

Fairbanks North Star Borough, Alaska
\$26,210,000
General Obligation School Bonds
1999 Series B



Sale Date: March 25, 1999
Bartle Wells Associates

Official Statement

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\$26,210,000
General Obligation School Bonds
1999 Series B



New Issue: Book-Entry Only
Sale Date: March 25, 1999

Ratings:
Moody's Investors Service: Aaa
Standard & Poor's Corp.: AAA
Fitch IBCA, Inc.: AAA
 (See "Rating" herein)

The 1999 Series B 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, \$25.3 million of the Bonds are eligible for debt service reimbursement of 70 percent from the State of Alaska.

Bonds Dated: April 1, 1999
Denominations: \$5,000 or multiple thereof
Due: April 1 as shown below:

Date	Amount	Rate	Yield	Date	Amount	Rate	Yield
2000	\$745,000	6.250%	3.25%	2010	\$1,300,000	4.75%	4.50%
2001	805,000	6.250	3.60	2011	1,360,000	4.75	4.60
2002	860,000	6.250	3.75	2012	1,425,000	4.75	4.73
2003	925,000	6.250	3.90	2013	1,490,000	4.75	4.80
2004	990,000	6.250	4.05	2014	1,565,000	4.75	4.85
2005	1,045,000	4.000	NRO	2015	1,640,000	4.75	4.90
2006	1,090,000	4.100	NRO	2016	1,715,000	4.75	NRO
2007	1,140,000	6.250	4.25	2017	1,800,000	4.75	NRO
2008	1,190,000	4.250	4.25	2018	1,890,000	4.75	NRO
2009	1,245,000	5.125	4.38	2019	1,990,000	4.75	5.05

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 Union Bank of California, N.A. 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 April 1 and October 1, beginning October 1, 1999.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.

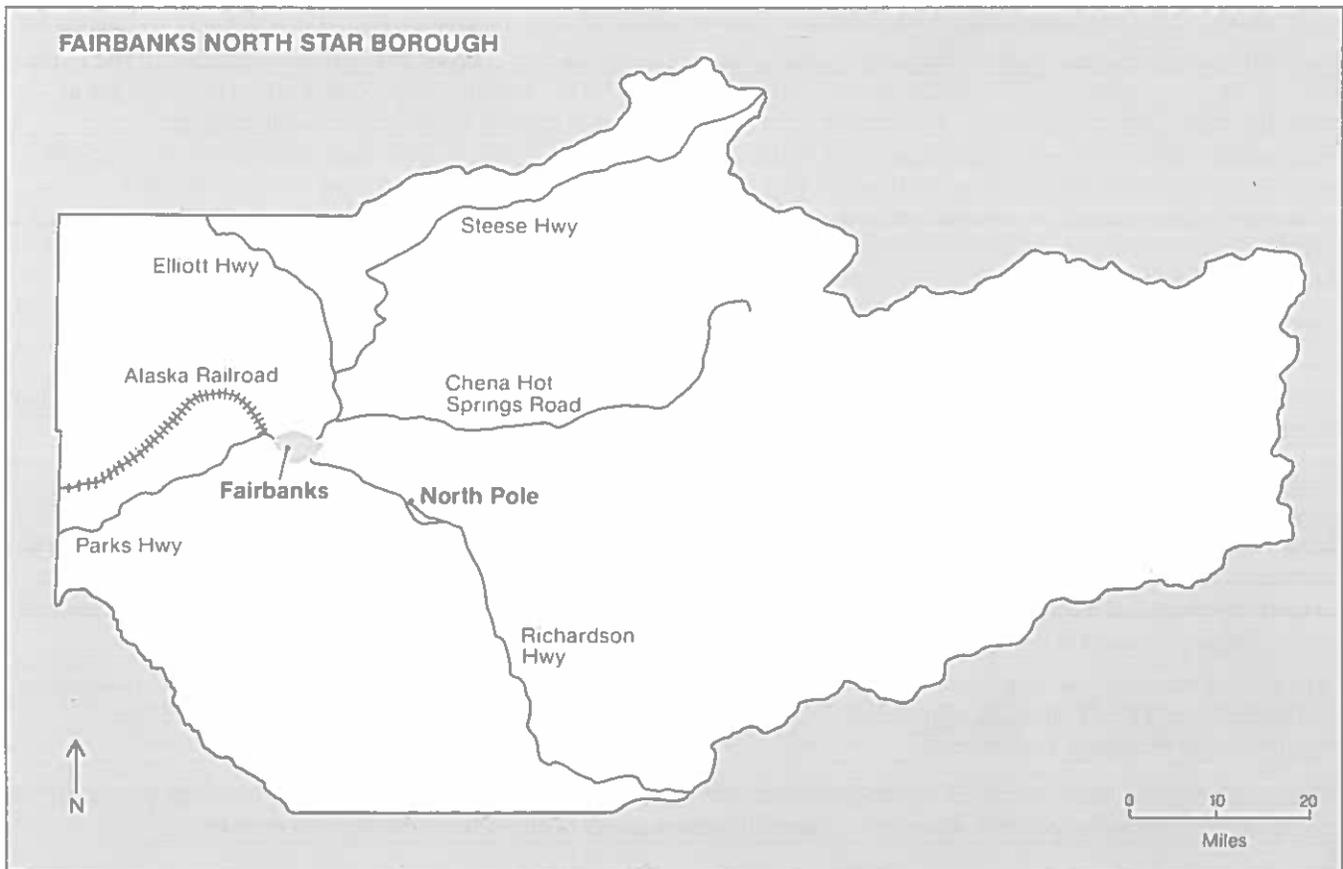
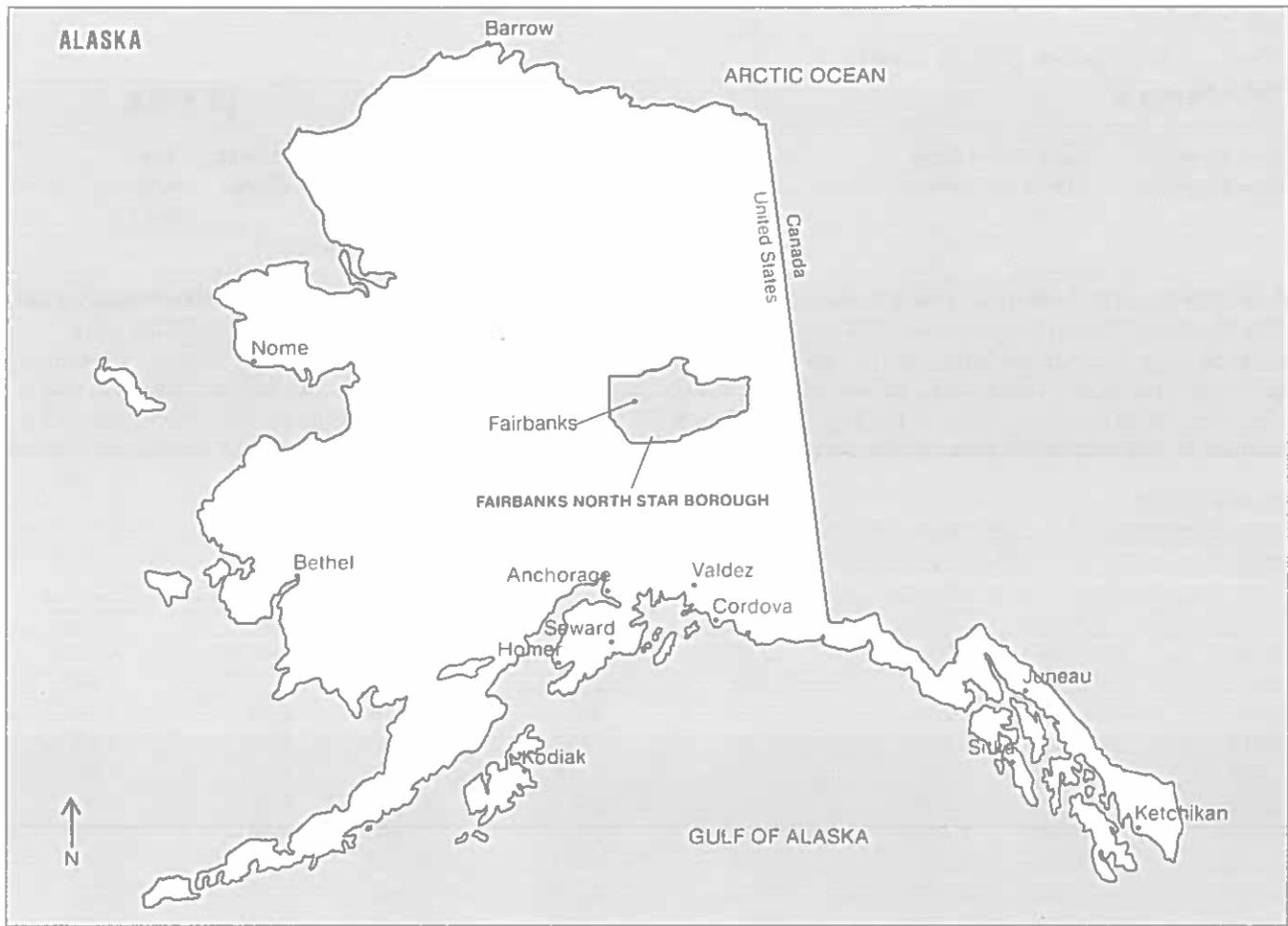
The Borough is offering these bonds when, as, and if issued, subject to the legal opinion of Preston Gates & Ellis LLP, Bond Counsel, Seattle, Washington, as to the validity of the Bonds and the exemption of interest on the Bonds from federal income taxes under existing statutes, regulations, and court decisions. In the opinion of Bond Counsel, interest on the Bonds is excluded from gross income subject to federal income taxation pursuant to the Internal Revenue Code of 1986, as amended, 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 March 25, 1999.

Underwriter: Paine Webber Inc.



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

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

Incorporated January 1964

Hank Hove, *Mayor*

Borough Assembly Members

Dan LaSota, *Presiding Officer*

Guy Sattley, *Deputy Presiding Officer*

Tim Beck

Cole Sonafrank

Eileen Cummings

David Veazey

Karen Parr

Nancy Webb

Mike Prax

Mike Young

Rick Solie

Mona Lisa Drexler, *Borough Municipal Clerk*

School Board Members

Bill Burrows, *President*

Cynthia Henry

Royce Chapman

Bob Coghill

Bart LeBon

Jane Parrish

Jennifer Schmidt

Borough Administration

Ralph Malone, *Chief of Staff*

Michael E. Lamb, *Chief Financial Officer*

Ardith Lynch, *Borough Attorney*

Professional Services

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

Bartle Wells Associates, San Francisco, *Financial Advisor*

Union Bank of California, N.A., *Paying Agent and Registrar*

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

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

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

Prepared by
Bartle Wells Associates
Independent Public Finance Advisors
in cooperation with Fairbanks North Star Borough

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INTRODUCTION

Issuer: The Fairbanks North Star Borough (the "Borough") is a regional unit of local general government, similar to a county and a school district. The Borough covers 7,361 square miles in central Alaska and includes within its boundaries the cities of Fairbanks and North Pole. Incorporated in January 1964 as a second-class borough, the Borough has three mandatory areawide responsibilities as prescribed by Alaska statutes: (1) assessment and tax collection, (2) education, and (3) planning, platting, and zoning. Additional areawide powers may be conferred by the electorate or by legislation. In addition to its three mandated areawide powers, the Borough has assumed areawide responsibility for air pollution control, animal control, child care assistance, disaster and civil defense, emergency communications (enhanced 911), flood control, housing financing, libraries, limited health and social services, parks and recreation, public transportation, solid waste disposal. The Borough may also provide any municipal services in specific areas with voter approval.

The Borough's governing body is an 11-member assembly elected at large for overlapping three-year terms. The 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.

Purpose: The Bonds will be used to complete a \$105 million school construction program. Funding for the school construction program comes from a combination of \$25.5 million of state grants, \$76.5 million of local bonds, and \$3 million of interest earnings and other funds. The school construction program includes construction and rehabilitation of elementary, junior high, and high schools and districtwide technology upgrades.

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 debt service on local bonds for state-approved school projects. The Bonds are eligible for reimbursement of 70 percent of debt service, except for \$958,500 which will provide a local match for a state grant. The Borough's outstanding school bonds are eligible for reimbursement at rates from 70 to 90 percent of debt service. Reimbursement is subject to annual appropriation by the legislature. Reimbursements have been 100 percent of entitlement each fiscal year since 1991/92 and are expected to be 100 percent of entitlement in 1998/99.

Economic Factors: The Borough has an estimated 1998 population of 83,930, an 8 percent increase from the 1990 population of 77,720. Fairbanks is the second-largest city in Alaska (population 31,600), 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 has a population of 1,620. About 40 percent of the Borough's population live in the two cities.

The Borough's 1998 assessed valuation is \$3.7 billion, an increase of 5.4 percent over the preceding year. Taxable assessed valuation, after deducting exemptions, is \$3.4 billion. Over the past five years, the Borough's assessed valuation has increased at an average annual rate of 5.1 percent.

The Alyeska Pipeline Service Company, owner of the Trans Alaska pipeline, which transports oil from the North Slope to the Gulf of Alaska, is the Borough's largest taxpayer. The value of pipeline property is decreasing, both in dollar amount and as a percentage of total assessed valuation. In 1998, the pipeline's assessed valuation of \$286 million is 8.2 percent of the Borough's total. In 1997, Alyeska moved its headquarters to Fairbanks, bringing about 300 jobs.

The 1998 annual average employment in the Borough was estimated at 32,950. Government is the largest employer in the Borough, with 31 percent of the workforce. Government employment includes state and federal employees, employees of the Borough and school district, and civilian employment at Fort Wainwright Army Post 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 3,150, accounts for 74 percent of Fairbanks-based state employment.

The largest sector of private employment is services. Tourism has increased in recent years. Hotel/motel room receipts were \$32.3 million in 1997, an increase of 10 percent over 1996. Receipts in 1998 were up 5.5 percent over the same period in 1997. Services and trade accounts for 25 percent and 21 percent of the Borough's employment respectively.

Two oil refineries are located in the Borough. MAPCO Petroleum Inc. produces up to 198,000 barrels per day of jet, diesel, and heating fuel. MAPCO completed a \$70 million expansion project in 1998. The PetroStar refinery increased its capacity to 14,000 barrels per day in 1997 and finished construction of a jet fuel pipeline to connect directly to Eielson.

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
\$26,210,000 General Obligation School Bonds
1999 Series B

Date: April 1, 1999

Denomination: \$5,000 or multiple thereof

Maturities: April 1, 2000 through April 1, 2019 in the amounts shown on the cover of the official statement.

Interest: Interest is payable on April 1 and October 1 of each year to the respective dates of maturity, beginning October 1, 1999.

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 Appendix C - "Book-Entry System."

Optional Redemption: The Bonds maturing on or before April 1, 2008 are not subject to optional redemption prior to maturity. The Bonds maturing on or after April 1, 2009 are subject to redemption at the option of the Borough on any date on or after April 1, 2008, as a whole or in part, from any source of available funds, at the following redemption prices (expressed as a percentage of the principal amount of the Bonds to be prepaid), plus accrued interest to the date of redemption:

Redemption Period	Redemption Price
April 1, 2008 through March 31, 2009	101.0 percent of par
April 1, 2009 through March 31, 2010	100.5 percent of par
April 1, 2010 and thereafter	100.0 percent of par

Authority for Issuance: The Bonds are the final portion of \$64,210,129 of school bonds authorized by Ordinance 96-009 and approved by Borough voters May 7, 1996.

Additional Bonds: Following issuance of the Bonds, the Borough will have no authorized but unissued bonds.

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; the Bonds, except \$958,500 which constitute a local match for a State grant, 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 D, "Continuing Disclosure Undertaking." The Borough entered into a written undertaking under Securities and Exchange Commission Rule 15c2-12(b)(5) with respect to its 1996 Series U bonds, dated November 1, 1996 and its 1997 Series A bonds dated November 1, 1997. The Borough has complied with that undertaking.

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 LLP, Bond Counsel, of Seattle, Washington, 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 LLP, Seattle, Washington, 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 (the "Code"), provided there is compliance with the arbitrage requirements of Section 148 of the Code described in this section under the heading "Continuing Requirements."

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 adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code as more fully described in this section under the heading "Alternative Minimum Tax on Corporations."

Except as described herein, Bond Counsel expresses no opinion on any federal, State or local tax consequence arising with respect to ownership of the Bonds.

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 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. Bond Counsel has not undertaken to determine (or to inform any person) whether any action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of the interest on the Bonds.

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 bondowners. Prospective bondowners, 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 and increased by the amount of certain items of tax preference. One of the adjustments is a portion (75 percent for any taxable year beginning after 1989) 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.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for small business corporations that had average gross receipts of less than \$5 million for the 3-year period beginning after December 31, 1994, and such small business corporations will continue to be exempt from the corporate alternative minimum tax so long as their average gross receipts do not exceed \$7.5 million.

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 when 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 gross income, 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 excess net passive income.

Tax Treatment of Original Issue Discount: Certain of the Bonds have an initial public offering price which is less than the principal amount thereof payable at maturity (the "Discount Bonds"). As a result, the Discount Bonds will be considered to be issued with Original Issue Discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the cover page of this Official Statement (assuming it is the first price at which a substantial amount of the maturity of the Discount Bonds is sold), and the principal amount payable at maturity of the Discount Bonds will be treated as "Original Issue Discount." With respect to a taxpayer who purchases a Discount Bond at the initial public offering price (assuming it is the first price at which a substantial amount of the maturity of the Discount Bond is sold) and who holds such Discount Bond to maturity, the full amount of Original Issue Discount will constitute interest which is not includable in the gross income of the owner of such Discount Bond for federal income tax purposes and such owner will not, under present federal income tax law, realize taxable capital gain upon payment of such Discount Bond upon maturity.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of Original Issue Discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sales, redemption or payment at maturity). An owner of a Discount Bond who disposes of such Discount Bond prior to maturity should consult his tax advisor as to the amount of Original Issue Discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bond prior to maturity.

The Original Issue Discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) ending October 1 and April 1 (with straight line interpolation between compounding dates).

A portion of the Original Issue Discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. In the case of a corporation, such portion of the Original Issue Discount will be included in the calculation of the corporation's alternative minimum tax liability. Corporate owners of any Discount Bonds should be aware that the accrual of Original Issue Discount in each year may result in an alternative minimum tax liability although the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of that maturity of the Discount Bonds was sold to the public should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of Original Issue Discount in the case of subsequent purchasers of obligations such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial public offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of the Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

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

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

Ratings

Moody's Investors Service, Standard & Poor's, a division of The McGraw-Hill Companies, and Fitch IBCA, Inc. have assigned their municipal bond ratings of Aaa, AAA, and AAA, respectively, to the Bonds, with the understanding that upon delivery of the Bonds a policy insuring the payment of principal and interest on the bonds will be issued by Financial Security Assurance, Inc.

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, 25 Broadway, New York, New York, 10004-1064, Fitch IBCA, Inc., One State Street Plaza, 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.

Information relating to the FSA insurance policy is set out in Appendix E to this Official Statement.

Miscellaneous

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

Execution of the Official Statement

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

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

FAIRBANKS NORTH STAR BOROUGH

Organization

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

Hank Hove was elected mayor in October 1997, after serving on the Borough assembly for nine years, including 5 years as presiding officer. Prior to being elected mayor, Mr. Hove served as President and General Manager of Northern Television, Inc. for 20 years. In addition to serving on various community organizations over the past several years, he serves on the Greater Fairbanks Chamber of Commerce Board of Directors, and has been a member of the Fairbanks Rotary Club since 1978.

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 exercised inside and outside cities.

Mandatory Areawide Responsibilities:

- Assessment and tax collection
- Education
- Planning, platting, and zoning

Other Areawide Responsibility Exercised:

- | | |
|---|------------------------------------|
| Air pollution control | Housing financing |
| Animal control | Libraries |
| Child care assistance | Limited health and social services |
| Disaster and civil defense | Parks and recreation |
| Emergency communications (enhanced 911) | Public transportation |
| Flood control | Solid waste disposal |

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

The Borough also provides fireworks control, emergency medical services, and economic development on a non-areawide basis, outside the cities of North Pole and Fairbanks. The Borough provides solid waste collection services outside the City of Fairbanks, which has its own solid waste collection service.

The Borough may also establish service areas outside the cities either upon petition by property owners or the introduction of an ordinance, followed by assembly and voter approval. Service areas are smaller units within the Borough boundaries, created to provide certain services or different levels of service. The Borough may levy additional taxes within service areas and disburse them for payment for services within that area. Service areas may be formed to provide any municipal service not otherwise exercised on an areawide or non-areawide basis, such as road construction and maintenance, street lighting, fire protection, and water and sewer service. Commissioners, appointed by the mayor and confirmed by the assembly, oversee the affairs of service areas. The administrative management is the responsibility of the Borough’s division of rural services. The assembly approves service area budgets and tax levies. There are currently over 100 service areas within the Borough.

Cities

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

Relation to the School District

One of the Borough’s mandatory duties is to provide for elementary and secondary education. The Borough shares responsibility for the education system with the elected school board. The Borough provides the local funding and the equipment and facilities, while the school board provides management and operations. The Borough and school

district each have their own administrative and finance departments. The Borough's public works department manages the construction and major maintenance of school facilities.

By April 1 of each year, the school district adopts its annual fiscal year budget and submits it to the assembly. One revenue source in the school district budget is a lump-sum Borough appropriation. The assembly is required to determine the local funding within 30 days of receipt of the school district budget. The assembly holds hearings on its own budget and determines its appropriation for education, as part of the Borough's annual operating budget. Upon adoption of the budget, the assembly establishes the local property tax mill rate to provide the funds required for Borough operation and the local contribution to education. The Borough's 1998/99 local contribution to the school district is \$30.7 million out of a total school operating budget of \$108 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 facilities is a Borough responsibility. All land and school buildings are owned and accounted for by the Borough and are provided to the school district without charge. Schools located on military bases are operated by the school district through agreements with the State and U.S. Department of Education. 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.

FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT

Organization

The school district operates a public school system under a seven-member elected school board pursuant to Alaska Statutes, Title 14. The board also includes, as appointed non-voting members, a base representative from Eielson, a post representative from Fort Wainwright, and a student representative. The superintendent of schools carries out goals and objectives set by the school board. Other principal officials of the school district include assistant superintendents of elementary curriculum and instruction, secondary curriculum and instruction, business and finance, and twelve departmental directors.

Responsibilities

The school board oversees the curricular and administrative functions of all schools currently operating within the district, including schools located on Fort Wainwright and Eielson. All schools are operated with a combination of local, State, and federal funds.

Enrollment and Facilities

The following inset shows public school enrollments for the last five years. Enrollments include students at both in-town schools and on-base schools. Enrollments have increased at an average annual rate of 1.5 percent since the school year ending in 1995, after dropping from the prior year. The school district is predicting level enrollments for the next five years in most areas of the Borough. The current school construction program is expected to relieve current overcrowding and provide sufficient classroom space through 2003.

	1994	1995	1996	1997	1998
Elementary schools	9,132	9,061	9,129	9,418	9,330
Secondary schools	<u>6,737</u>	<u>6,655</u>	<u>6,927</u>	<u>6,904</u>	<u>7,101</u>
	15,869	15,716	16,056	16,322	16,431

The school district operates fifteen elementary and eight secondary in-town schools, four elementary and one secondary on-base schools, and two charter schools, as well as correspondence study at both the elementary and secondary levels. Since September 1991, the Borough has opened four new schools and closed five. The school district employs about 1,592 people, including 1,042 teachers and principals, 48 administrators, and 504 support staff.

THE CONSTRUCTION PROGRAM

Proceeds of the Bonds will be used to complete a five-year school construction program. The program includes both construction of new schools and renovations to existing schools.

School Construction Projects

Table 1 summarizes the status of the school construction program. The Bonds will be used primarily for the following projects:

- **Danby Middle School:** This new 60,000 square foot, 400 student junior high school, capable of expansion for an additional 200 students, is under construction and scheduled for completion and opening for the 1999/00 school year.
- **Hunter Elementary School:** This existing elementary school will be renovated and expanded, adding 6,200 square feet of new classrooms and support spaces. This project will go to bid in the spring of 1999 for completion in time for the 2000/01 school year. The Borough has received \$2.2 million of State grants for this project.
- **Badger Elementary School:** Renovation of this school's heating, ventilation, and air conditioning system will go to bid in the spring of 1999 with anticipated completion by the end of 1999.
- **West Valley High School:** This project, which is under construction, includes renovation of the existing school and addition of 83,250 square feet of new space.
- **District-wide Technology Upgrades:** This construction program includes installation and/or upgrading of electrical systems to meet current codes and installation and/or upgrading of networks and other technology wiring in fifteen existing school facilities.

The Borough has completed construction of a new elementary school, which opened in the fall of 1995, and renovations, improvements, and/or expansion to five elementary schools, one middle school and one high school.

Program Funding

Funding for the school construction program comes from a combination of State grants and local bonds and interest earnings totaling \$105 million. Borough voters approved a total of \$76.5 million in local bonds in 1993 and 1996. The Borough also received \$25.5 million in State grants designated for certain school construction projects. Some of the bond proceeds have provided the local match for the State school construction grants.

Table 1
Fairbanks North Star Borough
School Construction Program

	Budget	Expenditures through 12/98	Balance to Completion	Estimated Completion
Projects				
Danby Middle School	\$16,681,857	\$8,816,629	\$7,865,228	9/99
Hunter Elementary School	4,860,978	318,859	4,542,119	9/00
Badger Elementary School	1,430,000	114,956	1,315,044	12/99
West Valley High School	34,212,805	12,069,290	22,143,516	2/00
Districtwide technology upgrades	2,250,000	1,194,285	1,055,715	12/00
Ann Wien Elem & Lathrop	34,285,463	33,189,387	1,096,076	8/99
North Pole Elementary School	8,115,311	5,456,510	2,658,801	8/99
Denali, Ryan, Nordale Elem.	3,037,627	2,759,348	278,279	7/99
Salcha, Two Rivers	402,296	297,620	104,675	9/98
Bond sale costs	<u>437,019</u>	<u>284,648</u>	<u>152,500</u>	
Total program costs	105,713,355	64,501,532	41,211,953	
Project Funding				
Borough bonds	76,530,000			
State grants	25,541,635			
Interest earnings & other	<u>3,641,720</u>			
Total funding	105,713,355			

STATE AID TO EDUCATION

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

School Debt Service Reimbursement

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

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, depending on authorization, issue, and/or expenditure dates. Reimbursement is subject to annual appropriation by the legislature.

In 1998, the State Legislature approved amendments to AS 14.11.100 which authorized reimbursement of 70 percent of Borough debt service for \$57,143,000 in school construction projects. This authorization expires July 1, 2003. The Borough and school district are working to develop a bond issue to be presented to the voters in October 1999.

Eligible Costs

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 all State and federal funds included in the project costs from total construction cost.

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.

To obtain reimbursement, the Borough must provide the State Department of Education with an estimate of school-related debt service expenditures for the coming fiscal year by October 15 of each year. 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. As each debt service payment is due, the Borough transmits funds to the paying agent. The paying agent notifies the State, then the State reimburses substantially all of the eligible amount. The State makes final payments August 1 following each fiscal year based on the availability of funds.

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 1998/99.

Borough Reimbursement Entitlement

Table 2 summarizes the Borough's outstanding school bonds and their reimbursement eligibility. The Borough has five issues of outstanding school bonds eligible for State reimbursement, including the Bonds. The Borough's outstanding bonds fall into three categories for reimbursement:

- The Series 1988 refunding bonds and a portion of the Series 1993S refunding bonds are reimbursable at 90 percent.
- A portion of the Series 1993S refunding bonds are reimbursable at 80 percent.
- A portion of the Series 1996U, the Series 1997A, and these Bonds are eligible for reimbursement at 70 percent.

The \$42,615,000 1993S refunding bonds refunded three series of prior bonds. Series P (\$5,680,000) was reimbursable at 90 percent. The balance (\$36,935,000) was reimbursable at 80 percent. The portion of each year's debt service related to the refunding of Series P is reimbursable at 90 percent, and the balance is reimbursable at 80 percent.

Series 1996U included \$8.57 million to match about \$17.25 million of State grants on a 70/30 basis. The Bonds include \$958,500, to match about \$2.2 million of State grants for Hunter School. Bonds issued for the local match are not eligible for reimbursement.

Table 2
Fairbanks North Star Borough
Outstanding School Bonds as of April 1, 1999

Series	Outstanding Principal	Final Payment	Reimbursement Eligibility	
			Principal	Percent
1988 Refunding	\$5,090,000	6/1/00	\$5,090,000	90%
1993S Refunding	33,600,000	3/1/08	33,600,000	80-90% ⁽¹⁾
1996U ⁽²⁾	15,375,000	11/1/16	7,299,896	70%
1997A ⁽³⁾	34,400,000	11/1/17	33,180,142	70%
1999B ⁽²⁾	26,210,000	4/1/19	25,251,500	70%

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

2 - Includes local match for state grant, ineligible for reimbursement. Balance reimbursable at 70 percent.

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

Source: Fairbanks North Star Borough

Table 3 summarizes the total annual debt service on outstanding bonds, estimated debt service on the Bonds, reimbursement entitlement, and the net local expense. Table 3 is presented on a cash flow basis, to project the net local cost to the Borough's taxpayers each year.

On bonds issued prior to 1982, debt service was reimbursed two years following payment by the Borough. The Borough made the final payment on bonds with this two-year lag on August 1, 1996. The final State reimbursement payment for these bonds was paid in 1998/99.

School Operating Aid

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 and Eielson.

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. The calculation method was revised by the State legislature during the 1998 legislative session. This rewrite of the foundation funding law resulted in additional funding of about \$1.2 million for the FNSBSD for the 1998/99 school year. The new calculation methodology also treats the FNSBSD, and other large urban school districts, favorably into the future. Foundation funding in 1998/99 is estimated to provide 61.5 percent of total operating fund. The District also receives State support for educating wards of the State and a fee for administering schools located on military bases.

The school district received \$66.3 million from the public school foundation program in 1996/97 and \$67.1 million in 1997/98. The 1998/99 budget anticipates receipts of \$66.4 million.

Table 3
Fairbanks North Star Borough
Debt Service Reimbursement Entitlement

Fiscal Year	Debt Service			Reimbursement Entitlement	Net Borough Expense	Percent of Current Year
	Prior Issues	1999B	Total			
1998/99	\$12,210,893		\$12,210,893	\$9,677,238	\$2,533,654	20.75%
1999/00	12,309,899	2,055,746	14,365,645	10,374,624	3,991,021	27.78%
2000/01	9,466,548	2,069,184	11,535,731	7,838,176	3,697,555	32.05%
2001/02	9,534,838	2,073,871	11,608,709	7,902,192	3,706,517	31.93%
2002/03	9,526,588	2,085,121	11,611,709	7,917,424	3,694,285	31.82%
2003/04	9,621,598	2,092,309	11,713,906	8,004,072	3,709,834	31.67%
2004/05	9,441,375	2,085,434	11,526,809	8,059,724	3,467,085	30.08%
2005/06	9,527,973	2,088,634	11,616,606	8,137,940	3,478,667	29.95%
2006/07	7,344,450	2,093,944	9,438,394	6,322,447	3,115,946	33.01%
2007/08	7,371,550	2,072,694	9,444,244	6,337,716	3,106,528	32.89%
2008/09	4,179,375	2,077,119	6,256,494	3,782,315	2,474,179	39.55%
2009/10	4,194,375	2,068,313	6,262,688	3,783,933	2,478,755	39.58%
2010/11	4,201,875	2,066,563	6,268,438	3,786,102	2,482,335	39.60%
2011/12	4,226,250	2,066,963	6,293,213	3,793,616	2,499,597	39.72%
2012/13	4,217,500	2,064,275	6,281,775	3,786,324	2,495,451	39.73%
2013/14	4,274,375	2,068,500	6,342,875	3,820,503	2,522,372	39.77%
2014/15	4,246,875	2,069,163	6,316,038	3,804,954	2,511,083	39.76%
2015/16	4,211,875	2,066,263	6,278,138	3,766,083	2,512,055	40.01%
2016/17	4,291,250	2,069,800	6,361,050	3,818,847	2,542,203	39.97%
2017/18	2,870,000	2,074,300	4,944,300	3,336,669	1,607,631	32.51%
2018/19		2,084,525	2,084,525	1,405,806	678,719	32.56%
Totals	137,269,459	41,492,718	178,762,176	119,456,704	59,305,472	

BOROUGH FINANCES

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

The Borough's 1997/98 general purpose financial statements are included as Appendix A to this official statement. The notes to the financial statements include discussion of the Borough's insurance and risk management practices (note 22), retirement plans (note 9), landfill closure (note 12), and Year 2000 preparedness (note 23).

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 provided by local taxation and State revenues that are legally restricted to expenditures for specific purposes. These include solid waste disposal and collection, fire protection, road maintenance and construction, sewer and water service, and streetlights. 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. Debt service requirements are funded by the general and non-areawide funds and by State reimbursements for school construction received through the general fund.
- **Capital Projects Funds:** Account for financial resources to be used for the acquisition, construction, renovation, or major repair or maintenance of capital facilities and assets.

The Borough's proprietary funds include:

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

The Borough's fiduciary funds include:

- **Expendable Trust Fund:** Accounts for donations received and revenues earned plus expenditures. The fund is restricted for use by the library.
- **Agency Funds:** Account for assets held for other organizations, other governmental units, and the employee deferred compensation plan. These are custodial funds.

General Fund Financial Information

Table 4 summarizes the general fund revenues, expenditures, and changes in fund balance for the past five fiscal years. The Borough's largest combined source of general fund revenue is taxes, totaling almost \$45 million in 1997/98 and accounting for 70 percent of general fund revenue. Included in tax revenue is \$644,000 of hotel/motel taxes collected outside the city of Fairbanks. The principal function of the tax is to offset the general fund subsidy to the John A. Carlson Community Activity Center. The balance of tax revenue is from property taxes.

Intergovernmental revenues amount to \$11.7 million. Included in this revenue is State reimbursement for school construction amounting to \$8.3 million, or 13 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 amounts to \$3.1 million, or 5 percent of general fund revenue.

In 1997/98, total expenditures were \$20.3 million, an increase of about 1 percent from 1996/97. The general fund's contribution to education was \$27.7 million, and is shown as an operating transfer to the school district. Other operating transfers include \$10.1 million for debt service, and \$5.5 million to other funds (enterprise, special revenue, and capital projects).

Table 4
Fairbanks North Star Borough
General Fund Revenues, Expenditures, and Changes in Fund Balance

	1993/94	1994/95	1995/96	1996/97	1997/98
Revenues					
Taxes	\$42,430,289	\$41,911,693	\$40,150,599	\$41,761,073	\$44,981,440
Intergovernmental revenues	16,559,667	16,831,705	11,918,932	11,041,855	11,721,678
Charges for services	4,037,175	4,346,366	1,167,781	1,128,305	1,166,735
Charges to school district	1,257,145	927,259	880,111	1,001,064	919,158
Other revenues	<u>3,129,434</u>	<u>4,598,950</u>	<u>4,739,947</u>	<u>4,820,267</u>	<u>5,096,043</u>
Total revenues	<u>67,413,710</u>	<u>68,615,973</u>	<u>58,857,370</u>	<u>59,752,564</u>	<u>63,885,054</u>
Expenditures					
General government	9,180,429	9,666,231	8,072,851	8,618,895	8,786,295
Community planning	788,020	782,420	845,023	946,162	999,404
Public works	4,814,563	4,805,266	3,339,813	3,345,868	3,328,747
Direct services	956,190	916,649	951,006	1,063,100	1,101,168
Parks and recreation	2,801,264	2,953,504	3,049,872	3,331,699	3,338,517
Library	2,119,051	2,202,728	2,312,924	2,285,360	2,328,915
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>445,622</u>	<u>384,062</u>
Total expenditures	<u>20,659,517</u>	<u>21,326,798</u>	<u>18,571,489</u>	<u>20,036,706</u>	<u>20,267,108</u>
Excess of revenues over expenditures	46,754,193	47,289,175	40,285,881	39,715,858	43,617,946
Operating transfers in (out)					
Special revenue funds	0	0	0	0	553,270
Other funds	(17,668,941)	(22,267,064)	(15,353,491)	(12,537,056)	(15,653,960)
School district	<u>(25,000,000)</u>	<u>(25,380,000)</u>	<u>(26,280,000)</u>	<u>(26,830,000)</u>	<u>(27,680,000)</u>
Total other financing uses	<u>(42,668,941)</u>	<u>(47,647,064)</u>	<u>(41,633,491)</u>	<u>(39,367,056)</u>	<u>(42,780,690)</u>
Excess (deficiency) of revenues over expenditures & other uses	4,085,252	(357,889)	(1,347,610)	348,802	837,256
Fund balance, July 1	7,969,864	12,055,116	11,697,227	10,503,546	10,852,348
Adjustments	<u>0</u>	<u>0</u>	<u>153,929</u>	<u>0</u>	<u>0</u>
Fund balance, June 30	<u>12,055,116</u>	<u>11,697,227</u>	<u>10,503,546</u>	<u>10,852,348</u>	<u>11,689,604</u>

Source: General Purpose Financial Statements of the Borough

Table 5 summarizes the 1998/99 general fund budget. The Borough's general fund budget totals \$67.45 million. Taxes, the largest revenue source, account for about 72 percent of budgeted general fund revenues; taxes consists primarily of areawide property taxes (\$48.2 million). Various categories of State aid, of which school construction reimbursement is the largest, make up another 17 percent of general fund revenues. The Borough has budgeted operating expenditures of \$22.1 million. The balance of general fund expenditures consists of contributions to other funds. The contribution to education, at \$30.7 million, equals 45.5 percent of the total general fund budget.

The 1998/99 budget increased 4.9 percent from the prior year, and incorporates changes in several areas:

- \$1.9 million increase in personnel costs due to wage adjustments, increases in health care costs, increases in the PERS contribution rate and a limited increase in staffing;
- \$3 million increase (10.9 percent) in local funding for the school district;
- \$1.4 million increase in debt service on school and library bonds issued in 1996 and 1997; and
- a 5 percent reduction in State revenues to the Borough, on top of larger decreases in each of the three prior years.

Table 5
Fairbanks North Star Borough
1998/99 Approved General Fund Budget

	1998/99
Revenue Sources	
Taxes	\$48,787,260
Intergovernmental revenues	11,633,650
Charges for services	3,200,990
Charges to school district	1,074,360
Other revenues	<u>2,758,100</u>
Total revenue	67,454,360
Expenditures and Other Financing Uses	
General government	9,846,690
Community planning	1,067,350
Public works	3,599,690
Direct services	1,209,190
Parks and recreation	3,574,210
Library	<u>2,840,650</u>
Total operating expenditures	22,137,780
Contributions to Other Funds	
Operating transfers out	14,625,800
Operating transfer to school district	<u>30,690,780</u>
Total other financing uses	<u>45,316,580</u>
Total expenditures and other financing uses	67,454,360

Source: Fairbanks North Star Borough

Table 6 shows a general fund balance sheet as of June 30, 1994 through 1998.

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

	1994	1995	1996	1997	1998
Assets					
Equity in central treasury cash	\$16,737,288	\$17,354,071	\$13,833,267	\$16,673,491	\$16,758,960
Taxes and special assessments receivable	1,923,499	609,178	400,015	441,447	502,698
Accounts receivable	331,633	262,127	42,863	174,297	105,379
Accrued interest receivable	718,166	521,592	637,169	706,566	382,967
Interfund receivable	333,686	431,607	2,854,551	417,513	0
Assessments receivable				1,281	
Due from governmental agencies	731,990	273,362	239,445	244,437	357,260
Other assets	<u>279,044</u>	<u>77,764</u>	<u>77,944</u>	<u>71,644</u>	<u>1,135,753</u>
Total assets	21,055,306	19,529,701	18,085,254	18,730,676	19,243,017
Liabilities and Fund Balance					
Liabilities					
Accounts payable	696,608	586,697	579,205	386,198	459,493
Wages and payroll taxes	532,007	495,919	511,163	576,025	643,359
Accrued annual leave	827,817	856,267	857,935	975,853	1,027,258
Accrued self-insurance losses	755,538	972,730	726,794	1,118,553	702,637
Deposits from others	82,737	51,463	56,188	68,627	150,384
Advance tax payments	5,703,483	4,869,398	4,850,423	4,753,072	4,570,282
Estimated claims, judgments and settlements payable	<u>402,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total liabilities	9,000,190	7,832,474	7,581,708	7,878,328	7,553,413
Fund balance:					
Reserved for encumbrances	301,817	406,060	355,812	285,555	322,649
Unreserved:					
Designated for self-insurance losses	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Designated for net unrealized gains					435,450
Undesignated	<u>10,253,299</u>	<u>9,791,167</u>	<u>8,647,734</u>	<u>9,066,793</u>	<u>9,431,505</u>
Total fund balance	12,055,116	11,697,227	10,503,546	10,852,348	11,689,604
Total liabilities and fund balance	21,055,306	19,529,701	18,085,254	18,730,676	19,243,017

Source: General Purpose Financial Statements of the Borough.

Assessed Valuation and Property Taxes

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

Table 7 shows Borough's certified assessed valuation from 1992 through 1998. The Borough's 1998 taxable assessed value is \$3.7 billion, which represents an increase of 5.4 percent over 1997. Assessed valuations have increased at an average rate of 5.3 percent per year over the past five years. In January 1999, approximately \$49.6 million of optionally exempt military housing will be added back into the taxed assessed valuation of the Borough as a result of the expiration of a five year tax exemption.

Table 7
Fairbanks North Star Borough
Assessed Valuation (000)

Tax Year	Within Cities	Outside Cities	Pipeline-Related (1)	Borough Total	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
1997	1,255,719	1,982,602	300,004	3,538,325	7.8
1998	1,348,944	2,127,366	286,561	3,762,871	6.3

1 - Assessed by state.

Source: Fairbanks North Star Borough

Alaska law provides for both optional and mandatory property tax exemptions. Senior citizens, disabled veterans, and widows and widowers receive mandatory exemptions of up to \$150,000 of assessed valuation. An exemption for 20 percent of the assessed valuation of residential property, up to a maximum of \$10,000 per residence, is optional under State law. The Borough has adopted this exemption. Other local exemptions include personal property, economic development, and senior citizens housing. For 1998, the residential exemptions totaled \$120.9 million; mandatory exemptions totaled \$177.8 million. The Borough's 1998 net taxable value is almost \$3.5 billion as shown in Table 8.

Property owners are notified during each March of their assessments as of January 1. The Borough establishes a board of equalization annually to hear assessment appeals during the month of April. Tax rates are established by the Assembly before June 15, following the adoption of the Borough budget. 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.

Table 8
Fairbanks North Star Borough
1998 Net Taxable Assessed Valuation

Borough assessor's certified value	\$3,762,871,645
Less:	
State mandated exemptions	(177,821,332)
Optional residential exemptions	(120,905,177)
Net Borough taxable value	3,464,145,136

Penalties on delinquent taxes are 10 percent plus interest at 8 percent per year. The foreclosure process for delinquent taxes begins approximately three months after the second half due date in each taxing year. Under Alaska law, properties with delinquent taxes are awarded to the Borough when a foreclosure judgment is filed. Delinquent property owners have one year from the filing date to redeem their property. Unredeemed property may be sold to recover the collection costs, taxes, interest and penalty due. Title is transferred to the Borough by tax deed prior to the annual foreclosure sale.

Largest Taxpayers

A pumping station and about 90 miles of the Trans Alaska pipeline are located within the Borough. Together they account for \$286 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, based on the expected life of the pipeline and the oil fields. The 1998 value is 4.5 percent less than the 1997 value. The pipeline's assessed valuation is expected to continue to decline gradually. The pipeline's assessed valuation within the Borough is about 8.2 percent of the pipeline's total statewide assessed valuation of \$3.2 billion.

Table 9 shows the Borough's ten largest commercial/industrial taxpayers for 1998. Together they account for 21.1 percent of total assessed valuation. An additional 10 taxpayers hold property valued at over \$6 million each.

Table 9
Fairbanks North Star Borough
Largest Commercial/Industrial Taxpayers, 1998

Taxpayer	Type of Property	Assessed Valuation (000)	Percent of Total
Alyeska Pipeline	oil transportation	\$286,561	7.62%
Fort Knox	mining	253,485	6.74%
MAPCO Petroleum, Inc.	oil refining	114,973	3.06%
PTI Communications of Alaska, Inc.	telephone	34,965	0.93%
North Star Alaska	military housing	31,186	0.83%
Fred Meyers of Alaska	shopping center	17,401	0.46%
Polar Star	military housing	14,906	0.40%
Alaska Hotel Properties, Inc. (Princess)	hotel	15,506	0.41%
Walmart (Sam's Club)	shopping center	13,408	0.36%
Dura Corporation	military housing	13,030	0.35%

Source: Fairbanks North Star Borough

Tax Rates

Table 10 shows the tax rates levied by the Borough and its two cities for the last five years. The Borough's 1998 tax rate per \$1,000 of assessed valuation is 13.775 mills areawide. An additional 0.511 mills is levied on property outside the cities for ambulance service, economic development, and debt service on solid waste bonds; and 1.166 mills is levied outside the City of Fairbanks for solid waste collection. Properties outside the cities may also be included in service areas and subject to service area taxes. The city tax rates are 5.999 in Fairbanks and 2.3 mills in North Pole.

Table 10
Fairbanks North Star Borough
Ad Valorem Tax Rate History
Mills per \$1,000 assessed valuation (1)

Tax Year	Borough	Non-Areawide (2)	Solid Waste Collection (3)	City of Fairbanks	City of North Pole
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
1997	13.390	0.552	1.159	5.966	2.300
1998	13.775	0.511	1.166	5.999	2.300

1 - Rates do not include levies for service area purposes

2 - Outside the cities of Fairbanks and North Pole

3 - Includes area outside the City of Fairbanks

Source: Fairbanks North Star Borough

Table 11 shows total tax rates in the cities and outside, exclusive of service area taxes.

Table 11
Fairbanks North Star Borough
1998/99 Total Tax Rates (mills per \$1,000 assessed value)(1)

	City of Fairbanks	City of North Pole	Outside Cities (2)
Borough	13.775	13.775	13.775
City of Fairbanks	5.999		
City of North Pole		2.300	
Solid waste collection Non-areawide	(1)	1.166	1.166 0.511
Total (2)	19.774	17.241	15.452

1 - Fairbanks has its own solid waste collection service

2 - Does not include service area tax rates

Source: Fairbanks North Star Borough

Tax Levies and Delinquencies

Table 12 shows property tax levies, and current and delinquent collections for the Borough from 1993/94 through 1997/98. The Borough's total tax levy includes taxes levied on property which is exempt from property taxes. The net tax levy excludes residential and State-mandated property tax exemptions for senior citizens, disabled veterans, and widows and widowers. In 1997/98, the Borough's current taxes collections were 98.5 percent of the net current year levy on taxable property. Total collections, including delinquent taxes, totaled about \$43.6 million, or 99.8 percent of the net current year levy. As protection against potential tax delinquencies, the Borough includes a delinquency allowance of two percent of the taxes on taxable property when estimating its property tax revenues for budget purposes. The Borough collects property taxes for 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 12, nor are the Borough taxes collected on a non-areawide, district, or service area basis.

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

	1993/94	1994/95	1995/96	1996/97	1997/98
Net tax levy (1)	\$38,798,690	\$39,505,321	\$39,233,518	\$40,765,857	\$43,679,703
Current tax collections	37,802,116	38,811,955	38,507,719	40,100,706	43,006,607
Delinquent collections	<u>2,869,192</u>	<u>1,314,652</u>	<u>769,344</u>	<u>633,758</u>	<u>586,848</u>
Total collections (2)	40,671,308	40,126,607	39,277,066	40,734,464	43,593,455
Percent of net levy collected	97.43%	98.24%	98.15%	98.37%	98.46%

1 - Areawide taxes levied by Borough only. Excludes state-mandated and residential property tax exemptions.

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

Source: Fairbanks North Star 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.

Table 13 shows the Borough's outstanding bonded debt as of April 1, 1999. All of the Borough's outstanding bonds, except Series 1994T, and a portion of the 1997 Series A bonds, have been issued for school construction. Series 1994T was issued in the amount of \$2 million for solid waste transfer stations; \$1.25 million of the 1997 Series A bond proceeds was used to finance an addition to and renovation of the Noel Wien Library.

As of April 1, 1999 total gross direct debt, including the Bonds, is \$115.78 million. Table 13 also shows direct and total Borough debt in relation to the Borough's taxable assessed valuation and population. As Table 13 shows, \$78 million of the Borough's direct debt (67 percent) is eligible for State reimbursement.

Table 3, in the section entitled "State Aid to Education," shows total debt service on a fiscal year basis for all outstanding Borough bonds, including the Bonds. The Borough has historically paid all bond interest and principal promptly when due. Tables 3 and 13 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 not exceed 40 percent in any year.

Table 13
Fairbanks North Star Borough
Direct and Underlying Bonded Debt

	Percent Applicable	Debt 4/1/99
Fairbanks North Star Borough		
Outstanding school and library bonds	100%	\$88,465,000
Solid waste transfer bonds	100%	1,105,000
1999B Bonds	100%	<u>26,210,000</u>
Total gross direct debt		115,780,000
City of Fairbanks (1)		
Total gross direct and underlying bonded debt	100%	<u>145,000</u>
		115,925,000
Less: FNSB school bonds eligible for state reimbursement		<u>(77,867,077)</u>
Total net direct and underlying bonded debt		38,057,923

	Ratio to Taxable Assessed Value	Per capita
	\$3,464,145,136	83,930

Ratio to Direct Debt

Gross	\$115,780,000	3.34%	\$1,379
Net	37,912,923	1.09%	452

Ratio to Total Direct and Underlying Debt

Gross	\$115,925,000	3.35%	1,381
Net	38,057,923	1.10%	453

1 - Per City of Fairbanks

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

Table 14 summarizes the debt service fund revenues, expenditures, and changes in fund balance for the past five fiscal years. State-funded reimbursements for school construction, received through the general fund, and transfers from the non-areawide fund (for Series 1994T) comprise the operating transfers in. Interest earnings on most bond proceeds are used to fund debt service and are included in other revenues.

Table 14
Fairbanks North Star Borough
Debt Service Fund Revenues, Expenditures, and
Changes in Fund Balance

	1993/94	1994/95	1995/96	1996/97	1997/98
Revenues					
Intergovernmental revenues	\$376,249	\$362,401	\$356,099	\$365,259	\$355,853
Other revenues	<u>14,929</u>	<u>30,289</u>	<u>53,058</u>	<u>288,366</u>	<u>37,296</u>
Total revenues	391,178	392,690	409,157	653,625	393,149
Expenditures					
Principal retirement of bonds	9,630,000	8,135,000	5,760,000	6,025,000	5,825,000
Interest and fiscal agent fees	<u>4,257,667</u>	<u>4,150,332</u>	<u>3,588,417</u>	<u>3,593,127</u>	<u>4,559,118</u>
Total expenditures	13,887,667	12,285,332	9,348,417	9,618,127	10,384,118
Deficiency of revenues over expenditures	(13,496,489)	(11,892,642)	(8,939,260)	(8,964,502)	(9,990,969)
Other financing sources (uses)					
Operating transfers in	13,703,282	11,868,270	8,841,470	9,234,270	10,395,170
Excess (deficiency) of revenue and other sources over expenditures and other uses	206,793	(24,372)	(97,790)	269,768	404,201
Fund balance, July 1	<u>59,548</u>	<u>266,341</u>	<u>241,969</u>	<u>144,179</u>	<u>413,947</u>
Fund balance, June 30	266,341	241,969	144,179	413,947	818,148

Source: General Purpose Financial Statements of the Borough.

Tax Limitation

At the October 1987 regular election, Borough voters approved a tax cap proposition. In October 1996, Borough voters approved a change in the property tax cap to require inclusion of other tax revenues within the tax cap computation and to require publication of tax cap computations by May 31st of each year. 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 as measured by the Consumer Price Index;
- account for new construction and property improvements;
- pay for new services approved by the voters;
- pay for legal judgments against the Borough; and
- pay for expenses in emergencies.

The tax limit took effect in the 1988 tax year. Every subsequent year, the Borough areawide levy has been below the tax limitation. The tax limitation for the current budget is \$48.55 million. The 1998/99 tax levy is \$78,000 below the limit.

Year 2000 Compliance Activities

A "Year 2000" problem arises because most computer systems and programs were designed to handle only a two-digit year, not a four-digit year. When the Year 2000 begins, these computers may interpret "00" as the year 1900 (e.g., 1999 is seen as "99") and may either stop processing date-related computations or process them incorrectly. The Borough's Year 2000 compliance program is described in Note 23 to its June 30, 1998 financial statements, which are included as Appendix A to this official statement. For information concerning DTC's Year 2000 compliance, see Appendix C.

Union Bank of California has been appointed by the Borough as the Paying Agent and Registrar for the Bonds. Paying Agent has prepared a Year 2000 Readiness Disclosure statement which describes the efforts undertaken by Paying Agent to deal with the Year 2000 problem. The statement may be obtained from Year 2000 Customer Response Center, Union Bank of California VO3-455, PO Box 60691, Los Angeles, CA 90060-0691 or by e-mail: Year2000@uboc.com. Although the Paying Agent believes that its Year 2000 efforts will avoid significant problems and will enable it to rapidly address and correct any problems that do arise, there is no guarantee that these efforts will be successful. The Paying Agent places a high degree of reliance on computer systems of third parties, and although the Paying Agent is assessing the readiness of these third parties and is preparing contingency plans, there can be no guarantee that the failure of these third parties to modify their systems in advance of December 31, 1999 would not have a material adverse affect on the ability of the Paying Agent to perform its duties under the ordinance. Additionally, the Paying Agent has no control over the consequences of the operational failures or business interruption by third parties, including power distributors and local telephone companies, as well as entities with which funds are invested and obligors, such as the Borough.

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 GFOA's Distinguished Budget Award Presentation for its annual budget document. In order to receive this award from GFOA, a governmental unit must publish a budget document that meets program criteria as a policy document, 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 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 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 employee leave liabilities, workers' compensation liabilities, and self-insured retention amounts.
- The Borough will endeavor to maintain a reserve in each operating fund to cover revenue and expense variations and emergencies. The target reserve for operating funds with expenditures of more than \$500,000 is 7 to 10 percent of the prior year's expenditure level; the target reserve for each operating fund with expenditure levels of less than \$500,000 is 20 percent of the prior year's expenditure level.
- 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.

Investments and Investment Practices

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

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

- U.S. Treasuries - 5 years;
- other obligations of the U.S. Government or its agencies and instrumentalities - 5 years;
- repurchase agreements of securities specified in 1) and 2) above, subject to qualification of the financial institution and specified margin requirements - 5 years;
- collateralized certificates of deposits and other deposits - 5 years;
- bank or credit union deposits insured by FDIC, NCUA, or FSLIC - 5 years;
- bonds or notes of any State or political subdivision thereof, rated A or higher - 5 years;
- prime commercial paper graded A1/P1 or higher - 270 days;
- prime bankers acceptances of the fifty largest international banks - 180 days;
- money market mutual funds consisting entirely of instruments specified in 1), 2), and 3) above - maturity date not applicable; and
- 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 serving three-year terms. Members cannot be elected officials or Borough employees, and neither Investment Advisory Committee members nor members of their immediate families, can be an officer, director, employee, or have a substantial financial interest in any financial institution listed on the Borough's qualified bidders list.

The Committee reports annually to the assembly on the status of the Borough's investment program, its compliance with 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.

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 department of education. The school district's finance reports have received awards for excellence in reporting from both the Government Finance Officers Association and the Association of School Business Officials. The school district must adhere to specific reporting procedures in order to receive revenue under the State foundation program.

The school district accounts for all funds using the modified accrual basis, in accordance with generally accepted accounting principles. The school operating fund accounts for all revenues and expenditures applicable to the district's general operations, and the special revenue funds account for legally restricted revenue. The school district only accounts for capital projects directly contracted and funded through State or federal agencies. The majority of school construction projects are accounted for on the Borough government's books.

Table 15 shows five years of school district operating fund revenues and expenditures. Of the district's \$97.3 million operating fund revenues in fiscal year 1997/98, State funding provided 70.8 percent and the Borough provided 28.4 percent. Federal pass-through revenues dropped from \$5.8 million in 1996/97 to \$400,000 in 1997/98, due to a change in the mechanism of such federal funding. In the past, impact aid funds received in advance were recognized as revenue in the year received, but recorded as a reservation of fund balance at June 30. Impact aid funds originally anticipated to be received in 1997/98 for use in 1998/99 will be received and recorded as revenue in 1998/99.

Table 15
Fairbanks North Star Borough School District
Operating Fund Revenues and Expenditures

	1993/94	1994/95	1995/96	1996/97	1997/98
Revenues					
Borough appropriation	\$25,000,000	\$25,380,000	\$26,280,000	\$26,830,000	\$27,680,000
Local sources	263,490	241,059	282,367	427,026	282,369
State sources	64,506,121	64,143,260	67,211,303	68,226,889	68,904,266
Federal pass-through	9,511,561	7,887,872	6,685,519	5,862,783	400,718
Federal sources	129,456	157,807	262,937	54,830	79,129
Total revenues	99,410,628	97,809,998	100,722,126	101,401,528	97,346,482
Expenditures					
Instruction	63,788,926	65,057,198	65,849,692	67,623,843	65,197,140
Supporting services	18,313,455	18,001,956	17,966,783	19,098,797	19,147,830
Operation & maint.	13,874,298	14,218,917	13,934,113	14,296,735	13,664,430
Pupil activities	1,273,683	1,432,353	1,329,670	1,376,616	1,386,952
Transfers	244,254	798,716	929,572	862,524	1,504,768
Debt retirement	274,571	151,646	151,646	151,646	0
Total expenditures	97,769,187	99,660,786	100,161,476	103,410,161	100,901,120

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

The 1997/98 budget included an intentional use of \$1,450,000 of unreserved fund balance. District practice is to estimate the year-end fund balance and to consider those funds as a revenue source when preparing the subsequent year's budget. This allows the board to determine the best use of unexpended funds through a process that weighs the best use of those funds against all of the district's educational needs.

School District Budget

Table 16 shows the district's 1998/99 operating fund budget as adopted June 2, 1998. The school district establishes its final budget following action by the Borough assembly to determine the local contribution. If the school district's local funding request is fully funded by the Borough, the budget process is complete. If not, the school board must adjust its budget based on the local contribution.

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

State statute requires that the school district submit its budget to the Commissioner of the State Department of Education by July 15.

Table 16
Fairbanks North Star Borough School District
Operating Fund Budget

	1998/99
Revenues	
Borough appropriation	\$30,690,780
Local sources	350,000
State sources	68,185,300
Federal pass-through	7,200,000
Federal sources	93,000
Fund balance utilization	<u>1,450,000</u>
Total revenues	107,969,080
Expenditures	
Instruction	70,870,413
Supporting services	19,929,693
Operation and maintenance	14,246,625
Pupil activities	1,448,349
Transfers to other funds	<u>1,474,000</u>
Total expenditures	107,969,080

Source: Fairbanks North Star Borough School District

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

GENERAL AND ECONOMIC DATA

Location, History, Climate

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

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

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

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

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

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

Fairbanks weather is continental interior, meaning lots of sun and very definite seasons. Winter extremes of -40 degrees 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.

Population and Housing

Table 17 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. The Borough's estimated 1998 population is 83,930, an increase of 8 percent since 1990.

Table 17
Population

Year	Borough(1)	City of Fairbanks (2)	City of North Pole	State of Alaska
1970	45,864	18,053	265	302,583
1980	53,983	22,645	724	401,851
1985	66,100	27,099	1,640	523,048
1990	77,720	30,843	1,456	550,043
1995	81,594	32,302	1,535	601,646
1996	81,889	31,434	1,604	604,966
1997	82,110	31,773	1,616	609,311
1998	83,930	31,600	1,620	621,400

1 - Includes Fairbanks, North Pole, Fort Wainwright, and Eielson Air Force Post.

2 - Includes population living on Fort Wainwright.

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

As of September 1997, the number of military personnel and family members totaled 17,389, a decrease of 2.4 percent from the previous year. The total comprises about 21 percent of total Borough population.

Table 18 shows the number of residential housing units sold and the average price per unit since 1996. The average price per housing unit sold in the third quarter of 1998 was about 12 percent higher than those sold in the fourth quarter of 1997.

Income

Table 19 shows median household effective buying income (EBI) for the Borough, the State, and the U.S. for the period from 1993 through 1997. Effective buying income is reported annually by *Sales & Marketing Management* magazine's "Survey of Buying Power." It is defined as money income less personal tax payment, a number often referred to as "disposable or "after-tax" income. Between 1995 and 1997, the Borough's EBI increased at an annual average rate of 3.6 percent. Prior to 1995 EBI is based on "personal income," provided by the Bureau of Economic Analysis, which includes all possible sources of income of persons. Beginning in 1995, EBI is based on "money income," provided by the Census Bureau. Money income does not include certain sources, such as pay-in-kind income, lump-sum payments such as bonuses, interest and

rent from property, and some proprietor's income and transfer payments. Overall, personal income is greater than money income by about 11 percent, and over the past few years the difference has been as high as 14 percent.

Table 18
Fairbanks North Star Borough
Residential Housing Sales

	No. of Units Sold	Average Price Per Unit
1996		
1st Quarter	93	\$103,400
2nd Quarter	n/a	n/a
3rd Quarter	n/a	n/a
4th Quarter	121	103,000
1997		
1st Quarter	81	107,000
2nd Quarter	191	128,700
3rd Quarter	187	115,800
1998		
1st Quarter	83	116,900
2nd Quarter	148	127,600
3rd Quarter	266	130,000

Source: Greater Fairbanks Board of Realtors.

Table 19
Median Household Effective Buying Income

Year	Fairbanks North Star Borough	State of Alaska	United States
1993	\$42,108	\$47,318	\$35,056
1994	44,207	50,132	37,070
1995*	37,787	41,675	32,238
1996	38,584	42,293	33,482
1997	40,544	43,702	34,618

*Data for 1995 and subsequent years is not comparable to previous years due to a change in the definition of income.

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

Cities

Fairbanks: The City of Fairbanks, with a 1998 population of 31,600, is the largest in the Borough and the second largest in the State, after Anchorage. The city's population has increased about 40 percent since 1980, and about 2.5 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. 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.

North Pole: North Pole is located 14 miles southeast of Fairbanks, and is the only other incorporated city in the Borough. Its 1998 population of 1,620 has increased about 11 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.

Employment

Table 20 shows a five-year history of civilian employment by industry segment. The Alaska Department of Labor estimates average 1998 employment at 32,950, an increase of 850 jobs from the previous year. Since 1993, employment growth in Fairbanks has averaged 2.3 percent per year. Unemployment has leveled off over the last three years and was 7.6 percent in 1996 and 1997.

Table 21 lists the largest employers in the Borough. The largest employers are government related.

Government Sector: The University of Alaska Fairbanks (UAF) employs 3,150 and is the Borough's largest employer. UAF accounts for 76 percent of State employment within the Borough. Along with other State and school district employees, and with military and civilian jobs at Fort Wainwright and Eielson, government continues to be the largest employer in the Borough with 32 percent of the workforce. Ten percent of the work force is federal employees, 13 percent are State, and 9 percent are local.

City voters approved privatization of the City of Fairbanks Municipal Utilities System (MUS) in 1996. The sale transferred the telephone utility to Pacific Telecom, Inc. (PTI), the electrical services to Golden Valley Electric, and the sewer and water operations to Fairbanks Sewer and Water operating as Golden Heart Utilities. In 1996, MUS employed about 240.

Services and Trade Sectors: Hotel/motel room receipts amounted to \$32,344,000 in 1997, an increase of 10 percent over 1996. Tourism continued to be strong in 1998. Hotel/motel receipts totaled \$30.4 million through the third quarter of 1998, an increase of 5.5 percent from the same period in 1997. Employment in the services sector, to which tourism significantly contributes, is about 25 percent of total Borough employment. The trade sector accounts for about 21 percent of the Borough's employment.

Table 20
Fairbanks North Star Borough
Average Annual Civilian Employment (by Industry) and Unemployment Rate

Industry	1994	1995	1996	1997	1998
Mining & Agriculture	800	700	900	1,100	1,100
Construction	1,500	1,900	1,750	1,650	1,700
Manufacturing	550	550	500	550	600
Transportation, communications, and utilities	2,150	2,300	2,300	2,600	3,000
Trade	7,000	6,950	6,550	6,700	6,850
Finance, insurance & real estate	1,050	950	1,000	1,050	1,100
Services	7,250	7,550	7,850	8,000	8,250
Government - federal	3,100	3,050	3,200	3,300	3,300
Government - state	4,400	4,350	4,350	4,250	4,250
Government - local	<u>2,850</u>	<u>2,850</u>	<u>2,950</u>	<u>2,900</u>	<u>2,800</u>
Total	30,650	31,150	31,350	32,100	32,950
Unemployment rate	8.2%	7.5%	7.6%	7.6%	n/a

Source: Alaska Department of Labor

Table 21
Fairbanks North Star Borough
Largest Employers

Employer	Business Activity	Employees
Federal government (1)	Government	3,350
University of Alaska, Fairbanks	Education	3,150
Fairbanks North Star Borough School Dist.	Education	1,700
State government (2)	Government	1,560
Lutheran Health System (former Fairbanks Memorial Hospital)	Hospital	840
Fred Meyers, Inc.	Grocery/retail	550
Tanana Chiefs Conference	Social services	350
HC Price	Pipeline service	530
Fairbanks North Star Borough	Government	390
Westours Motorcoaches	Tour buses	270
Fairbanks Gold Mining Co. (Ft. Knox)	Hard rock mining	250
K Mart Corp.	Retail	250
Fountainhead Development	Hotels	220
Fairbanks Native Association		200

1- Excludes military uniformed personnel.

2 - Total state government minus University of Alaska.

Source: Alaska Department of Labor, Research and Analysis Section, based on 1997 averages.

Transportation, Communications, and Utilities Sector: This sector increased 13 percent in 1998 and accounts for 8 percent of total employment. Most of the increase is due to the privatization of MUS, the PTI Communications headquarters move, and the relocation of Alyeska Pipeline Service Company personnel.

Alyeska Pipeline Service Company is the consortium of oil companies that operates the Trans Alaska pipeline system, which transports oil from the North Slope to the Gulf of Alaska. In May 1997, Alyeska merged pipeline support into one business office, which brought about 300 new positions to the Fairbanks area. Additionally, PTI moved its Alaska headquarters from Anchorage to Fairbanks in 1998, bringing 80 new positions to the Fairbanks area.

Construction, Manufacturing and Mining Sectors: These employment sectors provide 5 percent, 2 percent, and 3 percent respectively of total employment. Construction continues to provide steady employment due to various school construction projects, military housing, expansion of the MAPCO refinery and Geophysical Institute, other renovations and remodeling projects, and road construction, described more fully in the section titled "Construction."

Although mining is a small employer, it provides local jobs and brings in new money to the local economy, including property tax revenues. Mining also includes the oil and gas industries which are important to the statewide economy.

Other Employment: Lutheran Health Systems (formerly Fairbanks Memorial Hospital) is the largest non-governmental employer with 840 full-time employees. Fred Meyer, Inc., a grocery and retail store chain with two stores in Fairbanks, employs 550. Tanana Chiefs Conference is a nonprofit corporation representing Interior Athabaskan Indian villages. Tanana Chiefs manages social service programs for 43 interior villages and employs 350 in Fairbanks.

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.

Eielson is located 26 miles south of Fairbanks and consists of 22,035 acres with access to an additional 40,000 acres. Originally built in 1944 as an auxiliary weather-alternate field for Ladd Army Field, the base was known as Mile-26-Strip. After being mothballed at the end of World War II, the base was reopened in 1946 and transformed into a large bomber base because of the onset of the Cold War. Eielson is home to the 354th Fighter Wing, 18th Fighter Squadron, 355th Fighter Squadron, 353rd Combat Training Squadron, and the 168th Air Refueling Wing.

Table 22 shows military personnel, family members and civilian employment at Fort Wainwright and Eielson. For the 1996/97 fiscal year, 4,525 military personnel and 5,431 family members were stationed at Fort Wainwright. Civilian employment was 1,257 and combined military and civilian payroll was \$188.6 million. For the 1996/97 fiscal year, 2,992 military personnel and 4,441 family members were stationed at Eielson. Civilian employment was 1,014 and combined military and civilian payroll was \$118.9 million.

Table 22
Fairbanks North Star Borough
Military Population and Employment

	1992/93	1993/94	1994/95	1995/96	1996/97
Fort Wainwright					
Military personnel	5,085	4,490	4,576	4,585	4,525
Family members	6,691	6,301	6,029	5,639	5,431
Civilian Employment	1,277	1,222	1,197	1,225	1,257
Payroll (millions of dollars)					
Military	\$194.9	\$143.7	\$136.8	\$136.4	\$137.3
Civilian	44.2	45.6	46.0	46.7	51.3
Eielson Air Force Base					
Military personnel	2,771	2,730	2,741	2,725	2,992
Family members	4,284	4,230	4,483	4,477	4,441
Civilian Employment	1,076	605	785	759	1,014
Payroll (millions of dollars)					
Military	\$90.5	\$92.5	\$92.7	\$91.5	\$93.1
Civilian	29.6	23.2	25.5	26.0	25.8

Source: Fort Wainwright and Eielson Air Force Base.

Retail Sales

Retail sales totaled \$916.8 million in 1997, according to *Sales & Marketing Management Magazine*. This is an increase of about 2.3 percent over 1996. Retail sales increased at an average annual rate of 5 percent between 1993 and 1997. Table 23 shows retail sales by category from 1993 through 1997.

Construction

Table 24 shows building permits and valuation in the Borough since 1993. Total valuation for 1998 is up 70 percent over 1997. Building permits are not required in many areas of the Borough and data is not available for public and military construction, so the building permit data shown in Table 24 is only an indicator of construction activity.

Table 23
Fairbanks North Star Borough
Retail Sales (\$000)

	1993	1994	1995	1996	1997
Food	\$179,603	\$147,628	\$147,022	\$194,603	\$153,474
Eating & drinking places	78,059	78,435	87,778	84,563	84,301
General merchandise	59,316	123,712	110,509	104,129	109,582
Furniture & appliances	41,889	38,632	35,437	38,107	40,178
Automotive	151,493	205,113	218,670	233,181	249,438
All Other	<u>245,183</u>	<u>242,769</u>	<u>269,863</u>	<u>241,716</u>	<u>279,894</u>
Total	755,543	836,289	869,279	896,299	916,867

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

Table 24
Fairbanks North Star Borough
Building Permits and Valuation (dollars in thousands)(1)

Year	Residential Units	Residential	New Commercial	Other (2)	Total
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	255	22,574	12,219	13,554	48,347
1997	182	21,374	19,341	15,860	56,575
1998	246	25,197	35,825	34,777	95,799

1 - Excludes value of federal and state construction.

2 - Includes new structures, alterations and additions.

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

Many major construction projects have recently been completed or are underway. They include MAPCO Petroleum, Inc.'s \$70 million refinery expansion in North Pole, (completed December 1998); the Geophysical Institute's \$30 million expansion on UAF's campus; renovations by Safeway, Sears, and Fred Meyer; the completion of Alyeska's 43,000 square foot headquarters; the \$4.5 million expansion and renovation of the Westmark Fairbanks Hotel and Conference Center; the \$10 million Chena Hot Springs Road reconstruction, and repairs on the Alaska, Dalton, and Elliot highways.

Other major construction projects scheduled for the 1998/99 fiscal year are school facilities renovation and upgrade projects, a \$24 million Fairbanks Courthouse complex, and a \$7 million 16-screen theater complex. Construction progressing at UAF includes projects of about \$56 million. The larger projects are the construction of the clean coal demonstration project, upgrades to campus facilities under the deferred maintenance program, and construction of the Poker Flats Lidar Laboratory and Administration Center. Completion of \$50 million in housing remodeling construction at Fort Wainwright and Eielson is expected over the next year. Also, the Fairbanks International Airport will begin a \$4 million expansion to its public and rental car parking areas in the spring of 1999.

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 Prudhoe Bay on the North Slope to shipping facilities in south-central Alaska at Valdez in 1977.

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.

In November 1998, oil companies announced layoffs and production cuts in Alaska. British Petroleum announced a 30 percent cut in costs, including the elimination of 600 jobs, mostly in Anchorage and on the North Slope. Arco announced that it would cut 80 jobs in the State. The current low oil prices will also affect Alaska's economy. The State Department of Revenue anticipates that oil production will fall from 1.28 million barrels per day in fiscal year 1998 to 1.18 million barrels per day in fiscal year 1999.

FNSB Oil and Gas Operations

Two oil refineries are located in the Borough. MAPCO Petroleum Inc., in North Pole, began operations in 1977 and currently processes 198,000 of its maximum capacity of 215,000 barrels per day (BPD). The refinery processes jet, diesel, and heating fuel. A \$57 million refinery upgrade in 1985 doubled its maximum refinery capacity. A \$13 million expansion project in 1996 increased MAPCO's gasoline production by 1,000 BPD. In December 1998, MAPCO completed its \$70 million expansion increasing production by 17,000 BPD, primarily jet fuel.

The PetroStar refinery, constructed in 1985, increased its capacity to 14,000 BPD in 1997 and finished construction of a \$750,000 jet fuel pipeline to connect directly to Eielson. The refinery produces kerosene, diesel, heating, and jet fuels.

Recent statistics from the State of Alaska's Department of Labor shows the petroleum industry is a significant employer in the Fairbanks area. On average, 527 Fairbanks residents were employed directly in oil and gas production in 1998 (employees of vendors and suppliers not included), creating a local payroll of \$33 million. Refining operations added another 167 direct jobs.

Mining

Gold was discovered in Fairbanks in 1901. The eastern interior region of Alaska—centered at Fairbanks—is not only the State's leading gold-producing region, but also holds potential for the discovery and development of new mines.

The Fort Knox gold mine is located 15 miles northeast of Fairbanks. The deposit has known reserves of 4.1 million ounces of gold. Commercial production started in March 1997 and the mine has an expected production life of 15 to 20 years. The mine employs about 250 year-round employees.

Usibelli Coal Mine, Inc. (UCM), Alaska's only coal producer, was founded in 1943. It is located about 120 miles south of the Borough. Today, the mine has a workforce of about 125 employees and operates year-round. Historically, UCM has produced an average of 1.5 million tons of low sulfur coal annually with about 50 percent sold in Interior Alaska where it is used in power plants to produce heat and electricity. The remaining 750,000 tons have been shipped by railroad to Seward, Alaska for export to South Korea. An additional 350,000 tons of coal per year is used for the Healy Clean Coal Project. The Healy Clean Coal Project (HCCP) funded, in part, by the U.S. Department of Energy's Coal Technology Program began operation in 1998. This state of the art 50-megawatt power plant uses a combustion system that burns Alaska coal in stages to minimize air pollution. 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 Golden Valley Electric Association (GVEA), whose service area continues to see increased demand. The Fort Knox gold mine added 30 megawatts to GVEA's energy demand, which is approximately 60 percent of the HCCP's 50-megawatt output.

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

University of Alaska

The University of Alaska Fairbanks (UAF) was established in 1917 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 flagship of the State university system which also includes campuses in Anchorage and Juneau. The campus is made up of four colleges and five professional schools. UAF is the largest single, non-military employer in the Borough with about 3,150 faculty and staff.

In 1999 the \$30 million International Arctic Research Center, an expansion of the Geophysical Institute on UAF's main campus will open, adding 80,000 square feet of research and laboratory space for scientists. Nearly 60 percent of the project funding is an investment from the Japanese government. At the Institute scientists can study a whole spectrum of geophysical processes ranging from the center of the earth to the center of the sun and beyond. 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 Flats Research Range is located about 30 minutes from Fairbanks. Alaska Synthetic Aperture Radar Facility, the only receiving station within the U.S. set up to receive, process and archive information from polar orbiting earth observation satellite is located at the Geophysical Institute. UAF is also home to the Arctic Region 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. Alaska and Delta currently serve the airport for interstate flights. Boeing 747 cargo carriers include Lufthansa, Air France, and Cargo Lux. Table 25 shows a history of passengers, freight operations, and landings at the airport.

In 1997, Fairbanks International Airport received \$9.6 million in federal and State grants to lengthen a runway and improve service for cargo carriers. This project was completed in 1998. The extension of the runway will allow larger, heavier planes to use the airport as a service center in future years. The airport will begin a \$4 million expansion of its public and rental car parking area this year.

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 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.

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

Table 25
Fairbanks International Airport
Operating Statistics

	1993	1994	1995	1996	1997
Passengers - incoming	320,500	369,600	370,900	405,300	412,100
Passengers - outgoing	317,600	360,900	364,500	403,900	408,300
Revenue landings	20,590	26,970	29,230	28,220	27,370
Freight - incoming*	18,300	18,320	19,580	14,930	15,540
Freight - outgoing *	52,430	65,170	74,570	58,210	61,190

* Thousands of pounds

Source: Alaska Department of Transportation & Fairbanks International Airport

Community Facilities

John A. Carlson Community Activity Center: The Carlson Center, managed for the Borough by Ogden Entertainment, provides space for sports, meetings, and conventions. The center, opened in 1990, is a multi-purpose facility, which can be configured from hockey rink to basketball court to concert seating. The 100,000 square-foot center has a seating capacity of 6,500. The center hosts an average of 175 event days per year (not including ice rental) with an attendance of 150,000 to 175,000 per year.

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.

Tourism and Recreation

Fairbanks has abundant indoor and outdoor recreational facilities, including swimming pools, downhill and cross-country skiing, hiking and bicycle trails, golf courses, and softball and soccer fields. Community events include the annual Yukon Quest, a Fairbanks-to-Whitehorse, Canada, sled dog race; the North American Sled Dog Racing Championships; Fairbanks Winter Carnival; Tanana Valley Fair; and the World Eskimo Indian Olympics.

The University of Alaska Museum is a modern, major visitor attraction. The museum includes Alaskan Native artifacts, botanical and natural history exhibits, and mineral and fossil samples. The museum has a continuous research program.

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. It is the host site for the annual World Eskimo Indian Olympics as well as for local youth and high school hockey and figure skating programs.

Alaskaland, owned by the Borough, is a 44-acre theme park built in 1967 to commemorate the centennial of the Alaska purchase. It is a recreated gold rush town of the 1900s, and includes restored original buildings moved in from the Fairbanks area, which now house retail businesses and restaurants. The park hosts conventions, fairs, and carnivals, and includes a civic center and art gallery which operates year-round. The park also includes playgrounds and picnic facilities.

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



APPENDIX A
GENERAL PURPOSE FINANCIAL STATEMENT
FAIRBANKS NORTH STAR BOROUGH, ALASKA
Fiscal Year Ended June 30, 1998

APPENDIX A
GENERAL PURPOSE FINANCIAL STATEMENT

Cook & Haugeberg
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Assembly
Fairbanks North Star Borough

We have audited the accompanying general purpose financial statements and the combining and individual fund and account group financial statements of the Fairbanks North Star Borough as of and for the year ended June 30, 1998. These financial statements are the responsibility of Fairbanks North Star Borough's management. Our responsibility is to express an opinion on these financial statements based on our audit.

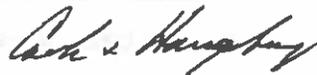
We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Fairbanks North Star Borough as of June 30, 1998, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles. Also in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the Fairbanks North Star Borough, as of June 30, 1998, and the results of operations of such funds and the cash flows of the individual proprietary funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 25, 1998 on our consideration of the Fairbanks North Star Borough's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the combining and individual fund and account group financial statements. The accompanying financial information listed as "Additional Information" in the table of contents is presented for additional analysis and is not a required part of the financial statements of the Fairbanks North Star Borough. Such information has been subjected to the auditing procedures applied in the audit of the general purpose, combining and individual fund and account group financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

The other data included in this report, designated as the "Statistical Section" in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.



November 25, 1998

119 North Cushman Street, Suite 300 • Fairbanks, Alaska 99701 • 907-456-7762

Senior Consultant James F. Dieringer, Jr. CPA

FAX 907-452-6184

GENERAL PURPOSE FINANCIAL STATEMENTS

Combined Balance Sheet
All Fund Types and Account Groups
and Discretely Presented Component Unit

* * * * *

Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
and Expendable Trust Fund
and Discretely Presented Component Unit

* * * * *

Combined Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Budget and Actual - General, Certain
Special Revenue and Debt Service Funds

* * * * *

Combined Statement of Revenues, Expenses
and Changes in Retained Earnings
Proprietary Fund Type

* * * * *

Combined Statement of Cash Flows
Proprietary Fund Type

* * * * *

Notes to Financial Statements

FAIRBANKS NORTH STAR BOROUGH

COMBINED BALANCE SHEET

ALL FUND TYPES AND ACCOUNT GROUPS
AND DISCRETELY PRESENTED COMPONENT UNIT

June 30, 1998
With Comparative Totals for June 30, 1997

Exhibit I
Sheet 1 of 2

ASSETS	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	FAIRBANKS NORTH STAR BOROUGH		TOTALS (MEMORANDUM ONLY)		REPORTING ENTITY	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	FIDUCIARY FUND TYPE	ACCOUNT GROUPS	1998	1997	School District	Total (Memorandum Only)
						Trust and Agency	General Fixed Assets General Long-Term Debt				
Equity in central treasury cash	\$16,758,960	\$11,015,128	\$ 818,148	\$35,036,277	\$ 6,052,358	\$ 91,262	\$	\$ 69,772,133	\$ 46,731,342	\$ 9,488,001	\$ 79,260,134
Investments						6,942,239		6,942,239	5,323,872		6,942,239
Taxes receivable (net of allowance for uncollectibles: 1998, \$2,392,488; 1997, \$2,376,717)	502,698	26,484			148,894	233,656		911,732	874,488		911,732
Accounts receivable (net of allowance for uncollectibles: 1998, \$32,273; 1997, \$28,507)	105,379	586,559			218,194			910,132	843,815	86,217	996,349
Accrued interest receivable	382,967			220,221	33,218			636,406	744,083		636,406
Assessments receivable									1,281		
Interfund receivable									417,513	3,013,676	3,013,676
Due from Borough										102,238	102,238
Due from School District									6,131		
Due from governmental agencies	357,260	279,653		1,707,088	28,315			2,372,316	3,767,005	3,599,995	5,972,311
Inventories					2,344,318			2,344,318	3,050,144		2,344,318
Other assets	1,135,753							1,135,753	71,644	883,105	2,018,858
Contracts receivable					1,634,314			1,634,314	1,119,642		1,634,314
Fixed assets (net, where applicable, of accumulated depreciation)					16,852,682		409,924,250	426,776,932	404,199,986	32,271,541	459,048,473
OTHER DEBITS											
Amount available in debt service fund										818,148	818,148
Amount available in landfill closure reserve fund										1,775,964	1,775,964
Amount to be provided for retirement of general long-term debt										97,601,340	97,226,340
Total assets and other debits	\$19,243,017	\$11,907,824	\$ 818,148	\$36,963,586	\$27,312,293	\$ 7,267,157	\$409,924,250	\$613,631,727	\$ 537,985,537	\$49,569,773	\$ 663,201,500

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 AND DISCRETELY PRESENTED COMPONENT UNIT
 June 30, 1998
 With Comparative Totals for June 30, 1997

Exhibit I
 Sheet 2 of 2

LIABILITIES	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE Trust and Agency	ACCOUNT GROUPS		FAIRBANKS NORTH STAR BOROUGH TOTALS (MEMORANDUM ONLY)			REPORTING ENTITY
	General	Special Revenue	Debt Service	Capital Projects	Enterprise		General Fixed Assets	General Long-Term Debt	1998	1997	School District	Total (Memorandum Only)
Accounts payable	\$ 459,493	\$ 609,635	\$	\$ 5,064,079	\$ 113,363	\$	\$	\$ 6,246,570	\$ 4,703,195	\$ 747,352	\$ 6,993,922	
Wages and payroll taxes	643,359	292			80,613			724,264	638,138	298,364	1,022,628	
Accrued annual leave	1,027,258				147,326			1,174,584	1,101,390	970,000	2,144,584	
Accrued self-insurance losses	702,637				64,154			766,791	1,131,553	3,193,935	3,960,726	
Interfund payable									417,513	3,013,676	3,013,676	
Due to School District		5,715		96,521		246,424		102,236	450,602		102,236	
Due to governmental agencies								246,424	240,318		246,424	
Deposits from others	150,384							150,384	68,627	15,335	165,719	
Deferred revenues		191,603		876,639	16,800	5,384		1,085,042	1,787,038	779,420	1,864,462	
Undistributed grant revenue						39,323		5,384	5,384		5,384	
Advance tax payments	4,570,282							4,609,605	4,763,162		4,609,605	
Estimated claims, judgments and settlements payable										610,000	610,000	
Long-term debt									100,195,452	100,195,452	70,841,528	
Due to student groups										125,000	100,320,452	
Unrealized gain on land contracts					323,913	6,942,239		323,913	381,567	1,117,583	1,117,583	
Deferred compensation benefits payable								6,942,239	5,323,872		323,913	
Total liabilities	7,553,413	807,245		6,037,239	746,169	7,233,370		100,195,452	122,572,888	91,653,887	10,870,665	133,443,553
EQUITY AND OTHER CREDITS												
Investment in general fixed assets							409,924,250	409,924,250	386,336,176	32,271,541	442,195,791	
Contributed capital					24,465,909			24,465,909	25,191,117		24,465,909	
Retained earnings								266,608	221,940		266,608	
Reserved for asset replacement					266,608			1,833,607	2,417,605		1,833,607	
Unreserved					1,833,607							
Fund balances (deficit)								43,446,782	14,808,319	2,016,558	45,463,340	
Reserved for encumbrances	322,649	627,559		42,496,574						883,105	883,105	
Other School District reserves												
Unreserved												
Designated for subsequent year's expenditures		251,600	363,730					615,330	1,003,890	1,450,000	2,065,330	
Designated for self-insurance losses	1,500,000							1,500,000	1,500,000		1,500,000	
Designated for system replacements and repairs		120,996				16,893		120,996	119,385		120,996	
Designated for library endowment								16,893			16,893	
Designated for net unrealized investment gains	435,450					16,894		435,450			435,450	
Undesignated	9,431,505	10,100,424	454,418	(11,570,227)		33,787		8,433,014	14,733,218	2,077,904	10,510,918	
Total equity and other credits	11,689,604	11,100,579	818,148	30,926,347	26,566,124	33,787	409,924,250	491,058,839	446,331,650	38,699,108	529,757,947	
Total liabilities, equity and other credits	\$ 19,243,017	\$ 11,907,824	\$ 818,148	\$ 36,963,586	\$ 27,312,293	\$ 7,267,157	\$ 409,924,250	\$ 100,195,452	\$ 613,631,727	\$ 537,985,537	\$ 49,569,773	\$ 663,201,500

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES (DEFICIT)
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 AND DISCRETELY PRESENTED COMPONENT UNIT
 Year Ended June 30, 1998
 With Comparative Totals for Year Ended June 30, 1997

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE Trust and Agency	FAIRBANKS NORTH STAR BOROUGH			REPORTING ENTITY Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		TOTALS (MEMORANDUM ONLY)		School District	
						1998	1997		
Revenues					\$	\$	\$	\$	
Taxes	\$44,980,212	\$ 7,373,917	\$	\$	\$ 52,354,129	\$ 48,573,601	\$	\$ 52,354,129	
Special assessments	1,228				1,228			1,228	
Intergovernmental revenues	11,721,678	3,865,030	355,853	2,613,992	18,556,553	33,355,506	83,411,482	101,968,035	
Charges for services	1,166,735	4,816,995			5,983,730	5,577,196		5,983,730	
Charges to School District	919,158				919,158	1,001,064		919,158	
Other revenues	5,096,043	574,304	37,296	1,030,936	6,873,359	5,556,845	2,120,170	8,993,529	
Total revenues	63,885,054	16,630,246	393,149	3,644,928	134,780	84,688,157	85,531,652	170,219,809	
Expenditures									
Current						16,152,430	16,136,322	16,152,430	
General government	8,786,295	7,366,135							
Education							919,158	919,158	
Charges from Borough							114,407,935	114,407,935	
All other					1,083,059	1,030,968		1,083,059	
Community planning	999,404	83,655			7,928,723	7,683,123		7,928,723	
Public works	3,328,747	4,599,976			2,217,566	1,967,906		2,217,566	
Direct services	1,101,168	1,116,398			3,338,517	3,331,699		3,338,517	
Parks and recreation	3,338,517				2,328,915	2,285,360		2,328,915	
Library	2,328,915				24,863,872	30,103,577	1,191,988	26,055,860	
Capital outlay	384,062	1,019,019		23,460,791					
Debt service					5,825,000	6,025,000		5,825,000	
Principal retirement of bonds					4,559,118	3,593,127		4,559,118	
Interest and fiscal agent fees									
Total expenditures	20,267,108	14,185,183	10,384,118	23,460,791	68,297,200	72,157,082	116,519,081	184,816,281	
Excess (deficiency) of revenues over expenditures	43,617,946	2,445,063	(9,990,969)	(19,815,863)	134,780	16,390,957	(30,987,429)	(14,596,472)	
Other financing sources (uses)						16,167,798	13,016,416	17,932,113	
Operating transfers in		1,778,782	10,395,170	3,993,846			1,764,315	27,680,000	
Operating transfers from Borough					(18,034,370)	(15,304,656)	(1,764,315)	(19,798,685)	
Operating transfers out	(15,653,960)	(2,176,745)		(703,665)	(27,680,000)	(26,830,000)		(27,680,000)	
Operating transfers to School District	(27,680,000)							309,268	
Long-term loan proceeds						35,250,000		35,250,000	
Bond proceeds									
Total other financing sources (uses)	(43,333,960)	(397,963)	10,395,170	39,349,449	6,012,696	(12,798,240)	27,680,000	33,692,696	
Excess (deficiency) of revenues and other sources over expenditures and other uses	283,986	2,047,100	404,201	19,533,586	134,780	22,403,653	(3,307,429)	19,096,224	
Fund balances (deficit), July 1	10,852,348	9,606,749	413,947	11,392,761	(100,993)	32,164,812	23,055,922	9,734,996	
Residual equity transfers	553,270	(553,270)							
Fund balances, June 30	\$11,689,604	\$11,100,579	\$ 818,148	\$30,926,347	\$ 33,787	\$ 54,568,465	\$ 32,164,812	\$ 6,427,567	

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, 1998

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	\$44,560,490	\$44,980,212	\$	\$44,980,212	\$ 419,722	\$ 7,290,630	\$ 7,373,917	\$	\$ 7,373,917	\$ 83,287	\$	\$ 7,373,917
Special assessments		1,228		1,228	1,228							
Intergovernmental revenues	11,601,150	11,721,678		11,721,678	120,528	488,780	506,385		506,385	17,605	3,358,645	3,865,030
Charges for services	1,202,140	1,166,735		1,166,735	(35,405)	4,537,510	4,816,995		4,816,995	279,485		4,816,995
Charges to School District	961,980	919,158		919,158	(42,822)							
Other revenues	4,399,321	5,096,043		5,096,043	696,722	217,700	423,784		423,784	206,084	150,520	574,304
Total revenues	<u>62,725,081</u>	<u>63,885,054</u>		<u>63,885,054</u>	<u>1,159,973</u>	<u>12,534,620</u>	<u>13,121,081</u>		<u>13,121,081</u>	<u>586,461</u>	<u>3,509,165</u>	<u>16,630,246</u>
Expenditures												
Current												
General government	9,292,451	8,786,295	69,563	8,855,858	436,593	7,921,662	4,009,895	(113,017)	3,896,878	4,024,784	3,356,240	7,366,135
Community planning	1,029,175	999,404	15,124	1,014,528	14,647	96,070	83,655		83,655	12,415		83,655
Public works	3,507,300	3,328,747	63,747	3,392,494	114,806	5,200,116	4,599,976	34,395	4,634,371	565,745		4,599,976
Direct services	1,105,576	1,101,168	(2,245)	1,098,923	6,653	1,200,797	1,116,398	2,994	1,119,392	81,405		1,116,398
Parks and recreation	3,411,290	3,338,517	(4,803)	3,333,714	77,576							
Library	2,333,820	2,328,915	(951)	2,327,964	5,856							
Capital outlay	396,803	384,062	(1,787)	382,275	14,528	270,763	189,290	64,134	253,424	17,339	829,729	1,019,019
Debt service												
Total expenditures	<u>21,076,415</u>	<u>20,267,108</u>	<u>138,648</u>	<u>20,405,756</u>	<u>670,659</u>	<u>14,689,408</u>	<u>9,999,214</u>	<u>(11,494)</u>	<u>9,987,720</u>	<u>4,701,688</u>	<u>4,185,969</u>	<u>14,185,183</u>
Excess (deficiency) of revenues over expenditures	<u>41,648,666</u>	<u>43,617,946</u>	<u>(138,648)</u>	<u>43,479,298</u>	<u>1,830,632</u>	<u>(2,154,788)</u>	<u>3,121,867</u>	<u>11,494</u>	<u>3,133,361</u>	<u>5,288,149</u>	<u>(676,804)</u>	<u>2,445,063</u>
Other financing sources (uses)												
Operating transfers in						200,047	200,047		200,047		1,578,735	1,778,782
Operating transfers out	(15,662,967)	(15,653,960)		(15,653,960)	9,007	(1,976,700)	(1,976,698)		(1,976,698)	2	(200,047)	(2,176,745)
Operating transfers to School District	(27,680,000)	(27,680,000)		(27,680,000)								
Total other financing sources (uses)	<u>(43,342,967)</u>	<u>(43,333,960)</u>		<u>(43,333,960)</u>	<u>9,007</u>	<u>(1,776,653)</u>	<u>(1,776,651)</u>		<u>(1,776,651)</u>	<u>2</u>	<u>1,378,688</u>	<u>(397,963)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$(1,694,301)</u>	<u>283,986</u>	<u>\$(138,648)</u>	<u>\$ 145,338</u>	<u>\$ 1,839,639</u>	<u>\$(3,931,441)</u>	<u>1,345,216</u>	<u>\$ 11,494</u>	<u>\$ 1,356,710</u>	<u>\$ 5,288,151</u>	<u>701,884</u>	<u>2,047,100</u>
Fund balances, July 1		10,852,348					8,067,307				1,539,442	9,606,749
Residual equity transfers		553,270					(553,270)					(553,270)
Fund balances, June 30		<u>\$11,689,604</u>					<u>\$ 8,859,253</u>				<u>\$ 2,241,326</u>	<u>\$ 11,100,579</u>

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, 1998

Exhibit III
 Sheet 2 of 2

	DEBT SERVICE FUND				
	Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues					
Taxes	\$	\$	\$	\$	\$
Special assessments					
Intergovernmental revenues	356,000	355,853		355,853	(147)
Charges for services					
Charges to School District					
Other revenues		37,296		37,296	37,296
Total revenues	<u>356,000</u>	<u>393,149</u>		<u>393,149</u>	<u>37,149</u>
Expenditures					
Current					
General government					
Community planning					
Public works					
Direct services					
Parks and recreation					
Library					
Capital outlay					
Debt service	<u>10,801,380</u>	<u>10,384,118</u>		<u>10,384,118</u>	<u>417,262</u>
Total expenditures	<u>10,801,380</u>	<u>10,384,118</u>		<u>10,384,118</u>	<u>417,262</u>
Excess (deficiency) of revenues over expenditures	<u>(10,445,380)</u>	<u>(9,990,969)</u>		<u>(9,990,969)</u>	<u>454,411</u>
Other financing sources (uses)					
Operating transfers in	10,395,170	10,395,170		10,395,170	
Operating transfers out					
Operating transfers to School District					
Total other financing sources (uses)	<u>10,395,170</u>	<u>10,395,170</u>		<u>10,395,170</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (50,210)</u>	<u>404,201</u>	<u>\$</u>	<u>\$ 404,201</u>	<u>\$ 454,411</u>
Fund balances, July 1		413,947			
Residual equity transfers					
Fund balances, June 30		<u>\$ 818,148</u>			

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See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH
 COMBINED STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN RETAINED EARNINGS

Exhibit IV

PROPRIETARY FUND TYPE

Years Ended June 30, 1998 and 1997

	Enterprise Funds	
	1998	1997
Operating revenues		
Fares	\$ 285,181	\$ 280,663
Land leases	46,378	48,437
Gravel sales	16,842	16,782
Interest on land contracts receivable	110,359	134,400
Advertising	6,770	7,734
Charges for services	1,014,309	1,021,492
Other revenues	32,087	23,427
Total operating revenues	<u>1,511,926</u>	<u>1,532,935</u>
Operating expenses		
Loss (gain) on land sales	18,374	(39,588)
Wages and benefits	2,411,744	1,805,978
Fuels, lubricants and parts	283,481	223,375
Contractual services	314,040	761,321
Utilities	43,686	49,743
Professional services	20,848	145,361
Depreciation	870,685	887,751
Training, dues and professional expenses	22,816	20,904
Repairs and maintenance	24,644	38,329
Supplies	41,952	32,024
Management contractor fee	120,286	118,059
Intragovernmental charges	982,143	878,134
Total operating expenses	<u>5,154,699</u>	<u>4,921,391</u>
Operating loss	<u>(3,642,773)</u>	<u>(3,388,456)</u>
Non-operating revenues (expenses)		
Operating grants	126,526	182,953
Investment income	319,031	286,479
Loss on sales of fixed assets	(1,694)	(818)
Cost of prior year sales (net of profit recognition: 1998, \$-0-; 1997, \$156,785), resulting from land valuation		<u>(84,785)</u>
Total non-operating revenues (expenses)	<u>443,863</u>	<u>383,829</u>

(Continued)

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH
 COMBINED STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN RETAINED EARNINGS

Exhibit IV
 (Continued)

PROPRIETARY FUND TYPE

Years Ended June 30, 1998 and 1997

	Enterprise Funds	
	1998	1997
Loss before operating transfers	\$ (3,198,910)	\$ (3,004,627)
Operating transfers in	<u>1,866,572</u>	<u>2,288,240</u>
Net loss	(1,332,338)	(716,387)
Add depreciation on fixed assets funded by contributed capital	793,008	797,945
Retained earnings, July 1	2,639,545	2,588,312
Residual equity transfers		<u>(30,325)</u>
Retained earnings, June 30	<u>\$ 2,100,215</u>	<u>\$ 2,639,545</u>

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, 1998 and 1997

Exhibit V

	Enterprise Funds	
	1998	1997
Cash flows from operating activities		
Cash received from customers	\$ 2,174,423	\$ 1,929,322
Cash payments to suppliers for goods and services	(1,994,538)	(2,237,508)
Cash payments to employees for services	(2,320,301)	(2,048,612)
Net cash used for operating activities	(2,140,416)	(2,356,798)
Cash flows from noncapital financing activities		
Operating grants received	127,640	203,252
Operating transfer from general fund	1,866,572	2,288,240
Net cash provided by noncapital financing activities	1,994,212	2,491,492
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(24,891)	(22,925)
Capital grants received	16,800	
Net cash used for capital and related financing activities	(8,091)	(22,925)
Cash flows from investing activities		
Investment income allocation from central treasury	319,031	286,479
Net increase in equity in central treasury cash	164,736	398,248
Equity in central treasury cash at beginning of year	5,887,622	5,489,374
Equity in central treasury cash at end of year	\$ 6,052,358	\$ 5,887,622

(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, 1998 and 1997

Exhibit V
(Continued)

	Enterprise Funds	
	1998	1997
Reconciliation of Operating Loss to Net Cash Used for Operating Activities		
Operating loss	\$ (3,642,773)	\$ (3,388,456)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	870,685	887,751
Change in assets and liabilities		
Decrease in inventories	948,486	159,705
(Increase) decrease in receivables	(585,819)	287,362
Increase in accounts payable	32,702	3,124
Increase in wages and payroll taxes	18,500	11,288
Increase in accrued annual leave	21,788	9,928
Increase (decrease) in accrued self-insurance losses	51,154	(263,850)
Decrease in deposits from others		(5,764)
(Increase) in unrealized gain on land contracts	144,861	(57,886)
Total adjustments	1,502,357	1,031,658
Net cash used for operating activities	\$ (2,140,416)	\$ (2,356,798)
Noncash Investing, Capital and Financing Activities		
Fixed assets contributions	\$ 1,300	\$ 1,594

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements
June 30, 1998

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), emergency communication services (enhanced 911), and housing financing. These services are provided throughout the entire Borough.
- Non-areawide: fireworks control, emergency medical services, economic development, and debt service for solid waste transfer station bonds. These activities service the area of the Borough outside the two cities of Fairbanks and North Pole.
- Service area: road construction and maintenance, fire protection, water supply, sewage disposal, and street lights. These services are provided to 111 neighborhoods and regions.
- Solid Waste Collection 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 School District is legally separate from the Borough.

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1. Summary of Significant Accounting Policies (continued)

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

- 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's 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.
- All land, buildings, and improvements other than buildings, used by the School District, are owned by the Borough and provided to the School District at no charge. Schools located on military bases are operated by the School District through School District, State, and U.S. Department of Education agreements.
- 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, Fairbanks, Alaska 99701; 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 governmental 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.

1. Summary of Significant Accounting Policies (continued)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, intergovernmental revenues, and charges for services. Expenditures are authorized in the annual budget and include such areawide activities as administration, parks and recreation, library, and planning and zoning.

Special Revenue Funds - Special revenue funds are used to 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 geographic basis. These activities include solid waste disposal (landfill), solid waste collection, emergency medical services, economic development, emergency communication services (enhanced 911), and various service area functions. Revenues for these activities are provided by local taxation, state revenues, and charges for services. 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.

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. There are 111 active service areas in the Borough.

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.

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

1. Summary of Significant Accounting Policies (continued)

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.

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

1. Summary of Significant Accounting Policies (continued)

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. For investments with maturities greater than one year, unrealized gains and losses are recorded at the end of the reporting period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long-term debt which is recognized when due.

All proprietary funds are accounted for using the flow of economic resources measurement focus. 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.

Statement Number 20 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that proprietary activities follow all GASB pronouncements. It also allows for the option of either following Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 that are not in conflict with GASB pronouncements, or following all FASB pronouncements that are not in conflict with GASB pronouncements. The Borough has elected to follow FASB pronouncements issued on or before November 30, 1989 that are not in conflict with GASB pronouncements.

All of the School District component unit's funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. For School District long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of the operating (SD general) fund. The

1. Summary of Significant Accounting Policies (continued)

remaining portion of such obligations is reported in the School District's general long-term debt account group.

D. Budgets, Budgetary Accounting and Encumbrances

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

- 1) On or before the first Thursday following April 1, the Mayor submits to the Borough Assembly a proposed operating budget for the following fiscal year. The annual operating budget includes proposed expenditures and the means of financing them. In accordance with Alaska Statutes 14.14.060(c) and FNSB Code 3.03.010, 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.

Formal budgetary integration is employed as a management control device, during the year, for the general fund; certain special revenue funds; enhanced 911, non-areawide, solid waste collection district, solid waste disposal, 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 (enhanced 911, non-areawide, solid waste collection district, solid waste disposal, 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.

1. Summary of Significant Accounting Policies (continued)

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, enhanced 911 special revenue, non-areawide special revenue, solid waste collection district special revenue, solid waste disposal special revenue, and enterprise funds; at the service area level in the service areas special revenue fund; and at the project level for the capital projects and the remaining special revenue funds. All other appropriations are at the fund level. Expenditures may not exceed these appropriations which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed, object-level budgets.

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 in the current fiscal year 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.

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 fair value. Realized investment 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 fund, enhanced 911 special revenue fund,

Notes to Financial Statements (continued)
June 30, 1998

1. Summary of Significant Accounting Policies (continued)

Landfill closure reserve special revenue fund and capital projects funded from the reserve, Alaska Department of Education grants to the Borough and to the School District, nonexpendable trust fund and capital projects funded by the trust fund, the enterprise funds, and pupil activities of the School District. For bond-funded projects authorized prior to September 1993, realized investment income is allocated to pay for the cost of debt service on those projects. For bond-funded projects authorized since September 1993, realized investment income is allocated back to the respective project. The balance of investment income and all unrealized gains and losses, reported to reflect the change in fair value of investments, are allocated to 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 fair 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 are valued on an average cost basis. Inventories 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.

Notes to Financial Statements (continued)
June 30, 1998

1. Summary of Significant Accounting Policies (continued)

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.

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, buildings, 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 School District by the U.S. government through the State of Alaska for Fort Wainwright Army Post and Eielson Air Force Base. Ownership of the on-base schools is being individually transferred to the Borough as new on-base schools are constructed, or as existing schools are renovated, to Borough standards. 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.

1. Summary of Significant Accounting Policies (continued)L. Interfund Receivables and Payables

Interfund receivables and payables 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.

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 or special revenue fund.

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

Q. Unrealized Gain on Land Contracts

In accordance with Financial Accounting Standards Board Statement Number 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 entitlements, or contributions from other funds.

1. Summary of Significant Accounting Policies (continued)

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 17.

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. Fund balance designated for net unrealized investment gains represents the Borough's intent to hold its investments to maturity. Undesignated fund balances indicate that a portion of fund equity is available for budgeting in future periods.

S. Intergovernmental Grant Revenues

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

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 Army Post and Eielson Air Force Base. These schools are owned and financed by the United States 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.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

1. Summary of Significant Accounting Policies (continued)

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, 1997 financial statements to conform them to current classifications.

2. Stewardship, Compliance, and Accountability

A. Supplemental Appropriations to Annual Budgets

Supplemental appropriations were made during the year as follows:

<u>Fund/Purpose</u>	<u>Amount</u>
General fund:	
Collective bargaining agreement settlement	\$ 351,360
North Pole Elementary School lot acquisition	310,000
Griffin Park improvements	241,850
Denali Elementary School renovation/addition	112,075
Fairbanks Public Inebriate Plan	60,000
Community Planning platting officer	45,696
Service recognition program	42,928
Mayoral runoff election costs	37,500
Hez Ray Complex master plan	30,000
Bentley Park acquisition	26,000
Other	48,990
	<u>\$ 1,306,339</u>

2. Stewardship, Compliance, and Accountability (continued)

	<u>Amount</u>
E-911 fund:	
Other	\$ 500
Non-areawide fund:	
Acquisition of ambulance	\$ 50,000
Emergency Services Commission	4,000
Collective bargaining agreement settlement	1,670
Other	700
	<u>\$ 56,370</u>
Solid waste collection fund:	
Additional costs due to increased tonnage	\$ 220,000
Collective bargaining agreement settlement	2,770
Other	4,000
	<u>\$ 226,770</u>
Solid waste disposal fund:	
Waste paper recycling program	\$ 81,240
Collective bargaining agreement settlement	15,530
	<u>\$ 96,770</u>
Service areas fund:	
Design and construction of ancillary structure for Steese Volunteer Fire Service Area	\$ 75,000

B. Deficits in Fund Balances

There were no individual funds with deficit fund balances at June 30, 1998.

C. Excess of Expenditures Over Appropriations

In the non-areawide fund, the Mayor's Office department overexpended its appropriation by \$168 due to an overallocation of costs. There were no other excesses of actual expenditures over appropriations for the year ended June 30, 1998.

D. Taxes Levied in Excess of Maximum Tax Computation

Thirty-one service areas levied a total of \$2,970 of taxes in excess of the maximum tax computation. (See Note 4.) Excesses resulted 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 Fairbanks North Star Borough (FNSB) Code 3.08.147, all of these were considered immaterial and the fiscal year 1998-99 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 National Bank of Alaska (NBA). These contracts require that NBA sweep the Borough's central treasury accounts daily and invest all available funds in an overnight repurchase agreement. As a result, at June 30, 1998, the carrying amount of the Borough's deposits was (\$1,881,703) and the corresponding bank balance was \$122,759. The daily bank balance is fully insured by a combination of federal depository insurance (FDIC) and securities held in the Borough's name by Alaska USA Trust Company. The balance swept in accordance with the overnight repurchase agreement is insured by the collateral held in the Borough's name at Alaska USA Trust Company.

Investments - FNSB Code 3.04 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 qualifications 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. 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, 1998, the Borough invested in U.S. government securities and agencies, prime commercial paper, Fidelity Treasury Money Market Fund II, Fidelity Treasury Money Market Fund I, the Alaska Municipal League Investment Pool, and the overnight repurchase agreement with NBA.

The Borough's investments have been listed by type of instrument below. Governmental Accounting Standards Board (GASB) Statement Number 3 establishes categories as an indication of the level of risk involved in the investment. The investment in deferred compensation plan, the government security money market funds, and the external investment pool 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.

3. Deposits and Investments (continued)

	Principal Invested	Fair Value
Categorized investments:		
Repurchase agreement	\$ 5,816,342	\$ 5,816,342
U.S. securities and agencies	47,404,063	47,722,334
Commercial paper	<u>4,621,565</u>	<u>4,764,608</u>
	57,841,970	58,303,284
Uncategorized investments:		
Government security money market funds	8,765,476	8,765,476
External investment pool	<u>14,054,130</u>	<u>14,054,130</u>
Central treasury investments	80,661,576	81,122,890
Investment in deferred compensation plan	<u>6,942,239</u>	<u>6,942,239</u>
Total investments	<u>\$ 87,603,815</u>	<u>\$ 88,065,129</u>

The valuation methods used to estimate the fair value of the aforementioned investments are described in the following paragraphs.

The overnight repurchase agreement is a fully collateralized investment at National Bank of Alaska. It is a highly liquid, short-term investment where the principal equals fair value.

The Borough's custodial bank, Bank of New York, BNY Western Trust provides fair value information on a monthly basis for each security held in the Borough's name. The Borough utilizes the fair value information provided by its custodial bank for financial reporting purposes. GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, states that securities purchased with a remaining maturity of one year or less may be reported at amortized cost. As of June 30, 1998, the Borough had eight securities meeting this criteria and used amortized cost for reporting purposes.

The Borough invests in two money market funds, both registered with the Securities and Exchange Commission (SEC). These funds operate in accordance with SEC Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. These conditions include restrictions on the types of investments held, restrictions on the term to maturity of individual investments and the dollar-weighted average of the portfolio, requirements for portfolio diversification, requirements for divestiture considerations in the event of security downgrades and defaults, and required actions if the market value of the

Notes to Financial Statements (continued)
June 30, 19983. Deposits and Investments (continued)

portfolio deviates from amortized cost by a specified amount. Both of these funds invest only in U.S. Treasury bills, notes and bonds, and repurchase agreements backed by those obligations. At June 30, 1998, the weighted average portfolio maturity was 42 days and the investments were reported at amortized cost.

The Alaska Municipal League Investment Pool (AMLIP) is considered to be an external investment pool as defined by GASB Statement 31. AMLIP is not SEC-registered. Regulatory oversight of the pool is established by Alaska Statute 37.23. The law sets forth numerous requirements regarding authorized investments and reporting. The pool is incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statute 37.23.050 requires the retention of an investment manager. The manager is required to produce monthly disclosure statements on the pool. The pool also has retained an investment adviser who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the pool is voluntary. The pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the pool are reviewed for fair value by an independent pricing service. As of June 30, 1998, the fair value of the investments in the pool approximates amortized cost.

4. Property and Other Taxes

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

Alaska Statute 29.45.090 limits the amount of taxes levied to three percent of the assessed value of the property within the Borough. Furthermore, no Borough, or combination of municipalities occupying the same geographic area, may levy taxes which will result in tax revenues from all sources exceeding \$1,500 a year for each person residing in the Borough or which exceed the product of 225 percent of the average per capita 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 Statute 29.45.100.

FNSB Code 3.08.145 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 20). 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. The Code requires inclusion of both property tax and other tax revenues within the tax cap

Notes to Financial Statements (continued)
June 30, 19984. Property and Other Taxes (continued)

computation and requires publication of tax cap computations by May 31 of each year. In October of 1998, the voters reconfirmed the Code provision limiting the Borough's taxing authority.

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 - 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 percent to 10.0 percent and weighted average interest rate of 9.86 percent. The annual installments of principal due for the next five years on contracts converted to deeds of trust and parcels originally sold as deeds of trust are:

<u>Year Ending June 30</u>	<u>Annual Installments</u>
1999	\$170,453
2000	\$174,853
2001	\$167,111
2002	\$153,975
2003	\$132,719

Contracts Receivable - Proceeds from certain land sales made in prior years are receivable in annual installments over periods of up to ten years plus interest at 10 - 12 percent per annum, with a weighted average interest rate of 10.94 percent. The annual installments of principal due for the next five years are:

<u>Year Ending June 30</u>	<u>Annual Installments</u>
1999	\$ 1,947
2000	\$ 1,495
2001	\$ 1,084
2002	\$ 288
2003	\$

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, 1998, the total receivable for delinquent accounts amounted to \$110,683.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

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 90 percent of those acres. Of those patented acres, approximately 69 percent remain undeveloped. Almost four 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 lands are recorded as land held for sale in the land enterprise fund.

7. Fixed Assets

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

	June 30, 1997 Balance	Additions/ Transfers In	Deletions/ Transfers Out	June 30, 1998 Balance
<u>Borough</u>				
Land	\$ 6,927,858	\$ 1,014,325	\$	\$ 7,942,183
Buildings	245,792,828	18,069,081		263,861,909
Improvement other than buildings	12,987,086	534,662		13,521,748
Furniture and equipment	21,936,684	1,388,278	451,554	22,873,408
Library materials	12,514,997	516,669		13,031,666
Construction work in progress	86,176,723	23,460,791	20,944,178	88,693,336
Borough total	\$386,336,176	\$ 44,983,806	\$ 21,395,732	\$409,924,250
<u>School District</u>				
Furniture and equipment	\$ 32,003,233	\$ 2,085,074	\$ 6,816,766	\$ 27,271,541

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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

7. Fixed Assets (continued)

A summary of the property, plant, and equipment of the proprietary funds at June 30, 1998 follows:

	Enterprise Funds
Land	\$ 2,316,486
Buildings	18,694,145
Improvements other than buildings	75,964
Equipment	3,717,453
Construction work in progress	26,523
Total	24,830,571
Less: accumulated depreciation	(7,977,889)
Net	\$ 16,852,682

8. Interfund Receivables and Payables

There were no individual fund interfund receivable and payable balances at June 30, 1998.

9. Retirement Plans

As of June 30, 1998, substantially all employees of the Borough and of the School District component unit are either members of the Alaska Public Employees' Retirement System (PERS) or the Alaska Teachers' Retirement System (TRS). Stand-alone financial statements for either plan can be obtained by contacting the Alaska Department of Administration, Division of Retirement and Benefits, PO Box 110203, Juneau, Alaska 99811-0203, or by calling (907) 465-4460. Effective July 1, 1993, the Borough and the School District participate in the PERS under separate agreements. Prior to that date, they participated under a joint agreement. Employer contributions are actuarially determined and have been paid or accrued by both the Borough and the School District.

A. Alaska Public Employees' Retirement System (PERS)

PLAN DESCRIPTION

The Alaska Public Employees' Retirement System is a defined benefit, agent, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension, postemployment healthcare, death and disability benefits to eligible employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Employee participation in

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

9. Retirement Plans (continued)

the PERS is mandatory for permanent employees scheduled to work at least 15 hours a week. There is no optional participation for other employees.

FUNDING POLICY

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 PERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay both pension and postemployment healthcare benefits when due. The separate participation agreement of the Borough, effective July 1, 1993, 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 rate for 1998 was zero percent. However, the Borough exercised its option to submit additional contributions directly to its equity account with the PERS. In 1998, the Borough made these direct contributions at a rate of 2.12 percent.

ANNUAL PENSION COST

Actuarial valuations are performed as of June 30 of each year. The actuarial methods and significant actuarial assumptions used to determine annual required contributions for pension and postemployment healthcare for the current year were those listed in the actuarial valuation as of June 30, 1995. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The PERS uses a level dollar open method to amortize the unfunded liability and funding surpluses over a rolling twenty-five year period. Prior to 1997 funding surpluses were amortized over five years. Asset valuation uses 5-year smoothed market method. Additional actuarial assumptions are as follows:

	Borough		School District	
	Pension	Postemployment Healthcare	Pension	Postemployment Healthcare
Employer contribution rate	0.00%	0.00%	3.42%	1.28%
Inflation rate	4.00%	same	4.00%	same
Investment return	8.00%	same	8.00%	same
Projected salary increases:				
Inflation	4.00%	n/a	4.00%	n/a
Productivity and merit	1.50%	n/a	1.50%	n/a
Health cost trend	n/a	5.50%	n/a	5.50%

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

9. Retirement Plans (continued)

The components of the Borough's and School District's annual pension cost and net pension obligation (NPO) to PERS for the year ended June 30, 1998 were as follows:

Borough	Pension	Postemployment Healthcare	Total
	Annual required contribution	\$ (60,856)	\$ (22,872)
Interest on NPO			
Adjustment to annual required contribution	<u>176,410</u>	<u>66,301</u>	<u>242,711</u>
Annual pension cost	115,554	43,429	158,983
Contributions made	<u>213,659</u>	<u>80,300</u>	<u>293,959</u>
Decrease in NPO	\$ (98,105)	\$ (36,871)	\$ (134,976)
NPO end of year	\$ (858,810)	\$ (322,768)	\$ (1,181,578)

School District	Pension	Postemployment Healthcare	Total
	Annual required contribution	\$ 605,707	\$ 227,639
Interest on NPO	(49,283)	(18,521)	(67,804)
Adjustment to annual required contribution	<u>142,861</u>	<u>53,691</u>	<u>196,552</u>
Annual pension cost	699,285	262,809	962,094
Contributions made	<u>797,473</u>	<u>299,709</u>	<u>1,097,182</u>
Decrease in NPO	\$ (98,188)	\$ (36,900)	\$ (135,088)
NPO end of year	\$ (714,227)	\$ (268,421)	\$ (982,648)

The Borough and the School District adopted the provisions of Government Accounting Standards Board (GASB) Statement Number 27, *Accounting for Pensions by State and Local Governmental Employers*, in 1998. The pension liability (asset) at July 1, 1997 for the Borough and School District, determined in accordance with GASB Statement 27 is as follows:

	Pension	Postemployment Healthcare	Total
Borough	\$ 765,084	\$ 281,518	\$ 1,046,602
School District	619,569	227,991	847,560

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

9. Retirement Plans (continued)

There was no previously reported pension liability (asset) to PERS for the Borough or the School District.

Annual pension cost (APC), percentage of APC contributed, and NPO information as of June 30, 1998 follows:

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<u>Borough</u>			
Pension benefits	\$ 115,554	185%	\$ (858,810)
Postemployment healthcare benefits	43,429	185	(322,768)
<u>School District</u>			
Pension benefits	\$ 699,286	114%	\$ (714,227)
Postemployment healthcare benefits	262,808	114	(268,421)

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 (State) to provide pension, postemployment healthcare, death and disability benefits for teachers. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Local government participation in the plan is optional. The School District component unit participates in the TRS and all of the School District's certificated employees are covered by the TRS.

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

FUNDING POLICY

Employee contribution rates are 8.65 percent of base salary as required by State statute. The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay both pension and postemployment healthcare benefits when due.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

9. Retirement Plans (continued)

During the year ended June 30, 1998, the required employer contribution rate was 12 percent. The amounts contributed to TRS by the School District during the years ended June 30, 1998, 1997 and 1996 were \$6,302,780, \$6,456,751 and \$6,240,343, respectively, equal to the required employer contributions for each year.

At July 1, 1997, the School District determined in accordance with provisions of Government Accounting Standards Board (GASB) Statement 27 that no pension liability (asset) existed to TRS and there was no previously reported liability (asset) to TRS.

10. Operating Leases

The Fairbanks North Star Borough is obligated under certain site and equipment leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations; and therefore, the results of the lease agreements are not reflected in the Borough's account groups. Operating lease expenditures for the year ended June 30, 1998 were \$41,058.

The Borough has one significant operating lease for two school sites, including the land on which West Valley High School is located. In fiscal year 1995-96, the Borough paid a one-time lease payment to the University of Alaska for an extension of the West Valley lease to the year 2043.

There are no other operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 1998.

11. Long-Term Debt

At June 30, 1998, 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, 1998.

The Borough's long-term debt at June 30, 1998, is comprised of the following individual issues:

General obligation bonds:

\$16,060,000 1988 Refunding Series serial bonds due in annual installments of \$2,290,000 to \$2,645,000 through June 1, 2000 at 7.0 - 7.4% interest.	\$ 5,090,000
\$42,615,000 1993 Refunding Series S bonds due in annual installments of \$1,555,000 to \$4,755,000 through March 1, 2008 at 4.25 - 5.5% interest.	36,700,000

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

11. Long-Term Debt (continued)

\$2,000,000 1994 Series T solid waste transfer station bonds due in annual installments of \$185,000 to \$245,000 through April 1, 2004 at 5.0 - 6.5% interest.	\$ 1,300,000
\$16,320,000 1996 Series U school facilities bonds due in annual installments of \$445,000 to \$1,350,000 through November 1, 2016 at 5.0 - 8.0% interest.	15,875,000
\$35,250,000 1997 Series A school facilities and library bonds due in annual installments of \$850,000 to \$2,800,000 through November 1, 2017 at 4.5 - 6.5% interest.	<u>35,250,000</u> <u>94,215,000</u>
Landfill closure and postclosure care liability (see Note 12)	<u>5,408,000</u>
Other long-term debt:	
Sewer assessments payable	
\$48,546 of sewer assessments due in annual installments through January 15, 2021 at 5.0% interest.	26,753
Long-term contracts payable	
\$475,135 of eight (8) office and computer equipment contracts due in monthly and annual installments through January 2002 at 1.30 - 13.58% interest.	236,431
Loan payable	
\$309,268 of Alaska Clean Water Fund loan drawdowns. Interest accrual of 2.5% commences May 1999 on project-to-date drawdowns. Payments due in five annual installments beginning one year after substantial completion of the solid waste landfill expansion project.	<u>309,268</u> <u>572,452</u>
	<u>\$100,195,452</u>

The following is a summary of changes in long-term debt for the year ended June 30, 1998:

	General Obligation Bonds	Landfill Closure and Postclosure Care Liability	Other Long-term Debt	Total
Payable at July 1, 1997	\$64,790,000	\$ 5,825,000	\$ 219,591	\$ 70,834,591
New debt	35,250,000		414,016	35,664,016
Change in estimate		(417,000)		(417,000)
Debt retired	(5,825,000)			(5,825,000)
Sewer assessments paid			(1,214)	(1,214)
Contracts payable paid			(59,941)	(59,941)
Payable at June 30, 1998	<u>\$94,215,000</u>	<u>\$ 5,408,000</u>	<u>\$ 572,452</u>	<u>\$100,195,452</u>

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

11. Long-Term Debt (continued)

The annual requirements to amortize debt outstanding as of June 30, 1998 (excluding the Landfill Closure and Postclosure Care Liability - see Note 12), including interest payments of \$43,085,153 are as follows:

Year Ending June 30	General Obligation Bonds	Sewer Assessments Payable	Contracts Payable	Total
1999	\$ 12,210,894	\$ 2,551	\$ 91,797	\$ 12,305,242
2000	12,309,899	2,491	90,851	12,403,241
2001	9,466,548	2,430	65,627	9,534,605
2002	9,534,838	2,369	3,431	9,540,638
2003	9,526,588	2,309		9,528,897
2004-2008	43,306,947	10,633		43,317,580
2009-2013	21,019,375	9,116		21,028,491
2014-2022	<u>19,894,375</u>	<u>10,268</u>		<u>19,904,643</u>
	<u>\$ 137,269,464</u>	<u>\$ 42,167</u>	<u>\$ 251,706</u>	<u>\$137,563,337</u>

In 1997, the Borough negotiated a \$10 million Alaska Clean Water Fund Agreement with the State of Alaska Department of Environmental Conservation for construction of an 18-acre solid waste landfill expansion. Interest accrual of 2.5 percent commences one year from the date of the first loan drawdown, which was made in May 1998. Repayment is due in five annual installments beginning one year after substantial completion of the project, estimated for October 1999. The Borough intends to use a \$5 million U.S. Department of Defense grant to repay a portion of the loan.

School District Long-Term Debt - The School District has \$125,000 in liabilities for compensated absences recorded in its general long-term debt account group at June 30, 1998.

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 solid waste disposal special revenue fund. Capital and operating expenditures related to the maintenance of the portion of the landfill that is no longer accepting waste are recorded in the capital projects fund or in the solid waste disposal special revenue fund, respectively.

The total amount of the estimated closure and postclosure care costs are reported in the general long-term debt 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 \$5,408,000 as of June 30, 1998, which is based on 86 percent of the landfill used (filled) to date. It is estimated that an additional

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

12. Municipal Solid Waste Landfill Closure and Postclosure Care Cost (continued)

\$896,000 will be recognized as a closure and postclosure liability between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2018). The estimated total current cost of the landfill closure and postclosure care (\$6,304,000) 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, 1998. 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, 1998. 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 in fiscal year 1994-95 and \$440,000 from the solid waste disposal special revenue fund in fiscal years 1995-96, 1996-97 and 1997-98. Additional yearly contributions are anticipated. It is also anticipated that future inflation costs will be financed in part from earnings on these contributions. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure 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, 1998 contain authorizations of \$166,939,872 for hundreds of projects, which are accounted for in five different capital projects funds. Unexpended authorizations total \$72,663,923.

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, federal revenues, and contributions from the general and special revenue operating funds.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

14. Conduit Debt

From time to time, the Borough has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Borough, the state or any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 1998, a nonrecourse revenue bond (Greater Fairbanks Community Hospital Foundation, Inc.) was authorized with aggregate principal of \$7,990,000. The outstanding balance as of June 30, 1998 was \$6,096,549.

15. Contributed Capital

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

	Transit	Land	Carlson Center	Total
Capital grants contributions	\$ 66,500	\$	\$ 1,300	\$ 67,800
Depreciation on fixed assets funded by contributed capital	(269,699)	(306)	(523,003)	(793,008)
Contributed capital, June 30, 1997	<u>3,507,598</u>	<u>8,760,203</u>	<u>12,923,316</u>	<u>25,191,117</u>
Contributed capital, June 30, 1998	<u>\$3,304,399</u>	<u>\$8,759,897</u>	<u>\$12,401,613</u>	<u>\$24,465,909</u>

16. Residual Equity Transfers

Residual equity transfers are nonrecurring or nonroutine transfers of equity between funds. During fiscal year 1997-98, the Solid Waste Collection District Special Revenue Fund returned \$553,270 of previously collected State Municipal Assistance to the General Fund. During fiscal year 1996-97, \$30,325 of fixed assets were transferred from the enterprise funds to the general fixed assets account group. Because account groups have no equity, the residual equity transfers within the general purpose financial statements will not balance by the amount of the \$30,325 transfers.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

16. Residual Equity Transfers (continued)

A summary of residual equity transfers follows:

	<u>1997-98</u>	<u>1996-97</u>
Residual equity transfers in:		
General fund	\$ 553,270	\$
Residual equity transfers out:		
Solid Waste Collection		
District special		
revenue fund	(553,270)	
Enterprise funds:		
Transit		3,293
Land		<u>27,032</u>
	<u>\$</u>	<u>\$ 30,325</u>

17. Fund Balance - School District Component Unit

The School District has designated \$1,450,000 for subsequent year's expenditures and reserved \$2,016,558 and \$883,105 for encumbrances and inventory, respectively.

Inventory is reserved to indicate that it does not constitute "available spendable resources", even though it is classified as an asset.

18. Enhanced 911 Operating Fund

This fund was established December 5, 1996 pursuant to Ordinance 96-20-1Q by the power granted to the Borough under Alaska Statutes 29.35.130, emergency services communications centers. The fund was established to account for revenues from a monthly surcharge on each local exchange access line and all operating costs associated with the emergency communications service. There was also established a System Reserve Account as a designated portion of fund balance for service additions, upgrades of existing system components, and eventual capital replacement. Any accumulated year-end fund balance in excess of \$25,000 is designated to the System Reserve Account.

19. 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.

19. Enterprise Funds - Segment Information (continued)

Segment information for the year ended June 30, 1998 is as follows:

	<u>Transit</u>	<u>Land</u>	<u>Carlson Center</u>	<u>Total</u>
Operating revenues	\$ 1,122,253	\$ 345,005	\$ 44,668	\$ 1,511,926
Operating expenses				
Depreciation	297,397	1,015	572,273	870,685
Other	2,762,201	851,897	669,916	4,284,014
Operating loss	(1,937,345)	(507,907)	(1,197,521)	(3,642,773)
Non-operating revenues				
Operating grants	126,526			126,526
Other	50,198	243,201	23,938	317,337
Operating transfers in	1,286,370	9,942	570,260	1,866,572
Net loss	(474,251)	(254,764)	(603,323)	(1,332,338)
Current capital contributions	66,500		1,300	67,800
Property, plant and equipment				
Additions/transfers in	70,850	1,451	18,729	91,030
Deletions/transfers out		(869)	(32)	(901)
Net working capital	826,123	7,145,786	569,361	8,541,270
Long-term receivables		1,461,914		1,461,914
Total assets	4,431,534	9,984,519	12,896,240	27,312,293
Long-term unrealized gain		289,742		289,742
Bonds and other long-term				
liabilities payable from				
operating revenues	none	none	none	none
Total equity	4,171,282	9,519,294	12,875,548	26,566,124

20. 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. \$797,914 had been received in donations as of June 30, 1998. The Library's shares of the carrying value and market value of the trusts' net assets were \$2,519,166 and \$4,812,312, respectively, at June 30, 1998, as reported by the trusts' trustee.

FNSB Code 3.01.045 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.

On February 8, 1996 and June 26, 1997, the Borough adopted Ordinances 95-20-1Q and 96-20-2F, respectively, which, notwithstanding the provisions of FNSB Code 3.01.045, appropriated a total of \$1,000,000 from fund balance and trust

20. Library Expendable Trust Fund (continued)

principal to partially fund the expansion of the Noel Wien Library. The intent of the appropriations was to use the undesignated fund balance to the extent that it exists, and use trust principal (fund balance designated for library endowment) to fund the rest; however, in fiscal year 1995-96 (Ordinance 95-20-1Q), the entire \$750,000 appropriation was taken from fund balance designated for library endowment leaving an undesignated fund balance of \$67,361. In fiscal year 1996-97, \$67,361 was reclassified from undesignated fund balance to fund balance designated for library endowment. The fiscal year 1996-97 appropriation of \$250,000 was partially funded by \$69,585 available balance in fund balance designated for library endowment and partially funded by \$180,415 in undesignated fund balance. This caused undesignated fund balance to go negative. In fiscal year 1997-98 all revenues and expenditures went to undesignated fund balance until the balance increased to zero. The remaining \$33,787 excess of revenues over expenditures was split 50/50 between undesignated fund balance and fund balance designated for library endowment.

21. 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 original 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. It is unlikely that the Borough will use the plan assets to satisfy the claims of general creditors in the future.

The Small Business Job Protection Act, enacted on August 20, 1996, amends IRC Section 457 by requiring that the assets of a deferred compensation plan be held in a trust, custodial account, or qualifying insurance contract for the exclusive benefit of the participants. Existing plans, such as the Borough's, must comply by January 1, 1999. As of June 30, 1998, the Borough's deferred compensation plan had not yet been modified for these changes and therefore, was still accounted for as an agency fund of the Borough.

Prior to fiscal year 1995-96, the deferred compensation plan was administered by a single, unrelated insurance company. In September 1995, the Borough added a second administrator. Investments are managed by the respective administrators under various investment options. The choice of the investment options is made by the participant.

21. Deferred Compensation Plan (continued)

As part of its fiduciary role, the Borough has an obligation of due care in selecting the third party administrators. 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.

22. Risk Management

The Borough and its component unit, the School District, are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to, and illnesses of, employees and their dependents; and natural disasters. The Borough's risk management program includes both the Borough and the School District. The program employs various combinations of insurance policies provided by commercial carriers and self-insured retention amounts, depending upon the type of risk. Commercial insurance with zero or small deductibles is secured for the following coverages: auto and general liability 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. 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 five 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, and include specific, incremental claim adjustment expenditures, net of any recoveries. Both methods adjust for current trends and other information and the estimates include the effects of inflation and other economic and social factors.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

22. Risk Management (continued)

Changes in the self-insured claims liabilities for fiscal years 1998 and 1997 follow:

	1997-98 Accrued Self- Insurance Losses	1996-97 Accrued Self- Insurance Losses
Borough		
July 1	\$ 990,761	\$ 1,003,644
Current year claims and changes in estimates	2,939,200	3,244,705
Claims payments	<u>(3,163,170)</u>	<u>(3,257,588)</u>
June 30	<u>\$ 766,791</u>	<u>\$ 990,761</u>
School District		
July 1	\$ 3,171,714	\$ 2,554,800
Current year claims and changes in estimates	11,267,013	11,293,115
Claims payments	<u>(11,244,792)</u>	<u>(10,676,201)</u>
June 30	<u>\$ 3,193,935</u>	<u>\$ 3,171,714</u>

23. Contingencies and Subsequent Events

A. Litigation

The Borough and the School District, in the normal course of their activities, are involved in various claims, litigation, and tax assessment disputes and have accrued amounts they consider sufficient to cover settlements that may be payable as a result of unfavorable outcomes. An accrual is 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. Any environmental claims, and all other accrued claims and litigation, are recorded in accounts payable or estimated claims, judgments, and settlements payable.

B. Grants and Other Financial Assistance

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1998

23. Contingencies and Subsequent Events (continued)

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.

C. Year 2000 Issue

The Borough's Year 2000 compliance efforts are the result of shortcomings in many electronic data processing systems and other electronic equipment that could adversely affect the Borough's operations if not resolved.

In 1992, the Borough made the decision to replace its mainframe computer system with a mini-computer/networked system requiring the replacement of many outdated software programs. As a result, the Borough significantly reduced the amount of financial resources needed to ensure that computer systems and software applications are Year 2000 compliant. In the second quarter 1997, the Borough's Computer Services Division began meeting with key departments within the Borough to inventory computer systems and other electronic equipment that may be affected by the Year 2000 issue. By the third quarter 1998, the Borough had formalized its ongoing Year 2000 efforts by finalizing the Year 2000 task force headed by the mayor and comprised of the chief of staff and appropriate department directors. Since then, the Year 2000 task force has met regularly, normally bi-weekly, to track the progress of the Boroughwide Year 2000 initiative and address resource needs.

The first step in the Year 2000 initiative was to complete an inventory and risk assessment of all Borough computer hardware, software, and other electronic equipment. The risk assessment determined the systems and equipment considered critical to conducting Borough operations (mission-critical systems), enabling the Borough to efficiently focus allocated time and resources on these critical areas first.

Virtually all of its mission-critical computer application systems rely on the Borough's computer network for successful operation. That network consists of, at least, 19 network servers, 292 personal computers, and 74 printers. The risk assessment process identified the minimum number of servers, computers, and printers required to maintain Borough operations. Those servers, computers, and printers are considered the mission-critical components of the network. The Borough is well into the remediation phase for the network. As of December 1998, 63 percent of the network servers, 77 percent of the personal computers, and all of the printers are deemed to be Year 2000 compliant. The network servers and personal computers were tested using the National Software Testing Laboratories Y2K Test Suite. The network operating system, Microsoft Windows NT Server, has been Year 2000 certified by the manufacturer. The Borough currently expects all remaining hardware and operating systems to be remediated and tested by the second quarter 1999.

23. Contingencies and Subsequent Events (continued)

The Borough uses the following testing standards for computer hardware and application software:

- No date values cause any interruption in functionality or degradation in performance.
- All calculations and program logic accommodate dates before, during, and after the year 2000 (up to the year 2030).
- All interfaces to and from other computer systems or organizations and data storage correctly identify the century in all dates.
- Identification of the century is either explicit or inferred by clearly defined rules.
- The system correctly recognizes the Year 2000 as a leap year.

The following is a summary of mission-critical systems identified by the Borough and the status of their Year 2000 readiness. For the purpose of this summary, remediation is defined as the process of renovating or replacing systems and equipment to achieve year 2000 compliance. Testing is the process of testing the renovations or replacements made during remediation using the standards listed above.

- The Borough has financial management, payroll and employee benefits (IFAS), real property and tax assessing (AURORA) and tax collection (TACS) systems. Remediation and testing is complete on AURORA. Remediation is complete and testing is in progress on TACS. IFAS has been Year 2000 certified by the software vendor. The Borough plans to complete testing of IFAS for Year 2000 compliance by the second quarter 1999.
- The Borough's Treasury and Budget Division has systems in place that are third party-dependent, such as electronic banking, paying agents for Borough bonds, and investment brokerage services. Status reports indicate that banking service third parties will be substantially Year 2000 compliant by December 31, 1998, with testing taking place during early 1999. Brokerage service providers for the Borough must certify their Year 2000 readiness to remain on the qualified bidder list.
- The Borough's Risk Management Division also has systems in place that are third party-dependent, such as health care and workers' compensation claims processing. The Borough is currently monitoring the progress of these third parties. The health care claims processing vendor has verbally assured the Borough that their claims software is Year 2000 compliant, but testing has not yet occurred.
- The Borough operates an enhanced 911 dispatch and reporting system for police and fire emergencies. In late 1998, it was determined that the

23. Contingencies and Subsequent Events (continued)

date-stamping function of the system, which allows automated tracking of date and time of accepted calls, was not Year 2000 compliant. In December 1998, the Borough contracted with a vendor to perform remediation, testing, and training on the present system to ensure its Year 2000 compliance. The Borough expects completion of this work by February 1, 1999.

- The Borough's Public Works Department has facilities systems in place that may be affected by embedded computer chips. In early 1998, the Public Works Department wrote to all vendors for facilities systems. All vendors for mission-critical systems responded that those systems are Year 2000 compliant. The Public Works Department is in the process of inventorying other specific pieces of equipment with suspected embedded chips and communicating this information to the vendors to ensure compliance. All mission-critical facilities of the Borough are equipped with regularly-tested backup generators in the event of Year 2000-related power failures.

Problems will undoubtedly remain or unexpectedly surface. However, based on successful testing performed to date, using the testing standards listed above, the Borough expects all of its mission-critical systems to be Year 2000 compliant before January 1, 2000. Accordingly, the Borough does not expect Year 2000 problems to have a material adverse effect on its financial health or its ability to meet its financial obligations in a timely manner. Nevertheless, the Borough has no control over the Year 2000 remediation efforts of external third parties. It is possible, therefore, that even if the Borough's mission-critical systems are Year 2000 compliant, and even if the Borough were to pay all of its obligations on time, the noncompliance of external third parties involved in the transfer of payments; such as banks, paying agents, and insurance claims processors; could perhaps temporarily affect the timeliness or amounts of payments to creditors.

FAIRBANKS NORTH STAR BOROUGH
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS

June 30, 1998

(In 000's)

	Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liability (AAL) - projected unit credit	Excess of assets over AAL	Funded ratio	Covered payroll	Excess as a percentage of covered payroll
Borough							
Pension Benefits	1995	\$ 32,121	\$ 27,781	\$ 4,340	116%	\$11,508	38%
	1996	33,531	28,375	5,156	118%	12,462	41%
	1997	38,304	32,634	5,670	117%	12,587	45%
Postemployment Healthcare Benefits	1995	\$ 12,071	\$ 10,441	\$ 1,630	116%	\$11,508	14%
	1996	12,921	10,935	1,986	118%	12,462	16%
	1997	14,276	12,163	2,113	117%	12,587	17%
Totals	1995	\$ 44,192	\$ 38,222	\$ 5,970	116%	\$11,508	52%
	1996	46,452	39,310	7,142	118%	12,462	57%
	1997	52,580	44,797	7,783	117%	12,587	62%
School District							
Pension Benefits	1995	\$ 47,964	\$ 46,804	\$ 1,160	102%	\$18,386	6%
	1996	52,093	48,533	3,560	107%	18,817	19%
	1997	58,081	53,225	4,856	109%	18,508	26%
Postemployment Healthcare Benefits	1995	\$ 18,025	\$ 17,590	\$ 435	102%	\$18,386	2%
	1996	20,074	18,703	1,371	107%	18,817	7%
	1997	21,648	19,838	1,810	109%	18,508	10%
Totals	1995	\$ 65,989	\$ 64,394	\$ 1,595	102%	\$18,386	9%
	1996	72,167	67,236	4,931	107%	18,817	26%
	1997	79,729	73,063	6,666	109%	18,508	36%

**APPENDIX B
FORM OF BOND OPINION**

April ____, 1999

Fairbanks North Star Borough
Fairbanks, Alaska

Re: Fairbanks North Star Borough, Alaska
General Obligation School Bonds, 1999 Series B - \$26,210,000

Ladies and Gentlemen:

We have acted as bond counsel to the Fairbanks North Star Borough (the "Borough") and have examined a certified transcript of the proceedings taken in the matter of the issuance by the Borough of its General Obligation School Bonds, 1999 Series B in the aggregate principal amount of \$26,210,000 (the "Bonds"), issued pursuant to Ordinance No. 99-008 of the Assembly of the Borough, passed on February 25, 1999 (the "Bond Ordinance"), for the purpose of providing funds to pay for certain school capital projects.

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

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

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 April 1, 1999, are fully registered, are in the denomination of \$5,000 each or an integral multiple of \$5,000, bear interest at the rates per annum set forth in the following schedule, payable on October 1, 1999, and semi-annually thereafter on the first days of each succeeding April and October and mature on April 1 in years and amounts as follows:

Maturity Date	Principal Amount	Interest Rate	Maturity Date	Principal Amount	Interest Rate
April 1			April 1		
2000	\$ 745,000	_____%	2010	\$1,300,000	_____%
2001	805,000	_____%	2011	1,360,000	_____%
2002	860,000	_____%	2012	1,425,000	_____%
2003	925,000	_____%	2013	1,490,000	_____%
2004	990,000	_____%	2014	1,565,000	_____%
2005	1,045,000	_____%	2015	1,640,000	_____%
2006	1,090,000	_____%	2016	1,715,000	_____%
2007	1,140,000	_____%	2017	1,800,000	_____%
2008	1,190,000	_____%	2018	1,890,000	_____%
2009	1,245,000	_____%	2019	1,990,000	_____%

The Bonds maturing in the years 2000 through 2008 will not be subject to redemption prior to maturity. The Bonds maturing on or after April 1, 2009 are subject to redemption at the option of the Borough on and after April 1, 2008 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 (expressed as a percentage of the principal amount of the Bonds to be prepaid) equal to 1.0% on bonds redeemed on or after April 1, 2008 through March 31, 2009 and a premium of 0.5% on bonds redeemed on or after April 1, 1009 through March 31, 2010. No prepayment premium is payable on any bond redeemed at the option of the Borough on or after April 1, 2010.

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.

The opinions stated in the two immediately preceding paragraphs are subject to the condition that the Borough comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Borough has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

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

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

Sincerely,

PRESTON GATES & ELLIS LLP

APPENDIX C BOOK ENTRY SYSTEM

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Borough as soon as possible after the record date. The Omnibus Proxy

assigns Cede & Co.'s consenting or voting right to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

DTC's Year 2000 Efforts

DTC management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and income payments) to securityholders, book-entry deliveries, and settlement of trades within DTC ("DTC Services"), continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: (i) impress upon them the importance of such services being Year 2000 compliant; and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

APPENDIX D CONTINUING DISCLOSURE UNDERTAKING

In accordance with Section (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time (the "Rule"), the Fairbanks North Star Borough (the "Borough"), as authorized by Ordinance No. 99-008 of the Borough, passed on February 25, 1999 (the "Bond Ordinance"), hereby enters into this undertaking for the benefit of the owners and beneficial owners of the Borough's General Obligation School Bonds, 1999 Series B, in the aggregate principal amount of \$26,210,000 ("Bonds"), as follows:

A. **Definitions.** Unless otherwise defined in this undertaking, capitalized terms used herein shall have the meanings given such terms in the Bond Ordinance. In addition, the following terms shall have the following meanings in this undertaking:

"**MSRB**" means the Municipal Securities Rulemaking Board or any successor to its functions.

"**NRMSIR**" means a nationally recognized municipal securities information repository.

"**SID**" means a state information depository for the State of Alaska (if one is created).

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 SEC in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 1999 for the fiscal year ended June 30, 1998):

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

2. The assessed valuation of taxable property in the Borough;
3. Property taxes due, property taxes collected and property taxes delinquent;
4. Property tax levy rates per \$1,000 of assessed valuation; and
5. Authorized, issued and outstanding general obligation debt of the Borough.

Items 2-5 shall be required only to the extent that such information is not included in the annual financial statements.

The information and data described above shall be so provided on or before the expiration of seven months after the end of the Borough's fiscal year. The Borough's fiscal year currently ends on June 30. The Borough may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the Borough may cross-reference to other

documents provided to the NRMSIRs, the SID, if any, or to the SEC and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

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

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

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the

Bonds;

7. Modifications to the rights of Bond owners;
8. Bond calls (optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856);

9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Bonds;

and

11. Rating changes.

Solely for purposes of disclosure and not intending to modify this undertaking, the Borough advises that no debt service reserves secure payment of the Bonds, there are no credit or liquidity providers, and no property secures the repayment of the Bonds.

D. Notification Upon Failure to Provide Financial Data. The Borough agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB, notice of its failure to provide the annual information described in 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. Any provision of this undertaking shall be null and void if the Borough (i) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires such provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds; and (ii) notifies each NRMSIR and the SID, if any, of such opinion and the cancellation of such provision.

Notwithstanding any other provision of this undertaking or the Bond Ordinance, the Borough may amend this undertaking with an opinion of nationally recognized bond counsel in accordance with the Rule. In the event of any amendment of this undertaking, the Borough shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borough. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section C of this undertaking, and (ii) the annual report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

F. Bond Owner's Remedies Under This Agreement. The right of any Bond owner or beneficial owner of Bonds to enforce the provisions of this undertaking 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. For purposes of this undertaking, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bonds, including persons holding Bonds through nominees or depositories.

DATED: April 20, 1999.

FAIRBANKS NORTH STAR BOROUGH,
ALASKA

By: _____
Michael E. Lamb, Chief Financial Officer

ATTACHMENT A

NRMSIRs

As of _____, 1999

Bloomberg Municipal Repositories
Municipal Repository
P.O. Box 840
Princeton, NJ 08542-0840

Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpccdata.com

Kenny Information Systems, Inc.
65 Broadway, 16th Floor
New York, NY 10006
Attn: Kenny Repository Service
Phone: (212) 770-4595
Fax: (212) 797-7994

Thomson NRMSIR
Attn: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, NY 10014
Phone: (212) 807-5001 or
(800) 689-8466
Fax: (212) 989-2078
Email: Disclosure@Muller.com

APPENDIX E

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

THE POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is a New York Stock Exchange listed company whose major shareholders include Fund American Enterprises Holdings, Inc., XL Capital Ltd., The Tokio Marine and Fire Insurance Co., Ltd. and MediaOne Capital Corporation. The shareholders of Holdings are not liable for the obligations of Financial Security.

In November, 1998, Holdings made an additional investment in Financial Security as part of a joint venture with XL Capital Ltd. and the issuance by Holdings of additional shares and debt (the "November 1998 transaction"). At September 30, 1998, Financial Security's total policyholders' surplus and contingency reserves were approximately \$843,099,000 (\$993,099,000 as adjusted for the November 1998 transaction) and its total unearned premium reserve was approximately \$567,462,000 in accordance with statutory accounting principles. At September 30, 1998, Financial Security's total shareholders' equity was approximately \$997,855,000 (\$1,067,855,000 as adjusted for the November 1998 transaction) and its total net unearned premium reserve was approximately \$480,089,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds.

Copies of such materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.



**FINANCIAL
SECURITY
ASSURANCESM**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable

Policy No. _____

order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

[By _____]

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)