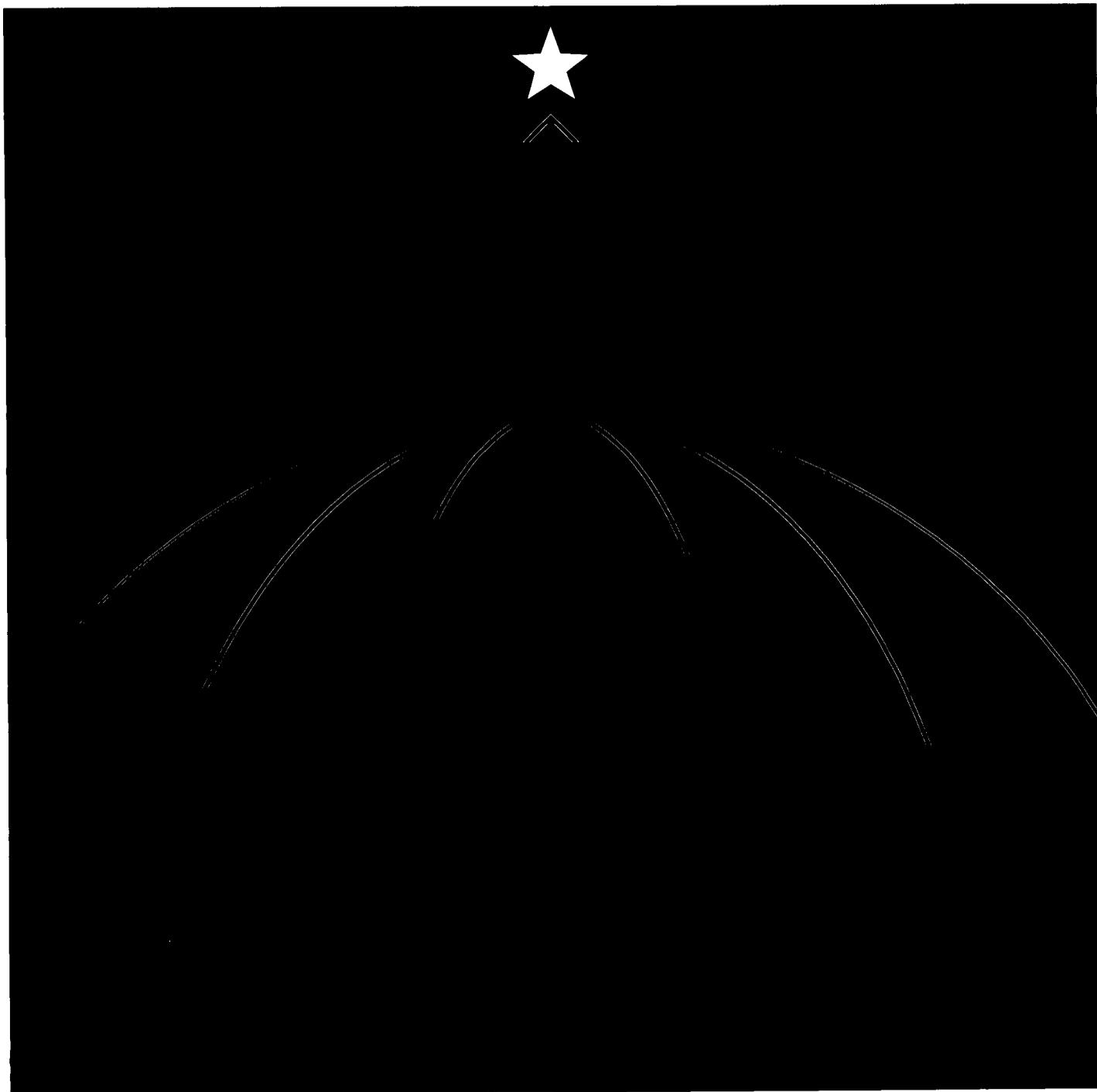


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Fairbanks North Star Borough, Alaska  
\$14,000,000  
General Obligation School Bonds  
2002 Series E



Sale Date: December 11, 2002  
Bartle Wells Associates

Official Statement

**Fairbanks North Star Borough, Alaska**  
**\$14,000,000**  
**General Obligation School Bonds**  
**2002 Series E**



**Dated:** Date of delivery  
**Book-Entry Only**

**Due:** August 1, as shown below

**Ratings: Insured:** Fitch: AAA                      Moody's: Aaa                      Standard & Poor's: AAA  
**Underlying:** Fitch: A+                      Moody's: A2                      Standard & Poor's: A+

**Insurance:** The scheduled payment of principal and interest on the Bonds when due will be insured under a Financial Guaranty Insurance Policy to be issued concurrently with the delivery of Bonds by Ambac Assurance Corporation.

**Tax Exemption:** Interest on the Bonds is excluded from gross income for federal income tax purposes. Page 6

**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 15

**Interest Payment Dates:** February 1 and August 1, beginning August 1, 2003.

**Closing:** On or about December 23, 2002.

**Denominations:** \$5,000 or multiple thereof.

**Registrar/Paying Agent:** Wells Fargo Bank National Association, Portland, Oregon.

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

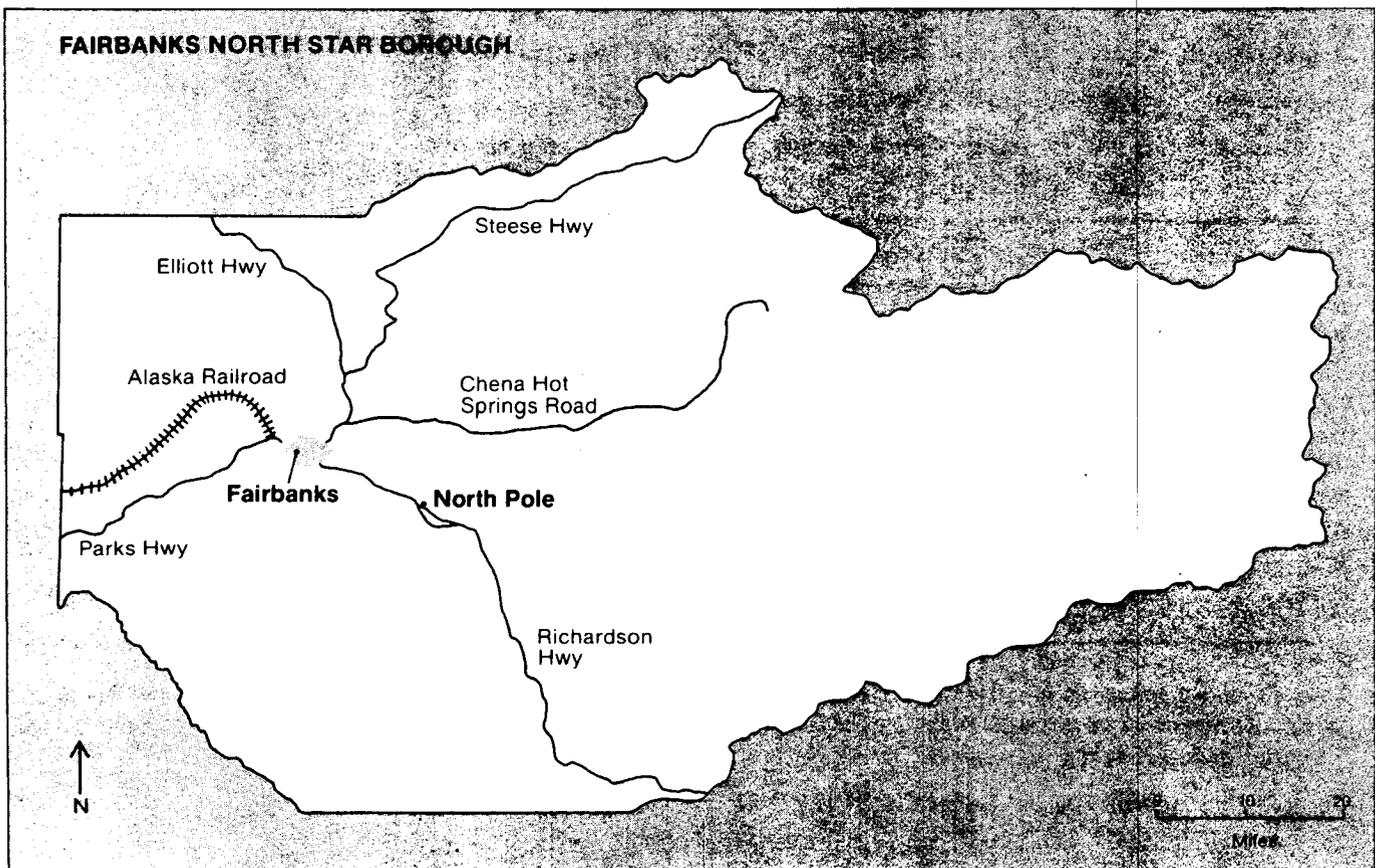
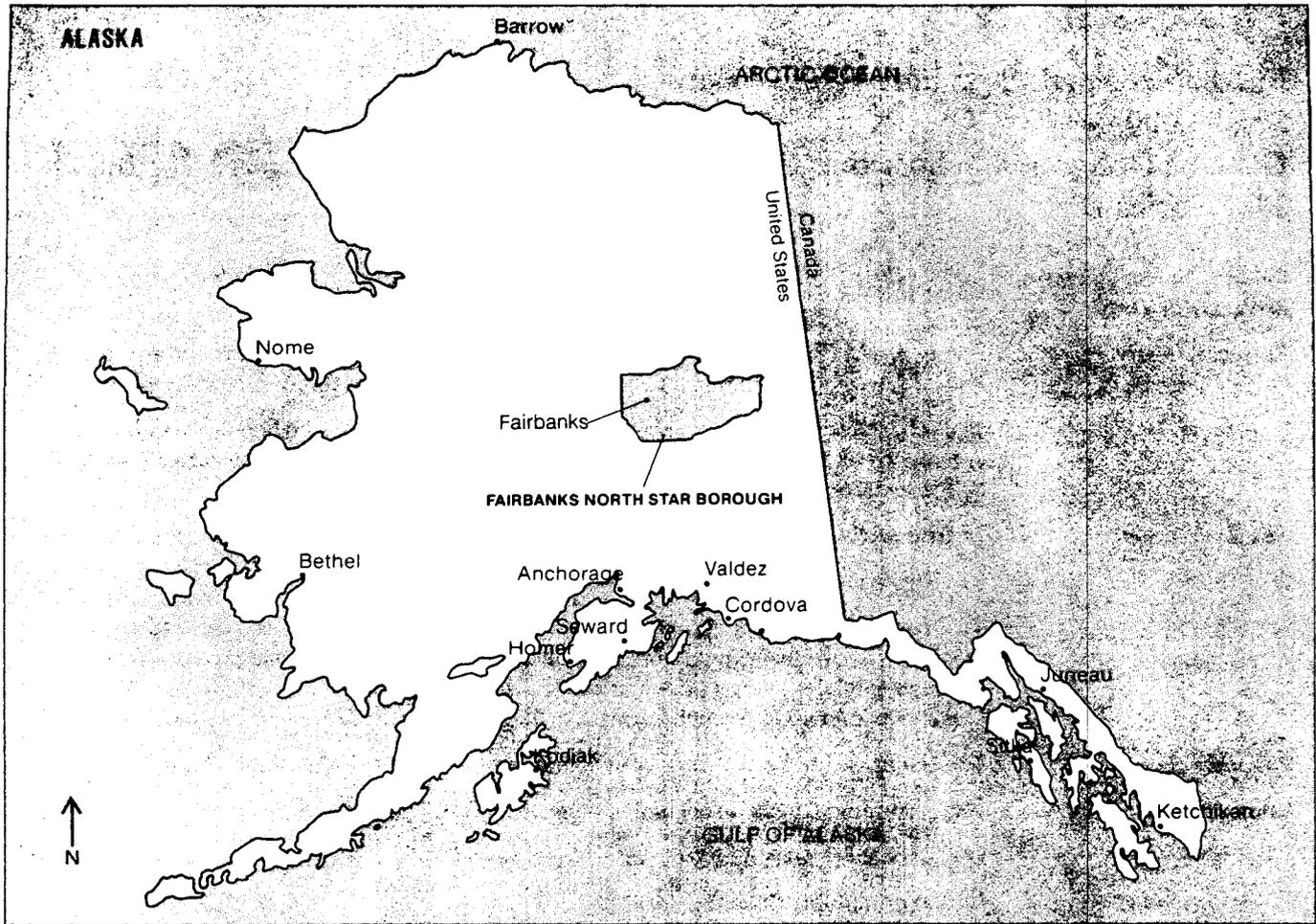
**Borough Attorney:** René Broker, Fairbanks, Alaska.

**Financial Advisor:** Bartle Wells Associates, Berkeley, California.

Year August 1	Principal Amount	Interest Rate	Yield	CUSIP	Year August 1	Principal Amount	Interest Rate	Yield	CUSIP
2003.....	\$380,000	4.00%	1.25%	303531SP3	2013.....	\$680,000	4.10%	4.05%	303531SZ1
2004.....	470,000	4.00%	1.50%	303531SQ1	2014.....	715,000	4.10%	4.15%	303531TA5
2005.....	485,000	4.00%	2.00%	303531SR9	2015.....	755,000	4.25%	4.25%	303531TB3
2006.....	500,000	4.00%	2.40%	303531SS7	2016.....	790,000	4.35%	4.35%	303531TC1
2007.....	520,000	4.00%	2.75%	303531ST5	2017.....	835,000	4.45%	4.45%	303531TD9
2008.....	545,000	4.00%	3.10%	303531SU2	2018.....	880,000	4.50%	4.55%	303531TE7
2009.....	565,000	4.00%	3.40%	303531SV0	2019.....	925,000	4.60%	4.65%	303531TF4
2010.....	595,000	4.00%	3.60%	303531SW8	2020.....	975,000	4.70%	4.75%	303531TG2
2011.....	620,000	4.00%	3.80%	303531SX6	2021.....	1,030,000	4.75%	4.80%	303531TH0
2012.....	650,000	4.10%	4.00%	303531SY4	2022.....	1,085,000	4.80%	4.85%	303531TJ6

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

This official statement is dated December 11, 2002.



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

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Rhonda Boyles, *Mayor*

**Borough Assembly Members**

Rick Solie, *Presiding Officer*

Cynthia Henry, *Deputy Presiding Officer*

Hank Bartos

Tim Beck

Randy Frank

Eileen Cummings

Earl F. Romans

Garry Hutchison

Victoria Foote

Bonnie Williams

Guy Sattley

Mona Lisa Drexler, *Borough Clerk*

**School Board Members**

Bart LeBon, *President*

Bill Burrows, *Vice President*

Royce Chapman

Bill Burrows

Gunther Criswell

Joe Blackburn

Bob Coghil

**Borough Administration**

Jim Burcell, *Chief of Staff*

Michael E. Lamb, *Chief Financial Officer*

René Broker, *Borough Attorney*

**Professional Services**

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

Bartle Wells Associates, Berkeley, *Financial Advisor*

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

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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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**Appendix A – General Purpose Financial Statements, June 30, 2001**

**Appendix B – Book Entry System**

**Appendix C – Continuing Disclosure Undertaking**

**Appendix D – Form of Bond Counsel Opinion**

**Appendix E – Bond Insurance And Financial Guaranty Insurance Policy**

## 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 voter approved school construction, renovation, or upgrade projects at Hutchison Vocational-Technical High School, Hunter Elementary School, Denali Elementary School, Nordale Elementary School, and smaller projects at various campuses.

**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 other 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 2002/03.

**Economic Factors:** The Borough has an estimated 2001 population of 82,840, a 7 percent increase from the 1990 population of 77,720. Fairbanks is the second-largest city in Alaska (population 30,224), 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 1,570. About 40 percent of the Borough's population lives in the two cities.

The Borough's 2002 assessed valuation is about \$4.6 billion, an increase of 5.2 percent over the preceding year. Taxable assessed valuation, after deducting exemptions, is \$4.19 billion. Over the past five years, the Borough's assessed valuation has increased at an average annual rate of 5.3 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 2002, the pipeline's assessed valuation of \$263 million is 5.8 percent of the Borough's total.

The 2001 annual average employment in the Borough was estimated at 33,800. Government is the largest employer in the Borough, with nearly 30 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 3,022 including student employees, accounts for 65 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 \$38.7 million in 2001, an increase of 8.6 percent over 2000. Services and trade account for 26 percent and 20 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 has a combined refining and transport capacity of 215,000 barrels per day. The Williams Alaska refinery is unique in that it sits on the Trans Alaska Pipeline, which allows it to refine some of its capacity while passing the remaining unrefined crude back into the pipeline. Williams Alaska's North Pole operation currently refines approximately 70,000 barrels per day, close to its refining capacity. It set records in July, August, and September of 2002 for the production and sale of refined products. The PetroStar refinery, constructed in 1985, has a capacity of 16,000 barrels per day and supplies jet fuel directly to Eielson Air Force Base by pipeline. The refinery produces kerosene, diesel, heating, and jet fuels.

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

## THE BONDS

**Description:** Fairbanks North Star Borough  
\$14,000,000 General Obligation School Bonds  
2002 Series E

**Date:** Date of delivery

**Denomination:** \$5,000 or multiple thereof

**Maturities:** August 1, 2003 through August 1, 2022 in the amounts shown on the cover of the official statement.

**Interest:** Interest is payable on February 1 and August 1 of each year to the respective dates of maturity, beginning August 1, 2003.

**Payment:** The Bonds will be executed, sold, and delivered in fully registered form, without coupons. The Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company ("DTC"), New York, New York, as the initial securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Purchasers of the Bonds will not receive certificates representing their ownership interests in the Bonds purchased. Principal and interest payments with respect to the Bonds are payable directly to DTC by the paying agent. Upon receipt of such payments of principal and interest, DTC in turn is obligated to distribute such payments to the beneficial owners of the Bonds. See Appendix B - "Book-Entry System."

**Optional Redemption:** The Bonds maturing on or before August 1, 2011 are not subject to optional redemption prior to maturity. The Bonds maturing on or after August 1, 2012 are subject to redemption at the option of the Borough on any date on or after August 1, 2011, 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:

<b>Redemption Period</b>	<b>Redemption Price</b>
From August 1, 2011 through July 31, 2012	100.5 percent of par
On or after August 1, 2012	100.0 percent of par

### Authority for Issuance

\$11,400,000 of the Bonds are remaining of the \$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. The remaining \$2,600,000 of the Bonds are part of \$42,264,000 in school bonds authorized by Ordinance 2002-34 and approved by Borough voters on October 8, 2002.

## **Additional Bonds**

The Borough intends to issue the remaining \$39,664,000 in bonds that have been approved by voters but not yet issued over the next three years, beginning in calendar year 2003.

## **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."

## Debt Service Schedule

The following table shows the debt service payments on the Bonds by fiscal year.

■ **Fairbanks North Star Borough  
\$14,000,000 General Obligation School Bonds  
Debt Service Schedule**

FYE	Coupon	Interest	1-Aug Principal	Total	1 Feb Interest	FY total
2003			-			
2004	4.00%	\$365,534.53 *	\$380,000	\$745,534.53	\$294,217.50	\$1,039,752.03
2005	4.00%	294,217.50	470,000	764,217.50	284,817.50	1,049,035.00
2006	4.00%	284,817.50	485,000	769,817.50	275,117.50	1,044,935.00
2007	4.00%	275,117.50	500,000	775,117.50	265,117.50	1,040,235.00
2008	4.00%	265,117.50	520,000	785,117.50	254,717.50	1,039,835.00
2009	4.00%	254,717.50	545,000	799,717.50	243,817.50	1,043,535.00
2010	4.00%	243,817.50	565,000	808,817.50	232,517.50	1,041,335.00
2011	4.00%	232,517.50	595,000	827,517.50	220,617.50	1,048,135.00
2012	4.00%	220,617.50	620,000	840,617.50	208,217.50	1,048,835.00
2013	4.10%	208,217.50	650,000	858,217.50	194,892.50	1,053,110.00
2014	4.10%	194,892.50	680,000	874,892.50	180,952.50	1,055,845.00
2015	4.10%	180,952.50	715,000	895,952.50	166,295.00	1,062,247.50
2016	4.25%	166,295.00	755,000	921,295.00	150,251.25	1,071,546.25
2017	4.35%	150,251.25	790,000	940,251.25	133,068.75	1,073,320.00
2018	4.45%	133,068.75	835,000	968,068.75	114,490.00	1,082,558.75
2019	4.50%	114,490.00	880,000	994,490.00	94,690.00	1,089,180.00
2020	4.60%	94,690.00	925,000	1,019,690.00	73,415.00	1,093,105.00
2021	4.70%	73,415.00	975,000	1,048,415.00	50,502.50	1,098,917.50
2022	4.75%	50,502.50	1,030,000	1,080,502.50	26,040.00	1,106,542.50
2023	4.80%	26,040.00	1,085,000	1,111,040.00	-	1,111,040.00
Totals		3,829,290	14,000,000	17,829,290	3,463,755	21,293,045

\* - 7 months, 8 days interest

## Continuing Disclosure

In the Bond Ordinance, 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, 1997 Series A bonds, 1999 Series B bonds, 2000 Series C bonds, and 2001 Series D 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, Seattle, Washington, whose approving

legal opinion in substantially the form attached herein as Appendix D, 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.

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

**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 may 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 longer period from the date of original issue) ending August 1 and February 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.

### **Bond Insurance Policy**

Concurrently with the execution and delivery of the Bonds, Ambac Assurance Corporation will issue its Financial Guaranty Insurance Policy for the Bonds. The insurance policy guarantees the scheduled payment of principal of and interest related to the Bonds when due as set forth in the form of the policy included in Appendix E to this official statement.

### **Ratings**

Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), and Standard & Poor's ("S&P"), a division of The McGraw-Hill Companies 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 Ambac Assurance Corporation.

In addition, Fitch, Moody's, and S&P have assigned underlying ratings (without regard to the Financial Guaranty Insurance Policy) of A+, A2, and A+ respectively, to the 2002E Bonds.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, 650 California Street, San Francisco, California 94108; Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's, 55 Water Street, New York, New York, 10041. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

### **Miscellaneous**

The summaries or descriptions of provisions of the Bond Ordinance, and all references to other materials not purporting to be quoted in full, are only brief outlines of certain

provisions thereof. They do not constitute complete statements of such documents or provisions and reference is hereby made to the complete documents relating to such matters. For further information, the Borough will furnish copies of such documents or provisions upon request.

At the time of payment for and delivery of the Bonds, the Borough will provide a certificate executed by the proper officer of the Borough to the effect that to the best of his knowledge and belief the statements in the official statement as of its date 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 Title 14 Alaska Statutes ("AS"). 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 five years, particularly at the elementary level. The school district is anticipating that enrollment will increase slightly over the next five years.

	1998	1999	2000	2001	2002
Elementary	9,330	8,664	8,263	8,130	8,125
Secondary	<u>7,101</u>	<u>7,140</u>	<u>7,042</u>	<u>7,141</u>	<u>6,895</u>
Total	16,431	15,804	15,305	15,271	15,020

Five Year Enrollment Projections					
	2003	2004	2005	2006	2007
Total	15,080	15,106	15,215	15,254	15,263

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 school district employs 1,553 people, including 987 teachers and principals, 47 administrators, and 519 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. Some of this work was started using proceeds from the Borough's 2000 and 2001 bond issues.
- **Hunter Elementary School:** These projects are the second phases of the upgrade and remodeling of Hunter Elementary School. 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. Most of this work has been completed using proceeds from the Borough's 2000 and 2001 bond issues.
- **Denali and Nordale Elementary Schools:** These projects comprise the design, demolition, construction and equipping of new elementary schools on the site of the existing schools.
- **District-wide Improvements:** Exterior improvement and site upgrades at Barnette Elementary School, district-wide technology upgrades including fiber optic cabling, wireless links, and associated hardware upgrades, improvements to the Lathrop High School track and field facilities and district-wide maintenance projects including fire sprinkler and electrical system upgrades, roof, siding, and floor improvements, and site improvements.

North Pole, Two Rivers, and playground projects constructed using proceeds from the 2000 and 2001 bonds will be completed by spring 2003 as scheduled. The Hunter construction program has begun and is expected to be completed in winter 2003. Bids for the Hutchison construction program will be opened December 5, 2002, at which point a construction timeline will be established. Projects approved by voters in 2002 are being designed and construction is expected to start in the spring of 2003.

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

<b>Project</b>	<b>Estimated Cost</b>	<b>Project Status</b>
<b>Projects approved in 2000</b>		
Hutchison Vocational-Technical High School renovation/upgrade	\$14,000,000	in progress
Hunter Elementary School Phase II renovation	9,000,000	in progress
North Pole Elementary School Phase II renovation	2,500,000	complete
North Pole High School and Middle School upgrades/renovations	3,000,000	complete
Two Rivers Elementary School renovation/upgrade	200,000	complete
Elementary School Playground upgrades	<u>750,000</u>	complete
<b>2000 projects total</b>	<b>29,450,000</b>	
<b>Projects approved in 2002</b>		
Denali Elementary School construction	15,100,000	approved
Nordale Elementary School construction	15,100,000	approved
District-wide technology, maintenance, and facilities projects	<u>12,064,000</u>	approved
<b>2002 projects total</b>	<b>42,264,000</b>	
<b>Total projects approved since 2000</b>	<b>71,714,000</b>	

## **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, 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 to the Borough at the rate of 70 percent for \$57,143,000 in school construction projects. The state authorized an additional \$14,571,000 of school construction projects expiring July 1, 2004. This totals \$71,714,000 of reimbursable bonds. The Borough has issued \$18,050,000 of these reimbursable bonds. The Bonds constitute \$14,000,000 of the remaining \$53,664,000 authorization. Following sale of the Bonds, the Borough will have \$39,664,000 of state reimbursement eligible bonds. The Borough's October 8, 2002 election authorizes the sale of these bonds.

The state legislature has also authorized a special 100 percent reimbursement for \$4.5 million to be spent on the Eielson Air Force Base Elementary School. These funds are needed to bring the school into compliance with local and state regulations before the U.S. government cedes authority over the school to the Borough and the Borough incorporates it into the local school system.

### **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 2002/03.

### **Borough Reimbursement Entitlement**

Table 2 summarizes the Borough's outstanding school bonds and their reimbursement eligibility. The Borough has seven 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, Series 2000C, Series 2001D, and the 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 11, 2002**

Series	Purpose	Outstanding Principal	Final Payment	Reimbursement Eligibility
1993S Refunding <sup>(1)</sup>	Schools	\$ 23,165,000	3/1/08	80-90%
1996U <sup>(2)</sup>	Schools	13,125,000	11/1/16	70%
1997A <sup>(3)</sup>	Schools, library	30,200,000	11/1/17	70%
1999B <sup>(2)</sup>	Schools	23,800,000	4/1/19	70%
2000C	Schools	8,645,000	12/1/20	70%
2001D	Schools	8,775,000	2/1/21	70%
2002E	Schools	<u>14,000,000</u>	8/1/22	70%
Total		121,710,000		

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.

Source: Fairbanks North Star Borough Budget

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	2002E	Total			
2001/02	\$13,127,855	\$0	\$13,127,855	\$8,965,594	\$4,162,261	31.7%
2002/03	13,126,306	0	13,126,306	8,977,641	4,148,664	31.6%
2003/04	13,215,700	1,039,752	14,255,452	9,783,154	4,472,298	31.4%
2004/05	13,013,440	1,049,035	14,062,475	9,834,690	4,227,785	30.1%
2005/06	13,090,900	1,044,935	14,135,835	9,901,400	4,234,435	30.0%
2006/07	10,892,825	1,040,235	11,933,060	8,068,714	3,864,346	32.4%
2007/08	10,881,006	1,039,835	11,920,841	8,071,334	3,849,507	32.3%
2008/09	7,668,206	1,043,535	8,711,741	5,500,988	3,210,753	36.9%
2009/10	7,656,969	1,041,335	8,698,304	5,488,864	3,209,440	36.9%
2010/11	7,645,588	1,048,135	8,693,723	5,483,802	3,209,921	36.9%
2011/12	7,669,806	1,048,835	8,718,641	5,491,416	3,227,225	37.0%
2012/13	7,664,200	1,053,110	8,717,310	5,491,199	3,226,111	37.0%
2013/14	7,724,294	1,055,845	8,780,139	5,526,588	3,253,551	37.1%
2014/15	7,709,500	1,062,248	8,771,748	5,523,951	3,247,796	37.0%
2015/16	7,681,375	1,071,546	8,752,921	5,498,431	3,254,490	37.2%
2016/17	7,770,913	1,073,320	8,844,233	5,557,074	3,287,158	37.2%
2017/18	6,363,375	1,082,559	7,445,934	5,087,812	2,358,121	31.7%
2018/19	3,510,188	1,089,180	4,599,368	3,166,195	1,433,172	31.2%
2019/20	1,434,513	1,093,105	2,527,618	1,769,332	758,285	30.0%
2020/21	1,450,513	1,098,918	2,549,430	1,784,601	764,829	30.0%
2021/22	0	1,106,543	1,106,543	774,580	331,963	30.0%
2022/23	0	1,111,040	1,111,040	777,728	333,312	30.0%
Totals	169,297,470	21,293,045	190,590,514	126,525,090	64,065,424	

## **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 2001/02 are preliminary. The Borough's largest combined source of general fund revenue is taxes, totaling \$57.3 million in 2001/02 and accounting for 75 percent of general fund revenue. Tax revenue includes hotel/motel taxes collected outside the City of Fairbanks. The balance of tax revenue is from property taxes.

In 2001/02, intergovernmental revenues amounted to \$11.76 million. This includes \$9.0 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 \$2.8 million, or 3.7 percent of general fund revenue.

In 2001/02, total expenditures were \$23.6 million, an increase of about 2.5 percent from 2000/01. The general fund's contribution to education was \$32.6 million, shown as an operating transfer to the school district. General fund contribution to debt service was \$13.1 million, also shown as a transfer to other funds.

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

	1997/98	1998/99	1999/00	2000/01	Preliminary 2001/02
<b>Revenues</b>					
Taxes	\$44,981,440	\$48,749,572	\$54,794,228	\$54,174,196	\$57,261,548
Intergovernmental revenues	11,721,678	12,881,043	12,754,730	10,039,324	11,757,220
Charges for services	1,166,735	1,244,782	1,292,014	1,268,606	1,270,557
Charges to school district	919,158	905,614	1,023,735	855,683	796,814
Other revenues	<u>5,096,043</u>	<u>4,099,140</u>	<u>5,782,390</u>	<u>7,019,140</u>	<u>4,963,745</u>
Total revenues	63,885,054	67,880,150	75,647,097	73,356,949	76,049,884
<b>Expenditures</b>					
General government	8,786,295	9,184,173	9,879,018	10,006,431	9,981,127
Community planning	999,404	1,028,568	1,022,923	1,065,850	1,117,465
Public works	3,328,747	3,328,534	3,423,968	3,569,783	3,513,069
Direct services	1,101,168	1,160,654	1,305,218	1,217,117	1,265,690
Parks and recreation	3,338,517	3,422,394	3,701,869	3,831,937	4,051,609
Library	2,328,915	2,446,650	2,695,689	2,804,724	2,943,106
Emergency Services	0	0	0	84,470	223,075
Capital outlay	384,062	397,411	527,773	494,297	546,579
Total expenditures	20,267,108	20,968,385	22,556,458	23,074,609	23,641,721
Excess of revenues over expenditures	43,617,946	46,911,765	53,090,639	50,282,340	52,408,163
<b>Operating Transfers In (Out)</b>					
Other funds*	(15,100,690)	(15,004,121)	(20,214,975)	(17,023,030)	(18,898,952)
School district	<u>(27,680,000)</u>	<u>(30,690,780)</u>	<u>(30,690,780)</u>	<u>(32,045,700)</u>	<u>(32,555,700)</u>
Total other financing uses	(42,780,690)	(45,694,901)	(50,905,755)	(49,068,730)	(51,454,652)
Excess (deficiency) of revenues over expenditures & other uses	837,256	1,216,864	2,184,884	1,213,611	953,511
Fund balance, July 1	10,852,348	11,689,604	12,906,467	15,091,351	16,242,766
Adjustments	0	0	0	(62,196)	150,000
Fund balance, June 30	11,689,604	12,906,467	15,091,351	16,242,766	17,346,277

\*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 2002/03 general fund budget. The Borough's general fund budget totals \$78.3 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 14 percent of general fund revenues. The Borough has budgeted operating expenditures of \$26.3 million. The balance of general fund expenditures consists of contributions to other funds. The contribution to education, at \$33.6 million, is 43 percent of the total general fund budget.

The 2002/03 budget increased 3.0 percent from the prior year. The budget 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**

	2002/03
<b>Revenue Sources</b>	
Taxes	\$ 58,494,450
State and federal revenues	11,189,530
Charges for services	1,332,760
Intragovernmental charges	3,582,480
Other local revenue	2,287,460
Operating transfer to General Fund from land enterprise	551,140
Contribution from fund balance	880,740
<b>Total local revenue</b>	<b>78,318,560</b>
<b>Expenditures and Other Financing Uses</b>	
Mayor and assembly	1,821,070
Law	657,310
Assessing	1,831,040
Community planning	1,304,790
Computer services	1,895,240
Direct services	1,482,810
Emergency operations	239,600
Financial services	1,916,730
General services	1,268,500
Human resources	1,918,770
Library services	3,523,130
Parks and recreation	4,328,880
Public works	3,772,090
Nondepartmental	292,850
Intergovernmental charges	38,850
<b>Total operating expenditures</b>	<b>26,291,660</b>
<b>Contributions to Other Funds</b>	
Capital projects	2,176,000
Debt service	12,860,640
Education	33,545,700
Other operating transfers	3,444,560
<b>Total contributions</b>	<b>52,026,900</b>
<b>Total expenditures and contributions</b>	<b>78,318,560</b>

Source: Fairbanks North Star Borough 2002/03 Approved Budget

Table 6 shows the general fund balance sheet as of June 30, 1998 through 2002. The June 30, 2002 numbers are preliminary.

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

	1998	1999	2000	2001	Preliminary 2002
<b>Assets</b>					
Equity in central treasury cash	\$ 16,758,960	\$ 18,749,573	\$ 19,042,804	\$ 20,454,722	\$ 22,251,732
Taxes receivable	502,698	434,618	553,548	588,189	602,306
Accounts receivable	105,379	51,545	47,880	43,319	72,528
Accrued interest receivable	382,967	299,753	869,747	820,217	282,047
Interfund receivables	-	50,763	342,028	290,733	386,194
Due from governmental agencies	357,260	382,085	392,236	510,023	558,353
Other assets	<u>1,135,753</u>	<u>1,156,247</u>	<u>1,149,043</u>	<u>1,144,465</u>	<u>1,249,876</u>
Total assets	19,243,017	21,124,584	22,397,286	23,851,719	25,403,036
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Accounts payable	459,493	446,065	596,842	708,656	651,249
Wages and payroll taxes	643,359	715,002	516,197	460,013	500,490
Accrued annual leave	1,027,258	1,039,649	1,054,246	1,089,708	1,152,727
Accrued self-insurance losses	702,637	681,121	752,379	746,036	750,724
Deposits from others	150,384	95,453	104,078	151,331	128,831
Estimated claims, judgements and settlements payable	-	-	99,505	-	-
Deferred revenues	-	-	-	-	516,233
Advance tax payments	<u>4,570,282</u>	<u>5,240,827</u>	<u>4,182,689</u>	<u>4,453,209</u>	<u>4,356,503</u>
Total liabilities	7,553,413	8,218,117	7,305,936	7,608,953	8,056,758
<b>Fund balance:</b>					
Reserved for encumbrances	322,649	252,059	370,787	286,112	231,960
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	-	-	306,315	146,009
Subsequent year's expenditures	-	50,000	500,000	500,000	880,740
Education	-	-	-	-	1,000,000
Unreserved, undesignated	<u>9,431,505</u>	<u>11,104,409</u>	<u>12,720,564</u>	<u>13,650,339</u>	<u>13,587,568</u>
Total fund balance	11,689,604	12,906,468	15,091,351	16,242,766	17,346,278
Total liabilities and fund balance	19,243,017	21,124,585	22,397,287	23,851,719	25,403,036

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 1998 through 2002. The Borough's 2002 taxable assessed value is about \$4.6 billion, which represents an increase of 5.2 percent over 2001. Assessed valuations have increased at an average rate of 5.3 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*	Borough Total	Percentage Increase
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	1,501,384	2,424,844	258,225	4,184,454	4.0%
2001	1,532,258	2,530,910	277,582	4,340,750	3.7%
2002	1,617,351	2,687,795	263,366	4,568,512	5.2%

\*Assessed by state.

Source: Fairbanks North Star Borough Budget

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. In its 2002 legislative session, the Alaska Legislature approved additional optional exemptions of \$10,000 per residence for certain types of lands and landowners starting in 2003. While the Borough intends to adopt these exemptions, the impact on assessed valuation is expected to be minimal. Other local exemptions include personal property, economic development, and senior citizens housing. For 2002, the optional residential exemptions totaled \$137 million; mandatory exemptions totaled \$241 million. The Borough's 2002 net taxable value is about \$4.2 billion as shown in Table 8.

Property owners are notified during each March of their assessments as of January 1. The Borough's board of equalization annually hears assessment appeals during the month of April. Tax rates are established by the Assembly before June 15, following the adoption of the Borough budget. Current taxes levied on real property are due and payable on July 1 of each year, but may be paid in two equal installments on September 1 and November 1 without incurring penalties or interest.

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**Table 8 ■ Fairbanks North Star Borough  
Assessed Valuation Detail, 2002**

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Borough assessor's certified value	\$4,568,512,361
Less:	
Mandatory exemptions	(241,631,267)
Optional residential exemptions	<u>(136,904,595)</u>
Borough taxable value	4,189,976,499

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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 \$277 million of the Borough's 2001 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. Pipeline related value increased again in 2001 due to the state Assessment Board's decision to change the depreciation schedule on the pipeline as negotiated with Alyeska Pipeline Service Company, resulting in an increase in the assessed value. The pipeline's assessed valuation is expected to continue to decline gradually. The pipeline's 2001 assessed valuation within the Borough is about 6.6 percent of the Borough's total assessed valuation of \$4.19 billion.

Table 9 shows the Borough's ten largest commercial/industrial taxpayers for 2001. Together they account for 20.5 percent of total assessed valuation.

**Table 9 ■ Fairbanks North Star Borough  
Largest Commercial/Industrial Taxpayers, 2001**

<b>Taxpayer</b>	<b>Type of Property</b>	<b>Assessed Valuation (000)</b>	<b>Percent of Borough Total*</b>
Alyeska Pipeline	oil transportation	\$ 277,582	6.63%
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 Meyer of Alaska	shopping 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	<u>13,344</u>	<u>0.32%</u>
		858,796	20.51%
*Total assessor's certified value, 2001			\$4,188,054
Source: Fairbanks North Star Borough Comprehensive Annual Financial Report			

## **Tax Rates**

Table 10 shows the tax rates levied by the Borough and its two cities for the last five years. The Borough's 2002 areawide tax rate is 13.693 mills per \$1,000 of assessed valuation. An additional 0.525 mills is levied on property outside the cities for ambulance service, economic development, and debt service on solid waste collection bonds. An additional 1.187 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 6.511 mills in Fairbanks and 3.0 mills in North Pole.

**Table 10 ■ Fairbanks North Star Borough  
Ad Valorem Tax Rate History  
Mills per \$1,000 Assessed Value<sup>(1)</sup>**

Tax Year	Borough	Non-Areawide <sup>(2)</sup>	Solid Waste Collection <sup>(3)</sup>	City of Fairbanks	City of North Pole
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
2001	13.860	0.521	1.162	6.426	2.400
2002	13.693	0.525	1.187	6.511	3.000

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 Budget

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 13.693.

**Table 11 ■ Fairbanks North Star Borough  
Total Tax Rates, 2002/03  
Mills per \$1,000 of Assessed Value**

	City of Fairbanks	City of North Pole	Outside Cities <sup>(1)</sup>
Borough areawide, excluding debt service	12.762	12.762	12.762
Borough debt service			
School bonds	0.907	0.907	0.907
Library bonds	0.024	0.024	0.024
Total debt service	0.931	0.931	0.931
Total Borough areawide	13.693	13.693	13.693
City of Fairbanks	6.511		
City of North Pole		3.000	
Solid waste collection	(2)	1.187	1.187
Non-areawide			0.525
Total <sup>(1)</sup>	20.204	17.880	15.405

1- Does not include service area tax rates

2- Fairbanks has its own solid waste collection service

Source: Fairbanks North Star Borough Budget

## Tax Levies and Delinquencies

Table 12 shows property tax levies and current and delinquent collections for the Borough from 1997/98 through 2001/02. 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 2001/02, the Borough's current tax collections were 98.64 percent of the net current year levy on taxable property. Total collections, including delinquent taxes, totaled \$55.3 million, or 100.07 percent of the net current year levy. As protection against potential tax delinquencies, the Borough includes a delinquency allowance of two percent of the taxes on taxable property when estimating its property tax revenues for budget purposes.

The Borough collects property taxes for the Borough and for the cities of Fairbanks and North Pole. Taxes collected on behalf of the cities are transmitted as collected to the cities. These are not included in Table 12, nor are the Borough taxes collected on a non-areawide, district, or service area basis.

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

	1997/98	1998/99	1999/00	2000/01	Preliminary 2001/02
Net tax levy <sup>(1)</sup>	\$43,679,703	\$47,143,017	\$53,617,787	\$52,599,980	\$55,267,748
Current tax collections	43,006,607	47,030,281	52,965,407	51,710,487	54,516,342
Delinquent collections	<u>586,848</u>	<u>598,132</u>	<u>577,253</u>	<u>693,678</u>	<u>792,432</u>
Total collections <sup>(2)</sup>	43,593,455	47,628,413	53,542,660	52,404,165	55,308,774
Current year, percent of net levy collected	98.46%	99.76%	98.78%	98.31%	98.64%

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

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

Totals may not add due to rounding.

Source: Fairbanks North Star Borough Comprehensive Annual Financial Report

## 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 11, 2002. 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 11, 2002 total gross direct debt, including the Bonds, is \$122.19 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, \$81.8 million of the Borough's direct debt (67 percent) is eligible for state reimbursement.

Table 3, in the section entitled "State Aid to Education," shows total debt service on a fiscal year basis for all outstanding Borough bonds, including the Bonds. The Borough has 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	12/11/02
<b>Direct Debt</b>		
Outstanding school and library bonds	100%	\$ 107,710,000
Solid waste transfer bonds	100%	475,000
2002E Bonds	100%	<u>14,000,000</u>
Total gross direct debt		122,185,000
Less: School bonds eligible for state reimbursement		<u>(81,784,730)</u>
Total net direct bonded debt		40,400,270
<b>Direct and Underlying Debt</b>		
Underlying debt: City of Fairbanks	100%	6,100,000
Net solid waste enterprise revolving fund loan	100%	1,401,000
Direct debt		<u>122,185,000</u>
Total gross direct and underlying debt		129,686,000
Less: School bonds eligible for state reimbursement		<u>(81,784,730)</u>
Total net direct and underlying bonded debt		47,901,270
	Percent of Taxable Assessed Value	Per capita (pop. 82,840)
	\$4,189,976,499	
<b>Ratio to Direct Debt</b>		
Gross	\$122,185,000	2.92%
Net	40,400,270	0.96%
<b>Ratio to Total Direct and Underlying Debt</b>		
Gross	129,686,000	3.10%
Net	47,901,270	1.14%

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 2002/03 budget is \$1.4 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.

## **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 AS 37.23.020.

The Borough's Code also establishes an Investment Advisory Committee, composed of at least five members serving three-year terms. Members cannot be elected officials or Borough employees, and neither Investment Advisory Committee members nor members of their immediate families, can be an officer, director, employee, or have a substantial financial interest in any financial institution listed on the Borough's qualified bidders list.

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

## **Management Discussion**

The Borough continues to monitor and support programs that enhance its financial stability.

In 1999/00 the Borough created a Facilities Maintenance Reserve Fund, a sinking fund for facilities maintenance. About \$10.6 million has been deposited in the fund since its creation. Though the Borough maintains over three million square feet of facilities in an extreme environment, the Borough maintains a low outstanding maintenance list. The

Borough also created a Vehicle and Equipment Fleet Fund (VEFF) within the Transportation Department; it serves as a revolving fund for vehicle and equipment replacement and incorporates lease financing which has stabilized annual cash requirements and has allowed the Borough to keep its fleet of vehicles and equipment in a well maintained state in a very cost efficient manner. Further, the VEFF program allows for better cost allocations to its programs, thus improving management decision-making.

Also in 1999/00, Computer Services was elevated to a department from a division of the Finance and Computer Services Department, and staffing was increased. 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. This management decision has provided for better matching of the revenues, expenses, assets and liabilities related to this important Borough program.

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 enrollment is expected to increase slightly over the next few years. Changes in enrollment have a dramatic impact on Public School Foundation Program (Foundation Program) funding. The Foundation Program does not provide a mechanism to deal with inflation and general price increases. There is an ongoing effort to review the adequacy of educational funding, and regional cost differentials, but any changes would be subject to action by the State Legislature. During 2001/02 the Alaska State Legislature increased State spending on K-12 education by more than \$24 million, including an increase of \$3.3 million for Fairbanks. A large portion of the increase is supplemental funding not included in the Foundation Program by statute. There is no commitment this supplemental funding will continue from year to year.

## 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 \$115.4 million operating fund revenues in 2001/02, state funding provided 60 percent and the Borough provided 28 percent. Federal pass-through revenues have varied due to changes in the timing of payments to the state and district. The state reduces foundation formula funding by the amount received from the federal government.

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

	1997/98	1998/99	1999/00	2000/01	Preliminary 2001/02
<b>Revenues</b>					
Borough appropriation	\$ 27,680,000	\$ 30,690,780	\$ 30,690,780	\$ 32,045,700	\$ 32,555,700
Local sources	282,369	329,755	515,842	509,805	353,586
State sources	68,904,266	67,711,173	68,604,179	66,844,446	68,819,817
Federal pass-through	400,718	8,256,578	18,621,358	11,851,143	13,425,434
Federal sources	<u>79,129</u>	<u>132,542</u>	<u>103,743</u>	<u>193,435</u>	<u>207,831</u>
Total revenues	97,346,482	107,120,828	118,535,902	111,444,529	115,362,368
<b>Expenditures</b>					
Instruction	65,197,140	68,015,881	68,541,261	67,192,493	70,268,181
Supporting services	19,147,830	22,525,496	23,595,331	23,038,129	24,309,678
Operation & maint.	13,664,430	13,690,690	14,364,228	14,393,763	14,665,825
Pupil activities	1,386,952	1,523,947	1,742,970	1,477,402	1,425,684
Transfers	<u>1,504,768</u>	<u>1,625,948</u>	<u>1,659,793</u>	<u>1,364,206</u>	<u>3,426,956</u>
Total expenditures	100,901,120	107,381,962	109,903,583	107,465,993	114,096,324

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

## School District Budget

Table 15 shows the district's 2002/03 operating fund budget as adopted March 13, 2002. The school district establishes its final budget following action by the Borough assembly setting the local funding level. If the school district's local funding request is fully funded by the Borough, the budget process is complete. If not, the school board must adjust its budget based on the local contribution.

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

State statute requires that the school district submit its budget to the commissioner of the state Department of Education and Early Development by July 15.

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

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	2002/03
<b>Revenues</b>	
Borough appropriation	\$33,545,700
Local sources	479,500
State sources	70,430,467
Federal pass-through	9,251,170
Fund balance utilization	<u>3,272,503</u>
Total revenues	116,979,340
<b>Expenditures</b>	
Instruction	71,789,377
Supporting services	25,522,421
Operation and maintenance	15,812,885
Pupil activities	1,545,550
Transfers to other funds	<u>2,309,107</u>
Total expenditures	116,979,340

Source: Fairbanks North Star Borough School District Budget

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

## **GENERAL AND ECONOMIC DATA**

### **Location, History, Climate**

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

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

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

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

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

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

Fairbanks weather is continental interior, meaning lots of sun and very definite seasons. Winter extremes of -40 degrees (Fahrenheit) are balanced by summer days in the 70's and 80's. The average winter runs from October, with the first snowfall, through breakup in April, when the snow melts. Average winter temperature is -13 degrees. There is very little wind in Fairbanks, particularly during cold winter days. From November to March, daily sunshine ranges from four to ten hours. During June and July, the sun is above the horizon for 18 to 21 hours per day. Although total annual precipitation averages less than 11 inches, winter snowfall averages 65 inches.

## Population and Housing

Table 16 shows the populations of the Borough, the cities of Fairbanks and North Pole, and the State of Alaska. According to the 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 2002 population is 82,840, an increase of 7 percent since 1990.

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

Year	Borough <sup>(1)</sup>	City of Fairbanks <sup>(2)</sup>	City of North Pole	State of Alaska
1970	45,864	18,053	265	302,583
1980	53,983	22,645	724	401,851
1990	77,720	30,843	1,456	550,043
1995	81,552	32,284	1,534	601,581
1996	81,883	31,431	1,504	605,212
1997	82,064	31,697	1,618	609,655
1998	83,045	31,528	1,588	617,082
1999	83,773	31,697	1,616	622,000
2000	83,814	31,423	1,557	628,800
2001	82,840	30,224	1,570	626,932

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

2 - Includes population living on Fort Wainwright.

Source: Fairbanks North Star Borough Comprehensive Annual Financial Report

As of September 2001, the number of military personnel and family members totaled 15,396, 4 percent less than the previous year. The total military population comprises about 19 percent of total Borough population.

Table 17 shows the number of residential housing units sold and the average price per unit since 1999.

## Income

Table 18 shows median household effective buying income (EBI) for the Borough, the state, and the U.S. for the period from 1997 through 2001. 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 1997 and 2001, the Borough's EBI increased at an annual average rate of 3.6 percent. EBI is based on "money income," provided by the Census Bureau. Money income does not include certain sources, such as pay-in-kind income, lump-sum payments such as bonuses, interest and rent from property, and some proprietor's income and transfer payments.

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

	Units Sold	Average Price Per Unit
<b>1999</b>		
1st Quarter .....	104	\$127,000
2nd Quarter .....	214	123,300
3rd Quarter .....	233	135,300
4th Quarter .....	182	125,400
<b>2000</b>		
1st Quarter .....	165	146,900
2nd Quarter .....	227	128,500
3rd Quarter .....	233	135,300
4th Quarter .....	182	125,400
<b>2001</b>		
1st Quarter .....	148	141,400
2nd Quarter .....	242	136,400
3rd Quarter .....	253	134,200
4th Quarter .....	292	137,800
<b>2002</b>		
1st Quarter .....	132	142,700
2nd Quarter .....	213	141,700

Source: FNSB Community Research Quarterly, Vol XXV, No 2, 2002.

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

Year	Borough	State of Alaska	United States
1997	\$40,544	\$43,702	\$34,618
1998	39,766	43,343	35,377
1999	41,299	45,040	37,233
2000	43,924	47,965	39,129
2001	45,890	48,987	38,365

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

## Cities

**Fairbanks:** The City of Fairbanks, with a 2001 population of 30,224, is the largest in the Borough and the second largest in the state, after Anchorage. The city's population has increased about 33 percent since 1980, and decreased about 2 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 2001 population of 1,570 has increased about 8 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 2001 employment at 34,800, an increase of 850 jobs from the previous year.

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

Industry	1997	1998	1999	2000	2001
Mining, construction, & manufacturing	3,400	3,300	3,200	3,300	3,500
Transportation, communications, and utilities	2,500	3,000	3,100	3,150	3,250
Trade	6,800	6,900	6,900	6,800	6,800
Finance, insurance & real estate	1,100	1,100	1,200	1,250	1,200
Services & miscellaneous	7,900	8,200	8,400	8,500	8,900
Government - federal	3,400	3,400	3,300	3,350	3,350
Government - state	4,200	4,400	4,400	4,550	4,700
Government - local	<u>3,000</u>	<u>2,800</u>	<u>3,000</u>	<u>3,000</u>	<u>3,050</u>
Total	32,100	33,000	33,400	33,950	34,800
Unemployment rate	7.6%	5.6%	5.9%	6.1%	5.7%

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, 2001**

Employer	Business Activity	Employees
Federal government <sup>(1)</sup>	Government	3,360
University of Alaska, Fairbanks	Education	3,020
Fairbanks North Star Borough School District	Education	1,980
State government <sup>(2)</sup>	Government	1,620
Banner Health System	Hospital	1,100
Tanana Chiefs Conference	Social services	630
Fred Meyer, Inc.	Grocery/retail	610
Houston/Nana Joint Venture	Oilfield Services	510
Fairbanks North Star Borough	Government	420
Fairbanks Gold Mining Co. (Ft. Knox)	Hard rock mining	340
Safeway	Grocery/retail	310
Fairbanks Native Association	Social services	270
Alyeska Pipeline Service Company	Oil	240
Tanana Valley Medical Surgical Clinic	Health	240
Interior Alaska Mc Donald's	Restaurant	230

1 - Excludes military uniformed personnel.

2 - Total state government minus University of Alaska.

Source: Fairbanks North Star Borough

**Government Sector:** The University of Alaska Fairbanks (UAF) employs 3,022 and is the Borough's largest employer. UAF accounts for 65 percent of persons employed by the state 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 29 percent of the Borough's workforce. Nine percent of the work force is federally employed, 12 percent is state employed, and 5 percent is locally employed.

**Services and Trade Sectors:** Hotel/motel room receipts amounted to \$38.7 million in 2001, a 9 percent increase from 2000. Employment in the services sector, to which tourism significantly contributes, is about 26 percent of total Borough employment. The trade sector accounts for about 20 percent of the Borough's employment.

**Transportation, Communications, and Utilities Sector:** This sector accounts for 9 percent of total employment and includes employees of Alaska Communications Systems as well as Alyeska Pipeline Service Company and others.

**Construction, Manufacturing and Mining Sectors:** These employment sectors provide 5.6 percent, 1.7 percent, and 2.7 percent, respectively, of total employment. Although mining is a small employer, it provides local jobs and brings in new money to the local economy, including property tax revenues. Mining also includes the oil and gas industries which are important to the statewide economy.

**Other Employment:** The Banner Health System is the largest non-governmental employer with 1,098 full-time employees. Tanana Chiefs Conference is a nonprofit corporation representing Interior Athabaskan Indian villages. Tanana Chiefs manages social service programs for 43 interior villages and employs 632 in Fairbanks. Fred Meyer, Inc., a grocery and retail store chain with two stores in Fairbanks, employs 606.

## **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 2000/01 fiscal year, 4,047 military personnel and 5,233 family members were stationed at Fort Wainwright. Civilian employment was 1,231 and combined military and civilian payroll was \$201.3 million. For the 2000/01 fiscal year, 2,879 military personnel and 3,237 family members were stationed at Eielson Air Force Base. Civilian employment was 880 and combined military and civilian payroll was \$140.2 million.

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

	1996/97	1997/98	1998/99	1999/00	2000/01
<b>Fort Wainwright</b>					
Military personnel	4,525	4,378	4,804	4,024	4,047
Family members	5,431	5,601	5,282	5,235	5,233
Civilian Employment	1,257	1,155	1,180	1,169	1,231
Payroll (millions of dollars)					
Military	\$137.3	\$143.7	\$168.7	\$148.0	\$155.9
Civilian	51.3	52.0	46.4	46.0	45.4
<b>Eielson Air Force Base</b>					
Military personnel	2,992	2,713	2,680	2,835	2,879
Family members	4,441	4,292	4,050	3,915	3,237
Civilian Employment	1,014	784	798	917	880
Payroll (millions of dollars)					
Military	\$93.1	\$95.6	\$102.2	\$107.4	\$114.6
Civilian	25.8	29.0	30.6	23.7	25.6

Source: FNSB Community Research Quarterly, Vol XXV, No 2, 2002.

## Retail Sales

Retail sales totaled \$1.1 billion in 2001, according to *Sales & Marketing Management Magazine*. This is an decrease of about 7 percent from 2000. Retail sales increased at an average annual rate of 4.5 percent between 1997 and 2001. Table 22 shows retail sales by category from 1997 through 2001.

## Construction

Table 23 shows building permits and valuation in the Borough since 1997. Total valuation for 2001 was up 27 percent over 2000. 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)**

	1997	1998	1999	2000	2001
Food	\$153,474	\$156,344	\$105,165	\$108,481	\$92,370
Eating & drinking places	84,301	86,024	91,234	60,254	69,986
General merchandise	109,582	112,308	307,559	326,652	305,277
Furniture & appliances	40,178	41,933	29,318	29,312	27,139
Automotive	249,438	262,467	354,122	351,692	327,139
All Other	<u>279,894</u>	<u>277,779</u>	<u>291,160</u>	<u>293,027</u>	<u>262,773</u>
Total	916,867	936,855	1,178,558	1,169,418	1,084,684

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

**Table 23 ■ Fairbanks North Star Borough  
Building Permits and Valuation<sup>(1)</sup>**

Year	Residential		New		Total
	Units	Residential	Commercial	Other <sup>(2)</sup>	
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
2000	159	16,291	59,701	2,443	78,435
2001	270	27,177	65,816	6,831	99,824

1 - Excludes value of federal and state construction.

2 - Includes new structures, alterations and additions.

Source: FNSB Community Research Quarterly, Vol XXV, No 2, 2002.

Construction projects started in the Borough in 2001 included school construction, construction of a new police station, Home Depot, and Tanana Chiefs tribal hall, and remodeling projects in the services and trade sections (K-mart, Sam's Club, Safeway, and U-Haul).

## 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. In November 2002 an initiative was presented to state voters which would create a gas pipeline development authority as a public corporation of the state. This measure received a 61% yes vote.

### **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 refines and transports 70,000 barrels and transports 145,000 barrels of crude oil per day, with both functions operating at or near capacity. The PetroStar refinery, constructed in 1985, has a capacity of 16,000 barrels per day and supplies jet fuel directly to Eielson Air Force Base by pipeline. The refinery produces kerosene, diesel, heating, and jet fuels.

### **Mining**

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

The Fort Knox gold mine is located 15 miles northeast of Fairbanks. Commercial production started in March 1997 and continues 24 hours a day, 365 days a year. The mine has produced approximately 2.3 million ounces of gold since it began operations, and the estimated remaining reserves of 3.6 million ounces should be sufficient to sustain operations through 2008.

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. However, the contract to supply coal to Korea recently expired and no new one was

put in place, ceasing shipments to Korea. This has resulted in a reduction of about 50% in production. 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 3,022 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**

	1997	1998	1999	2000	2001
Passengers - incoming	412,107	408,242	404,896	404,997	411,570
Passengers - outgoing	408,293	406,454	401,878	403,565	407,975
Revenue landings	27,365	27,679	26,581	27,096	29,322
Freight - incoming*	15,539	15,315	13,890	13,554	12,700
Freight - outgoing *	61,187	58,960	57,637	54,842	54,134

\* 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, 2001**

**Cook & Haugeberg** LLC  
**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, 2001, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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, 2001, 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2001, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying 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 27, 2001



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FAIRBANKS NORTH STAR BOROUGH  
Combined Balance Sheet  
All Fund Types and Account Groups  
and Discretely Presented Component Unit  
June 30, 2001  
With Comparative Totals for June 30, 2000

	GOVERNMENTAL FUND TYPES					PROPRIETARY FUND TYPES			FIDUCIARY FUND TYPE	ACCOUNT GROUPS		FAIRBANKS NORTH STAR BOROUGH Totals (Memorandum Only)		COMPONENT UNIT		REPORTING ENTITY Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	General Fixed Assets	Long-Term Debt		Trust and Agency	2001	2000 Residual	SCHOOL DISTRICT	2000		
														General	Total	
<b>Liabilities</b>																
Accounts payable	\$708,656	\$734,439	\$	\$1,108,626	\$249,829	\$	\$	\$	\$2,801,551	\$4,986,271	\$1,236,097	\$4,037,648				
Wages and payroll taxes	460,013				54,888				514,901	549,574	2,376,280	2,891,181				
Accrued annual leave	1,089,708				204,181				1,293,889	1,206,307		1,293,889				
Accrued self-insurance losses	748,036				79,930				825,966	828,124	3,450,773	4,276,739				
Interfund payable		288,561		2,172					290,733	342,028	4,173,461	4,464,194				
Due to School District				21,978					21,978	88,029		21,978				
Due to governmental agencies									267,855	278,866		267,855				
Deposits from others	151,331								151,331	104,078	119,341	151,331				
Deferred revenues		122,644		163,241	12,913				318,798	1,341,787		438,139				
Undistributed grant revenue									5,384	5,384		5,384				
Advance tax payments	4,453,209								4,463,264	4,196,342		4,463,264				
Estimated claims, judgments and settlements payable																
Long-term debt					14,182,538	1,034,577			117,429,609	119,806,030	610,000	132,797,723				
Due to student groups					561,501				613,657	28,020	1,623,579	1,623,579				
Accrued interest payable					501,781				501,781	376,040		613,657				
Unrealized gain on land contracts																
Liabilities total	7,608,953	1,145,644		1,316,017	15,847,562	1,066,733		283,294	144,717,812	134,236,386	13,740,531	158,458,343				
<b>Equity and Other Credits</b>																
Investment in general fixed assets					41,311,367	2,197,086			463,250,281	460,255,141	8,693,072	471,943,353				
Contributed capital									43,508,453	30,299,066		43,508,453				
Retained earnings									332,617	276,813		332,617				
Reserved for asset replacement					2,658,973	60,713			2,719,686	1,867,784		2,719,686				
Unreserved									5,223,238	5,222,033		5,223,238				
Fund balances (deficit)	286,112	274,350		4,862,776												
Reserved for encumbrances																
Other School District reserves																
Unreserved																
Designated for net unrealized investment gains	306,315								306,315			306,315				
Designated for subsequent year's expenditures	500,000	490,720	84,700						1,075,420	866,210	3,125,000	4,200,420				
Designated for self-insurance losses	1,500,000								1,500,000	1,500,000		1,500,000				
Designated for system replacements and repairs		727,237							727,237	603,827		727,237				
Designated for library endowment									1,136,016	1,095,376		1,136,016				
Other School District designations																
Undesignated	13,650,339	9,432,834	15,433	22,476,005				72,937	45,647,548	40,271,812	4,751,319	50,398,667				
Equity and other credits total	16,242,766	10,925,141	100,133	27,136,781	44,302,957	2,257,800		1,208,953	565,426,811	542,258,053	29,003,921	594,430,732				
Liabilities, equity and other credits total	\$23,851,719	\$12,070,786	\$100,133	\$28,454,798	\$60,150,519	\$3,344,533		\$1,492,247	\$463,750,281	\$676,494,449	\$42,744,452	\$752,889,075				

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, 2001 With Comparative Totals for Year Ended June 30, 2000

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	FAIRBANKS NORTH STAR BOROUGH Totals (Memorandum Only)		COMPONENT UNIT SCHOOL DISTRICT	Total (Memorandum Only)		
	General	Special Revenue	Debt Service		Capital Projects	Trust			2001	2000
<b>Revenues</b>										
Taxes										
Intergovernmental revenues	\$54,174,196	\$8,864,899	\$	\$	\$	\$63,039,094	\$63,266,357	\$63,039,094		
Charges for services	10,039,324	3,755,219		2,149,362		16,543,905	23,357,823	17,466,258		
Charges to School District	1,266,606	668,329				1,936,935	6,369,501	1,936,935		
Other revenues	7,019,140	1,015,102	13,998	670,835	81,278	855,683	1,023,735	855,683		
Revenues total	73,356,949	14,303,549	13,996	3,420,196	81,278	91,175,968	102,974,028	195,311,793		
<b>Expenditures</b>										
Current										
General government	10,006,431	8,084,813	11,200			18,102,444	18,387,258	18,102,444		
Education										
Charges from Borough										
All other	1,065,650	93,658				1,159,508	1,125,621	855,683		
Community planning	3,569,783	2,976,300				6,546,083	8,499,968	129,899,298		
Public works	1,217,117					1,217,117	2,639,339	1,159,508		
Direct services	84,470	1,409,291				1,493,762	1,217,117	1,217,117		
Emergency operations	3,831,937					3,831,937	3,701,869	1,493,762		
Parks and recreation	2,804,724					2,804,724	2,695,689	3,831,937		
Library	494,297	568,315		9,047,054		10,109,666	23,094,689	2,804,724		
Capital outlay										
Debt service			6,030,000			6,030,000	8,350,000	6,030,000		
Principal retirement			5,509,596			5,509,596	5,950,374	5,509,596		
Interest and fiscal agent fees										
Expenditures total	23,074,607	13,132,378	11,550,796	9,047,054		56,804,835	74,444,814	189,074,086		
Excess (deficiency) of revenues over expenditures	50,282,342	1,171,171	(11,536,800)	(5,628,857)	81,278	34,371,133	28,529,214	6,287,707		
Other financing sources (uses)										
Operating transfers in				7,110,293		19,454,423	21,186,818	20,820,468		
Operating transfers from Borough		462,170	11,881,960					1,366,045		
Operating transfers out	(17,023,030)	(436,912)		(4,452,000)		(21,911,942)	(24,079,218)	32,045,700		
Operating transfers to School District	(32,045,700)					(32,045,700)	(30,690,700)	(32,277,987)		
Long-term loan proceeds							3,532,264	(32,045,700)		
Bond proceeds										
Other financing sources (uses) total	(49,068,730)	25,258	11,881,960	18,050,000		(18,050,000)	(30,050,916)	18,050,000		
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,213,611	1,196,428	345,160	20,708,293	81,278	(18,433,219)	(30,521,702)	15,592,481		
Fund balances, July 1	15,091,351	16,058,158	(245,028)	15,081,436	81,278	17,917,914	(1,521,702)	21,860,188		
Residual equity transfers	(62,196)	(6,329,446)		(5,469,758)		(11,861,400)	50,080,962	65,907,835		
Fund balances (deficit), June 30	\$16,242,766	\$10,925,141	\$100,133	\$27,338,781	\$1,208,953	\$55,615,774	\$49,599,260	\$75,926,623		

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, 2001

	GENERAL FUND				SPECIAL REVENUE FUNDS WITH ANNUAL BUDGETS				OTHER SPECIAL REVENUE FUNDS		TOTAL SPECIAL REVENUE FUNDS
	Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Actual
<b>Revenues</b>											
Taxes	\$51,556,510	\$54,174,196	\$	\$54,174,196	\$617,686	\$8,813,960	\$8,864,899	\$	\$8,864,899	\$50,939	\$8,864,899
Intergovernmental revenues	9,960,640	10,039,324		10,039,324	79,284	311,510	309,233		309,233	(2,277)	3,755,219
Charges for services	1,405,350	1,268,606		1,268,606	(136,744)	672,920	668,329		668,329	(4,591)	668,329
Charges to School District	1,096,600	855,683		855,683	(240,917)	338,340	671,560		671,560	333,220	1,015,102
Other revenues	5,032,173	7,019,140		7,019,140	1,986,967	10,136,730	10,514,021		10,514,021	377,291	14,303,549
Revenues total	71,050,673	73,356,949		73,356,949	2,306,276	9,731,881	4,360,545		4,412,475	5,319,406	8,094,813
<b>Expenditures</b>											
Current											
General government	10,856,804	10,066,431	20,597	10,027,027	831,776	9,731,881	4,360,545	51,930	4,412,475	5,319,406	3,724,268
Community planning	1,115,552	1,065,850	458	1,066,307	49,245	99,230	93,658		93,658	5,572	93,658
Public works	3,589,806	3,569,783	(58,967)	3,510,815	78,991	3,103,320	2,976,300		2,976,300	157,020	2,976,300
Direct services	1,262,284	1,217,117	82	1,217,199	45,086	1,475,303	1,409,291	(7,296)	1,401,986	73,307	1,409,291
Emergency operations	80,010	84,470		84,470	(4,460)	645,298	423,789	(22,061)	401,779	243,570	144,526
Parks and recreation	4,077,610	3,831,937	55,582	3,887,518	190,092						
Library	2,892,155	2,804,724	(530)	2,804,194	87,961						
Capital outlay	462,628	494,297	(50,055)	444,242	18,386						
Debt service											
Principal retirement											
Interest and fiscal agent fees											
Expenditures total	24,338,849	23,074,607	(32,834)	23,041,774	1,297,075	15,085,031	9,283,594	22,573	9,286,158	5,798,874	3,868,794
Excess (deficiency) of revenues over expenditures	46,711,824	50,282,342	32,834	50,315,175	3,603,351	(4,948,301)	1,250,437	(22,573)	1,227,863	6,176,165	1,171,171
Other financing sources (uses)											
Operating transfers in											
Operating transfers out	(17,275,222)	(17,023,030)		(17,023,030)	252,192	(435,741)	(417,950)		(417,950)	17,791	462,170
Operating transfers to School District	(32,045,700)	(32,045,700)		(32,045,700)							(436,912)
Other financing sources (uses) total	(49,320,922)	(49,068,730)		(49,068,730)	252,192	(435,741)	(417,950)		(417,950)	17,791	25,258
Excess (deficiency) of revenues and other sources over expenditures and other uses	(\$2,609,098)	1,213,611	\$32,834	\$1,246,445	\$3,855,543	(\$5,384,042)	832,487	(\$22,573)	\$609,913	\$6,193,956	1,196,428
Fund balances, July 1		15,091,351									3,778,523
Residual equity transfers		(62,196)									(6,329,446)
Fund balances (deficit), June 30		\$16,242,166									\$1,364,974

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Exhibit III  
Sheet 2 of 2

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, 2001

	Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues					
Taxes	\$	\$	\$	\$	\$
Intergovernmental revenues					
Charges for services					
Charges to School District					
Other revenues		13,996		13,996	13,996
Revenues total		13,996		13,996	13,996
Expenditures					
Current					
General government		11,200	(11,200)		
Community planning					
Public works					
Direct services					
Emergency operations					
Parks and recreation					
Library					
Capital outlay					
Debt service					
Principal retirement	6,030,000	6,030,000		6,030,000	
Interest and fiscal agent fees	5,510,610	5,509,596	(214)	5,509,382	1,228
Expenditures total	11,540,610	11,550,796	(11,414)	11,539,382	1,228
Excess (deficiency) of revenues over expenditures	(11,540,610)	(11,536,800)	11,414	(11,525,386)	15,224
Other financing sources (uses)					
Operating transfers in	11,881,960	11,881,960		11,881,960	
Operating transfers out					
Operating transfers to School District					
Other financing sources (uses) total	11,881,960	11,881,960		11,881,960	
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$341,350	345,160	\$11,414	\$356,574	\$15,224
Fund balances, July 1		(245,028)			
Fund balances (deficit), June 30		\$100,133			

FAIRBANKS NORTH STAR BOROUGH

Exhibit IV

Combined Statement of Revenues, Expenses  
and Changes in Retained Earnings  
Proprietary Fund Types  
Year Ended June 30, 2001

	Proprietary Fund Types		Total
	Enterprise	Internal Service	
Operating revenues			
Fares	\$171,715	\$	\$171,715
Gain (loss) on land sales	24,579		24,579
Land leases	43,289		43,289
Interest on land contracts receivable	161,486		161,486
Advertising	10,840		10,840
Charges for services	6,171,811	350,523	6,522,334
Other revenues	42,846	5,350	48,196
Operating revenues total	6,626,566	355,873	6,982,439
Operating expenses			
Wages and benefits	3,827,171		3,827,171
Fuels, lubricants, and parts	392,678		392,678
Contractual services	871,385		871,385
Utilities	114,218		114,218
Professional services	154,907		154,907
Depreciation	2,912,444	337,025	3,249,469
Training, dues, and professional expenses	30,865	126	30,990
Repairs and maintenance	186,501	5,080	191,581
Supplies	136,598		136,598
Interest expense for capital leases		71,132	71,132
Management contractor fee	126,477		126,477
Landfill closure and postclosure care costs	197,170		197,170
Intragovernmental charges	1,464,447	8,581	1,473,028
Operating expenses total	10,414,862	421,943	10,836,805
Operating income (loss)	(3,788,296)	(66,070)	(3,854,366)

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Exhibit IV

Combined Statement of Revenues, Expenses  
and Changes in Retained Earnings  
Proprietary Fund Types  
Year Ended June 30, 2001

	Proprietary Fund Types		Total
	Enterprise	Internal Service	
Non-operating revenues (expenses)			
Operating grants	334,883		334,883
Fares from grants	140,000		140,000
Investment income	1,114,640		1,114,640
Gain (loss) on sales of fixed assets	28,794	47,526	76,320
Decline in market value of land inventory	(71,764)		(71,764)
Non-operating revenues (expenses) total	1,546,553	47,526	1,594,079
Gain (loss) before operating transfers	(2,241,743)	(18,544)	(2,260,286)
Operating transfers in	2,457,520		2,457,520
Net income (loss)	215,777	(18,544)	197,232
Add depreciation on fixed assets funded by contributed capital	779,748		779,748
Retained earnings, July 1 (restated)	2,065,339	79,258	2,144,596
Residual equity transfers	(69,273)		(69,273)
Retained earnings, June 30	\$2,991,590	\$60,713	\$3,052,303

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Exhibit V

Combined Statement of Cash Flows  
Increases (Decreases) in Equity in Central Treasury Cash  
Proprietary Fund Types  
Year Ended June 30, 2001

	Proprietary Fund Types		Total
	Enterprise	Internal Service	
Cash flows from operating activities			
Cash received from customers	\$7,161,255	\$355,873	\$7,517,128
Cash payments to suppliers for goods and services	(3,870,148)	(13,787)	(3,883,935)
Cash payments to employees for services	(3,749,354)		(3,749,354)
Net cash provided by (used for) operating activities	(458,247)	342,087	(116,161)
Cash flows from noncapital financing activities			
Operating grants received	943,114		943,114
Operating transfers from general fund	2,442,520		2,442,520
Residual equity transfers from other funds	11,061,556		11,061,556
Net cash provided by noncapital financing activities	14,447,190		14,447,190
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(853,804)	(11,841)	(865,645)
Capital grants received	313,456		313,456
Capital lease payments		(151,782)	(151,782)
Interest on capital lease payments		(46,996)	(46,996)
Operating transfers from general fund	15,000		15,000
Acquisition of land transferred to general fixed assets	(291,929)		(291,929)
Acquisition of assets transferred to general fixed assets	(138,282)		(138,282)
Proceeds from sale of capital assets	42,971	47,526	90,497
Proceeds from loan	233,236		233,236
Net cash used for capital and related financing activities	(679,352)	(163,094)	(842,446)
Cash flows from investing activities			
Investment income allocation from central treasury	1,120,351		1,120,351
Net increase in equity in central treasury cash	14,429,942	178,993	14,608,935
Equity in central treasury cash at beginning of year	6,073,678	341,093	6,414,771
Equity in central treasury cash at end of year	\$20,503,620	\$520,086	\$21,023,706

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Exhibit V

Combined Statement of Cash Flows  
Increases (Decreases) in Equity in Central Treasury Cash  
Proprietary Fund Types  
Year Ended June 30, 2001

	Proprietary Fund Types		Total
	Enterprise	Internal Service	
Reconciliation of operating loss to net cash provided by (used for) operating activities			
Operating loss	(\$3,788,298)	(\$86,070)	(\$3,854,368)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	2,912,444	337,025	3,249,469
Interest on lease payable		71,132	71,132
Change in assets and liabilities			
Decrease in inventories	92,363		92,363
Increase in receivables	(40,013)		(40,013)
Decrease in accounts payable	(35,473)		(35,473)
Increase in wages and payroll taxes	21,512		21,512
Increase in accrued annual leave	52,121		52,121
Increase in accrued self-insurance losses	4,184		4,184
Increase in unrealized gain on land contracts	125,741		125,741
Increase in landfill closure and postclosure care liability	197,170		197,170
Adjustments total	3,330,049	408,157	3,738,206
Net cash provided by (used for) operating activities	(\$458,247)	\$342,087	(\$116,161)
Noncash investing, capital and financing activities			
Fixed asset transfers to the vehicle and equipment fleet fund		\$738,508	\$738,508
Fixed asset transfers to the general fixed asset account group		(\$291,929)	(\$291,929)
Transfers from other funds:			
Accrued interest receivable	\$20,578		\$20,578
Due from governmental agencies	\$534,721		\$534,721
Fixed assets (net)	\$14,721,556		\$14,721,556
Current liabilities for acquisition and construction of capital assets	(\$80,810)		(\$80,810)
Long-term loan for acquisition and construction of capital assets	(\$6,484,042)		(\$6,484,042)
Current liabilities for acquisition and construction of capital assets decrease	\$46,368		\$46,368
Accrued interest payable on long-term loan increase	(\$561,501)		(\$561,501)
Fixed asset transfer to general fixed assets	(\$2,089)		(\$2,089)
Net book value of fixed assets sold	(\$14,177)		(\$14,177)
Capitalized interest expense	\$561,501		\$561,501

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements  
June 30, 2001

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2001

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 (not exercised). These services are provided throughout the entire Borough.

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

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

**Solid Waste Collection District:** solid waste collection and transfer. 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 for appropriating the amount for local support to education.

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 agreements with the State and the U.S. Department of Education.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (continued)

geographic basis. These activities include solid waste collection, emergency medical services, economic development, emergency communication services (enhanced 911), and various service area functions. Revenues for these activities are provided by local taxation, state revenues, and charges for services. Additional special revenue funds are used for multi-year, non-capital projects funded by grants from the state, federal pass-through grants, federal grants, and certain local funds.

Service areas have been established by certain communities and neighborhoods. Service areas are smaller units, within the Borough boundaries, created to provide certain services not otherwise exercised on an areawide or non-areawide basis. These services are: 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. Enterprise fund activities include the transit system, Borough fleet maintenance, air quality functions, Borough lands management, operation of the Carlson Community Activity Center, and solid waste disposal (landfill).

**Internal Service Fund** - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government on a cost reimbursement basis. Acquisition and acquisition financing for Borough vehicles and equipment are accounted for in an internal service fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (continued)

**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 for the Noel Wien Library by the trust agreement of the donor.

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

**General Fixed Assets Account Group**

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

**General Long-Term Debt Account Group**

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

**School District**

The School District 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)  
C. BASIS OF ACCOUNTING (continued)

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.

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, except for estimated landfill closure and postclosure care costs which are recognized based on landfill usage.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Statute 14.14.060(c) and Fairbanks North Star Borough Code of Ordinances (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 amount of local support for education.
- 2) At least one public hearing is held.
- 3) By May 31, the budget is legally enacted through the passage of an appropriating ordinance, including the local support share of School District funding.
- 4) The Mayor is authorized to transfer budgeted amounts within a department or within a service area. Transfers between departments, between service areas, or between funds require Borough Assembly approval.

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

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

Annual budgets are also adopted for the enterprise funds and the internal service fund. However, generally accepted accounting principles do not require the adoption of budgets for enterprise funds and internal service funds, and budgetary comparisons are not included for these funds because the measurement focus is upon determination of net income and financial position.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BUDGETS, BUDGETARY ACCOUNTING, AND ENCUMBRANCES (continued)

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

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

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

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

E. EQUITY IN CENTRAL TREASURY CASH AND INVESTMENTS

Cash balances of all Borough funds and cash of the School District component unit are combined and invested to maximize investment 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.

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, 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, investment income is allocated to pay for the cost of debt service

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. EQUITY IN CENTRAL TREASURY CASH AND INVESTMENTS (continued)

on those projects. For bond-funded projects authorized since September 1993, investment income is allocated back to the respective project. The balance of investment income is allocated to the general fund.

F. STATEMENT OF CASH FLOWS

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

Effective July 1, 2000, with the establishment of the solid waste disposal enterprise fund, assets and liabilities were moved to the new fund as part of the residual equity transfers (see Notes 17 and 18). For purposes of the fund's statement of cash flows, these asset and liability amounts are considered the beginning balances for the subsection of the cash flow statement entitled "change in assets and liabilities".

G. TAXES RECEIVABLE

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

H. INVENTORIES

Inventories of the transit enterprise fund are valued on an average cost basis. Inventories of the School District are valued at cost, using the weighted average cost 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).

I. 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, it is adjusted back to the date of donation and that portion exceeding \$1 per acre is added to contributed capital. These lands remain in inventory - Land Held for Sale until they are sold or leased or until it is determined that they will not be sold and will instead be retained by the Borough.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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 Types* - Property, buildings, and equipment held by the proprietary funds are recorded at cost, except for assets which have been contributed to the Borough. The contributed assets are stated at estimated fair market value at the date of contribution. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Depreciation of fixed assets acquired by grants, entitlements, and shared revenue externally restricted for capital acquisitions is closed to the appropriate contributed capital account, except for the Internal Service Fund. 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 Wainwright Army Post and Eielson Air Force Base. Ownership of the on-base schools is being individually transferred to the Borough as new on-base schools are constructed, or as existing schools are renovated, to Borough standards. School District equipment is valued at cost or estimated historical cost when original cost is not available. Donated equipment is valued at its estimated fair market value on the date received.

K. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables result from individual funds' overdrafts of pooled cash in the central treasury.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. ACCRUED ANNUAL LEAVE

For governmental and proprietary funds, and for the School District, annual leave is accrued as earned. The Borough's accrued annual leave liabilities are reported as fund liabilities because the Borough budgets for those as they are incurred, even though those liabilities may not be liquidated until some future budget period.

M. DEFERRED REVENUES

Deferred revenues arise when resources are received before the Borough or School District has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when the Borough or School District has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

N. 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.

O. 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.

P. 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.

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 and sewer assessments payable.

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 premium or discount, if any. Issuance costs are recognized during the current period as expenditures of the bond projects capital projects fund.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. LONG-TERM OBLIGATIONS (continued)

*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.

Q. UNREALIZED GAIN ON LAND CONTRACTS

In accordance with Financial Accounting Standards Board Statement Number 66, retail land sales of the land enterprise fund are accounted for using the installment method because the extended length of the collection period casts doubt on the collectibility of the land contracts receivable. The unrealized gain on land contracts represents that portion of the gross profit that has not yet been recovered through collections of the receivables.

R. FUND EQUITY

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

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 19.

S. INTERGOVERNMENTAL GRANT REVENUES

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

T. INTERFUND AND INTRA-ENTITY TRANSACTIONS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

T. INTERFUND AND INTRA-ENTITY TRANSACTIONS (continued)

component unit and as reduction of expenditures/expenses in the fund or component unit that is reimbursed.

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

U. IN-KIND SUPPORT TO THE SCHOOL DISTRICT

As in previous years, certain services are provided by the Fairbanks North Star Borough to the School District. These include use of various Borough facilities, debt service on school facilities, certain administrative functions, major facility maintenance, and certain equipment purchases. The costs of these services have not been charged to the School District.

The School District operates school facilities at Fort Wainwright Army Post and Eielson Air Force Base. 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. 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 two on-base schools.

V. GENERAL PURPOSE FINANCIAL STATEMENTS

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

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

W. COMPARATIVE DATA

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Borough's financial position, operations, and cash flows. However, comparative data have not been presented in all statements since their inclusion would make the statements unduly complex and difficult to understand. Certain reclassifications, which have no effect on the fund balance or equity of any fund, have been made to the June 30, 2000 financial statements to conform them to current classifications.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

X. 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	<u>Amount</u>
General fund:	
Transfers to facilities maintenance reserve fund	\$1,397,500
Settlement of collective bargaining agreements	352,520
Salary increases for exempt positions	136,120
Settlement of automobile liability claim	105,000
Contract for Alaskaland master planner	50,000
Other	<u>57,958</u>
	<b>\$2,109,098</b>
Enhanced 911 fund:	
Settlement of collective bargaining agreements	\$ 200
Salary increases for exempt positions	<u>2,680</u>
	<b>\$ 2,880</b>
Non-areawide fund:	
Settlement of collective bargaining agreements	\$ 2,340
Salary increases for exempt positions	<u>700</u>
	<b>\$ 3,110</b>
Solid waste collection district fund:	
Settlement of collective bargaining agreements	<u>\$1,500</u>
Service areas fund:	
North Star Volunteer Fire Department - Replace Engine #2	\$ 97,500
Salary increases for exempt positions	<u>6,060</u>
	<b>\$103,560</b>

B. DEFICITS IN FUND BALANCES

There were no individual funds with deficit fund balances at June 30, 2001.

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the general fund, the Emergency Operations department over-expended its appropriation by \$4,460. The Borough budgets for employees' accrued annual leave as it is earned. However, the budget is prepared on an average basis across the entire Borough. For very small cost

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS (continued)

centers, this can sometimes result in actual costs varying widely from budgeted costs. Such is the case for that portion of the Emergency Operations department that is in the general fund. There were no other excesses of actual expenditures over appropriations for the year ended June 30, 2001.

D. TAXES LEVIED IN EXCESS OF MAXIMUM TAX COMPUTATION

Seven service areas levied a total of \$25 of taxes in excess of the maximum tax computation. (See Note 4.)

E. SCHOOL DISTRICT FUND BALANCE LIMIT

In accordance with Alaska Statutes 14.14.060(c) and FNSB 3.03.040, the Assembly annually appropriates the amount of local support for school purposes, while FNSB 3.01.060 E limits the amount of the School District's unreserved local appropriation fund balance. Unreserved local appropriation fund balance not exceeding seven percent may carry over to the next fiscal year. This carry-over fund balance is not required to show as revenues for the following fiscal year's budget. At June 30, 2001, unreserved fund balance originating from all revenue sources, including local support, exceeded seven percent of fiscal year 2000-01 expenditures and other financing uses. However, unreserved fund balance includes a \$3,125,000 designation for fiscal year 2001-02 expenditures. (See Note 19.) This amount adequately covers the excess over the seven percent limit.

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 contracted its banking services with National Bank of Alaska. On June 23, 2001, the Borough's accounts automatically converted to Wells Fargo Bank Alaska N.A. (WFB). 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 WFB sweep the Borough's central treasury accounts daily and invest all available funds in an overnight investment. The carrying amount of the Borough's deposits on June 30, 2001 was (\$1,062,644) and the corresponding bank balance was \$34,212. The daily bank balance is fully collateralized by a combination of federal depository insurance (FDIC) and securities held in the Borough's name by the Borough's agent, Alaska USA Trust Company. Both the compensating balance and the balance swept in accordance with the overnight investment agreement are collateralized by the securities held in the Borough's name at Alaska USA Trust Company.

**Investments** - FNSB Code 3.04 (Code) 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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements  
June 30, 2001

3. DEPOSITS AND INVESTMENTS (continued)

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 FSLIC - 5 years; 6) bonds or notes of any state or political subdivision thereof, rated A or higher - 5 years; 7) prime commercial paper graded A1/P1 or higher - 270 days; 8) prime bankers acceptances of the fifty largest international banks - 180 days; 9) money market mutual funds consisting entirely of instruments specified in 1), 2), and 3) above - maturity date not applicable; and 10) the Alaska Municipal League Investment Pool, Inc., created in accordance with Alaska Statute 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, 2001, the Borough invested in U.S. government securities and agencies, prime commercial paper, Hamilton Money Fund, Fidelity Treasury Money Market Fund, the Alaska Municipal League Investment Pool, and the overnight investment with WFB.

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 securities money market funds and the external investment pool are not required to be categorized since the investments are not evidenced by securities that exist in physical or book entry form. 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.

	Principal Invested	Fair Value
Categorized investments:		
Overnight investments:		
U.S. securities and agencies	\$ 1,531,778	\$ 1,531,778
Commercial paper	53,671,516	54,079,175
	<u>4,844,825</u>	<u>4,962,811</u>
	60,048,119	60,573,764
Uncategorized investments:		
Government securities money market funds	11,508,588	11,508,588
External investment pool	<u>33,284,797</u>	<u>33,284,797</u>
Total investments	<u>\$104,841,504</u>	<u>\$105,367,149</u>

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

The overnight investment is a fully collateralized investment at WFB. It is a highly liquid, short-term investment where the principal equals fair value.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements  
June 30, 2001

3. DEPOSITS AND INVESTMENTS (continued)

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, 2001, the Borough had seven 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, 2001, the weighted average portfolio maturity was 43 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 incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statute 37.23.050 requires the retention of an investment manager. The manager is required to produce monthly disclosure statements on the pool. The pool also has retained an investment adviser who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the pool is voluntary. The pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the pool are reviewed for fair value by an independent pricing service. As of June 30, 2001 the fair value of the investments in the pool approximates the amortized cost at which the investments were reported. The fair value of the Borough's investments in AMLIP is the same as the value of its pool units.

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.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2001

4. PROPERTY AND OTHER TAXES (continued)

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 (Code) limits the Borough's taxing authority. The total amount of tax that can be levied during a year cannot exceed the total amount levied for the preceding year (see Note 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 2000, 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 9.25 percent to 10.00 percent and weighted average interest rate of 9.93 percent. The annual installments of principal due for the next five years on contracts converted to deeds of trust and parcels originally sold as deeds of trust are:

Year Ending June 30	Annual Installments
2002	\$217,049
2003	204,640
2004	206,543
2005	209,852
2006	209,593

*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 10.00 percent per annum, with a weighted average interest rate of 10.00 percent. The annual installments of principal due for the next five years are:

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2001

5. DEEDS OF TRUST AND CONTRACTS RECEIVABLE (continued)

Year Ending June 30	Annual Installments
2002	\$719
2003	538
2004	595
2005	596
2006	-

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, 2001, the total receivable for delinquent accounts amounted to \$273,747.

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 (patent or tentative approval) to about 99 percent of those acres. Of this acreage, about nine 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. The remaining acreage, both the undeveloped and developed lands, is recorded as inventory - Land Held for Sale in the land enterprise fund. Currently, \$148,421 of the land held for sale has been identified as lowlands, permafrost, or other types of land unsuitable for sale.

7. FIXED ASSETS AND PRIOR PERIOD ADJUSTMENT

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

	June 30, 2000 Balance, Restated	Additions/ Transfers In	Deletions/ Transfers Out	June 30, 2001 Balance
Borough				
Land	\$ 9,796,361	\$ 291,929	\$ 230,000	\$ 9,858,290
Buildings	294,509,941	914,455	4,470,283	290,954,113
Improvements other than buildings	14,459,243	345,845	2,103,576	12,701,512
Furniture and equipment	19,639,007	1,174,100	3,727,887	17,085,221
Library materials	13,474,432	3,854,998		17,329,430
Construction work in progress	<u>108,376,157</u>	<u>13,498,719</u>	<u>6,553,161</u>	<u>115,321,715</u>
Borough total	<u>\$460,255,141</u>	<u>\$20,080,048</u>	<u>\$17,084,908</u>	<u>\$463,250,281</u>
School District				
Furniture and equipment	\$ 8,279,769	\$ 1,308,170	\$ 894,867	\$ 8,693,072

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2001

7. FIXED ASSETS AND PRIOR PERIOD ADJUSTMENT (continued)

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, 2001 follows:

	Enterprise Funds	Internal Service Fund	Totals
Land	\$ 3,668,692	\$	\$ 3,668,692
Buildings	24,577,605		24,577,605
Improvements other than buildings	9,171,060		9,171,060
Equipment	5,744,148	4,549,809	10,293,957
Construction work in progress	852,692		852,692
Total	44,014,198	4,549,809	48,564,006
Less: accumulated depreciation	(15,562,052)	(1,725,362)	(17,287,415)
Net	\$28,452,145	\$2,824,447	\$31,276,592

During the current year, additional information was received regarding certain assets included in the vehicle and equipment fleet (VEF) fund at June 30, 2000. \$2,549,995 of these assets (\$1,448,253 net of accumulated depreciation) should not have been reported in the VEF fund. Of that amount, \$2,480,775 (\$1,448,253 net of accumulated depreciation) should have been included in the transit enterprise fund and \$69,220 should have been in the general fixed assets account group. The prior period has been adjusted for these amounts. In addition, for those assets that should have been in the transit enterprise fund, depreciation was expensed in the VEF fund for the year ended June 30, 2000. The effects of this prior period adjustment on the net income, contributed capital, and retained earnings of these funds are:

	Transit	Vehicle and Equipment Fleet
Net income (loss):		
For the year ended June 30, 2000	\$ 137,304	(\$ 60,651)
Adjustment	(139,908)	139,909
For the year ended June 30, 2000 (restated)	(\$ 2,604)	\$ 79,258
Contributed capital:		
June 30, 2000	\$1,460,133	\$3,046,739
Adjustment	(1,445,737)	(1,588,161)
July 1, 2000 (restated)	\$2,905,870	\$1,458,578
Retained earnings:		
June 30, 2000	\$853,041	(\$ 60,651)
Adjustment	(2,517)	139,909
July 1, 2000 (restated)	\$850,524	\$ 79,258

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2001

8. INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances at June 30, 2001, all resulting from deficits in central treasury cash, are as follows:

Fund	Interfund Receivables	Interfund Payables
General fund	\$290,733	\$
Special revenue fund:		
Federal pass-through grants		288,561
Capital projects fund:		
Federal grants		2,172
Total	\$290,733	\$290,733

9. RETIREMENT PLANS

As of June 30, 2001, 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) 465-4460. Effective July 1, 1993, the Borough and the School District participate in the PERS under separate agreements. Prior to that date, they participated under a joint agreement. Employer contributions are actuarially determined and have been paid or accrued by both the Borough and the School District.

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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 7.50 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 2001 was 5.98 percent. The School District's rate was 8.25 percent.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2001

9. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Annual Pension Cost

Actuarial valuations are required to be performed at least biennially. In the past, PERS has performed actuarial valuations annually, as of June 30 of each year. However, at June 30, 2000, PERS chose not to perform an annual actuarial valuation. 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, 1998. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The PERS uses a level dollar open method to amortize the unfunded liability and funding surpluses over a rolling twenty-five year period. Prior to 1997, funding surpluses were amortized over five years. Asset valuation uses a smoothed market method. Additional actuarial assumptions are as follows:

	Borough		School District	
	Pension	Postemployment Healthcare	Pension	Postemployment Healthcare
Employer contribution rate	4.27%	1.71%	5.90%	2.36%
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	7.50%	n/a	7.50%

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, 2001 were as follows:

	Borough		School District	
	Pension	Postemployment Healthcare	Pension	Postemployment Healthcare
Annual required contribution	\$ 646,564	\$ 257,880	\$ 904,444	\$ 904,444
Interest on NPO	(68,250)	(27,221)	(95,471)	(95,471)
Adjustment to annual required contribution	71,396	28,476	99,872	99,872
Annual pension cost	649,711	259,134	908,845	908,845
Contributions made	646,371	257,803	904,174	904,174
Increase in NPO	\$ 3,340	\$ 1,331	\$ 4,671	\$ 4,671
NPO, end of year	<del>(\$ 837,871)</del>	<del>(\$ 314,685)</del>	<del>(\$ 1,152,556)</del>	<del>(\$ 1,152,556)</del>

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2001

9. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Annual Pension Cost (continued)

School District	Annual Pension Cost		Postemployment Healthcare		Total
	Pension	Healthcare	Pension	Healthcare	
Annual required contribution	\$ 1,188,464	\$ 473,977	\$ 1,662,441	\$ 473,977	\$ 2,136,418
Interest on NPO	(57,394)	(22,890)	(80,284)	(22,890)	(103,174)
Adjustment to annual required contribution	60,040	23,345	83,385	23,345	106,730
Annual pension cost	1,191,110	475,032	1,666,142	475,032	2,141,174
Contributions made	1,188,461	473,976	1,662,437	473,976	2,136,413
Increase in NPO	\$ 2,649	\$ 1,056	\$ 3,705	\$ 1,056	\$ 4,761
NPO, end of year	<del>(\$ 704,691)</del>	<del>(\$ 264,747)</del>	<del>(\$ 969,438)</del>	<del>(\$ 264,747)</del>	<del>(\$ 1,234,185)</del>

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, 2001, 2000, and 1999 follows:

	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<b>Borough</b>				
Pension benefits	1999	\$ 486,277	97%	(\$ 843,560)
	2000	497,620	100	( 841,211)
	2001	649,711	99	( 837,871)
Post-employment healthcare benefits	1999	187,400	97	(316,891)
	2000	185,468	100	(316,016)
	2001	259,134	99	(314,685)
<b>School District</b>				
Pension benefits	1999	\$ 1,014,131	100%	(\$ 710,046)
	2000	958,631	100	( 707,340)
	2001	1,191,110	100	( 704,691)
Post-employment healthcare benefits	1999	390,812	100	( 266,810)
	2000	357,299	100	( 265,803)
	2001	475,032	100	( 264,747)

9. RETIREMENT PLANS (continued)

B. ALASKA TEACHERS' RETIREMENT SYSTEM

Plan Description

The Alaska Teachers' Retirement System (TRS) is a defined benefit, cost-sharing, multiple-employer retirement system created and administered by the State of Alaska (State) to provide pension, postemployment healthcare, death and disability benefits for eligible employees. 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.

During the year ended June 30, 2001, the required employer contribution rate was 12.00 percent. The amounts contributed to TRS by the School District during the years ended June 30, 2001, 2000, and 1999 were \$6,702,137, \$6,757,448, and \$6,541,543, 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, 2001 were \$119,193.

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, 2001.

11. CAPITAL LEASES

The Fairbanks North Star Borough has entered into a master lease agreement as lessee for financing the acquisition of vehicles and equipment. The leases from this agreement qualify as capital leases for accounting purposes. The leased assets and their related obligations are all accounted for in the vehicle and equipment fleet fund. Assets under these capital leases totaled \$1,189,859 and accumulated depreciation on those assets totaled \$106,051. The future minimum lease payments under the leases, together with the net present value of the minimum lease payments as of June 30, 2001, are as follows:

Year Ending June 30	Vehicle and Equipment Fleet Fund
2002	\$ 273,612
2003	273,612
2004	273,612
2005	268,867
2006	74,935
	<u>1,164,638</u>
	Less: Amount representing interest <u>(130,061)</u>
	Present value of minimum lease payments <u>\$1,034,577</u>

12. LONG-TERM DEBT

At June 30, 2001, all long-term capital lease debt of the Borough was recorded in its internal service proprietary fund. All long-term debt of the Borough's enterprise proprietary funds was recorded in those enterprise funds. All other long-term debt of the Borough was recorded in its general long-term debt account group.

*General Long-Term Debt* - The long-term debt in the Borough's account group at June 30, 2001, is comprised of the following individual issues:

General obligation bonds:

\$42,615,000 1993 Refunding Series S bonds due in annual installments of \$2,830,000 to \$4,755,000 through March 1, 2008 at 5.1 to 5.5% interest.	\$ 26,850,000
\$2,000,000 1994 Series T solid waste transfer station bonds due in annual installments of \$220,000 to \$245,000 through April 1, 2004 at 5.2 to 5.4% interest.	695,000
\$16,320,000 1996 Series U school facilities bonds due in annual installments of \$575,000 to \$1,350,000 through November 1, 2016 at 5.0 to 8.0% interest.	14,300,000
\$35,250,000 1997 Series A school facilities and library bonds due in annual installments of \$1,100,000 to \$2,800,000 through November 1, 2017 at 5.0 to 6.5% interest.	32,450,000

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2001

12. LONG-TERM DEBT (continued)

General obligation bonds (continued):  
 \$26,210,000 1999 Series B school facilities bonds due in annual installments of \$860,000 to \$1,990,000 through April 1, 2019 at 4.00 to 6.25% interest. \$ 24,660,000  
 \$9,000,000 2000 Series C school facilities bonds due in annual installments of \$60,000 to \$710,000 through December 1, 2020 at 4.50 to 7.50% interest. 9,000,000  
 \$9,050,000 2001 Series D school facilities bonds due in annual installments of \$275,000 to \$695,000 through February 1, 2021 at 4.125 to 7.125% interest. 9,050,000  
117,005,000

Other long-term debt:  
 Sewer assessments payable \$48,546 of sewer assessments due in annual installments through January 15, 2021 at 5.0% interest. 23,112  
 Long-term contracts payable \$630,681 of eighteen (18) office and computer equipment contracts due in monthly and annual installments through June 2006 at 0.81 to 17.36% interest. 401,496  
424,608  
**\$117,429,609**

The following is a summary of changes in general long-term debt for the year ended June 30, 2001:

	General Obligation Bonds	Landfill Closure and Postclosure Care Liability	Other Long-Term Debt	Total
Payable at July 1, 2000	\$104,985,000	\$7,268,090	\$7,053,900	\$119,306,990
New debt	18,050,000		48,395	18,098,395
Debt retired	(6,030,000)		(1,214)	(6,030,000)
Sewer assessments paid			(192,431)	(192,431)
Contracts payable paid			(6,484,042)	(6,484,042)
Transfers to enterprise fund		(7,268,090)		(7,268,090)
Payable at June 30, 2001	<u>\$117,005,000</u>	<u>\$</u>	<u>\$ 424,608</u>	<u>\$117,429,609</u>

The annual requirements to amortize general long-term debt outstanding as of June 30, 2001, including interest payments of \$52,380,138, are as follows:

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2001

12. LONG-TERM DEBT (continued)

Year Ending June 30	General Obligation Bonds	Sewer Assessments Payable	Contracts Payable	Total
2002	\$ 13,127,856	\$ 2,369	\$178,548	\$ 13,308,773
2003	13,126,306	2,309	114,425	13,243,040
2004	13,215,701	2,248	78,462	13,296,411
2005	13,013,441	2,187	63,760	13,079,388
2006	13,090,901	2,127	42,378	13,135,406
2007-2011	44,744,594	9,722		44,754,316
2012-2016	38,449,178	8,205		38,457,383
2017-2021	<u>20,529,502</u>	<u>5,528</u>		<u>20,535,030</u>
	<b>\$169,297,479</b>	<b>\$34,695</b>	<b>\$477,573</b>	<b>\$169,809,747</b>

On October 3, 2000, the voters of the Fairbanks North Star Borough approved bond propositions totaling \$29,450,000 for renovations and upgrades to Hatcher Vocational-Technical High School and to five other schools, plus improvements to playgrounds at several elementary schools. On December 7, 2000, the Borough sold the first \$9,000,000 of these bonds. On January 11, 2001, the Borough sold an additional \$9,050,000 of these bonds. Issuance of the remaining \$11,400,000 is planned for late spring of 2002.

Enterprise Proprietary Long-Term Debt - The long-term debt in the Borough's enterprise proprietary funds at June 30, 2001 is as follows:

Solid Waste Disposal Enterprise fund:  
 Landfill closure and postclosure care liability (see Note 13) \$ 7,465,260  
 Loan payable \$6,717,278 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. 6,717,278  
\$14,182,538

The following is a summary of changes in enterprise proprietary funds' long-term debt for the year ended June 30, 2001:

	Landfill Closure and Postclosure Care	Loan Payable	Total
Payable at July 1, 2000	\$	\$	\$
Transfer from general long-term debt account group	7,268,090	6,484,042	13,752,132
New debt		233,236	233,236
Change in estimate	<u>197,170</u>		<u>197,170</u>
Payable at June 30, 2001	<u>\$7,465,260</u>	<u>\$6,717,278</u>	<u>\$14,182,538</u>

12. LONG-TERM DEBT (continued)

In 1997, the Borough negotiated a \$10 million Alaska Clean Water Fund Agreement with the State of Alaska Department of Environmental Conservation (ADEC) for construction of a 36-acre solid waste landfill expansion (cell 1 and cell 2). In 2001, ADEC made an additional \$2.5 million of loan funds available to the Borough. Interest accrual of 2.5 percent commenced one year from the date of the first loan drawdown, in May 1999. Repayment is due in annual installments beginning one year after the final loan drawdown of construction costs for each cell. The Borough intends to use a \$5 million U.S. Department of Defense grant to repay a portion of the loan.

*School District Component Unit Long-Term Debt* - The School District has \$151,000 in liabilities for compensated absences recorded in its general long-term debt account group at June 30, 2001.

13. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

Prior to July 1, 2000, all operating expenditures, both those related to current activities of the landfill and those related to maintenance of the portion of the landfill that is no longer accepting waste, were recorded in the solid waste disposal special revenue fund. Capital expenditures related to maintenance of the portion of the landfill that is no longer accepting waste were recorded in the capital projects fund. The liability for future closure and postclosure care costs related to the portion of the landfill that has been used (filled) were recorded in the general long-term debt account group. Effective July 1, 2000, all of these activities are now accounted for in the new solid waste disposal enterprise fund. (See Note 17.)

State and federal laws and regulations require the Borough to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Landfill closure and postclosure care costs, and their related liability, are recognized in the solid waste disposal enterprise fund and are based on the amount of landfill capacity used during the year. As of June 30, 2001, the estimated liability for landfill closure and postclosure care costs was \$7,465,260, which was based on 76 percent of the landfill used (filled) to date. It is estimated that an additional \$2,350,740 will be recognized as closure and postclosure expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2012). The estimated total cost for future landfill closure and postclosure care (\$9,816,000) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2001. However, the actual cost of closure and postclosure care may be higher or lower due to inflation or deflation, changes in technology, or changes in landfill laws and regulations.

The Fairbanks North Star Borough is required by state and federal laws and regulations to demonstrate financial responsibility for future closure and postclosure care costs by meeting the requirements of a specially designed local government financial test. This test includes a financial component, a public notice component, and a record-keeping component. The Fairbanks North Star Borough is in compliance with these requirements at June 30, 2001.

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

While not required by state or federal laws and regulations, the Fairbanks North Star Borough Assembly established a Landfill Closure Reserve Fund account in 1994. Beginning in fiscal year 1994-95, \$440,000 has been contributed annually to this account. The Landfill Closure Reserve is now accounted for as a separate cost center within the new solid waste disposal enterprise fund and has a balance of \$2,856,000 at June 30, 2001. Additional yearly contributions are anticipated. It is also anticipated that future inflation costs will be financed in part from earnings on these contributions. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure care requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

14. COMMITMENTS

The Fairbanks North Star Borough's capital improvement and other multi-year programs in effect at June 30, 2001 contain authorizations for hundreds of projects. These authorizations include \$174,898,522 in the four active capital projects funds and \$29,622,399 in the four enterprise funds. Unexpended authorizations total \$45,956,730 and \$14,849,729 in the capital projects and enterprise funds, respectively.

The projects undertaken in the capital projects funds include Borough facilities, fire and emergency medical services, public athletic and recreational sites, roads, School District projects, and sewer and utilities. In the enterprise funds, projects include facilities and major equipment, air quality initiatives and mass transit assistance, development of real property for sale, and solid waste landfill expansion.

The Borough has hundreds of commitments for architectural, engineering, and construction services under various continuing contracts that are recorded as encumbrances. (See Note 20, Segment Information, for enterprise fund encumbrance amounts.) Funding sources for the capital improvement and other programs include general obligation bonds, state revenues, federal revenues, contributions from the general and special revenue operating funds, and retained earnings of the enterprise funds.

15. CONDUIT DEBT

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

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2001

15. CONDUIT DEBT (continued)

As of June 30, 2001, a nonrecourse revenue bond for the Greater Fairbanks Community Hospital Foundation, Inc. was authorized with an aggregate principal amount of \$7,990,000. The outstanding balance as of June 30, 2001 was \$3,436,928.

16. CONTRIBUTED CAPITAL

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

	Transit	Land	Carlson Center	Solid Waste Disposal	Total
Contributed capital, June 30, 2000	\$1,460,133	\$14,475,036	\$11,459,583	\$	\$27,394,752
Prior period adjustment	1,445,726				1,445,726
Contributed capital, June 30, 2000 (restated)	2,905,870	14,475,036	11,459,583		28,840,489
Capital grant contributions	78,157	224,546	3,434		306,137
Disposition of fixed assets	(55,054)				(55,054)
Asset transfers to general fixed assets		(224,745)			(224,745)
Asset transfers from general fixed assets	3,033				3,033
Valuation of entitlement lands		390,433			390,433
Depreciation on fixed assets funded by contributed capital	(264,728)		(515,020)		(779,748)
Residual equity transfers: Transfers of fixed assets, net				8,149,375	8,149,375
Landfill closure and post-closure care liability transferred from general long-term debt				(7,268,090)	(7,268,090)
Other equity transfers in				11,949,538	11,949,538
Contributed capital, June 30, 2001	\$2,667,279	\$14,865,270	\$10,947,956	\$12,830,823	\$41,311,367

17. SOLID WASTE DISPOSAL ENTERPRISE FUND

The solid waste disposal enterprise fund was established July 1, 2000. The fund accounts for the activities of the solid waste disposal function, which includes operation of the Borough's landfill, household hazardous waste disposal, and recycling of paper and other materials. Establishment of the enterprise fund made it possible to bring all solid waste disposal assets, liabilities, operating activities, and multi-year projects into one fund to be reported on as a whole. The fund's Alaska Clean Water Fund loan payable and its landfill closure and postclosure care costs and related liability are described in Notes 12 and 13, respectively. Solid waste disposal operating activities were accounted for in a special revenue fund in fiscal years 1996 through 2000, and in the general fund prior to fiscal year 1996.

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2001

18. RESIDUAL EQUITY TRANSFERS

Establishment of the Solid Waste Disposal Enterprise Fund (See Note 17.) - Residual equity transfers to the new solid waste disposal enterprise fund include \$62,196 from the general fund, \$6,329,446 from the special revenue funds, and \$5,469,758 from the capital projects funds. In addition, long-term liabilities of \$7,268,090 were transferred from the general long-term debt account group and fixed assets of \$8,149,375 (original cost of \$11,621,805 less accumulated depreciation of \$3,472,430, computed as if the assets had been depreciated using the straight-line method over their estimated useful lives) were transferred from the general fixed assets account group. Along with an \$88,138 adjustment for the differing accounting bases, these transfers result in a net capital contribution of \$12,830,823 to the solid waste disposal enterprise fund. See Note 16 for the changes in contributed capital for all proprietary funds.

Other Transfers - Fixed assets of \$67,184 from the land enterprise fund and \$2,089 from the solid waste disposal enterprise fund were transferred to the general fixed asset account group. Since account groups have no equity, these residual equity transfers are not offset by a corresponding amount in the account group as shown in the general purpose financial statements.

For the reasons stated above, the residual equity transfers within the general purpose financial statements will not balance. A summary of all residual equity transfers for the fiscal year ended June 30, 2001 follows:

Fund/Fund Group	Transfers Out	Transfers In
Transfers from fund balances:		
General	\$ 62,196	\$
Special revenue	6,329,446	
Capital projects	5,469,758	
Transfers from retained earnings:		
Land enterprise	67,184	
Solid waste disposal enterprise	2,089	
Transfers to contributed capital (see Note 16):		12,830,823
Solid waste disposal enterprise		
Other:		
General fixed assets account group	8,149,375	69,273
General long-term debt account group	(7,268,090)	
Adjustment for differing accounting bases	88,138	
	\$12,900,096	\$12,900,096

19. FUND BALANCE - SCHOOL DISTRICT COMPONENT UNIT

The School District has reserved \$651,794 for encumbrances and has other reserves of \$9,676,736 for the following purposes:

Inventory	\$ 569,016
Impact Aid advance	9,107,720

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2001

19. FUND BALANCE - SCHOOL DISTRICT COMPONENT UNIT (continued)

Inventory is reserved to indicate that it does not constitute "available spendable resources", even though it is classified as an asset. The reserve for Impact Aid advance is a statutory reserve created to acknowledge the way Impact Aid (formerly PL-874) payments received by the School District are included in the subsequent year's foundation formula by the State of Alaska.

The School District has designated \$3,125,000 for subsequent year's expenditures and has other designations of \$2,106,000 for the following purposes:

Self-insurance	\$1,600,000
Social studies curriculum	506,000

Management's self-insurance designation was established in fiscal year 2000-01 due to a change in accounting method for the employee health cap deduction. The School District has experienced unpredictable health cost fluctuations in recent years and has decided to maintain a self-insurance designation in the event the health care benefit rate set in the previous year's budget does not adequately cover current year health care costs.

20. ENTERPRISE FUNDS - SEGMENT INFORMATION

The Fairbanks North Star Borough maintains four enterprise funds that provide public transportation services, manage Borough-owned lands, oversee the operation of the John A. Carlson Community Activity Center, and provide solid waste disposal services at the Borough landfill. Segment information for the year ended June 30, 2001 is as follows:

	Transit	Land	Carlson Center	Solid Waste Disposal	Total
Operating revenues	\$ 1,068,501	\$ 573,869	\$ 55,884	\$ 4,928,312	\$ 6,626,566
Operating expenses					
Depreciation	274,273	415	546,227	2,091,529	2,912,444
Other	3,258,594	916,580	820,481	2,706,763	7,502,418
Operating loss	(2,464,366)	(343,126)	(1,110,824)	130,020	(3,788,296)
Non-operating revenues					
Operating grants	263,151			211,732	474,883
Other	51,216	205,648	50,426	764,380	1,071,670
Operating transfers in	1,654,100	15,000	788,420		2,457,520
Net income (loss)	(495,899)	(122,471)	(271,978)	1,106,131	215,777
Property, plant and equipment					
Additions/transfers in	124,684		219,744	19,440,944	19,785,372
Deletions/transfers out	(64,009)	(225,309)	(217,428)	(164,499)	(731,845)
Net working capital	641,067	13,069,204	1,024,143	14,254,596	28,989,010
Long-term receivables		1,489,442			1,489,442
Total assets	3,612,794	15,805,605	11,862,427	28,869,693	60,150,519

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements  
June 30, 2001

20. ENTERPRISE FUNDS - SEGMENT INFORMATION (continued)

	Transit	Land	Carlson Center	Solid Waste Disposal	Total
Long-term unrealized gain					
Landfill closure and postclosure care liability				\$ 445,102	\$ 445,102
Bonds and other				7,465,260	7,465,260
Long-term liabilities payable from operating revenues	none	none	none	6,717,278	6,717,278
Encumbrances	320,051	134,761	57,317	363,110	875,239
Total equity	3,291,664	15,222,596	11,853,832	13,934,865	44,302,957

21. LIBRARY EXPENDABLE TRUST FUND

The Fairbanks North Star Borough Public Library was a 15 percent beneficiary of two trusts. One of the trusts was dissolved in March 2000. The remaining trust provides that, for a period of 15 years beginning September 10, 1987, income after administrative expenses would be distributed. From the 15<sup>th</sup> year after September 10, 1987, income and principal may be distributed to the beneficiaries. The trust mandates that distribution in full be completed no later than September 10, 2005 (18 years later). Income received from both trusts is recorded as donations in the Library Expendable Trust Fund and \$1,855,542 had been received as of June 30, 2001. The Library's share of the carrying value and market value of the remaining trust's net assets was \$2,268,073 and \$3,953,270, respectively, at June 30, 2001, as reported by the trust's trustee.

FNBSB 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.

22. RISK MANAGEMENT

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

22. RISK MANAGEMENT (continued)

In July 2000, the Borough joined the Alaska Municipal League Joint Insurance Association (AML/JIA), a public entity risk pool formed to provide pooled property and liability insurance coverage to AML members at lower costs than would be available if the members obtained coverage on their own. The AML/JIA has the option of requiring supplemental contributions from its members if annual contributions and income earned thereon are not sufficient to cover AML/JIA's aggregate pooled losses and expenses for any coverage year. Due to the Borough's high self-insurance threshold levels, which are higher than most other pooled members' self-insurance threshold levels, the Borough has limited exposure to any supplemental contributions. No supplemental contributions have been required of members in the last two fiscal years, and none are expected for the coverage year ended June 30, 2001.

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.

The joint Borough/School District risk management program is accounted for within the Borough's general fund with charge backs to the School District and other funds. Self-insurance losses are accrued when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Accrued self-insurance losses include estimates for expected future development on claims already reported, as well as considering known and unknown events that might create claims, but for which none have been reported. Based on the type of claim, estimates of the ultimate cost of settling these claims are made by using a case-by-case review of claims or by extrapolating historical experience, and 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 2001 and 2000 follow:

	2000-01 Accrued Self- Insurance Losses	1999-2000 Accrued Self- Insurance Losses
<u>Borough</u>		
July 1	\$ 828,124	\$ 746,591
Current year claims and changes in estimates	3,631,578	3,610,985
Claims payments	<u>(3,633,736)</u>	<u>(3,529,452)</u>
June 30	\$ <u>825,966</u>	\$ <u>828,124</u>
<u>School District</u>		
July 1	\$ 3,799,022	\$ 3,584,454
Current year claims and changes in estimates	13,669,408	14,607,418
Claims payments	<u>(14,017,657)</u>	<u>(14,392,650)</u>
June 30	\$ <u>3,450,773</u>	\$ <u>3,799,022</u>

23. 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 Issuer makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).*

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

**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. 2002-61 of the Borough, passed on November 21, 2002 (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, 2002 Series E, in the aggregate principal amount of \$14,000,000 ("Bonds"), as follows:

Undertaking to Provide Ongoing Disclosure

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

B. Financial Statements/Operating Data. The Borough agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2004 for the fiscal year ended June 30, 2003):

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 nine months after the end of the Borough's fiscal year. The Borough's fiscal year currently ends on June 30. The Borough may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the Borough may cross-reference to other documents provided to the NRMSIRs, the SID, if any, or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

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

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

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to the rights of Bond owners;
8. Bond calls (optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to the 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. 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 23, 2002

Fairbanks North Star Borough

By: \_\_\_\_\_  
Michael E Lamb, Chief Financial Officer

**APPENDIX D**  
**FORM OF BOND COUNSEL OPINION**

December 23, 2002

Fairbanks North Star Borough  
Fairbanks, Alaska

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Re: Fairbanks North Star Borough, Alaska  
General Obligation School Bonds, 2002 Series E—\$14,000,000

Ladies and Gentlemen:

We have acted as bond counsel to the Fairbanks North Star Borough, Alaska (the "Borough"), and have examined a certified transcript of the proceedings taken in connection with issuance by the Borough of its General Obligation School Bonds, 2002 Series E, in the aggregate principal amount of \$14,000,000 (the "Bonds"), issued pursuant to Ordinance No. 2002-61 of the Borough, passed by the Borough Assembly on November 21, 2002 (the "Bond Ordinance"), for the purpose of providing funds to pay for certain capital improvements to school facilities of the Borough. Capitalized terms used in this opinion and not otherwise defined herein shall have the meanings given such terms in the Bond Ordinance.

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

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

From such examination it is our opinion, as of this date and under existing law, that:

1. The Bonds have been legally issued and constitute valid general obligations of the Borough, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general

application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. By the Bond Ordinance, the Borough has covenanted that, unless the principal of and interest on the Bonds are paid from other sources, it will levy taxes annually without limitation as to rate or amount upon all property within the Borough subject to taxation in amounts sufficient to pay such principal and interest as the same shall become due. The full faith, credit and resources of the Borough are irrevocably pledged for the annual levy and collection of such taxes and for the prompt payment of such principal and interest.

3. Interest on the Bonds is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The Bonds are not private activity bonds. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations, but is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code. The opinions stated in this paragraph are subject to the condition that the Borough comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Borough has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

The Bonds have not been designated "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

4. Interest on the Bonds is exempt from taxation by the State of Alaska, except for transfer, estate and inheritance taxes and except to the extent that inclusion of such interest in computing the corporate alternative minimum tax under Section 55 of the Code may affect the corresponding provisions of the State of Alaska corporate income tax.

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

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the District to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

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

Yours very truly,

PRESTON GATES & ELLIS LLP

By  
David O. Thompson

## **APPENDIX E BOND INSURANCE AND FINANCIAL GUARANTY INSURANCE POLICY**

### **Payment Pursuant to Financial Guaranty Insurance Policy**

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Obligations effective as of the date of issuance of the Obligations. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Obligations which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the [Trustee/Paying Agent/Bond Registrar]. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Obligations become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Obligations, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Obligations on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Obligations, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the [Trustee/Paying Agent/Bond Registrar] has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Obligations to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Obligations to be registered in the name of Ambac

Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation and will be fully subrogated to the surrendering Holder's rights to payment.

### **Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$5,802,000,000 (unaudited) and statutory capital of approximately \$3,564,000,000 (unaudited) as of September 30, 2002. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Obligations.

Ambac Assurance makes no representation regarding the Obligations or the advisability of investing in the Obligations and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "APPENDIX E - BOND INSURANCE AND FINANCIAL GUARANTY INSURANCE POLICY".

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative

offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

#### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002;
- 2) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;
- 3) The Company's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;
- 4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;
- 5) The Company's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002;
- 6) The Company's Current Report on Form 8-K dated August 14, 2002 and filed on August 14, 2002;
- 7) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 14, 2002;
- 8) The Company's Current Report on Form 8-K dated October 16, 2002 and filed on October 17, 2002;
- 9) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2002 and filed on November 14, 2002; and
- 10) The Company's Current Report on Form 8-K dated November 18, 2002 and filed on November 20, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

# Ambac

## Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Representative



Authorized Officer of Insurance Trustee

OFFICIAL STATEMENT CERTIFICATE

I, MICHAEL E. LAMB, Chief Financial Officer of the Fairbanks North Star Borough, Alaska (the "Borough"), acting in my official capacity, DO HEREBY CERTIFY that to the best of my knowledge and belief, and after reasonable investigation: (a) neither the Official Statement for the General Obligation School Bonds, 2002 Series E, of the Borough in the principal amount of \$14,000,000, nor any amendment or supplement thereto, contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; nor (b) has there been any material adverse change in the operation or financial affairs of the Borough or relating to the economy of the Borough since the date of such Official Statement.

Execution of this certificate constitutes execution of the final Official Statement.

DATED as of this 23rd day of December, 2002.

FAIRBANKS NORTH STAR BOROUGH,  
ALASKA



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Michael E. Lamb  
Chief Financial Officer