story apartment complex for the elderly; a \$29 million Alaska Fish and Game Facility; a \$22.4 million expansion of the Geophysical Institute on UAF's campus; a \$3 million Aurora Motors building; and a \$1 million Glacier State warehouse facility. A 75-unit Comfort Inn has been completed and has opened adjacent to the Chena River on Alaska Railroad land.

Road construction, exceeding \$25 million, will take place in the northern region, and ground has been broken for a \$9.6 million runway extension at the Fairbanks airport. The University of Alaska Fairbanks plans to spend close to \$6 million for building maintenance and a research station. Other public construction projects include a new elementary school on Eielson Air Force Base and renovation work at Lathrop High School, which together amount to a \$21 million capital outlay to be funded from the Bonds, and state and federal grants.

The military construction schedule for Fort Wainwright lists projects exceeding \$38 million for the next two years. New housing units and renovations of family housing are the top projects. Eielson Air Force Base's construction plan lists all-weather shelters for fighter aircraft, costing \$22 million, as the main project.

Oil and Gas Industry

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 the North Slope to shipping facilities in south-central Alaska at Valdez in 1977. The pipeline can deliver approximately 2.1 million barrels of crude oil per day from the oil fields developed in the North Slope region, which had a total of 5.40 billion barrels of recoverable oil reserves in the developed fields as of December 31, 1995, as estimated by the Alaska Oil and Gas Conservation Commission. For 1995, the daily delivery rate of the pipeline averaged approximately 1.55 million barrels per day. Crude oil production in the state reached a peak of 750 million barrels in fiscal year 1988, and has declined in each subsequent year, to a level of approximately 584 million barrels in fiscal year 1994. Annual crude oil production in the state is expected to continue to decline during the foreseeable future.

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.

Two oil refineries are located in the Borough. MAPCO Petroleum Inc., in North Pole, began operations in 1977 and currently produces its maximum capacity of 130,000 barrels per day of jet, diesel, and heating fuel. A \$57 million refinery upgrade in 1985 doubled its maximum refinery capacity. The PetroStar refinery, constructed in 1985, just increased its capacity to 14,000 barrels per day and is constructing a \$750,000 jet fuel pipeline to connect directly to Eielson Air Force Base. The refinery produces kerosene, diesel, heating, and jet fuels. A recent study by the University of Alaska's Institute of Social and Economic Research shows the petroleum industry is a significant employer in the Fairbanks area. About 495 Fairbanks residents were employed directly in oil and gas production or refining operations in 1994 (employees of vendors and suppliers not included), creating a local payroll of \$38 million. Expansion work started this summer on a \$9 million project at MAPCO's refinery. This expansion will increase the plant's gasoline production by 1,000 barrels a day, about a 20 percent increase.

Mining

Gold was discovered in Fairbanks in 1901. Through 1991, total production in the Fairbanks Mining District is estimated at 8.2 million ounces. The eastern interior region of Alaska—centered at Fairbanks—is not only the state's leading gold-producing region, but also holds enormous potential for the discovery and development of new mines.

The State has encouraged minerals exploration in the form of a new exploration tax credit for minerals passed in 1995. The release of the Alaska Division of Geological and Geophysical Survey's report of airborne magnetic and electromagnetic survey stimulated the filing of several hundred new claims and prospecting sites within the Borough.

Alaska's mineral mining industry is undergoing an employment revival. This will be a key element generating new employment opportunities for Alaskans for the rest of the decade. In late 1996, when Fort Knox comes on line, it will join Green's Creek near Juneau and the Red Dog mine near Kotzebue as one of the three largest mines in Alaska. The 500 or so jobs created by these mines should be long-term, full-time, high-paying, year-round jobs.

The opening of Fort Knox and reopening of Green's Creek in 1996, are a precursor to future employment gains statewide in the mineral mining industry. The Kensington mine near Juneau, in the size class of Fort Knox, could be under construction as early as 1997 and in production in 1998. Workforce expansions also are currently planned for the Red Dog mine and the Usibelli coal mine near Healy.

Increased exploration activity in the area of the Fort Knox mine, and in the Circle, Livengood, and Richardson Mining Districts, which are serviced by Fairbanks, has also resulted from the discovery at Fort Knox.

Fort Knox Mine: The Fort Knox gold deposit occurs in a granitic stock north of Gilmore Dome about 15 miles northeast of Fairbanks. The deposit has known reserves of 4.3 million ounces of gold. Construction activity at the Fort Knox mine should be completed and production should start later this year. The mine is employing about 450 people during construction. The mine is expected to employ about 250 miners during its estimated 15 to 20 years of production, stimulate gold mining development, and accelerate other commercial activities. Capital costs for the project are estimated at \$370 million.

Healy Clean Coal Project: A major expansion of the electrical generation capabilities has been undertaken for the Interior to provide Golden Valley Electric Association (GVEA), serving and headquartered in Fairbanks, with electrical generation capacity to meet its demands. Located 120 miles south of the Borough, construction on the Healy Clean Coal Project (HCCP) began in 1995 and is slated to continue through 1997. An estimated average of 200 workers are being employed during the two-year construction period, with the addition of 35 to 40 new jobs in Healy. The Alaska Industrial Development and Export Authority (AIDEA) is financing and will own the facility, with the federal government contributing about \$117 million. The project is estimated to cost \$267 million and is funded by a combination of state and federal grants and loans. It is being built near the Usibelli coal mine to save coal freighting costs.

The project consists of a 50-megawatt power plant which uses a combustion system that burns Alaska coal in stages to minimize air pollution. The HCCP provides Alaska with an opportunity to test two new technologies that will help solve the international problem of acid rain. The power plant will operate in a demonstration mode for 1998 before beginning commercial operation the following year. Once proven, this new technology can be used to retrofit existing coal-fired plants around the world. The project will create additional energy generation to serve Interior Alaska. It will augment the capabilities of the existing power plant which was constructed in 1967, and increase the current capacity of GVEA, whose service area continues to see increased demand. The Fort Knox gold mine will add 35 megawatts to GVEA's energy demand, which is approximately 70 percent of the HCCP's 50-megawatt output.

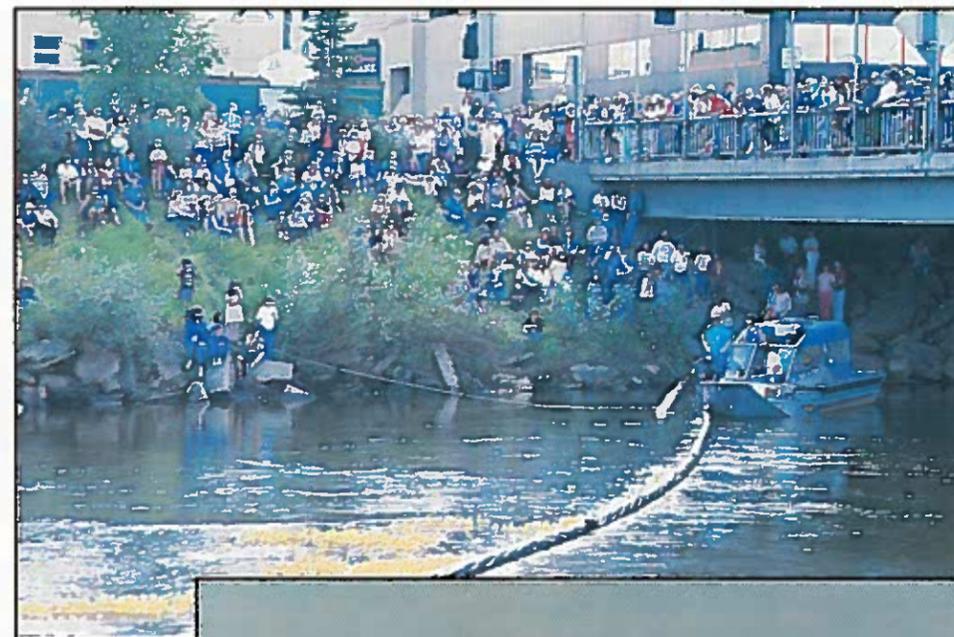
Also under development is the \$90 million Northern Intertie from Healy to Fairbanks. This line, expected to be completed in 1997, will increase power import capacity into Fairbanks from 95 megawatts to 140 megawatts and will deliver reliable power from the HCCP.

Usibelli Coal Mine: Usibelli was founded in 1943, and over the intervening half-century, mine production has grown to 1.5 to 1.6 million tons of coal per year. Today, the mine has a work force of about 120 employees and operates year-round. Approximately 33 percent of the annual production is used in the Fairbanks area and 50 percent is produced for international export.

Satellite Ground Stations

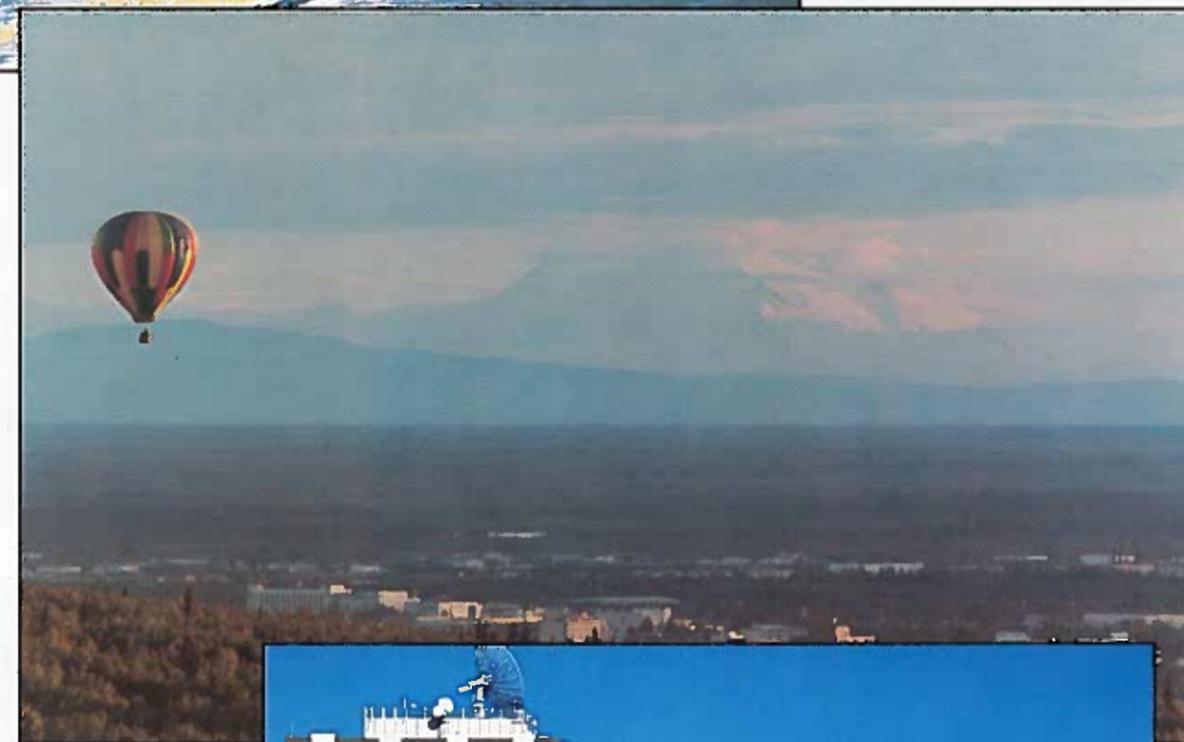
The Alaska Aerospace Development Corporation (AADC), a public corporation created by the Alaska Legislature to develop aerospace related economic and technical opportunities, is working with private corporations, government agencies, and universities to develop a comprehensive low earth orbit launch complex and full-service satellite ground station facilities. The Kodiak Launch Complex (KLC) will be located on Kodiak Island outside the Borough, but ground station activities will be concentrated in Fairbanks.

Kodiak Launch Complex: The complex will be the only non-federally run commercial launch range in the United States. The KLC will target launches for payloads of up to 8,000 pounds into low earth polar orbits, primarily communications, remote sensing, and scientific satellites.



Left: The "Rubber Duck Race" is one of the *Golden Days* events celebrated annually by thousands in the middle of July.

Middle: Overlooking Fairbanks to the southwest, a clouded majesty of Mount McKinley is visible.

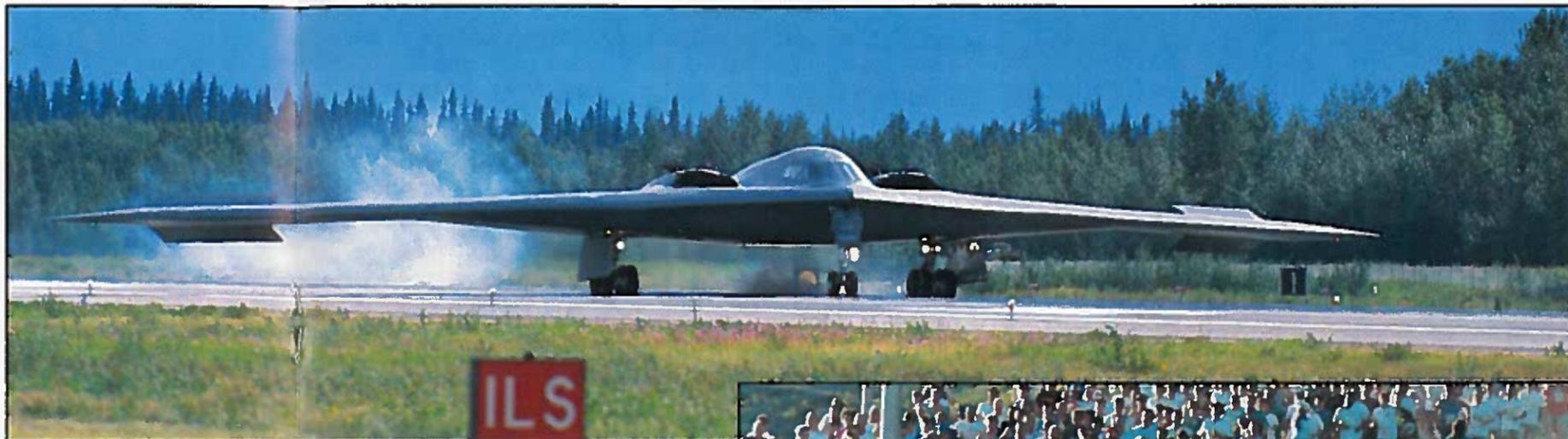


Right: Located on the University of Alaska Fairbanks Campus, the Geophysical Institute is undergoing a \$22.4 Million Elvey Building Addition project.



Unless otherwise noted, photos are the courtesy of the Fairbanks Daily News-Miner

Photo by Mike Mathers



Above: The North Pole MAPCO Refinery's 1996, \$9 Million project will boost gasoline output and will build a gasoline/diesel station and convenience store near Fairbanks. *Upper Right:* A dedication ceremony was held at Eielson AFB, July 1996, naming one of the B-2 Stealth bombers, "The Spirit of Alaska." *Middle:* The Fairbanks Memorial Hospital just opened an outpatient addition. Electrical upgrades and other related on-going projects bring the construction total to \$12 Million. *Far Right:* 2,500 - 3,000 people race in the summer solstice "Midnight Sun Run" that starts at 10 PM. *Below:* State and Federal grants provided the \$2.5 Million to build a low income neighborhood housing project. *Bottom Middle:* Looking at 2nd Avenue, downtown Fairbanks, one of the North American Sled Dog competitors begins the course. *Bottom Right:* Mining companies such as Fairbanks Gold Mining, Inc., a wholly-owned subsidiary of Amex Gold, use geotechnical data to evaluate mineral potential. Ft. Knox Mine, with reserves of 4.3 million ounces of gold opened in 1996 and is one of several area mining developments.

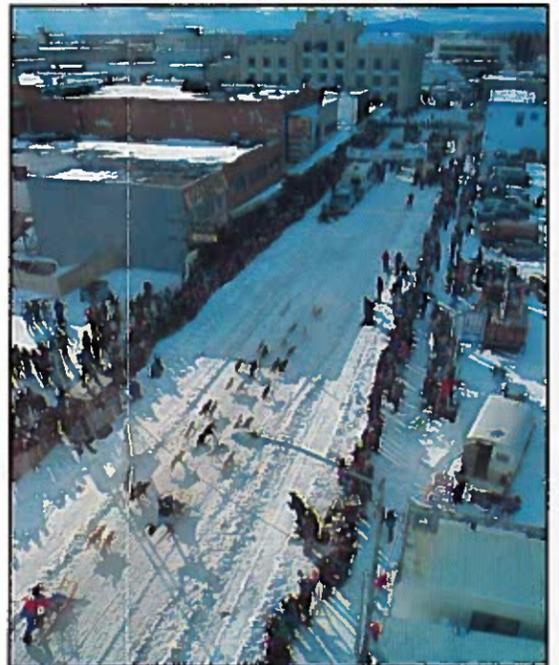
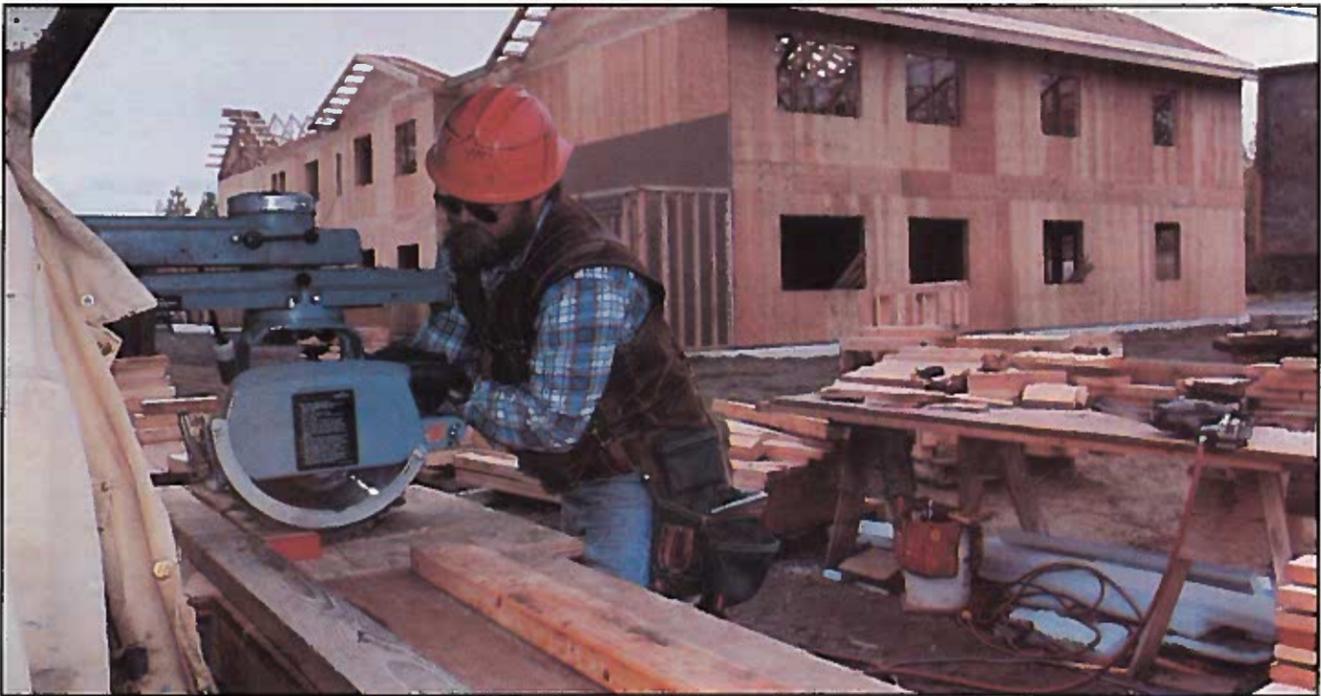


Photo by Mike Mathers

Photo by Mike Mathers



Left: Many of the celebrations throughout the year culminate at the "The First Family" park, downtown Fairbanks, on the Chena River. *Middle:* Located in the Fine Arts Complex, on the University of Alaska Fairbanks Campus, the Charles Davis Concert Hall hosts guests from all over the world and is home to the Fairbanks Symphony Orchestra. The complex also houses the Lee Salisbury Theatre and the Elmer Rasmuson Library. *Bottom:* In April 1995, the Fairbanks International Airport ranked eighth in the nation for international cargo tonnage moved.



Fairbanks Ground Station Effort: AADC's greatest success appears to be in luring space data firms to Fairbanks. Fairbanks is geographically advantaged in downloading data from satellites in polar orbits. The high north latitude of Fairbanks makes it an ideal location for Polar orbiting satellite ground station operations. The added resource of the University of Alaska Fairbanks, and its Geophysical Institute, provides a significant technical advantage to remote sensing operations. AADC has plans for a \$4 million "spacepark" facility in Fairbanks. Orbital Sciences and Lockheed-Martin are talking with AADC about the project. In the meantime, many companies are preferring to put in their own facilities.

- Earth Observation Satellite Company (EOSAT), working with AADC, invested over \$500,000 to begin its Alaska initiative by locating an expeditionary ground station in Fairbanks to recover Landsat data and data from the Indian series of earth observation satellites.
- Space Imaging, Inc. (SII), a subsidiary of Lockheed-Martin, selected Fairbanks as the site for its land remote sensing satellite system, which is currently under construction.
- The U.S. Air Force has selected Fairbanks as the site for its miniature sensor technology integration remote sensing program. Officials are in the process of finalizing development plans for the ground station operation which will perform satellite data recovery.
- The SAR Corporation, a joint American-Russian venture, has selected Fairbanks as the ground station site for its remote sensing satellite.
- EarthWatch, Inc. recently acquired property on which to develop its ground station and is now operating pre-launch testing.

University of Alaska

The University of Alaska Fairbanks (UAF) opened in 1922 as the Alaska Agricultural College and School of Mines. The 2,250-acre campus is located about four miles from downtown Fairbanks. UAF is the main campus of the state university system which includes three accredited campuses. It is the oldest of the three campuses, and the only one that confers doctoral degrees. UAF is among few universities nationwide with land-, sea-, and space-grant status. The campus is made up of three colleges and four professional schools. UAF is the largest single, non-military employer in the Borough with 3,300 faculty and staff. UAF has an enrollment of about 9,250 full- and part-time students. UAF awarded degrees to 1,022 students in 1996, with 228 masters and doctoral degrees.

UAF's 1996 state general fund support for operations was \$82.5 million. State general fund support amounted to about 39 percent of UAF funding sources in 1995/96. UAF research attracts approximately \$40 million in federal grants to Alaska. The National Science Foundation continues to rank UAF among the top 100 research institutions in the U.S., making it highly competitive for external research grants.

In 1995, construction began on a \$22.4 million expansion of the Geophysical Institute on UAF's main campus. When completed, the Elvey building addition will add 80,000 square feet of research and laboratory space to scientists. The Institute is one of the few institutes in the country where scientists study a whole spectrum of geophysical processes ranging from the center of the earth to the center of the sun and beyond. An agreement was signed with the Japanese government at the Geophysical Institute in January 1996 to embark on a ten-year research project to study global climate change, the destruction of the ozone layer, acid rain,

and other problems with the earth's environment. Additionally, the Japanese will install approximately \$10 million of instrumentation at the Poker Flats facility to complete the research.

UAF has the nation's only university-owned and operated sounding rocket launching facility. Poker Flat Research Range is located about 30 minutes from Fairbanks. Located in the Geophysical Institute is the Alaska Synthetic Aperture Radar Facility, the only receiving station within the U.S. for polar orbiting earth observation satellites. UAF is also home to the Arctic Regions Supercomputing Center.

Transportation

From Fairbanks International Airport, it is 50 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. The airport is currently served by Alaska, Delta, Northwest, and Reno Air. In April 1994, Fairbanks ranked tenth in the nation in international cargo tonnage, and in April 1995, it ranked eighth; and it is 36th in total international and domestic aircraft landing weight. Boeing 747 cargo carriers include Lufthansa, Air France, and Cargo Lux. Table 26 shows operating statistics for the airport.

**Table 26 ■ Fairbanks International Airport
Operating Statistics**

	1990	1991	1992	1993	1994	1995
Passengers - incoming	282,322	293,737	325,182	320,525	369,580	370,912
Passengers - outgoing	285,052	293,698	321,590	317,602	360,931	364,498
Revenue landings	15,924	17,818	20,023	20,592	26,970	29,229
Freight - incoming*	12,228	13,737	16,110	18,295	18,316	19,576
Freight - outgoing *	38,577	43,485	53,401	52,430	65,168	74,573

* Thousands of pounds.

Source: Alaska Department of Transportation & Fairbanks International Airport.

Fairbanks International Airport received \$6.2 million in federal and state grants for Phase I to lengthen a runway and improve service for cargo carriers. \$3.4 million is expected to be received in 1996/97 to complete the project. The extension of the runway will allow larger, heavier planes to use the airport as a service center in future years.

The airport is used by airplane manufacturers to test new planes for use in cold weather. Boeing Aircraft used Fairbanks International Airport in January 1996 to conduct cold-weather tests on its newest airplane, the 777. During the same period, Airbus flew an A340 over from Toulouse, France, seeking a -35 degrees overnight cold-soak test required for Canadian certification. McDonnell Douglas Helicopter Systems is planning to test its new MD 900 Explorer NOTAR helicopter in Fairbanks.

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 passenger service between Fairbanks and Anchorage, with a stop at Denali National Park, on a daily basis. Ridership was over 449,000 in 1994.

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 MAPCO Refinery in North Pole is shipped south on the railroad. In 1994, freight revenue for the railroad totaled about \$42 million and passenger revenue was \$9 million. Construction of the Fort Knox mine and the Healy Clean Coal Project is expected to increase the railroad's freight business for the next three years.

The Alaska Railroad expanded its real estate program with a contract to lease an 80-acre parcel of land in Fairbanks for the new Comfort Inn, an RV park, and a riverfront restaurant. The site is on the north bank of the Chena River. Both the RV park and the hotel have been built and construction on the restaurant has begun.

Military

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. Since 1961, Fort Wainwright has been part of the Yukon Command and the 172nd Infantry Brigade. In 1986, the 6th Infantry Division (Light) was activated and headquarters moved to Fort Wainwright in 1990. The division was inactivated in 1994 and now falls under U.S. Army, Alaska, headquartered at Fort Richardson in Anchorage.

At the end of 1995, 4,600 military personnel and 6,029 family members were stationed at Fort Wainwright. Civilian employment was 1,197 and combined military and civilian payroll was \$182.8 million in 1995. Military and family personnel stationed at Fort Wainwright have increased 16 percent since 1988 with the transfer of additional military personnel comprising a portion of the 6th Infantry Division (Light).

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 regenerated in 1946 and transformed into a large bomber base because of the onset of the Cold War. Eielson is home to the 354th Fighter Wing, 18th Fighter Squadron, 355th Fighter Squadron, 353rd Combat Training Squadron, and the 168th Air Refueling Wing. Under the command of Pacific Air Forces, Eielson's mission is to provide combat-ready forces any time, any place.

At the end of 1995, 2,741 military personnel and 4,483 family members were stationed at Eielson. Civilian employment was 1,365 and combined military and civilian payroll was \$118.2

million in 1995. Military and family personnel at Eielson have decreased about eleven percent since 1988 with the redeployment of a reconnaissance wing.

This summer, Eielson hosted its largest air training exercise ever, with 110 aircraft flying 150 sorties a day. More than 1,300 personnel participated in the exercise, double the normal in air training events. Adequate space for training is a key advantage of Alaska military installations, an important selling point in an era of defense cutbacks.

Tourism and Recreation

Fairbanks has abundant indoor and outdoor recreational facilities, including olympic-quality 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, dog sled race; the North American Sled Dog Racing Championships; Fairbanks Winter Carnival; Tanana Valley Fair; the World Eskimo Indian Olympics; and several other popular festivals held in both summer and winter.

Tourism in Fairbanks was strong in 1995. Hotel/motel receipts totaled \$29,213,000 in 1995, an increase of 6.1 percent from 1994 receipts of \$27,529,000.

The University of Alaska Museum is a modern, major visitor attraction, and has drawn an average of 134,000 visitors annually over the last five years. The museum includes Alaskan Native artifacts, botanical and natural history exhibits, and mineral and fossil samples. The museum has a continuous research program.

Every March, Fairbanks hosts a week-long Ice Alaska competition attracting dozens of international ice carvers. In 1993, Ice Alaska hosted the ice sculpting trials for the 1994 Olympics held in Lillehammer, Norway. In 1997, Ice Alaska will again host the Olympic trials for the 1998 Olympics in Japan. The American Bus Association has named Ice '97 as one of the top one hundred attractions in North America.

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.

The Big Dipper ice arena has facilities for both indoor and outdoor sporting events. The Arctic Winter Games are held in Fairbanks every three years and attract about 1,000 athletes from Alaska and the Yukon and the Northwest Territories, Canada.

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. Those buildings 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.

Community Facilities

John A. Carlson Community Activity Center: The Carlson Center, managed by Ogden Entertainment Services for the Borough, is the premier entertainment, sports, meeting, and convention facility in the Interior. The center, opened in 1990, is a multi-purpose facility, and easily configures 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.

Utilities: Municipal Utilities Systems (MUS), owned by the city of Fairbanks, provides electric, water, telephone, and steam services within the city and to adjacent areas of the Borough. Golden Valley Electric Association (GVEA), a consumer-owned cooperative, operates electrical service in much of the area outside the city limits, and beyond the Borough's boundaries. The Healy Clean Coal Project power plant will augment GVEA's current capacity when it begins commercial operation in 1999. Privately-owned Glacier State Telephone Company provides telephone service in parts of the Borough located outside the city and well beyond the Borough's boundaries. Sewer and water facilities in North Pole consist of the city-owned utilities, and individual wells and septic tanks. Privately-owned College Utilities provides water and sewer services in certain areas outside the city of Fairbanks.

Education: In addition to the public school system and the University of Alaska, many 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, two satellite operations in outlying school libraries, 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 the northern and south central regions of Alaska. The Noel Wien Library opened in 1977 and the library system had a service population of 69,000 and a circulation of 255,307 items. In 1995/96, the library system had a service population of 84,380 and a circulation of 560,769 items. This busy library provides such services as meeting rooms, public Internet access, CD-ROM databases, programs for all ages, and access to other library catalogs throughout the State. Borough voters approved a \$2 million bond issue in 1995 to expand the Noel Wien Library. These bonds are expected to be issued in 1997 with the next series of school bonds.

Medical Facilities: Fairbanks Memorial Hospital and Denali Center, with 256 beds, provides sophisticated diagnostic and treatment services, and special and long-term care. Total operating revenue was \$73.9 million in 1995. The hospital employs 1,000, with approximately 800 in full-time employment.

APPENDIX A CONTINUING DISCLOSURE UNDERTAKING

In accordance with Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time (the "Rule"), the Borough has agreed in the Bond Ordinance to provide or cause to be provided each year to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State of Alaska (if one is created) ("SID"), in each case as designated by the Securities and Exchange Commission (the "Commission") in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 1997 for the fiscal year ended June 30, 1996). The Borough agrees as follows:

Undertaking to Provide Ongoing Disclosure.

A. Contract/Undertaking. This section constitutes the Borough's written undertaking for the benefit of the owners of the Bonds as required by Section (b)(5) of the Rule.

B. Financial Statements/Operating Data. The Borough agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data (the "Annual Information") for the prior fiscal year (commencing in 1997 for the fiscal year ended June 30, 1996):

1. Annual financial statements showing ending fund balances prepared in accordance with generally accepted accounting principles applicable to governmental entities and generally of the type included in Appendix C of the official statement for the Bonds and titled "General Purpose Financial Statements of the Fairbanks North Star Borough for the Fiscal Year Ended June 30, 1995":

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. Outstanding general obligation debt of the Borough.

Such Annual Information shall be so provided on or before the expiration of seven months after the end of the Borough's fiscal year (which now ends June 30). The Borough may adjust this date if the Borough changes its fiscal year by providing written notice of the change of fiscal year and the new reporting date to each then existing NRMSIR and the SID, if any. In lieu of providing the Annual Information, 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 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 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 delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves for the Bonds, if any, reflecting financial difficulties;
4. Unscheduled draws on credit enhancements, if any, for the Bonds reflecting financial difficulties;
5. Substitution of credit or liquidity providers, if any, 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. Optional redemption of Bonds prior to their maturity;
9. Defeasance of the Bonds;
10. Release, substitution or sale of property, if any, securing repayment of the Bonds; and
11. Rating changes.

With reference to items 3, 5 and 10 above, 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. If the Borough subsequently establishes such reserves, provides credit or liquidity providers, or provides property as security for the Bonds, the

**APPENDIX B
FORM OF BOND OPINION**
_____, 1996

Borough will provide notice of such establishment or provision and will provide notice of material events relating thereto, should such events occur.

The only non-payment related default to which item 2 above applies is a failure to levy taxes as provided in Section 11 of the Bond Ordinance.

D. Notification Upon Failure to Provide Financial Data. The Borough agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the Annual Financial information described in Section B, above, on or prior to the date set forth in Section 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. This agreement, or any provision hereof, shall be null and void if the Borough (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this agreement, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this agreement or a provision thereof. Notwithstanding any other provision of this agreement or the Bond Ordinance, the Borough may amend this agreement and any provision of this agreement may be waived, provided that the following conditions are satisfied:

1. If the amendment or waiver relates to the provisions of Section B or C, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

2. The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

3. The amendment or waiver either (i) is approved by the owners of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of this agreement, 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 or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of Annual Information being presented by the Borough. In addition, if there is a change in 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, and (ii) the annual report for the year in which the change is made, the disclosure of the change, the explanation of the change, and the comparison of the prior year report with the report for the year of the change shall be made in accordance with the applicable requirements of the body that established the changed accounting principle.

F. Bond Owner's Remedies Under This Section. The right of any bondowner or beneficial owner of Bonds to enforce the provisions of this section 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 the Bond Ordinance. For purposes of this agreement, "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.

Fairbanks North Star Borough

By: _____
Judith A. Slajer, Chief Financial Officer

Fairbanks North Star Borough
Fairbanks, Alaska

Re: Fairbanks North Star Borough, Alaska
General Obligation School Bonds, 1996 Series U - \$16,320,000

Ladies and Gentlemen:

We have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the Fairbanks North Star Borough, Alaska (the "Borough") of its General Obligation School Bonds, 1996 Series U in the aggregate principal amount of \$16,320,000 (the "Bonds"), issues pursuant to Ordinance No. 96-_____ of the Assembly of the Borough, passed on _____, 1996 (the "Bond Ordinance"), for the purpose of providing funds to pay for certain school capital projects.

We have also examined all of the executed Bonds and a certified copy of one of the authenticated Bonds of this issue and have found the same to have been executed in the manner required by law.

The Bonds are dated _____ 1, 1996, are fully registered, are in the denomination of \$5,000 each or any integral multiple of \$5,000, provided no Bond shall represent more than one maturity, bear interest at the rates per annum set forth in the following schedule, payable on _____ 1, 1997, and semi-annually thereafter on the first days of each succeeding _____ and _____, and mature on _____ 1 in years and amounts as follows:

Maturity Date (_____ 1)	Principal Amounts	Interest Rates	Maturity Date (_____ 1)	Principal Amounts	Interest Rates
1997	\$ _____	_____ %	2007	\$ _____	_____ %
1999	\$ _____	_____ %	2008	\$ _____	_____ %
1999	\$ _____	_____ %	2009	\$ _____	_____ %
2000	\$ _____	_____ %	2010	\$ _____	_____ %
2001	\$ _____	_____ %	2011	\$ _____	_____ %
2002	\$ _____	_____ %	2012	\$ _____	_____ %
2003	\$ _____	_____ %	2013	\$ _____	_____ %
2004	\$ _____	_____ %	2014	\$ _____	_____ %
2005	\$ _____	_____ %	2015	\$ _____	_____ %
2006	\$ _____	_____ %	2016	\$ _____	_____ %

The Bonds maturing the years 1997 through 2006 will not be subject to redemption prior to maturity. The Bonds maturing on or after _____ 1, 2007 are subject to redemption at the option of the Borough on and after _____ 1, 2006 in whole, or in part, at any time (maturities to be selected by lot within a maturity) at a price of par plus current interest to the date of redemption plus a premium equal to 0.25% per year or portion of a year from the date of redemption to the date of maturity, but not to exceed 2.0%, on bonds optionally redeemed on or after _____ 1, 2006 through _____ 31, 2008. No prepayment premium is payable on any bond redeemed at the option of the Borough on or after _____ 1, 2008.

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

From such examination it is our opinion that 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, reorganization or other similar laws of general application affecting the rights of creditors. Both principal of and interest on the Bonds are payable out of annual levies of ad valorem taxes to be made upon all of the taxable property within the Borough without limitation as to rate or amount and in amounts which, together with other available funds, will be sufficient to pay such principal and interest as the same shall become due.

We are of the opinion that interest on the Bonds is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). We also are of the opinion that the Bonds are not private activity bonds. The Bonds are not "qualified tax-exempt obligations" for investment by financial institutions pursuant to Section 265(b)(3) of the Code.

We are further of the opinion that interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations, but is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code and in the computation of the environmental tax on corporations under Section 59A of the Code.

Except as stated herein, we express no opinion regarding any federal, state or local tax consequences arising with respect to ownership of the Bonds.

Sincerely,

PRESTON GATES & ELLIS

By:

Gerald Lee Sharp

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**APPENDIX C
GENERAL PURPOSE FINANCIAL STATEMENT
OF THE FAIRBANKS NORTH STAR BOROUGH FOR THE
FISCAL YEAR ENDED JUNE 30, 1995**

FAIRBANKS NORTH STAR BOROUGH

Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
and Discretely Presented Component Unit
Year Ended June 30, 1995
With Comparative Totals for Year Ended June 30, 1994

Exhibit II

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	FAIRBANKS NORTH STAR BOROUGH		SCHOOL DISTRICT	REPORTING ENTITY Total (Memorandum Only)
	General	Special Revenue	Debt Service		Totals (Memorandum Only)			
					Capital Projects	Expendable Trust		
Revenues								
Taxes	\$41,911,693	\$6,219,794	\$	\$	\$	\$48,131,487	\$48,076,791	\$48,131,487
Special assessments							143	
Intergovernmental revenues	16,831,705	4,742,349	362,401	12,218,431		34,154,886	27,001,544	118,669,133
Charges for services	4,346,366	635,684				4,982,050	4,445,056	4,982,050
Charges to School District	927,259					927,259	1,257,145	927,259
Other revenues	4,598,950	281,926	30,289		97,641	5,008,806	3,408,411	7,132,372
Total revenues	68,615,973	11,879,753	392,690	12,218,431	97,641	93,204,488	84,189,090	179,842,301
Expenditures								
Current								
General government	9,666,231	7,029,738				16,695,969	15,343,852	16,695,969
Education								
Charges from Borough								
All other							927,259	927,259
Community planning	782,420	89,246				871,666	897,944	111,933,023
Public works	4,805,266	2,115,784				6,921,050	6,932,908	871,666
Direct services	916,649	818,170				1,734,819	1,757,254	6,921,050
Parks and recreation	2,953,504					2,953,504	2,801,264	1,734,819
Library	2,202,728					2,202,728	2,119,051	2,953,504
Capital outlay		861,633		20,677,897		21,539,530	8,980,121	2,202,728
Debt service								767,246
Principal retirement of bonds			8,135,000			8,135,000	9,630,000	22,306,776
Interest and fiscal agent fees			4,150,332			4,150,332	4,257,667	8,135,000
Total expenditures	21,326,798	10,914,571	12,285,332	20,677,897		65,204,598	52,720,061	113,779,174
Excess (deficiency) of revenues over expenditures	47,289,175	965,182	(11,892,642)	(8,459,466)	97,641	27,999,890	31,469,029	(27,141,361)
Other financing sources (uses)								
Operating transfers in		1,147,535	11,868,270	7,959,656		20,975,461	16,037,045	1,229,103
Operating transfers from Borough								25,380,000
Operating transfers out	(22,267,064)	(362,927)				(22,629,991)	(17,707,501)	(1,229,103)
Operating transfers to School District	(25,380,000)					(25,380,000)	(25,000,000)	(23,859,094)
Bond proceeds							2,000,072	(25,380,000)
Total other financing sources (uses)	(47,647,064)	784,608	11,868,270	7,959,656		(27,034,530)	(24,670,384)	25,380,000
Excess (deficiency) of revenues and other sources over expenditures and other uses	(357,889)	1,749,790	(24,372)	(499,810)	97,641	965,360	6,798,645	(1,761,361)
Fund balances, July 1	12,055,116	5,770,442	266,341	3,799,738	580,977	22,472,614	15,673,969	13,126,198
Fund balances, June 30	\$11,697,227	\$7,520,232	\$241,969	\$3,299,928	\$678,618	\$23,437,974	\$22,472,614	\$11,364,837

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
General, Certain Special Revenue and Debt Service Funds
Year Ended June 30, 1995

Exhibit III
Sheet 1 of 2

	GENERAL FUND					SPECIAL REVENUE FUNDS WITH ANNUAL BUDGETS					OTHER SPECIAL REVENUE FUNDS	TOTAL SPECIAL REVENUE FUNDS
	Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Actual	Actual
Revenues												
Taxes	\$39,780,900	\$41,911,693	\$	\$41,911,693	\$2,130,793	\$6,000,540	\$6,219,794	\$	\$6,219,794	\$219,254	\$	\$6,219,794
Special assessments	1,580				(1,580)							
Intergovernmental revenues	15,132,820	16,831,705		16,831,705	1,698,885	990,340	1,077,703		1,077,703	87,363	3,664,646	4,742,349
Charges for services	4,273,930	4,346,366		4,346,366	72,436	329,000	290,219		290,219	(38,781)	345,465	635,684
Charges to School District	989,900	927,259		927,259	(62,641)							
Other revenues	3,145,729	4,598,950		4,598,950	1,453,221	104,610	232,478		232,478	127,868	49,448	281,926
Total revenues	63,324,859	68,615,973		68,615,973	5,291,114	7,424,490	7,820,194		7,820,194	395,704	4,059,559	11,879,753
Expenditures												
Current												
General government	9,563,440	9,666,231	57,637	9,723,868	(160,428)	6,221,994	3,150,026	595	3,150,621	3,071,373	3,879,712	7,029,738
Community planning	803,765	782,420	220	782,640	21,125	96,830	89,246		89,246	7,584		89,246
Public works	4,987,490	4,805,266	99,998	4,905,264	82,226	2,459,580	2,115,784	(278)	2,115,506	344,074		2,115,784
Direct services	985,449	916,649	(3,556)	913,093	72,356	895,970	818,170	472	818,642	77,328		818,170
Parks and recreation	3,020,676	2,953,504	(5,016)	2,948,488	72,188							
Library	2,238,490	2,202,728	6,576	2,209,304	29,186							
Capital outlay						103,422	62,256	(26,302)	35,954	67,468	799,377	861,633
Debt service												
Total expenditures	21,599,310	21,326,798	155,859	21,482,657	116,653	9,777,796	6,235,482	(25,513)	6,209,969	3,567,827	4,679,089	10,914,571
Excess (deficiency) of revenues over expenditures	41,725,549	47,289,175	(155,859)	47,133,316	5,407,767	(2,353,306)	1,584,712	25,513	1,610,225	3,963,531	(619,530)	965,182
Other financing sources (uses)												
Operating transfers in							9,800		9,800	9,800	1,137,735	1,147,535
Operating transfers out	(22,273,543)	(22,267,064)		(22,267,064)	6,479	(387,730)	(362,927)		(362,927)	24,803		(362,927)
Operating transfers to School District	(25,380,000)	(25,380,000)		(25,380,000)								
Total other financing sources (uses)	(47,653,543)	(47,647,064)		(47,647,064)	6,479	(387,730)	(353,127)		(353,127)	34,603	1,137,735	784,608
Excess (deficiency) of revenues and other sources over expenditures and other uses	(\$5,927,994)	(357,889)	(\$155,859)	(\$513,748)	\$5,414,246	(\$2,741,036)	1,231,585	\$25,513	\$1,257,098	\$3,998,134	518,205	1,749,790
Fund balances, July 1		12,055,116					4,420,937				1,349,505	5,770,442
Fund balances, June 30		\$11,697,227					\$5,652,522				\$1,867,710	\$7,520,232

See accompanying notes to financial statements.

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
General, Certain Special Revenue and Debt Service Funds
Year Ended June 30, 1995

DEBT SERVICE FUND

	Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues					
Taxes	\$	\$	\$	\$	\$
Special assessments					
Intergovernmental revenues	375,000	362,401		362,401	(12,599)
Charges for services					
Charges to School District					
Other revenues		30,289		30,289	30,289
Total revenues	375,000	392,690		392,690	17,690
Expenditures					
Current					
General government					
Community planning					
Public works					
Direct services					
Parks and recreation					
Library					
Capital outlay					
Debt service	12,302,270	12,285,332		12,285,332	16,938
Total expenditures	12,302,270	12,285,332		12,285,332	16,938
Excess (deficiency) of revenues over expenditures	(11,927,270)	(11,892,642)		(11,892,642)	34,628
Other financing sources (uses)					
Operating transfers in	11,868,270	11,868,270		11,868,270	
Operating transfers out					
Operating transfers to School District					
Total other financing sources (uses)	11,868,270	11,868,270		11,868,270	
Excess (deficiency) of revenues and other sources over expenditures and other uses	(\$59,000)	(24,372)	\$	(\$24,372)	\$34,628
Fund balances, July 1		266,341			
Fund balances, June 30		\$241,969			

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See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH
 Combined Statement of Revenues, Expenses
 and Changes in Retained Earnings
 Proprietary Fund Type
 Years Ended June 30, 1995 and 1994

Exhibit IV

	Enterprise Funds	
	1995	1994
Operating revenues		
Fares	\$273,341	\$233,894
Land sales, net of cost	187,472	(3,212)
Land leases	49,353	44,697
Gravel sales	7,919	9,337
Interest on land contracts receivable	153,378	185,597
Advertising	7,816	2,400
Charges for services	955,955	882,282
Other revenues	40,375	33,281
Total operating revenues	1,675,609	1,388,276
Operating expenses		
Wages and benefits	1,769,458	1,573,898
Fuels, lubricants and parts	157,654	226,232
Contractual services	697,582	541,131
Utilities	41,179	39,595
Professional services	80,487	63,556
Depreciation	835,611	830,060
Training, dues and professional expenses	13,042	17,188
Repairs and maintenance	16,739	25,379
Supplies	30,290	38,412
Self-insurance claims	(220,000)	250,000
Management contractor fee	122,840	125,123
Intragovernmental charges	815,283	832,259
Total operating expenses	4,360,165	4,562,833
Operating loss	(2,684,556)	(3,174,557)
Non-operating revenues (expenses)		
Operating grants	347,562	122,526
Interest income	176,321	152,833
Gain (loss) on sales of fixed assets	(20,448)	21,642
Total non-operating revenues	503,435	297,001

(Continued)

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH
 Combined Statement of Revenues, Expenses
 and Changes in Retained Earnings
 Proprietary Fund Type
 Years Ended June 30, 1995 and 1994

Exhibit IV

 (Continued)

	Enterprise Funds	
	1995	1994
Loss before operating transfers	(\$2,181,121)	(\$2,877,556)
Operating transfers in	1,654,530	1,747,970
Operating transfers out		(77,514)
Net loss	(526,591)	(1,207,100)
Add depreciation on fixed assets funded by contributed capital	737,843	738,898
Retained earnings, July 1	2,336,096	2,821,098
Residual equity transfer		(16,800)
Retained earnings, June 30	\$2,547,348	\$2,336,096

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH
 Combined Statement of Cash Flows
 Increases (Decreases) in Equity in Central Treasury Cash
 Proprietary Fund Type
 Years Ended June 30, 1995 and 1994

Exhibit V

	Enterprise Funds	
	1995	1994
Cash flows from operating activities		
Cash received from customers and contractor	\$1,899,106	\$2,009,322
Cash payments to suppliers for goods and services	(2,160,180)	(1,821,426)
Cash payments to employees for services	(1,711,284)	(1,581,761)
Cash payments for self-insurance claims	(10,000)	
Net cash used for operating activities	(1,982,358)	(1,393,865)
Cash flows from noncapital financing activities		
Operating grants received	334,573	78,731
Operating transfers from general fund	1,654,530	1,747,970
Operating transfers to capital projects fund		(77,514)
Net cash provided by noncapital financing activities	1,989,103	1,749,187
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,994,131)	(281,775)
Capital grants received	2,120,011	3,926
Proceeds from sales of fixed assets	20,772	27,831
Net cash provided by (used for) capital and related financing activities	146,652	(250,018)
Cash flows from investing activities		
Interest income allocation from central treasury	176,321	152,833
Net increase in equity in central treasury cash	329,718	258,137
Equity in central treasury cash at beginning of year	4,466,725	4,208,588
Equity in central treasury cash at end of year	\$4,796,443	\$4,466,725

(Continued)

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH
 Combined Statement of Cash Flows
 Increases (Decreases) in Equity in Central Treasury Cash
 Proprietary Fund Type
 Years Ended June 30, 1995 and 1994

Exhibit V

(Continued)

	Enterprise Funds	
	1995	1994
<u>Reconciliation of operating loss to net cash used for operating activities</u>		
Operating loss	(\$2,684,556)	(\$3,174,557)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	835,611	830,060
Change in assets and liabilities		
Decrease in inventories (net of non-cash inventory increase 1995 - \$347,684; 1994 - \$362,471)	12,650	239,626
Decrease in receivables	44,719	492,259
Increase in accounts payable	1,045	21,530
Increase (decrease) in wages and payroll taxes	(2,559)	6,931
Increase in accrued annual leave	10,827	7,905
Increase (decrease) in accrued self-insurance losses	(190,094)	247,301
Increase (decrease) in deposits from others	(56)	4,896
Decrease in unrealized gain on land contracts	(9,945)	(69,816)
Total adjustments	702,198	1,780,692
Net cash used for operating activities	(\$1,982,358)	(\$1,393,865)
<u>Noncash investing, capital and financing activities</u>		
Fixed assets contributions	\$64,262	\$37,318

See accompanying notes to financial statements.

1. Summary of significant accounting policies

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), and housing financing.

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 street lights. These services are provided to 108 neighborhoods and regions.

Solid Waste District: solid waste collection. The District services the area of the Borough outside the City of Fairbanks.

The financial statements of the Fairbanks North Star Borough have been prepared to conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

A. The Financial Reporting Entity and Its Component Unit

The basis for defining the financial reporting entity is an accountability perspective. These financial statements present the Fairbanks North Star Borough (the primary government) and its component unit. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Fairbanks North Star Borough School District (the School District) is the Borough's only component unit. The School District is reported in a separate column in the combined financial statements to emphasize that the District is legally separate from the Borough.

Although the 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:

- The Borough Assembly is responsible for approving the School District's total budget and may, during the year, change the appropriation of local support.
- Any year-end fund balance surplus in excess of 7% of the local appropriation to the School District lapses back to the Borough General Fund.
- The Borough Assembly 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.

1. Summary of significant accounting policies (continued)

A. The Financial Reporting Entity and Its Component Unit (continued)

- All land, buildings, and improvements other than buildings, used by the School District (except for on-base schools), are owned by the Borough and provided to the District at no charge.
- The School District is required to deposit all school money in the Borough's central treasury.

Complete financial statements of the School District can be obtained from the School District's Business Office at 520 Fifth Avenue, P.O. Box 71250, Fairbanks, Alaska 99707-1250; phone number (907) 452-2000.

B. Basis of Presentation - Fund Accounting

The accounts of the Fairbanks North Star Borough are organized on the basis of funds and account groups. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The financial statements in this report present an overview of the three types of funds (governmental, proprietary, and fiduciary) and the two account groups used by the Borough.

GOVERNMENTAL FUNDS

General Fund - The general fund is the general operating fund of the Borough. It is used to account for all financial resources except those required to be accounted for in another fund. It receives financial support from such sources as general property taxes, licenses and permits, and intergovernmental revenues. Expenditures are authorized in the annual budget and include such areawide activities as administration, parks and recreation, solid waste management, library, and planning and zoning.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes or which span more than one fiscal year. Grants from the State of Alaska, federal grants, non-areawide services, solid waste collection, and service areas are included in the special revenue funds.

Service areas have been established by certain communities and neighborhoods within the Borough for purposes of providing the following services: road maintenance and construction, fire protection, street lights, sewage disposal, and water supply. The revenues for these services are provided by local taxation and state shared revenue. The Borough is restricted from using areawide revenues for service area expenditures.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs for the Borough's general obligation bonds. Debt service requirements are funded by the general and non-areawide funds, a state-shared cigarette tax, and by state-funded reimbursements for school construction received through the general fund.

1. Summary of significant accounting policies (continued)

B. Basis of Presentation - Fund Accounting (continued)

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital items, other than those financed by proprietary funds.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises: a) where the intention of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or; b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Expendable Trust Fund - The expendable trust fund is used to account for the donations received and revenues earned on those donations, plus the expenditures of both those resources. Disbursements are made in accordance with the Borough Code for purposes designated by the trust agreement of the donor.

Agency Funds - Agency funds are used to account for assets held as an agent for other organizations and other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

GENERAL FIXED ASSETS ACCOUNT GROUP

The general fixed assets account group is used to record all fixed assets of the Borough not accounted for in the proprietary funds.

GENERAL LONG-TERM DEBT ACCOUNT GROUP

The general long-term debt account group is used to account for all unmatured long-term indebtedness not accounted for in the proprietary funds.

SCHOOL DISTRICT

The School District (SD) component unit is presented in its own column in the combined financial statements. The following School District fund types and account groups are aggregated and presented in total in that column: operating (SD general) fund, special revenue funds, capital projects funds, agency fund, general fixed assets account group, and general long-term debt account group.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

1. Summary of significant accounting policies (continued)

C. Basis of Accounting (continued)

All governmental and fiduciary funds are accounted for using the modified accrual basis of accounting. Their revenues are recorded in the accounting period in which they become susceptible to accrual; that is, when they become measurable and available as net current assets. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Property tax revenues are accrued when they are levied and available to finance expenditures of the current period. Property taxes are considered available if they are collected within 60 days after year-end. Hotel-motel room taxes are recognized on the modified accrual basis and delinquent sales tax revenues are recognized when collected. Certain grant revenues are dependent upon expenditures, and revenues from these grants are recognized when the expenditures are made; revenues from other grants are recognized on the cash basis. Charges for services and miscellaneous revenues are recognized on the cash basis. Interest income is accrued when earned.

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 which is recognized when due.

All proprietary funds are accounted for with a measurement focus on the flow of economic resources. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (that is, net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, except for revenue from land disposals, which is recognized on the installment method. Expenses are recognized when they are incurred.

All of the School District component unit's funds are accounted for using a current financial resources measurement focus. All of its funds and account groups use the modified accrual basis of accounting.

D. Budgets, Budgetary Accounting, and Encumbrances

The budgetary data presented in the financial statements is 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), 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 total amount.
- 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 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.

1. Summary of significant accounting policies (continued)

D. Budgets, Budgetary Accounting, and Encumbrances (continued)

Formal budgetary integration is employed as a management control device, during the year, for the General Fund; certain Special Revenue funds: Non-Areawide, Solid Waste Collection District, and Service Areas; Debt Service Fund; and Enterprise Funds. 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, special revenue (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. However, generally accepted accounting principles do not require the adoption of budgets for enterprise funds, and budgetary comparisons are not included for these funds since the measurement focus is upon determination of net income and financial position.

Numerous supplemental appropriations to the annual operating budget were necessary during the year. See Note 2A.

Appropriations are authorized by ordinance at the department level for the general, non-areawide special revenue, solid waste collection district special revenue, and enterprise funds; at the service area level in the service areas special revenue funds; 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.

All unencumbered appropriations for operations lapse at the end of the fiscal year. Appropriations for those special revenue and capital projects funds with project budgets do not lapse until the purpose of the appropriation has been accomplished.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting; under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation; is utilized as an extension of formal budgetary integration in the general fund, special revenue funds, and capital projects funds. For budgetary purposes, annual appropriations lapse at year-end, except for that portion related to encumbered amounts. Outstanding encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Encumbrances outstanding at year-end are carried forward to the new fiscal year. Such encumbrances constitute the equivalent of expenditures for budgetary purposes and accordingly, the accompanying financial statements present comparisons of actual results to the annual budgets of the governmental funds on the budgetary basis of accounting.

Information concerning the School District's budget, budgetary accounting, and encumbrances is included in the School District's separate comprehensive annual financial report. See Note 1A.

1. Summary of significant accounting policies (continued)

E. Equity in Central Treasury Cash and Investments

Cash balances of all Borough funds and cash of the School District component unit are combined and invested to maximize interest income while minimizing risk of loss of capital. Investments held by the central treasury are stated at cost. Interest income is allocated to the following funds and accounts based upon their cumulative, month-end cash equity balances: federal grants in all funds and of the School District, service areas special revenue funds, landfill closure reserve special revenue fund, Alaska Department of Education grants to the Borough and to the School District, nonexpendable trust fund, the enterprise funds, and pupil activities of the School District. In addition, interest earned on bond-funded projects is allocated to pay for the cost of debt service on those projects. The balance of interest income is allocated to the general fund. Realized gains and losses on the sale of investments are recorded in the general fund.

F. Cash Equity

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

G. Other Investments

Investments in the deferred compensation plan are recorded at market value.

H. Taxes Receivable

Property tax revenues are accrued on July 1 when they become available to finance expenditures of the current period.

I. Inventories

Inventories of the transit enterprise fund and of the School District are valued at cost (first-in, first-out method), except for School District inventories of United States Department of Agriculture food commodities which are valued at market price at the date of donation. All inventories are recorded as expenditures when used (consumption method).

J. Land

Entitlement land received by the Borough under the State of Alaska Municipal Land Act is recorded as contributed capital in the land enterprise fund. The land donated by the State is valued at \$1 per acre when patented until such time as its estimated fair value is readily determinable. When the fair market value of the land can be determined, that portion exceeding \$1 per acre is added to contributed capital. These lands remain in Inventory - Land Held for Sale until they are sold or leased or until it is determined that they will not be sold and will instead be retained by the Borough.

Lands to be sold are valued at the lower of cost (specific identification method) or market. Cost includes the donated value described above, plus development costs recorded at cost.

Lands being leased are recorded as Fixed Assets - Land Held for Lease in the land enterprise fund. Lands to be retained for public purposes are transferred to the general fixed assets account group.

1. Summary of significant accounting policies (continued)

K. Fixed Assets

General Fixed Assets Account Group - Acquisitions of fixed assets, other than in the proprietary funds, are recorded as expenditures in the appropriate purchasing fund and capitalized in the general fixed assets account group. These assets are valued at cost when historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair value on the date donated. Due to the volume and turnover of library materials, they are valued at estimated replacement cost using industry trade information. Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, flood control systems and street lighting systems, have not been capitalized, as these assets are immovable and of value only to the government. No depreciation is provided for assets recorded in the general fixed assets account group.

Proprietary Fund Type - Property, plant, and equipment held by the proprietary funds are recorded at cost, except for assets which have been contributed to the Borough. The contributed assets are stated at estimated fair market value at the date of contribution. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Depreciation of fixed assets acquired by grants, entitlements, and shared revenue externally restricted for capital acquisitions is closed to the appropriate contributed capital account. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Buildings	25 - 30 years
Improvements	5 - 25 years
Equipment	3 - 15 years

School District Component Unit - The fixed assets of the School District consist of equipment only. The Borough owns and provides to the School District all land, buildings and improvements other than buildings, except for the on-base schools. On-base land, buildings, and improvements other than buildings are provided to the District by the U.S. government through the State of Alaska for Fort Wainwright and Eielson Air Force Base. 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.

L. Due To and Due From Other Funds

The due to/due from other funds result from individual funds' overdrafts of pooled cash in the central treasury.

M. Accrued Annual Leave

For governmental and proprietary funds, and for the School District, annual leave is accrued as earned.

N. 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.

1. Summary of significant accounting policies (continued)

O. Advance Tax Payments

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

P. Long-Term Debt

Long-term liabilities expected to be financed from general governmental revenues are accounted for in the general long-term debt account group. Payments to retire general obligation bonds are accounted for in the debt service fund. Payments on assessments and contracts payable are recorded in the appropriate general, special revenue, or capital projects fund.

Bond proceeds are reported as an other financing source net of the applicable premium or discount, and net of issuance costs.

Q. Unrealized Gain on Land Contracts

In accordance with Financial Accounting Standards Board 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 which has not yet been recovered through collections of the receivables.

R. Fund Equity

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from other funds.

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. School District reserves are described in Note 15.

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 future periods.

S. Intergovernmental Grant Revenues

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

T. Interfund and Intra-Entity Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses in the appropriate fund or component unit. Transactions that constitute reimbursements to a fund or component unit for expenditures/expenses initially made from it that are properly applicable to another fund or component unit, are recorded as expenditures/expenses in the reimbursing fund or component unit and as reduction of expenditures/expenses in the fund or component unit that is reimbursed.

1. Summary of significant accounting policies (continued)

T. Interfund and Intra-Entity Transactions (continued)

Nonrecurring or nonroutine transfers of equity between funds or the component unit are accounted for as residual equity transfers. All other interfund and intra-entity transactions are reported as operating transfers.

U. In-Kind Support to the School District

As in previous years, certain services are provided by the Fairbanks North Star 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.

The School District operates school facilities at Fort Wainwright and Eielson Air Force Base. These schools are owned and financed by the U.S. government, through the State of Alaska, in their entirety and no Borough funds or appropriations have been used to fund their operation. This in-kind support is not reflected in the accompanying financial statements.

V. General Purpose Financial Statements

The General Purpose Financial Statements (GPFS) provide a summary overview of the financial position of all funds and account groups and of the operating results and cash flows of certain named funds. In addition, the School District component unit is discretely presented in a separate column in the GPFS.

Total columns on the GPFS are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

W. Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Borough's financial position, operations, and cash flows. However, comparative data have not been presented in all statements since their inclusion would make the statements unduly complex and difficult to understand.

Certain reclassifications, which have no effect on the fund balance or equity of any fund, have been made to the June 30, 1994 financial statements to conform them to current classifications.

2. Stewardship, compliance, and accountability

A. Supplemental Appropriations to Annual Budgets

Supplemental appropriations were necessary during the year as follows:

<u>Fund/Purpose</u>	<u>Amount</u>
General Fund:	
Purchased Borough Administrative Center and adjoining land	\$ 5,690,914
Solid waste management plan - Year 1 projects	1,205,000
Litigation expenditures	150,000
Chambers accessibility upgrades	24,500
Parks & Recreation position reclassifications	19,846
Other	<u>17,734</u>
	<u>\$ 7,107,994</u>
Non-Areawide Special Revenue Fund:	
Supplement ambulance purchases	<u>\$ 19,800</u>

B. Deficits in Fund Balances

The Bonds Capital Projects Fund had a \$387,494 deficit at June 30, 1995.

C. Excess of Expenditures Over Appropriations

The following had an excess of actual expenditures over appropriations for the year ended June 30, 1995:

General fund:	
Non-departmental:	
Other	\$ 528,700

The excess is due primarily to the implementation of Governmental Accounting Standards Board Statement No. 10. (See Note 20.)

D. Taxes Levied In Excess of the Maximum Tax Computation

Thirty-five service areas levied \$28,797 of taxes in excess of the maximum tax computation. (See Note 4.) Excesses result from using estimates of state-mandated property tax exemptions (for senior citizens, widows/widowers, and disabled veterans) in calculating the property tax cap. In accordance with FNSB 3.08.147, all of these were considered immaterial and the fiscal year 1995-96 computation was adjusted for the excess.

3. Deposits and investments

Equity in central treasury cash and investments includes all Borough funds and all funds of the School District.

Deposits - The Borough contracts its banking services with Key Bank of Alaska (KBA). These contracts require that KBA sweep the Borough's central treasury accounts daily and invest all available funds in an overnight repurchase agreement. As a result, at June 30, 1995, the carrying amount of the Borough's deposits was (\$1,116,962) and the corresponding bank balance was \$394,979. The daily bank balance is fully insured by a combination of federal depository insurance (FDIC) and securities held in the Borough's name by Bank America (BA), the Borough's custodial bank. The balance swept in accordance with the overnight repurchase agreement is insured by the collateral held in the Borough's name at BA.

Investments - Chapter 3.04 of the Borough Code of Ordinances describes the objectives, policies, and procedures for the investment of Borough funds and applies to the investment of all Borough monies, unless otherwise provided expressly by ordinance. The code also specifies the following authorized investments and maximum maturity schedule: 1) U.S. Treasuries - 3 years; 2) other obligations of the U.S. Government or its agencies and instrumentalities - 3 years; 3) repurchase agreements of securities specified in 1) and 2) above, subject to qualification of the financial institution and specified margin requirements - 5 years; 4) collateralized certificates of deposits and other deposits - 3 years; 5) bank deposits insured by FDIC or FLSIC - 3 years; 6) bonds or notes of any state or political subdivision thereof, rated A or higher - 3 years; 7) 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., created in accordance with Alaska Statutes 37.23.020. All Borough investments must be collateralized in accordance with the Code. In addition, the Borough has developed contracts for the investment and collateralization of funds in these various authorized instruments. During the fiscal year ended June 30, 1995, the Borough continued to invest in U.S. government securities and agencies, the Pacific Horizon Government Securities money market fund, and the overnight repurchase agreement with KBA. In October 1994, the Borough began investing short-term funds in the Alaska Municipal League Investment Pool.

The Borough's investments have been listed by type of instrument below. GASB Statement No. 3 establishes categories as an indication of the level of risk involved in the investment. The investment in deferred compensation plan and the government securities money market are not categorized. All of the Borough's remaining investments are in the category of least risk and include investments that are insured or registered in the Borough's name, or securities that are held by the Borough or its agent, in the Borough's name.

	Carrying Amount	Market Value
Repurchase agreement	\$ 966,218	\$ 966,218
U.S. securities and agencies	<u>35,091,085</u>	<u>35,039,106</u>
Categorized investments	36,057,303	36,005,324
Government securities		
money market funds	<u>18,871,084</u>	<u>18,871,084</u>
Central treasury investments	54,928,387	54,876,408
Investment in deferred compensation plan	<u>3,275,783</u>	<u>3,275,783</u>
 Total investments	 <u>\$58,204,170</u>	 <u>\$58,152,191</u>

4. Property 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.

Alaska Statutes 29.45.090 limit the amount of taxes levied to 3% of the assessed value of the property within the Borough. Furthermore, no Borough, or combination of municipalities occupying the same geographic area, may levy taxes which exceed the product of 225% of the average per capita full and true value 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 of the Borough's Code of Ordinances 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 2D). For computation purposes, the preceding year's tax levy is adjusted for inflation, new construction, additional voter-approved services, new judgments against the Borough, and special appropriations necessary on an emergency basis. Furthermore, the limitation does not apply to any appropriation for payments on bonds.

5. Deeds of trust and contracts receivable

Deeds of trust and contracts receivable have been recorded for installment sales of Borough land.

Deeds of Trust Receivable - Beginning September 1, 1986, 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 9.5% to 10.0% and weighted average interest rate of 9.96%. 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:

<u>Year Ending June 30</u>	<u>Annual Installments</u>
1996	\$289,983
1997	\$296,402
1998	\$211,172
1999	\$121,596
2000	\$ 89,659

Contracts Receivable - Proceeds from certain land sales made prior to September 1, 1986 are receivable in annual installments over periods of up to ten years plus interest at 9 - 12% per annum, with a weighted average interest rate of 10.96%. The annual installments of principal due for the next five years are:

<u>Year Ending June 30</u>	<u>Annual Installments</u>
1996	\$ 5,622
1997	\$ 1,601
1998	\$ 1,495
1999	\$ 1,495
2000	\$ 723

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, 1995, the total receivable for delinquent accounts amounted to \$213,236.

6. Inventory - land held for sale

Under provisions of the State of Alaska Municipal Land Act, the Fairbanks North Star Borough was granted an entitlement of 112,000 acres. The Borough has received patent to about 75% of those acres. Of those patented acres, approximately 85% remain undeveloped. Almost five percent have been dedicated for recreation, public use or other activities. A small portion is being leased. The remainder have been developed for sale. Both the undeveloped and developed land are recorded as land held for sale in the land enterprise fund.

The Borough has temporarily withdrawn from sale \$1,803,442 of land inventory due to a lawsuit against the State of Alaska regarding former Mental Health Trust lands statewide. Another \$9,099 of land inventory was withdrawn from sale due to potential flooding of the parcel and \$55,302 was withdrawn due to wetlands regulations.

7. Fixed assets

A summary of the changes in the general fixed assets account groups of the Borough and School District follows:

	June 30, 1994 <u>Balance</u>	Additions/ <u>Transfers In</u>	Deletions/ <u>Transfers Out</u>	June 30, 1995 <u>Balance</u>
<u>Borough</u>				
Land	\$ 3,882,382	\$ 1,746,264	\$ 83,211	\$ 5,545,435
Buildings	228,335,451	4,296,349	2,378,396	230,253,404
Improvement other than buildings	11,688,028	48,547		11,736,575
Furniture and equipment	17,348,513	1,186,344	557,644	17,977,213
Library materials	8,387,604	556,855		8,944,459
Construction work in progress	<u>53,866,734</u>	<u>13,069,505</u>		<u>66,936,239</u>
Borough total	<u>\$323,508,712</u>	<u>\$ 20,903,864</u>	<u>\$ 3,019,251</u>	<u>\$341,393,325</u>
<u>School District</u>				
Furniture and equipment	<u>\$ 31,714,536</u>	<u>\$ 2,737,980</u>	<u>\$ 718,623</u>	<u>\$ 33,733,893</u>

Equipment purchased with certain grant funds is recorded in the general fixed assets account groups. However, federal and state governments have a reversionary interest in the equipment.

A summary of the property, plant, and equipment of the proprietary funds at June 30, 1995 follows:

	Enterprise <u>Funds</u>
Land	\$ 2,602,867
Buildings	18,192,374
Equipment	3,918,603
Construction work in progress	<u>438,250</u>
Total	25,152,094
Less accumulated depreciation	<u>(5,555,251)</u>
Net	<u>\$19,596,843</u>

8. Interfund receivables and payables

Individual fund interfund receivable and payable balances at June 30, 1995, all resulting from deficits in central treasury cash, are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	\$431,607	\$
Special revenue funds:		
Federal pass-through grants		85,932
Federal grants		4,255
Capital projects fund:		
Bond projects		<u>341,420</u>
Total	<u>\$431,607</u>	<u>\$431,607</u>

9. Retirement plans

As of June 30, 1995, 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). Separate, publicly available financial statements for these systems, containing pension disclosures, are available from the State of Alaska. 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. Complete pension information and disclosures for the School District are included in the District's separate component unit financial report. See Note 1A. Condensed data for the School District follows in the appropriate sections, below.

A. Alaska Public Employees' Retirement System (PERS)

Plan Description and Provisions

The Alaska Public Employees' Retirement System is a defined benefit, agent, multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions within the State of Alaska. The PERS was created by State statutes and political subdivision participation is optional.

Employee participation in the plan is mandatory for permanent employees scheduled to work at least 15 hours a week. There is no optional participation for other employees. Firemen are required to contribute 7.5 percent of their eligible compensation (usually equal to gross wages) and all other employees contribute 6.75 percent. The Borough is required to contribute remaining amounts necessary to fund the plan using the actuarial basis specified by the State Retirement Board. Employer rates are adjusted annually on July 1, and are based on actuarial valuations made two years prior to that date. The employer rate for amortizing all future service liabilities is uniform for all participating employers and a separate rate is determined for amortizing each employer's unfunded past service liability or funding surplus. Prior to July 1, 1993, the Borough's experience was combined with that of the School District's noncertificated employees to calculate the separate portion of the reporting entity's combined rate. The new, separate participation agreement of the Borough resulted in a past service funding surplus larger than the Borough's portion of the system's future service liabilities -- a funding excess. Hence, the Borough's mandatory, combined rate for 1995 was zero percent. However, the Borough exercised its option to submit contributions directly to its equity account with the PERS. In 1995, the Borough made these direct contributions at a rate of 2.54 percent. The direct contribution rate in 1994 was 1.86 percent.

9. Retirement plans (continued)

A. Alaska Public Employees' Retirement System (PERS) (continued)

Benefits vest after five years of credited service. Employees hired prior to July 1, 1986, with five or more years of credited service, are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For employees hired after June 30, 1986, the normal and early retirement ages are 60 and 55, respectively. Employees with 30 or more years of credited service may retire at any age and receive a normal benefit. PERS employees may select early retirement; however, the monthly benefit is actuarially reduced based on age. The normal annual pension benefit is equal to 2 percent of the member's highest three-year average monthly compensation for the first ten years of service, 2 1/4 percent for the second ten years of service, and 2 1/2 percent for the remaining years of service. All service earned prior to July 1, 1986 is calculated using the 2 percent multiplier. Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service. When pension benefits begin, major medical benefits are provided without cost to all members first hired before July 1, 1986. Members first hired after June 30, 1986 may elect major medical benefits by paying premiums. The plan also provides for both occupational and non-occupational disability and death benefits.

These benefit provisions and all other requirements are established by State statute and Borough ordinance. Pension benefits are adjusted each year based upon increases in the Consumer Price Index (CPI) for the prior year. The increase in the benefits is 75 percent of the CPI increase up to a 9 percent maximum for recipients who are at least age 65 or on disability, or 50 percent of the increase up to a 6 percent maximum for recipients who are at least age 60 but under 65 or who have been receiving benefits for at least five years. Starting at age 65, or at any age for those employed before July 1, 1986, a retired employee who remains in Alaska is eligible for an additional allowance equal to 10 percent of the base benefit or \$50 a month, whichever is greater.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" (PBO) is a standardized measure used to disclose the present value of retirement benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the PERS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of projected credited benefits and is independent of the funding method used to determine contributions to the PERS.

The pension benefit obligation and asset valuation of the PERS were computed as part of an actuarial valuation performed as of June 30, 1994, which is the latest date this information is available as of the date of these financial statements. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, (b) health cost inflation trend from 9.5 percent in 1995, 8.5 percent in 1996, 7.5 percent in 1997, 6.5 percent in 1998, and 5.5 percent in 1999 and later, and (c) projected salary increases of 5.5 percent per year compounded annually for the first 5 years of employment and 4.5 percent per year thereafter, with approximately 4 percent attributable to inflation and the remainder attributable to merit and seniority. The actuarial assumptions used to determine the pension benefit obligation are identical to those used to determine contribution requirements. The asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. All assets are valued at market value. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

9. Retirement plans (continued)

A. Alaska Public Employees' Retirement System (PERS) (continued)

The assets in excess of pension benefit obligation applicable to Borough employees were \$3,017,000 and the unfunded pension benefit obligation applicable to School District component unit employees was \$4,408,000 at June 30, 1994, as follows (in thousands):

	<u>Amounts</u>	
	<u>Borough</u>	<u>School District</u>
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 13,300	\$ 25,055
Current employees:		
Accumulated contributions including allocated investment income	5,568	9,413
Employer financed, vested	14,637	22,804
Employer financed, non-vested	<u>1,144</u>	<u>2,331</u>
Total pension benefit obligation as of June 30, 1994	<u>34,649</u>	<u>59,603</u>
Net assets available for benefits as of June 30, 1994, at market (actuarial values were \$39,490 and \$57,868 for the Borough and School District, respectively)	<u>37,666</u>	<u>55,195</u>
Assets in excess of (unfunded) pension benefit obligation	<u>\$ 3,017</u>	<u>\$ (4,408)</u>
Assets as a percent of pension benefit obligation	<u>108.7%</u>	<u>92.6%</u>

Of the total plan's pension benefit obligation of \$4,620,182,000 (all employers), \$1,242,777,000 is attributable to postemployment health care benefits.

Actuarially Determined Contribution Requirements and Contributions Made

The PERS funding policy provides for actuarially determined periodic contributions at rates that, for individual employers, change over time so that sufficient assets will be available to pay benefits when due. The rate for the Borough employee group as a whole is equal to a consolidated rate and a past service rate. The consolidated rate is a uniform rate for all participating employers sufficient to amortize all future service liabilities (less value of employee contributions) over future working lifetimes of the covered group. It is determined using the projected unit credit actuarial funding method. The past service rate is determined separately for each employer sufficient to amortize each employer's unfunded past service liability with level percentage of payroll payments over 25 years. Any funding surplus is amortized over five years.

9. Retirement plans (continued)

A. Alaska Public Employees' Retirement System (PERS) (continued)

The payroll for Borough employees covered by the PERS for the year ended June 30, 1995, was \$11,617,806 out of a total payroll of \$12,906,559. The School District's payroll for employees covered by PERS for the year ended June 30, 1995 was \$16,597,934 out of a total payroll of \$71,223,966.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligations as described above.

The total contribution to PERS from the Borough and its employees for 1995 was \$1,105,781. Employees contributed \$810,041 (6.97 percent of covered payroll) in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 1992. Due to an excess of assets over the actuarial accrued liability, the actuarially determined contribution for the Borough was zero. However, the Borough voluntarily contributed \$295,740 (2.54 percent of covered payroll) to the PERS. The total contributions from the Borough consisted of (a) \$2,076,102 normal costs (17.87 percent of covered payroll) and (b) (\$970,321) amortization of the funding excess ((8.35) percent of covered payroll).

The total contribution to PERS from the School District and its employees for 1995 was \$4,104,330. Employees contributed \$1,136,026 (6.84 percent of covered payroll) in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 1992. Of the School District's \$2,968,304 contribution, \$2,023,288 (12.19 percent of covered payroll) was made in accordance with actuarially determined requirements. The remainder was voluntarily contributed by the School District toward their unfunded actuarial accrued liability. The total contributions from the School District consisted of (a) \$2,944,473 normal costs (17.74 percent of covered payroll) and (b) \$1,159,857 amortization of the unfunded actuarial liability (6.99 percent of covered payroll).

Trend Information - PERS

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Three-year trend information follows:

		<u>Borough</u>	<u>School District</u>
Net assets available as a percentage of the pension benefit obligation	1992	123.7 %	96.3 %
	1993	119.3 %	98.2 %
	1994	108.7 %	92.6 %
Assets in excess of (unfunded) pension benefit obligation as a percentage of covered annual payroll	1992	60.1 %	(11.5)%
	1993	53.3 %	(5.9)%
	1994	26.2 %	(27.0)%
Employer contributions which were made in accordance with actuarially determined requirements as a percentage of annual covered payroll	1992	3.81 %	3.81 %
	1993	1.86 %	1.86 %
	1994	1.86 %	11.13 %

9. Retirement plans (continued)

A. Alaska Public Employees' Retirement System (PERS) (continued)

Prior to 1987, PERS plan information was available only for the plan as a whole, not by individual employer. Eight-year historical trend information is presented as Required Supplementary Information following these Notes to Financial Statements. Ten-year trend information for the PERS, as a whole, can be found in the State of Alaska's June 30, 1994 Annual Financial Report for its retirement systems.

B. Alaska Teachers' Retirement System (TRS)

Plan Description

The Alaska Teachers' Retirement System is a defined benefit, cost-sharing, multiple-employer retirement system created and administered by the State of Alaska to provide benefits for teachers. The School District component unit participates in the TRS and all of the District's certificated employees are covered by the TRS.

The payroll for employees covered by TRS for the year ended June 30, 1995, was \$51,950,414 which compares to the District's total payroll of \$71,223,966.

Membership in TRS is compulsory for each certificated elementary or secondary teacher or other certificated personnel who are employed on a full-time basis or part-time basis in positions that require teaching certificates as a condition of employment.

Generally, employees with eight years or more of credited service are entitled to annual pension benefits beginning at normal retirement age 60 equal to 2 percent of their highest three-year average monthly compensation for the first 20 years of service and 2 1/2 percent for all remaining service. All service earned prior to July 1, 1990 is calculated using the 2 percent multiplier. The plan permits early retirement at age 55. Members participating before July 1, 1990, are eligible for normal retirement at age 55 or early retirement at age 50. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity. Effective January 1, 1987, a married member who retires must receive the benefit in the form of a joint and survivor annuity unless the member's spouse consents to another form of benefit. Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service. In addition, major medical, death and disability benefits are available.

Pension benefits are adjusted each year based upon increases in the Consumer Price Index (CPI) for the prior year. The increase in benefits is 75% of the CPI increase up to a 9 percent maximum for recipients who are at least age 65 or on disability, or 50 percent of the increase up to a 6 percent maximum for recipients who are at least age 60 but under 65 or who have been receiving benefits for at least eight years. Starting at age 65, or at any age for those employed before July 1, 1990, a retired employee who remains in Alaska is eligible for an additional allowance equal to 10 percent of the base benefit.

Funding Status and Progress

Significant actuarial assumptions for the pension benefit obligation and the asset valuation of the TRS are the same as those used for the PERS. At June 30, 1994 (the latest valuation date), the total plan pension benefit obligation was \$2,761,409,000 and net assets available for benefits were \$2,351,719,000 (at market value) giving the plan an unfunded pension benefit obligation of \$409,690,000. This means that the plan is 85.2 percent funded. Of the total pension benefit obligation, \$480,231,000 is attributable to postemployment health care benefits.

9. Retirement plans (continued)

B. Alaska Teachers' Retirement System (TRS) (continued)

Actuarially Determined Contribution Requirements and Contributions Made

Covered employees were required to contribute 8.65 percent of their base salary earned from July 1 to the following June 30. The District contributions vary and are determined annually on an actuarial basis. The contribution requirement for the year ended June 30, 1995 was \$10,964,591 which consisted of \$6,233,907 from the District and \$4,730,684 from employees. These contributions represented 12.00 percent and 9.11 percent of covered payroll, respectively. The District's employer contribution to TRS of \$6,233,907 amounted to 10.4% of the total TRS employer contributions statewide of \$60,017,966.

Trend Information (TRS)

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

The District's contributions, which were made in accordance with actuarially determined requirements, have shown the following trend as a percentage of covered payroll for the three years ended June 30:

	TRS
1992	11.88%
1993	12.00%
1994	12.00%

Additional trend information is available in the TRS June 30, 1994 annual financial report.

10. Operating leases

The Fairbanks North Star Borough is obligated under certain building space 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 in the Borough's account groups. Operating lease expenditures for the year ended June 30, 1995 were \$651,680.

The Borough has two significant operating leases. In one, the Borough leases two school sites from the University of Alaska for nominal amounts to the years 2020 and 2025. The Borough's other significant operating lease is for its co-located warehouse and facilities maintenance center. The ten-year lease expires June 30, 1996. Under its terms, the Borough has the right of first refusal if the owner decides to sell the property.

On April 28, 1995, the Borough purchased its administrative building. In accordance with the terms of the operating lease, the purchase price was \$5,177,660, the amount of the lessor's outstanding mortgage balances. In addition, the Borough purchased a parcel of adjoining land for its assessed value of \$508,868.

10. Operating leases (continued)

The following is a schedule of the future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 1995:

Year Ending	Amounts
June 30	
1996	\$ 130,423
Thereafter	-
Total minimum payments required	<u>\$ 130,423</u>

11. Long-term debt

At June 30, 1995, all long-term debt of the Borough is in its general long-term debt account group. The Borough's proprietary funds have no long-term debt at June 30.

The Borough's long-term debt at June 30, 1995, is comprised of the following individual issues:

General obligation bonds:

\$15,500,000 1976 Series K serial bonds (of which \$6,500,000 is for school facilities, \$3,900,000 for library, \$5,100,000 for swimming pools) due in annual installments of \$1,000,000 through August 1, 1996 at 7.0% interest.	\$ 2,000,000
\$27,813,000 1988 Series R school facilities serial bonds due in annual installments of \$1,150,000 to \$1,350,000 through March 1, 1998 at 12.0% interest.	3,750,000
\$16,060,000 1988 Refunding Series serial bonds due in annual installments of \$2,060,000 to \$2,645,000 through June 1, 2000 at 7.0 - 7.4% interest.	11,570,000
\$42,615,000 1993 Refunding Series S bonds due in annual installments of \$1,380,000 to \$4,755,000 through March 1, 2008 at 4.0 - 5.5% interest.	41,100,000
\$2,000,000 1994 Series T solid waste transfer station bonds due in annual installments of \$170,000 to \$245,000 through April 1, 2004 at 5.0 - 6.5% interest.	<u>1,835,000</u>
	<u>60,255,000</u>

Sewer assessments payable:

\$48,546 of sewer assessments due in annual installments through January 15, 2021 at 5.0% interest.	<u>30,394</u>
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Long-term contracts payable:

\$854,269 of eight (8) office and computer equipment contracts due in monthly and annual installments through January 2001 at 4.44% - 13.58% interest.	<u>468,029</u>
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Landfill closure and postclosure care liability (see Note 12)

	<u>6,490,782</u>
	<u>\$67,244,205</u>

11. Long-term debt (continued)

The following is a summary of changes in long-term debt for the year ended June 30, 1995:

	General Obligation Bonds	Sewer Assessments Payable	Long-Term Contracts Payable	Landfill Closure and Postclosure Care Liability	Total
Payable at July 1, 1994	\$68,390,000	\$ 31,608	\$ 648,585	\$ 5,883,000	\$74,953,193
New debt			34,629	607,782	642,411
Debt retired	(8,135,000)				(8,135,000)
Sewer assessments paid		(1,214)			(1,214)
Contracts payable paid			(215,185)		(215,185)
Payable at June 30, 1995	<u>\$60,255,000</u>	<u>\$ 30,394</u>	<u>\$ 468,029</u>	<u>\$ 6,490,782</u>	<u>\$67,244,205</u>

The annual requirements to amortize debt outstanding as of June 30, 1995 (excluding the Landfill Closure and Postclosure Care Liability -- see Note 12), including interest payments of \$14,843,260 are as follows:

Year Ending June 30	General Obligation Bonds	Sewer Assessments Payable	Contracts Payable	Total
1996	\$ 9,345,960	\$ 2,733	\$ 278,707	\$ 9,627,400
1997	9,194,635	2,673	65,121	9,262,429
1998	8,144,273	2,612	61,634	8,208,519
1999	8,098,330	2,551	49,591	8,150,472
2000	8,155,618	2,491	45,675	8,203,784
2001-2005	26,880,632	11,543	25,882	26,918,057
2006-2010	11,691,222	10,026		11,701,248
2011-2021		15,556		15,556
	<u>\$81,510,670</u>	<u>\$ 50,185</u>	<u>\$ 526,610</u>	<u>\$82,087,465</u>

At June 30, 1995, \$21,650,000 of outstanding general obligation bonds are considered defeased from prior years' refundings.

On October 5, 1993, the voters of the Fairbanks North Star Borough approved bond propositions totaling \$25,380,000 for construction of a new elementary school and renovations at Lathrop High School. As of June 30, 1995 these authorized bonds have not been issued.

On September 14, 1995, the Assembly canceled the authorization for the remaining \$1,000,000 of unissued library facilities bonds, originally approved by the voters on October 8, 1974 for \$4,900,000.

On October 2, 1995, the voters of the Fairbanks North Star Borough approved a bond issue proposition for library expansion and renovation totaling \$2,000,000.

School District Long-Term Debt - The School District has financed a \$438,182 upgrade to its computer system with a capital lease due in annual installments of \$151,646 at 1.9% interest through fiscal year 1996-97 with total minimum lease payments of \$303,292. The present value of those future payments is \$294,845.

The School District also has \$83,493 in liabilities for compensated absences recorded in its general long-term debt account group at June 30, 1995.

12. Municipal solid waste landfill closure and postclosure care costs

State and federal laws and regulations require that the Borough place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Operating expenditures related to current activities of the landfill are recorded in the general fund. If it is probable that future closure and postclosure care expenditures will be paid with current expendable resources, then an expenditure provision and related liability will be recognized based on those future costs that will be incurred near or after the date the landfill no longer accepts waste.

For fiscal year 1994-95, it is unlikely that any of the estimated closure and postclosure care costs will use current expendable resources and therefore, no expenditure provision or liability is recognized. Instead, the total amount of the estimated costs are reported in the General Long-Term Debt Account Group. The recognition of landfill closure and postclosure care costs and any related liability is based on the amount of the landfill used during the year. The estimated General Long-Term Debt Account Group liability for landfill closure and postclosure care costs has a balance of \$6,490,782 as of June 30, 1995, which is based on 62% of the landfill used (filled) to date. It is estimated that an additional \$3,966,293 will be recognized as a closure and postclosure care liability between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2003). The estimated total current cost of the landfill closure and postclosure care (\$10,457,075) 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, 1995. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The Fairbanks North Star Borough is required by state and federal laws and regulations to demonstrate financial responsibility for closure and postclosure care by meeting the requirements of a specially designed local government financial test, which includes a financial component, a public notice component, and a record keeping component. The Fairbanks North Star Borough is in compliance with these requirements at June 30, 1995. There were no assets restricted for the payment of closure and postclosure costs at June 30, 1995. While not required by state or federal regulations, the Fairbanks North Star Borough Assembly established a special revenue fund entitled Landfill Closure Reserve Fund, effective September 22, 1994 and contributed \$440,000 from the General Fund. Additional yearly contributions are anticipated. It is also anticipated that future inflation costs will be financed in part from earnings on the General Fund contributions. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure 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.

13. Commitments in the capital projects funds

The Fairbanks North Star Borough's capital improvement programs in effect at June 30, 1995 contain authorizations of \$127,628,188 for hundreds of projects, which are accounted for in four different capital projects funds. Unexpended authorizations total \$31,861,066.

The projects undertaken include Borough facilities, fire and emergency medical services, public athletic/recreational sites, roads, School District projects, sewer and utilities, and solid waste systems.

The Borough has hundreds of commitments for architectural, engineering, and construction services under various continuing contracts which are recorded as encumbrances. Funding sources for the capital improvement programs include general obligation bonds, state revenues, and contributions from the general and service area funds.

14. Contributed capital

Changes in contributed capital of the enterprise funds during the year were as follows:

	<u>Transit</u>	<u>Land</u>	<u>Carlson Center</u>	<u>Total</u>
Capital grants contributions	\$ 1,965,074	\$ 1,664	\$ 4,557	\$ 1,971,295
Depreciation on fixed assets funded by contributed capital	(235,267)	(703)	(501,873)	(737,843)
Other changes	(88,900)	349,271	64,043	324,414
Contributed capital, June 30, 1994	<u>2,351,392</u>	<u>7,940,114</u>	<u>14,329,297</u>	<u>24,620,803</u>
Contributed capital, June 30, 1995	<u>\$ 3,992,299</u>	<u>\$ 8,290,346</u>	<u>\$ 13,896,024</u>	<u>\$ 26,178,669</u>

15. Fund balance - School District component unit

The School District has designated \$850,000 for subsequent year's expenditures and reserved \$2,126,971 for encumbrances. Other School District reserves of \$8,860,706 at June 30, 1995 are for the following purposes:

Prepaid items	\$ 211,031
Inventory	761,803
Public Law 874 funding	7,887,872

Inventory and prepaid items are reserved to indicate that they do not constitute "available spendable resources", even though they are classified as assets. U.S. Public Law 874 provides funding for students at the schools located on the military bases. These funds are passed through the State of Alaska and are received by the School District in the year preceding the year they will be used. In addition, the amount of P.L. 874 funds received is used to reduce the subsequent year's funding from the Public School Foundation Program, a direct State aid program for Alaskan school districts.

16. Carlson Center enterprise fund

This fund was established July 1, 1989 pursuant to Ordinance 89-045. The Carlson Center building was opened to the public June 13, 1990. Building enhancements and major maintenance are financed by state grants and general fund contributions, and are accounted for in the capital projects fund. Construction expenditures incurred through June 30, 1995 are reflected as fixed assets (Construction Work in Progress) and as Contributed Capital in the Carlson Center Enterprise Fund.

17. Enterprise funds - segment information

The Fairbanks North Star Borough maintains three enterprise funds which provide public transportation services, manage Borough-owned lands, and oversee the operation of the John A. Carlson Community Activity Center.

17. Enterprise funds - segment information (continued)

Segment information for the year ended June 30, 1995 is as follows:

	<u>Transit</u>	<u>Land</u>	<u>Carlson Center</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$ 968,241	\$ 668,109	\$ 39,259	\$ 1,675,609
Operating expenses:				
Depreciation	273,286	4,511	557,814	835,611
Other	2,477,951	748,273	298,330	3,524,554
Operating loss	(1,782,996)	(84,675)	(816,885)	(2,684,556)
Non-operating revenues (expenses):				
Operating grants	347,562			347,562
Other	(12,042)	165,157	2,758	155,873
Operating transfers in	1,173,070	16,000	465,460	1,654,530
Net income (loss)	(274,406)	96,482	(348,667)	(526,591)
Current capital contributions	1,876,174	350,935	68,600	2,295,709
Property, plant and equipment:				
Additions/transfers in	2,028,559	4,659	69,891	2,103,109
Deletions/transfers out	(1,097,235)	(900)	(19,971)	(1,118,106)
Net working capital	489,158	7,569,241	363,433	8,421,832
Long-term receivables		1,154,106		1,154,106
Total assets	4,905,371	10,324,876	14,369,589	29,599,836
Long-term unrealized gain		446,764		446,764
Bonds and other long-term liabilities payable from operating revenues	none	none	none	none
Total equity	4,613,013	9,773,559	14,339,445	28,726,017

18. Library expendable trust fund

The Fairbanks North Star Borough Public Library is a 15 percent beneficiary of two trusts. These trusts provide 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 these trusts is recorded as donations in the Library Expendable Trust Fund. \$576,480 had been received in donations as of June 30, 1995. The Library's shares of the carrying value and market value of the trusts' net assets were \$2,170,000 and \$4,553,000, respectively, at June 30, 1995, as reported by the trusts' trustee.

Chapter 3.01.045 of the Borough's Code of Ordinances provides that all monies received from the two trusts shall be deposited into the Library Expendable Trust Fund and shall be deemed trust principal. The Code further states that the Trust Fund may not spend trust principal and may spend no more than 50 percent of all income from trust principal earned beginning April 30, 1990. The spendable income earned during the fiscal year ending June 30, 1995 was \$13,008 increasing the Trust Fund's undesignated fund balance at June 30, 1995 to \$47,358.

19. Deferred compensation plan

The Borough maintains a deferred compensation plan adopted under the provisions of Internal Revenue Code (IRC) Section 457. The deferred compensation plan is available, but optional, to all permanent employees of the Borough. Under the plan, employees are permitted to defer a portion of their salaries and the related federal income taxes until the withdrawal date. The deferred compensation is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation, and all rights thereto, are the property of the Borough until paid or made available to the employees or beneficiaries. These amounts are subject only to the claims of the Borough's general creditors. Furthermore, the participants in the plan have rights equal to those of the general creditors of the Borough, and each participant's rights are equal to his or her share of the fair market value of the plan assets. The plan is accounted for as an agency fund of the Borough.

The deferred compensation plan is administered by an unrelated insurance company. Investments are managed by the administrator under various investment options. The choice of the investment options is made by the participant.

As part of its fiduciary role, the Borough has an obligation of due care in selecting the third party administrator. In the opinion of management, the Borough has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

The Borough believes that it is unlikely that it will use the plan assets to satisfy the claims of general creditors in the future.

20. Risk management and accounting changes

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

The joint Borough/School District risk management program is accounted for within the Borough's general fund with chargebacks 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. Both methods adjust for current trends and other information and the estimates include the effects of inflation and other economic and social factors.

20. Risk management and accounting changes (continued)

Changes in the self-insured claims liabilities for fiscal years 1995 and 1994 follow:

	<u>1994-95</u>		<u>1993-94</u>	
	<u>Accrued Self- Insurance Losses</u>	<u>Environmental Claim Payable</u>	<u>Accrued Self- Insurance Losses</u>	<u>Environmental Claim Payable</u>
<u>Borough</u>				
July 1	\$ 1,033,867	\$ 402,000	\$ 449,240	\$ 300,000
Current year claims and changes in estimates	2,723,529		2,602,302	102,000
Claims payments	<u>(2,696,431)</u>	<u>(402,000)</u>	<u>(2,017,675)</u>	<u> </u>
June 30	<u>\$ 1,060,965</u>	<u>\$ </u>	<u>\$ 1,033,867</u>	<u>\$ 402,000</u>
<u>School District</u>				
July 1	\$ 1,958,631		\$ 487,880	
Current year claims and changes in estimates	8,612,476		9,590,254	
Claims payments	<u>(8,225,891)</u>		<u>(8,119,503)</u>	
June 30	<u>\$ 2,345,216</u>		<u>\$ 1,958,631</u>	

Prior to July 1, 1994, the Borough and School District did not record estimates for incurred but not reported (IBNR) workers' compensation, general liability, and auto liability claims and the Borough did not record an estimate for IBNR medical claims. In fiscal year 1995, the Borough and School District made accounting changes which resulted in reporting \$409,164 and \$31,250, respectively, of estimated IBNR claims payable at June 30, 1995. These amounts are included in each entity's respective 1994-95 current year claims and changes in estimates. Of the \$409,164 for the Borough, \$300,000 of estimated IBNR claims were payable at June 30, 1994. Prior to July 1, 1993, the District did not record an estimate for incurred but not reported medical claims. In fiscal year 1994, the District made an accounting change which resulted in reporting \$1,600,000 of estimated IBNR medical claims payable at June 30, 1994. This amount is included in the District's 1993-94 current year claims and changes in estimates.

21. ContingenciesA. Litigation

The Borough and the School District, in the normal course of their activities, are involved in various claims and litigation and have accrued amounts they consider sufficient to cover settlements that may be payable as a result of unfavorable outcomes. An accrual is made when a potential loss is probable and the loss can be estimated. 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 self-insurance losses. Environmental claims, and all other accrued claims and litigation, are recorded in accounts payable or estimated claims, judgments, and settlements payable.

21. Contingencies (continued)

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.

APPENDIX D

THE MBIA INSURANCE CORPORATION INSURANCE POLICY

The Insurer's 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 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 Insurer's 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); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds 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").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer'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 upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

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 a Bond 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 State Street Bank and Trust Company, N.A., 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 or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer 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. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1995 the Insurer had admitted assets of \$3.8 billion (audited), total liabilities of \$2.5 billion (audited), and total capital and surplus of \$1.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 1996, the Insurer had admitted assets of \$4.2 billion (unaudited), total liabilities of \$2.8 billion (unaudited), and total capital and surplus of \$1.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service rates the claims paying ability of the Insurer "Aaa".

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rates the claims paying ability of the Insurer "AAA".

Fitch Investors Service, L.P., rates the claims paying ability of the Insurer "AAA".

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer 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, 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. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

STD