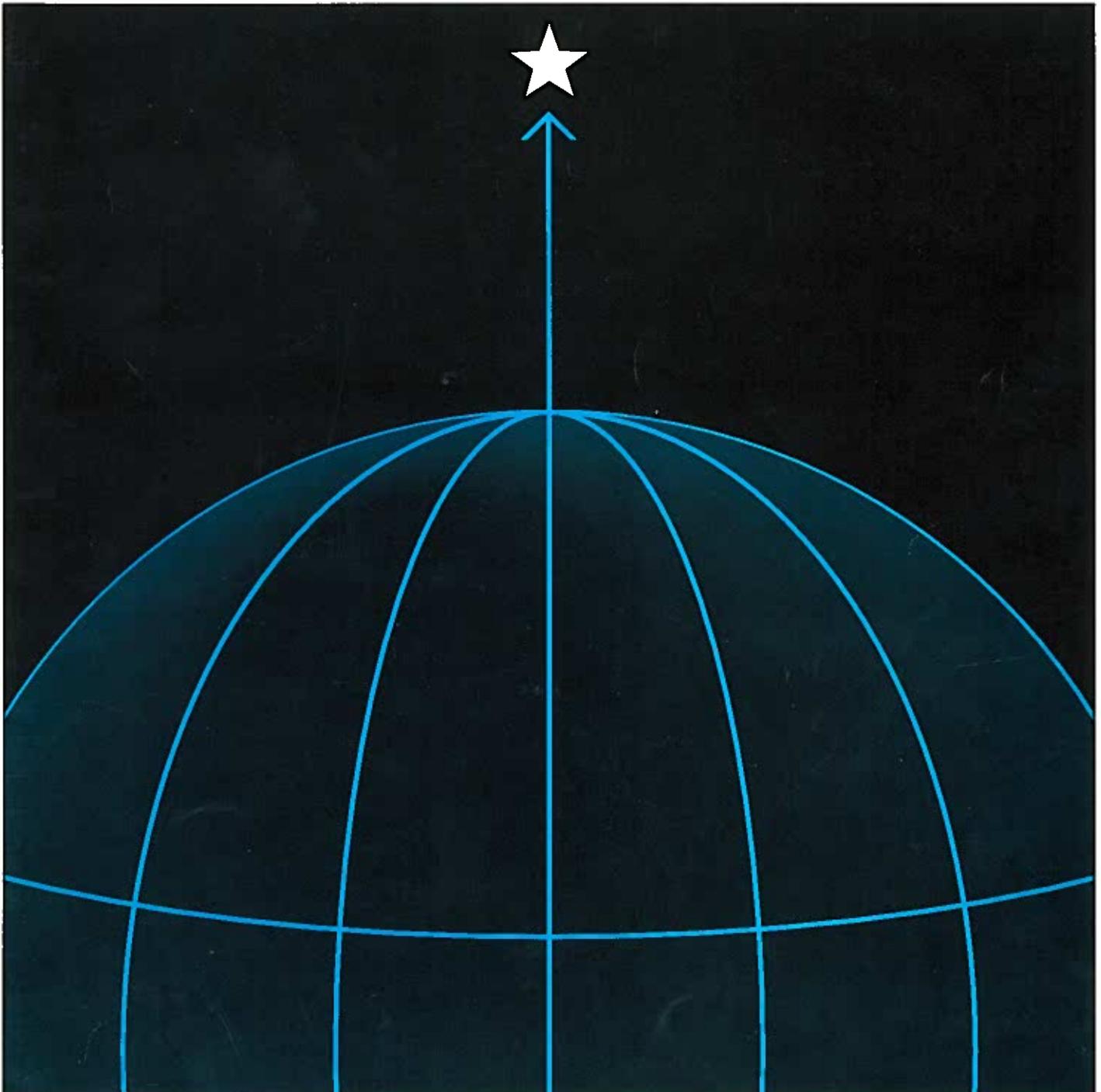


Fairbanks North Star Borough, Alaska
\$9,000,000
General Obligation School Bonds
2000 Series C



Sale Date: December 7, 2000
Bartle Wells Associates

Official Statement

Fairbanks North Star Borough, Alaska
\$9,000,000
General Obligation School Bonds
2000 Series C

BANK QUALIFIED



Dated: Date of delivery
 Book-Entry Only

Due: December 1, as shown below

Ratings (FSA insured): Standard & Poor's: AAA, Fitch IBCA: AAA, Moody's Investors Service: Aaa

Insurance: 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.

Tax Exemption: Interest on the Bonds is excluded from gross income for federal income tax purposes. Page 4

Redemption: The Bonds are subject to redemption prior to their stated date of maturity. Page 3

Security: 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, the Bonds are eligible for debt service reimbursement of 70 percent from the State of Alaska. Page 4

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

Interest Payment Dates: June 1 and December 1, beginning December 1, 2001.

Closing: On or about December 19, 2000.

Denominations: \$5,000 or multiple thereof.

Registrar/Paying Agent: Wells Fargo Bank National Association, Portland, OR

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

Borough Attorney: Ardith Lynch, Fairbanks, Alaska.

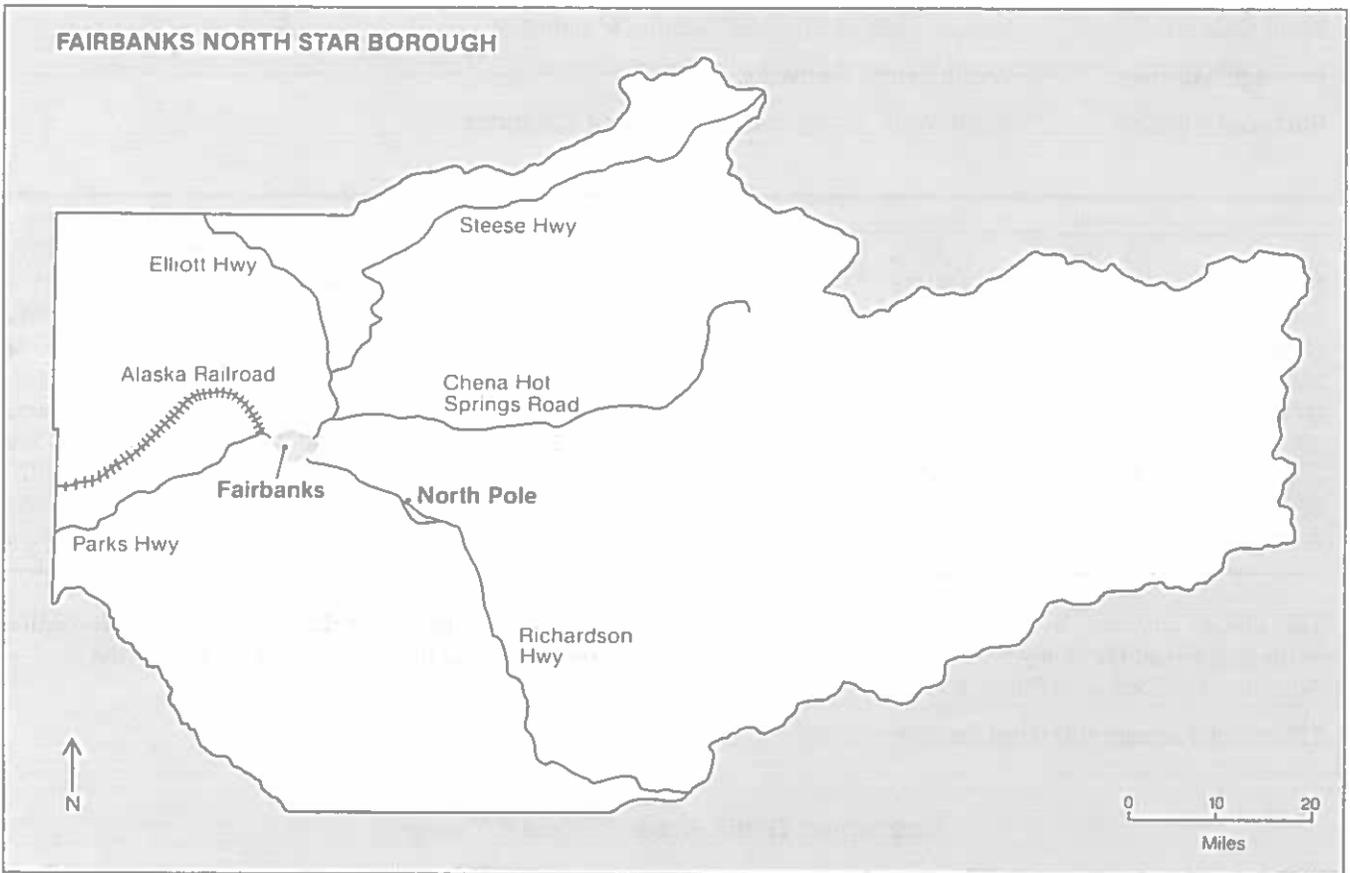
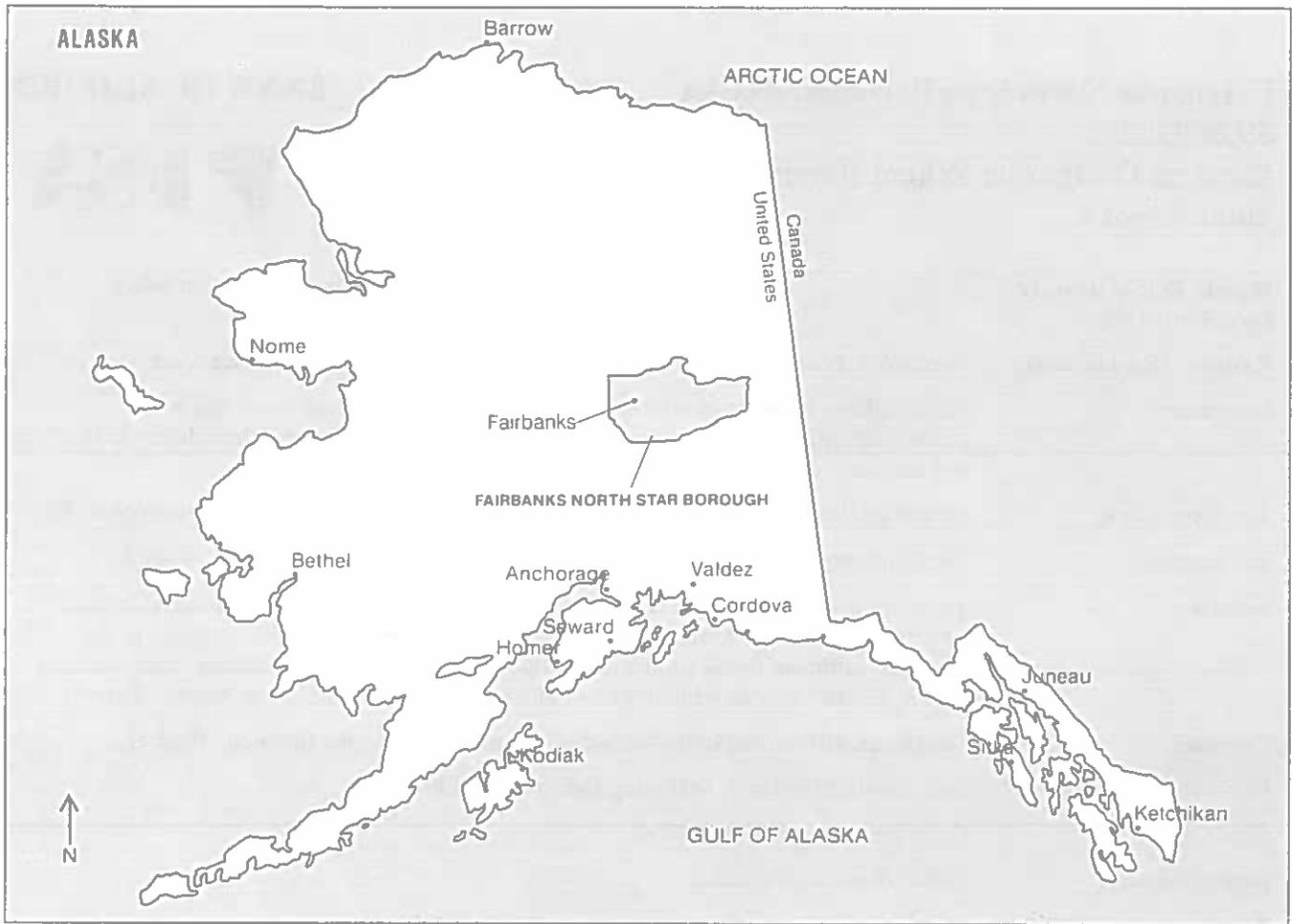
Financial Advisor: Bartle Wells Associates, San Francisco, California.

Date	Amount	Rate	Yield	Date	Amount	Rate	Yield
2001	\$ 60,000	5.000%	4.30%	2011	\$450,000	4.500%	4.75%
2002	295,000	7.375%	4.40%	2012	475,000	4.500%	4.85%
2003	310,000	7.500%	4.45%	2013	495,000	4.500%	4.90%
2004	325,000	7.500%	4.50%	2014	525,000	4.500%	4.95%
2005	340,000	7.500%	4.55%	2015	550,000	4.500%	5.00%
2006	355,000	7.500%	4.60%	2016	580,000	4.500%	5.10%
2007	375,000	7.500%	4.65%	2017	610,000	4.500%	5.15%
2008	390,000	7.500%	4.65%	2018	640,000	4.500%	5.20%
2009	410,000	7.500%	4.70%	2019	675,000	4.500%	5.25%
2010	430,000	6.000%	4.75%	2020	710,000	4.500%	5.30%

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

This official statement is dated December 7, 2000.

Underwriter: Griffin, Kubik, Stephens & Thompson



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

Rhonda Boyles, *Mayor*

Borough Assembly Members

Karen H. Parr, *Presiding Officer*

David Veazy, *Deputy Presiding Officer*

Rick Solie

Tim Beck

Jim Holm

Eileen Cummings

Nancy Webb

Garry Hutchison

Victoria Foote

Bonnie Williams

Guy Sattley

Mona Lisa Drexler, *Borough Clerk*

School Board Members

Bart LeBon, *President*

Jennifer Schmidt, *Vice President*

Royce Chapman

Bill Burrows

Gunther Criswell

Jane Parrish

Bob Coghill

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*

Wells Fargo Bank National Association, *Registrar/Paying Agent*

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.

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INTRODUCTION

Issuer: The Fairbanks North Star Borough is a regional unit of local general government, similar to a combined county and 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, libraries, limited health and social services, parks and recreation, public transportation, and solid waste disposal. The Borough may also provide any municipal services allowed under state law in specific areas with voter approval, provided they are not in violation of state statutes.

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 for school construction. Funds will be used for construction, renovation, or upgrade of Hutchison Vocational-Technical High School, Hunter Elementary School, North Pole Elementary School, North Pole High School, North Pole Middle School, Two Rivers Elementary School, and playground improvements at elementary schools in the Borough.

Security: The Bonds are general obligations of the Borough. To secure payment of the Bonds the Borough has the power and obligation 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.

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. 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 2000/01.

Economic Factors: The Borough has an estimated 2000 population of 83,814, an 8 percent increase from the 1990 population of 77,720. Fairbanks is the second-largest city in Alaska (population 31,697), 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 1,616. About 40 percent of the Borough's population live in the two cities.

The Borough's 2000 assessed valuation is about \$4.2 billion, an increase of 4 percent over the preceding year. Taxable assessed valuation, after deducting exemptions, is \$3.85 billion. Over the past five years, the Borough's assessed valuation has increased at an average annual rate of 6.3 percent.

The Alyeska Pipeline Service Company, owner of the Trans Alaska pipeline, 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 2000, the pipeline's assessed valuation of \$258 million is 6.2 percent of the Borough's total.

The 1999 annual average employment in the Borough was estimated at 33,400. Government is the largest employer in the Borough, with 32 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 75 percent of Fairbanks-based state employment.

The largest sector of private employment is services. Tourism is an important element of the economy. Hotel/motel room receipts were \$36.2 million in 1999, an increase of 4 percent over 1998. Services and trade account for 25 percent and 18 percent of the Borough's employment, respectively.

Two oil refineries are located in the Borough. Williams Alaska Petroleum, Inc. (formerly MAPCO), in North Pole, began operations in 1977 and currently processes 198,000 of its maximum capacity of 215,000 barrels per day. The PetroStar refinery, constructed in 1985, has a capacity of 14,000 barrels per day and supplies jet fuel directly to Eielson Air Force Base by pipeline. The refinery produces kerosene, diesel, heating, and jet fuels.

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.

Other than with respect to information concerning Financial Security Assurance Inc. contained in Appendix D, Bond Insurance, and the specimen Municipal Bond Insurance Policy herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

THE BONDS

Description: Fairbanks North Star Borough
\$9,000,000 General Obligation School Bonds
2000 Series C

Date: Date of delivery

Denomination: \$5,000 or multiple thereof

Maturities: December 1, 2001 through December 1, 2020 in the amounts shown on the cover of the official statement.

Interest: Interest is payable on June 1 and December 1 of each year to the respective dates of maturity, beginning December 1, 2001.

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 B - "Book-Entry System."

Optional Redemption: The Bonds maturing on or before December 1, 2009 are not subject to optional redemption prior to maturity. The Bonds maturing on or after December 1, 2010 are subject to redemption at the option of the Borough on any date on or after December 1, 2009, 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
December 1, 2009 through November 30, 2010	101.0 percent of par
December 1, 2010 through November 30, 2011	100.5 percent of par
December 1, 2011 and thereafter	100.0 percent of par

Authority for Issuance: The Bonds are part of \$29,450,000 of the school bonds authorized by Ordinance 2000-37, passed on August 10, 2000, and approved by Borough voters October 3, 2000 and Ordinance 2000-61 passed on November 21, 2000.

Additional Bonds: The Borough intends to issue up to \$9.25 million of the authorized general obligation bonds in January 2001 and the balance of the \$29.45 million authorization in 2002.

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 obligation to levy a direct annual ad valorem tax on all taxable property within the Borough in an amount 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 are eligible for reimbursement of 70 percent of debt service. See "State Aid to Education."

Bank Qualified: The Borough has designated the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986.

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 C, "Continuing Disclosure Undertaking." The Borough entered into written undertakings under Securities and Exchange Commission Rule 15c2-12(b)(5) with respect to its 1996 Series U bonds, its 1997 Series A bonds, and its 1999 Series B bonds. The Borough has complied with these undertakings.

Approval of Legal Proceedings

Legal matters incident to the authorization and issuance of the Bonds are subject to the approval of 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").

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.

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 that year. The tentative minimum tax is based upon alternative minimum taxable income, which is regular taxable income with certain adjustments, and is 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. 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.

Qualified Tax-Exempt Obligations: The Borough has designated the Bonds as qualified tax-exempt obligations under Section 265(b) of the Code so that banks, thrift institutions and other financial institutions will not be denied a deduction of 100% of their interest expenses allocable to the Bonds. However, corporate tax preference rules reduce by 20% the amount that may be deducted by such financial institutions for interest on funds allocable to tax-exempt obligations such as the Bonds.

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 June 1 and December 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 represented by 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, 55 Water Street, New York, New York, 10041, Fitch IBCA, Inc., 650 California Street, San Francisco, California 94108. 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 insurance policy is set out in Appendix D 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.

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

Execution of the Official Statement

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

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

FAIRBANKS NORTH STAR BOROUGH

Organization

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

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

The Borough's governing body is 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.

Rhonda Boyles was elected Borough mayor in October 2000. She owns three Wendy's restaurants and was director of the food service program for the Borough school district and manager of several restaurants in Fairbanks. She has served on the board of directors of the Fairbanks Chamber of Commerce, including serving as chair in 1999-2000. Ms. Boyles' education includes attending the Eli Whitney School of Nursing at Yale University and the University of Alaska Community College.

Responsibilities

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

Mandatory Areawide Responsibilities:

Assessment and tax collection
Education
Planning, platting, and zoning

Other Areawide Responsibilities Exercised:

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

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

The Borough also provides fireworks control, emergency medical services, and economic development on a non-areawide basis, outside the cities of North Pole and Fairbanks. 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 divisions of rural services and emergency management. The assembly approves service area budgets and tax levies. There are currently over 100 service areas within the Borough.

Cities

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

Relation to the School District

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

own administrative and finance departments. The Borough's public works department manages the construction 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 minimum local funding within 30 days of receipt of the school district budget. The assembly holds hearings on its own budget and determines its appropriation for education, as part of the Borough's annual operating budget. Upon adoption of the budget, the assembly establishes the local property tax mill rate to provide the funds required for Borough operation and the local contribution to education.

The Borough assembly also approves the borrowing of funds and the issuance of bonds for school projects. Debt incurred for the construction of school facilities is a Borough responsibility. All land and school buildings are owned and accounted for by the Borough and are provided to the school district without charge. Schools located on military bases are operated by the school district through agreements with the state and U.S. Department of Education and Early Development. 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 Air Force Base, a post representative from Fort Wainwright, and a student representative. The superintendent of schools carries out goals and objectives set by the school board. Other principal officials of the school district include assistant superintendents of elementary curriculum and instruction, secondary curriculum and instruction, business and finance, and departmental directors.

Responsibilities

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

Enrollment and Facilities

The following inset shows public school enrollments for the last five years. Enrollments include students at both in-town schools and on-base schools. School enrollments have dropped for the past three years, particularly at the elementary level. The school district is predicting further reductions in enrollment totaling 800 students over the next five years.

	1996	1997	1998	1999	2000
Elementary	9,129	9,418	9,33	8,664	8,263
Secondary	<u>6,927</u>	<u>6,904</u>	<u>7,10</u>	<u>7,140</u>	<u>7,042</u>
Total	16,056	16,322	16,43	15,804	15,305

The school district operates sixteen elementary and eight secondary in-town schools, three elementary and one secondary on-base schools, and two charter schools, as well as correspondence study at both the elementary and secondary levels.

The Borough recently completed a \$100 million school construction program funded with proceeds of bonds issued in 1996 through 1999, grants, and interest earnings. The construction program included construction of two new schools, one elementary and one junior high, renovation of eight schools, including additions to three schools, and technology upgrades at several schools.

The school district employs 1,594 people, including 1,042 teachers and principals, 48 administrators, and 504 support staff.

THE CONSTRUCTION PROGRAM

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

- **Hutchison Vocational-Technical High School:** This cooperative project with the University of Alaska will upgrade, expand, and equip Hutchison. The project includes renovation of existing classrooms and related spaces, remodeling and expansion of a gym, and upgrade of building systems and components.
- **Hunter And North Pole Elementary Schools:** These projects are the second phases of the upgrade and remodeling of Hunter and North Pole Elementary Schools. At Hunter, existing classrooms will be renovated; the roof, exterior walls, gym, playgrounds, physical education fields, heating and ventilation, electrical and other building systems will also be upgraded and renovated. At North Pole Elementary School, the project consists of upgrade, renovation or replacement of roofs, gym lighting and facilities, and site facilities such as parking lots, bus drop-off area, playground, ice rink, and athletic fields.
- **North Pole High School, North Pole Middle School and Two Rivers Elementary School:** At North Pole High School, the vocational-technical areas, the gym and the running track will be upgraded. At North Pole Middle School, hallways, music rooms, walls, lockers, heating systems, lighting, flooring, elevator, gym facilities, and other systems will be upgraded, and bathrooms added. At Two Rivers Elementary School, gym and library facilities will be upgraded.
- **Playground Safety Upgrades:** The project consists of construction, upgrade and renovation of playground sites and the replacement of playground equipment at several elementary schools.

The projects are being designed and construction is expected to start in the spring of 2001. The construction program is expected to be completed in 2003.

Table 1
Fairbanks North Star Borough
School Construction Program

Project	Estimated Cost
Hutchison Vocational-Technical High School renovation/upgrade	\$14,000,000
Hunter Elementary School Phase II renovation	9,000,000
North Pole Elementary School Phase II renovation	2,500,000
North Pole High School upgrades	1,500,000
North Pole Middle School renovation	1,500,000
Two Rivers Elementary School renovation/upgrade	200,000
Elementary School Playground upgrades	750,000
Total	29,450,000

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.

The state legislature has authorized debt service reimbursement at the rate of 70 percent for \$57,143,000 in school construction projects, expiring July 1, 2003, and \$14,571,000 of school construction projects, expiring July 1, 2004, for the Borough. The Bonds constitute \$9,000,000 of the \$57 million authorization. Following sale of the Bonds, the Borough will have \$20,450,000 of voter authorized but unissued bonds eligible for reimbursement.

Eligible Costs

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

To qualify for state reimbursement of debt service, school construction projects must be approved by the state Department of Education and Early Development 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 and Early Development with an estimate of school-related debt service expenditures for the upcoming fiscal year by October 15 of each year. The school district must file an annual claim with the state Commissioner of Education and Early Development. 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 2000/01.

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:

- Part of the Series 1993S refunding bonds is reimbursable at 90 percent, and the balance is reimbursable at 80 percent. The 1993S refunding bonds refunded three series of prior bonds. One series was reimbursable at 90 percent; the other two series were reimbursable at 80 percent. Each year's debt service is allocated to the prior issues and retains the reimbursement eligibility of the prior issues. About 12 percent is reimbursable at 90 percent and 88 percent at 80 percent.
- A portion of the Series 1996U, Series 1997A, Series 1999B, and these Bonds are eligible for reimbursement at 70 percent. Series 1996U and 1999B included about \$9.5 million of local funds to match state grants on a 70/30 basis. Debt service on the local match is not reimbursable. Series 1997A included \$1,250,000 for library purposes, which is payable solely by the Borough.

Table 2
Fairbanks North Star Borough
Outstanding School Bonds as of December 31, 2000

Series	Purpose	Outstanding Principal	Final Payment	Reimb Eligibility
1993S Refunding ⁽¹⁾	Schools	\$ 30,315,000	3/1/2008	80-90%
1996U ⁽²⁾	Schools	14,300,000	11/1/2016	70%
1997A ⁽³⁾	Schools, library	32,450,000	11/1/2017	70%
1999B ⁽²⁾	Schools	25,465,000	4/1/2019	70%
2000C ⁽⁴⁾	Schools	<u>9,000,000</u>	12/1/2020	70%
Total		111,530,000		

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

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

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

4 - To be sold.

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. Overall, the net local cost is about one-third of total annual debt service.

School Operating Aid

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

Foundation funding for Alaska's public schools represents the largest single appropriation by the legislature each year. The state's system of providing school operating aid is based on a formula that is intended to equalize funding to school districts around the state. The district also receives state support for educating wards of the state and a fee for administering schools located on military bases.

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	2000C	Total			
2000/01	\$ 11,535,731	-	\$ 11,535,731	\$ 7,838,176	\$ 3,697,555	32.05%
2001/02	11,608,709	776,803	12,385,512	8,463,292	3,922,220	31.67%
2002/03	11,611,709	776,503	12,388,212	8,460,976	3,927,236	31.70%
2003/04	11,713,906	769,000	12,482,906	8,542,372	3,940,534	31.57%
2004/05	11,526,809	760,188	12,286,996	8,591,855	3,695,141	30.07%
2005/06	11,616,606	750,250	12,366,856	8,663,115	3,703,742	29.95%
2006/07	9,438,394	739,188	10,177,581	6,839,879	3,337,703	32.79%
2007/08	9,444,244	731,813	10,176,056	6,849,985	3,326,071	32.69%
2008/09	6,256,494	718,125	6,974,619	4,285,003	2,689,616	38.56%
2009/10	6,262,688	708,125	6,970,813	4,279,620	2,691,192	38.61%
2010/11	6,268,438	699,850	6,968,288	4,275,997	2,692,290	38.64%
2011/12	6,293,213	696,825	6,990,038	4,281,393	2,708,644	38.75%
2012/13	6,281,775	701,013	6,982,788	4,277,033	2,705,755	38.75%
2013/14	6,342,875	699,188	7,042,063	4,309,935	2,732,128	38.80%
2014/15	6,316,038	706,238	7,022,275	4,299,320	2,722,955	38.78%
2015/16	6,278,138	707,050	6,985,188	4,261,018	2,724,170	39.00%
2016/17	6,361,050	711,625	7,072,675	4,316,984	2,755,691	38.96%
2017/18	4,944,300	714,850	5,659,150	3,837,064	1,822,086	32.20%
2018/19	2,084,525	716,725	2,801,250	1,907,513	893,737	31.90%
2019/20	-	722,138	722,138	505,496	216,641	30.00%
2020/21	-	725,975	725,975	508,183	217,793	30.00%
Totals	152,185,639	14,531,468	166,717,107	109,594,208	57,122,899	

Totals may not add due to rounding.

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 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.

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. 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. Certain annual operating activities are conducted with this fund type, usually on a geographical basis. These include solid waste collection, emergency medical services, economic development, emergency communication services, and various service area functions. Additional special revenue funds are used for multi-year, non-capital construction projects funded by grants from the state, federal pass-through grants, federal grants, and certain local funds.
- **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, solid waste disposal, and the John A. Carlson Community Activity Center.
- **Internal Service Fund:** Accounts for the financing of goods or services provided by one department to other departments of the Borough on a cost-reimbursement basis. The Borough's vehicle and equipment replacements are funded and purchased through the Vehicle and Equipment Fleet Fund.

The Borough's fiduciary 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 figures for 1999/00 are preliminary. The Borough's largest combined source of general fund revenue is taxes, totaling \$54.9 million in 1999/00 and accounting for 72 percent of general fund revenue. Tax revenue includes hotel/motel taxes collected outside the city of Fairbanks which are used to offset the general fund subsidy to the John A. Carlson Community Activity Center. The balance of tax revenue is from property taxes.

In 1999/00, intergovernmental revenues amounted to \$12.75 million. This includes \$10.4 million in state reimbursement of school debt service. The state's reimbursement for school construction is discussed elsewhere in this official statement, under the heading "State Aid to Education." Other state assistance amounted to about \$ 2.1 million, or 2.8 percent of general fund revenue.

In 1999/00, total expenditures were \$22.6 million, an increase of about 7.6 percent from 1998/99. The general fund's contribution to education was \$30.7 million, shown as an operating transfer to the school district. General fund contribution to debt service was \$13.7 million, also shown as a transfer to other funds.

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

	1995/96	1996/97	1997/98	1998/99	Preliminary 1999/00
Revenues					
Taxes	\$ 40,150,599	\$ 41,761,073	\$ 44,981,440	\$ 48,749,572	\$ 54,893,733
Intergovernmental revenues	11,918,932	11,041,855	11,721,678	12,881,043	12,754,730
Charges for services	1,167,781	1,128,305	1,166,735	1,244,782	1,315,479
Charges to school district	880,111	1,001,064	919,158	905,614	1,023,735
Other revenues	<u>4,739,947</u>	<u>4,820,267</u>	<u>5,096,043</u>	<u>4,099,140</u>	<u>5,782,390</u>
Total revenues	58,857,370	59,752,584	63,885,054	67,880,150	75,770,067
Expenditures					
General government	8,072,851	8,618,895	8,786,295	9,184,173	9,879,018
Community planning	845,023	946,162	999,404	1,028,568	1,022,923
Public works	3,339,813	3,345,868	3,328,747	3,328,534	3,423,968
Direct services	951,006	1,063,100	1,101,168	1,160,654	1,305,218
Parks and recreation	3,049,872	3,331,699	3,338,517	3,422,394	3,701,869
Library	2,312,924	2,285,360	2,328,915	2,446,650	2,695,689
Capital outlay	-	445,622	384,062	397,411	527,773
Total expenditures	<u>18,571,489</u>	<u>20,036,706</u>	<u>20,267,108</u>	<u>20,968,385</u>	<u>22,556,458</u>
Excess of revenues over expenditures	40,285,881	39,715,858	43,617,946	46,911,765	53,213,609
Operating Transfers In (Out)					
Other funds*	(15,353,491)	(12,537,056)	(15,100,690)	(15,004,121)	(20,214,975)
School district	<u>(26,280,000)</u>	<u>(26,830,000)</u>	<u>(27,680,000)</u>	<u>(30,690,780)</u>	<u>(30,690,780)</u>
Total other financing uses	(41,633,491)	(39,367,056)	(42,780,690)	(45,694,901)	(50,905,755)
Excess (deficiency) of revenues over expenditures & other uses	(1,347,610)	348,802	837,256	1,216,864	2,307,853
Fund balance, July 1	11,697,227	10,503,546	10,852,348	11,689,604	12,906,467
Adjustments	<u>153,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	10,503,546	10,852,348	11,689,604	12,906,467	15,214,320

*Includes transfer to debt service fund.

Totals may not add due to rounding.

Source: General Purpose Financial Statements of the Borough

Table 5 summarizes the 2000/01 general fund budget. The Borough's general fund budget totals \$71.5 million. Taxes, the largest revenue source, account for about 75 percent of budgeted general fund revenues, and consist primarily of areawide property taxes. Various categories of state aid, of which school construction reimbursement is the largest, make up another 11 percent of general fund revenues. The Borough has budgeted operating expenditures of \$23.6 million. The balance of general fund expenditures consists of contributions to other funds. The contribution to education, at \$32 million, is 45 percent of the total general fund budget.

The 2000/01 budget decreased 3.6 percent from the prior year, resulting in a decrease in the property tax mill rate, partially in response to a statewide tax limitation initiative on the November 2000 ballot. The budget also anticipates cuts in state revenues received by the general fund. The state revenues have decreased for two reasons: a reduction in debt service and debt service reimbursement and an overall reduction in the state aid to local governments.

Table 5
Fairbanks North Star Borough
Approved General Fund Budget, 2000/01

	2000/01
Revenue Sources	
Taxes	\$ 53,556,510
State and federal revenues	9,960,040
Charges for services	1,405,350
Intergovernmental charges	3,257,850
Other local revenue	2,868,100
Contribution from fund balance	<u>500,000</u>
Total local revenue	71,547,850
Expenditures and Other Financing Uses	
Mayor and assembly	1,873,720
Law	612,180
Assessing	1,701,380
Community planning	1,093,720
Computer services	1,723,680
Direct services	1,237,000
Financial services	3,324,700
General services	1,044,350
Library services	3,165,290
Parks and recreation	3,989,610
Public works	3,541,500
Nondepartmental	233,130
Intergovernmental charges	<u>49,680</u>
Total operating expenditures	23,589,940
Contributions to Other Funds	
Capital projects	1,514,120
Debt service	11,624,390
Education	32,045,700
Other operating transfers	<u>2,698,780</u>
Total expenditures and other financing uses	47,882,990
Total expenditures and contributions	71,472,930

Source: Fairbanks North Star Borough

Table 6 shows a general fund balance sheet as of June 30, 1996 through 2000. The June 30, 2000 numbers are preliminary.

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

	1996	1997	1998	1999	Preliminary 2000
Assets					
Equity in central treasury cash	\$ 13,833,267	\$ 16,673,491	\$ 16,758,960	\$ 18,749,573	\$ 19,066,268
Taxes receivable	400,015	441,447	502,698	434,618	553,548
Accounts receivable	42,863	174,297	105,379	51,545	47,880
Accrued interest receivable	637,169	706,566	382,967	299,753	869,747
Interfund receivables	2,854,551	417,513	-	50,763	342,028
Due from governmental agencies	239,445	244,437	357,260	382,085	392,236
Other assets	<u>77,944</u>	<u>72,925</u>	<u>1,135,753</u>	<u>1,156,247</u>	<u>1,149,043</u>
Total assets	18,085,254	18,730,676	19,243,017	21,124,584	22,420,751
Liabilities and Fund Balance					
Liabilities					
Accounts payable	579,205	386,198	459,493	446,065	596,842
Wages and payroll taxes	511,163	576,025	643,359	715,002	516,197
Accrued annual leave	857,935	975,853	1,027,258	1,039,649	1,054,246
Accrued self-insurance losses	726,794	1,118,553	702,637	681,121	752,379
Deposits from others	56,188	68,627	150,384	95,453	104,078
Advance tax payments	<u>4,850,423</u>	<u>4,753,072</u>	<u>4,570,282</u>	<u>5,240,827</u>	<u>4,182,689</u>
Total liabilities	7,581,708	7,878,328	7,553,413	8,218,117	7,206,431
Fund balance:					
Reserved for encumbrances	355,812	285,555	322,649	252,059	370,787
Unreserved, designated for:					
Self-insurance losses	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Net unrealized gains	-	-	435,450	-	-
Subsequent year's expenditures	-	-	-	50,000	500,000
Unreserved, undesignated	<u>8,647,734</u>	<u>9,066,793</u>	<u>9,431,505</u>	<u>11,104,409</u>	<u>12,843,533</u>
Total fund balance	10,503,546	10,852,348	11,689,604	12,906,468	15,214,320
Total liabilities and fund balance	18,085,254	18,730,676	19,243,017	21,124,585	22,420,751

Totals may not add due to rounding.

Source: General Purpose Financial Statements of the Borough.

Assessed Valuation and Property Taxes

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

Table 7 shows the Borough's certified assessed valuation from 1992 through 2000. The Borough's 2000 taxable assessed value is about \$4.2 billion, which represents an increase of 4 percent over 1999. Assessed valuations have increased at an average rate of 6.3 percent per year over the past five years.

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

Tax Year	Within Cities	Outside Cities	Pipeline-Related ⁽¹⁾	Borough Total	Percentage Increase
1996	\$1,214,344	\$1,761,860	\$306,557	\$3,282,761	
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%
1999	1,431,499	2,287,951	303,578	4,023,028	6.9%
2000	1,504,985	2,424,844	258,225	4,188,054	4.1%

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 2000, the optional residential exemptions totaled \$130 million; mandatory exemptions totaled \$208 million. The Borough's 2000 net taxable value is about \$3.8 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. Current taxes levied on real property are due and payable on July 1 of each year, but may be paid in two equal installments on September 1 and November 1 without incurring penalties or interest.

Table 8
Fairbanks North Star Borough
Assessed Valuation Detail, 2000

Borough assessor's certified value	\$4,188,054,056
Less:	
Mandatory exemptions	(208,260,971)
Optional residential exemptions	(130,429,493)
Borough taxable value	3,849,363,592

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

Largest Taxpayers

A pumping station and about 90 miles of the Trans Alaska pipeline are located within the Borough. Together they account for \$258 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. Pipeline related value increased in 1999 due to personal property brought into the Borough by the company, which was subsequently removed. The pipeline's assessed valuation is expected to continue to decline gradually. The pipeline's assessed valuation within the Borough is about 6.2 percent of the Borough's total assessed valuation of \$4.2 billion.

Table 9 shows the Borough's ten largest commercial/industrial taxpayers for 2000. Together they account for 20 percent of total assessed valuation.

Table 9
Fairbanks North Star Borough
Largest Commercial/Industrial Taxpayers, 2000

Taxpayer	Type of Property	Assessed Valuation (000)	Percent of Borough Total
Alyeska Pipeline	oil transportation	\$258,225	6.17%
Fort Knox	mining	241,508	5.77%
MAPCO Petroleum, Inc.	oil refining	162,519	3.88%
HEBL Housing (Eielson)	military housing	51,791	1.24%
Alaska Communications Systems	telephone	34,794	0.83%
North Star Alaska Housing	military housing	28,473	0.68%
Fred Meyers of Alaska	shoping center	17,819	0.43%
Alaska Hotel Properties, Inc. (Princess)	hotel	16,798	0.40%
Jillian Square	apartment complex	14,168	0.34%
Walmart (Sam's Club)	shopping center	13,344	0.32%
		<u>839,439</u>	<u>20.06%</u>

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 2000 areawide tax rate is 13.662 mills per \$1,000 of assessed valuation. An additional 0.522 mills is levied on property outside the cities for ambulance service, economic development, and debt service on solid waste collection bonds. An additional 1.159 mills is levied outside the City of Fairbanks for solid waste collection. Properties outside the cities may also be included in service areas and subject to service area taxes. The city tax rates are 6.442 mills in Fairbanks and 2.4 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
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
1999	14.480	0.516	1.188	6.000	2.300
2000	13.662	0.522	1.159	6.442	2.400

- 1 - Rates do not include service area levies.
2 - Outside the cities of Fairbanks and North Pole
3 - Includes area outside the City of Fairbanks

Source: Fairbanks North Star Borough

Table 11 shows total tax rates in the cities and outside, exclusive of service area taxes. Areawide taxes levied for debt service on the Borough's school and library bonds are shown separately. They are included in the Borough's mill rate of 13.662.

Table 11
Fairbanks North Star Borough
Total Tax Rates, 2000/01
(Mills per \$1,000 assessed value)

	City of Fairbanks	City of North Pole	Outside Cities*
Borough areawide, excluding debt service	12.767	12.767	12.767
City of Fairbanks	6.000		
City of North Pole		2.400	
Solid waste collection	**	1.159	1.159
Non-areawide			0.522
Total, excluding debt service*	18.767	16.326	14.448
Borough debt service			
School bonds	0.870	0.870	0.870
Library bonds	0.025	0.025	0.025
Total debt service	0.895	0.895	0.895
Total, including debt service*	19.662	17.221	15.343

*Does not include service area tax rates

**Fairbanks has its own solid waste collection service

Source: Fairbanks North Star Borough

Tax Levies and Delinquencies

Table 12 shows property tax levies and current and delinquent collections for the Borough from 1995/96 through 1999/00. 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 1999/00, the Borough's current tax collections were 98.83 percent of the net current year levy on taxable property. Total collections, including delinquent taxes, totaled \$53.6 million, or 100.03 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 tax for the Borough and for the cities of Fairbanks and North Pole. Taxes collected on behalf of the cities are transmitted as collected to the cities. These are not included in Table 12, nor are the Borough taxes collected on a non-areawide, district, or service area basis.

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

	1995/96	1996/97	1997/98	1998/99	1999/00
Net tax levy*	\$39,233,518	\$40,765,857	\$43,679,703	\$47,143,017	\$53,617,787
Current tax collections	38,507,719	40,100,706	43,006,607	47,030,281	52,988,028
Delinquent collections	<u>769,344</u>	<u>633,758</u>	<u>586,848</u>	<u>598,132</u>	<u>643,287</u>
Total collections**	39,277,063	40,734,465	43,593,455	47,628,413	53,631,315
Current year, percent of net levy collected	98.15%	98.37%	98.46%	99.76%	98.83%

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

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

Totals may not add due to rounding.

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 December 31, 2000. All of the Borough's outstanding bonds have been issued for school construction, except 1994 Series T and a portion of the 1997 Series A Bonds. The 1994 Series T Bonds were issued in the amount of \$2 million for solid waste transfer stations. The 1997 Series A Bonds included \$1.25 million to finance an addition to and renovation of the Noel Wien Library.

As of December 31, 2000 total gross direct debt, including the Bonds, is \$112 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, \$77.5 million of the Borough's direct debt (69 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 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 about one-third of its total annual debt service through 2007/08.

Table 13
Fairbanks North Star Borough
Direct and Underlying Bonded Debt

	Percent Applicable	Debt 12/31/00	
Direct Debt			
Outstanding school and library bonds	100%	\$ 102,530,000	
Solid waste transfer bonds	100%	905,000	
2000C Bond ⁽¹⁾	100%	<u>9,000,000</u>	
Total gross direct debt		112,435,000	
Less: School bonds eligible for state reimbursement		<u>(77,507,382)</u>	
Total net direct bonded debt		34,927,618	
Direct and Underlying Debt			
Underlying debt: City of Fairbanks ⁽²⁾	100%	7,025,000	
Direct debt		<u>112,435,000</u>	
Total gross direct and underlying debt		119,460,000	
Less: School bonds eligible for state reimbursement		<u>(77,507,382)</u>	
Total net direct and underlying bonded debt		41,952,618	
	Percent of Taxable Assessed Value	Per capita (pop. 83,814)	
Ratio to Direct Debt			
Gross	\$112,435,000	2.68%	\$1,341
Net	34,927,618	0.83%	417
Ratio to Total Direct and Underlying Debt			
Gross	119,460,000	2.85%	1,425
Net	41,952,618	1.00%	501

1 - To be sold.

2 - Per City of Fairbanks

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

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 31 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 2000/01 budget is \$3 million below the current limit. Under the current tax cap, one year's actual tax levy is the beginning basis for the following year's limit. Levying less than the full amount permitted reduces future limits.

On October 3, 2000, Borough voters approved a two-year extension of the tax cap.

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, an operations guide, a financial plan, and 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 to existing state law and the Borough Code.

- The budget development process will examine and effect changes in program delivery responsibilities or management to improve productivity, lower costs, enhance service, and further communication with the public.
- The Borough 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 above, subject to qualification of the financial institution and specified margin requirements - 5 years;
- collateralized certificates of deposits and other deposits - 5 years;
- bank or credit union deposits insured by FDIC, NCUA, or FSLIC - 5 years;
- bonds or notes of any state or political subdivision thereof, rated A or higher - 5 years;
- prime commercial paper graded A1/P1 or higher - 270 days;
- prime bankers acceptances of the fifty largest international banks - 180 days;
- money market mutual funds consisting entirely of instruments specified above, maturity date not applicable; and
- the Alaska Municipal League Investment Pool, Inc., created in accordance with 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.

Statewide Property Tax Limitation Initiative

An initiative that would have amended Alaska statutes to impose additional limitations on municipal property taxation was defeated at the November 7, 2000 general election.

Borough-City Consolidation

An initiative proposing consolidation of the Borough and the City of Fairbanks has received the necessary number of signatures for consideration by the Alaska Local Boundary Commission. The initiative proposes that the City would become in essence a service area, responsible for those services currently provided by the City such as police and fire. The Local Boundary Commission will hold a hearing on the initiative sometime after January 1, 2001 to determine if such a consolidation is in the public interest. If the Local Boundary Commission approves the consolidation, the matter will be put to a Borough-wide vote. The Local Boundary Commission can condition its approval on approval by the voters of a tax levy to pay for the services to be provided.

The Borough opposes the consolidation and has presented its written arguments against consolidation to the Local Boundary Commission and will oppose the consolidation at the hearing. The Borough cannot predict the outcome of the consolidation initiative or the likelihood of future consolidation efforts.

Management Discussion

The Borough has been taking measures to enhance its financial stability. These measures include creation of new funds and reorganization of departments for more efficient operations.

In 1999/00 the Borough created a Facilities Maintenance Reserve Fund, a sinking fund for facilities maintenance. About \$6 million has been deposited in the fund during the past two years. This fund is the Borough's first step to prepare to comply with GASB 34, which will require reporting on the general fixed assets which was not previously required. The Borough also created a Vehicle and Equipment Fleet Fund within the Transportation Department, which will serve as a revolving fund for vehicle and equipment replacement and incorporates lease financing.

Also in 1999/00 Computer Services was elevated to a department, from a division of the Finance and Computer Services Department, and additional staff was added. In 2000/01, a Department of Emergency Operations was created, reporting directly to the mayor. This department combined the Emergency Management, Emergency Medical Services, and Enhanced 911 divisions. Solid waste disposal was changed from a special revenue fund to an enterprise fund to combine all assets, liabilities, and operations related to solid waste disposal.

The State of Alaska has been reducing its aid to local governments. The Borough has also seen declining school enrollments, which bring reductions in state foundation payments to the school district. The mayor and Borough assembly and other municipalities throughout the state are working with the state legislature to stop the cuts to local government.

The Borough is also addressing the challenge of attracting and retaining skilled professional employees. A committee has been established to review management salaries to help the Borough compete with other employers into the future.

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

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

Table 14 shows five years of school district operating fund revenues and expenditures. Of the district's \$118.5 million operating fund revenues in 1999/00, state funding provided 58 percent and the Borough provided 26 percent. Federal pass-through revenues have varied due to changes in the timing of payments to the state and district.

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

	1995/96	1996/97	1997/98	1998/99	1999/00
Revenues					
Borough appropriation	\$ 26,280,000	\$ 26,830,000	\$ 27,680,000	\$ 30,690,780	\$ 30,690,780
Local sources	282,367	427,026	282,369	329,755	515,842
State sources	67,211,303	68,226,889	68,904,266	67,711,173	68,604,179
Federal pass-through	6,685,519	5,862,783	400,718	8,256,578	18,621,358
Federal sources	262,937	54,830	79,129	132,542	103,743
Total revenues	100,722,126	101,401,528	97,346,482	107,120,828	118,535,902
Expenditures					
Instruction	65,849,692	67,623,843	65,197,140	68,015,881	68,541,261
Supporting services	17,966,783	19,098,797	19,147,830	22,525,496	23,595,331
Operation & maint.	13,934,113	14,296,735	13,664,430	13,690,690	14,364,228
Pupil activities	1,329,670	1,376,616	1,386,952	1,523,947	1,742,970
Transfers	929,572	862,524	1,504,768	1,625,948	1,659,793
Debt retirement	151,646	151,646	-	-	-
Total expenditures	100,161,476	103,410,161	100,901,120	107,381,962	109,903,583

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

School District Budget

Table 15 shows the district's 2000/01 operating fund budget as adopted March 23, 2000. 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 and Early Development by July 15.

Table 15
Fairbanks North Star Borough School District
Operating Fund Budget, 2000/01

	2000/01
Revenues	
Borough appropriation	\$ 32,045,700
Local sources	272,000
State sources	66,978,400
Federal pass-through	8,459,500
Indirect charges to grants	100,000
Fund balance utilization	<u>1,020,400</u>
Total revenues	108,876,000
Expenditures	
Instruction	68,180,418
Supporting services	23,069,234
Operation and maintenance	14,758,509
Pupil activities	1,502,641
Transfers to other funds	<u>1,365,198</u>
Total expenditures	108,876,000

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

Population and Housing

Table 16 shows the populations of the Borough, the cities of Fairbanks and North Pole, and the State of Alaska. According to the 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 1999 population is 83,773, an increase of 8 percent since 1990.

Table 16
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	81,797	32,386	1,540	601,581
1996	82,289	31,600	1,516	605,212
1997	82,278	31,850	1,631	609,655
1998	83,928	31,601	1,619	617,082
1999	83,773	31,697	1,616	622,000

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

2 - Includes population living on Fort Wainwright.

Source: U.S. Census and FNSB Community Research Quarterly, Vol XXIII, No 2, 2000.

As of September 1999, the number of military personnel and family members totaled 16,816, 1 percent less than the previous year. The total military population comprises about 21 percent of total Borough population.

Table 17 shows the number of residential housing units sold and the average price per unit since 1997.

Income

Table 18 shows median household effective buying income (EBI) for the Borough, the state, and the U.S. for the period from 1995 through 1999. Effective buying income is reported annually by *Sales & Marketing Management* magazine's "Survey of Buying Power." It is defined as money income less personal tax payments, a number often referred to as "disposable or "after-tax" income. Between 1995 and 1999, the Borough's EBI increased at an annual average rate of 2.3 percent. EBI is based on "money income," provided by the Census Bureau. Money income does not include certain sources, such as pay-in-kind income, lump-sum payments such as bonuses, interest and rent from property, and some proprietor's income and transfer payments.

Table 17
Fairbanks North Star Borough
Residential Housing Sales

	Units Sold	Average Price Per Unit
1997		
1st Quarter	81	\$107,000
2nd Quarter	191	128,700
3rd Quarter	187	115,800
4th Quarter	134	116,400
1998		
1st Quarter	83	116,900
2nd Quarter	148	127,600
3rd Quarter	274	129,400
4th Quarter	221	124,200
1999		
1st Quarter	104	127,000
2nd Quarter	214	123,300
3rd Quarter	233	135,300
4th Quarter	182	125,400
2000		
1st Quarter	165	146,900
2nd Quarter	227	128,500

Source: FNSB Community Research Quarterly, Vol XXIII, No 2, 2000.

Table 18
Median Household Effective Buying Income

Year	Borough	State of Alaska	United States
1995	\$37,787	\$41,675	\$32,238
1996	38,584	42,293	33,482
1997	40,544	43,702	34,618
1998	39,766	43,343	35,377
1999	41,299	45,040	37,233

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

Cities

Fairbanks: The City of Fairbanks, with a 1999 population of 31,697, 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 2.8 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 1999 population of 1,616 has increased about 11 percent since 1990. The city's major industry is the Williams Alaska Petroleum, Inc. refinery, which produces heating oil, jet fuel, and gasoline from North Slope crude oil.

Employment

Table 19 shows a five-year history of civilian employment by industry segment. The Alaska Department of Labor estimates average 1999 employment at 33,400, an increase of 400 jobs from the previous year.

Industry	1995	1996	1997	1998	1999
Mining, construction, & manufacturing	3,200	3,200	3,400	3,300	3,200
Transportation, communications, and utilities	2,300	2,300	2,500	3,000	3,100
Trade	7,000	6,600	6,800	6,900	6,900
Finance, insurance & real estate	1,000	1,000	1,100	1,100	1,200
Services & miscellaneous	7,600	7,900	7,900	8,200	8,400
Government - federal	3,000	3,200	3,400	3,400	3,300
Government - state	4,400	4,400	4,200	4,400	4,400
Government - local	<u>2,900</u>	<u>3,000</u>	<u>3,000</u>	<u>2,800</u>	<u>3,000</u>
Total	31,200	31,400	32,100	33,000	33,400
Unemployment rate	7.5%	7.6%	7.6%	5.6%	5.9%

Totals may not add due to rounding.

Source: Alaska Department of Labor

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

Table 20
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 District	Education	1,592
State government ⁽²⁾	Government	1,250
Lutheran Health System	Hospital	631
Fred Meyer, Inc.	Grocery/retail	620
HC Price	Construction	530
Tanana Chiefs Conference	Social services	442
Fairbanks North Star Borough	Government	344
Fairbanks Native Association	Social services	300
K Mart Corp.	Retail	274
Fairbanks Gold Mining Co. (Ft. Knox)	Hard rock mining	266
Westours Motorcoaches	Tour buses	256
Fountainhead Development	Hotels	220

1 - Excludes military uniformed personnel.

2 - Total state government minus University of Alaska.

Source: FNSB 1998/99 Comprehensive Annual Financial Report and Alaska Economic Trends, August 2000, published by Alaska Department of Labor.

Government Sector: The University of Alaska Fairbanks (UAF) employs 3,150 and is the Borough's largest employer. UAF accounts for 75 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 Air Force Base, 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.

Services and Trade Sectors: Hotel/motel room receipts amounted to \$36 million in 1999, a 4 percent increase from 1998. 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.

Transportation, Communications, and Utilities Sector: This sector increased 19.5 percent in 1998 and accounts for 9 percent of total employment. Most of the increase is due to the privatization of the City of Fairbanks Municipal Utility System, the relocation of Alaska Communications Systems' headquarters from Anchorage to Fairbanks, and the relocation of Alyeska Pipeline Service Company personnel from Anchorage to Fairbanks.

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. Alaska Communications Systems also 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 5.4 percent, 1.8 percent, and 2.4 percent, respectively, of total employment. Construction employment was strong in 1999 due to various school construction projects, military housing, 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 631 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 442 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 Air Force Base is located 26 miles south of Fairbanks and consists of 22,035 acres with access to an additional 40,000 acres. Originally built in 1944 as an auxiliary weather-alternate field for Ladd Army Field, the base was known as Mile-26-Strip. After being mothballed at the end of World War II, the base was reopened in 1946 and transformed into a large bomber base because of the onset of the Cold War. Eielson Air Force Base is home to the 354th Fighter Wing, 18th Fighter Squadron, 355th Fighter Squadron, 353rd Combat Training Squadron, and the 168th Air Refueling Wing.

Table 21 shows military personnel, family members and civilian employment at Fort Wainwright and Eielson Air Force Base. For the 1998/99 fiscal year, 4,804 military personnel and 5,282 family members were stationed at Fort Wainwright. Civilian employment was 1,180 and combined military and civilian payroll was \$215.1 million. For the 1998/99 fiscal year, 2,680 military personnel and 4,050 family members were stationed at Eielson Air Force Base. Civilian employment was 798 and combined military and civilian payroll was \$132.8 million.

Table 21
Fairbanks North Star Borough
Military Population and Employment

	1994/95	1995/96	1996/97	1997/98	1998/99
Fort Wainwright					
Military personnel	4,576	4,585	4,525	4,378	4,804
Family members	6,029	5,639	5,431	5,601	5,282
Civilian Employment	1,197	1,225	1,257	1,155	1,180
Payroll (millions of dollars)					
Military	\$136.8	\$136.4	\$137.3	\$143.7	\$168.7
Civilian	46.0	46.7	51.3	52.0	46.4
Eielson Air Force Base					
Military personnel	2,741	2,725	2,992	2,713	2,680
Family members	4,483	4,477	4,441	4,292	4,050
Civilian Employment	785	759	1,014	784	798
Payroll (millions of dollars)					
Military	\$92.7	\$91.5	\$93.1	\$95.6	\$102.2
Civilian	25.5	26.0	25.8	29.0	30.6

Source: FNSB Community Research Quarterly, Vol XXIII, No 2, 2000.

Retail Sales

Retail sales totaled \$1.2 billion in 1999, according to *Sales & Marketing Management Magazine*. This is an increase of about 26 percent over 1998. The greatest increase was in the general merchandise category, which increased from \$112 million to \$307 million. Retail sales increased at an average annual rate of 7.9 percent between 1995 and 1999. Table 22 shows retail sales by category from 1995 through 1999.

Construction

Table 23 shows building permits and valuation in the Borough since 1995. Total valuation for 1999 was up 29 percent over 1998. 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 23 is only an indicator of construction activity.

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

	1995	1996	1997	1998	1999
Food	147,022	194,603	153,474	156,344	105,165
Eating & drinking places	87,778	84,563	84,301	86,024	91,234
General merchandise	110,509	104,129	109,582	112,308	307,559
Furniture & appliances	35,437	38,107	40,178	41,933	29,318
Automotive	218,670	233,181	249,438	262,467	354,122
All Other	<u>269,863</u>	<u>241,716</u>	<u>279,894</u>	<u>277,779</u>	<u>291,160</u>
Total	869,279	896,299	916,867	936,855	1,178,558

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

Table 23
Fairbanks North Star Borough
Building Permits and Valuation (\$000)⁽¹⁾

Year	Residential		New		Total
	Units	Residential	Commercial	Other ⁽²⁾	
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
1999	198	23,895	93,280	6,525	123,700

1 - Excludes value of federal and state construction.

2 - Includes new structures, alterations and additions.

Source: FNSB Community Research Quarterly, Vol XXIII, No 2, 2000.

Construction projects in 1999 included school construction; completion of facility renovations for the services, trade, and communications sections (Alaska Communications System, Sears, Safeway, Fred Meyer, and Westmark Hotel), new military housing and remodeling projects, and completion of the new International Arctic Research Center at the University of Alaska Fairbanks. In addition, the Fairbanks International Airport completed a \$4 million project to expand parking areas and improve drainage, while the state Department of Transportation completed a \$3 million project upgrading access to the UAF and its campus roads. Other recent construction projects include a \$10 million office building for Doyon, Ltd., a \$7 million 16-screen theater complex, the \$5 million 180-room Pikes' Waterfront Lodge, and the hospital's \$9 million cancer treatment center and \$3 million mental health/family recovery center expansion and remodeling. Two hotels, a \$16 million 140-room Marriott and a \$4.5 million, 100-room Guest House, are under construction.

UAF construction projects include a multi-year clean coal demonstration project and upgrades to student housing and other facilities under the deferred maintenance program. A \$31 million addition to the university museum is scheduled to begin in 2002. Other projects begun in 1999 included the \$31 million Alaska Courthouse construction, including land acquisition, design, soil cleanup, construction, traffic redesigns, and parking, and the Fairbanks Princess Hotel expansion, including 120 additional rooms and conference facilities, estimated at \$7 million.

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 October 1999 voters in the Borough, the North Slope Borough, and Valdez approved creation of the Alaska Gasline Port Authority, to develop, own and operate a natural gas pipeline. The proposed pipeline would transport natural gas from the North Slope oil fields to the Canadian border, for further shipment to the lower 48 states or international markets.

FNSB Oil and Gas Operations

Two oil refineries are located in the Borough. Williams Alaska Petroleum, Inc. (formerly MAPCO), in North Pole, began operations in 1977 and currently processes 198,000 of its maximum capacity of 215,000 barrels per day. The PetroStar refinery, constructed in 1985, has a capacity of 14,000 barrels per day and supplies jet fuel directly to Eielson Air Force Base by pipeline. The refinery produces kerosene, diesel, heating, and jet fuels.

Mining

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

The 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 continues 24 hours a day, 365 days a year. The mine has an expected production life of 12

years, with known reserves of over 4 million ounces of gold. . The mine employs about 266 year-round employees.

Development and construction of a mile-long exploratory tunnel to access the Pogo gold deposit, outside the Borough's southern boundary, was begun in 1999. The Pogo deposit is believed to contain 5.2 million ounces of gold.

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 funded in part by the U.S. Department of Energy's Coal Technology Program began operation in 1998. This 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 is designed to create additional energy generation to serve interior Alaska, to augment the capabilities of the existing power plant, and to increase the current capacity of Golden Valley Electric Association. The Fort Knox gold mine added 30 megawatts to energy demand, which is approximately 60 percent of the coal project's 50-megawatt output.

University of Alaska

The University of Alaska Fairbanks 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, and 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 was completed, 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. The 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 fifty minutes by air to Anchorage, four hours to Seattle, eight hours to Tokyo, eight and one-half hours to New York and nine and one-half hours to London. Several airlines operate passenger and cargo service from the airport. The airport is also used by airplane manufacturers to test new planes for use in cold weather. Table 24 shows a history of passengers, freight operations, and landings at the airport.

In 1998, the airport completed a \$9.6 million federal and state-funded project to lengthen a runway and improve service for cargo carriers. The extension of the runway allows larger, heavier planes to use the airport as a service center in future years. An expansion of its public and rental car parking areas was completed in 1999.

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 Williams refinery in North Pole is shipped south on the railroad.

Table 24
Fairbanks International Airport
Operating Statistics

	1995	1996	1997	1998	1999
Passengers - incoming	370,912	405,309	412,107	408,242	404,896
Passengers - outgoing	364,498	403,885	408,293	406,454	401,878
Revenue landings	29,229	28,219	27,365	27,679	26,584
Freight - incoming*	19,576	14,929	15,539	15,315	13,890
Freight - outgoing *	74,573	58,206	61,187	58,960	57,637

* Thousands of pounds

Source: FNSB Community Research Quarterly, Vol XXIII, No 2, 2000.

Community Facilities

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

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

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

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.

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, 1999

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, 1999, as listed in the table of contents. These financial statements are the responsibility of the 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, 1999, 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, 1999, 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.

The year 2000 supplementary information on page 50 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Fairbanks North Star Borough is or will become year 2000 compliant, that the Borough's year 2000 remediation efforts will be successful in whole or in part or that parties with which the Borough does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 1999, on our consideration of the Fairbanks North Star Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The accompanying financial information listed as "Additional Information" in the table of contents is presented for purposes of 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 stated, 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 18, 1999

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Senior Consultant: James F. Dieringer, Jr., CPA

FAX 907-452-6184

FAIRBANKS NORTH STAR BOROUGH
Combined Balance Sheet
All Fund Types and Account Groups
and Discretely Presented Component Unit
June 30, 1999
With Comparative Totals for June 30, 1998

	GOVERNMENTAL FUND TYPE				PROPRIETARY FUND TYPE		FIDUCIARY FUND TYPE	ACCOUNT GROUPS			FAIRBANKS NORTH STAR BOROUGH Totals (Memorandum Only)		REPORTING ENTITY	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency		General Fixed Assets	General Long-Term Debt	1999	1998	SCHOOL DISTRICT	Total (Memorandum Only)	
														1999
Assets														
Equity in central treasury cash	\$18,749,573	\$13,542,457	\$185,103	\$34,549,966	\$8,274,832	\$255,110	\$	\$73,557,041	\$89,772,133	\$10,169,560	\$83,726,601			
Investments									6,942,239					
Taxes receivable (net of allowance for uncollectibles 1999 - \$3,010,957; 1998 - \$2,382,488)	434,618	15,766			139,414	248,081		838,859	911,732		838,859			
Accounts receivable (net of allowance for uncollectibles 1999 - \$43,201; 1998 - \$32,273)	51,545	664,717		148,408	215,038			931,300	910,133	212,495	1,143,795			
Accrued interest receivable	299,753				56,584			504,835	636,406		504,835			
Assessments receivable	50,763							50,763			3,605,561			
Interfund receivable											248,906			
Due from Borough														
Due from School District														
Due from governmental agencies	382,085	350,467		1,394,571	52,627			2,178,750	2,372,316	3,882,150	6,061,900			
Inventories	1,156,247	21,207			1,773,888			1,773,888	2,344,318		1,773,886			
Other assets					750			1,176,205	1,135,753	831,310	1,809,515			
Contracts receivable								2,113,728	1,634,314		2,113,728			
Fixed assets (net, where applicable, of accumulated depreciation)					18,036,305		443,396,032	459,432,357	426,776,932	33,813,369	493,045,726			
Other Debits														
Amount available in debt service fund								115,924	818,148		115,924			
Amount available in landfill closure reserve fund								1,680,292	1,775,964		1,680,292			
Amount to be provided for retirement of general long-term debt								120,268,331	97,601,340	132,000	120,400,331			
Assets and other debit total	\$21,124,564	\$14,595,614	\$185,103	\$36,093,034	\$28,663,165	\$503,171	\$443,396,032	\$684,625,271	\$613,631,727	\$52,442,568	\$717,067,859			

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, 1999
With Comparative Totals for June 30, 1998

FAIRBANKS NORTH STAR BOROUGH

	GOVERNMENTAL FUND TYPE				PROPRIETARY FUND TYPE			ACCOUNT GROUPS				Totals (Memorandum Only)		REPORTING ENTITY		
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Debt	1999	1998	SCHOOL DISTRICT	Total (Memorandum Only)	1999		1998	
													\$	\$	\$	\$
<u>Liabilities</u>																
Accounts payable	\$448,065	\$884,504	\$	\$7,437,979	\$147,351											9,522,910
Wages and payroll taxes	715,002	98			95,602											1,180,571
Accrued annual leave	1,030,849				162,988											2,680,755
Accrued self-insurance losses	681,121				65,470											4,331,045
Interfund payable		50,783														3,805,561
Due to Borough																230,655
Due to School District				230,815												309,819
Due to governmental agencies																85,453
Deposits from others	65,453			4,953,502	16,800											5,292,943
Deferred revenues		215,010														5,384
Advance tax payments	5,240,827															5,286,181
Estimated claims, judgments and settlements payable																810,000
Long-term debt							122,064,548									122,198,548
Due to student groups			69,179													1,388,827
Accrued interest payable																69,179
Unrealized gain on land contracts																566,699
Deferred compensation benefits payable																6,842,239
<u>Liabilities total</u>	8,218,117	1,150,375	69,179	12,622,338	1,054,910		122,064,548		145,540,002		122,572,888		11,842,708		157,382,710	
<u>Equity and Other Credits</u>																
Investment in general fixed assets																477,009,421
Contributed capital																23,712,548
Retained earnings																313,479
Reserved for asset replacement																1,582,228
Unreserved																252,059
Fund balances (deficit)	252,059	508,118	2,870	19,753,396												508,118
Reserved for encumbrances																492,730
Other School District reserves																1,500,000
Unreserved																311,118
Designated for subsequent year's expenditures	50,000	492,730	454,410													1,450,000
Designated for self-insurance losses	1,500,000															1,500,000
Designated for system replacements and repairs		311,118														170,996
Designated for library endowment																16,993
Designated for net unrealized gains																435,450
Other School District designations																1,116,000
Undesignated	11,104,409	12,073,274	(341,358)	3,717,302												1,590,527
Equity and other credits total	12,908,467	13,445,239	115,924	23,470,698	25,608,255		122,064,548		145,540,002		122,572,888		11,842,708		157,382,710	
Liabilities, equity and other credits total	\$31,174,584	\$14,595,614	\$185,103	\$36,993,034	\$26,663,165		\$122,064,548		\$684,625,271		\$613,631,727		\$52,442,586		\$717,067,659	

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, 1999
With Comparative Totals for Year Ended June 30, 1998

Exhibit II

	GOVERNMENTAL FUND TYPES				FAIRBANKS NORTH STAR BOROUGH				REPORTING ENTITY Total (Memorandum Only)
	FIDUCIARY FUND		TOTALS (Memorandum Only)		FIDUCIARY FUND		TOTALS (Memorandum Only)		
	Capital Projects	Expendable Trust	Current Year Total	Prior Year Total	Capital Projects	Expendable Trust	Current Year Total	Prior Year Total	
Revenues									
Taxes			\$ 56,583,372	\$52,354,160	\$		\$		\$56,583,372
Special assessments			1,965,297	18,979,497			1,228		111,147,306
Intergovernmental revenues				5,996,067			5,983,730		5,996,667
Charges for services				905,814			918,158		905,814
Charges to School District				6,514,882			6,873,371		905,814
Other revenues									9,018,355
Revenues total			3,189,041	88,960,012	84,686,198		94,671,304		183,631,316
Expenditures									
Current									
General government			17,106,484	16,152,466					17,106,484
Education									905,614
Charges from Borough									122,629,974
All other									1,117,883
Community planning									7,985,823
Public works									2,380,952
Direct services									3,422,394
Parks and recreation									2,446,650
Library									44,142,102
Capital outlay			40,857,484	42,874,550			1,267,552		7,090,000
Debt service									5,125,059
Principal retirement									
Interest and fiscal agent fees									
Expenditures total			40,857,484	89,949,794	68,297,241		124,803,140		214,352,934
Excess (deficiency) of revenues over expenditures			(37,668,423)	(1,989,782)	16,390,955		(30,131,836)		(30,721,618)
Other financing sources (uses)									
Operating transfers in			1,360,265	14,890,160	16,167,796		1,983,291		16,873,451
Operating transfers from Borough									30,690,780
Operating transfers out									(18,932,901)
Operating transfers to School District									(30,690,780)
Long-term loan proceeds			2,642,510	2,642,510	309,266				2,642,510
Bond proceeds			26,210,000	26,210,000	35,250,000				26,210,000
Other financing sources (uses) total			30,212,775	(3,697,720)	8,012,696		30,690,760		26,793,060
Excess (deficiency) of revenues and other sources over expenditures and other uses			(7,455,648)	(4,487,502)	22,403,651		558,944		(3,928,558)
Fund balances, July 1			30,928,348	54,568,464	32,164,813		6,427,567		60,596,031
Fund balances (deficit), June 30			\$23,470,698	\$12,080,962	\$54,568,464		\$6,986,511		\$57,067,473

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, 1999

	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)	Budget	Actual
Revenues												
Taxes	\$48,787,260	\$48,749,572	\$	\$48,749,572	(\$37,688)	\$7,582,560	\$7,813,601	\$	\$7,813,601	\$21,241	\$	\$7,813,801
Interdepartmental revenues	11,633,650	12,681,043		12,681,043	1,247,393	483,060	479,079		479,079	(4,031)		4,135,157
Charges for services	1,314,090	1,244,782		1,244,782	(69,308)	4,589,180	4,731,865		4,731,865	182,705		4,731,865
Transfer to School District	1,074,360	905,614		905,614	(168,746)							
Other revenues	4,848,803	4,098,140		4,098,140	(750,663)	390,420	539,896		539,896	148,216		1,068,968
Revenues total	67,459,263	67,680,150		67,680,150	1,117,489	13,055,220	13,584,411		13,584,411	\$28,191		17,764,810
Expenditures												
Current												
General government	9,946,330	9,184,173	75,145	9,259,318	777,018	8,982,818	3,785,205	(34,664)	3,750,541	4,932,276	4,127,108	7,922,310
Community planning	1,054,051	1,028,568	(25,483)	1,003,085	36,054	82,480	89,315		89,315	3,185		86,315
Public works	3,583,242	3,326,534	2,708	3,329,242	247,233	3,118,224	4,687,288	(2,846)	4,684,332	481,892		4,857,288
Direct services	1,239,802	1,160,654	2,881	1,163,535	78,466	1,310,410	1,220,298	7,518	1,227,816	82,594		1,220,298
Parks and recreation	3,549,760	3,422,384	7,531	3,429,915	118,836	307,078	181,817	32,955	214,772	92,304		1,818,874
Library	2,478,316	2,446,850	183	2,448,033	29,483							
Capital outlay	422,787	397,411	22,908	420,319	3,468							
Debt service												
Principal retirement												
Interest and fiscal agent fees												
Expenditures total	22,312,294	20,668,585	103,321	21,071,706	1,241,586	15,519,007	9,943,973	2,853	9,946,776	5,572,231	3,564,983	15,500,888
Excess (deficiency) of revenues over expenditures	45,146,969	47,011,765	582,281	47,508,645	2,539,016	(2,463,787)	3,640,438	(2,853)	3,637,635	8,101,423	(1,380,564)	2,258,924
Other financing sources (uses)												
Operating transfers in												
Operating transfers out	(10,232,448)	(15,004,121)		(15,004,121)	1,238,328	(1,951,729)	(1,945,489)		(1,945,489)	6,240	2,000,225	2,000,225
Operating transfers to School District	(30,890,780)	(30,890,780)		(30,890,780)								(1,945,489)
Other financing sources (uses) total	(40,923,228)	(45,894,901)		(45,894,901)	1,238,328	(1,951,729)	(1,945,489)		(1,945,489)	6,240	2,000,225	84,736
Excess (deficiency) of revenues and other sources over expenditures and other uses	(51,777,260)	1,216,864	589,321	\$1,810,144	\$3,587,404	(5,415,516)	1,694,999	(2,853)	\$1,692,147	\$8,107,663	649,061	2,344,660
Fund balances, July 1		11,069,604					8,519,253				2,241,328	11,000,578
Fund balances (debit), June 30		\$12,909,487					\$10,554,253				\$2,890,968	13,445,239

See accompanying notes to financial statements.

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
General, Certain Special Revenue and Debt Service Funds
Year Ended June 30, 1999

	DEBT SERVICE FUND				
	Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues					
Taxes	\$	\$	\$	\$	\$
Intergovernmental revenues	356,000				(356,000)
Charges for services					
Charges to School District					
Other revenues		13,165		13,165	13,165
Revenues total	356,000	13,165		13,165	(342,835)
Expenditures					
Current					
General government					
Community planning					
Public works					
Direct services					
Parks and recreation					
Library					
Capital outlay					
Debt service					
Principal retirement	7,090,000	7,090,000		7,090,000	
Interest and fiscal agent fees	5,129,400	5,125,059	2,870	5,127,929	1,471
Expenditures total	12,219,400	12,215,059	2,870	12,217,929	1,471
Excess (deficiency) of revenues over expenditures	(11,863,400)	(12,201,894)	(2,870)	(12,204,764)	(341,364)
Other financing sources (uses)					
Operating transfers in	11,499,670	11,499,670		11,499,670	
Operating transfers out					
Operating transfers to School District					
Other financing sources (uses) total	11,499,670	11,499,670		11,499,670	
Excess (deficiency) of revenues and other sources over expenditures and other uses	(\$563,730)	(702,224)	(\$2,670)	(\$705,094)	(\$341,364)
Fund balances, July 1		818,148			
Fund balances (deficit), June 30		\$115,924			

FAIRBANKS NORTH STAR BOROUGH

Exhibit IV

Combined Statement of Revenues, Expenses
and Changes in Retained Earnings
Proprietary Fund Type
Years Ended June 30, 1999 and 1998

	Enterprise Funds	
	1999	1998
Operating revenues		
Fares	\$275,922	\$285,181
Gain (loss) on land sales	169,134	(18,374)
Land leases	40,010	46,379
Gravel sales	1,062	16,843
Interest on land contracts receivable	165,483	110,359
Advertising	13,600	6,770
Charges for services	967,568	1,014,310
Other revenues	17,654	32,087
Operating revenues total	1,650,433	1,493,555
Operating expenses		
Wages and benefits	2,631,979	2,411,744
Fuels, lubricants, and parts	194,405	283,481
Contractual services	262,013	314,041
Utilities	42,078	43,686
Professional services	93,633	20,848
Depreciation	866,297	870,885
Training, dues and professional expenses	30,109	22,816
Repairs and maintenance	23,314	24,644
Supplies	35,789	41,952
Management contractor fee	116,865	120,286
Intragovernmental charges	934,523	982,143
Operating expenses total	5,231,025	5,136,327
Operating gain (loss)	(3,580,593)	(3,642,772)

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Exhibit IV
(Continued)

Combined Statement of Revenues, Expenses
and Changes in Retained Earnings
Proprietary Fund Type
Years Ended June 30, 1999 and 1998

	Enterprise Funds	
	1999	1998
Non-operating revenues (expenses)		
Operating grants	214,863	126,526
Investment income	317,356	319,031
Gain (loss) on sales of fixed assets	(82)	(1,694)
Non-operating revenues (expenses) total	532,137	443,863
Gain (loss) before operating transfers	(3,048,456)	(3,198,910)
Operating transfers in	2,059,450	1,866,572
Operating transfers out	(9,942)	
Net income (loss)	(998,948)	(1,332,338)
Add depreciation on fixed assets funded by contributed capital	794,439	793,007
Retained earnings, July 1	2,100,215	2,639,545
Retained earnings, June 30	\$1,895,707	\$2,100,215

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

EXHIBIT V

FAIRBANKS NORTH STAR BOROUGH

EXHIBIT V
(Continued)

Combined Statement of Cash Flows
Increases (Decreases) in Equity in Central Treasury Cash
Proprietary Fund Type
Years Ended June 30, 1999 and 1998

Combined Statement of Cash Flows
Increases (Decreases) in Equity in Central Treasury Cash
Proprietary Fund Type
Years Ended June 30, 1999 and 1998

	Enterprise Funds	
	1999	1998
Cash flows from operating activities		
Cash received from customers	\$2,123,769	\$2,174,423
Cash payments to suppliers for goods and services	(1,846,623)	(1,994,538)
Cash payments to employees for services	(2,600,008)	(2,320,301)
Net cash used for operating activities	(2,322,862)	(2,140,416)
Cash flows from non-capital financing activities		
Operating grants received	190,551	127,640
Operating transfer from general fund	2,059,450	1,866,572
Net cash provided by non-capital financing activities	2,250,001	1,994,212
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(22,021)	(24,891)
Capital grants received		16,800
Net cash used for capital and related financing activities	(22,021)	(8,091)
Cash flows from investing activities		
Investment income allocation from central treasury	317,356	319,031
Net increase in equity in central treasury cash	222,474	164,736
Equity in central treasury cash at beginning of year	6,052,358	5,887,622
Equity in central treasury cash at end of year	\$6,274,832	\$6,052,358

	Enterprise Funds	
	1999	1998
Reconciliation of operating loss to net cash used for operating activities		
Operating loss	(\$3,580,592)	(\$3,642,773)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	868,296	870,685
Change in assets and liabilities		
Decrease in inventories	573,582	948,486
Increase in other assets	(750)	
Increase in receivables	(490,139)	(685,819)
Increase in accounts payable	33,989	32,702
Increase in wages and payroll taxes	14,988	18,500
Increase in accrued annual leave	15,662	21,788
Increase in accrued self-insurance losses	1,316	51,154
Increase in unrealized gain on land contracts	242,786	144,861
Total adjustments	1,257,730	1,502,357
Net cash used for operating activities	(\$2,322,862)	(\$2,140,416)
Noncash investing, capital and financing activities		
Fixed assets contributions	\$7,198	\$1,300

(Continued)

See accompanying notes to financial statements.

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements
June 30, 1999

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

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:** firework 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 113 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.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. THE FINANCIAL REPORTING ENTITY AND ITS COMPONENT UNIT (continued)

- 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 and renovation.
- 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (continued)

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, streetlights, 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 113 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 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, construction, or renovation of major capital items and for major maintenance of facilities, other than those financed by proprietary funds.

Proprietary Funds

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

Fiduciary Funds

Expendable Trust Fund - The expendable trust fund is used to account for the donations received and revenues earned on those donations, plus the expenditures of both those resources. Disbursements are made in accordance with the Borough Code for purposes designated by the trust agreement of the donor. *Agency Funds* - Agency funds are used to account for assets held as an agent for other organizations and other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (continued)

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: 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 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 or other criteria, and revenues from these grants are recognized when the expenditures are made, or the criteria are met; revenues from other grants are recognized on the cash basis. 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.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF ACCOUNTING (continued)

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 School District's general fund. The 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 3.03.010A, the School District's Board of Education is required to adopt and submit its annual budget to the Borough Assembly by April 1 for approval of the total amount.
- 2) At least one public hearing is held.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BUDGETS, BUDGETARY ACCOUNTING AND ENCUMBRANCES (continued)

- 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.

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.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BUDGETS, BUDGETARY ACCOUNTING AND ENCUMBRANCES (continued)

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. Money market investments held by the central treasury with maturities beyond one year of the Borough's acquisition are stated at fair value. All other central treasury investments are valued at amortized cost. See Note 3.

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, solid waste disposal fund, 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.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. OTHER INVESTMENTS

Investments in the deferred compensation plan were 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. FIXED ASSETS (continued)

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 furniture and 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. Most 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 Weirwright 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. ENVIRONMENTAL LIABILITIES

Environmental liabilities are recorded when assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the commitment of the Borough to a formal plan of action.

Q. LONG-TERM OBLIGATIONS

Governmental Fund Types and the General Long-Term Debt Account Group - In the governmental funds, accrued liabilities are generally reported as fund liabilities. These include the liability for compensated absences because the Borough budgets for those as they are incurred, even though those liabilities may not be liquidated until some future budget period. The liability for closure and postclosure care costs of the Borough's solid waste landfill is reported in the general long-term debt account group, as none of it is expected to be paid with current expendable available financial resources. (See Note 12.)

General obligation bonds are reported at face value in the general long-term debt account group. Other liabilities expected to be financed from future general governmental revenues are also accounted for in the general long-term debt account group. These include contracts payable, sewer assessments payable, loans payable, and the landfill liability noted above.

Payments to retire general obligation bonds are accounted for in the debt service fund. Payments on the other long-term obligations are recorded in the appropriate general or special revenue fund.

Bond proceeds are reported as an other financing source net of any premium or discount. Issuance costs are recognized during the current period as expenditures of the bond projects capital projects fund.

Proprietary Fund Type - All liabilities, and the payments thereon, that are expected to be repaid from the resources of the proprietary funds are reported in those funds.

School District Component Unit - Accrued liabilities are reported as fund liabilities, except for compensated absences. Only that portion of accumulated unpaid vacation that is expected to be paid with available expendable resources is accrued in the School District's general fund. The long-term portion is recorded in the School District's general long-term debt account group.

R. UNREALIZED GAIN ON LAND CONTRACTS

In accordance with Financial Accounting Standards Board Statement Number 68, retail land sales of the land enterprise fund are accounted for using the installment method because the extended length of the collection period casts doubt on the collectibility of the land contracts receivable. The unrealized gain on land contracts represents that portion of the gross profit that has not yet been recovered through collections of the receivables.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. FUND EQUITY

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

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

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

School District reserves and designations are described in Note 16.

T. 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.

U. 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.

V. 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. Most of 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.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

This in-kind support is not reflected in the accompanying financial statements. However, 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. At this time, the Borough owns only one on-base school.

W. 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.

X. 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, 1998 financial statements to conform them to current classifications.

Y. ROUNDING

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. SUPPLEMENTAL APPROPRIATIONS TO ANNUAL BUDGETS

Supplemental appropriations were made during the year as follows:

Fund/Purpose	Amount
General fund:	
Remove and replace various underground storage tanks	\$225,000
Recreational improvements, Phase 1A of Two Rivers Subdivision	95,500

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. SUPPLEMENTAL APPROPRIATIONS TO ANNUAL BUDGETS (continued)

Fund/Purpose	Amount
General fund (continued):	
Hutchison Career Center replacement of heat exchanger	\$ 80,000
Asbestos abatement at Maranatha Inn tax-foreclosed property	75,000
Maintenance at the Fairbanks Regional Public Health Center	50,000
Network administrator for Year 2000 work	37,000
Spaying and neutering of animals prior to adoption	37,000
Establish curfew for minors	20,000
Planning and design for downtown parking garage	20,000
Increase paper stock in accordance with the Year 2000 Readiness Plan	18,250
Establish Borough Year 2000 Task Force	<u>15,000</u>
	\$672,750
Enhanced 911 fund:	
Upgrade Enhanced 911 System for Year 2000 compliance	<u>\$192,000</u>
Service areas fund:	
Roof repairs for North Star Volunteer Fire Station #3	<u>\$ 58,909</u>

B. DEFICITS IN FUND BALANCES

There were no individual funds with deficit fund balances at June 30, 1999.

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no individual funds with an excess of actual expenditures over appropriations at June 30, 1999.

D. TAXES LEVIED IN EXCESS OF MAXIMUM TAX COMPUTATION

Fifty-four service areas levied a total of \$45,997 of taxes in excess of the maximum tax computation. (See Note 4.) Privatization of the former City of Fairbanks' Municipal Utilities System required assessed valuations for the first time. The assessed valuation for the telephone utilities could not be certified before the Board of Equalization conducted hearings and made its determinations, which did not conclude until almost nine months after the setting of the mill levies.

Had this supplemental certification been included in the tax cap computations, fifty taxing authorities would have levied a total of only \$14,878 of taxes in excess of the tax cap. These remaining 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. Individually, these were each considered immaterial. The fiscal year 1999-2000 computation was adjusted for these excesses.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

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 services are paid for with a restricted, non-interest bearing compensating balance of \$1,060,088 that is recorded as an other asset in the general fund. The contract requires that NBA sweep the Borough's central treasury accounts daily and invest all available funds in an overnight repurchase agreement. The carrying amount of the Borough's deposits on June 30, 1999 was (\$2,043,551) and the corresponding bank balance was (\$234,140). NBA failed to sweep some of the Borough's accounts, as required by the contract, into the overnight repurchase agreement on June 30, 1999. If the bank had swept the accounts as required, the bank balance would have been \$114,855, with a corresponding carrying amount of (\$1,894,557). The daily bank balance is fully collateralized by a combination of federal depository insurance (FDIC) and securities held in the Borough's name by Alaska USA Trust Company. Both the compensating balance and the balance swept in accordance with the overnight repurchase agreement are collateralized by the securities 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 - 5 years; 2) other obligations guaranteed by the U.S. Government or its agencies and instrumentalities - 5 years; 3) repurchase agreements of securities specified in 1) and 2) above, subject to qualifications of the financial institution and specified margin requirements - 5 years; 4) collateralized certificates of deposits and other deposits - 5 years; 5) bank deposits insured by FDIC, NCUA or FSUIC - 5 years; 6) bonds or notes of any state or political subdivision thereof, rated A or higher - 5 years; 7) prime commercial paper graded A1/P1 or higher - 270 days; 8) prime bankers acceptances of the fifty largest international banks - 180 days; 9) money market mutual funds consisting entirely of instruments specified in 1), 2), and 3) above - maturity date not applicable; and 10) the Alaska Municipal League Investment Pool, Inc., 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, 1999, 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 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 are held by the Borough or its agent in the Borough's name.

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 1999

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 1999

3. DEPOSITS AND INVESTMENTS (continued)

	Principal Invested	Fair Value
Categorized investments:		
Repurchase agreement	\$ 1,362,224	\$ 1,362,224
U.S. securities and agencies	51,904,275	51,625,929
Commercial paper	6,471,857	6,514,916
	<u>59,738,357</u>	<u>59,503,069</u>
Uncategorized investments:		
Government security money market funds	7,539,177	7,539,177
External investment pool	<u>18,709,278</u>	<u>18,709,278</u>
Total investments	\$85,986,812	\$85,751,524

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 money market investment 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 money market investments purchased with a remaining maturity of one year or less may be reported at amortized cost. At June 30, 1999, the Borough had twelve investments that met this criteria and amortized cost was used for the reporting of these investments.

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 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, 1999, the weighted average portfolio maturity was 38 days. Accordingly, these conditions have been met 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, but is a 2a7-like pool, operating in a manner consistent with that rule. 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

3. DEPOSITS AND INVESTMENTS (continued)

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 renewed for fair value by an independent pricing service. As of June 30, 1999, the fair value of the investments in the pool approximates the amortized cost at which the investments were reported.

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 2D). For computation purposes, the preceding year's tax levy is adjusted for inflation, new construction, additional voter-approved services, new judgments against the Borough, and special appropriations necessary on an emergency basis. Furthermore, the limitation does not apply to any appropriation for payments on bonds. The Code requires inclusion of both property tax and other tax revenues within the tax cap computation and requires publication of tax cap computations by May 31 of each year. In October of 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 9.99 percent. The

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

5. DEEDS OF TRUST AND CONTRACTS RECEIVABLE (continued)

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:

Year Ending June 30	Annual Installments
2000	\$274,741
2001	\$219,346
2002	\$208,541
2003	\$186,210
2004	\$209,257

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 to 12 percent per annum, with a weighted average interest rate of 10.71 percent. The annual installments of principal due for the next five years are:

Year Ending June 30	Annual Installments
2000	\$1,484
2001	\$1,103
2002	\$ 595
2003	\$ 598
2004	\$

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, 1999, the total receivable for delinquent accounts amounted to \$438,140.

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 title to about 99 percent of those acres. Of this acreage, about eight percent has been sold into private ownership. Almost four percent has been dedicated for recreation, public use or other activities. A small portion is being leased. 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:

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

7. FIXED ASSETS (continued)

	June 30, 1998 Balance	Additions/ Transfers In	Deletions/ Transfers Out	June 30, 1999 Balance
Borough				
Land	\$ 7,942,183	\$ 87,415	\$	\$ 8,029,598
Buildings	263,861,909	17,189,691		281,051,600
Improvements other than buildings	13,521,748	600,744		14,122,492
Furniture and equipment	22,873,408	1,759,536	3,075,573	21,557,371
Library materials	13,031,666	312,904		13,344,570
Construction work in progress	89,693,336	40,857,464	24,260,379	105,290,421
Borough total	\$409,924,250	\$50,807,754	\$27,335,952	\$443,396,052
School District				
Furniture and equipment	\$ 32,271,541	\$ 2,653,998	\$ 1,322,170	\$ 33,613,369

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.

A summary of the property, plant, and equipment of the proprietary funds at June 30, 1999 follows:

	Enterprise Funds
Land	\$ 2,316,485
Buildings	18,713,204
Improvements other than buildings	75,964
Equipment	3,701,817
Construction work in progress	36,373
Total	24,843,843
Less: accumulated depreciation	(8,807,537)
Net	\$16,036,306

8. INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances at June 30, 1999, all resulting from deficits in central treasury cash, are as follows:

Fund	Interfund Receivables	Interfund Payables
General fund	\$ 50,783	\$

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 1999

8. INTERFUND RECEIVABLES AND PAYABLES (continued)

Fund	Interfund Receivables	Interfund Payables
Special revenue fund:	\$	\$ 50,763
Federal pass-through grants	\$ 50,763	\$ 50,763
Total	<u>\$ 50,763</u>	<u>\$ 50,763</u>

9. RETIREMENT PLANS

As of June 30, 1999, 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, P.O. Box 110203, Juneau, Alaska 99811-0203, or by calling (907) 485-4460. 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

Plan Description

The Alaska Public Employees' Retirement System (PERS) is a defined benefit, agent, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension, postemployment 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 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 Borough's mandatory rate for 1999 was 4.78 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, 1996. 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

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 1999

9. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

and funding surpluses over a rolling twenty-five year period. Prior to 1997, funding surpluses were amortized over five years. Asset valuation uses the 5-year smoothed market method. Additional actuarial assumptions are as follows:

	Borough		School District	
	Pension	Postemployment Healthcare	Pension	Postemployment Healthcare
Employer contribution rate	3.45%	1.33%	5.44%	2.09%
Inflation rate	4.00%	same	4.00%	same
Investment return	8.25%	same	8.25%	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%

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, 1999 were as follows:

	Borough		School District	
	Pension	Postemployment Healthcare	Pension	Postemployment Healthcare
Annual required contribution	\$ 481,250	\$ 185,462	\$ 666,712	
Interest on NPO	(70,364)	(27,116)	(97,480)	
Adjustment to annual required contribution	75,391	29,054	104,445	
Annual pension cost	486,277	187,400	673,677	
Contributions made	471,028	181,522	652,550	
Increase in NPO	\$ 15,250	\$ 5,877	\$ 21,127	
NPO, end of year	<u>\$(843,560)</u>	<u>\$(316,891)</u>	<u>\$(1,160,451)</u>	
Annual required contribution	\$ 1,009,950	\$ 389,201	\$ 1,399,151	
Interest on NPO	(58,517)	(22,551)	(81,068)	
Adjustment to annual required contribution	62,698	24,162	86,860	
Annual pension cost	1,014,131	390,812	1,404,943	
Contributions made	1,009,950	389,201	1,399,151	
Increase in NPO	\$ 4,181	\$ 1,611	\$ 5,792	
NPO, end of year	<u>\$(710,046)</u>	<u>\$(266,810)</u>	<u>\$(976,856)</u>	

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

9. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

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. Annual pension cost (APC), percentage of APC contributed, and NPO information as of June 30, 1999 and June 30, 1998 (the transition year) follows:

	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Borough				
Pension benefits	1998	\$ 115,554	185%	\$(858,810)
	1999	486,277	97	(843,580)
Postemployment healthcare benefits	1998	43,429	185	(322,788)
	1999	187,400	97	(316,891)
School District				
Pension benefits	1998	\$ 899,286	114%	\$(714,227)
	1999	1,014,131	100	(710,046)
Postemployment healthcare benefits	1998	262,808	114	(288,421)
	1999	390,812	100	(268,810)

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

The employee contribution rate is 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, 1999

9. RETIREMENT PLANS (continued)

B. ALASKA TEACHERS' RETIREMENT SYSTEM (TRS) (continued)

During the year ended June 30, 1999, the required employer contribution rate was 12 percent. The amounts contributed to TRS by the School District during the years ended June 30, 1999, 1998 and 1997 were \$8,541,543, \$8,302,780, and \$8,458,751, respectively, equal to the required employer contributions for each year.

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, 1999 were \$38,292.

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, 1999.

11. LONG-TERM DEBT AND SUBSEQUENT EVENT

At June 30, 1999, 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, 1999.

The Borough's long-term debt at June 30, 1999, is comprised of the following individual issues:

General obligation bonds:	
\$16,080,000 1988 Refunding Series serial bonds due in annual installments of \$2,445,000 to \$2,645,000 through June 1, 2000 at 7.25 to 7.40% interest.	\$ 2,645,000
\$42,615,000 1993 Refunding Series S bonds due in annual installments of \$3,035,000 to \$4,755,000 through March 1, 2008 at 4.7 to 5.5% interest.	33,600,000
\$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 to 6.5% interest.	1,105,000
\$16,320,000 1996 Series U school facilities bonds due in annual installments of \$500,000 to \$1,350,000 through November 1, 2016 at 5.0 to 8.0% interest.	15,375,000

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 1999

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 1999

11. LONG-TERM DEBT AND SUBSEQUENT EVENT (continued)

General obligation bonds (continued):
\$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 to 6.5% interest. \$ 34,400,000

\$28,210,000 1999 Series B school facilities bonds due in annual installments of \$745,000 to \$1,990,000 through April 1, 2019 at 4.00 to 6.25% interest. 28,210,000

113,335,000 113,335,000

Landfill closure and postclosure care liability (see Note 12) 5,302,900

Other long-term debt 25,540

Sewer assessments payable
\$48,546 of sewer assessments due in annual installments through January 15, 2021 at 5.0% interest. 25,540

Long-term contracts payable
\$843,240 of fourteen (14) office and computer equipment contracts due in monthly and annual installments through June 2006 at 1.30 to 15.95% interest. 449,330

Loan payable
\$2,951,778 of Alaska Clean Water Fund loan drawdowns. Interest accrual of 2.5% commenced May 1999 on project-to-date drawdowns. Payments due in ten annual installments beginning one year after substantial completion of the solid waste landfill expansion project. 2,951,778

3,426,648

\$122,064,548

The following is a summary of changes in long-term debt for the year ended June 30, 1999:

	General Obligation Bonds	Landfill Closure and Postclosure Care Liability	Other Long-Term Debt	Total
Payable at July 1, 1998	\$ 94,215,000	\$ 5,408,000	\$ 572,452	\$100,195,452
New debt	26,210,000		3,035,226	29,245,226
Change in estimate		(105,100)		(105,100)
Debt retired	(7,090,000)		(1,213)	(7,090,000)
Sewer assessments paid			(1,213)	(1,213)
Contracts payable paid			(179,817)	(179,817)
Payable at June 30, 1999	<u>\$113,335,000</u>	<u>\$5,302,900</u>	<u>\$3,426,648</u>	<u>\$122,064,548</u>

11. LONG-TERM DEBT AND SUBSEQUENT EVENT (continued)

The annual requirements to amortize debt outstanding as of June 30, 1999 (excluding the Landfill Closure and Postclosure Care Liability, see Note 12, and the Alaska Clean Water Fund loan payable), including interest payments of \$54,607,555, are as follows:

Year Ending June 30	General Obligation Bonds	Sewer Assessments Payable	Contracts Payable	Total
2000	\$ 14,365,645	\$ 2,491	\$144,647	\$ 14,512,784
2001	11,535,732	2,430	137,910	11,676,072
2002	11,608,709	2,369	79,998	11,691,076
2003	11,611,719	2,309	64,632	11,678,650
2004	11,713,907	2,248	57,885	11,774,040
2005-2009	49,527,549	10,329	96,449	49,634,326
2010-2014	31,448,988	8,612		31,457,798
2015-2023	<u>25,984,051</u>	<u>8,628</u>		<u>25,992,679</u>
	<u>\$167,796,288</u>	<u>\$39,616</u>	<u>\$581,521</u>	<u>\$168,417,425</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 a 36-acre solid waste landfill expansion (cell 1 and cell 2). Interest accrual of 2.5 percent commenced one year from the date of the first lean drawdown, in May 1999. Repayment is due in ten annual installments beginning in October 2000, one year after substantial completion of cell 1 of the project. 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 \$132,000 in liabilities for compensated absences recorded in its general long-term debt account group at June 30, 1999.

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 \$5,303,000 as of June 30, 1999, which is based on 84 percent of the landfill used (filled) to date. It is estimated that an additional \$1,001,000 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

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

June 30, 1999. 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, 1999. 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, 1997-98 and 1998-99. 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, 1999 contain authorizations of \$158,328,719 for hundreds of projects, which are accounted for in five different capital projects funds. Unexpended authorizations total \$42,300,822.

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 that 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.

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 nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

14. CONDUIT DEBT (continued)

As of June 30, 1999, 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, 1999 was \$5,234,562.

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	\$ 20,765	\$	\$ 7,198	\$ 27,963
State entitlement funds		3,154		3,154
General government contributions		9,942		9,942
Depreciation on fixed assets funded by contributed capital	(271,745)		(522,695)	(794,440)
Contributed capital, June 30, 1998	3,304,399	8,759,897	12,401,613	24,465,909
Contributed capital, June 30, 1999	\$3,053,439	\$8,772,993	\$11,868,118	\$23,712,548

16. FUND BALANCE - SCHOOL DISTRICT COMPONENT UNIT

The School District has reserved \$2,198,674 and \$631,310 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.

The School district has designated \$1,450,000 for subsequent year's expenditures, \$266,000 for "FNSB/FNSBSD Projects", and \$850,000 for math curriculum. The \$266,000 represents additional local contribution from the Borough to the School District in fiscal year 1998-99. The \$850,000 represents the fiscal year 1998-99 budgeted cost to replace the School District's math curriculum, the adoption of which has been delayed.

17. ENTERPRISE FUNDS - SEGMENT INFORMATION

The Fairbanks North Star Borough maintains three enterprise funds that provide public transportation services, manage Borough-owned lands, and oversee the operation of the John A. Carlson Community Activity Center. Segment information for the year ended June 30, 1999 is as follows:

	Transit	Land	Carlson Center	Total
Operating revenues	\$1,062,865	\$ 541,078	\$ 46,490	\$ 1,650,433
Operating expenses				
Depreciation	294,105	415	571,776	866,296
Other	2,974,246	847,677	542,807	4,364,730
Operating loss	(2,205,486)	(307,014)	(1,068,093)	(3,580,593)

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 1999

17. ENTERPRISE FUNDS - SEGMENT INFORMATION (continued)

	Transit	Land	Carlson Center	Total
Non-operating revenues				
Operating grants	\$ 214,863	\$	\$	\$ 214,863
Other	45,613	244,886	26,975	317,274
Operating transfers in	1,448,400	(9,942)	611,050	2,049,508
Net loss	(496,610)	(72,270)	(430,068)	(998,948)
Current capital contributions	20,785		7,198	27,983
Property, plant and equipment				
Additions/transfers in	30,025		26,203	56,228
Deletions/transfers out	(30,119)		(14,836)	(44,955)
Net working capital	621,968	6,918,080	690,782	8,228,830
Long-term receivables	1,839,778			1,839,776
Total assets	4,033,046	10,156,547	12,473,571	26,663,165
Long-term unrealized gain	496,655			496,655
Bonds and other long-term liabilities payable from operating revenues	none	none	none	none
Total equity	3,695,458	9,460,121	12,452,678	25,608,255

18. LIBRARY EXPENDABLE TRUST FUND

The Fairbanks North Star Borough Public Library is a 15 percent beneficiary of two trusts. These trusts provide that, for a period of 15 years beginning September 10, 1987, income after administrative expenses would be distributed. From the 15th year after September 10, 1987, income and principal may be distributed to the beneficiaries. The trust mandates that distribution in full be completed no later than September 10, 2005 (18 years later). Income received from these trusts is recorded as donations in the Library Expendable Trust Fund. \$895,883 had been received in donations as of June 30, 1999. The Library's shares of the carrying value and market value of the trusts' net assets were \$2,814,981 and \$5,201,598, respectively, at June 30, 1999, 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 95-20-10 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 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 95-20-10), 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

FAIRBANKS NORTH STAR BOROUGH
Notes to Financial Statements (continued)
June 30, 1999

18. LIBRARY EXPENDABLE TRUST FUND (continued)

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 fifty-fifty between undesignated fund balance and fund balance designated for library endowment.

19. DEFERRED COMPENSATION PLAN

The Borough maintains a deferred compensation plan adopted under the provisions of Internal Revenue Code (IRC) Section 457. The deferred compensation plan is available, but optional, to all permanent employees of the Borough. Under the plan, employees are permitted to defer a portion of their salaries and the related federal income taxes until the withdrawal date. The deferred compensation is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

The Small Business Job Protection Act, enacted on August 20, 1998, amended 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, were required to comply by January 1, 1999. During fiscal year 1998-99, all of the Borough's deferred compensation plan assets were transferred and as of June 30, 1999, were held in trust accounts. The Borough no longer acts in an agency capacity. The fair values of the employees' investments in the deferred compensation plan were \$8,589,977 and \$6,942,239 for fiscal years 1998-99 and 1997-98, respectively. The June 30, 1998 balance was recorded as investments in the agency fund, reflecting the Borough's previous role as agent for the plan. During fiscal year 1998-99, the investments and corresponding liability were deleted from the Borough's accounts to reflect this change.

The Borough has contracted with two separate, unrelated companies for the administration of the deferred compensation plan. Investments are managed by the respective administrators under various investment options. The choice of the investment options is made by the participant.

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

20. 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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

20. RISK MANAGEMENT (continued)

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 Borough 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, and employment practices. 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 six 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.

Changes in the self-insured claims liabilities for fiscal years 1999 and 1998 follow:

	1998-99 Accrued Self- Insurance Losses	1997-98 Accrued Self- Insurance Losses
Borough		
July 1	\$ 766,791	\$ 990,761
Current year claims and changes in estimates	2,559,887	2,939,200
Claims payments	<u>(2,580,087)</u>	<u>(3,163,170)</u>
June 30	<u>\$ 746,591</u>	<u>\$ 766,791</u>
School District		
July 1	\$ 3,193,935	\$ 3,171,714
Current year claims and changes in estimates	12,398,149	11,267,013
Claims payments	<u>(12,007,630)</u>	<u>(11,244,792)</u>
June 30	<u>\$ 3,584,454</u>	<u>\$ 3,193,935</u>

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)
June 30, 1999

21. CONTINGENCIES

A. LITIGATION

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

In the opinion of management and the Borough Attorney, the disposition of these matters is not expected to have a material positive or adverse effect on the Borough's financial statements. Accruals for claims and litigation covered by the Borough's risk management program, excluding environmental claims, are recorded as accrued self-insurance losses. Any environmental matters, and all other accrued claims and litigation, are recorded in accounts payable or estimated claims, judgments, and settlements payable.

B. GRANTS AND OTHER FINANCIAL ASSISTANCE

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

APPENDIX B BOOK ENTRY SYSTEM

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds 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.

**APPENDIX C
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. 2000-61 of the Borough, passed on November 21, 2000 (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, 2000 Series C, in the aggregate principal amount of \$9,000,000 ("Bonds"), as follows:

Undertaking to Provide Ongoing Disclosure

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

B. **Financial Statements/Operating Data.** The Borough agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2002 for the fiscal year ended June 30, 2001):

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 Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

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

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

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

8. Bond calls (optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to the Commission's Exchange Act Release 34-23856);
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Bonds; and
11. Rating changes.

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

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

E. Termination/Modification. The Borough's obligations to provide the annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds of the applicable series. 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) complying with applicable requirements of the body that established the changed accounting principles between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

F. Bond Owner's Remedies Under This Section. The right of any Bond owner or beneficial owner of Bonds to enforce the provisions of this section and the agreement hereunder shall be limited to a right to obtain specific enforcement of the Borough's obligations hereunder, and any failure by the Borough to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds under this ordinance. For purposes of this section, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bonds, including persons holding Bonds through nominees or depositories.

DATE: December 1, 2000

Fairbanks North Star Borough

By: _____
Michael E Lamb, Chief Financial Officer

APPENDIX D 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 any insurance security or guaranty fund established under New York, California, Connecticut or Florida 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 an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2000, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,372,337,000 and its total unearned premium reserve was approximately \$693,512,000 in accordance with statutory accounting principles. At September 30, 2000, Financial Security's total shareholder's equity was approximately \$1,383,058,000 and its total net unearned premium reserve was approximately \$571,460,000 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 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
ASSURANCE**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

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 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.

FINANCIAL SECURITY ASSURANCE INC.

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)

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the Insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

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

FINANCIAL SECURITY ASSURANCE INC.

By _____
Authorized Officer

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

(212) 826-0100

Form 560NY (CA 1/91)

