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Fairbanks North Star Borough, Alaska  
\$13,750,000  
General Obligation School Bonds  
2005 Series H



Sale Date: January 12, 2005  
Bartle Wells Associates

Official Statement



**Fairbanks North Star Borough, Alaska**  
**\$13,750,000**  
**General Obligation School Bonds**  
**2005 Series H**

**Dated:** Date of delivery **Due:** October 1, as shown below  
**Book-Entry Only**

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

**Insurance:** Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

**Tax Exemption:** Interest on the Bonds is excluded from gross income for federal income tax purposes. Page 3

**Redemption:** The Bonds are subject to redemption prior to their stated date of maturity. Page 1

**Security:** To secure payment of the Bonds, the Borough has covenanted that, unless the principal of and interest on the Bonds are paid from other sources, it will levy taxes annually without limitation as to rate or amount upon all property within the Borough subject to taxation in amounts sufficient to pay such principal and interest as the same shall become due. In addition, the Bonds are eligible for reimbursement of 70 percent of debt service from the State of Alaska. Page 2

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

**Interest Payment Dates:** April 1 and October 1, beginning October 1, 2005.

**Closing:** On or about January 25, 2005.

**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:** A. René Broker, Fairbanks, Alaska.

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

Year	Principal	Interest		CUSIP	Year	Principal	Interest		CUSIP
October 1	Amount	Rate	Yield	303531	October 1	Amount	Rate	Yield	303531
2005	\$415,000	3.500%	2.000%	VA2	2015	\$675,000	4.000%	3.750% *	VL8
2006	515,000	3.500%	2.200%	VB0	2016	700,000	4.000%	3.850% *	VM6
2007	530,000	3.500%	2.400%	VC8	2017	730,000	4.000%	3.920% *	VN4
2008	540,000	3.500%	2.500%	VD6	2018	755,000	4.000%	4.000%	VP9
2009	555,000	3.500%	2.650%	VE4	2019	790,000	4.100%	4.100%	VQ7
2010	570,000	3.625%	2.900%	VF1	2020	825,000	4.125%	4.200%	VR5
2011	585,000	3.750%	3.150%	VG9	2021	860,000	4.125%	4.250%	VS3
2012	605,000	4.000%	3.300%	VH7	2022	900,000	4.250%	4.300%	VT1
2013	625,000	4.000%	3.500%	VJ3	2023	940,000	4.300%	4.350%	VU8
2014	650,000	4.000%	3.600% *	VKO	2024	985,000	4.375%	4.375%	VV6

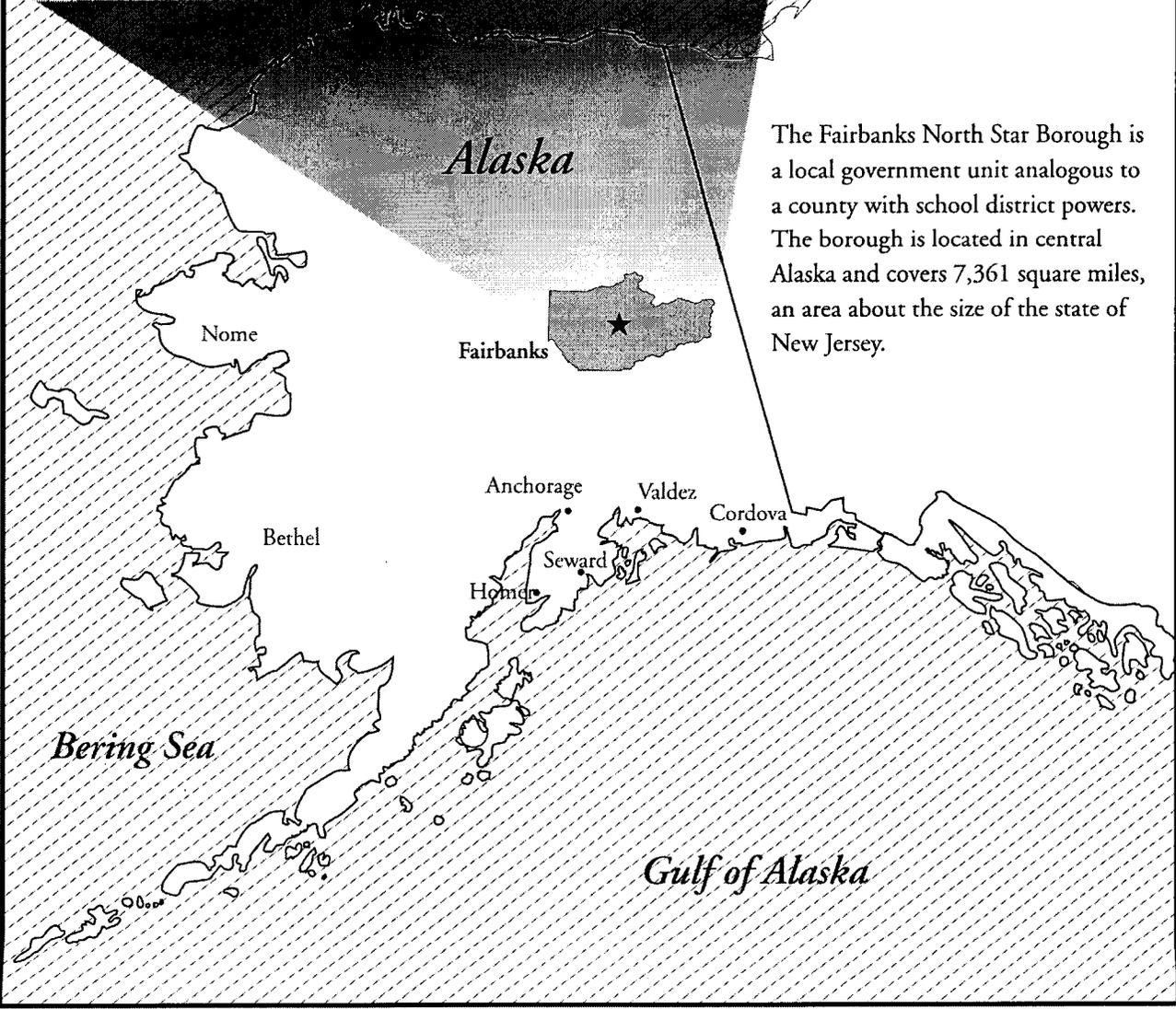
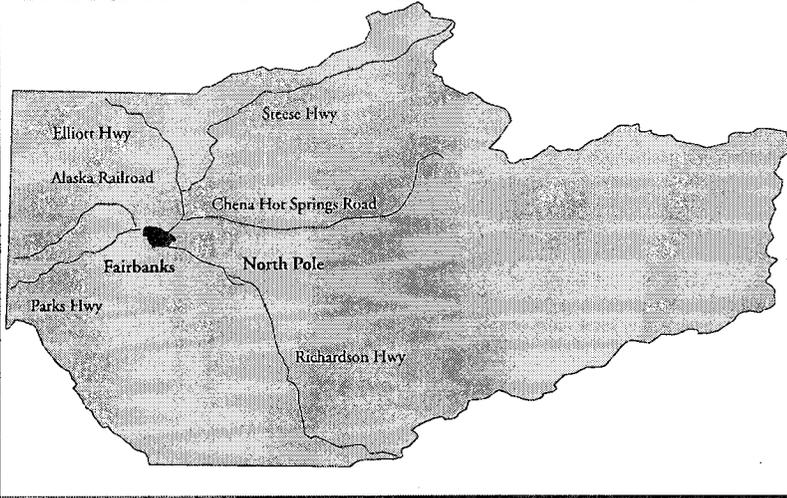
\*Priced to 10/01/2013 call date.

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 January 12, 2005.

**Morgan Stanley DW Inc.**

# FAIRBANKS NORTH STAR BOROUGH



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

**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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Jim Whitaker, *Mayor*

**Borough Assembly Members**

Garry Hutchison, *Presiding Officer*

Randy Frank, *Deputy Presiding Officer*

Terry Aldridge	Earl Romans
Hank Bartos	Guy Sattley
Luke Hopkins	Bonnie Williams
Charlie Rex	

Mona Lisa Drexler, *Borough Clerk*

**School Board Members**

Bill Burrows, *President*

Royce Chapman, *Vice President*

Joe Blackburn	Anna Huntington-Kriska
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Wendy Dominique	Jennifer Schmidt
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Sue Hull

**Borough Administration**

Jim Holt, *Chief of Staff*

Michael E. Lamb, *Chief Financial Officer*

A. 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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## THE BONDS

**Description:** Fairbanks North Star Borough  
\$13,750,000 General Obligation School Bonds  
2005 Series H

**Date:** Date of delivery

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

**Maturities:** October 1, 2005 through October 1, 2024 in the amounts shown on the cover of this official statement.

**Interest:** Interest is payable on April 1 and October 1 of each year to the respective dates of maturity, beginning October 1, 2005.

**Registrar / Paying Agent:** The paying agent and registrar for the bonds will be Wells Fargo Bank, National Association, Portland, Oregon.

**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 October 1, 2012 are not subject to optional redemption prior to maturity. The Bonds maturing on or after October 1, 2013 are subject to redemption at the option of the Borough on any date on or after October 1, 2012, 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 October 1, 2012 through September 30, 2013	100.5 percent of par
On or after October 1, 2013	100.0 percent of par

### **Authority for Issuance**

\$12,000,000 of the Bonds are remaining of the \$42,264,000 in school bonds authorized by Ordinance 2002-34 and approved by Borough voters on October 8, 2002. The additional \$1,750,000 of the Bonds are part of \$11,500,000 in school bonds authorized by Ordinance 2004-23 and approved by Borough voters on October 5, 2004.

## Additional Bonds

In calendar year 2006, the Borough intends to issue the remaining \$9,750,000 in school bonds authorized by Ordinance 2004-23, approved by voters, but not yet issued.

## 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 covenanted that, unless the principal of and interest on the Bonds are paid from other sources, it will levy taxes annually without limitation as to rate or amount upon all property within the Borough subject to taxation in amounts sufficient to pay such principal and interest as the same shall become due. In addition, the 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.

<b>■ Fairbanks North Star Borough \$13,750,000 General Obligation Bonds Debt Service Schedule</b>						
FYE		1-Oct			1-Apr	
30-Jun	Coupon	Interest	Principal	Total	Interest	FY total
2006	3.500%	\$372,611.42	\$415,000	\$787,611.42	\$265,380.00	\$1,052,991.42
2007	3.500%	265,380.00	515,000	780,380.00	256,367.50	1,036,747.50
2008	3.500%	256,367.50	530,000	786,367.50	247,092.50	1,033,460.00
2009	3.500%	247,092.50	540,000	787,092.50	237,642.50	1,024,735.00
2010	3.500%	237,642.50	555,000	792,642.50	227,930.00	1,020,572.50
2011	3.625%	227,930.00	570,000	797,930.00	217,598.75	1,015,528.75
2012	3.750%	217,598.75	585,000	802,598.75	206,630.00	1,009,228.75
2013	4.000%	206,630.00	605,000	811,630.00	194,530.00	1,006,160.00
2014	4.000%	194,530.00	625,000	819,530.00	182,030.00	1,001,560.00
2015	4.000%	182,030.00	650,000	832,030.00	169,030.00	1,001,060.00
2016	4.000%	169,030.00	675,000	844,030.00	155,530.00	999,560.00
2017	4.000%	155,530.00	700,000	855,530.00	141,530.00	997,060.00
2018	4.000%	141,530.00	730,000	871,530.00	126,930.00	998,460.00
2019	4.000%	126,930.00	755,000	881,930.00	111,830.00	993,760.00
2020	4.100%	111,830.00	790,000	901,830.00	95,635.00	997,465.00
2021	4.125%	95,635.00	825,000	920,635.00	78,619.38	999,254.38
2022	4.125%	78,619.38	860,000	938,619.38	60,881.88	999,501.25
2023	4.250%	60,881.88	900,000	960,881.88	41,756.88	1,002,638.75
2024	4.300%	41,756.88	940,000	981,756.88	21,546.88	1,003,303.75
2025	4.375%	21,546.88	985,000	1,006,546.88		1,006,546.88
Totals		\$3,411,102.67	\$13,750,000.00	\$17,161,102.67	\$3,038,491.25	\$20,199,593.92

## **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 similar 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, 2001 Series D bonds, 2002 Series E bonds, 2003 Series F bonds, and 2004 Series G 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."

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 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 Premium:** Certain maturities of the Bonds may be reoffered to members of the public (excluding bond houses, brokers and other intermediaries acting in the capacity of wholesalers or underwriters) at an initial offering price that exceeds the stated redemption price payable at the maturity of such Bonds. Such Bonds (the "Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Premium Bond in the initial offering must be reduced each accrual period and upon the sale or other taxable disposition of the Premium Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial purchaser. No corresponding deduction is allowed for federal income tax purposes, however, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each accrual period (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules that use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Premium Bond. The bond premium and federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of a Premium Bond that is not purchased in the initial offering or is purchased at a price other than the initial offering price for the Premium Bonds of the same maturity may be determined according to rules that differ from those described above. Moreover, all prospective purchasers of Premium Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

**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 October 1 and April 1 (with straight line interpolation between compounding dates).

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

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

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

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

## **Absence of Litigation**

There is no action, suit, or proceeding of any nature now pending or, to the knowledge of the Borough, threatened to restrain or enjoin the sale, issuance, execution or delivery of the Bonds, or in any way contesting the validity of the Bonds or any proceedings of the Borough taken with respect to the sale or issuance thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the Borough. Lawsuits and other claims incidental to the ordinary course of operations of the Borough are largely covered by the Borough's self-insurance designation on fund balance, claim accruals and reserves, and insurance purchased from private insurers and will not have a materially adverse effect upon the financial position of the Borough in the opinion of the Borough's management and, with respect to litigation, the Borough Attorney.

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

## **Purchaser of the Bonds**

The Bonds are being purchased by Morgan Stanley DW Inc. (the "Purchaser") at a price of \$13,750,000, plus accrued interest, and will be reoffered at a price of \$13,925,852.60. The applicable prices or yields are set forth on the inside cover of this Official Statement. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering price set forth on the inside cover hereof, and such initial offering price may be changed from time to time, by the Purchaser. After the initial public offering, the public offering, the public offering price may be varied from time to time.

## **Bond Insurance Policy**

Concurrently with the execution and delivery of the Bonds, Morgan Stanley DW Inc. 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 and Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., have assigned their municipal bond ratings of AAA and AAA respectively, to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, 650 California Street, San Francisco, California 94108; and Standard & Poor's, 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 a nine-member assembly. Voters elected to eliminate two of eleven seats in October 2003. Assembly members are elected at large for staggered three-year terms. The assembly elects one of its members annually to serve as presiding officer. Assembly members are limited to two consecutive three-year terms. The Borough's chief executive officer is the mayor, who is elected for a three-year term. The mayor has no vote, but may participate in assembly meetings, introduce legislation and veto assembly actions. The mayor is also limited to two consecutive three-year terms. The Borough is organized into administrative departments, each supervised by a department head. A chief of staff, appointed by the mayor, serves as the Borough's chief administrator.

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

Michael Lamb is the chief financial officer (CFO) of the Borough. He received a degree in Business Administration from the University of Washington and is a Certified Public Accountant and a Certified Government Financial Manager. He has over 14 years' experience as a chief financial officer for municipalities and has served as the Borough's CFO for the last 6½ years. Prior to that, for almost 9 years, Michael was the CFO for the City of St. Paul, Alaska. He is very active in professional organizations and currently serves as a Board Member and President of the Alaska Municipal League Investment Pool and is a co-chair for the Alaska Municipal League Revenue and Finance Legislative

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

## **Responsibilities**

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

### **Mandatory Areawide Responsibilities:**

Assessment and tax collection

Education

Planning, platting, and zoning

### **Other Areawide Responsibilities Exercised:**

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

Solid waste disposal

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

The Borough also provides fireworks control, emergency medical services, and economic development on a non-areawide basis, outside the cities of North Pole and Fairbanks. The Borough provides solid waste collection services outside of 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. 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 advisory voting members, a base representative from Eielson Air Force Base, a post representative from Fort Wainwright, and a student representative. The superintendent of schools carries out goals and objectives set by the school board. Other principal officials of the school district include assistant superintendents of elementary curriculum and instruction, secondary curriculum and instruction, chief financial officer, and departmental directors.

## Responsibilities

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

## Enrollment and Facilities

The following inset shows public school enrollments by fiscal year for the last five years as provided by the school district. Enrollments include students at both in-town schools and on-base schools. School enrollments have dropped for the past five fiscal years, particularly at the elementary level. Current fiscal year data show stabilized enrollment.

	2000	2001	2002	2003	2004
Elementary	8,491	8,291	8,113	7,741	7,704
Secondary	<u>7,062</u>	<u>6,983</u>	<u>7,029</u>	<u>6,852</u>	<u>6,872</u>
Total	15,553	15,274	15,142	14,593	14,576

The school district operates nineteen elementary schools, ten secondary schools, two charter schools, a correspondence study program for both elementary and secondary students, and various alternative programs. Three of those elementary schools and one of the secondary schools are located on military installations.

The school district employs 1,867 people: 961 teachers, 43 principals, 67 exempt staff, and 796 support staff.

## THE CONSTRUCTION PROGRAM

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

Voters approved certain projects in 2002. Design and planning for the two largest projects Denali and Nordale Elementary schools was completed and construction commenced in summer of 2004.

In 2004 the voters approved a program for capital maintenance and upgrades to school facilities throughout the Borough, including mechanical, lighting and sprinkler system upgrades, roof repairs and replacements, and Americans with Disabilities Act and other code required updates.

District-wide projects, including technology, interior and exterior facilities upgrades, and maintenance projects, are ongoing. Many projects have been completed. The expected completion date for the 2002 approved projects is 2006. Projects approved in 2004 will be completed in 2006 and 2007.

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

Project	Estimated Borough Cost	Project Status
Projects approved in 2002 and 2004		
Denali Elementary School construction	\$15,100,000	under construction
Nordale Elementary School construction	15,100,000	under construction
District-wide technology, maintenance, and facilities projects	12,064,000	ongoing
District-wide capital maintenance and upgrades	<u>7,000,000</u>	design in 2005
2002 and 2004 projects total	\$49,264,000	

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

- **Denali and Nordale Elementary Schools:** These projects comprise the design, demolition, construction and equipping of new elementary schools on the sites 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, additional improvements to the Lathrop High School facilities and district-wide maintenance projects including fire sprinkler and electrical system upgrades, roof, siding, and floor improvements, and site improvements.

The school construction projects described above have received the state Department of Education and Early Development approvals required to qualify for state debt service reimbursement as described further in "State Aid to Education."

## **STATE AID TO EDUCATION**

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

### **School Debt Service Reimbursement**

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

Funds to provide state aid to school construction must be appropriated to the school construction account annually by the Alaska legislature. Appropriations may not always be sufficient to fully fund the level of payments authorized by statute. If amounts in the account are insufficient to fully fund the program in any year, the available funds are distributed pro rata among the eligible local governments. Actual state reimbursements have varied from year to year. Reimbursements have been 100 percent of entitlement in each fiscal year since 1991/92.

Under the state's program of debt service reimbursement for school construction, the level of reimbursement has varied since the program began. Currently school construction projects approved by the Department of Education and Early Development ("DEED") are eligible for 70 percent debt service reimbursement. Other projects are eligible for 60 percent debt service reimbursement, none of the Borough's bonds are reimbursable at 60 percent.

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

To obtain reimbursement, the Borough must provide DEED with an estimate of school-related debt service expenditures for the upcoming fiscal year by October 15 of each year. Claims must be supported by a statement from the paying agent of amounts paid by the Borough in the current fiscal year. As each debt service payment is due, the Borough transmits funds to the paying agent. The paying agent notifies the state, then the state reimburses substantially all of the eligible amount. The state makes final payments August 1 following each fiscal year based on the availability of funds.

## Borough Reimbursement Entitlement

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

**Table 2 ■ Fairbanks North Star Borough  
Outstanding School Bonds as of January 25, 2005**

Series	Purpose	Outstanding Principal	Final Payment	Reimbursement Eligibility
1993S Refunding <sup>(1)</sup>	Schools	\$15,080,000	03/01/2008	80-90%
1996U <sup>(2)</sup>	Schools	11,825,000	11/01/2016	70%
1997A <sup>(3)</sup>	Schools, library	27,600,000	11/01/2017	70%
1999B <sup>(2)</sup>	Schools	21,885,000	04/01/2019	70%
2000C	Schools	8,010,000	12/01/2020	70%
2001D	Schools	8,180,000	02/01/2021	70%
2002E	Schools	13,150,000	08/01/2022	70%
2003F	Schools	13,035,000	10/01/2022	70%
2004G	Schools	13,635,000	10/01/2023	70%
2005H	Schools	<u>13,750,000</u>	10/01/2024	70%
Total		\$146,150,000		

Source: Fairbanks North Star Borough Budget

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

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

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

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

- Part of the Series 1993S refunding bonds is reimbursable at 90 percent, and the balance is reimbursable at 80 percent. The 1993S refunding bonds refunded three series of prior bonds. One series was reimbursable at 90 percent; the other two series were reimbursable at 80 percent. Each year's debt service is allocated to the prior issues and retains the reimbursement eligibility of the prior issues. About 9 percent is reimbursable at 90 percent and 91 percent at 80 percent.
- A portion of the Series 1996U, Series 1997A, and Series 1999B are eligible for reimbursement at 70 percent. Series 1996U and 1999B included about \$9.5 million of local funds to match state grants on a 70/30 basis. Debt service on the local match is not reimbursable. Series 1997A included \$1,250,000 for library purposes, which is payable solely by the Borough. The entire Series 2000C, 2001D, 2002E, 2003F, 2004G and the Bonds are eligible for reimbursement at 70 percent.

The state legislature authorized a special 100 percent reimbursement for \$4.5 million to be spent on Eielson Air Force Base schools. Borough voters approved issuance of these bonds in 2004; the bonds are anticipated to be sold in calendar year 2006. 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.

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.

**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	2005 H	Total			
2004/05	\$16,117,027	\$0	\$16,117,027	\$11,272,877	\$4,844,150	30.1%
2005/06	16,179,124	1,052,991	17,232,115	12,068,796	5,163,319	30.0%
2006/07	13,970,943	1,036,748	15,007,690	10,220,955	4,786,735	31.9%
2007/08	13,947,349	1,033,460	14,980,809	10,213,312	4,767,497	31.8%
2008/09	10,735,811	1,024,735	11,760,546	7,635,152	4,125,394	35.1%
2009/10	10,723,243	1,020,573	11,743,815	7,620,722	4,123,093	35.1%
2010/11	10,717,749	1,015,529	11,733,278	7,611,490	4,121,787	35.1%
2011/12	10,745,249	1,009,229	11,754,478	7,616,501	4,137,976	35.2%
2012/13	10,749,656	1,006,160	11,755,816	7,618,153	4,137,663	35.2%
2013/14	10,815,605	1,001,560	11,817,165	7,652,506	4,164,659	35.2%
2014/15	10,817,144	1,001,060	11,818,204	7,656,470	4,161,733	35.2%
2015/16	10,805,148	999,560	11,804,708	7,634,682	4,170,026	35.3%
2016/17	10,909,133	997,060	11,906,193	7,700,446	4,205,746	35.3%
2017/18	9,518,348	998,460	10,516,808	7,237,425	3,279,384	31.2%
2018/19	6,684,025	993,760	7,677,785	5,321,088	2,356,697	30.7%
2019/20	4,619,615	997,465	5,617,080	3,931,956	1,685,124	30.0%
2020/21	4,654,124	999,254	5,653,379	3,957,365	1,696,014	30.0%
2021/22	3,218,479	999,501	4,217,981	2,952,586	1,265,394	30.0%
2022/23	3,234,444	1,002,639	4,237,083	2,965,958	1,271,125	30.0%
2023/24	1,026,356	1,003,304	2,029,660	1,420,762	608,898	30.0%
2024/25	0	1,006,547	1,006,547	704,583	301,964	30.0%
Totals	\$190,188,570	\$20,199,594	\$210,388,164	\$141,013,784	\$69,374,380	

Source: Prepared by Bartle Wells Associates

## **School Operating Aid**

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

Foundation funding for Alaska's public schools represents the largest single appropriation by the legislature each year. The state's system of providing school operating aid is based on a formula that is intended to equalize funding to school districts around the state.

## **BOROUGH FINANCES**

The Borough's accounting policies conform to generally accepted accounting principles as applicable to governments. The annual financial report also conforms to applicable provisions of the Alaska Statutes and the Borough's Code of Ordinances. The Borough has received the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report since 1991, except for 1993. The school district issues a separate financial report which has also received the GFOA's Certificate of Achievement for Excellence in Financial Reporting, 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 basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Borough's fund financial statements and accounts are organized on the basis of funds, each representing a separate accounting entity. The Borough maintains three broad fund categories—governmental, proprietary, and fiduciary. The Borough maintains its accounting records on a modified accrual basis for the governmental funds and on the accrual basis for its proprietary funds.

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 and includes revenue for trusts.
- **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 fund includes:

- **Agency Fund:** Accounts for assets held for other governmental units. These are custodial funds.

## General Fund Financial Information

Table 4 summarizes the general fund revenues, expenditures, and changes in fund balance for the past five fiscal years. The Borough's largest combined source of general fund revenue is taxes, totaling \$58.5 million in 2002/03 and accounting for 79 percent of general fund revenue. Tax revenue includes hotel/motel/alcohol/tobacco taxes collected outside the City of Fairbanks. The balance of tax revenue is from property taxes.

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

	1998/99	1999/00	2000/01	2001/02	2002/03
<b>Revenues</b>					
Taxes	\$48,749,572	\$54,794,228	\$54,174,196	\$57,261,548	\$58,508,210
Intergovernmental revenues	12,881,043	12,754,730	10,039,324	12,273,453	11,973,317
Charges for services	1,244,782	1,292,014	1,268,606	1,270,557	1,216,277
Charges to school district <sup>(1)</sup>	905,614	1,023,735	855,683	796,814	-
Other revenues	<u>4,099,140</u>	<u>5,782,390</u>	<u>7,019,140</u>	<u>4,963,745</u>	<u>2,159,771</u>
Total revenues	\$67,880,150	\$75,647,097	\$73,356,949	\$76,566,117	\$73,857,575
<b>Expenditures</b>					
General government	9,184,173	9,879,018	10,006,431	9,981,127	8,760,047
Community planning	1,028,568	1,022,923	1,065,850	1,117,465	1,216,560
Public works	3,328,534	3,423,968	3,569,783	3,513,069	2,539,377
Direct services	1,160,654	1,305,218	1,217,117	1,265,690	1,393,661
Parks and recreation	3,422,394	3,701,869	3,831,937	4,051,609	4,186,349
Library	2,446,650	2,695,689	2,804,724	2,943,106	3,136,426
Emergency Services	-	-	84,470	223,075	213,548
Capital outlay	<u>397,411</u>	<u>527,773</u>	<u>494,297</u>	<u>546,579</u>	<u>343,370</u>
Total expenditures	\$20,968,385	\$22,556,458	\$23,074,609	\$23,641,721	\$21,789,339
Excess of revenues over expenditures	46,911,765	53,090,639	50,282,340	52,924,396	52,068,236
<b>Operating Transfers In (Out)</b>					
Other funds <sup>(2)</sup>	(15,004,121)	(20,214,975)	(17,023,030)	(18,898,952)	(19,748,668)
School district	<u>(30,690,780)</u>	<u>(30,690,780)</u>	<u>(32,045,700)</u>	<u>(32,555,700)</u>	<u>(33,545,600)</u>
Total other financing uses	(\$45,694,901)	(\$50,905,755)	(\$49,068,730)	(\$51,454,652)	(\$53,294,268)
Excess (deficiency) of revenues over expenditures & other uses	1,216,864	2,184,884	1,213,611	1,469,744	(1,226,032)
Fund balance, July 1	11,689,604	12,906,467	15,091,351	16,242,766	19,015,238
Adjustments <sup>(3)</sup>	-	-	<u>(62,196)</u>	<u>1,302,728</u>	-
Fund balance, June 30	\$12,906,467	\$15,091,351	\$16,242,766	\$19,015,238	\$17,789,206

Source: Financial Statements of the Borough

Totals may not add due to rounding.

1- Not shown beginning in FY 2002/03 due to accounting changes from GASB Statement #34.

2- Includes transfer to debt service fund.

3- FY 2001/02 beginning balance restated (resulting in an increase of \$1,152,727) due to GASB Interpretation No. 6.

In 2002/03, intergovernmental revenues amounted to \$11.97 million. This includes approximately \$9 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 \$3 million, or 4 percent of general fund revenue.

In 2002/03, total expenditures were \$21.8 million, a reduction of about 8 percent from 2001/02. The general fund's contribution to education was \$33.5 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 5 summarizes the 2004/05 general fund budget. The Borough's general fund budget totals \$87.9 million. Taxes, the largest revenue source, account for about 76 percent of budgeted general fund revenues, and consist primarily of areawide property taxes. Various categories of state aid, of which school construction reimbursement is the largest, make up another 14 percent of general fund revenues.

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

	2004/05
<b>Revenue Sources</b>	
Taxes	\$66,591,980
State and federal revenues	12,210,610
Hotel and alcohol taxes	1,902,500
Charges for services	1,398,490
Intragovernmental charges	4,429,300
Other local revenue	1,354,450
Contribution from fund balance	<u>10,000</u>
Total local revenue	\$87,897,330
<b>Expenditures and Other Financing Uses</b>	
Mayor and assembly	1,913,400
Law	713,100
Assessing	2,036,600
Community planning	1,494,530
Computer services	2,267,780
Emergency operations	1,566,110
Facilities maintenance	3,217,290
Financial services	2,292,880
General services	1,288,600
Human resources	2,449,220
Library services	3,928,570
Parks and recreation	4,931,940
Public works	1,308,510
Nondepartmental	594,610
Intergovernmental charges	<u>42,400</u>
Total operating expenditures	\$30,045,540
<b>Contributions to Other Funds</b>	
Capital projects	732,500
Debt service	16,123,540
Education	36,545,700
Other operating transfers	<u>4,450,050</u>
Total contributions	57,851,790
Total expenditures and contributions	\$87,897,330

Source: Fairbanks North Star Borough 2004/05 Approved Budget

The Borough has budgeted operating expenditures of \$30 million. The balance of general fund expenditures consists of contributions to other funds. The contribution to education, at \$36.5 million, is 42 percent of the total general fund budget. The 2004/05 budget increased 7.5 percent from the prior year.

Table 6 shows the general fund balance sheet as of June 30, 1999 through 2003.

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

	1999	2000	2001	2002	2003
<b>Assets</b>					
Equity in central treasury cash	\$18,749,573	\$19,042,804	\$20,454,722	\$22,251,165	\$21,543,345
Taxes receivable	434,618	553,548	588,189	602,306	2,197,273
Accounts receivable	51,545	47,880	43,319	72,528	104,655
Accrued interest receivable	299,753	869,747	820,217	282,047	218,271
Interfund receivables	50,763	342,028	290,733	386,761	655,478
Due from governmental agencies	382,085	392,236	510,023	558,353	392,042
Other assets	<u>1,156,247</u>	<u>1,149,043</u>	<u>1,144,465</u>	<u>1,249,876</u>	<u>1,228,859</u>
Total assets	\$21,124,584	\$22,397,286	\$23,851,719	\$25,403,036	\$26,339,923
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Accounts payable	446,065	596,842	708,656	651,249	584,593
Wages and payroll taxes	715,002	516,197	460,013	500,490	852,585
Accrued annual leave	1,039,649	1,054,246	1,089,708	1,152,727	131,827
Accrued self-insurance losses	681,121	752,379	746,036	750,724	622,686
Due to school district	-	-	-	-	7,194
Deposits from others	95,453	104,078	151,331	128,831	177,388
Estimated claims, judgements and settlements payable	-	99,505	-	-	-
Deferred revenues	-	-	-	-	1,599,735
Advance tax payments	<u>5,240,827</u>	<u>4,182,689</u>	<u>4,453,209</u>	<u>4,356,503</u>	<u>4,574,708</u>
Total liabilities	\$8,218,117	\$7,305,936	\$7,608,953	\$7,540,524	\$8,550,716
<b>Fund balance:</b>					
Reserved for encumbrances	252,059	370,787	286,112	231,960	316,869
Unreserved, designated for:					
Annual leave	-	-	-	-	1,199,830
Self-insurance losses	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Net unrealized gains	-	-	306,315	146,009	-
Subsequent year's expenditures	50,000	500,000	500,000	880,740	1,060,990
Education	-	-	-	1,000,000	-
Unreserved, undesignated	11,104,409	12,720,564	13,650,339	14,103,801	13,711,517
Adjustment due to restatement*	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,152,728</u>	<u>-</u>
Total fund balance	\$12,906,468	\$15,091,351	\$16,242,766	\$19,015,238	\$17,789,206
Total liabilities and fund balance	\$21,124,584	\$22,397,286	\$23,851,719	\$25,403,036	\$26,339,923

Source: Financial Statements of the Borough

Totals may not add due to rounding.

\*Fund balance restated due to GASB Interpretation No. 6.

## Assessed Valuation and Property Taxes

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

Table 7 shows the Borough's certified real property assessed valuation from 2000 through 2004. The Borough's 2004 assessed value is about \$5.2 billion, which represents an increase of 7.9 percent over 2003.

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

Tax Year	Within Cities	Outside Cities	Pipeline- Related*	Borough Total	Percentage Increase
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%
2003	1,715,449	2,868,516	270,806	4,854,771	6.3%
2004	1,857,523	3,110,669	271,188	5,239,380	7.9%

Source: Fairbanks North Star Borough Budget

\*Assessed by state.

Alaska law provides for both optional and mandatory property tax exemptions. Senior citizens, disabled veterans, and widows/widowers receive mandatory exemptions of up to \$150,000 of assessed valuation. An exemption for 20 percent of the assessed valuation of residential property, up to a maximum of \$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 2004. These exemptions have been adopted beginning in the current tax year, and apply to primary residential properties owned by volunteer EMS medics and firefighters. The financial impact of this exemption is expected to be minimal. Other local exemptions include personal property, economic development, and senior citizens housing. For 2004, the estimated optional residential exemptions totaled \$145 million; mandatory exemptions totaled \$296 million.

The Borough's 2004 estimated net taxable value is about \$4.8 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  
Estimated Assessed Valuation, 2004**

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Borough assessor's value	\$5,239,380,208
Less:	
Mandatory exemptions	(296,438,068)
Optional residential exemptions	<u>(144,634,313)</u>
Borough net taxable value	<u>\$4,798,307,827</u>

Source: Fairbanks North Star Borough Budget

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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 oil pipeline are located within the Borough. Together they account for \$271 million of the Borough's estimated 2004 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 2004 estimated assessed valuation within the Borough is about 5.2 percent of the Borough's total assessed valuation of \$5.2 billion.

Table 9 shows the Borough's ten largest commercial/industrial taxpayers for 2004. Together they account for 17 percent of total assessed valuation, a decrease from 17.7 percent in 2003.

**Table 9 ■ Fairbanks North Star Borough  
Largest Commercial/Industrial Taxpayers, 2004**

Taxpayer	Type of Property	Assessed Valuation (000)	Percent of Borough Total <sup>(1)</sup>
Alyeska and related activities	Oil transportation	\$271,188	5.18%
Fort Knox	Mining	231,037	4.41%
Flint Hills Resources <sup>(2)</sup>	Oil refining	170,816	3.26%
Bentley Family Charitable Trust	Investments	47,644	0.91%
HEBL Housing (Eielson)	Military housing	40,074	0.76%
PTI Communications of Alaska Inc. <sup>(3)</sup>	Telephone	35,505	0.68%
Alaska Hotel Properties, Inc. (Princess)	Hotel	26,304	0.50%
Westmark Hotel	Hotel	23,994	0.46%
North Star Alaska Housing	Military housing	23,033	0.44%
Wal-Mart Stores	Shopping center	<u>19,197</u>	<u>0.37%</u>
		\$888,792	16.96%

Source: Fairbanks North Star Borough

1- Total assessor's value, 2004.

2- The former Williams Alaska Petroleum.

3- Alaska Communication Systems.

\$5,239,380

## Tax Rates

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

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

Tax Year	Borough	Non- Areawide <sup>(2)</sup>	Solid Waste Collection <sup>(3)</sup>	City of Fairbanks	City of North Pole
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
2003	13.693	0.523	1.187	6.516	3.000
2004	13.606	0.435	1.183	7.171	3.000

Source: Fairbanks North Star Borough 2004/05 Budget

1 - Rates do not include service area levies.

2 - Outside the cities of Fairbanks and North Pole.

3 - Includes area outside the City of Fairbanks.

The Borough's 2004 areawide tax rate is 13.606 mills per \$1,000 of assessed valuation. An additional 0.435 mills is levied on property outside the cities for ambulance service and economic development. An additional 1.183 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 7.1 mills in Fairbanks and 3.0 mills in North Pole.

Table 11 shows total tax rates in the cities and outside, exclusive of service area taxes. Areawide taxes levied for debt service on the Borough's school and library bonds are shown separately. They are included in the Borough's mill rate of 13.606.

**Table 11 ■ Fairbanks North Star Borough  
Total Tax Rates, 2004/05  
Mills per \$1,000 of Assessed Value**

	City of Fairbanks	City of North Pole	Outside Cities <sup>(1)</sup>
Borough areawide, excluding debt service	12.595	12.595	12.595
Borough debt service			
School bonds	0.990	0.990	0.990
Library bonds	<u>0.021</u>	<u>0.021</u>	<u>0.021</u>
Total debt service	1.011	1.011	1.011
Total Borough areawide	13.606	13.606	13.606
City of Fairbanks	7.171		
City of North Pole		3.000	
Solid waste collection	(2)	1.183	1.183
Non-areawide			0.435
Total <sup>(1)</sup>	20.777	17.789	15.224

Source: Fairbanks North Star Borough 2004/05 Budget

1- Does not include service area tax rates.

2- Fairbanks provides its own solid waste collection service.

## Tax Levies and Delinquencies

Table 12 shows property tax levies and current and delinquent collections for the Borough from 1998/99 through 2002/03. 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/widowers. In 2002/03, the Borough's current tax collections were 98.7 percent of the net current year levy on taxable property. Total collections, including delinquent taxes, totaled \$57.3 million, or 99.8 percent of the net current year levy. The net tax levy for FY 2004 is \$60.7 million. 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**

	1998/99	1999/00	2000/01	2001/02	2002/03
Net tax levy <sup>(1)</sup>	\$47,143,017	\$53,617,787	\$52,599,980	\$55,267,748	\$57,373,161
Current tax collections	47,030,281	52,965,407	51,710,487	54,516,342	56,643,449
Delinquent collections	<u>598,132</u>	<u>577,253</u>	<u>693,678</u>	<u>792,432</u>	<u>628,933</u>
Total collections <sup>(2)</sup>	\$47,628,413	\$53,542,660	\$52,404,165	\$55,308,774	\$57,272,382
Current year, percent of net levy collected	99.76%	98.78%	98.31%	98.64%	98.73%

Source: Fairbanks North Star Borough Comprehensive Annual Financial Report

Totals may not add due to rounding.

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.

## 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 direct bonded debt as of January 25, 2005. All of the Borough's outstanding bonds have been issued for school construction, except a portion of the 1997 Series A Bonds. The 1997 Series A Bonds included \$1.25 million to finance an addition to and renovation of the Noel Wien Library.

As of January 25, 2005 total gross direct debt, including the Bonds, is \$146.15 million. Table 13 also shows direct and total Borough debt in relation to the Borough's taxable assessed valuation (AV) and population. As Table 13 shows, \$98.6 million of the Borough's direct debt (67 percent) is eligible for state reimbursement. The underlying debt applies only to property owners in the Cities of Fairbanks and North Pole which represent 35% of Borough total AV.

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

	Percent Applicable	01/25/2005
<b>Direct Debt</b>		
Outstanding school and library bonds	100%	\$132,400,000
2005H bonds	100%	<u>13,750,000</u>
Total gross direct debt		146,150,000
Less: School bonds eligible for state reimbursement		<u>-98,579,733</u>
Total net direct bonded debt		47,570,267
<b>Direct and Underlying Debt</b>		
Underlying debt:		
City of Fairbanks	100%	12,160,000
City of North Pole	100%	241,709
Net solid waste enterprise revolving fund loan	100%	7,586,000
Less: City of Fairbanks bonds eligible for state reimbursement	100%	-6,820,000
Direct debt		<u>146,150,000</u>
Total gross direct and underlying debt		159,317,709
Less: School bonds eligible for state reimbursement		<u>-98,579,733</u>
Total net direct and underlying bonded debt		60,737,976
		Percent of Taxable Assessed Value 4,798,000,000
<b>Ratio of Direct Debt to Assessed Value</b>		
Gross	\$146,150,000	3.05%
Net	47,570,267	0.99%

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

Table 3 (p. 15), 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 (p. 28) also display the effect of state reimbursement on the Borough's debt service payments. With full funding of the debt service reimbursement program, the Borough's net local cost will be about one-third of its total annual debt service through the life of the Bonds.

### **Borough Tax Limitation**

At the October 1987 regular election, Borough voters approved a tax cap proposition, which voters must renew every two years to avoid legislative action. In October 1996, Borough voters approved a change in the property tax cap to require inclusion of other tax revenues within the tax cap computation and to require publication of tax cap computations by May 31 of each year. This measure limits the amount of taxes which the Borough can levy to the prior year's tax levy with certain permitted adjustments. Voters re-approved these measures in October 2004. The prior year's total taxes levied can be adjusted to:

- pay debt service on bonds;
- adjust for increases due to inflation as measured by the Consumer Price Index;
- account for new construction and property improvements;
- pay for new services approved by the voters;
- pay for legal judgments against the Borough; and
- pay for expenses in emergencies.

The 2004/05 budget is \$700,000 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. In addition to its Comprehensive Annual Financial Report awards, every year since 1989/90, the Borough has been awarded the GFOA Distinguished Budget Award Presentation for its annual budget document. In order to receive this award from GFOA, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications device.

## **Fiscal Policies**

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

### ***Operating Budget Policies***

- All general government current operating expenditures are to be paid from current and excess revenues. The Borough will avoid budgetary and accounting procedures which balance the current budget at the expense of meeting future years' obligations. The use of one-time revenues for ongoing operations will not be encouraged.
- All budgetary procedures will conform to existing state law and the Borough Code.
- The budget development process will examine and effect changes in program delivery responsibilities or management to improve productivity, lower costs, enhance service, and further communication with the public. The Borough's annual operating budget is to reflect known salary and benefits adjustments.
- The Borough will maintain a budgetary control system to ensure adherence to the budget and will prepare monthly reports comparing actual expenditures to current appropriations.
- If it becomes apparent that revenue shortfalls or extraordinary expenses will create a deficit, efforts will be made first to reduce the deficiency through budgetary management techniques. On an exception basis and not depleting the fund balances to an inappropriate level, the use of existing reserve funds may be recommended to cover revenue shortfalls. Debt will not be used to cover current operating expenses.
- As is practical, the various taxing jurisdictions, special functions, and operating and capital grant projects will be charged for the services received from general government.
- The Borough is expected to continue its scheduled level of facility maintenance and replacement of its facilities and equipment in order to maintain its facilities and equipment in good operating condition.

### ***Revenue Policies***

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

### ***Reserve Policies***

- Adequate reserves will be maintained for all known liabilities, including employee leave liabilities, workers' compensation liabilities, and self-insured retention amounts.
- The Borough will endeavor to maintain a reserve in each operating fund to cover revenue and expense variations and emergencies. The target reserve for operating funds with expenditures of more than \$500,000 is 7 to 10 percent of the prior year's expenditure level (approximately one month's cash flow); the target amount for each operating fund with expenditure levels of less than \$500,000 is 20 percent of the prior year's expenditure level (approximately 90 days' cash flow).
- The amount of the reserve requirement will be reviewed annually and may be increased by the amount necessary to meet future identified, one-time, and specific expenditures requiring the accumulation of funds over a given period.

### ***Debt Policies***

- The issuance of long-term debt will be only for construction and acquisition of land, capital improvements, or equipment, when the useful life of the asset will exceed the term of the debt.
- Debt financing will not be considered appropriate for current operating or maintenance expenses or for any recurring purposes.
- The Borough's preference is to issue fixed-rate long-term debt with level debt service. Other debt service structures may be considered if an economic advantage is identified for a particular project. The Borough's preference is to place the debt through a public bid process. It is recognized that a sale through negotiation may be considered due to fluctuating market conditions, time constraints, size or nature of the issue.
- The Borough will actively endeavor to maintain a minimum bond rating of A for all debt issues.

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

### **Investments and Investment Practices**

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

Borough Code Section 3.04 specifies the following authorized investments and maximum maturity schedule:

- U.S. Treasuries - 5 years;
- other obligations of the U.S. Government or its agencies and instrumentalities - 5 years;
- repurchase agreements of securities specified above, subject to qualification of the financial institution and specified margin requirements - 5 years;

- collateralized certificates of deposits and other deposits - 5 years;
- bank or credit union deposits insured by FDIC, NCUA, or FSLIC - 5 years;
- bonds or notes of any state or political subdivision thereof, rated A or higher - 5 years;
- prime commercial paper graded A1/P1 or higher - 270 days;
- prime bankers acceptances of the fifty largest international banks - 180 days;
- money market mutual funds consisting entirely of instruments specified above, maturity date not applicable; and
- the Alaska Municipal League Investment Pool, Inc., created in accordance with AS 37.23.020.

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

The Committee reports annually to the assembly on the status of the Borough's investment program, its compliance with Borough Code Section 3.04, and the outlook for future investments. The Committee makes recommendations and suggestions to the mayor and assembly for the conduct and improvement of the Borough investment program. The Committee also consults with the mayor concerning the adoption of administrative procedures and internal controls needed to implement the investment code.

### **Risk Management and Insurance**

The Borough's risk management program includes both the Borough and the School District. The program employs a combination of insurance provided by commercial carriers, and self-insured retention amounts. Commercial insurance with small deductibles is secured for the following coverages: auto and general liability, property, and workers' compensation for fire service areas; general liability for road and street light service areas; physical damage to Borough vehicles; employee life insurance; and employee fidelity bonds. The program self-insures some portion of the following risk exposures: employee and dependent medical, auto and general liability, workers' compensation, errors and omissions/public officials, property, and employment practices. Commercial insurance has also been obtained for excess coverage above self-retention limits for all risk exposures except environmental. Settled claims have not exceeded commercial coverage in any of the past four fiscal years.

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

levels, the Borough has reduced exposure to any supplemental contributions. No supplemental contributions have been required of members in the last four fiscal years.

## **Management Discussion**

The Borough management has actively worked to combine existing departments or create new departments when necessary in order to provide the public with efficient service and operations. Where possible, special revenue funds have been converted to enterprise funds to provide for improved matching of the revenues, expenses, assets and liabilities.

The Borough has consistently funded a Facilities Maintenance Reserve Fund, a sinking fund for facilities maintenance. The Borough maintains over three million square feet of facilities in an extreme environment. Using annual revenues and reserves from this fund the Borough is able to complete outstanding maintenance requirements. About \$13.7 million has been deposited in the fund since its creation.

The Borough also created a Vehicle and Equipment Fleet Fund (VEFF) within the Transportation Department to serve as a revolving fund for vehicle and equipment replacement. The fund has stabilized annual cash requirements and has allowed the Borough to keep its fleet of vehicles and equipment in a well-maintained state in a cost efficient manner. Further, the VEFF program allows for better cost allocations to Borough functions, thus improving management decision-making. In 2004 the Borough created the Asset Replacement Reserve Fund (ARRF). The purpose of ARRF is to fund replacement of equipment and host-based software during the fiscal year that was not otherwise specifically budgeted.

The Borough currently employs about 400 benefit eligible people, of which approximately 80 percent are covered by collective bargaining units. The last negotiations were completed in 2003, and agreements signed by the Borough are valid through June 30, 2006. The Borough has historically fully funded its retirement program.

The mayor and Borough assembly and other municipalities throughout the state continue to work with the state legislature to stop or reduce the cuts to local government. Particular emphasis is being given to the recent actuarial decline in value and funding shortfall in the statewide Public Employee Retirement System and Teachers Retirement System.

The Borough has completed compliance with Governmental Accounting Standards Board statement 34 with issuance of the FY 2003 Comprehensive Annual Financial Report. The 2003 CAFR received the GFOA Certificate of Achievement for Excellence in Financial Reporting.

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

## SCHOOL DISTRICT FINANCES

The school district is included as a component unit in the Borough's Comprehensive Annual Financial Report, and issues its own Comprehensive Annual Financial Report to meet compliance requirements of DEED. The school district's financial reports have received awards for excellence in reporting from both the Government Finance Officers Association and the Association of School Business Officials. The school district must adhere to specific reporting procedures in order to receive revenue under the state foundation program.

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

Table 14 shows five years of school district operating fund revenues and expenditures. Of the district's \$114.7 million operating fund revenues in 2003/04, state funding provided 59 percent and the Borough provided 30 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**

	1999/00	2000/01	2001/02	2002/03	2003/04
<b>Revenues</b>					
Borough appropriation	\$ 30,690,780	\$ 32,045,700	\$ 32,555,700	\$ 33,545,700	\$ 34,545,700
Local sources	515,842	509,805	353,586	958,150	709,784
State sources	68,604,179	66,844,446	68,819,817	70,215,375	67,224,480
Federal pass-through	18,621,358	11,851,143	13,425,434	11,144,790	11,943,538
Federal sources	103,743	193,435	207,831	248,837	246,585
Total revenues	\$118,535,902	\$111,444,529	\$115,362,368	\$116,112,852	\$114,670,087
<b>Expenditures</b>					
Instruction	68,541,261	67,192,493	70,268,181	71,788,492	70,765,104
Supporting services	23,595,331	23,038,129	24,309,678	26,652,324	27,065,756
Operation & maint.	14,364,228	14,393,763	14,665,825	14,887,254	14,790,910
Pupil activities	1,742,970	1,477,402	1,425,684	1,483,249	1,333,434
Debt Service	-	-	-	205,484	205,484
Transfers	1,659,793	1,364,206	3,426,956	2,433,012	1,724,852
Total expenditures	\$109,903,583	\$107,465,993	\$114,096,324	\$117,449,815	\$115,885,540

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

## School District Budget

Table 15 shows the district's 2004/05 operating fund budget. The school district establishes its final budget following action by the Borough assembly setting the local funding level. If the school district's local funding request is fully funded by the Borough, the budget process is complete. If not, the school board must adjust its budget based on the local contribution.

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

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

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

	2004/05
<b>Revenues</b>	
Borough appropriation	\$36,545,700
Local sources	707,220
State sources	74,744,848
Federal pass-through	9,348,000
Fund balance utilization	<u>3,474,602</u>
Total revenues	\$124,820,370
<b>Expenditures</b>	
Instruction	73,676,316
Supporting services	33,562,856
Operation and maintenance	16,871,348
Pupil activities	0
Transfers to other funds	<u>709,850</u>
Total expenditures	\$124,820,370

Source: Fairbanks North Star Borough School District

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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 2000 census, the Borough's population was 82,840, an increase of about 7 percent from the 1990 population of 77,720 and 53 percent since 1980. The Borough's 2003 population was 82,214.

**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
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
2002	82,840	30,224	1,570	626,932
2003	82,214	29,486	1,646	648,818

Source: FNSB Comprehensive Annual Financial Reports  
and State of Alaska, Department of Labor and Workforce  
Development, Research and Analysis Section, State Demographer

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

2 - Includes population living on Fort Wainwright.

As of 2004, the number of military personnel and family members totaled 16,694. The total military population comprises about 20 percent of total Borough population. The US Congress has recently appropriated over \$128 million for improvements and expansion of family housing facilities at the Borough's two military bases, Fort Wainwright and Eielson Air Force Base.

Table 17 shows the number of residential housing units sold and the average price per unit since 2000.

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

	Units Sold	Average Price Per Unit
<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
3rd Quarter .....	128	167,500
4th Quarter .....	220	157,100
<b>2003</b>		
1st Quarter .....	138	149,800
2nd Quarter .....	241	162,900
3rd Quarter .....	263	159,100
4th Quarter .....	251	162,900
<b>2004</b>		
1st Quarter .....	130	154,300
2nd Quarter .....	242	167,500

Source: FNSB Community Research Quarterly, Summer 2004

## Income

Table 18 shows median household effective buying income (EBI) for the Borough, the state, and the U.S. for the period from 2000 through 2003. 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 1999 and 2003, the Borough's EBI increased at an annual average rate of 2.4 percent. EBI is based on "money income," provided by the Census Bureau. Money income does not include certain sources, such as pay-in-kind income, lump-sum payments such as bonuses, interest and rent from property, and some proprietor's income and transfer payments.

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

Year	Borough	State of Alaska	United States
1999	\$41,299	\$45,040	\$37,233
2000	43,924	47,965	39,129
2001	45,890	48,987	38,365
2002	44,600	45,882	38,035
2003	45,359	47,047	38,201

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

## Cities

**Fairbanks:** The City of Fairbanks, with a 2003 population of 29,486, is the largest in the Borough and the second largest in the state, after Anchorage. The city's population has increased about 30 percent since 1980, and decreased about 4.4 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 arriving by rail to the terminus at Fairbanks and continuing on to the North Slope over the Dalton Highway. The urbanized area of the City of Fairbanks covers about 10.5 square miles.

**North Pole:** North Pole is located 11 miles southeast of Fairbanks, and is the only other incorporated city in the Borough. Its 2003 population of 1,646 has increased about 13 percent since 1990. The city's major industry is the Flint Hills Resources, a division of Koch Industries, Inc. a refinery, which produces heating oil, jet fuel, and gasoline from North Slope crude oil.

## Employment

Table 19 shows a three-year history of civilian employment by industry segment. The Alaska Department of Labor estimates average 2003 employment at 35,800, an increase of 350 jobs from the previous year.

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

Industry	2001	2002	2003
Mining, construction, & manufacturing	3,500	3,650	3,850
Trade, transportation, & utilities	7,050	7,250	7,050
Information	600	600	600
Financial activities	1,300	1,300	1,300
Professional & business services	2,100	1,850	2,050
Educational & health services	3,400	3,800	4,050
Leisure & hospitality	3,700	3,850	4,000
Other services	1,950	1,800	1,350
Government - federal	3,350	3,300	3,350
Government - state	4,700	5,000	5,150
Government - local	3,100	3,050	3,000
Total	34,700	35,450	35,800
Unemployment rate	5.7%	6.7%	6.7%

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

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

**Table 20 ■ Fairbanks North Star Borough  
Largest Employers, 2003**

Employer	Business Activity	Employees
Federal government <sup>(1)</sup>	Government	3,342
University of Alaska, Fairbanks	Education	3,341
Fairbanks North Star Borough School District	Education	1,950
State government <sup>(2)</sup>	Government	1,779
Banner Health System	Hospital	1,147
Fred Meyer, Inc.	Grocery/retail	532
Fairbanks North Star Borough	Government	423
Fairbanks Gold Mining Co. (Ft. Knox)	Hard rock mining	399
Houston/Nana Joint Venture	Oilfield Services	398
Safeway	Grocery/retail	318
Tanana Chiefs Conference	Social services	303
Interior Alaska McDonald's	Food service	263
Fairbanks Native Association	Social services	262
Sam's Club	Retail	244
Tatonduk Outfitters Ltd	Services	238

Source: Fairbanks North Star Borough

1 - Excludes active duty military personnel.

2 - Total state government minus University of Alaska.

**Government Sector:** The University of Alaska Fairbanks (UAF) employs 3,341 and is the Borough's second largest employer. UAF accounts for 65 percent of persons employed by the state within the Borough. Along with other federal, state, and school district employees, and with civilian jobs at Fort Wainwright and Eielson Air Force Base, government is the largest sector in terms of employment with 30 percent of the Borough's workforce. Nine percent of the work force is federally employed, 14 percent is state employed, and six percent is locally employed.

**Services and Trade Sectors:** Hotel/motel room receipts amounted to \$37.4 million in 2003, a 5 percent decrease from 2002. The services sector, to which tourism significantly contributes, has grown to become the largest employment sector with 37 percent of total Borough employment. The trade and transportation sectors account for about 20 percent of the Borough's employment.

**Construction, Manufacturing and Mining Sectors:** These employment sectors provide 11% 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 1,147 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 303 in Fairbanks. Fred Meyer, Inc., a grocery and retail store chain with two stores in Fairbanks, employs 532. A Wal-Mart opened in spring of 2004.

## **Military**

The two main military installations within the Borough, Fort Wainwright and Eielson Air Force Base, continue to be an important economic asset to the region. In addition to the military and family population centers the bases represent, the bases bring significant levels of civilian employment, last reported by the Federal Government as a combined 2,007 in fiscal year 2002/03, representing a payroll of about \$80 million.

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

**Fort Wainwright:** Fort Wainwright, formerly known as Ladd Army Air Field, was built in 1941 as a cold weather test station and is comprised of 916,000 acres. During World War II, it served as the transfer point for nearly 8,000 aircraft transferred from the U. S. to the Soviet Union. Ladd Airfield was transferred to the Army in 1961.

In 2003, Stryker Brigade Combat Team 3 (SBCT 3) composed of 3,600 men was assigned to Fort Wainwright as the 172<sup>nd</sup> Infantry Brigade. SBCT 3 is one of four Stryker Brigades being deployed as a crucial step in the Army's efforts to transform its forces into rapidly deployable, sustainable and survivable force units. The SBCT is an infantry-centric unit that can deploy anywhere in the world within 96 hours, and is built around a medium-weight 19-ton Stryker combat vehicle.

The Army plans to use SBCTs as a prototype for the future of the entire Army, a transformation to take place over the next decade, making SBCT 3 (and by extension, Fort Wainwright) an important element in the Army's future. A strategic decision has been made that medium-weight units such as the SBCT will be more valuable assets in the new global security environment than the current mix of light-weight infantry units, which can be delivered to a theater quickly but do not have staying power against enemy armor, and heavy-weight armor units, which cannot be rapidly deployed. The SBCT concept is to combine the rapid deployment abilities of light-weight forces, with the strength and counterattack survivability attributes of heavy-weight forces.

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

Table 21 shows military personnel and family members at Fort Wainwright and Eielson Air Force Base. In 2004, 4,904 military personnel and 5,320 family members were stationed at Fort Wainwright. For the 2004, 3,094 military personnel and 3,376 family members were stationed at Eielson Air Force Base.

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

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	2001	2002	2003	2004
<b>Fort Wainwright</b>				
Military personnel	4,182	4,401	4,462	4,904
Family members	5,298	6,601	5,797	5,320
<b>Eielson Air Force Base</b>				
Military personnel	2,764	2,793	3,030	3,094
Family members	4,074	3,579	3,639	3,376

Source: As of first quarter of listed year in FNSB Community Research Quarterly, Summer 2004

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## Health Care

Fairbanks Memorial Hospital as managed by Banner Health is the Borough's largest employer outside of government and education. The Borough continues to expand its role as a major medical center for the interior of Alaska. The hospital is embarking in 2005 on a \$110 million expansion.

## Retail Sales

Retail sales totaled \$1.2 billion in 2003, according to *Sales & Marketing Management Magazine*. This is an increase of about 8.6 percent from 2002. In the past 18 months Home Depot and Wal-Mart have opened locations in the Borough. Lowe's is scheduled to open in December 2004 and a Fred Meyers megastore is scheduled to open in 2005 as the Borough expands its service center role. Retail sales increased at an average annual rate of 6 percent between 1999 and 2003. Table 22 shows retail sales by category from 1999 through 2003.

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

	1999	2000	2001	2002	2003
Food	\$105,165	\$108,481	\$92,370	\$82,569	\$88,315
Eating & drinking places	91,234	60,254	69,986	66,670	79,720
General merchandise	307,559	326,652	305,277	373,312	399,485
Furniture & appliances	29,318	29,312	27,139	29,735	33,980
Automotive	354,122	351,692	327,139	301,991	319,495
All Other	<u>291,160</u>	<u>293,027</u>	<u>262,773</u>	<u>273,860</u>	<u>304,285</u>
Total	\$1,178,558	\$1,169,418	\$1,084,684	\$1,128,137	\$1,225,280

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

## Construction

Table 23 shows building permits and valuation inside of the Cities of Fairbanks and North Pole since 2000. Building permits are not required outside of the legal jurisdictions of the cities, 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 23 ■ Fairbanks North Star Borough  
Recorded Building Permits and Valuation in Thousands of Dollars<sup>(1)</sup>**

Year	Residential		New		Total
	Units	Residential	Commercial	Other <sup>(2)</sup>	
2000	159	\$16,291	\$59,701	\$2,443	\$78,435
2001	270	27,177	65,816	6,831	99,824
2002	218	29,506	73,514	21,069	124,089
2003	355	46,124	52,784	14,352	113,260
2004 - Quarters 1 & 2	274	33,468	94,879	6,978	135,325

Source: FNSB Community Research Quarterly, Summer 2004

1 - Excludes value of federal and state construction.

2 - Includes new structures, alterations and additions.

The first 6 months of 2004 saw 274 residential units added, a 65 percent increase over the same period in 2003.

## **Oil and Gas Industry**

**Oil Pipeline:** The discovery in 1968 of a vast oil and gas region on the arctic North Slope of Alaska marked the opening of another era in the economic development of the state. The 800-mile, \$8 billion Trans Alaska pipeline system began transporting crude oil from Prudhoe Bay on the North Slope to shipping facilities in south-central Alaska at Valdez in 1977.

The state receives a royalty on all gas and oil production from both state and federal lands; the state receives 90 percent of royalties received by the federal government from leases of federal lands in the state. The proven reserves of the Prudhoe Bay region on the North Slope are within state lease areas. The state's royalty is one-eighth of the oil production, which it may take in-kind or as royalty payments based on the dollar value of the production. Petroleum production activities also provide the state with revenue from oil and gas severance taxes, corporate taxes, and ad valorem taxes on petroleum production and transportation facilities in the state.

**Gas Pipeline:** In October 1999 voters in the Borough, the North Slope Borough, and Valdez approved creation of the Alaska Gasline Port Authority, to develop, own and operate a natural gas pipeline. The Port Authority's proposed pipeline would transport natural gas from the North Slope to Tidewater in Alaska for liquefied natural gas shipments to west coast markets. In November 2002 an initiative was presented to state voters that would create a gas pipeline development authority as a public corporation of the state. This measure received a 61 percent yes vote.

The governor of Alaska is currently negotiating terms and conditions for a natural gas pipeline that would transport natural gas from the North Slope to the Canadian border for transport to the lower 48 states. The announcement, made at an event in the Borough, signals the first concrete step in construction of the gas pipeline. The governor hopes to have a negotiated contract submitted to the Alaska State legislature for approval during the 2005 legislative session.

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

## **FNSB Oil and Gas Operations**

Two oil refineries are located in the Borough. The Flint Hills Resources (FHR) Alaska refinery (formerly Williams Alaska Petroleum, Inc.) began North Pole operations in 1977. The FHR refinery currently processes about 220,000 barrels per day of crude oil off the Trans Alaska Pipeline System and refines approximately 70,000 barrels per day into products that are sold in Alaska and Asia. The balance of 150,000 barrels per day is returned to the pipeline. Flint Hills Resources, a division of Koch Industries, Inc.,

purchased their North Pole refinery on March 31, 2004, at which time they announced a capital investment of approximately \$175 million in a clean fuels project that will reduce sulfur content in both gasoline and highway diesel fuel. The low sulfur gasoline production capacity will come online in early 2007, and the ultra low sulfur diesel production will come online in mid to late 2007. The PetroStar refinery, constructed in 1985, has a capacity of 16,000 barrels per day and supplies jet fuel directly to Eielson Air Force Base by pipeline. The refinery produces kerosene, diesel, heating, and jet fuels.

## **Mining**

Gold was discovered in Fairbanks in 1901. The eastern interior region of Alaska, centered at Fairbanks, is not only the state's leading gold-producing region, but also holds potential for the discovery and development of new mines. The proposed gas pipeline has been received warmly by local mining interests, as inexpensive local delivery of natural gas could make new mining operations and techniques economically feasible and allow further extraction of mineral wealth.

The Fort Knox gold mine is located 15 miles northeast of Fairbanks. Commercial production started in March 1997 and continues 24 hours a day, 365 days a year. The mine has produced more than 3 million ounces of gold since it began operations at a rate of approximately 400,000 ounces per year; the estimated remaining reserves of 2.7 million ounces should be sufficient to sustain operations through 2010.

Development and construction of a mile-long exploratory tunnel to access the Pogo gold deposit, outside the Borough's southern boundary, was begun in 1999. The Pogo deposit is believed to contain 5.6 million ounces of gold. The mine is expected to be fully operational by mid-2006. Estimated production is 375,000 ounces annually, with a mine life of 10 years. During primary construction, lasting approximately 30 months, the mine will employ 700; regular mining operations will provide 300 jobs.

Usibelli Coal Mine, Inc. (UCM), Alaska's only coal producer, was founded in 1943. It is located about 120 miles south of the Borough. Today, the mine has a workforce of about 125 employees and operates year-round. UCM produces an average of 1.3 million tons of low sulfur coal annually with about 70 percent sold in interior Alaska where it is used in power plants to produce heat and electricity. The remaining tons are shipped by railroad to Seward, Alaska for export to South Korea. Capacity exists to increase total production to approximately 3 million tons per year with minimal capital expenditure. UCM has ample reserves of 50 million tons of proven reserves permitted for mining, an additional 100 million tons of proven reserves amenable to mining, and unproven reserve estimates of an additional 250 million tons.

## **University of Alaska**

The University of Alaska Fairbanks was established in 1917 as the Alaska Agricultural College and School of Mines. The main 2,250-acre campus is located about four miles from downtown Fairbanks, and is the flagship of the state university system, which also includes campuses in Anchorage and Juneau. UAF also operates campuses distributed around the state under the College of Rural Alaska banner; one of these, the Tanana Valley Campus, is located in Fairbanks. The 2004 spring term enrollment of the Fairbanks campuses was 8,717. 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 3,341 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.

Fairbanks is the terminus of the Alaska Railroad, which extends about 480 miles from Seward through Anchorage to Fairbanks. During the summer, the railroad operates daily passenger service between Fairbanks and Anchorage, with a stop at Denali National Park. The railroad's most important role is cargo transportation, primarily coal, fuel, trailer and container shipments, motor vehicles, and heavy equipment. About one-third of the annual coal production from the Usibelli Coal Mine in Healy is shipped north each year by railroad. Gasoline from the Flint Hills refinery in North Pole is shipped south on the railroad. The US Senate has recently agreed to provide \$2 million to study the feasibility of expanding the railroad into Canada, along the route of the proposed gas pipeline.

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

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	1999	2000	2001	2002	2003
Passengers - incoming	404,896	404,997	411,570	420,856	423,834
Passengers - outgoing	401,878	403,565	407,975	409,626	417,959
Revenue landings	26,581	27,096	29,322	28,943	29,738
Freight - incoming*	13,890	13,554	12,700	14,533	17,153
Freight - outgoing*	57,637	54,842	54,134	59,659	52,806

Source: FNSB Community Research Quarterly, Summer 2004

\*Thousands of pounds

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## Community Facilities

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

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

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

## **Tourism and Recreation**

Tourism is of increasing importance to the Borough. According to the Fairbanks Convention and Visitors Bureau bed tax collections have increased by nearly 60 percent over the five-year period through 2002. The Alaska Visitors Statistics Program reports that about 440,000 people annually visit the area. Investment in tourism infrastructure is reflected in the Borough's increased assessed valuation. Recently enacted federal appropriations bills include \$6 million for completion of a cultural visitors center in the Borough.

While most of Fairbanks visitation is in the summer, winter has been dubbed the "opportunity season." The aura and challenge of "Far North" outdoor activities are gaining attention from international and domestic media. Privately owned and operated riverboat and gold mining attractions host thousands of visitors during the summer season. Visitors are lured by the midnight sun in the summer and the aurora borealis in the winter. Facilities and amenities available for visitors to enjoy are also available for residents.

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

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

The 2,200-acre Chena Lakes Recreation Area was completed in 1984 by the Army Corps of Engineers as part of the Chena River flood control project. The \$190 million project, about 15 miles south of downtown Fairbanks, is the Corps' largest project in Alaska and its only recreation project in the state. Facilities include a 260-acre lake, two campgrounds with

88 campsites, boat launch, swimming beach, playground, volleyball facilities, and numerous picnic areas including three covered pavilions. The park draws about 78,000 visitors annually.

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

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

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**APPENDIX A**  
**GENERAL PURPOSE FINANCIAL STATEMENT**  
**FAIRBANKS NORTH STAR BOROUGH, ALASKA**  
**Fiscal Year Ended June 30, 2003**

**Cook & Haugeberg LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

December 18, 2003

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Assembly  
Fairbanks North Star Borough

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough, as of and for the year ended June 30, 2003, which collectively comprise the Borough's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Borough's nonmajor governmental and fiduciary funds presented as combining and individual fund financial statements and schedules as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements and schedules are the responsibility of the management of the Fairbanks North Star Borough. Our responsibility is to express opinions on these financial statements and schedules based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairbanks North Star Borough, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements and schedules referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and fiduciary fund of the Fairbanks North Star Borough, as of June 30, 2003, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the note to the basic financial statements entitled "Accounting Changes," during the fiscal year 2003 the Borough adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; as well as GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 18, 2003, 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. Those reports are 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 required supplementary information, which includes management's discussion and analysis, budgetary comparison information and related note disclosures, and the schedule of funding progress for pension and post employment health care benefits, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairbanks North Star Borough's basic financial statements. The accompanying schedules listed as additional information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These additional information schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Cook & Haugeberg LLC*

FAIRBANKS NORTH STAR BOROUGH

Governmental Funds

Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Year Ended June 30, 2003

	General	Service Areas	Debt Service	Bond Projects	Local Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$58,508,210	\$5,223,502	\$	\$	\$	\$5,579,344	\$69,311,055
Intergovernmental revenues	11,973,317	283,451				7,489,137	19,745,905
Charges for services	1,216,277					750,366	1,966,643
Other revenues	2,159,771	356,004		285,129	225	1,800,759	4,601,887
Revenues total	73,857,575	5,862,956		285,129	225	15,619,605	95,625,490
<b>Expenditures</b>							
Current							
General government	8,760,047				79,497	4,800,612	13,640,156
Community planning	1,216,560					278,916	1,495,477
Public works	2,539,377			90	288	3,913,326	6,453,081
Parks and recreation	4,186,349				1,140,711	282,092	5,609,152
Library	3,136,426				59,172	212,992	3,408,590
Direct services	1,393,661				18,478	265,429	1,677,568
Road and other service areas		1,832,530			364	184,575	2,017,469
Education				2,526,632	375	299,964	2,826,971
Emergency operations	213,548	3,049,853				1,537,313	1,750,861
Fire service areas		124,920			4,340	117,218	3,171,411
Capital outlay	343,370			8,119,512	2,915,353	2,588,216	14,091,370
Debt service							
Principal retirement			7,390,000				7,390,000
Interest and fiscal agent fees			5,740,463				5,740,463
Expenditures total	21,789,339	5,007,302	13,130,463	10,646,234	4,218,578	14,480,653	69,272,569
Excess (deficiency) of revenues over expenditures	52,068,236	855,654	(13,130,463)	(10,361,105)	(4,218,353)	1,138,952	26,352,921
Other financing sources (uses)							
Transfers in	561,140		13,116,060		3,356,604	1,191,436	18,225,240
Transfers out	(53,855,408)				(75,000)	(885,542)	(54,815,950)
Bond proceeds				27,812,638			27,812,638
Other financing sources (uses) total	(53,294,268)		13,116,060	27,812,638	3,281,604	305,894	(8,778,072)
Net change in fund balances	(1,226,032)	855,654	(14,403)	17,451,533	(936,749)	1,444,846	17,574,849
Fund balances, beginning as restated	19,015,238	6,702,843	23,009	14,204,373	9,344,656	8,194,359	57,484,479
Fund balances, ending	\$17,789,206	\$7,558,497	\$8,606	\$31,655,906	\$8,407,907	\$9,639,206	\$75,059,328

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2003

Net change in fund balances - total governmental funds		\$17,574,849
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital outlay	14,091,371	
Depreciation expense	<u>(10,584,988)</u>	3,506,383
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets.		2,323,377
Internal revenue and expenditures have been eliminated. The amount remaining is the interfund activity between governmental and business-type activities.		(16,238)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,808,364
Tax revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities.		(1,698,208)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Debt proceeds	(27,500,000)	
Premium on debt	(312,638)	
Deferred bond issuance costs	488,812	
Debt principal payments	7,391,214	
Accrued interest and amortization	<u>(326,944)</u>	(20,259,556)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(143,239)
An internal service fund is used by management to charge the cost of vehicle and equipment fleet management to individual funds. The change in net assets of the internal service fund is reported with governmental activities.		187,896
The internal service fund lookback adjustment results in a balance between governmental and business-type activities.		20,675
Change in net assets of governmental activities		<u>\$3,304,302</u>

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See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Net Assets  
June 30, 2003

Assets	Business-type Activities -		Enterprise Funds			Governmental Activities - Internal Service Fund
	Transit	Land	Carlson Center	Solid Waste Disposal	Total	Vehicle and Equipment Fleet
<b>Current assets</b>						
Equity in central treasury cash	\$1,044,144	\$4,004,725	\$1,551,559	\$16,240,649	\$22,841,078	\$555,767
Restricted equity in central treasury cash	189,217		419,532		608,749	
Taxes receivable - foreclosure reimbursement		205,746			205,746	
Accounts receivable (net of allowance for uncollectibles 2003 - \$33,187)	166	72,285	29,001	475,632	577,084	
Restricted accounts receivable			2,807		2,807	
Accrued interest receivable (net of allowance for uncollectibles 2003 - \$56,324)		17,397		2,664	20,061	
Land contracts receivable, current portion		223,229			223,229	
Due from governmental agencies						169
Restricted due from governmental agencies	36,204				36,204	
Inventories	141,512	492,294			633,806	
Current assets total	<u>1,411,242</u>	<u>5,015,676</u>	<u>2,002,899</u>	<u>16,718,944</u>	<u>25,148,763</u>	<u>555,935</u>
<b>Noncurrent assets</b>						
Land inventory - long-term		8,698,098			8,698,098	
Land contracts receivable		1,426,465			1,426,465	
Long-term receivable (net of allowance for uncollectibles 2003 - \$121,474)				60,737	60,737	
<b>Capital assets - non-depreciable</b>						
Land and land improvements	607,861		509,032	836,876	1,953,769	
Works of art			120,790		120,790	
Construction work in progress			156,518	1,497,632	1,654,151	
<b>Capital assets - depreciable</b>						
Land				255,171	255,171	
Buildings	2,680,789		14,815,299	4,542,614	22,038,701	
Improvements other than buildings	118,866		779,753	8,648,743	9,547,362	
Equipment	2,462,711		159,758	2,526,072	5,148,541	5,146,038
Intangibles - software		18,864			18,864	
Accumulated depreciation	(2,665,083)	(4,244)	(4,044,881)	(9,239,588)	(15,953,797)	(2,330,299)
Net pension asset	116,909	28,287	3,366	51,351	199,913	
Noncurrent assets (net) total	<u>3,322,053</u>	<u>10,167,469</u>	<u>12,499,635</u>	<u>9,179,607</u>	<u>35,168,764</u>	<u>2,815,739</u>
<b>Assets total</b>	<u>\$4,733,296</u>	<u>\$15,183,146</u>	<u>\$14,502,535</u>	<u>\$25,898,552</u>	<u>\$60,317,528</u>	<u>\$3,371,674</u>

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Net Assets  
June 30, 2003

	Business-type Activities -		Enterprise Funds			Governmental Activities -
	Transit	Land	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund
<b>Liabilities and Net Assets</b>						
<b>Current liabilities</b>						
Accounts payable	\$53,207	\$34,242	\$97	\$363,328	\$450,875	\$
Wages and payroll taxes	87,645	22,667	2,703	41,462	154,477	
Accrued interest payable				183,358	183,358	40,120
Accrued annual leave	129,480	31,051	2,071	32,046	194,648	
Accrued self-insurance losses	39,810			35,584	75,394	
Deposits from others		5,000			5,000	
Payable from restricted assets						
Accounts payable	652		186		838	
Deferred revenues	75,000		17,049		92,049	
Capital lease payable				35,398	35,398	341,753
Loans payable				1,637,615	1,637,615	
Unrealized gain on land contracts, current portion		56,028			56,028	
Current liabilities total	<u>385,794</u>	<u>148,988</u>	<u>22,107</u>	<u>2,328,792</u>	<u>2,885,681</u>	<u>381,872</u>
<b>Long-term liabilities</b>						
Accrued annual leave	40,297	7,407	337	11,442	59,483	
Accrued self-insurance losses	16,985			27,132	44,117	
Unrealized gain on land contracts		393,371			393,371	
Capital lease payable				91,002	91,002	647,285
Loans payable				4,292,480	4,292,480	
Landfill closure and postclosure care				8,126,500	8,126,500	
Long-term liabilities total	<u>57,282</u>	<u>400,779</u>	<u>337</u>	<u>12,548,555</u>	<u>13,006,953</u>	<u>647,285</u>
Liabilities total	<u>443,076</u>	<u>549,766</u>	<u>22,445</u>	<u>14,877,347</u>	<u>15,892,634</u>	<u>1,029,157</u>
<b>Net assets</b>						
Invested in capital assets, net of related debt	3,205,144	14,620	12,496,269	3,011,025	18,727,057	1,826,701
Restricted for:						
Asset replacement			405,104		405,104	
Grants	149,769				149,769	
Net pension asset restricted for future contributions	116,909	28,287	3,366	51,351	199,913	
Unrestricted	818,397	14,590,473	1,575,351	7,958,829	24,943,050	515,816
Net assets total	<u>4,290,220</u>	<u>14,633,379</u>	<u>14,480,090</u>	<u>11,021,205</u>	<u>44,424,894</u>	<u>2,342,517</u>
Liabilities and net assets total	<u>\$4,733,296</u>	<u>\$15,183,146</u>	<u>\$14,502,535</u>	<u>\$25,898,552</u>	<u>\$60,317,528</u>	<u>\$3,371,674</u>

See accompanying notes to financial statements.

**FAIRBANKS NORTH STAR BOROUGH**

**Reconciliation of the Proprietary Funds Net Assets  
to the Statement of Net Assets  
June 30, 2003**

Total net assets of enterprise funds	\$44,424,894
Adjustment to reflect the consolidation of internal service fund activities to enterprise	(20,675)
Elimination of interfund activity	<u>16,238</u>
Net assets of business-type activities	<u>\$44,420,458</u>

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See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Year Ended June 30, 2003

	Business-type Activities -		Enterprise Funds			Governmental Activities -
	Transit	Land	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund Vehicle and Equipment Fleet
Operating revenues						
Fares	\$195,226	\$	\$	\$	\$195,226	\$
Land sales, net of cost		213,520			213,520	
Land leases		43,289			43,289	
Interest on land contracts receivable		164,842			164,842	
Advertising	5,770				5,770	
Charges for services	979,324	276,987	56,033	4,888,020	6,200,363	343,900
Other revenues	1,316	263,640			264,956	
Operating revenues total	<u>1,181,636</u>	<u>962,278</u>	<u>56,033</u>	<u>4,888,020</u>	<u>7,087,966</u>	<u>343,900</u>
Operating expenses						
Wages and benefits	2,400,117	576,594	54,960	1,165,400	4,197,071	
Fuels, lubricants, and parts	317,774			68,193	385,966	925
Other commodities	3,874		175,120	5,825	184,819	
Contractual services	99,990	102,481	333,495	1,278,082	1,814,048	4,096
Utilities	67,001			57,624	124,625	
Professional services	20,387	28,450	26,897	40,530	116,264	
Depreciation	194,200	943	315,362	1,967,635	2,478,141	410,733
Training, dues and professional expenses	28,066	9,303	106	15,155	52,629	253
Repairs and maintenance	48,564		1,500	234,771	284,835	2,540
Supplies	28,443	10,065		585	140,991	
Management contractor fee			127,180		127,180	
Landfill closure and postclosure care costs				538,500	538,500	
Interest expense capital leases						42,724
Intragovernmental charges	635,426	198,602	291,405	530,172	1,655,605	15,558
Operating expenses total	<u>3,843,842</u>	<u>926,438</u>	<u>1,326,610</u>	<u>6,003,783</u>	<u>12,100,674</u>	<u>476,830</u>
Operating income (loss)	<u>(2,662,206)</u>	<u>35,839</u>	<u>(1,270,577)</u>	<u>(1,115,764)</u>	<u>(5,012,708)</u>	<u>(132,930)</u>

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Year Ended June 30, 2003

	Business-type Activities -		Enterprise Funds			Governmental Activities -
	Transit	Land	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund
Non-operating revenues (expenses)						
Interest expense	\$	\$	\$	(\$66,049)	(\$66,049)	\$
Operating grants	191,799		17,971		209,770	85,350
Fares from grants	173,992				173,992	
Investment income	21,672	83,782	28,163	318,652	452,269	
Gain (loss) on sales of fixed assets						9,400
Miscellaneous revenue (expense)			20,000		20,000	
Decline in market value of land inventory		(43,996)			(43,996)	
Cost of prior year sales resulting from land valuation		(19,571)			(19,571)	
Non-operating revenues (expenses) total	<u>387,464</u>	<u>20,215</u>	<u>66,134</u>	<u>252,602</u>	<u>726,415</u>	<u>94,749</u>
Income (loss) before contributions and transfers	(2,274,743)	56,054	(1,204,443)	(863,162)	(4,286,293)	(38,180)
Capital contributions						226,076
Transfers in	2,357,070		1,733,560		4,090,630	
Transfers out	(13,064)	(1,329,327)			(1,342,390)	
Change in net assets	<u>69,264</u>	<u>(1,273,273)</u>	<u>529,117</u>	<u>(863,162)</u>	<u>(1,538,053)</u>	<u>187,896</u>
Net assets total, beginning as restated	<u>4,220,956</u>	<u>15,906,652</u>	<u>13,950,973</u>	<u>11,884,367</u>	<u>45,962,948</u>	<u>2,154,621</u>
Net assets total, ending	<u>\$4,290,220</u>	<u>\$14,633,379</u>	<u>\$14,480,090</u>	<u>\$11,021,205</u>	<u>\$44,424,894</u>	<u>\$2,342,517</u>

See accompanying notes to financial statements.

**FAIRBANKS NORTH STAR BOROUGH**  
**Reconciliation of the Statement of Revenues,**  
**Expenses, and Changes in Net Assets of Proprietary Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2003**

Change in net assets - total business-type enterprise funds	(\$1,538,053)
Amounts reported for business-type activities in the statement of activities are different because:	
The internal service fund lookback adjustment results in a balance between governmental and business-type activities.	(20,675)
Internal expenses for business-type activities have been eliminated.	<u>16,238</u>
Change in net assets of business-type activities	<u>(\$1,542,490)</u>

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See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Cash Flows  
Increases (Decreases) in Equity in Central Treasury Cash  
Year Ended June 30, 2003

	Business-type Activities -		Enterprise Funds			Governmental Activities -
	Transit	Land	Carlson Center	Solid Waste Disposal	Total	Internal Service Fund Vehicle and Equipment Fleet
Cash flows from operating activities						
Cash received from customers	\$1,181,470	\$1,572,580	\$53,317	\$4,830,144	\$7,637,511	\$343,900
Cash payments to suppliers for goods and services	(1,234,295)	(776,712)	(902,012)	(2,377,802)	(5,290,821)	(23,373)
Cash payments to employees for services	(2,415,023)	(557,854)	(54,432)	(1,068,606)	(4,095,915)	
Net cash provided by (used for) operating activities	(2,467,848)	238,015	(903,127)	1,383,736	(1,749,225)	320,527
Cash flows from noncapital financing activities						
Operating grants received	353,339				353,339	85,181
Operating transfers from other funds	2,357,070		1,733,560		4,090,630	
Operating transfers to other funds	(13,064)	(1,045,620)			(1,058,684)	
Net cash provided by (used for) noncapital financing activities	2,697,345	(1,045,620)	1,733,560		3,385,285	85,181
Cash flows from capital and related financing activities						
Acquisition and construction of capital assets			(163,857)	(1,414,725)	(1,578,582)	(117,831)
Capital grants received	85,521		15,020		100,541	
Capital lease payments						(299,499)
Interest on capital lease payments						(52,115)
Proceeds from sale of capital assets						26,544
Proceeds from loan				670,070	670,070	
Payments on loan				(1,597,884)	(1,597,884)	
Net cash provided by (used for) capital and related financing activities	85,521		(148,837)	(2,342,539)	(2,405,855)	(442,900)
Cash flows from investing activities						
Miscellaneous revenue			20,000		20,000	
Investment income allocation from central treasury	21,672	83,782	28,163	322,729	456,346	
Net cash provided by investing activities	21,672	83,782	48,163	322,729	476,346	
Net increases (decreases) in equity in central treasury cash	336,690	(723,823)	729,759	(636,074)	(293,449)	(37,192)
Equity in central treasury cash at beginning of year	896,671	4,728,549	1,241,333	16,876,723	23,743,276	592,959
Equity in central treasury cash at end of year	\$1,233,361	\$ 4,004,725	\$1,971,092	\$16,240,649	\$23,449,827	\$555,767

See accompanying notes to financial statements

FAIRBANKS NORTH STAR BOROUGH

Proprietary Funds

Statement of Cash Flows  
Increases (Decreases) in Equity in Central Treasury Cash  
Year Ended June 30, 2003

	<u>Business-type Activities -</u>		<u>Enterprise Funds</u>			<u>Governmental Activities -</u>
	<u>Transit</u>	<u>Land</u>	<u>Carlson Center</u>	<u>Solid Waste Disposal</u>	<u>Total</u>	<u>Internal Service Fund Vehicle and Equipment Fleet</u>
<u>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</u>						
Operating income (loss)	<u>(\$2,662,206)</u>	<u>\$35,839</u>	<u>(\$1,270,577)</u>	<u>(\$1,115,764)</u>	<u>(\$5,012,708)</u>	<u>(\$132,930)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	194,200	943	315,362	1,967,635	2,478,140	410,733
Interest expense for capital leases						42,724
Change in assets and liabilities						
(Increase) decrease in receivables	(166)	348,189	51,276	(57,875)	341,424	
(Increase) decrease in inventories	10,921	(86,789)			(75,868)	
Decrease in net pension asset	664	161	19	292	1,136	
Increase (decrease) in accounts payable	4,308	(15,955)	284	(45,553)	(56,916)	
Increase in wages and payroll taxes	55,264	14,563	2,234	24,465	96,526	
Increase (decrease) in accrued annual leave	21,619	4,016	(1,725)	15,621	39,531	
Increase (decrease) in accrued self-insurance losses	(92,452)			56,415	(36,037)	
Increase in unrealized gain on land contracts		(62,952)			(62,952)	
Increase in landfill closure and postclosure care liability				538,500	538,500	
Adjustments total	<u>194,358</u>	<u>202,175</u>	<u>367,450</u>	<u>2,499,500</u>	<u>3,263,484</u>	<u>453,457</u>
Net cash provided by (used for) operating activities	<u>(\$2,467,848)</u>	<u>\$238,015</u>	<u>(\$903,127)</u>	<u>\$1,383,736</u>	<u>(\$1,749,225)</u>	<u>\$320,527</u>
<u>Noncash investing, capital and financing activities</u>						
Transfer of retained land to governmental capital assets		\$283,707				
Capital leases						(\$200,647)
Accrued interest payable						(\$40,120)

See accompanying notes to financial statements

FAIRBANKS NORTH STAR BOROUGH

Fiduciary Fund

Statement of Net Assets  
June 30, 2003

	<u>Agency Fund Taxes</u>
<b>Assets</b>	
Equity in central treasury cash	\$68,188
Property tax liens receivable	388,001
Sales tax receivable	144,433
Assets total	<u>\$600,622</u>
<b>Liabilities</b>	
Due to other governmental agencies for collected taxes	\$21,428
Due to other governmental agencies for uncollected taxes	276,511
Deferred revenue	255,923
Advance tax payments	46,760
Liabilities total	<u>\$600,622</u>

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See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Fairbanks North Star Borough (the Borough) was incorporated January 1, 1964 as a Second Class Borough under the provisions of the State of Alaska Borough Act (1963), as amended. The Borough operates under a Mayor-Assembly form of government and has the following powers:

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

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

Service area: road construction and maintenance, fire protection, water supply, sewage disposal, and streetlights. These services are currently provided to 112 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 accompanying financial statements present the Borough (primary government) and its discretely presented component unit, the Fairbanks North Star Borough School District (School District). The School District is the Borough's only component unit.

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

Any year-end fund balance surplus in excess of seven percent of the local appropriation to the School District lapses back to the Borough's general fund.

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

The Borough has responsibility for funding any deficits of the School District.

The Borough 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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

operated by the School District through School District agreements with the State of Alaska and U.S. Department of Education.

The School District is required to deposit all school money in the Borough's central treasury.

The School District is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Borough. Complete financial statements of the School District can be obtained from the School District's Department of Administrative Services at 520 Fifth Avenue, Fairbanks, Alaska 99701-4756; telephone number (907) 452-2000.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

There are two government-wide financial statements, the statement of net assets and the statement of changes in net assets. These statements report information on all of the nonfiduciary activities of the primary government and its component unit. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Borough is reported separately from the School District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within 45 days of the end of the current fiscal period.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION  
(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 45 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. Interest income is accrued when earned. For investments with maturities greater than one year, unrealized gains and losses are recorded at the end of the reporting period.

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

The School District reports district-wide information using the economic resources measurement focus and the accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the district-wide information. When both restricted and unrestricted resources are available for use, the School District's policy is to use restricted resources first, then unrestricted resources as they are needed.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that enterprise activities follow all GASB pronouncements. It also allows for the option of either following Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 that are not in conflict with GASB pronouncements, or following all FASB pronouncements that are not in conflict with GASB pronouncements. The Borough and School District have both elected to follow FASB pronouncements issued on or before November 30, 1989 that are not in conflict with GASB pronouncements.

The Borough reports the following major governmental funds:

The General Fund is the government's primary operating fund. It is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

The Service Areas Fund is used to account for the revenues and expenditures of the Borough's four service area activities: road maintenance and construction, fire protection, streetlights, and sewer and water. There are 105 active road service areas, five fire service areas, one streetlights service area, and one sewer and water service area.

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

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

The Local Capital Projects Fund is used to account for Assembly appropriations for multi-fiscal year capital projects.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION  
(continued)

The Borough reports the following major enterprise funds:

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

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

The Carlson Center Enterprise Fund is used to account for the operations of the John A. Carlson Community Activity Center.

The Solid Waste Disposal Enterprise Fund is used to account for the activities of the Borough's solid waste disposal function, which includes operation of the landfill, household hazardous waste disposal, and recycling of paper and other materials.

Additionally, the government reports the following fund type:

The Vehicle and Equipment Fleet Fund is an internal service fund, which is used to account for the management and financing of Borough vehicles and equipment.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Indirect expense allocations made in the funds are reversed and presented in a separate column on the government-wide statement of activities.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, all taxes are considered general revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the transit enterprise fund, the land enterprise fund, the Carlson Center enterprise fund, the solid waste disposal enterprise fund, and the Borough's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. DEPOSITS 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.

Investment income is allocated to the following funds and accounts based upon their cumulative, month-end cash equity balances: enhanced 911 special revenue fund, service areas special revenue fund, Alaska Regional Development Organization special revenue grant, health care contingency reserve special revenue program, Alaska Department of Education grants to the Borough and to the School District, federal grants in all funds and of the School District, capital project to renovate the Mary Siah tennis courts funded by a donation, the library special revenue fund and capital projects funded by the library fund, enterprise funds, and the pupil activities agency fund 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 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.

E. 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.

F. RECEIVABLES AND PAYABLES

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

G. INVENTORIES

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

H. LAND INVENTORIES

Entitlement land received by the Borough under the State of Alaska Municipal Land Act is recorded as a donation in the land enterprise fund. The land donated by the State is valued at \$1 per acre when tentative approval for the land is received from the State until such time as the estimated fair value is readily determinable. When the fair market value of the land can be determined, it is back-trended to the date of donation and that portion exceeding \$1 per acre is then recorded as donation revenue.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. LAND INVENTORIES (continued)

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

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

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

I. CAPITAL ASSETS

Capital assets, which include land, buildings, improvements, machinery and equipment, library materials, artwork, software, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Borough as tangible or intangible property for use in operations with an initial, individual cost of more than \$5,000 for machinery and equipment and artwork and \$50,000 for all other assets except library materials, and an estimated useful life of over one year, which captures all material capital assets. Such assets are recorded at historical cost at the time of acquisition or construction. If the historical cost of an asset was not readily available, the historical cost was estimated. This was done using the current replacement cost of the asset and using an applicable index to back-trend this amount to the date of acquisition or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

Included in the amount of land and land improvements is the cost of the road service areas' rights-of-way and roadbeds. Due to its road service powers, the Borough manages and maintains the roads on rights-of-way located on public land. Roadbeds are considered a non-exhaustible land improvement. Also included in the amount of land and land improvements is the cost of the Tanana River levee. The Tanana River levee includes the levee itself, drainage channels, and protective groins and is considered to be a permanent land improvement. As a second class borough, the Borough has no major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements after June 30, 1980.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

	Years
Land - solid waste disposal	tied to cell's life
Buildings	15-50
Improvements	20-50
Equipment	5-35
Library materials	6
Software	8-20

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS (continued)

The capital assets of the School District consist only of furniture, equipment, and certain intangible assets. The Borough owns and provides to the School District all land, buildings, and improvements, except for the on-base schools. Most on-base land, buildings, and improvements are provided to the School District by the United States 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.

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

	<u>Years</u>
Furniture and equipment	8-20
Intangible assets	5-10

J. COMPENSATED ABSENCES

It is the Borough's policy to permit employees to accumulate earned but unused annual leave. Annual leave is subject to certain restrictions and maximum accumulations. All employees are paid for any accumulated annual leave upon use or at termination. All annual leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

K. LONG-TERM OBLIGATIONS

In the government-wide financial statements and the fund financial statements of the proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. ADVANCE TAX PAYMENTS

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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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.

N. UNREALIZED GAIN ON LAND CONTRACTS

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

O. FUND EQUITY

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

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

P. DEFERRED REVENUES

Deferred revenues arise in the governmental funds 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.

Q. 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 expenditures are made, or the criteria are met. Revenues from all other grants are recognized on the cash basis.

R. IN-KIND SUPPORT TO THE SCHOOL DISTRICT

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

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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

S. ROUNDING

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. DEFICIT FUND EQUITY

There was a deficit fund balance at June 30, 2003 in Ballaine Lake sewer and water service area of \$6,752, resulting from expenditures made in fiscal year 2002 to make short-term repairs to the sewage disposal system. These repairs were funded by a \$21,000 six-year loan from the general fund.

B. TAXES LEVIED IN EXCESS OF MAXIMUM TAX COMPUTATION

Eighteen service areas levied a total of \$573 of taxes in excess of the maximum tax computation. (See Note 5.)

C. SCHOOL DISTRICT FUND BALANCE LIMIT

In accordance with Alaska Statutes 14.14.060(c) and Fairbanks North Star Borough Code of Ordinances (FNSB) 3.03.040, the Assembly annually appropriates the amount of local support for school purposes, while FNSB 3.01.060 E limits the amount of the School District's unreserved local appropriation fund balance. Unreserved local appropriation fund balance not exceeding seven percent may carry over to the next fiscal year. This carry-over fund balance is not required to show as revenues for the following fiscal year's budget. At June 30, 2003, unreserved fund balance originating from all revenue sources, including local support, exceeded seven percent of fiscal year 2002-03 expenditures and other financing uses. However, unreserved fund balance includes a \$4,085,870 designation for fiscal year 2003-04 expenditures. (See Note 16.) 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 on June 23, 2001, with Wells Fargo Bank Alaska N.A. (WFB). These services are paid for with a restricted, non-interest bearing compensating balance of \$1,060,880 that is recorded as an other asset in the general fund. The contract requires that WFB sweep the Borough's central treasury accounts daily and invest all available funds in an overnight investment. The carrying amount of the Borough's deposits on June 30, 2003 was (\$1,731,233) and the corresponding bank balance was \$15,488. 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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

3. DEPOSITS AND INVESTMENTS (continued)

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 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 maximum maturity schedule: 1) U.S. Treasuries – 5 years; 2) other obligations guaranteed by the United States government or its agencies and instrumentalities – 5 years; 3) repurchase agreements of securities specified in 1) and 2) above, subject to qualifications of the financial institution and specified margin requirements – 5 years; 4) collateralized certificates of deposits and other deposits – 5 years; 5) bank deposits insured by FDIC, NCUA, or FSLIC – 5 years; 6) bonds or notes of any state or political subdivision thereof, rated A or higher – 5 years; 7) prime commercial paper graded A1/P1 or higher – 270 days; 8) prime bankers acceptances of the fifty largest international banks – 180 days; 9) money market mutual funds consisting entirely of instruments specified in 1), 2), and 3) above – maturity date not applicable; and 10) the Alaska Municipal League Investment Pool, Inc., created in accordance with Alaska Statutes 37.23.020. All Borough investments must be collateralized in accordance with the Code. In addition, the Borough has developed contracts for the investment and collateralization of funds in these various authorized instruments. During the fiscal year ended June 30, 2003, the Borough invested in United States 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. GASB Statement No. 3 establishes three categories indicating the level of risk involved in the investment. The three categories of credit risk are:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

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 Category 1 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 investment	\$ 1,882,508	\$ 1,882,508
United States securities and agencies	21,962,191	22,157,328
Commercial paper	<u>4,949,750</u>	<u>4,949,750</u>
	28,794,449	28,989,586
Uncategorized investments:		
Government securities money market funds	77,864,829	77,864,829
External investment pool	<u>25,107,010</u>	<u>25,107,010</u>
Total investments	<u>\$131,766,288</u>	<u>\$131,961,425</u>

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

3. DEPOSITS AND INVESTMENTS (continued)

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.

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 No. 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, 2003, the Borough had one investment that met this criteria and amortized cost was used for the reporting of this investment.

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, 2003, the weighted average portfolio maturity was 49 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 No. 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 Statutes 37.23. The law sets forth numerous requirements regarding authorized investments and reporting. The pool is incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statutes 37.23.050 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, 2003, 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. DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

4. DEFERRED REVENUES (continued)

connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable - general fund	\$1,563,490	
Property taxes receivable - service areas	104,390	
Property taxes receivable - non-areawide fund	35,243	
Property taxes receivable - solid waste collection district fund	80,494	
Hotel/motel tax, penalties, and interest	27,521	
Payment in lieu of taxes - Interior Regional Housing Authority	8,724	
Advance grant payments		<u>\$239,137</u>
Total deferred revenue	<u>\$ 1,819,862</u>	<u>\$239,137</u>

The various components of deferred revenue and unearned revenue reported in the proprietary funds at the end of the fiscal year were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Advance grant payments		<u>\$ 92,049</u>
Total deferred revenue	<u>\$</u>	<u>\$ 92,049</u>

5. PROPERTY AND OTHER TAXES

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

Alaska Statutes 29.45.090 limits the amount of taxes levied to three percent of the assessed value of the property within the Borough. Furthermore, no Borough, or combination of municipalities occupying the same 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 of property in the state multiplied by the number of residents of the Borough. However, there is no taxing limitation for debt service per Alaska Statutes 29.45.100.

FNSB 3.08.145 (Code) limits the Borough's taxing authority. The total amount of tax that can be levied during a year cannot exceed the total amount levied for the preceding year (see Note 2B). 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 2002, the voters reconfirmed the Code provision limiting the Borough's taxing authority.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

6. DEEDS OF TRUST AND CONTRACTS RECEIVABLE

*Deeds of Trust Receivable* - All real estate sales of the Borough using secured indebtedness are sold as deeds of trust. In addition, the Borough gave prior contract buyers an option to convert to deeds of trust. Annual installments are due over a period of ten years from the time of conversion or sale with a stated interest rate of 6.75 percent to 10.00 percent and weighted average interest rate of 9.09 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
2004	\$222,510
2005	219,789
2006	222,467
2007	225,244
2008	208,792

*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:

Year Ending June 30	Annual Installments
2004	\$719
2005	538
2006	595
2007	596
2008	-

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, 2003, the total receivable for delinquent accounts amounted to \$420,923.

7. LAND INVENTORIES

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

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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

Primary Government

	Beginning Balance, As Restated	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land and land improvements	\$223,287,904	\$ 3,001,909	\$	\$226,289,813
Works of art	134,200			134,200
Library materials	911,625	31,118		942,743
Construction in progress	9,391,507	12,973,445	(7,332,364)	15,032,588
Total capital assets, not being depreciated	233,725,236	16,006,472	(7,332,364)	242,399,344
<i>Capital assets, being depreciated:</i>				
Buildings	331,892,058	4,052,042		335,944,100
Improvements other than buildings	45,052,034	3,100,322		48,152,356
Equipment	14,254,611	1,192,345	(563,770)	14,883,186
Library materials	1,190,575	256,288	(181,895)	1,264,968
Intangibles-software	1,286,895			1,286,895
Total capital assets, being depreciated	393,676,173	8,600,997	(745,665)	401,531,505
<i>Less accumulated depreciation for:</i>				
Buildings	(101,649,647)	(8,351,944)		(110,001,591)
Improvements other than buildings	(14,332,892)	(1,350,216)		(15,683,108)
Equipment	(7,433,657)	(1,038,324)	274,363	(8,197,618)
Library materials	(565,392)	(204,629)	181,895	(588,126)
Intangibles-software	(341,802)	(80,143)		(421,945)
Total accumulated depreciation	(124,323,390)	(11,025,256)	456,258	(134,892,388)
Total capital assets, being depreciated, net	269,352,783	(2,424,259)	(289,407)	266,639,117
Governmental activities capital assets, net	\$503,078,019	\$ 13,582,213	(\$7,621,771)	\$509,038,461
<b>Business-type activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land and land improvements	\$ 1,953,769	\$	\$	\$ 1,953,769
Works of art	120,790			120,790
Construction in progress	428,461	1,227,690		1,654,151
Total capital assets, not being depreciated	2,501,020	1,227,690		3,728,710
<i>Capital assets, being depreciated:</i>				
Land and land improvements	255,171			255,171
Buildings	22,038,701			22,038,701
Improvements other than buildings	9,542,756	4,606		9,547,362
Equipment	5,147,306	7,339	(6,104)	5,148,541
Intangibles-software	18,864			18,864
Total capital assets, being depreciated	37,002,798	11,945	(6,104)	37,008,639

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

8. CAPITAL ASSETS (continued)

Primary Government (continued)

Business-type activities (continued):

Less accumulated depreciation for:

Land and land improvements	(\$175,473)	(\$26,882)	\$	(\$202,355)
Buildings	(6,169,455)	(443,255)		(6,612,710)
Improvements other than buildings	(4,396,222)	(1,588,128)		(5,984,350)
Equipment	(2,737,309)	(418,933)	6,104	(3,150,138)
Intangibles-software	(3,301)	(943)		(4,244)
Total accumulated depreciation	<u>(13,481,760)</u>	<u>(2,478,141)</u>	<u>6,104</u>	<u>(15,953,797)</u>

Total capital assets, being depreciated, net 23,521,038 (2,466,196)          21,054,842

Business-type activities capital assets, net \$ 26,022,058 (\$1,238,506) \$ \$ 24,783,552

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

Governmental activities:

General government	\$ 274,302
Community planning	4,414
Public works	80,600
Parks and recreation	1,265,969
Library	522,860
Direct services	25,256
Education	7,808,935
Emergency operations	114,442
Fire service areas	488,210
In addition, depreciation on capital assets held by the Borough's internal service fund is charged to the various functions on their usage of the assets	<u>410,733</u>

Total depreciation expense – governmental activities \$10,995,721

Business-type activities:

Transit	\$ 194,200
Land	943
Carlson	315,363
Solid waste disposal	<u>1,867,635</u>
Total depreciation expense – business-type activities	<u>\$ 2,478,141</u>

Component Unit-School District

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Furniture and equipment	\$ 9,469,672	\$953,645	(\$152,383)	\$10,270,934
Intangible assets	<u>136,420</u>	<u>3,000</u>		<u>139,420</u>
Total capital assets, being depreciated	<u>9,606,092</u>	<u>956,645</u>	<u>(152,383)</u>	<u>10,410,354</u>

Less accumulated depreciation for:

Furniture and equipment	(5,739,064)	(891,658)	146,413	(6,484,309)
Intangible assets	<u>(15,659)</u>	<u>(19,736)</u>		<u>(35,395)</u>
Total accumulated depreciation	<u>(5,754,723)</u>	<u>(911,394)</u>	<u>146,413</u>	<u>(6,519,704)</u>

Component unit capital assets, net \$ 3,851,369 \$ 45,251 (\$ 5,970) \$ 3,890,650

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances for the purpose of the entity-wide statements have been eliminated with the exception of inter-fund balances that represent the amounts that are receivables/payables between business-type activities and governmental activities. The composition of interfund balances in the fund level statements as of June 30, 2003, is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Service areas	\$ 17,913
General fund	Nonmajor governmental funds	<u>637,566</u>

Total interfund receivables/payables \$655,479

The \$17,913 represents an outstanding loan that Ballaine Lake sewer and water service area has from the general fund for the repair of their sewage disposal system. The loan has a six-year payback with interest at five percent (5%). A payment of \$4,137 is due during the next fiscal year. The remaining amount due to the general fund is a result from individual funds' overdrafts of pooled cash in the central treasury.

	Transfers In					Total
	General Fund	Local Capital Projects	Nonmajor Governmental Funds	Transit Enterprise Fund	Land Enterprise Fund	
<b>Transfers Out</b>						
General fund	\$	\$	\$ 10,000	\$	\$ 551,140	\$ 561,140
Debt service	12,860,640		255,420			13,116,060
Local capital projects	2,617,124	75,000	170,000		494,480	3,356,604
Nonmajor governmental funds	741,314		450,122			1,191,436
Transit enterprise	2,357,070					2,357,070
Carlson Center enterprise	1,733,560					1,733,560
School District component unit	33,545,700					33,545,700
General capital assets				<u>13,063</u>	<u>283,707</u>	<u>296,771</u>
Total	<u>\$53,855,408</u>	<u>\$75,000</u>	<u>\$885,542</u>	<u>\$13,064</u>	<u>\$1,329,327</u>	<u>\$56,158,341</u>

The \$296,771 transfer from the transit and land enterprise funds into general capital assets, reflects the transfer of assets from business-type activities into governmental activities. The remaining transfers were made to provide working capital for operations or projects.

10. OPERATING LEASES

The Borough is obligated under certain site and equipment leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations; and therefore, the results of the lease agreements are not reflected as assets or liabilities. Operating lease expenditures for the year ended June 30, 2003 were \$161,374.

The Borough has several significant operating leases:

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

10. OPERATING LEASES (continued)

- 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.
- Chena Lakes Recreation Area. Fifty-year lease expires in 2034. Payment is made through ongoing operation and management for park and recreation purposes.
- biathlon range and certain ski trails at the Birch Hill Recreation Area. Long-term lease expires in January 2008, but is revocable at will by the Secretary of the Army. Payment is made through trail construction and ongoing maintenance for public use.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$291,533
2005	240,082
2006	140,805
2007	49,640
2008	6,465
2009-2013	1,750
2014-2015	<u>700</u>
Total	<u>\$730,975</u>

There are no other operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2003.

11. CAPITAL LEASES

The Borough has entered into a master lease agreement as lessee for financing the acquisition of vehicles and equipment. The leases from this agreement qualify as capital leases for accounting purposes. The leased assets and their related obligations are all accounted for in the proprietary funds. The assets acquired through capital leases are as follows:

	<u>Proprietary Funds</u>
Asset:	
Machinery and equipment	\$1,860,496
Less: Accumulated depreciation	<u>(397,435)</u>
Total	<u>\$1,463,061</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, were as follows:

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

11. CAPITAL LEASES (continued)

<u>Year Ending June 30</u>	<u>Proprietary Funds</u>
2004	\$ 421,251
2005	416,506
2006	222,575
2007	106,319
2008	<u>30,259</u>
Total minimum lease payments	1,196,910
Less: Amount representing interest	<u>(81,473)</u>
Present value of minimum lease payments	<u>\$1,115,437</u>

12. LONG-TERM LIABILITIES

A. General Obligation Bonds

The Borough issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have only been issued for governmental activities.

On October 3, 2000, the voters of the Fairbanks North Star Borough approved bond propositions totaling \$29,450,000 for renovations and upgrades to Hutchison 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. On December 11, 2002, the final \$11,400,000 was sold.

On October 8, 2002, the voters approved bond propositions totaling \$42,264,000 to replace two elementary schools and for capital maintenance and upgrades to school facilities throughout the School District. The first \$2,600,000 of the bonds were sold on December 11, 2002. On March 27, 2003, an additional \$13,500,000 were sold. The Borough plans to sell \$13,750,000 in the spring of 2004.

General obligation bonds are direct obligations and pledge the full faith and credit of the Borough. These bonds generally are issued as 20-year serial bonds. General obligation bonds currently outstanding are as follows:

	<u>Amount</u>
\$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 5.0 to 5.5% interest	\$ 19,265,000
\$2,000,000 1994 Series T solid waste transfer station bonds due in annual installments of \$230,000 to \$245,000 through April 1, 2004 at 5.1 to 5.4% interest	245,000
\$16,320,000 1996 Series U school facilities bonds due in annual installments of \$600,000 to \$1,350,000 through November 1, 2016 at 5.0 to 8.0% interest	13,125,000
\$35,250,000 1997 Series A school facilities and library bonds due in annual installments of \$1,150,000 to \$2,800,000 through November 1, 2017 at 5.0 to 6.5% interest	30,200,000

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

12. LONG-TERM LIABILITIES (continued)

A. General Obligation Bonds (continued)

\$26,210,000 1999 Series B school facilities bonds due in annual installments of \$925,000 to \$1,990,000 through April 1, 2019 at 4.00 to 6.25% interest	\$ 22,875,000
\$9,000,000 2000 Series C school facilities bonds due in annual installments of \$295,000 to \$710,000 through December 1, 2020 at 4.5 to 7.5% interest	8,645,000
\$9,050,000 2001 Series D school facilities bonds due in annual installments of \$290,000 to \$695,000 through February 1, 2021 at 4.125 to 7.125% interest	8,485,000
\$14,000,000 2002 Series E school facilities bonds due in annual installments of \$380,000 to \$1,085,000 through August 1, 2023 at 4.0 to 4.8% interest	14,000,000
\$13,500,000 2003 Series F school facilities bonds due in annual installments of \$465,000 to \$1,075,000 through October 1, 2023 at 3.75 to 4.75% interest	<u>13,500,000</u>
	<u>\$130,340,000</u>

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	\$ 8,290,000	\$ 6,508,362
2005	9,110,000	5,972,006
2006	9,690,000	5,462,648
2007	8,030,000	4,921,498
2008	8,480,000	4,455,247
2009-2013	31,705,000	16,971,026
2014-2018	39,305,000	8,559,558
2019-2023	<u>15,730,000</u>	<u>1,615,459</u>
Total	<u>\$130,340,000</u>	<u>\$54,465,804</u>

B. Sewer Assessments Payable

This is an assessment levied by the City of North Pole on properties that benefited from water and sewer improvements done by the North Pole Utility Expansion District. The payments are due in annual installments through January 15, 2021 at 5.0% interest.

The annual requirements to maturity are as follows:

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

12. LONG-TERM LIABILITIES (continued)

B. Sewer Assessments Payable (continued)

Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	\$ 1,214	\$1,034
2005	1,214	974
2006	1,214	913
2007	1,214	852
2008	1,214	792
2009-2013	6,068	3,047
2014-2018	6,068	1,530
2019-2021	<u>2,479</u>	<u>190</u>
Total	<u>\$20,685</u>	<u>\$9,332</u>

C. Solid Waste Disposal Enterprise Fund

The long-term debt in the solid waste disposal enterprise fund at June 30, 2003 is as follows:

Loan payable

\$7,527,979 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 January 1, 2003. \$ 5,930,095

In 1997, the Borough negotiated a \$10 million Alaska Clean Water Fund loan with the Alaska Department of Environmental Conservation (ADEC) for construction of a 36-acre solid waste landfill expansion (cell 1 and cell 2). In 2001, ADEC made an additional \$2.5 million of loan funds available to the Borough for cell 2 completion. Interest accrual of 2.5 percent commenced one year from the date of the first loan drawdown, in May 1999. Repayment is due in annual installments beginning one year after the final loan drawdown of construction costs for each cell. The final loan drawdown for cell 1 occurred December 31, 2001; the initial repayment for cell 1 was due January 1, 2003. Cell 2 is estimated for substantial completion in December 2006. The Borough intends to use a \$5 million U.S. Department of Defense grant to repay a portion of amounts borrowed.

The annual requirements for the loan are as follows:

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2004	\$1,637,615	\$125,917
2005	1,678,556	84,977
2006	1,720,520	43,013
2007		
2008	215,148	117,309
2009 - 2011	<u>678,256</u>	<u>34,191</u>
Total	<u>\$5,930,095</u>	<u>\$405,407</u>

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

12. LONG-TERM LIABILITIES (continued)

D. School District Component Unit

The School District has \$2,317,924 in liabilities for compensated balances at June 30, 2003. The current portion of this balance is \$2,118,519.

E. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation bonds	\$110,230,000	\$27,500,000	(\$7,390,000)	\$130,340,000	\$8,290,000
Plus deferred amounts:					
For issuance premiums		303,420		303,420	
Sewer assessment payable	21,899		(1,214)	20,685	1,214
Capital leases	1,073,885	214,651	(299,498)	989,038	341,753
Self-insurance losses	750,724	250,022	(378,060)	622,686	521,571
Compensated absences	1,152,727	1,448,396	(1,269,466)	1,331,657	1,181,933
Governmental activity					
Long-term liabilities	<u>\$113,229,235</u>	<u>\$29,716,469</u>	<u>(\$9,338,238)</u>	<u>\$133,607,466</u>	<u>\$10,316,471</u>
<b>Business-type Activities:</b>					
Unrealized gain on land contracts	512,352	80,265	(143,217)	449,400	56,028
Loans payable	6,857,909	670,070	(1,597,884)	5,930,095	1,637,615
Landfill closure and postclosure care	7,588,000	538,500		8,126,500	
Capital leases	160,543		(34,144)	126,399	35,398
Self-insurance losses	155,549	131,808	(167,846)	119,511	75,394
Compensated absences	214,599	260,761	(221,229)	254,131	194,648
Business-type activity					
Long-term liabilities	<u>\$15,488,952</u>	<u>\$1,681,404</u>	<u>(\$2,164,320)</u>	<u>\$15,006,036</u>	<u>\$1,999,083</u>

The internal service fund predominantly serves the governmental funds. Accordingly, long-term liabilities for it are included as part of the above totals for governmental activities. At year-end, \$989,038 for capital leases were included in the above amounts. Also, for the governmental activities, self-insurance losses and compensated absences are generally liquidated by the general fund.

13. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Borough to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the landfill site for thirty years

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

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

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, 2003, the estimated liability for landfill closure and postclosure care costs was \$8,126,500, which was based on 84 percent of the landfill used (filled) to date. It is estimated an additional \$1,548,500 will be recognized as closure and postclosure expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2015). The estimated total cost for future landfill closure and postclosure care (\$9,675,000) 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, 2003. However, the actual cost of closure and postclosure care may be higher or lower due to inflation or deflation, changes in technology, or changes in landfill laws and regulations.

The Borough is required by state and federal laws and regulations to demonstrate financial responsibility for future closure and postclosure care costs by meeting the requirements of a specially designed local government financial test. This test includes a financial component, a public notice component, and a record-keeping component. The Borough is in compliance with these requirements at June 30, 2003.

While not required by state or federal laws and regulations, the Borough Assembly established a Landfill Closure Reserve fund account in 1994. Beginning in fiscal year 1994-95, \$440,000 has been contributed annually to this account. The Landfill Closure Reserve is accounted for as a separate cost center within the solid waste disposal enterprise fund and has a balance of \$3,922,189 at June 30, 2003. Additional yearly contributions are anticipated. It is also anticipated that future inflation costs will be financed in part from earnings on these contributions. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure care requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

14. COMMITMENTS

The Borough's capital improvement and other multi-year programs in effect at June 30, 2003 contain authorizations for hundreds of projects. These authorizations include \$198,145,089 in the five active capital projects funds and \$36,998,816 in the four enterprise funds. Unexpended authorizations total \$88,205,499 and \$14,429,859 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. Funding sources for the capital improvement and other programs include general obligation bonds, state revenues, federal revenues, contributions from the general and special revenue operating funds, and net assets of the enterprise funds.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

15. CONDUIT DEBT

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

In July 1994, a nonrecourse revenue bond for the Greater Fairbanks Community Hospital Foundation, Inc. was authorized with an aggregate principal amount of \$7,990,000. The outstanding balance as of June 30, 2003 was \$1,241,741.

16. FUND BALANCE – SCHOOL DISTRICT COMPONENT UNIT

The School District's governmental funds financial statements can be obtained from the District's Department of Administrative Services (see Note 1A). These statements reported combined ending fund balance of \$23,545,323, an increase of \$330,088 over the prior year. Of the total combined ending fund balance, \$1,175,116 is reserved for encumbrances, \$551,538 is reserved for inventories, and \$10,982,764 is reserved impact aid funding received in advance for fiscal year 2003-04. The remaining \$10,835,905 of fund balance is unreserved.

17. LIBRARY SPECIAL REVENUE 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 special revenue fund and \$3,955,542 had been received as of June 30, 2003. The Library's share of the carrying value and market value of the remaining trust's net assets yet to be distributed to the Borough was \$1,454,141 and \$4,067,478, respectively, at June 30, 2003, as reported by the trust's trustee.

During the current fiscal year a decision was made to reclass this fund from a fiduciary fund to a special revenue fund. This change was made because the assets in this fund are used for purposes that support the Borough's own programs and not for the benefit of others.

18. RISK MANAGEMENT

The Borough and its component unit, the School District, are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to, and illnesses of, employees and their dependents; and natural disasters. The Borough's risk management program includes both the Borough and the School District. The program employs various combinations of insurance policies provided by commercial carriers, 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

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

18. RISK MANAGEMENT (continued)

following coverages: auto and general liability, property, and workers' compensation for fire service areas; general liability for road and streetlight service areas; physical damage to Borough vehicles; employee life insurance; and employee fidelity bonds. The program self-insures some portion of the following risk exposures: employee and dependent medical, auto and general liability, workers' compensation, errors and omissions/public officials, property, and employment practices. 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.

The Borough is a member of the Alaska Municipal League Joint Insurance Association (AML/JIA), a public entity risk pool formed to provide pooled property and liability insurance coverage to AML members at lower costs than would be available if the members obtained coverage on their own. 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, 2003.

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

Furthermore, in accordance with current labor contracts and Assembly ordinance, a cost center has been established in the local special revenue fund as a "Health Care Contingency Reserve Fund" (HCCRF). Contributions from employee payroll deductions of \$10 per pay period, along with an equal match from the Borough and interest earnings, are deposited into the HCCRF. The terms of the Fund also provide that the Borough deposit any budget in excess of health care costs into the HCCRF and that the Borough pay for any excess health care costs up to 105 percent of budgeted costs. Excess costs above the 105 percent are covered by the HCCRF. The undesignated fund balance of the HCCRF at June 30, 2003 is \$1,507,502.

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 2003 and 2002 follow:

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

18. RISK MANAGEMENT (continued)

	2002-03 Accrued Self- Insurance Losses	2001-02 Accrued Self- Insurance Losses
<u>Borough</u>		
July 1	\$ 906,273	\$ 825,966
Current year claims and changes in estimates	3,846,206	3,234,824
Claims payments	<u>(4,010,281)</u>	<u>(3,154,517)</u>
June 30	<u>\$ 742,198</u>	<u>\$ 906,273</u>
<u>School District</u>		
July 1	\$ 3,495,837	\$ 3,450,773
Current year claims and changes in estimates	19,407,683	16,182,279
Claims payments	<u>(18,496,663)</u>	<u>(16,137,215)</u>
June 30	<u>\$ 4,406,857</u>	<u>\$ 3,495,837</u>

19. 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.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

20. RETIREMENT PLANS

As of June 30, 2003, substantially all employees of the Borough and of the School District component unit are either members of the Alaska Public Employees' Retirement System (PERS) or the Alaska Teachers' Retirement System (TRS). Stand-alone financial statements for either plan can be obtained by writing to the Alaska Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0203, or by calling (907) 465-4460. The financial statements are also available on the web at [www.state.ak.us/drb](http://www.state.ak.us/drb). 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. Postemployment healthcare benefits are provided to retirees without cost for all employees first hired before July 1, 1986, and employees who are disabled or age sixty-five or older, regardless of initial hire dates. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Local government participation in PERS is optional. Employee participation in the PERS is mandatory for permanent employees scheduled to work at least 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. Employee contributions are deducted before federal income tax is withheld. 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 the funds necessary to meet all expected future obligations to pay both pension and postemployment healthcare benefits to participants when due. The Borough's mandatory rate for 2003 was 5.04 percent (3.59 percent for pension, 1.45 percent for postemployment healthcare). The School District's rate was 7.86 percent (5.59 percent for pension, 2.27 percent for postemployment healthcare).

Annual pension cost and net pension asset

Actuarial valuations are required to be performed at least biennially. Generally, PERS actuarial valuations are performed annually, as of June 30 of each year. The actuarial methods and significant actuarial assumptions used to determine annual required contributions (ARC) for pension and postemployment healthcare for the current year were those listed in the actuarial valuation as of June 30, 1999. The June 30, 1999 actuarial valuation for employers was used for determining the ARC for the years ending June 30 of both 2002 and 2003.

Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. Under this method, each participant's total pension is projected to retirement with salary increases broken down into units, each associated with a year of past or future service, the objective

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2003

20. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Annual pension cost and net pension asset (continued)

being that each unit is funded in the year for which it is credited and accrued. The PERS uses a level dollar open method to amortize the unfunded liability and funding surpluses over a rolling twenty-five year period.

Actuarial assumptions are as follows:

	Borough		School District	
	Pension	Healthcare	Pension	Healthcare
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
Total inflation rate	4.00%	same	4.00%	same
Health cost trend - ultimate rate	n/a	5.50%	n/a	5.50%
Target funding ratio	102%	same	102%	same

A smooth market method is used for asset valuation, whereby no gain or loss is recognized if the expected actuarial value of assets is within a five percent corridor of the market value of assets. Any amount outside the corridor is set aside and applied to the employer contribution rate. In addition, valuation assets cannot be outside the range of 80 percent to 120 percent of the market value of assets. The target funding ratio is 102%.

Past years' contributions in excess of the annual required contributions have resulted in negative net pension obligations (net pension assets) for both the Borough and the School District component unit. These excess contributions were made while and immediately after the two entities participated in the PERS under a joint agreement. As noted earlier, the Borough and the School District have participated in the PERS under separate agreements since July 1, 1993. The net pension assets are being amortized using factors provided by the PERS actuary. The components of the Borough's and School District's annual pension cost and net pension asset for the year ended June 30, 2003 were as follows:

	Borough		School District	
	Pension	Healthcare	Pension	Healthcare
Annual required contribution	\$ 584,630	\$237,009	\$ 821,639	
Interest on net pension asset	(67,253)	(27,264)	(94,517)	
Adjustment to annual required contribution	<u>72,058</u>	<u>29,213</u>	<u>101,271</u>	
Annual pension cost	589,435	238,958	828,393	
Contributions made	<u>584,830</u>	<u>237,091</u>	<u>821,921</u>	
Decrease in net pension asset	(4,605)	(1,867)	(6,472)	
Net pension asset, beginning of year	<u>832,970</u>	<u>312,700</u>	<u>1,145,670</u>	
Net pension asset, end of year	<u>\$ 828,365</u>	<u>\$310,833</u>	<u>\$1,139,198</u>	

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2003

20. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Annual pension cost and net pension asset (continued)

School District			
Annual required contribution	\$1,282,874	\$520,068	\$1,802,942
Interest on net pension asset	(56,574)	(22,934)	(79,508)
Adjustment to annual required contribution	<u>60,616</u>	<u>24,573</u>	<u>85,189</u>
Annual pension cost	1,286,916	521,707	1,808,623
Contributions made	<u>1,282,868</u>	<u>520,066</u>	<u>1,802,934</u>
Decrease in net pension asset	(4,048)	(1,641)	(5,689)
Net pension asset, beginning of year	<u>700,639</u>	<u>263,104</u>	<u>963,743</u>
Net pension asset, end of year	<u>\$ 696,591</u>	<u>\$261,463</u>	<u>\$ 958,054</u>

Annual pension cost (APC), percentage of APC contributed, and net pension asset information as of June 30, 2003, 2002, and 2001 follows:

Borough	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
	2002	559,269	99	832,970
	2003	589,435	99	828,365
Borough (continued)	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
	2002	226,728	99	312,700
	2003	238,958	99	310,833
School District	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
	2002	1,209,942	100	700,639
	2003	1,286,916	100	696,591
Post-employment healthcare benefits	2001	475,032	100	264,747
	2002	490,502	100	263,104
	2003	521,707	100	261,463

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2003

20. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Funding status

A schedule of funding progress for each of the three most recent actuarial valuations is included in this report as required supplementary information, which follows these notes to the basic financial statements. Funding status for the most recent actuarial valuation, June 30, 2002, (shown in 000's) follows here:

	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
<u>Borough</u>						
Pension benefits	\$43,047	\$57,210	(\$14,163)	75%	\$15,354	(92%)
Postemployment healthcare benefits	<u>26,155</u>	<u>34,760</u>	<u>(8,605)</u>	75%	\$15,354	(56%)
Totals	<u>\$69,202</u>	<u>\$91,970</u>	<u>(\$22,768)</u>	75%	\$15,354	(148%)
<u>School District</u>						
Pension benefits	\$64,597	\$85,525	(\$20,928)	76%	\$21,840	(96%)
Postemployment healthcare benefits	<u>39,248</u>	<u>51,963</u>	<u>(12,715)</u>	76%	\$21,840	(58%)
Totals	<u>\$103,845</u>	<u>\$137,488</u>	<u>(\$33,643)</u>	76%	\$21,840	(154%)

Investment losses and increasing healthcare costs, along with changes to the asset valuation method and the healthcare cost trend assumption, were the primary reasons for a decrease in the PERS funding ratio from 102% at June 30, 2001, to approximately 75% at June 30, 2002.

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. Postemployment healthcare benefits are provided to retirees without cost for all employees first hired before July 1, 1990, and employees who are disabled or age sixty-five or older, regardless of initial hire dates. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Membership in the TRS is compulsory for each certificated employee scheduled to work at least 17.5 hours a week in positions that require teaching certificates as a condition of employment.

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2003

20. RETIREMENT PLANS (continued)

B. ALASKA TEACHERS' RETIREMENT SYSTEM (continued)

Funding policy

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

During the year ended June 30, 2003, the required employer contribution rate was 11.00 percent. The amounts contributed to TRS by the School District during the years ended June 30, 2003, 2002, and 2001 were \$6,399,078, \$6,283,151, and \$6,702,137, respectively, equal to the required employer contributions for each year.

Funding status

The funding ratio as of June 30, 2002 (the most recent actuarial valuation), for the system as a whole was 68.2%.

21. ACCOUNTING CHANGES

For 2003, the Borough has implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB Statement No. 34 creates new basic financial statements for reporting the Borough's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. The government-wide financial statements split the Borough's programs between governmental activities and business-type activities. In conjunction with the implementation of this statement, the Borough has increased its capitalization threshold for capital assets from \$500 to \$5,000 and begun the capitalization of computer software.

GASB Statement No. 37 provides guidance and clarification on a variety of issues related to GASB Statement No. 34 and associated pronouncements.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements (continued)  
June 30, 2003

21. ACCOUNTING CHANGES (continued)

During fiscal year 2003, the implementation of the above statements and interpretation and additional information that became available required the restatement of fund equity amounts from what was previously reported. The following table presents a summary of these restatements by fund categories:

	June 30, 2002 Fund Balance/ Net assets	GASB Statement No. 34 Adjustment	GASB Interpretation No. 6 Adjustment	Fund Reclassification	Prior Period Adjustment	June 30, 2002 Fund Balance/ Net Assets Restated
	Previously Reported					
<b>Governmental funds</b>						
<b>Major governmental funds:</b>						
General	\$17,862,511	\$	\$1,152,727	\$	\$	\$19,015,238
Service areas	6,702,843					6,702,843
Debt service	23,009					23,009
Bond capital projects	14,204,373					14,204,373
Local capital projects	9,663,493			(318,837)		9,344,656
<b>Nonmajor governmental funds</b>						
Special revenue	5,558,225			1,750,705		7,308,930
Capital projects	885,430					885,430
<b>Total governmental funds</b>	<b>\$54,899,884</b>	<b>\$</b>	<b>\$1,152,727</b>	<b>\$1,431,868</b>	<b>\$</b>	<b>\$57,484,479</b>
<b>Proprietary funds</b>						
<b>Major enterprise funds</b>						
Transit	\$ 3,707,651	(\$15,077)	\$ 117,573	\$ 16,000	\$ 394,809	\$4,220,956
Land	15,862,711	15,493	28,448			15,906,652
Carlson Center	11,405,776	(38,242)	3,385	302,836	2,277,218	13,950,972
Solid waste disposal	14,296,381	(32,486)	51,643		(2,431,171)	11,884,367
<b>Nonmajor proprietary funds</b>						
Vehicle and equipment fleet	2,172,932	(18,311)				2,154,621
<b>Total proprietary funds</b>	<b>\$47,445,451</b>	<b>(\$ 88,623)</b>	<b>\$ 201,049</b>	<b>\$ 318,836</b>	<b>\$ 240,856</b>	<b>\$48,117,568</b>

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Governmental funds were restated as a result of GASB Interpretation No. 6 which created an adjustment for compensated absences and for fund reclassifications. The fund reclassifications were due to changing the Library Special Revenue Fund from a fiduciary fund to a special revenue fund and moving three local capital projects from a governmental fund to enterprise funds.

Proprietary funds were restated primarily to record adjustments made to capital assets and accumulated depreciation. As a result of GASB Statement No. 34, capital assets were adjusted for a change in the capitalization threshold and for the capitalization of computer software. The prior period adjustments were for changes in the valuation and useful lives of capital assets. As mentioned above, the fund reclassifications were as a result of moving three local capital projects from a governmental fund to enterprise funds.

**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

Budgetary Comparison Schedules – General and Major Special  
 Revenue Funds with Annual Budgets  
 Notes to Budgetary Comparison Schedules  
 Schedule of PERS Funding Progress

A-29

**FAIRBANKS NORTH STAR BOROUGH**

**General Fund**

**Schedule of Revenues and Expenditures  
 Budget and Actual  
 Year Ended June 30, 2003**

	Budgeted Amounts		Actual on Budgetary Basis	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
<b>Taxes</b>				
Property tax	\$56,887,650	\$56,887,650	\$57,272,382	\$384,732
Hotel-motel and sales taxes	1,125,000	462,000	690,121	228,121
Interest and penalties on taxes	481,800	481,800	545,706	63,906
<b>Taxes total</b>	<b>58,494,450</b>	<b>57,831,450</b>	<b>58,508,210</b>	<b>676,760</b>
<b>Intergovernmental revenues</b>				
State of Alaska				
Safe communities program	1,145,930	1,145,930	1,159,346	13,416
Aid for school construction	8,977,640	8,977,640	9,424,040	446,400
Aid to local government	444,220	444,220	453,597	9,377
Other shared revenue	328,840	328,840	298,418	(30,422)
Grants	44,500	44,500	46,814	2,314
Federal government				
Payment in lieu of taxes	248,400	248,400	591,102	342,702
<b>Intergovernmental revenues total</b>	<b>11,189,530</b>	<b>11,189,530</b>	<b>11,973,317</b>	<b>783,787</b>
<b>Charges for services</b>	<b>1,332,760</b>	<b>1,332,760</b>	<b>1,216,277</b>	<b>(116,483)</b>
<b>Charges to School District</b>	<b>1,147,610</b>	<b>1,147,610</b>	<b>1,103,401</b>	<b>(44,209)</b>
<b>Other revenues</b>				
Charges to other funds	2,164,870	2,164,870	2,186,774	21,904
Investment income, including net unrealized investment gains/losses	2,222,460	2,222,460	1,637,333	(585,127)
Indirect charges to grants	270,000	270,000	206,817	(63,183)
Various	65,000	68,507	315,621	247,114
<b>Other revenues total</b>	<b>4,722,330</b>	<b>4,725,837</b>	<b>4,346,545</b>	<b>(379,292)</b>
<b>Revenues total</b>	<b>76,886,680</b>	<b>76,227,187</b>	<b>77,147,750</b>	<b>920,563</b>

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

General Fund

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Budgeted Amounts		Actual on Budgetary Basis	Variance Positive (Negative)
	Original	Final		
Expenditures				
Current				
General government				
Non-departmental	\$331,700	\$331,700	\$289,077	\$42,623
Mayor	750,900	750,900	741,708	9,192
Assembly	1,070,170	1,067,785	1,058,952	8,833
Legal	657,310	660,311	559,259	101,052
Computer services	1,850,840	1,854,075	1,826,787	27,288
Financial services	1,916,730	1,916,438	1,879,514	36,924
Assessing	1,830,040	1,830,040	1,717,038	113,002
General services	1,221,610	1,206,496	1,190,119	16,377
Human resources	1,918,770	2,022,326	1,855,144	167,182
General government total	11,548,070	11,640,070	11,117,598	522,472
Community planning	1,289,990	1,290,502	1,235,432	55,070
Public works	3,769,290	3,792,326	3,499,537	292,789
Parks and recreation	4,290,160	4,370,319	4,153,895	216,424
Library	3,088,630	3,100,866	3,007,782	93,084
Direct services	1,480,810	1,484,720	1,451,347	33,373
Emergency operations	239,600	239,600	219,550	20,050
Capital outlay	573,010	574,403	538,281	36,122
Expenditures total	26,279,560	26,492,807	25,223,422	1,269,385

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

General Fund

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Budgeted Amounts		Actual on Budgetary Basis	Variance Positive (Negative)
	Original	Final		
Excess (deficiency) of revenues over expenditures	\$50,607,120	\$49,734,380	\$51,924,328	\$2,189,948
Other financing sources (uses)				
Transfers in				
Special revenue funds		10,000	10,000	
Enterprise funds	551,140	551,140	551,140	
Transfers out				
Special revenue funds	(316,030)	(429,703)	(406,778)	22,925
Debt service fund	(12,860,640)	(12,860,640)	(12,860,640)	
Capital projects funds	(2,126,000)	(3,026,000)	(2,951,659)	74,341
Enterprise funds	(3,190,630)	(4,090,630)	(4,090,630)	
School district	(33,545,700)	(33,545,700)	(33,545,700)	
Other financing sources (uses) total	(51,487,860)	(53,391,533)	(53,294,268)	97,265
Excess (deficiency) of revenues over expenditures and other uses	(\$880,740)	(\$3,657,153)	(\$1,369,940)	\$2,287,213

See accompanying notes to RSI.

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Air Park</u>				
Total revenues and transfers in	\$1,660	\$1,660	\$1,317	(\$343)
Total expenditures and transfers out	\$25,698	\$25,698	\$10,847	\$14,851
<u>Airway</u>				
Total revenues and transfers in	\$9,750	\$9,750	\$9,516	(\$234)
Total expenditures and transfers out	\$22,938	\$22,938	\$8,542	\$14,396
<u>Arctic Fox</u>				
Total revenues and transfers in	\$4,130	\$4,130	\$4,249	\$119
Total expenditures and transfers out	\$11,042	\$11,042	\$1,320	\$9,722
<u>Aztec</u>				
Total revenues and transfers in	\$18,610	\$18,610	\$16,586	(\$2,024)
Total expenditures and transfers out	\$128,761	\$128,761	\$26,241	\$102,520
<u>Ballaine Lake Sewer &amp; Water</u>				
Total revenues and transfers in	\$18,260	\$18,260	\$16,729	(\$1,531)
Total expenditures and transfers out	\$18,260	\$18,260	\$7,505	\$10,755
<u>Bear's Den Road</u>				
Total revenues and transfers in	\$1,520	\$1,520	\$1,439	(\$81)
Total expenditures and transfers out	\$9,420	\$8,105	\$2,290	\$5,815
<u>Becker Ridge</u>				
Total revenues and transfers in	\$66,710	\$66,710	\$65,719	(\$991)
Total expenditures and transfers out	\$155,992	\$143,505	\$129,144	\$14,362
<u>Birch Hill</u>				
Total revenues and transfers in	\$61,970	\$61,970	\$61,549	(\$421)
Total expenditures and transfers out	\$62,368	\$62,368	\$60,862	\$1,506
<u>Bluebird Road</u>				
Total revenues and transfers in	\$4,980	\$4,980	\$4,964	(\$16)
Total expenditures and transfers out	\$12,574	\$12,574	\$7,933	\$4,641
<u>Borda Road</u>				
Total revenues and transfers in	\$18,690	\$18,690	\$17,936	(\$754)
Total expenditures and transfers out	\$56,898	\$56,898	\$27,910	\$28,988

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Brookside</u>				
Total revenues and transfers in	\$7,820	\$7,820	\$7,726	(\$94)
Total expenditures and transfers out	\$34,690	\$34,690	\$6,396	\$28,294
<u>Chena Goldstream Volunteer Fire</u>				
Total revenues and transfers in	\$523,480	\$523,480	\$527,823	\$4,343
Total expenditures and transfers out	\$757,035	\$757,035	\$545,130	\$211,905
<u>Chena Hills Road</u>				
Total revenues and transfers in	\$44,280	\$44,346	\$45,456	\$1,110
Total expenditures and transfers out	\$120,535	\$109,601	\$67,158	\$42,443
<u>Chena Marina</u>				
Total revenues and transfers in	\$8,330	\$8,330	\$7,966	(\$364)
Total expenditures and transfers out	\$10,490	\$10,490	\$7,805	\$2,685
<u>Chena Point Road</u>				
Total revenues and transfers in	\$16,420	\$16,420	\$16,579	\$159
Total expenditures and transfers out	\$25,731	\$25,731	\$5,653	\$20,078
<u>Chena Spur</u>				
Total revenues and transfers in	\$11,490	\$11,490	\$11,106	(\$384)
Total expenditures and transfers out	\$44,794	\$43,714	\$12,076	\$31,639
<u>Clear Summit</u>				
Total revenues and transfers in	\$860	\$860	\$800	(\$60)
Total expenditures and transfers out	\$2,473	\$2,473	\$880	\$1,593
<u>College</u>				
Total revenues and transfers in	\$368,100	\$368,100	\$365,122	(\$2,978)
Total expenditures and transfers out	\$1,424,566	\$1,424,566	\$246,963	\$1,177,603
<u>College Hills</u>				
Total revenues and transfers in	\$21,250	\$21,250	\$20,957	(\$293)
Total expenditures and transfers out	\$45,121	\$44,309	\$42,976	\$1,332
<u>Cooper Estates</u>				
Total revenues and transfers in	\$14,340	\$14,340	\$14,733	\$393
Total expenditures and transfers out	\$46,489	\$46,489	\$9,689	\$36,801

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Cordes Drive</u>				
Total revenues and transfers in	\$14,440	\$14,440	\$14,397	(\$43)
Total expenditures and transfers out	\$36,018	\$35,018	\$16,883	\$18,135
<u>Cripple Creek</u>				
Total revenues and transfers in	\$38,330	\$38,330	\$38,294	(\$36)
Total expenditures and transfers out	\$99,394	\$99,394	\$34,762	\$64,632
<u>Deep Forest</u>				
Total revenues and transfers in	\$11,660	\$11,660	\$11,683	\$23
Total expenditures and transfers out	\$12,106	\$12,106	\$3,926	\$8,180
<u>Diane Subdivision</u>				
Total revenues and transfers in	\$4,270	\$4,270	\$3,997	(\$273)
Total expenditures and transfers out	\$44,720	\$42,720	\$8,150	\$34,569
<u>Edanella Heights Road</u>				
Total revenues and transfers in	\$18,190	\$18,190	\$18,288	\$98
Total expenditures and transfers out	\$47,422	\$47,222	\$17,318	\$29,904
<u>Ester Lump Road</u>				
Total revenues and transfers in	\$16,300	\$16,300	\$15,956	(\$344)
Total expenditures and transfers out	\$75,400	\$75,400	\$11,766	\$63,634
<u>Ester Volunteer Fire</u>				
Total revenues and transfers in	\$195,250	\$195,250	\$206,172	\$10,922
Total expenditures and transfers out	\$236,568	\$227,650	\$224,783	\$2,867
<u>Fairfields</u>				
Total revenues and transfers in	\$14,850	\$14,850	\$14,563	(\$287)
Total expenditures and transfers out	\$64,907	\$64,907	\$3,762	\$61,145
<u>Fairhill</u>				
Total revenues and transfers in	\$10,150	\$10,150	\$10,017	(\$133)
Total expenditures and transfers out	\$23,641	\$23,535	\$10,678	\$12,857
<u>Fairwest</u>				
Total revenues and transfers in	\$17,850	\$17,850	\$17,788	(\$62)
Total expenditures and transfers out	\$104,058	\$104,058	\$7,871	\$96,187

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Garden</u>				
Total revenues and transfers in	\$10,480	\$10,480	\$10,440	(\$40)
Total expenditures and transfers out	\$33,296	\$33,296	\$5,005	\$28,291
<u>Golden Valley Road</u>				
Total revenues and transfers in	\$5,900	\$5,900	\$5,355	(\$545)
Total expenditures and transfers out	\$8,748	\$8,708	\$932	\$7,776
<u>Goldstream Alaska</u>				
Total revenues and transfers in	\$11,450	\$11,450	\$10,998	(\$452)
Total expenditures and transfers out	\$34,432	\$34,432	\$15,357	\$19,075
<u>Gordon</u>				
Total revenues and transfers in	\$28,870	\$28,870	\$27,449	(\$1,421)
Total expenditures and transfers out	\$106,421	\$106,421	\$7,647	\$98,775
<u>Granola Estates</u>				
Total revenues and transfers in	\$4,930	\$4,930	\$4,835	(\$95)
Total expenditures and transfers out	\$36,616	\$36,616	\$2,941	\$33,675
<u>Grieme Road</u>				
Total revenues and transfers in	\$7,970	\$7,970	\$7,702	(\$268)
Total expenditures and transfers out	\$39,813	\$39,813	\$1,694	\$38,119
<u>Havstack</u>				
Total revenues and transfers in	\$20,210	\$20,210	\$19,693	(\$517)
Total expenditures and transfers out	\$21,350	\$21,350	\$19,511	\$1,839
<u>Herring Hills</u>				
Total revenues and transfers in	\$17,340	\$17,340	\$16,869	(\$471)
Total expenditures and transfers out	\$21,165	\$21,145	\$11,655	\$9,490
<u>Hopeless</u>				
Total revenues and transfers in	\$3,860	\$3,860	\$3,341	(\$519)
Total expenditures and transfers out	\$31,151	\$31,151	\$6,074	\$25,077
<u>Horseshoe Downs</u>				
Total revenues and transfers in	\$6,060	\$6,160	\$5,682	(\$478)
Total expenditures and transfers out	\$10,908	\$11,008	\$6,600	\$4,408

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Jennifer Drive</u>				
Total revenues and transfers in	\$1,260	\$1,260	\$1,258	(\$2)
Total expenditures and transfers out	\$3,225	\$3,225	\$790	\$2,435
<u>Jones Road</u>				
Total revenues and transfers in	\$39,440	\$39,440	\$40,083	\$643
Total expenditures and transfers out	\$59,440	\$58,823	\$56,024	\$2,799
<u>Joy Road</u>				
Total revenues and transfers in	\$5,530	\$5,530	\$5,439	(\$91)
Total expenditures and transfers out	\$16,622	\$16,622	\$6,500	\$10,122
<u>Keeney Road</u>				
Total revenues and transfers in	\$1,880	\$1,880	\$1,772	(\$108)
Total expenditures and transfers out	\$8,575	\$8,575	\$6,880	\$1,695
<u>Kendall</u>				
Total revenues and transfers in	\$7,990	\$7,990	\$7,828	(\$162)
Total expenditures and transfers out	\$26,776	\$26,776	\$6,571	\$20,205
<u>Keystone</u>				
Total revenues and transfers in	\$10,490	\$10,490	\$10,108	(\$382)
Total expenditures and transfers out	\$33,321	\$33,321	\$11,212	\$22,108
<u>Kris Kringle</u>				
Total revenues and transfers in	\$17,100	\$17,100	\$17,171	\$71
Total expenditures and transfers out	\$59,341	\$59,341	\$2,803	\$56,538
<u>Lakloey Hill</u>				
Total revenues and transfers in	\$25,390	\$25,390	\$25,418	\$28
Total expenditures and transfers out	\$136,002	\$136,002	\$13,845	\$122,157
<u>Lee Lane</u>				
Total revenues and transfers in	\$4,620	\$4,620	\$4,392	(\$228)
Total expenditures and transfers out	\$26,477	\$26,477	\$1,606	\$24,871
<u>Loose Moose</u>				
Total revenues and transfers in	\$5,390	\$5,390	\$5,375	(\$15)
Total expenditures and transfers out	\$25,019	\$25,019	\$3,908	\$21,110

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Martin</u>				
Total revenues and transfers in	\$10,870	\$10,870	\$10,510	(\$360)
Total expenditures and transfers out	\$27,721	\$27,721	\$5,572	\$22,148
<u>McCloud</u>				
Total revenues and transfers in	\$14,650	\$14,650	\$12,955	(\$1,695)
Total expenditures and transfers out	\$54,460	\$54,460	\$13,779	\$40,682
<u>McGrath Estates</u>				
Total revenues and transfers in	\$48,880	\$48,880	\$48,495	(\$385)
Total expenditures and transfers out	\$66,265	\$66,265	\$53,597	\$12,669
<u>McKinley View</u>				
Total revenues and transfers in	\$2,800	\$2,800	\$2,861	\$61
Total expenditures and transfers out	\$11,484	\$11,484	\$986	\$10,497
<u>Mellow Woods Road</u>				
Total revenues and transfers in	\$12,790	\$12,790	\$12,910	\$120
Total expenditures and transfers out	\$27,194	\$27,194	\$3,356	\$23,837
<u>Miller Hill Extension</u>				
Total revenues and transfers in	\$18,000	\$18,000	\$17,385	(\$615)
Total expenditures and transfers out	\$39,037	\$39,037	\$17,849	\$21,188
<u>Moose Creek</u>				
Total revenues and transfers in	\$14,900	\$14,900	\$13,927	(\$973)
Total expenditures and transfers out	\$56,244	\$56,244	\$24,509	\$31,735
<u>Moose Meadows</u>				
Total revenues and transfers in	\$7,830	\$7,830	\$7,303	(\$527)
Total expenditures and transfers out	\$15,810	\$15,810	\$7,742	\$8,068
<u>Mountain View</u>				
Total revenues and transfers in	\$21,350	\$21,350	\$19,982	(\$1,368)
Total expenditures and transfers out	\$45,066	\$45,066	\$19,555	\$25,511
<u>Murphy</u>				
Total revenues and transfers in	\$6,500	\$6,500	\$6,382	(\$118)
Total expenditures and transfers out	\$24,988	\$24,988	\$5,039	\$19,949

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Musk Ox</u>				
Total revenues and transfers in	\$20,350	\$20,350	\$19,806	(\$544)
Total expenditures and transfers out	\$78,818	\$78,818	\$16,695	\$62,123
<u>Newby Park</u>				
Total revenues and transfers in	\$8,170	\$8,170	\$8,143	(\$27)
Total expenditures and transfers out	\$31,170	\$30,010	\$10,522	\$19,488
<u>North Ridge</u>				
Total revenues and transfers in	\$3,980	\$3,980	\$3,985	\$5
Total expenditures and transfers out	\$6,187	\$6,187	\$1,130	\$5,057
<u>North Star Volunteer Fire</u>				
Total revenues and transfers in	\$845,220	\$845,220	\$877,728	\$32,508
Total expenditures and transfers out	\$954,763	\$954,763	\$814,213	\$140,550
<u>O'Connor Creek</u>				
Total revenues and transfers in	\$88,970	\$88,970	\$90,145	\$1,175
Total expenditures and transfers out	\$110,119	\$106,594	\$75,011	\$31,584
<u>Old Wood Road</u>				
Total revenues and transfers in	\$8,350	\$8,350	\$8,224	(\$126)
Total expenditures and transfers out	\$17,041	\$17,041	\$4,026	\$13,015
<u>Our</u>				
Total revenues and transfers in	\$2,680	\$2,680	\$2,580	(\$100)
Total expenditures and transfers out	\$9,403	\$9,403	\$4,041	\$5,362
<u>Parkside</u>				
Total revenues and transfers in	\$6,400	\$6,400	\$6,121	(\$279)
Total expenditures and transfers out	\$32,380	\$32,380	\$1,676	\$30,704
<u>Peede Country Estates</u>				
Total revenues and transfers in	\$4,120	\$4,120	\$3,976	(\$144)
Total expenditures and transfers out	\$25,106	\$25,106	\$1,120	\$23,986
<u>Pine Stream</u>				
Total revenues and transfers in	\$15,820	\$15,820	\$15,822	\$2
Total expenditures and transfers out	\$54,148	\$54,148	\$3,691	\$50,458

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Pleasureland</u>				
Total revenues and transfers in	\$6,080	\$6,080	\$5,715	(\$365)
Total expenditures and transfers out	\$34,798	\$34,798	\$3,380	\$31,419
<u>Polar Heights</u>				
Total revenues and transfers in	\$15,330	\$15,330	\$14,725	(\$605)
Total expenditures and transfers out	\$41,399	\$41,399	\$22,395	\$19,003
<u>Potlatch</u>				
Total revenues and transfers in	\$10,960	\$10,960	\$10,491	(\$469)
Total expenditures and transfers out	\$20,505	\$19,414	\$11,748	\$7,666
<u>Prospect Park</u>				
Total revenues and transfers in	\$4,120	\$4,120	\$4,078	(\$42)
Total expenditures and transfers out	\$19,937	\$19,937	\$4,086	\$15,851
<u>Reed Acres Road</u>				
Total revenues and transfers in	\$6,820	\$6,820	\$6,635	(\$185)
Total expenditures and transfers out	\$39,766	\$39,766	\$1,555	\$38,211
<u>Ridgecrest</u>				
Total revenues and transfers in	\$1,860	\$5,372	\$5,396	\$25
Total expenditures and transfers out	\$3,860	\$7,772	\$670	\$7,102
<u>Salchaket Heights</u>				
Total revenues and transfers in	\$3,050	\$3,050	\$3,099	\$49
Total expenditures and transfers out	\$2,773	\$2,773	\$0	\$2,773
<u>Scenic Heights</u>				
Total revenues and transfers in	\$15,130	\$15,130	\$15,396	\$266
Total expenditures and transfers out	\$63,235	\$63,235	\$18,806	\$44,429
<u>Seavy</u>				
Total revenues and transfers in	\$9,460	\$9,460	\$9,349	(\$111)
Total expenditures and transfers out	\$37,640	\$37,640	\$7,287	\$30,353
<u>Secluded Acres</u>				
Total revenues and transfers in	\$5,960	\$5,960	\$6,345	\$385
Total expenditures and transfers out	\$10,727	\$10,727	\$1,576	\$9,151

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Serendipity Hill</u>				
Total revenues and transfers in	\$5,660	\$5,660	\$5,657	(\$3)
Total expenditures and transfers out	\$18,140	\$18,140	\$5,413	\$12,727
<u>Six Mile Village Road</u>				
Total revenues and transfers in	\$4,760	\$4,760	\$4,241	(\$519)
Total expenditures and transfers out	\$9,323	\$9,323	\$1,266	\$8,057
<u>Smallwood Trail Road</u>				
Total revenues and transfers in	\$3,890	\$3,890	\$3,906	\$16
Total expenditures and transfers out	\$15,131	\$15,131	\$2,659	\$12,472
<u>Smith Ranch</u>				
Total revenues and transfers in	\$3,020	\$3,020	\$2,443	(\$577)
Total expenditures and transfers out	\$57,971	\$57,971	\$4,830	\$53,141
<u>Spinach Creek</u>				
Total revenues and transfers in	\$13,620	\$13,620	\$13,693	\$73
Total expenditures and transfers out	\$57,136	\$57,136	\$6,226	\$50,910
<u>Spring Glade</u>				
Total revenues and transfers in	\$21,810	\$21,810	\$21,291	(\$519)
Total expenditures and transfers out	\$70,126	\$68,126	\$27,084	\$41,042
<u>Spruce Acres</u>				
Total revenues and transfers in	\$5,300	\$5,300	\$5,185	(\$115)
Total expenditures and transfers out	\$29,843	\$29,843	\$3,416	\$26,427
<u>Steamboat Landing</u>				
Total revenues and transfers in	\$10,110	\$10,110	\$10,323	\$213
Total expenditures and transfers out	\$26,150	\$26,150	\$2,719	\$23,430
<u>Steese Volunteer Fire</u>				
Total revenues and transfers in	\$713,810	\$713,810	\$782,454	\$68,644
Total expenditures and transfers out	\$1,267,638	\$1,267,638	\$487,631	\$780,008
<u>Straight Creek</u>				
Total revenues and transfers in	\$9,170	\$9,170	\$9,522	\$352
Total expenditures and transfers out	\$13,250	\$12,894	\$10,849	\$2,045

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Summerwood</u>				
Total revenues and transfers in	\$23,710	\$23,710	\$23,235	(\$475)
Total expenditures and transfers out	\$31,303	\$31,303	\$10,469	\$20,834
<u>Summit Drive</u>				
Total revenues and transfers in	\$49,210	\$49,210	\$48,137	(\$1,073)
Total expenditures and transfers out	\$229,159	\$229,159	\$43,720	\$185,439
<u>Sunny Hills Terrace</u>				
Total revenues and transfers in	\$20,830	\$20,830	\$20,980	\$150
Total expenditures and transfers out	\$48,823	\$48,323	\$22,251	\$26,072
<u>Sunrise</u>				
Total revenues and transfers in	\$9,050	\$9,050	\$9,512	\$462
Total expenditures and transfers out	\$44,582	\$44,382	\$9,120	\$35,261
<u>Tan Terra</u>				
Total revenues and transfers in	\$8,560	\$8,560	\$7,953	(\$607)
Total expenditures and transfers out	\$31,261	\$31,261	\$16,720	\$14,540
<u>Thomas</u>				
Total revenues and transfers in	\$4,440	\$4,440	\$4,464	\$24
Total expenditures and transfers out	\$6,783	\$8,783	\$2,639	\$6,144
<u>Timberlane Road</u>				
Total revenues and transfers in	\$7,460	\$7,460	\$7,202	(\$258)
Total expenditures and transfers out	\$50,064	\$50,064	\$2,133	\$47,931
<u>Tungsten</u>				
Total revenues and transfers in	\$15,350	\$15,350	\$15,359	\$9
Total expenditures and transfers out	\$14,317	\$14,239	\$13,956	\$284
<u>Twenty Three Mile Slough</u>				
Total revenues and transfers in	\$16,260	\$16,260	\$16,286	\$26
Total expenditures and transfers out	\$82,083	\$82,083	\$3,654	\$78,428
<u>Ulrlhaven</u>				
Total revenues and transfers in	\$3,110	\$3,110	\$3,072	(\$38)
Total expenditures and transfers out	\$16,110	\$16,110	\$1,570	\$14,540

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>University Fire</u>				
Total revenues and transfers in	\$1,386,110	\$1,386,110	\$1,419,722	\$33,612
Total expenditures and transfers out	\$1,460,746	\$1,459,946	\$1,061,786	\$398,160
<u>University Heights</u>				
Total revenues and transfers in	\$42,270	\$42,270	\$41,032	(\$1,238)
Total expenditures and transfers out	\$86,630	\$82,770	\$61,408	\$21,362
<u>University West Street Light</u>				
Total revenues and transfers in	\$44,500	\$44,500	\$48,519	\$4,019
Total expenditures and transfers out	\$185,076	\$175,076	\$75,178	\$99,898
<u>Vienna Wood</u>				
Total revenues and transfers in	\$13,200	\$13,200	\$13,434	\$234
Total expenditures and transfers out	\$31,100	\$31,100	\$9,424	\$21,677
<u>Viewpointe</u>				
Total revenues and transfers in	\$16,620	\$16,620	\$15,302	(\$1,318)
Total expenditures and transfers out	\$111,802	\$111,802	\$5,902	\$105,900
<u>Violet Drive</u>				
Total revenues and transfers in	\$28,420	\$28,420	\$27,699	(\$721)
Total expenditures and transfers out	\$47,856	\$47,856	\$32,649	\$15,207
<u>Vista Gold Road</u>				
Total revenues and transfers in	\$25,740	\$25,740	\$25,297	(\$443)
Total expenditures and transfers out	\$39,257	\$39,237	\$24,484	\$14,753
<u>Vue Crest</u>				
Total revenues and transfers in	\$22,220	\$22,220	\$22,035	(\$185)
Total expenditures and transfers out	\$93,607	\$91,607	\$22,579	\$69,028
<u>Whitman</u>				
Total revenues and transfers in	\$3,610	\$3,610	\$3,668	\$58
Total expenditures and transfers out	\$10,739	\$10,739	\$1,972	\$8,766
<u>Wildview</u>				
Total revenues and transfers in	\$110,970	\$110,970	\$110,859	(\$111)
Total expenditures and transfers out	\$541,840	\$541,840	\$52,771	\$489,069

See accompanying notes to RSI.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Major Special Revenue Fund - All Service Areas

Schedule of Revenues and Expenditures  
Budget and Actual  
Year Ended June 30, 2003

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
<u>Woodland</u>				
Total revenues and transfers in	\$2,200	\$2,200	\$2,013	(\$187)
Total expenditures and transfers out	\$7,783	\$7,783	\$1,075	\$6,708
<u>Yak Road</u>				
Total revenues and transfers in	\$47,040	\$47,040	\$47,361	\$321
Total expenditures and transfers out	\$121,926	\$121,926	\$28,135	\$93,790
<u>Total All Service Areas</u>				
Total revenues and transfers in	\$5,733,530	\$5,737,207	\$5,862,956	\$125,748
Total expenditures and transfers out	\$11,320,403	\$11,259,297	\$4,966,073	\$6,293,224

See accompanying notes to RSI.

**FAIRBANKS NORTH STAR BOROUGH**  
**Notes to Required Supplementary Information**  
**June 30, 2003**

**1. BUDGETARY ACCOUNTING AND REPORTING**

**A. BUDGETARY PROCESS**

The budgetary data presented in the required supplementary information is established by the following procedures:

- 1) On or before the first Thursday following April 1, the Mayor submits to the Borough Assembly a proposed operating budget for the following fiscal year. The annual operating budget includes proposed expenditures and the means of financing them. In accordance with Alaska Statutes 14.14.060(c) and Fairbanks North Star Borough Code of Ordinances (FNSB) 3.03.010A, the School District's Board of Education is required to adopt and submit its annual budget to the Borough Assembly by April 1 for approval of the amount of local support for education.
- 2) At least one public hearing is held.
- 3) By May 31, the budget is legally enacted through the passage of an appropriating ordinance, including the local support share of School District funding.
- 4) The Mayor is authorized to transfer budgeted amounts within a department or within a service area. Transfers between departments, between service areas, or between funds require Borough Assembly approval.

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

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

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

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

**FAIRBANKS NORTH STAR BOROUGH**  
**Notes to Required Supplementary Information**  
**June 30, 2003**

project level for the capital projects and the remaining special revenue funds. All other appropriations are at the fund level. Expenditures may not exceed these appropriations which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed, object-level budgets.

**B. ENCUMBRANCE ACCOUNTING**

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.

**C. RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS**

The following schedule reconciles revenues and expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balances presented in accordance with Generally Accepted Accounting Principles (GAAP) to revenues and expenditures on the Schedule of Revenues and Expenditures-Budget and Actual for the general fund and all service areas:

	<u>General Fund</u>	<u>Service Areas</u>
Revenues reported on the basis of budgeting	\$77,147,750	\$5,862,956
Adjustment for intragovernmental cost plan revenues	<u>(3,290,175)</u>	
Revenues reported on the basis of GAAP	<u>\$73,857,575</u>	<u>\$5,862,956</u>
Expenditures reported on the basis of budgeting	\$25,223,422	\$4,966,073
Expenditures on prior year encumbrances	212,655	41,229
Current year encumbrances	(310,639)	
Adjustment for intragovernmental cost plan revenues	(3,290,175)	
Adjustment for compensated absences	<u>(45,924)</u>	
Expenditures reported on the basis of GAAP	<u>\$ 21,789,339</u>	<u>\$5,007,302</u>

Because encumbrances constitute the equivalent of expenditures for budgetary purposes, the accompanying schedules present comparisons of actual results to the annual budgets of the general fund and all service areas on the basis of budgeting. Adjustments to convert actual expenditures to the basis of budgeting are reflected in the actual on budgetary basis column in the accompanying schedules. The adjustment includes the addition for current year encumbrances and the deduction for expenditures of prior year encumbrances. The original budget column is that adopted by the assembly in its annual appropriation. The final budget column combines the original budget column, encumbrances automatically carried forward from the prior fiscal year, and budget amendments made during the current fiscal year.

FAIRBANKS NORTH STAR BOROUGH

Notes to Required Supplementary Information  
June 30, 2003

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

For budgetary purposes, the accrual basis of accounting is used and the entire amount of the accrued annual leave that was earned is reported as the liability for compensated absences. For financial statement reporting, the modified basis of accounting is used and only that portion of the accrued annual leave that is due and payable is shown as a liability.

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

D. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no excesses of actual expenditures over appropriations for the year ended June 30, 2003.

E. ROUNDING

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

FAIRBANKS NORTH STAR BOROUGH

Required Supplementary Information  
Schedule of PERS Funding Progress  
Pension and Postemployment Healthcare Benefits  
June 30, 2003

(In 000's)

	Actuarial Valuation year ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Excess (Deficiency) of Plan Assets over AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
<b>Borough</b>							
Pension	1999	\$43,984	\$39,625	\$4,359	111%	\$14,025	31%
benefits	2001	49,906	49,068	838	102%	15,063	6%
	2002	43,047	57,210	(14,163)	75%	15,354	(92%)
Postemployment	1999	17,832	16,064	1,768	111%	14,025	13%
healthcare	2001	21,131	20,776	355	102%	15,063	2%
benefits	2002	26,155	34,760	(8,605)	75%	15,354	(56%)
Totals	1999	61,816	55,689	6,127	111%	14,025	44%
	2001	71,037	69,844	1,193	102%	15,063	8%
	2002	69,202	91,970	(22,768)	75%	15,354	(148%)
<b>School District</b>							
Pension	1999	\$64,939	\$62,971	\$1,968	103%	\$20,877	9%
benefits	2001	75,357	73,826	1,531	102%	22,066	7%
	2002	64,597	85,525	(20,928)	76%	21,840	(96%)
Postemployment	1999	26,326	25,528	798	103%	20,877	4%
healthcare	2001	31,906	31,258	648	102%	22,066	3%
benefits	2002	39,248	51,963	(12,715)	76%	21,840	(58%)
Totals	1999	91,265	88,499	2,766	103%	20,877	13%
	2001	107,263	105,084	2,176	102%	22,066	10%
	2002	103,845	137,488	(33,643)	76%	21,840	(154%)

Although there was a system-wide actuarial valuation as of June 30, 2000, there was no actuarial valuation for individual employers as of that date.

Effective June 30, 2000, the inflation assumption for projected salary increases and the total inflation assumption were changed from 4.0% to 3.5%.

Effective June 30, 2002:

- the actuarial cost method was changed from a rolling 25-year period to a 25-year fixed period level percentage of pay;
- the health cost trend assumptions were changed from a range of 5.5% for FY03 to 4.0% for FY14 and later to a range of 12% for FY03 to 5.0% for FY17 and later;
- the asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and preceding 4 years, resulting in the immediate recognition of deferred losses and the elimination of corridor adjustments; (this method will be phased in over the next 5 years); and
- the target funding ratio was changed from 102% to 100%.

## APPENDIX B BOOK ENTRY SYSTEM

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U. S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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## APPENDIX C CONTINUING DISCLOSURE UNDERTAKING

By Ordinance No. 2004-67 of the Borough, passed on December 9, 2004 (the "Bond Ordinance"), has undertaken for the benefit of the owners and beneficial owners of the Borough's General Obligation School Bonds, 2005 Series H, in the aggregate principal amount of \$13,750,000 ("Bonds"), as follows:

### Undertaking to Provide Ongoing Disclosure

A. Contract/Undertaking. Section 18 of the Bond Ordinance constitutes the Borough's written undertaking for the benefit of owners of the Bonds as required by Section (b)(5) Securities and Exchange Commission Rule 15c2-12 under the Securities and Exchange Act of 1934 (the "Rule").

B. Financial Statements/Operating Data. The Borough agrees to provide or cause to be provided to each NRMSIR and to the State Information Depository for the State of Alaska, if one is created, (the "SID"), in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2005 for the fiscal year ended June 30, 2004):

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 SEC's Exchange Act Release 34-23856);
  9. Defeasances;
  10. Release, substitution or sale of property securing repayment of the Bonds;
- and
11. Rating changes.

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

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

E. Termination/Modification. The Borough's obligations to provide the annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Any provision of this undertaking shall be null and void if the Borough (i) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires such provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds; and (ii) notifies each NRMSIR and the SID, if any, of such opinion and the cancellation of such provision.

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

G. Bond Owner's Remedies Under This Section. The right of any Bond owner or beneficial owner of Bonds to enforce the provisions of this section and the agreement hereunder shall be limited to a right to obtain specific enforcement of the Borough's obligations hereunder, and any failure by the Borough to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds under this 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.

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

January 25, 2005

Fairbanks North Star Borough  
Fairbanks, Alaska

Morgan Stanley DW Inc.  
San Francisco, California

Re: Fairbanks North Star Borough, Alaska  
General Obligation School Bonds, 2005 Series H—\$13,750,000

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 the matter of the issuance by the Borough of its General Obligation School Bonds, 2005 Series H, in the aggregate principal amount of \$13,750,000 (the "Bonds"), issued pursuant to Ordinance No. 2004-67 of the Borough, passed by the Borough Assembly on December 9, 2004 (the "Bond Ordinance"), for the purpose of providing funds to pay for certain school capital projects approved by Borough voters at elections held on October 8, 2002 and October 5, 2004.

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) 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). We express no opinion relating to the undertaking by the Borough to provide ongoing disclosure pursuant to SEC Rule 15c2-12.

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

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 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 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, the Commonwealth of Puerto Rico, and the U. S. Virgin Islands, with admitted assets of approximately **\$8,069,000,000** (unaudited) and statutory capital of approximately **\$5,015,000,000** (unaudited) as of **September 30, 2004**. 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 Ratings 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
- 2) The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;
- 3) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;
- 4) The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;
- 5) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;
- 6) The Company's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004;
- 7) The Company's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004;
- 8) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004; and
- 9) The Company's Current Report on Form 8-K dated November 12, 2004 and filed on November 12, 2004.

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



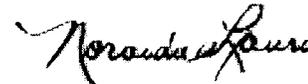
Secretary

Effective Date:

Authorized Representative

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 Officer of Insurance Trustee

Cover illustration based on an original photograph by Bernard Marschner.

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 dated January 12, 2005 for the General Obligation School Bonds, 2005 Series H, of the Borough in the principal amount of \$13,750,000, 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 25th day of January, 2005.

FAIRBANKS NORTH STAR BOROUGH,  
ALASKA



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Michael E. Lamb  
Chief Financial Officer