Alaska Industrial Development and Export Authority

AIDEA

ANNUAL REPORT

1998

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Photo credits: Chris Arend, Judy Patrick, Mark Kelley, Calvin Hall.

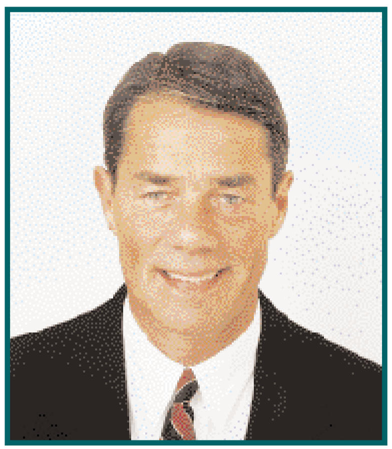
AIDEA's Mission

"To promote, develop and advance the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment."

This was the mandate given to the newly created Authority by the Alaska Legislature in 1967. Twenty years later, in 1987, the powers of the Authority were expanded to provide financing guarantees for exports of Alaska goods and services and its name was changed to the "Alaska Industrial Development and Export Authority."

AIDEA accomplishes its mission by providing various means of financing and assistance and by facilitating the financing of industrial, manufacturing, export and business enterprises and facilities within the state. AIDEA also has the authority to own and operate facilities which advance this goal.

Letter from the Governor



Governor Tony Knowles

Flip through the pages of Alaska's recent history – the past three decades or so – and glimpse at all the programs, projects and ventures that we Alaskans have created in an effort to develop a stable and sustainable economy. While a few of the ideas seem a little farfetched in retrospect, we can look back now and admire the progress that has been made over the years.

The Alaska Industrial Development and Export Authority (AIDEA) has been an important part of that history. Over the past 31 years, AIDEA has proven itself to be the powerhouse that drives Alaska's economic engine. The principles that have made AIDEA so effective include positive partnerships between the public and private sectors; insistence on the practical and feasible; creating jobs for Alaskans; and an unwavering commitment to the economic health and well-being of Alaska.

AIDEA's work continues to be a driving influence toward realizing my goals of jobs and a growing economy; better schools and protecting our children; and safe, healthy communities. My top priority as Governor of Alaska is creating jobs and business opportunities in the private sector. Without jobs and a growing economy, we lack the financial resources to fulfill our other responsibilities.

Projects all over Alaska have been started, continued or completed through AIDEA financing over the past year. From a major facilities expansion at the Red Dog Mine to a mini-mart in Cantwell, AIDEA has consistently provided the critical link to economic strength and sustainable jobs.

In partnership with the business community, the state's financial institutions, my Administration and the Legislature, AIDEA is a strong team player in Alaska's economy. Long-term business development and job creation – it's what AIDEA is doing and doing well.

Sincerely,

Tony Knowles
Governor

There is much to celebrate in Alaska today. Despite a roller-coaster stock market in the third quarter, we continue on a path of slow and steady growth. We Alaskans have learned that a stable economic future is generated not by grandiose plans, but by paying attention to common sense, playing to our strengths and using a measured dose of calculated risk. When it comes to economic development, the government that works best is the government that works with private industry.

That axiom reflects the mission of the Alaska Industrial Development and Export Authority. AIDEA has much to report – several major projects have been completed, each with far-reaching and long-term economic implications: the $100 million acquisition of the Snettisham Hydroelectric Project in Southeast Alaska; start-up of the innovative Healy Clean Coal Project; and completion of the expansion at AIDEA-owned port facilities serving the Red Dog Mine.

Less understood by most Alaskans is the role AIDEA plays with smaller businesses. Through the Authority's credit programs – loan participation and loan guarantee – AIDEA works with financial institutions and Alaskan borrowers to help turn sound ideas and promising ventures into reality all over the state.

A good example is the Alaska Commercial Company store in Barrow. Ukpeagvik Inupiat Corporation (UIC), the Barrow village corporation, sought long-term financing to build a new grocery store. The Alaska Commercial Company (ACC) contracted with UIC Construction Company to build a new 34,430-square-foot store. ACC built the new store, then sold it to UIC, which leases the land and building back to ACC.

Homesteaders Cache in the Matanuska-Susitna Valley refinanced its debt through AIDEA and Northrim Bank.

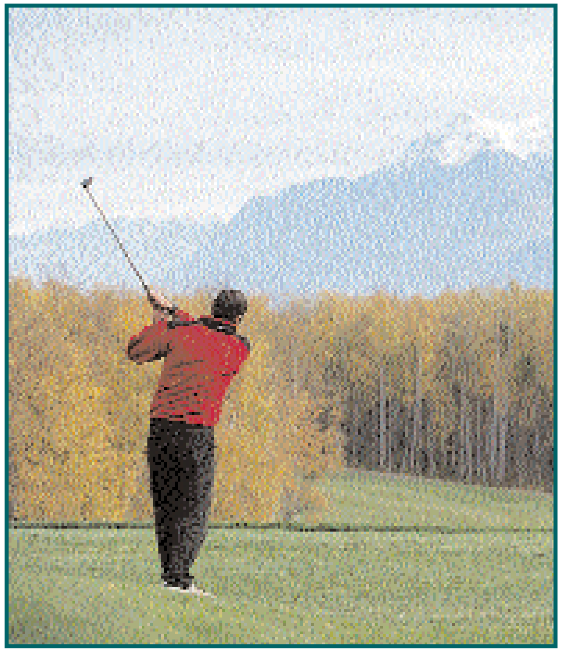
AIDEA financing provided needed capital and new services in this remote community, while generating 45 construction jobs and 10 new permanent jobs in the North Slope Borough.

An added bonus to the community is a local-hire clause in the lease agreement; ACC will receive a rent reduction if it meets a certain level of local-hire. And to encourage Barrow students to pursue jobs in the retail industry, ACC is working with schools to develop a retail management curriculum.

Another example of small business financing assistance is the Copper Valley Eye Clinic in Glennallen, the first full time vision clinic in the

Copper River Basin. Through AIDEA's loan guarantee program, Dr. Grant Humphreys opened a clinic that is contributing jobs, revenue and a medical service to the community.

Improvements to Settler's Bay Golf Course were financed with AIDEA assistance.



Through projects such as the ACC store and the Copper Valley Eye Clinic, AIDEA promotes creation of local jobs, provides capital for small businesses and contributes to local communities.

Sometimes the local benefits of an AIDEA project are unexpected. The Cantwell Food Mart, for example, has become a community gathering place where locals linger over coffee and sodas. The retail convenience store and gas station has generated an estimated annual payroll of more than $60,000, meaningful in a community the size of Cantwell.

Infrastructure Development

When many people hear the acronym "AIDEA" they generally think of big projects. But as you can see, AIDEA finances projects large and small. AIDEA's large development finance projects – projects that AIDEA owns and operates through the private sector – commonly are infrastructure projects: roads, ports, and power projects. An overview of infrastructure-related activities in 1998 is provided below and within this report.

In July, AIDEA joined with Cominco Alaska Incorporated and NANA Regional Corporation to celebrate the completion of a construction project at one of the AIDEA-owned infrastructure projects: the DeLong Mountain Transportation System (the road and port facilities that serve the Red Dog Mine). Expansion of the state-owned facilities paves the way for increased mine production, translating into more cost-efficient mineral development and a mine life span now expected to last at least 40 more years. That means good jobs today – 485 permanent year-round jobs – and good jobs for future generations of Alaskans, mainly NANA shareholders.

Infrastructure providing stable and reliable sources of energy is essential for economic development in any community, and 1998 was a milestone for two energy projects financed by AIDEA. In Interior Alaska, the Healy Clean Coal Project began generating coal-fired electricity for Alaskans while operating in the demonstration testing phase. AIDEA also took advantage of low interest rates and refunded $85 million of general obligation variable rate bonds originally issued for the Healy Clean Coal Project. AIDEA issued new bonds at fixed rates.

In Southeast, an 11-year process bore fruit with AIDEA's purchase of the Snettisham Hydroelectric Project from the federal government. AIDEA's ability to provide financing for the Snettisham project and Alaska Electric Light and Power Company's ability to operate the facility in a cost-effective and efficient manner, worked together to provide a source of long-term, stable power for the capital city of Juneau. That's important to local ratepayers and it's necessary for long-term business development and job creation in Alaska. Snettisham is another good example of an effective public/private partnership that benefits residents of Alaska and helps drive the state's economy.

Internal activities

The Authority initiated statutory and internal changes this past year to ensure that AIDEA programs are consistent with Alaska's needs and the changing economy.

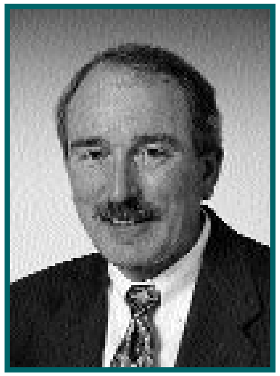
AIDEA's Export Assistance Program was merged with the Business Assistance Program, both loan guarantee programs, to provide a focus on Alaska trade activities rather than on manufacturing activities. The change followed a 1997 study that found that the export program was not being used because it did not meet the needs of Alaska exporters. Export-related businesses sought AIDEA's assistance for long-term financing, but not through the export program. Rather, they have been using the Loan Participation, Business Assistance loan guarantee and Development Finance programs. The export program had been modeled on programs in other states which, unlike Alaska, have strong manufacturing bases.

In the '90s Alaska is seeing growth in a new kind of export business. There has been an explosion of growth in the air cargo business as Alaska capitalizes on its strategic location. There has also been an emergence of service exports – especially oil field services and engineering – to the Russian Far East. Our Export Assistance Program didn't meet the needs of these businesses. By merging the export component into a revised Business and Export Assistance Program, AIDEA is better able to meet small-business needs, including the needs of Alaska exporters.

Additional statutory, policy, regulatory, and guideline changes initiated by AIDEA include the following:

- The loan-to-value requirements for AIDEA's Loan Participation Program were changed to provide more flexibility. The maximum now allowed is 75 percent of all the collateral offered as security for the loan.

- The threshold for Board approval on loan participations was raised from $1 million to $3 million, which is expected to speed up the approval process.



Wilson Hughes
Chairman of the Board

D. Randy Simmons
Executive Director

• Information that can be kept confidential at the request of the borrower or bank was defined in statute.

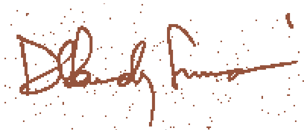
• AIDEA now offers two more variable-rate options, adjusted semi-annually and annually, both tied to London Interbank Offered Rates.

Looking Ahead

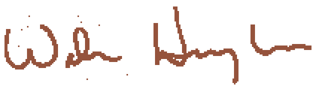
As 1998 draws to a close, AIDEA and Cominco Alaska Incorporated are examining the feasibility of constructing a deep-water port at the DeLong Mountain Transportation System. AIDEA received bonding authority for the project during the 1998 legislative session to ensure that if the project goes forward, the financing can proceed without delay.

The legislature also extended AIDEA's bonding authority through the year 2000. The extension reflects the state's continuing support of AIDEA's financing assistance programs. Specifically, the extension allows AIDEA to finance projects under $10 million without legislative approval if they are financially feasible and meet other statutory requirements. It also allows AIDEA to continue issuing conduit revenue bonds that do not involve the credit of AIDEA or the state.

In 1999 and beyond, we anticipate our partnership with Alaskans and financial institutions to remain strong as together we help Alaskan businesses grow, creating jobs in a diversified Alaskan economy. In closing, on behalf of the Board of Directors, AIDEA management and staff, we thank Alaskans for your continued interest and support of AIDEA as we continue to help finance Alaska's future.



D. Randy Simmons



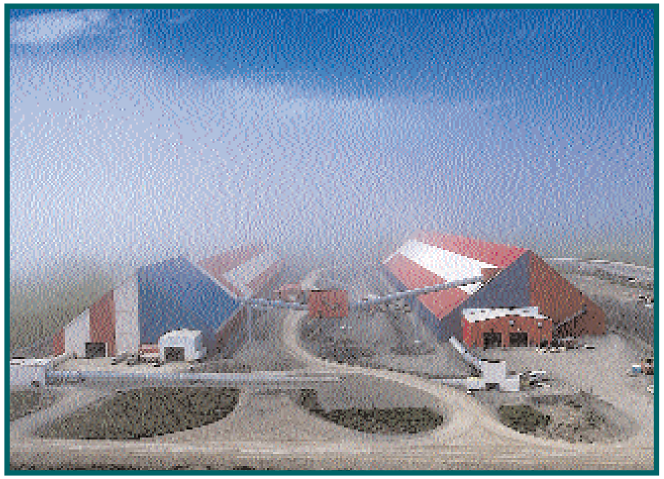
Wilson Hughes

Major activities

Development Finance Program

DeLong Mountain Transportation System

In the fall of 1998, construction was completed on an expansion of the DeLong Mountain Transportation System (DMTS), which serves the Red Dog lead and zinc mine near Kivalina in Northwest Alaska.



Expansion of the DeLong Mountain Transportation System includes a new concentrate storage building and conveyors to accommodate increased output from the Red Dog Mine.

The mine operator, Cominco Alaska Incorporated, proposed a production rate increase to reduce the cost per pound of concentrate produced in order to improve profitability. The mill throughput had increased approximately 35 percent, resulting in corresponding increases in lead and zinc concentrates. The increased mine output required additions and improvements to the ore concentrate storage and handling facilities owned by AIDEA at the port.

In March 1997, AIDEA sold $150 million in bonds, in part to finance the DMTS expansion. The bond sale was the largest in AIDEA's 30-year history, and the first time the Authority received a AAA insured rating on its general obligation bonds.

The DMTS port expansion included construction of a new concentrate storage building; conveyors that connect the new concentrate storage building to the existing material handling system; construction of a new, permanent, 96-person camp with

The Red Dog Mine sustains 485 permanent, year-round jobs.

food service and recreation area; construction of a new 2.4-million-gallon fuel storage tank and associated piping; and expansion of a powerhouse and the addition of a generator.

The Red Dog Mine now sustains 485 permanent, year-round jobs, a large majority of them held by shareholders of NANA Regional Corporation, which owns the mine, and other residents of the Northwest Arctic Borough.

In 1998, Cominco began a feasibility study on a port improvement project that would extend the existing DMTS dock by approximately 2,500 feet and dredge a 55-foot deep shipping channel to allow ocean-going ships to directly load the concentrates.

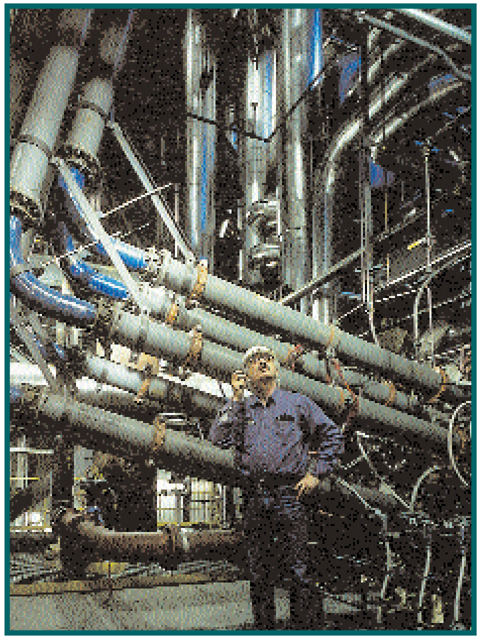
This expansion would eliminate barge traffic, providing a cleaner and expedited loading process. The proposed improvement would extend the shipping season into December, cut loading time and reduce weather-related down time. The project would extend most seasonal jobs at the port and lower the cost of shipping concentrates. In 1998, the Alaska Legislature approved bonding authority up to $80 million for the proposed project.

A large majority of jobs at the Red Dog Mine are held by shareholders of NANA Regional Corporation, which owns the mine, and other residents of the Northwest Arctic Borough.

Healy Clean Coal Project

The Healy Clean Coal Project, featuring state-of-the-art coal combustors and pollution controls, began generating electricity for Alaska consumers in the demonstration phase of its operation.

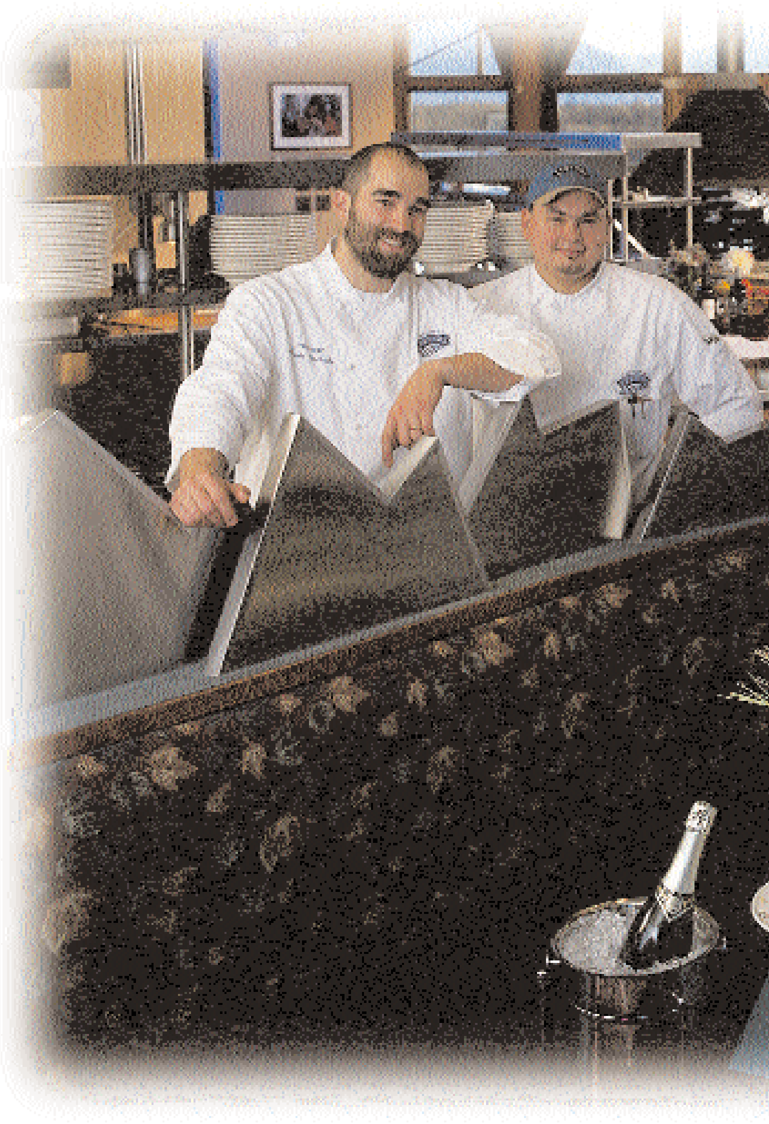
The $267 million project is owned and financed by AIDEA, and is co-funded with a $117.3 million grant from the U.S. Department of Energy. A state grant, interest earnings, contributions from project participants and power sales provided the remainder of the funding. The plant provides 35 to 40 new jobs in the Fairbanks and Healy areas.



Slagging combuster, Healy Clean Coal Project.

The Healy Clean Coal Project is one of 40 projects built nationwide to demonstrate innovative technologies that can substantially reduce air emissions while using coal reserves more efficiently. The plant will run as a commercial operation for the next 35 years with coal supplied from the nearby Usibelli Coal Mine. Golden Valley Electric Association of Fairbanks will operate the plant and sell the power generated to consumers in Interior Alaska.

The plant is expected to open new markets for Alaska's abundant coal resources, especially those markets looking for cleaner ways to use coal-generated electricity.

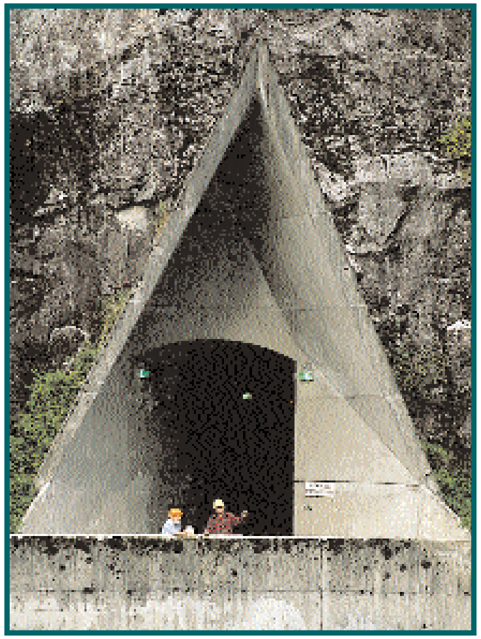


Legends Restaurant at Settler's Bay was completely renovated, creating 40 new jobs.

Snettisham Hydroelectric Project

In August 1998, AIDEA acquired the Snettisham Hydroelectric Project from the federal government for $100 million. The transfer was the culmination of a process that began more than 11 years earlier, when the federal Alaska Power Administration took the first step toward transferring it from federal ownership. The 78-megawatt Snettisham project, located 28 miles southeast of Juneau, provides 85 percent of Juneau's electrical energy. The acquisition was financed by the sale of tax-exempt bonds issued August 18, 1998. In addition to financing the acquisition, the bonds are also providing $11 million to replace the project's submarine cable system. Damage to the existing cable system puts the project at risk of failure.

The purchase of the Snettisham project brings local control to this important energy source and helps to ensure a stable energy source for long-term economic growth in the Juneau area. All the power generated by the Snettisham project will be sold to Alaska Electric Light and Power Company (AEL&P), Juneau's electric utility. Under agreement with AIDEA, AEL&P will operate and maintain the project.



Entrance to the mountain control center, Snettisham Hydroelectric Project.

The Snettisham project consists of two reservoirs, a small dam, power tunnels, an underground generating plant, switchyard, transmission line and substations. Because of its remote location, the project has its own airstrip, boat dock, residential quarters and utility system.

Wings of Alaska offers flight-seeing, charter service and lodge transportation during Juneau's busy summer tourist season.

Credit Programs

Wings of Alaska

Wings of Alaska, a regional commuter airline and charter service, used AIDEA financing, through a loan participation originated by KeyBank N.A., to build a new aircraft hangar and cargo area at Juneau International Airport.

Wings of Alaska offers scheduled passenger, freight, and mail service to numerous Southeast communities, as well as serving the growing tourism industry by providing charter service, lodge transportation, and flight seeing.

With the addition of new aircraft and entry into new and expanded markets, Wings of Alaska needed a larger hangar. An estimated 35 construction jobs were created. Wings of Alaska currently provides 90 jobs in the summer and 50 in the winter; three new jobs were created as a result of the project.

With the help of AIDEA's Loan Participation Program, Wings of Alaska built a new hangar to accommodate increased business.

Chilkats' Portage Cove Development Company

AIDEA and National Bank of Alaska teamed up to participate in a loan to Chilkats' Portage Cove Development Company, a tourism subsidiary of Klukwan Inc., a Southeast Alaska Native village corporation. The loan provided long-term financing to renovate and expand a boat dock and finance a terminal building for a new boat shuttle service between Haines/Klukwan and Skagway.

Allen Marine Inc., a family-owned boat manufacturing corporation based in Sitka, joined forces with Chilkats' Portage Cove Development Company to operate the shuttle service. Twelve ground operations jobs and nine shuttle boat jobs were added to the economy when this project came on line. The new shuttle service provides Klukwan shareholders an opportunity to gain training and employment in the tourism industry, while staying in touch with their history and culture.

With the growing tourism industry in Southeast Alaska, the company is targeting the cruise ship visitors and personnel who visit this region of Alaska. Alaskans are also using the service to augment the Alaska Marine Highway System ferry service.

With assistance from AIDEA, Klukwan Inc. built a terminal in Haines to support its new boat shuttle service between Haines/Klukwan and Skagway.

PenAir

PenAir completed construction on its new hangar and office building at Anchorage International Airport on ground leased from the state.

The new facility was essential to accommodate growing demand in air cargo and PenAir's passenger routes.

Expansion of PenAir's facilities in Anchorage is expected to generate an additional 20 jobs in 1999.

PenAir obtained long-term financing through National Bank of Alaska and AIDEA's Loan Participation Program.

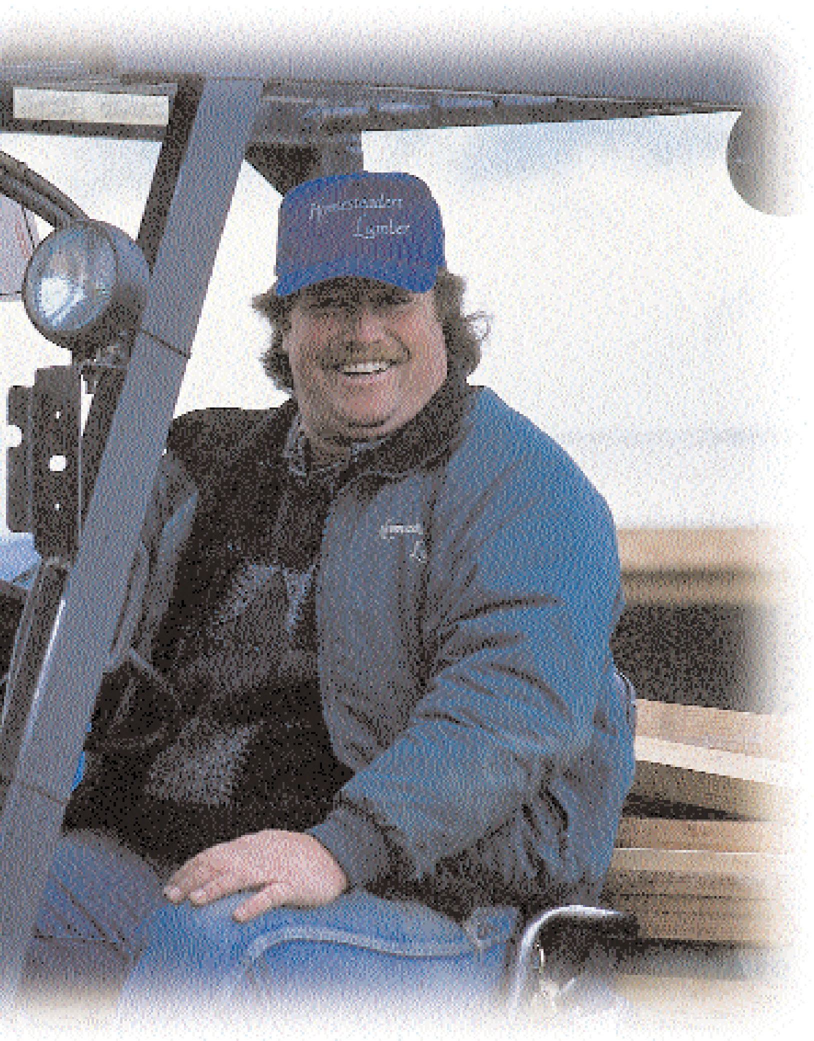
The new hangar and office building created or retained 100 construction jobs and 60 new jobs were created statewide as a result of the project. Another 20 jobs are expected to be added in Anchorage in 1999.

Homesteaders Cache

AIDEA provided debt refinancing on a loan originated through Northrim Bank for Homesteaders Cache in the Matanuska-Susitna Valley. The company has retail hardware stores in Wasilla and Big Lake, and operates as a certified truss manufacturer and building material supply center for local buildings at a wholesale level. The truss plant produces and delivers trusses to all areas of the state serviced by road.

AIDEA refinancing ensures that 50 winter jobs and 96 summer jobs are retained.

Homesteaders Cache offers building materials, truss manufacturing, hardware – and jobs in the Matanuska-Susitna Valley.



Alaska Commercial Company Store, Barrow

Ukpeagvik Inupiat Corporation (UIC), the Native village corporation in Barrow, received long-term financing for a new Alaska Commercial Company grocery store in Barrow, through National Bank of Alaska and AIDEA's Loan Participation Program.

The Alaska Commercial Company (ACC) contracted with UIC Construction Company to build a new 34,430-square-foot store. ACC built the new store and sold it to UIC, which leases the land and building back to ACC.

AIDEA provided needed capital, helped bring in new products and services to this remote community while also creating 45 construction jobs and approximately 10 new permanent jobs in the North Slope Borough.

The new store features a sales area, food court, pharmacy, and travel agency. It is close to residential development in Barrow, with high visibility and ample parking.

Cantwell Food Mart

Longtime Nenana residents David and Nancy Shaw, and Alan and Kathie Shaw, obtained financing from National Bank of Alaska and AIDEA to build Cantwell Food Mart, a new retail convenience store and gas station.

The Food Mart employs the equivalent of four full-time people in the winter and seven in the busier summer months. The

The Cantwell Food Mart provides a boost to the small Interior community.

convenience store and gas station takes advantage of heavy summer traffic bound to and from Denali, and also provides a pleasant community gathering site for local residents.

With help from AIDEA, Glennallen optometrist Grant Humphreys opened the first permanent vision clinic in the Copper Valley.

Copper Valley Eye Clinic

Thanks to AIDEA financing assistance, the Copper River Basin has its first full-time vision clinic. With the added assurance of an AIDEA loan guarantee, optometrist Grant Humphreys was able to borrow funds from KeyBank N.A. to purchase equipment for his business. The Copper Valley Eye Clinic is in Glennallen.

Settler's Bay Development, Inc.

Legends Restaurant at Settler's Bay underwent a complete renovation with the help of 10-year term financing under AIDEA's Loan Participation Program. National Bank of Alaska originated the loan. The project – a restaurant, lounge and banquet facility – created 30 construction jobs and 40 new full- and part-time positions. The restaurant setting provides a spectacular view.

Previously, Settler's Bay Development obtained AIDEA financing for improvements to the Settler's Bay Golf Course.

The new Alaska Commercial Company store in Barrow created more jobs along with a food court and expanded inventory.

Development Finance Program

Through this program AIDEA may own and operate projects that bring economic benefits to the people of Alaska and are shown to be financially feasible. The projects typically provide infrastructure support for resource utilization and development.

To qualify for AIDEA financing, a project must be endorsed by the local government where the project will be sited. Revenues from user fees and leases must be shown to be sufficient to repay AIDEA's investment. Projects requiring more than $10 million in financing from AIDEA must receive statewide support through an authorization from the Alaska Legislature. Financial feasibility must be demonstrated prior to an investment by the Authority.

Loan Participation Program

The Loan Participation Program provides Alaskans with long-term financing for new or existing projects, or for the refinancing of existing loans. Projects must be in Alaska.

AIDEA participation under this program may total up to 80 percent of a loan originated by a commercial lending institution, with total participation not to exceed $10 million. Both taxable and tax-exempt financing are available under this program.

Business and Export Assistance Program

The Business and Export Assistance Program is a loan guarantee program. It provides financial institutions with an up-to-80-percent guarantee (not to exceed $1 million) on the principal of the loan. Guarantees issued for export transactions guarantee both commercial and political risk.

AIDEA also uses its Business and Export Assistance Program to support the Rural Development Initiative Fund (RDIF). The RDIF was established by the Alaska Legislature in 1992 and is administered by the Department of Community and Regional Affairs in conjunction with AIDEA.

AIDEA is also a City-State partner with the Export-Import Bank of the United States.

Tax Exempt Revenue Bond Program

Projects which are eligible under the Internal Revenue Code of 1986 can qualify for tax-exempt financing under AIDEA's Tax-Exempt Revenue Bond Program. Under this program, AIDEA acts only as a conduit for the issuance of the tax-exempt bonds. Neither the assets nor credit of AIDEA are at risk under this program.

AIDEA Loan Portfolio: Diversity and Performance

Loan programs play an important role in fulfilling AIDEA's mission, while also providing a long-term investment for AIDEA. Through loan participations and loan guarantees with the banking community, AIDEA provides opportunities to finance the establishment, operation and development of industrial, manufacturing, export, small business and business enterprises.

As of June 30, 1998, AIDEA's portfolio consisted of 1,025 outstanding loans with a total principal balance of approximately $250,115,000.

Diversification by Geography
as of June 30, 1998

Region	% of total outstanding principal balance
Anchorage	49%
Interior	15%
North Slope	<1%
Northwest	<1%
Southcentral	11%
Southeast	15%
Southwest	9%

Diversification by Industry in Alaska
as of June 30, 1998

Industry	% of Total outstanding Principal Balance
Aircraft/Equipment	.4%
Day care/Nursing home	1.2%
Restaurant	1.4%
Manufacturing	1.5%
Aircraft Hangar	4.8%
Office/Business Condo	15.1%
Retail	34.2%
Office Warehouse and Warehouse	11.4%
Hotel/Motel/Lodge	20.0%
Vessels	.3%
Other	9.7%

Financial Institutions Utilizing AIDEA's Loan Participation Program
As of June 30, 1998 (does not include loans serviced by AIDEA, the State of Alaska, and certain other immaterial loans)

Financial Institution	Number of Loans	Principal Balance	% of Total $
Alaska Federal Savings	3	$856,000	.4%
KeyBank N.A.	58	$42,011,000	18.0%
First Bank of Ketchikan	10	$2,863,000	1.2%
First National Bank of Anchorage	20	$7,376,000	3.1%
Mt. McKinley Mutual Bank	2	$57,000	<.1%
National Bank of Alaska	120	$93,385,000	39.9%
Bank of America	4	$1,591,000	.7%
Northrim Bank	12	$13,073,000	5.6%
Christiana Bank	1	$3,213,000	1.4%
Seattle First National Bank	2	$2,885,000	1.2%
U.S. Bank of Washington	1	$2,601,000	1.1%

The Board of Directors
Alaska Industrial Development and Export Authority
(a Component Unit of the State of Alaska):

We have audited the accompanying balance sheets of the Alaska Industrial Development and Export Authority Revolving Fund (a Component Unit of the State of Alaska) as of June 30, 1998 and 1997, and the related statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Alaska Industrial Development and Export Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Industrial Development and Export Authority Revolving Fund (a Component Unit of the State of Alaska) as of June 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in note 2 to the financial statements, the Alaska Industrial Development and Export Authority adopted the provisions of the Governmental Accounting Standards Board's Statement No. 31, Accounting and Financial Reporting for Certain Investments and For External Investment Pools, in 1998.

KPMG Peat Marwick LLP

Anchorage, Alaska
August 28, 1998

Assets

Assets	1998	1997
Cash and cash equivalents, partially restricted (note 4)	$ 21,092,556	25,735,050
Investment securities, partially restricted (note 4)	445,537,641	482,537,039
Loans (note 5)	250,114,786	262,704,705
Less allowance for loan losses (note 6)	12,862,275	15,557,029
Net loans	237,252,511	247,147,676
Net investment in direct financing leases (note 7)	269,760,847	219,930,361
Accrued interest receivable	8,237,972	8,445,873
Development projects (note 7)	291,368,497	254,669,621
Other real estate owned	7,961,145	7,444,935
Venture capital limited partnership investment	550,996	5,769,829
Other	22,102,024	7,008,868
	$ 1,303,864,189	1,258,689,252

Liabilities and Equity

	1998	1997
Liabilities:		
Bonds payable (note 8)	312,940,000	322,645,000
Accrued interest payable	4,536,720	4,573,757
Accounts payable	10,504,684	15,280,116
Total liabilities	327,981,404	342,498,873
Equity:		
Contributed capital	445,006,889	420,869,331
Retained earnings	530,875,896	495,321,048
Total equity	975,882,785	916,190,379
Commitments, contingencies and subsequent events (notes 5, 9, 10 and 11)	$ 1,303,864,189	1,258,689,252

See accompanying notes to financial statements.

Statements of Income

Years ended June 30, 1998 and 1997

	1998	1997
Revenues:		
Interest income:		
Loans (note 5)	$ 22,551,358	21,713,554
Investments	24,069,710	27,456,668
Direct financing leases	13,504,337	13,644,616
Total interest income	60,125,405	62,814,838
Other project income	2,178,661	2,955,921
Other income	1,114,004	980,006
Net appreciation of investment securities	11,846,749	80,297
Total revenues	75,264,819	66,831,062
Expenses:		
Interest	14,058,752	14,753,133
General and administrative	4,107,589	4,641,949
Depreciation	1,207,052	936,638
Bond insurance	—	3,426,141
Write-downs and net (income) expenses associated with other real estate owned	1,967,727	(215,160)
Provision for loan losses (note 6)	1,550,000	408,000
Total expenses	22,891,120	23,950,701
Net income	$ 52,373,699	42,880,361

See accompanying notes to financial statements.

Statements of Changes in Equity

Years ended June 30, 1998 and 1997

	Contributed capital	Retained earnings	Total equity
Balance at June 30, 1996	$ 377,945,646	467,440,687	845,386,333
Net income	—	42,880,361	42,880,361
Dividend	—	(15,000,000)	(15,000,000)
Contributed capital	42,923,685	—	42,923,685
Balance at June 30, 1997	420,869,331	495,321,048	916,190,379
Net income	—	52,373,699	52,373,699
Cumulative effect of accounting change	—	(1,089,265)	(1,089,265)
Dividend	—	(16,000,000)	(16,000,000)
Contributed capital	24,407,972	—	24,407,972
Depreciation of contributed assets	(270,414)	270,414	—
Balance at June 30, 1998	$ 445,006,889	530,875,896	975,882,785

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended June 30, 1998 and 1997

		1998	1997
Cash flows from operating activities:			
Net income	$	52,373,699	42,880,361
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation		1,207,052	936,638
Net amortization of premium and discount on investment securities		—	(866,534)
Net appreciation of investments		(11,846,749)	(80,297)
Provision for loan losses		1,550,000	408,000
Amortization of prepaid bond insurance		—	3,426,141
Write-downs and net loss on sale of other real estate owned		1,151,800	806,698
Amortization of unearned income on direct financing leases		(13,504,337)	(13,644,616)
Increase in accrued interest receivable and other assets		(1,929,048)	(1,062,741)
Increase (decrease) in accrued interest and accounts payable		389,940	(24,260,644)
Net cash provided by operating activities		29,392,357	8,543,006
Cash flows from capital and related financing activities:			
Investment in direct financing leases		(58,486,869)	(11,319,366)
Direct financing lease receipts		12,454,723	19,391,430
Contributions to capital		10,840,972	42,923,685
Issuance of bonds		85,000,000	235,000,000
Payments on bonds		(90,420,000)	(96,435,000)
Net cash provided (used) by capital and related financing activities		(40,611,174)	189,560,749
Cash flows from noncapital and related financing activities:			
Dividend paid to the State of Alaska		(16,000,000)	(15,000,000)
Payments on bonds		(4,285,000)	(23,215,000)
Net cash used by noncapital and related financing activities		(20,285,000)	(38,215,000)
Cash flows from investing activities:			
Proceeds from maturities of securities		379,301,000	243,644,215
Proceeds from sales of securities		100,390,394	49,927,174
Purchases of investment securities		(431,934,512)	(385,729,947)
Principal collected on loans		43,845,099	30,730,738
Loans originated		(40,129,326)	(32,190,000)
Investment in development projects		(30,919,214)	(85,405,163)
Net proceeds from sales of other real estate owned		2,997,840	3,484,430
Net investment in venture capital limited partnership		3,310,042	44,233
Net cash provided (used) by investing activities		26,861,323	(175,494,320)
Net decrease in cash and cash equivalents		(4,642,494)	(15,605,565)
Cash and cash equivalents at beginning of year		25,735,050	41,340,615
Cash and cash equivalents at end of year	$	21,092,556	25,735,050

See accompanying notes to financial statements.

Note 1 • Organization and Operations

The activities of the Alaska Industrial Development and Export Authority (Authority) Revolving Fund are authorized pursuant to legislation passed by the Legislature of Alaska (Legislature) which established within the Revolving Fund the Enterprise Development Account and the Economic Development Account for separate and distinct purposes. The Authority is a component unit of the State of Alaska (State), constituting a political subdivision within the Department of Commerce and Economic Development but with separate and independent legal existence. The Authority's mission is to promote, develop and advance the general prosperity of the people of Alaska, to relieve problems of unemployment and to create additional employment by providing various means of financing and facilitating the financing of industrial, manufacturing, export and business enterprises and other facilities within the State.

The Board of Directors of the Authority also serve as the Board of Directors of the Alaska Energy Authority (AEA). The staff of the Authority serves as the staff of AEA. The Authority and AEA continue to exist as separate legal entities. There is no commingling of funds, assets or liabilities between the Authority and AEA and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AEA are not included in the accompanying financial statements.

Enterprise Development Account

A summary of programs available under the Enterprise Development Account follows:

a. The Loan Participation Program, under which the Authority purchases participations in loans made by financial institutions to their customers. The Authority's participation is limited to the lesser of 80% or $10,000,000 of the permanent financing for qualifying facilities. The Authority currently has tax-exempt bonds outstanding under this program, which are general obligations of the Authority.

b. The Business and Export Assistance Program, under which the Authority provides up to an 80% guarantee of the principal balance and a guarantee of interest to the financial institution making a qualifying loan. The maximum guarantee amount of any loan is $1,000,000.

c. A venture-capital program whereby the Authority has invested in a venture-capital partnership (the Polaris Fund) with the purpose of inducing venture capitalists to Alaska to take advantage of investment opportunities. The Polaris Fund is permitted to make and has made investments both within and outside of Alaska.

Economic Development Account

Through the Economic Development Account, the Authority has the ability to own and operate facilities which will help to accomplish its mission. Current own-and-operate projects undertaken through the Economic Development Account are:

a. DeLong Mountain Transportation System (Red Dog Project). This project consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit, one of the largest zinc deposits in the world, located in the DeLong Mountains in northwestern Alaska. A port expansion commenced in 1997 and will be completed in late 1998. The Red Dog Project was financed with Authority funds and bond financings, including $150,000,000 of bonds issued in May 1997, which refunded outstanding revenue bonds and provided construction funds.

b. Skagway Ore Terminal (Skagway Terminal). This project is a public-use ore terminal port facility in Skagway, Alaska. The Skagway Terminal was financed by a $25,000,000 bond issue completed in December 1990. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds.

c. City of Unalaska Marine Center (Unalaska Project). This project is a public port facility located in the Aleutian Islands. The Unalaska Project was financed by a $7,000,000 bond issue completed in December 1991.

d. Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Anchorage International Airport. The Federal Express Project was partially financed by a $28,000,000 bond issue completed in September 1992.

e. Healy Clean Coal Project (Healy Project). This project is a coal-fired power plant located near Healy, Alaska. The Authority received a $25,000,000 state legislative appropriation and $117,327,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program to assist in financing the Healy Project. In May 1998, $85,000,000 of bonds were issued to refund $85,000,000 of Variable Rate Revolving Fund Bonds originally issued in July 1996, the proceeds of which were used to finance a portion of the Healy Project.

f. Seward Coal Load-Out Facility. In May 1995, the Authority purchased a 49% interest in a coal load-out facility in Seward, Alaska for approximately $6,900,000. The purchase was subject to specific conditions and the execution of a demand note and repurchase agreement, and a corporate guarantee by the project participant.

g. Ketchikan Shipyard (Shipyard). Ownership of the Shipyard, located in Ketchikan, Alaska, was transferred to the Authority in July 1997, under an agreement between the Authority and the State Department of Transportation and Public Facilities (DOT&PF). In connection with the transfer, the City of Ketchikan and the Ketchikan Gateway Borough agreed to provide relief from real property taxes and favorable electric rates for the facility. The Borough agreed to provide ongoing funds for maintenance and repairs for the Shipyard. The Authority also agreed to provide funds for maintenance and repairs in an amount equal to the amount contributed by the Borough. In addition, the Authority agreed to fund certain identified repairs paid for from funds provided by DOT&PF as part of the transfer.

h. Snettisham Hydroelectric Project. This project was acquired in August 1998 when the Authority issued $100,000,000 of revenue bonds to purchase the project, located in southeast Alaska near Juneau, from the Alaska Power Administration, a federal agency (note 11).

Proposed own-and-operate projects for which the Legislature has authorized the issuance of bonds are:

a. The Authority has $55,000,000 of remaining authorization (from an original $85,000,000 authorization) to issue bonds to finance the acquisition, construction and equipping of a hangar to be located at the Anchorage International Airport which would have provided aircraft maintenance, fleet service and cargo handling and shop areas. The facility would have been leased to Alaska Airlines, Inc. (Alaska Airlines). Alaska Airlines canceled plans to build the facility. However, the Authority continues to have the legislative authorization to build the facility.

b. The Authority has bonding authorization of $50,000,000 for a bulk commodity loading and shipping terminal to be located within the Cook Inlet to be owned by the Authority and $50,000,000 for a facility to be constructed in Anchorage for the offloading, processing, storage and transloading of seafoods. The Board of Directors has given conditional approval to purchase the seafood facility, but the issuance of bonds to finance the facility is not anticipated.

c. The Authority has bonding authorization of $20,000,000 to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. It is currently anticipated that the Authority will not participate in financing the project.

d. The Authority has bonding authorization of $80,000,000 to finance the expansion, improvement, and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by the Authority.

e. The Authority has bonding authorization of $30,000,000 to finance the improvement and expansion of the Nome port facilities to be owned by the Authority.

f. The Authority has bonding authorization of $28,000,000 to finance development of a railroad right-of-way within a railroad and utility corridor from near Healy to the eastern boundary of Denali National Park.

g. The Authority has bonding authorization of $15,000,000 to finance the construction and improvement of phase 1 of the Hatcher Pass Ski Resort, located in the Matanuska-Susitna Borough.

Other

The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction for facilities owned by third parties. Stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable only out of revenues derived from the financing of projects or the private businesses for which the projects are financed. The Authority is authorized to issue revenue bonds to finance the construction of power transmission interties to be owned by electric utilities in a collective amount not to exceed $185,000,000. As of June 30, 1998, the Authority had issued revenue bonds for 293 projects (not including bonds issued to refund other bonds). The principal amount payable for the series issued after July 1, 1995, was $94,000,000. The aggregate amount outstanding for the remaining revenue bonds, which were issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled $616,000,000 (not including bonds issued to refund other bonds).

Small Business Economic Development Loan Program

The Authority's Small Business Economic Development Loan Program provides financing to eligible applicants under the United States Economic Development Administration Long-Term Economic Deterioration program and the Sudden and Severe Economic Dislocation program. The Small Business Economic Development Revolving Loan Fund (Loan Fund) was created to receive loan fund grants from the United States Economic Development Administration. The State of Alaska, Department of Commerce and Economic Development, Division of Investments administers the Small Business Economic Development Loan Program on behalf of the Authority. As the Loan Fund is not a part of the Authority's Revolving Fund, this fund is not included in the Authority's financial statements. The Loan Fund's balance sheet as of June 30, 1998, follows:

	Unaudited (in thousands)
Assets:	
Cash	$ 730
Interest receivable	25
Due from other funds	1
Loans receivable, net	2,062
	$ 2,818
Fund equity:	
Warrants outstanding	297
Unrestricted contributed capital	1,912
Retained earnings:	
Reserved	25
Unreserved – undesignated	584
	$ 2,818

Estimates

In preparing the financial statements, management of the Authority is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. The more significant accounting estimates applied in the preparation of the accompanying financial statements are described in note 2.

Note 2 • Summary of Significant Accounting Policies

Cash and Cash Equivalents
For purposes of the statement of cash flows, cash and cash equivalents consist of cash, short-term commercial paper and repurchase agreements.

Investments
Prior to July 1, 1997, investments were recorded at cost and adjusted for the amortization of premiums and discounts, which were recognized as adjustments to interest income. Effective July 1, 1997, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools (GASB 31). The cumulative effect of the adoption of GASB 31 was a decrease in retained earnings at July 1, 1997, in the amount of $1,089,265 and an increase in net income of $7,687,681 for the year ended June 30, 1998. The Authority's marketable securities are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of net income. Fair values are obtained from independent sources for marketable securities.

Loans and Interest Income
Loans are primarily secured by first deeds of trust on real estate located in Alaska and are generally carried at amounts advanced less principal payments collected. Interest income is accrued as earned. Accrual of interest is discontinued whenever the payment of interest or principal is more than 90 days past due or when the loan terms are restructured. Future collections of interest on these loans are recorded as interest income when received.

Net Investment in Direct Financing Leases
The Authority leases various projects pursuant to certain agreements (as more fully described in note 7) which are recorded in the accompanying financial statements as direct financing leases. Interest income related to direct financing leases is recognized using the effective interest method which produces a constant periodic rate of return on the outstanding investment in the lease.

Development Projects
The Authority's development projects are carried at cost, adjusted for permanent impairments of value. The Authority follows Statement of Financial Accounting Standards No. 121 (SFAS No. 121), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. This statement requires recognition of impairment losses for long-lived assets whenever events or changes in circumstances result in the carrying amount of the assets exceeding the sum of the expected future cash flows associated with such assets. The Authority believes that none of its development projects are impaired as contemplated by SFAS No. 121.

Allowance for Loan Losses
The allowance for loan losses represents management's judgment as to the amount required to absorb potential losses in the loan portfolio. The factors used by management to determine the allowance required include historical loss experience, individual loan delinquencies, collateral values, economic conditions and other factors. Management's opinion is that the allowance is currently adequate to absorb known losses and inherent risks in the portfolio.

Allowance for Lease Receivables
The allowance for lease receivables represents management's judgment as to the amount required to absorb potential unrealizable direct financing lease receivables. The factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 1998.

Other Real Estate Owned
Other real estate owned represents property acquired through foreclosure on loans, received by deed in lieu of foreclosure or transferred from lease receivable when the properties become available for sale. Other real estate owned is recorded at the lower of the loan or lease balance or the estimated fair market value of the property at the time of receipt or transfer of the property, with any excess of loan or lease balance over fair market value charged to the respective allowance for loan or lease losses. Upon final disposition or a decline in the value of the property, gains or losses are charged or credited to operations in the current period.

Appropriations and Grants

Appropriations and grants are recorded as additions to contributed capital when received. Depreciation of capital assets, acquired from appropriations and grants restricted for capital acquisition, is transferred to the contributed capital account.

Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. The Authority is a political subdivision of the State performing an essential governmental function and is therefore exempt from federal and State income taxes.

Furniture and Equipment

Purchases of furniture and equipment are expensed as such items are the property of the State.

Depreciation

Depreciation is charged to operations by use of the straight-line method over the estimated useful lives of depreciable assets.

Note 3 • Additional Information Regarding Cash Flows and Noncash Activities

Additional information regarding cash flows and noncash activities for the years ended June 30, 1998 and 1997 follows:

	1998	1997
Cash flows:		
Interest collected on loans and investments	$ 49,395,617	48,943,311
Interest paid	18,500,016	17,291,815
Noncash activity:		
Other real estate owned acquired through foreclosure	$ 4,629,392	260,100
Sales of real estate owned	2,997,480	3,484,430
Investment in Development Projects acquired through contribution of assets	13,567,000	—

Note 4 • Investment Securities

Major components of investment securities, the maturity distribution and carrying value at June 30 follows:

	1998	1997
U.S. Treasury securities maturity:		
Within one year	$ 133,598,263	121,918,804
After one but within five years	88,793,326	127,936,191
After five but within ten years	11,578,017	11,607,904
After ten but within twenty-five years	18,852,314	16,569,167
	252,821,920	278,032,066
U.S. Government agencies maturity:		
Within one year	61,110,982	67,426,776
After one but within five years	28,649,614	48,666,044
After five but within ten years	44,993,496	33,122,675
After ten but within twenty-five years	3,996,500	3,357,427
	138,750,592	152,572,922
Corporate securities maturity:		
After one but within five years	12,972,869	9,469,129
After five but within ten years	28,701,490	29,551,055
After ten but within twenty-five years	12,290,770	12,911,867
	53,965,129	51,932,051
	$ 445,537,641	482,537,039

At June 30, 1997, the fair value of investment securities was $481,447,774.

All investments and collateral for the repurchase agreements are registered in the Authority's name and are held by the Authority or its custodian. This arrangement results in Category 1 safekeeping risk, the lowest safekeeping risk classification as defined by Governmental Accounting Standards Board Statement No. 3 and Technical Bulletin No. 87-1.

Certain investment securities, repurchase agreements and cash are restricted by the terms of the Authority's bond resolutions or other agreements. A summary of restricted amounts at June 30 follows:

	Allowable Usage	1998	1997
Capital Reserve Funds	Secure debt service payments – bonds	$ 3,943,649	4,113,943
Debt Service and Loan Prepayment Accounts	Funds held for future debt service – bonds	632,674	1,150,124
Business Assistance Program	Guarantee business loans	61,206	75,325
Healy Project Funds	Secure Department of Energy payments	–	10,475,136
Healy Project Replacement and Contingency Fund	Bond repayment and certain project costs	3,693,671	3,521,775
Red Dog Project Sustaining Capital Fund	Project costs	12,833,093	12,746,518
Unexpended bond proceeds	Construction costs	22,063,345	61,229,212
		$43,227,638	93,312,033

Note 5 • Loans

The Authority grants secured commercial real estate and other loans to businesses throughout the State. Although the Authority has a diversified loan portfolio, the borrower's ability to honor their credit agreements is generally contingent upon economic conditions in the State.

Loans outstanding at June 30 are classified as follows:

	1998		1997	
Loan program type	Number	Amount	Number	Amount
Appropriated	649	$ 25,833,564	690	$ 30,778,442
Loan participation:				
Bonds outstanding	72	30,773,112	85	40,218,379
Bonds retired	88	36,662,885	104	48,653,162
Internally funded	105	132,046,209	95	116,885,709
OREO sale financing	60	23,217,869	66	24,386,409
Other	51	1,581,147	58	1,782,604
	1,025	$ 250,114,786	1,098	$ 262,704,705

The aging of loans at June 30 follows:

	1998		1997	
	Percent	Amount	Percent	Amount
Current	98.33 %	$ 245,946,559	94.31 %	$ 247,752,347
Past due:				
31-60 days	1.11	2,779,195	0.42	1,101,700
61-90 days	0.05	120,744	2.51	6,598,683
Over 90 days	0.51	1,268,288	2.76	7,251,975
	100.00 %	$ 250,114,786	100.00 %	$ 262,704,705

Loans which are more than 90 days past due on which the accrual of interest has been discontinued amounted to $1,268,288 and $6,585,173 at June 30, 1998 and 1997, respectively. Gross interest income which would have been received on these loans amounted to $114,783 and $476,876 for the years ended June 30, 1998 and 1997, respectively. The amount of interest income collected and included in net income was $79,090 and $94,207 for the years ended June 30, 1998 and 1997, respectively.

Loans on which the terms have been restructured amounted to $15,103,964 and $20,458,386 at June 30, 1998 and 1997, respectively. Gross interest income which would have been received on these loans amounted to $1,260,810 and $1,907,335 for the years ended June 30, 1998 and 1997, respectively. The amount of interest income collected and included in net income was $1,150,696 and $1,416,794 for the years ended June 30, 1998 and 1997, respectively.

Note 6 • Allowance for Loan Losses

An analysis of changes in the allowance for loan losses for the years ended June 30, 1998 and 1997 follows:

	1998	1997
Balance at beginning of year	$ 15,557,029	14,292,073
Provision for loan losses	1,550,000	408,000
Recoveries of loans charged off	32,114	1,206,078
Loans charged off	(4,276,868)	(349,122)
	$ 12,862,275	15,557,029

Note 7 • Net Investment in Direct Financing Leases and Development Projects

Direct Financing Leases

The Authority leases the Unalaska Project under terms of an agreement, recorded as a direct financing lease, which transfers the Unalaska Project to the City of Unalaska after all financial obligations have been met. Minimum payments under the agreement are the amounts required to pay the annual debt service costs of the $7,000,000 Revolving Fund Bonds issued December 10, 1991. The annual minimum lease payments range from $742,000 to $782,000.

The Authority leases the Federal Express Project under an agreement which is recorded as a direct financing lease, expiring 20 years after the facility was placed in service in March 1995. Minimum lease payments under the agreement will return the cost of the Federal Express Project plus 7.55% interest and are expected to be sufficient to pay the debt service on the $28,000,000 Revolving Fund Bonds issued September 30, 1992.

Minimum annual toll fees for usage of the DeLong Mountain Transportation System return the cost of the initial Red Dog Project, which went into service in 1990, to the Authority over 50 years at an interest rate of 6.5%. Toll fees for the expansion to the Red Dog Project will return the cost of the expansion from the in-service date through the end of the term of the agreement at a rate based on bonds issued to finance the expansion.

The components of the Authority's net investment in direct financing leases at June 30 are:

	1998	1997
Minimum lease payments receivable	$ 763,534,121	583,050,688
Less unearned income	493,773,274	363,120,327
Net investment in direct financing leases	$ 269,760,847	219,930,361

At June 30, 1998, future minimum lease payments receivable for each of the five succeeding fiscal years are:

Year ending June 30	Amount
1999	$ 18,400,000
2000	21,100,000
2001	21,100,000
2002	21,100,000
2003	21,000,000

Development Projects

In August 1995, the Authority entered into an agreement with a Canadian mining company (Anvil) to use 75% of the Skagway Terminal for seven years for an annual minimum user fee of $2,582,500 per year. In early 1998, Anvil shut down operations due to low ore prices and other economic considerations. Anvil has received court protection under the terms of the Creditor Act. In April 1998, Deloitte & Touche, Inc. (DT) was appointed as interim receiver. In July 1998, DT was authorized to sell certain of Anvil's assets and to terminate the agreement with the Authority. Negotiations are in process. There are several other mineral deposits in the area and the Authority has had discussions with other parties regarding use of the facility. The Authority believes that additional users will be found for the Skagway Terminal, however, no new contracts are expected in the near future.

The Authority will sell all power produced by the Healy Project to Golden Valley Electric Association, Inc., who will also operate the project, under the terms of a power sales agreement providing for a minimum annual payment of approximately $4,451,000, beginning when the project is commercially operable.

The Authority receives user fees in consideration of its interest in the Seward Coal Load-out facility. The lessee continues to operate the facility at its sole expense.

The Authority entered into an operations and maintenance agreement for the Shipyard with Alaska Ship and Drydock (ASD). Under that agreement, the Authority is paid $1,500 per month for certain uses of the facility and is also paid a percentage of net profits resulting from ASD's activities at the Shipyard.

Note 8 • Bonds Payable

The composition of bonds outstanding at June 30, 1998 and 1997, follows (interest rate and maturity date information is as of June 30, 1998):

	1998	1997
Revolving Fund Bonds:		
Series 1990A – 7.4% to 7.95%, issued December 13, 1990, maturing through 2010	$ 17,575,000	18,530,000
Series 1991A – 6.85% to 7.3%, issued December 10, 1991, maturing through 2006	4,480,000	4,900,000
Series 1992A – 5.7% to 6.5%, issued September 30, 1992, maturing through 2014	24,670,000	25,565,000
Series 1995A – 5.45% to 6.2%, issued May 17, 1995, maturing through 2007	6,815,000	7,215,000
Series 1997A – 5% to 6.125%, issued March 27, 1997, maturing through 2027	146,850,000	150,000,000
Variable Rate Revolving Fund Bonds – issued July 18, 1996, refunded and defeased May 14, 1998 and called August 6, 1998	—	85,000,000
Refunding Revolving Fund Bonds:		
Series 1993A – 5.0% to 6.2%, issued June 3, 1993, maturing through 2010	11,810,000	13,575,000
Series 1994A – 5.25% to 5.9%, issued March 30, 1994, maturing through 2006	7,845,000	9,265,000
Series 1995B – 5.3% to 5.85%, issued May 17, 1995, maturing through 2005	7,895,000	8,595,000
Series 1998A – 4.5% to 5.25%, issued May 14, 1998, maturing through 2023	85,000,000	—
	$ 312,940,000	322,645,000

At June 30, 1998, Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. Various bonds are further secured by loan proceeds and capital reserve funds established pursuant to terms of the bond resolutions (note 4). Various bonds are further secured by bond insurance.

The minimum payments related to the bonds for the five years subsequent to June 30, 1998, and thereafter are as follows:

Year ending June 30	Principal	Interest	Total
1999	$ 10,380,000	17,626,016	28,006,016
2000	10,955,000	17,590,545	28,545,545
2001	11,690,000	16,993,100	28,683,100
2002	12,390,000	16,348,235	28,738,235
2003	13,515,000	15,639,543	29,154,543
2004-2008	70,780,000	65,479,784	136,259,784
2009-2013	62,985,000	45,219,625	108,204,625
2014-2018	59,295,000	26,926,313	86,221,313
2019-2023	43,360,000	12,923,094	56,283,094
2024-2027	17,590,000	2,773,094	20,363,094
	$ 312,940,000	237,519,349	550,459,349

Bond resolution covenants effective June 30, 1998, preclude the Authority from incurring any general obligation indebtedness unless future estimated net income (as defined in the Revolving Fund Bond Resolution) equals not less than 150% of the general obligation annual debt service requirement in each year or from taking any action to cause its unrestricted surplus (as defined in the Revolving Fund Bond Resolution) to be less than the lesser of $200,000,000 or the amount of general obligation indebtedness outstanding, and in no event less than $100,000,000. At June 30, 1998, the Authority has estimated that projected future coverage for any year exceeds 150%, giving effect only to existing projects at that date, including the projected effect of completion of the Healy Project and the current expansion of the Red Dog Project, and excluding the effect of other proposed projects and future construction expenditures. At June 30, 1998, unrestricted surplus was approximately $918,000,000. The Authority is also required by bond covenants to maintain 25% of the unrestricted surplus requirement described above in cash and U.S. Treasury securities maturing within one year. At June 30, 1998, the liquidity requirement was $50,000,000.

On May 14, 1998, the Authority issued $85,000,000 of Revolving Fund Refunding Bonds for the purpose of refunding and defeasing the Variable Rate Revolving Fund Bonds issued July 18, 1996. The Variable Rate Revolving Fund Bonds were called on August 6, 1998. Because the refunded bonds had a variable interest rate, there was no economic gain or loss on the refunding.

On March 27, 1997, the Authority issued $150,000,000 of Revolving Fund Bonds which included $80,000,000 for the purpose of refunding a portion of a bond issue. The refunding, after giving effect to additional cash paid, resulted in debt service payments approximately $24,000,000 less than the refunded bonds over the next 20 years. There was an economic gain of approximately $7,500,000. Economic gain is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

Note 9 • Retirement Plan

Effective July 1, 1997, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 27 (GASB 27), Accounting for Pensions by State and Local Governmental Employers. There was no impact on the financial statements as a result of GASB 27.

A. Plan Description

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

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907)465-4460.

B. Funding Policy and Annual Pension Cost

Employee contribution rates are 6.75% for employees, as required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The Authority's rate for 1998 was 9.43%.

The Authority's annual pension cost for the current year and the related information is as follows:

Contribution rates:

Employee	6.75%
Employer	9.43%
Annual pension cost	$232,100
Contributions made	$232,100
Actuarial valuation date	June 30, 1995
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, open
Amortization period	Rolling 25 years
Asset valuation method	5-year smoothed market

Actuarial assumptions:

Inflation rate	4.0%
Investment return	8.0%
Projected salary increase	1.5%
Inflation	4.0%
Productivity and merit	1.5%
Health cost trend	5.5%

In the current year, the Authority determined, in accordance with provisions of GASB 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset) to PERS.

Note 10 • Commitments and Contingencies

Commitments

At June 30, 1998, the Authority held approximately $396,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately $107,565,000 of investments in trust for the construction of two intertie projects. The Authority held approximately $2,838,000 of investments in trust for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

Environmental Issues

The Authority has identified certain properties and pledged collateral which may contain contaminated soils, and is currently undergoing environmental site assessments. The Authority's policy is to record a liability when the likelihood of responsibility for cleanup is probable and the costs are reasonably estimable. At June 30, 1998, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

Other Commitments and Contingencies

The Authority from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and guarantees, which are not reflected in the accompanying financial statements. At June 30, 1998, the Authority had extended loan commitments for loans of $9,682,000 and loan guarantees of $4,260,920. In the opinion of management, the financial position of the Authority will not be affected materially by the final outcome of any present legal proceedings or other contingent liabilities and commitments.

Note 11 • Subsequent Event

On August 18, 1998, the Authority issued $100,000,000 of tax-exempt revenue bonds to finance the acquisition of the Snettisham Hydroelectric project from the federal Alaska Power Administration and to provide funds for the purchase and installation of a submarine cable system. These bonds are not general obligation bonds of the Authority. Concurrently, the Authority also entered into three agreements with Alaska Electric Light and Power (AEL&P), the sole Juneau electric utility. These agreements provide for the sale of the project's entire electrical capability to AEL&P, require the project's operations and maintenance by AEL&P, and provide an option for the purchase of the project at any time after five years from the issue date. Contractual agreements for the supply and installation of the submarine cable system have been executed and work initiated, with an anticipated completion date of August 1999.

Exemption from taxation

The Alaska Industrial Development and Export Authority is a political subdivision of the State of Alaska performing an essential governmental function and as such is not subject to federal or state income taxation. In accordance with AS 44.88.140(a), the Authority submits the following information describing the nature and extent of the tax exemption of the Authority's property:

All furniture, fixtures and equipment utilized by Authority personnel and real property occupied by the Authority offices within the Municipality of Anchorage are exempt from Municipality of Anchorage property taxes. All real and personal property associated with or part of projects developed, originally owned or operated under the Economic Development Account located within cities, municipalities and/or boroughs are exempt from any respective real and personal property taxes.

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