AIDEA

annual report

Contents

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

To stay in top working condition, most tools have to be cared for, cleaned and maintained. Treat them poorly and they don't work well. That principle holds just as true for the tools used to diversify and strengthen Alaska's economy. And one of the best tools in our economic tool box is the Alaska Industrial Development and Export Authority.

Over the past decade, AIDEA has produced nearly 3,000 jobs in all areas of our state. AIDEA-financed projects now in the works are expected to generate another 1,000 jobs over the next two years. Since 1989, the Development Finance Program has directly added $677 million and indirectly supported more than $1 billion of investment into the state. And since 1981, AIDEA's Loan Participation Program has added more than $400 million to the Alaska economy in the form of business development.

This profit-motivated, self-sustaining corporation receives no money from the State General Fund. In fact, every year AIDEA contributes a portion of its earnings as a dividend to the state. The dividend is an extra benefit above and beyond the Authority's mission; a financial return on the state's investment that helps fund important needs around the state.

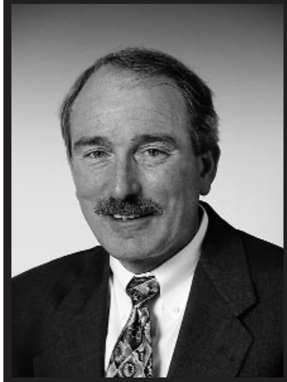
Since the dividend program began in 1996, AIDEA's dividend has continued to grow. To date, AIDEA has committed $65 million to the state treasury. That's a clear indication that AIDEA is doing its job – and doing it well.

AIDEA continues to demonstrate its importance and value to an economy that grows more stable and diversified every year. It's run like a business, returning a net profit every year and providing a reasonable return to stakeholders. It offers lower-cost financing to Alaska businesses, provides predictability and stability in capital markets, and ensures continued access to reasonably-priced capital.

Whether financing major projects, such as the DeLong Mountain Transportation System for the Red Dog Mine and the Alaska Seafood International facility, or mom-and-pop operations in small communities, AIDEA is a valued and essential tool in Alaska's economic future.

Tony Knowles

Report to Alaskans



As elected officials and all Alaskans grapple with the complex challenges of the state's changing fiscal situation, it becomes that much more important to make the most of the tools we have at hand. When it comes to promoting sustainable jobs and an ever-more diversified economy, AIDEA is a tool worth maintaining in peak condition.

As in years past, AIDEA in 1999 demonstrated its ability to foster economic health and diversity throughout the state. From tax-exempt financing to assist qualified non-profit agencies, to loan participations that help small-business owners, to big-ticket projects generating hundreds of jobs – AIDEA is a major force in propelling our state's economy forward.

AIDEA doesn't create economic development; and the Authority doesn't make things happen. It helps them happen. The magic word is partnership and for an excellent example of how it works, consider Alaska Seafood International (ASI).

Construction of the ASI facility in Anchorage was completed in 1999. ASI is turning fresh and frozen Alaska seafood into prepared, oven-ready dishes for middle and upscale markets in North America, Europe and Asia. The idea for a value-added seafood manufacturing plant using Alaska fish germinated in the late '80s. In 1991, a group of investors contributed several million dollars towards implementing this idea. The State of Alaska joined in two years later, when the Legislature authorized up to $50 million for construction of the facility, to be owned by AIDEA. The last piece of financing came through in 1997 from a Taiwanese investment company.

Thus, the private sector generated the idea, the opportunity and a portion of the financing, while the state provided support and financing assistance to make the project happen. It's truly a partnership of private and public interests.

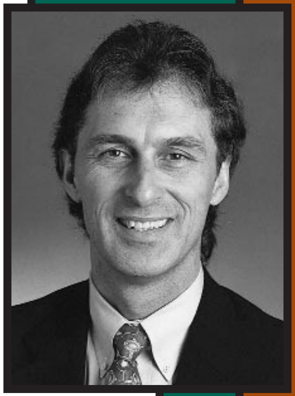
ASI opens the door to new opportunities in the 21st century utilizing one of Alaska's finest natural resources – freshly caught Alaska seafood. ASI marks a paradigm shift in how Alaskans and the world think about Alaska's seafood industry. Alaska is moving from a seafood processing industry to a seafood manufacturing industry – adding value to the product. By manufacturing products, ASI is creating more jobs for Alaskans, keeping more dollars circulating in the Alaska economy and creating new markets for the sale of Alaska seafood.

Of critical importance to AIDEA's involvement are the economic benefits in Alaska. In full production ASI will provide 450 year-round manufacturing jobs, result in hundreds of indirect jobs in plant support such as transportation, and stimulate the local economies of fishing communities by providing a reliable market for their catch. ASI will change how Alaska seafood is marketed and sold and create a new market for processors to sell their product. Alaska's seafood industry is taking a giant step forward. The advancement is good for fishermen, processors, the State of Alaska and private investors.

The prospects for ASI are exciting. It is just the type of project we need more of in Alaska: One that utilizes existing resources in innovative ways, makes creative use of our geographic strengths, creates new jobs and carves a door into new markets – and does it all in Alaska.

AIDEA's credit programs support the Authority's primary mission of economic development and job creation. These programs assist the banking community by providing liquidity and risk sharing; serve as an investment to AIDEA, providing a return to AIDEA and to the state's General Fund through AIDEA's dividend program; and help diversify the economy, creating and retaining jobs for Alaskans.

There are myriad examples of the very real projects that AIDEA assists through its credit programs, many of them described in the pages of this report. Tourism is a strong theme in AIDEA's credit portfolio; projects in Homer, Fairbanks and Skagway are tapping into and promoting growth of the visitor industry. AIDEA-financed projects run the gamut, from a new hockey rink in Anchorage, to a retail store in Nome, to upgrades to the sewer and water systems in the Fairbanks North Star Borough, to office buildings and warehouses throughout the state.



Unfortunately, as of this writing, AIDEA and Golden Valley Electric Association (GVEA), one partner in the development of the Healy Clean Coal Project (HCCP), have yet to settle disagreements over the project's Power Sales Agreement and operations. GVEA filed a lawsuit in May 1998 and AIDEA filed a countersuit the following month. Although some of the issues were resolved in negotiations in 1999, certain issues are still in dispute.

Disputes notwithstanding, the HCCP is exceeding environmental expectations and AIDEA remains confident that the HCCP will pass all required tests and demonstrations and will go into commercial operation.

Several significant developments occurred internally in 1999. These changes added new responsibilities to AIDEA's purview and, once the regulatory process is completed, will eliminate archaic or burdensome requirements in our credit programs.

First, as part of a merger of state agencies, rural energy programs very important to the well-being of small communities throughout Alaska, were moved to the Alaska Energy Authority (AEA). The programs had been in the Division of Energy, Department of Community and Regional Affairs. AEA is a separate corporation from AIDEA, but shares the same board of directors and executive director. AEA is committed to maintain rural energy services and assistance within the parameters set by the Governor and the legislature.

Second, the impetus to make changes to AIDEA's credit programs came about by working with banks and borrowers. These changes reflect both an ever-changing economy and the changing needs of AIDEA's stakeholders. In August, the board approved the changes recommended by staff and authorized staff to begin the public notice process to amend AIDEA's regulations. The recommended changes include:

- Under the tax-exempt Loan Participation Program, loans in which AIDEA's portion is $1 million or less will no longer require board-approved resolutions of eligibility, unless bonds are expected to be issued.

- Loan participation borrowers will now be able to lock in a fixed interest rate at the time of commitment.

- Loan participation borrowers may now adjust their existing interest rate to the current rate as often as they want for a 1 percent fee, based on the outstanding balance of AIDEA's portion of the loan. In addition, for a 1 percent fee, qualified real estate loans with original terms of less than 25 years can be extended once to a maximum of 25 years from the original date of the loan, if requested by the borrower and certain collateral conditions are met.

- For participation loans, the old 60/40 split requirement on refinancings will be eliminated.

Since its inception in 1996, AIDEA's dividend to the State General Fund has been increasing and to date, AIDEA has committed $65 million to the General Fund. The annual dividend – a statutory program under which AIDEA distributes a portion of its earnings to help fund other state needs – is based on AIDEA's net income. By statute, the dividend is between 25 percent and 50 percent of

AIDEA's net income for the fiscal year two years earlier.

In calculating the dividend, AIDEA's Board of Directors considers several factors, such as income trends, project and loan flow projections, bond covenant impacts, rating agency concerns and unanticipated needs.

The AIDEA dividend provides assurance to bond rating agencies, capital markets and the financial community that AIDEA is a long-term investment to the state, not a rainy day savings account.

Finally, the U.S. Economic Development Administration (EDA) and AIDEA teamed up to provide low-interest loans to Western Alaska communities hurt by dismal salmon runs in 1998. The EDA provided a $3 million grant to the Authority's Small Business Economic Development Revolving Loan Fund. AIDEA invested $1 million into the program in an effort to expand the economy in rural areas now primarily dependent on the fishing industry. The Small Business Economic Development Revolving Loan Fund is an AIDEA program administered by the Division of Investments, Department of Community and Economic Development.

AIDEA's mission to encourage economic growth and diversification in Alaska makes for exciting and challenging opportunities. 1999 was no different. As we move into the next century we believe that AIDEA will continue to play an important role in Alaska's future by collaborating with the private sector, providing long-term financing for Alaskan business projects, and by providing a dividend to the state. AIDEA is helping to finance Alaska's future.

Wilson Hughes, Chairman of the Board

D. Randy Simmons, Executive Director

Value-added seafood

Alaska Seafood International (ASI) will change how Alaska seafood is marketed and create a new market for processors to sell their product. The ASI menu of prepared entrees will include salmon fillets and steaks.

Projects

Alaska Seafood International

Alaska Seafood International (ASI) is an innovative seafood manufacturing plant located near Anchorage International Airport. Its product: private-label, ready-to-heat seafood meals, deliverable by air within eight hours to markets in the U.S., Asia and Europe.

Alaska's first value-added seafood manufacturing plant will use Alaska-caught seafood. Salmon, halibut, pollock and other ground fish will be the centerpiece of the prepackaged, high quality meals available in a variety of preparations, such as with sauces, stuffing and coating. These are not fish sticks. Plans are also underway to use local produce when the full-meal line is introduced next year. The addition of Alaska-grown vegetables turns the dish into a complete meal.

AIDEA became involved in the $125 million project in 1993, when the legislature authorized a $50 million bond issue to help finance it through AIDEA's Development Finance Program. AIDEA owns the building and ASI will operate the manufacturing facility and make lease payments to AIDEA. ASI is a joint venture of the ASI developer and investors. ASI's major investor is Central Investment Holdings, a Taiwan investment company.

The economic benefits of the project are considerable: After a ramping up period of a year or so, ASI will employ 450 people in full-time year-round manufacturing jobs. Indirectly, it will promote additional employment in rural fishing communities to meet ASI's demand for seafood. An additional 750 jobs will be created to bring fish to the manufacturing plant and quickly distribute the finished product, including jobs in transportation and infrastructure needed to support the manufacturing facility.

ASI will be the largest and most technologically-advanced seafood plant in the nation. At maximum capacity, ASI will be able to produce up to 125 million pounds of prepared meals a year.

Healy Clean Coal Project

The 90-day commercial operation test began August 17, 1999, and was completed successfully on November 6, 10 days ahead of schedule. Under terms of the Power Sales Agreement (PSA), the commercial test must be successfully completed before AIDEA turns the plant over to Golden Valley Electric Association (GVEA) for commercial operation. As part of the commercial operations test an independent engineer must determine that all the major systems are performing according to design specifications and that the project will perform on a sustained operations basis if operated, maintained and renewed according to standard utility practices.

During demonstration testing – underway since January 1998 – the plant

Coal project progresses

Above, a worker monitors the limestone feeder at the Healy Clean Coal Project. The project has exceeded expectations in every area since the demonstration phase began in January 1998.

has performed better than expected in every area. Once the plant meets the commercial operating test requirements, GVEA is committed to operate the plant and pay AIDEA for the energy generated, allowing AIDEA, in turn, to pay off the bonds issued to finance the project. However, complaints filed by GVEA regarding the terms of the PSA have not been resolved and litigation is proceeding.

The project has three principal goals: test clean-coal technology with combustion and air emissions equipment; develop technology to burn waste coal that otherwise would not be used to produce energy; and provide a reliable source of power for Alaska's northern interior. The process uses a conventional boiler that produces steam for a conventional turbine to produce a nominal 50 megawatts of electricity for use by GVEA.

The project is being funded by a U.S. Department of Energy contribution, by AIDEA, in-kind partner contributions, a state grant, interest earnings and power revenues from GVEA.

The plant is expected to open new markets for Alaska's abundant coal resources, especially those markets seeking cleaner ways to use coal-generated electricity. The plant provides 35 to 40 new jobs in the Fairbanks and Healy areas.

New cables for Snettisham

New undersea transmission cables were installed at the Snettisham power project near Juneau. Replacement of the old damaged cables was the first task for AIDEA, after taking the project over from the federal government in 1998.

Snettisham Hydroelectric Project

Installation of new underwater transmission cables on the AIDEA-owned Snettisham hydroelectric project took place in 1999. The project was purchased from the federal government in 1998 and AIDEA's first task was to replace the old cables which had seriously deteriorated. The project was completed on schedule and under budget. Federal appropriations and grants, coupled with bond proceeds, paid for the cable installation.

AIDEA acquired the Snettisham project for $100 million. The 78-megawatt project, 28 miles southeast of Juneau, provides 85 percent of Juneau's electrical energy. The acquisition was financed by the sale of tax-exempt bonds. All of the power generated at Snettisham is sold to Alaska Electric Light and Power Company, which operates and maintains the project.

DeLong Mountain Transportation System

AIDEA owns the DeLong Mountain Transportation System, built in the 1980s to support operation of the Red Dog Mine, the world's largest lead and zinc mine. Cominco Alaska operates the Red Dog Mine in cooperation with mine owner NANA Regional Corporation. The mine and the transportation system together provide approximately 485 permanent full-time jobs in the Northwest Arctic Borough. Mill throughput has increased 35 percent in recent years.

A feasibility study of proposed improvements at the DeLong Mountain terminal was delayed

Hockey rules

Workers add final paint to the ice at Polar Ice, a new indoor ice hockey arena in Anchorage. AIDEA financing helped bring Polar Ice to completion. Young players above hone their skills.

Red Cross gets a hand

Conduit tax-exempt bonds were issued to finance improvements at the American Red Cross in Anchorage. The Red Cross provides a range of community services, including emergency assistance and classes in cardio-pulmonary resuscitation.

because the cost was more than the original estimate of $80 million. Cominco Alaska has requested the U.S. Army Corps of Engineers investigate the feasibility of participating in dredging and maintenance of the terminal as a regional deep water port. AIDEA and Cominco are working with the Corps of Engineers to perform an expedited reconnaissance study, which may lead to a feasibility study.

The proposed improvements consist of a deep water port and direct load-out facility that would allow larger, ocean-going vessels to directly load the concentrates. Direct load-out would eliminate barge traffic, expedite loading, extend the shipping season into December and reduce weather-related down time. It would extend most seasonal jobs and reduce the cost of shipping concentrates.

Ketchikan Shipyard

The Ketchikan Shipyard received a $2.6 million federal transportation grant for improvements to the shipyard. The Ketchikan Gateway Borough will provide half of the 20 percent match, with AIDEA investing additional match funds into the Authority-owned project. AIDEA will oversee design and construction of the improvements, designed to increase shipyard efficiency and production capacity, and improve services. AIDEA took over the shipyard in 1997. The shipyard provides approximately 90 direct jobs and 150 indirect jobs in Ketchikan.

Small Business Economic Development Revolving Loan Fund

AIDEA invested $1 million in its Small Business Economic Development Revolving Loan Fund to provide low-interest loans to Western Alaska communities struggling from catastrophically low salmon runs in 1998. The U.S. Economic Development Administration contributed an additional $3 million. The loans target projects that diversify the economy and create jobs. The low-interest loans are available under the Small Business Economic Development Revolving Loan Fund, an AIDEA loan program administered by the Division of Investments, Department of Community and Economic Development.

American Red Cross, South Central Alaska Chapter

AIDEA issued $2.2 million in conduit tax-exempt bonds to finance renovation and building improvements at the American Red Cross, South Central Alaska Chapter in Anchorage. The Red Cross renovated its existing building, purchased additional land for parking and made site improvements to the additional lot.

Shipyard expansion set

The Ketchikan Shipyard, an AIDEA-owned project, provides approximately 90 direct jobs and 150 indirect jobs in Ketchikan.

The conduit financing was provided under AIDEA's Tax-Exempt Revenue Bond Program. Projects must be eligible under the Internal Revenue Code of 1986 to qualify for tax-exempt financing.

Fairbanks Sewer & Water Inc.

AIDEA issued $6 million in conduit tax-exempt bonds for improvements to the sewer and water systems owned by Fairbanks Sewer & Water Inc. in the Fairbanks North Star Borough. The water and sewer lines had not undergone any significant upgrades in over 20 years. Improvements will include replacing the pipe lining in 50 to 80 miles of pipe, upgrades to the electrical components at the solid waste plant and installation of an automated meter reading system. First National Bank of Anchorage purchased the bonds.

River's Edge, Inc.

A visitor complex on the Chena River in Fairbanks was refinanced and will be expanded with assistance from AIDEA. Under its Loan Participation Program, AIDEA provided a $3.2 million loan participation to River's Edge, Inc. The $4.54 million loan was originated by Denali State Bank.

River's Edge, Inc. consists of an RV park with 179 sites, 96 resort cottages, a lodge and convention facilities. The complex provides 63 jobs during the summer and 25 jobs year-round.

Air-Land Transport, Inc.

Air-Land Transport, Inc. obtained long-term financing for construction of a warehouse with office space in Anchorage. The $2.25 million loan was originated by Northrim Bank. AIDEA provided 80 percent – $1.8 million – through a loan participation. The project employs 120 people in summer and 50 in winter months.

Wasilla Office Building

A new office building was constructed in Wasilla with financing through an AIDEA loan participation. The $470,000 loan was originated by Northrim Bank. AIDEA's 80 percent share was $375,000. The project generated four construction jobs.

Sitnasuak Native Corporation

Sitnasauk Native Corporation of Nome obtained $1.875 million in long-term financing to build Bonanza Express, a new retail shop, gas station and convenience store in Nome. The loan was originated by National Bank of Alaska. AIDEA financed 80 percent of the loan through the Loan Participation Program. The project created 21 construction jobs and 12 new jobs.

Soda and a snack

Bonanza Express offers Nome residents a quick soda and a snack with their tank of gas, thanks to long-term financing through National Bank of Alaska and AIDEA.

Chena River beckons visitors

River's Edge takes advantage of its shoreside location on the Chena River, with an RV park, resort cottages, a lodge and convention facilities in Fairbanks. AIDEA provided 80 percent loan participation for expansion and long-term financing.

Kachemak Bay and a root beer

Root beer floats and a spectacular view attract locals and visitors alike to the Texaco Mini-Mart and expanded RV Park outside Homer. The project was financed under AIDEA's Loan Participation Program.

Polar Ice, LLC

Ice hockey players in Anchorage have more rinks available with the completion of the Bonnie Cusack Memorial Ice Arena in south Anchorage. Demand for ice time in Anchorage has exploded in recent years, due in large part to the growing popularity of children and women's leagues.

AIDEA provided 80 percent financing under the Loan Participation Program for this $2.8 million project. The loan was originated by Northrim Bank. The complex features an indoor ice rink, locker rooms, concessions, office space and an arcade. The project generated 100 jobs during construction. The permanent work force consists of nine full-time and 49 part-time positions.

Ah Sa Wan Restaurant

Through its Business Assistance Program, AIDEA guaranteed $504,000 of a $630,000 loan to Ah Sa Wan Restaurant in Fairbanks. Denali State Bank provided the loan for purchase of restaurant real estate and restaurant equipment. The restaurant employs 11 people.

Texaco Mini-Mart and RV Park

AIDEA provided 80 percent of the long-term financing on a $1.5 million loan for construction of an RV Park and Texaco Mini-Mart with fast food franchise on a bluff overlooking Kachemak Bay outside of Homer. The project resulted in 30 new jobs. Northrim Bank originated the loan to Linder Leasing, LLC. AIDEA financing was through its Loan Participation Program.

Golden North Hotel

AIDEA participated in long-term financing of retail shop expansion and refinancing of the existing debt on the Golden North Hotel in Skagway. National Bank of Alaska originated the $1.6 million loan and AIDEA financed 80 percent under its Loan Participation Program. The facility employs three to four people full-time. The Golden North is a modern replica of a historic building in downtown Skagway.

Historic hotel

An AIDEA loan participation with National Bank of Alaska financed expansion of the Golden North Hotel in Skagway and refinanced existing debt.

AIDEA's Programs

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, revenues from user fees and leases must be sufficient to repay AIDEA's investment. If bonds are sold, the project must be endorsed by the local government where the project will be sited. Projects requiring more than $10 million in financing from AIDEA receive statewide support through a bond authorization from the Alaska Legislature.

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 a gurantee of up to 80 percent (not to exceed $1 million) on the principal of the loan and certain interest expenses (not to exceed 90 days for non-export transactions, 180 days for post shipment export transactions and 270 days for pre-shipment export transactions). 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 Economic Development in conjunction with AIDEA.

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

Conduit Revenue Bond Program

Conduit revenue bond financing is available for taxable projects and for projects eligible for tax-exempt financing under the Internal Revenue Code of 1986. Whether the financing is taxable or tax-exempt, AIDEA acts only as a conduit. Neither the assets nor credit of AIDEA are at risk under this program.

Auditors' Report

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, 1999 and 1998, 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, 1999 and 1998, 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.

The year 2000 supplementary information following the footnotes is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Alaska Industrial Development and Export Authority is or will become year 2000 compliant, that the Alaska Industrial Development and Export Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Alaska Industrial Development and Export Authority does business are or will become year 2000 compliant.

KPMG LLP

September 3, 1999

Balance Sheets

Assets

		1999	1998
Cash and cash equivalents (note 4)	$	29,752,214	20,890,435
Investment securities (note 4)		378,518,267	402,512,124
Loans (note 5)		235,087,951	250,114,786
Less allowance for loan losses (note 6)		12,222,206	12,862,275
Net loans		222,865,745	237,252,511
Net investment in direct financing leases (note 7)		280,974,933	269,760,847
Accrued interest receivable		6,923,002	8,237,972
Development projects (note 7)		149,350,078	291,368,497
Other real estate owned		6,130,441	7,961,145
Due from Alaska Seafood International		41,223,633	9,901,398
Other investments		2,550,996	550,996
Other assets		13,068,071	12,200,626
Restricted assets:			
Cash and cash equivalents (note 4)		25,851,104	202,121
Investment securities (note 4)		21,838,450	43,025,517
Net investment in direct financing leases – Snettisham (note 7)		87,710,567	—
	$	1,266,757,501	1,303,864,189

Liabilities and Equity

		1999	1998
Liabilities:			
Bonds payable (note 8)	$	299,160,000	312,940,000
Accrued interest payable		4,346,282	4,536,720
Accounts payable		7,856,935	10,504,684
Liabilities payable from restricted assets – Snettisham (note 8):			
Bonds payable		100,000,000	—
Other		8,817,040	—
Total liabilities		420,180,257	327,981,404
Equity:			
Contributed capital		294,338,105	445,006,889
Retained earnings		552,239,139	530,875,896
Total equity		846,577,244	975,882,785
Commitments, contingencies and subsequent events (notes 5, 9 and 10)			
	$	1,266,757,501	1,303,864,189

See accompanying notes to financial statements.

		1999	1998
Revenues:			
Interest income:			
Loans (note 5)	$	20,512,161	22,551,358
Investments		23,692,516	24,069,710
Direct financing leases		15,725,996	13,504,337
Restricted direct financing lease (note 7)		4,617,938	—
Total interest income		64,548,611	60,125,405
Other project income		2,684,289	2,178,661
Other income		2,630,666	1,114,004
Net appreciation (depreciation) of investment securities		(4,797,610)	11,846,749
Total revenues		65,065,956	75,264,819
Expenses:			
Interest		16,447,586	14,058,752
Interest on liabilities payable from restricted assets (note 8)		4,617,938	—
General and administrative		5,093,103	4,107,589
Depreciation		1,225,725	1,207,052
Write-downs and net expenses associated with other real estate owned		588,775	1,967,727
Provision for loan losses (note 6)		—	1,550,000
Total expenses		27,973,127	22,891,120
Net income	$	37,092,829	52,373,699

See accompanying notes to financial statements.

Statements of Changes in Equity

Years ended June 30, 1999 and 1998

		Contributed capital	Retained earnings	Total equity
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 (note 2)		—	(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
Net income		—	37,092,829	37,092,829
Write-down of Healy contributed capital (note 7)		(150,398,370)	—	(150,398,370)
Dividend		—	(16,000,000)	(16,000,000)
Depreciation of contributed assets		(270,414)	270,414	—
Balance at June 30, 1999	$	294,338,105	552,239,139	846,577,244

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended June 30, 1999 and 1998

Cash Flows

		1999	1998
Cash flows from operating activities:			
Net income	$	37,092,829	52,373,699
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation		1,225,725	1,207,052
Net depreciation (appreciation) of investment securities		4,797,610	(11,846,749)
Provision for loan losses		—	1,550,000
Write-downs and net loss on sale of other real estate owned		278,738	1,151,800
Amortization of unearned income on direct financing leases		(15,725,996)	(13,504,337)
Decrease (increase) in accrued interest receivable and other assets		6,207,413	(1,929,048)
Increase in accrued interest and accounts payable		7,386,137	389,940
Net cash provided by operating activities		41,262,456	29,392,357
Cash flows from capital and related financing activities:			
Investment in direct financing leases		(105,881,634)	(48,585,471)
Direct financing lease receipts		22,682,977	12,454,723
Contributions to capital		—	10,840,972
Issuance of bonds		100,000,000	85,000,000
Payments on bonds		(7,405,000)	(90,420,000)
Net cash provided (used) by capital and related financing activities		9,396,343	(30,709,776)
Cash flows from noncapital and related financing activities:			
Dividend paid to the State of Alaska		(16,000,000)	(16,000,000)
Payments on bonds		(6,375,000)	(4,285,000)
Net cash used by noncapital and related financing activities		(22,375,000)	(20,285,000)
Cash flows from investing activities:			
Increase in due from Alaska Seafood International		(31,322,235)	(9,901,398)
Proceeds from maturities of securities		335,398,261	379,301,000
Proceeds from sales of securities		65,143,808	100,390,394
Purchases of investment securities		(360,158,755)	(431,934,512)
Principal collected on loans		35,101,266	43,845,099
Loans originated		(20,714,500)	(40,129,326)
Investment in development projects		(16,820,960)	(30,919,214)
Net proceeds from sales of other real estate owned		1,600,078	2,997,840
Other investments		(2,000,000)	3,310,042
Net cash provided by investing activities		6,226,963	16,959,925
Net increase (decrease) in cash and cash equivalents		34,510,762	(4,642,494)
Cash and cash equivalents at beginning of year		21,092,556	25,735,050
Cash and cash equivalents at end of year	$	55,603,318	21,092,556

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 Community and Economic Development (formerly 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. Pursuant to legislation effective July 1, 1999, certain programs previously administered by the former Department of Community and Regional Affairs, Division of Energy, were transferred to AEA for administration. 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.

(a) Enterprise Development Account

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

- 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.

- 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.

(b) 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:

- 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, the largest zinc deposit in the world, located in the DeLong Mountains in northwestern Alaska. A port expansion commenced in 1997 and is substantially complete. The final portion of expansion will be complete by May 2000. 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.

- 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.

- 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.

- 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.

- 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.

• 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 corporate guarantees by project participants.

• 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.

• Snettisham Hydroelectric Project (Snettisham). 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, and to provide funds for the purchase and installation of a submarine cable system. The Authority has 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. Installation of the submarine cable system has been completed.

• Alaska Seafood International. The Authority has loaned money for the construction of the Alaska Seafood Center (ASC), which will perform secondary processing for various types of fish. A $2,000,000 equity interest was purchased in November, 1998. The project was completed in September, 1999 and the Authority purchased the facility for $48 million.

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

• The Authority has $55,000,000 of remaining authorization (from an original $85,000,000 authorization) to issue bonds to finance the acquisition, design and construction of aircraft maintenance/air cargo/air transport support facilities located at Anchorage International Airport.

• The Authority has bonding authorization of $50,000,000 for a bulk commodity loading and shipping terminal to be located within 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 Authority purchased the ASC in September, 1999 and no issuance of bonds is anticipated.

• 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 projects.

• 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.

• 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.

• 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.

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

(c) 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, 1999, the Authority had issued revenue bonds for 296 projects (not including bonds issued to refund other bonds). The principal amount payable for the series issued after July 1, 1995 was $109,355,000. 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).

(d) 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 Community 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, 1999 follows:

	Unaudited (in thousands)
Assets:	
Cash	$ 1,196
Interest receivable	57
Loans receivable, net	2,382
	$ 3,635
Fund equity:	
Other liabilities	2
Unrestricted contributed capital	2,917
Retained earnings:	
Reserved	25
Unreserved - undesignated	691
	$ 3,635

(e) 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

(a) 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, whether unrestricted or restricted as to their use.

(b) 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.

(c) 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 ninety days past due or when the loan terms are restructured. Future collections of interest on these loans are recorded as interest income when received.

(d) 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.

(e) 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.

(f) 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.

(g) 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, 1999.

(h) 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.

Notes

(i) 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.

(j) 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.

(k) Furniture and Equipment
Purchases of furniture and equipment are expensed as such items are the property of the State.

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

(m) Reclassifications
Certain reclassifications have been made to the 1998 financial statements to conform to the 1999 presentation.

Note 3 Additional Information Regarding Cash Flows and Noncash Activities
Additional information regarding cash flows and noncash activities for the years ended June 30, 1999 and 1998 follows:

	1999	1998
Cash and cash equivalents consist of the following:		
Unrestricted	$ 29,752,214	20,890,435
Restricted	25,851,104	202,121
Total cash and cash equivalents	$ 55,603,318	21,092,556

	1999	1998
Cash flows:		
Interest collected on loans and investments	$ 45,519,647	49,395,617
Interest paid	18,129,882	18,500,016
Noncash activity:		
Other real estate owned acquired through foreclosure	$ –	4,629,392
Sales of real estate owned	1,600,078	2,997,480
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:

		1999	1998
U.S. Treasury securities maturity:			
Within one year	$	81,431,181	133,598,263
After one but within five years		50,066,456	88,793,326
After five but within ten years		2,120,630	11,578,017
After ten but within twenty-five years		20,482,243	18,852,314
		154,100,510	252,821,920
U.S. Government agencies maturity:			
Within one year		92,387,938	61,110,982
After one but within five years		44,937,044	28,649,614
After five but within ten years		44,660,435	44,993,496
After ten but within twenty-five years		11,085,409	3,996,500
		193,070,826	138,750,592
Corporate securities maturity:			
After one but within five years		8,057,077	12,972,869
After five but within ten years		33,727,314	28,701,490
After ten but within twenty-five years		11,400,990	12,290,770
		53,185,381	53,965,129
	$	400,356,717	445,537,641

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		1999	1998
Capital Reserve Funds	Secure debt service payments - bonds	$	3,821,413	3,943,649
Debt Service and Loan Prepayment Accounts	Funds held for future debt service - bonds		1,382,100	632,674
Business Assistance Program	Guarantee business loan		–	61,206
Healy Project Replacement and Contingency Fund	Bond repayment and certain project costs		3,926,644	3,693,671
Red Dog Project Sustaining Capital Fund	Project costs		12,925,297	12,833,093
Unexpended bond proceeds	Construction costs		4,527,627	22,063,345
Snettisham Hydroelectric Project Funds	Various costs relating to the project		21,106,473	–
		$	47,689,554	43,227,638

Note 5 Loans

The Authority participates with regulated financial institutions in 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:

	1999			1998		
Loan program type	Number		Amount	Number		Amount
Appropriated	545	$	18,861,596	649	$	25,833,564
Loan participation:						
Bonds outstanding	57		22,741,923	72		30,773,112
Bonds retired	72		30,868,489	88		36,662,885
Internally funded	118		143,032,544	105		132,046,209
OREO sale financing	49		18,362,438	60		23,217,869
Other	38		1,220,961	51		1,581,147
	879	$	235,087,951	1,025	$	250,114,786

The aging of loans at June 30 follows:

	1999		1998		
	Percent	Amount	Percent		Amount
Current	97.31%	228,754,597	98.33%	$	245,946,559
Past due:					
31-60 days	.96	2,263,340	1.11		2,779,195
61-90 days	.25	584,169	0.05		120,744
Over 90 days	1.48	3,485,845	0.51		1,268,288
	100.00%	235,087,951	100.00%	$	250,114,786

Loans which are more than 90 days past due on which the accrual of interest has been discontinued amounted to $3,485,845 and $1,268,288 at June 30, 1999 and 1998, respectively. Gross interest income which would have been received on these loans amounted to $338,913 and $114,783 for the years ended June 30, 1999 and 1998, respectively. The amount of interest income collected and included in net income was $114,325 and $79,090 for the years ended June 30, 1999 and 1998, respectively.

Loans on which the terms have been restructured amounted to $9,113,874 and $15,103,964 at June 30, 1999 and 1998, respectively. Gross interest income which would have been received on these loans amounted to $877,698 and $1,260,810 for the years ended June 30, 1999 and 1998, respectively. The amount of interest income collected and included in net income was $790,138 and $1,150,696 for the years ended June 30, 1999 and 1998, respectively.

Note 6 Allowance for Loan Losses

An analysis of changes in the allowance for loan losses for the years ended June 30, 1999 and 1998 follows:

		1999	1998
Balance at beginning of year	$	12,862,275	15,557,029
Provision for loan losses		–	1,550,000
Recoveries of loans charged off		28,091	32,114
Loans charged off		(668,160)	(4,276,868)
	$	12,222,206	12,862,275

Note 7 Net Investment in Direct Financing Leases and Development Projects

(a) 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 $780,000.

•The Authority leases the Federal Express Project under an agreement which is recorded as a direct financing lease, expiring twenty 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 return the cost of the expansion from the in-service date of January 1999 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:

		1999	1998
Minimum lease payments receivable	$	747,991,456	763,534,121
Less unearned income		(467,016,523)	(493,773,274)
Net investment in direct financing leases	$	280,974,933	269,760,847

At June 30, 1999, future minimum lease payments receivable for each of the five succeeding fiscal years are:

Year ending June 30:		Amount
2000	$	16,122,000
2001		20,701,000
2002		20,693,000
2003		20,687,000
2004		20,684,000

(b) 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. 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.

• 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 Healy project is currently undergoing the performance tests anticipated by the power sales agreement that will demonstrate whether the project is commercially operable. It is anticipated that the performance testing will be completed by late 1999 (note 10).

In accordance with SFAS No. 121, the Authority wrote-down its investment in the Healy Project by $150,398,370 during the year ended June 30, 1999. The write-down represents contributions to the project which were made by contractors and federal and state governments. Therefore, contributed capital was also reduced by this amount.

• 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 a minimum $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.

(c) Restricted Direct Financing Lease

• During 1999, the Authority purchased the Snettisham Hydroelectric Project from the federal government. Under the terms of various agreements, the project is operated by and all power from the project is sold to Alaska Electric Light and Power (AEL&P). The project provides the majority of the Juneau-Douglas area electrical energy.

Note 8 Bonds Payable

The composition of bonds outstanding at June 30, 1999 and 1998 follows (interest rate and maturity date information is as of June 30, 1999):

	1999	1998
Revolving Fund Bonds:		
Series 1990A - 7.8% to 7.95%, issued December 13, 1990, maturing through 2010	$ 16,555,000	17,575,000
Series 1991A - 6.9% to 7.3%, issued December 10, 1991, maturing through 2006	4,035,000	4,480,000
Series 1992A - 5.9% to 6.5%, issued September 30, 1992, maturing through 2014	23,725,000	24,670,000
Series 1995A - 5.55% to 6.0%, issued May 17, 1995, maturing through 2005	4,080,000	6,815,000
Series 1997A - 5% to 6.125%, issued March 27, 1997, maturing through 2027	143,445,000	146,850,000
Refunding Revolving Fund Bonds:		
Series 1993A - 5.25% to 6.2%, issued June 3, 1993, maturing through 2010	10,245,000	11,810,000
Series 1994A - 5.3% to 5.9%, issued March 30, 1994, maturing through 2006	6,545,000	7,845,000
Series 1995B - 5.4% to 5.85%, issued May 17, 1995, maturing through 2005	7,120,000	7,895,000
Series 1998A - 4.5% to 5.25%, issued May 14, 1998, maturing through 2023	83,410,000	85,000,00
	$ 299,160,000	312,940,000

At June 30, 1999, all 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 all Revolving Fund Bonds for the five years subsequent to June 30, 1999 and thereafter are as follows:

Year ending June 30:	Principal	Interest	Total
2000	$ 10,875,000	17,385,130	28,260,130
2001	11,605,000	16,791,905	28,396,905
2002	12,290,000	16,151,630	28,441,630
2003	13,400,000	15,448,438	28,848,438
2004	14,350,000	14,675,795	29,025,795
2005-2009	66,895,000	60,718,771	127,613,771
2010-2014	63,250,000	41,547,965	104,797,965
2015-2019	53,300,000	23,553,266	76,853,266
2020-2024	39,620,000	10,499,300	50,119,300
2025-2027	13,575,000	1,695,706	15,270,706
	$ 299,160,000	218,467,906	517,627,906

Bond resolution covenants effective June 30, 1999 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, 1999, the Authority has estimated that projected future coverage for each future year exceeds 150%, giving effect only to existing projects at that date, including the projected effect of completion of the Healy Project and completion of the expansion of the Red Dog Project, and excluding the effect of other proposed projects and future construction expenditures. At June 30, 1999, unrestricted surplus was approximately $790,000,000. 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, 1999, 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.

The Authority issued $100,000,000 of power revenue bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.5% to 6.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. Certain of the bonds are insured by Ambac Assurance Corporation. The minimum payments related to the power revenue bonds for the five years subsequent to June 30, 1999 and thereafter are as follows:

	Principal	Interest	Total
2000	$ 1,045,000	5,311,366	6,356,366
2001	1,095,000	5,264,341	6,359,341
2002	1,145,000	5,215,066	6,360,066
2003	1,195,000	5,160,679	6,355,679
2004	1,255,000	5,103,916	6,358,916
2005-2009	7,345,000	24,448,444	31,793,444
2010-2014	9,535,000	22,252,139	31,787,139
2015-2019	12,655,000	19,132,491	31,787,491
2020-2024	16,440,000	15,352,841	31,792,841
2025-2027	21,045,000	10,736,513	31,781,513
2030-2034	27,245,000	4,546,444	31,791,444
	$ 100,000,000	122,524,240	222,524,240

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 1999 was 8.50%.

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

Contribution rates:		
Employee		6.75%
Employer		8.50%
Annual pension cost	$	239,900
Contributions made	$	239,900
Actuarial valuation date		June 30, 1996
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		8.25%
Projected salary increase		
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

(a) Commitments

At June 30, 1999, the Authority held approximately $116,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately $111,283,000 of investments in trust for the construction of two intertie projects. The Authority held approximately $7,001,000 of investments in trust for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

(b) Environmental Issues

The Authority has identified certain properties and pledged collateral which may contain contaminated soils. The Authority's policy is to record a liability when the likelihood of responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 1999, 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.

(c) Healy Clean Coal Project

Golden Valley Electric Association (GVEA) filed a litigation action and a regulatory action to dispute interpretations of the power sales agreement and to challenge whether GVEA will be required to make the payments specified in the power sales agreement. Trial in the litigation action is scheduled to commence in March 2000. Proceedings in the regulatory action have been stayed pending conclusion of the litigation to determine whether any disputes remain. Management believes that a materially unfavorable outcome is unlikely.

(d) 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, 1999, the Authority had extended loan commitments for loans of $18,765,000 and loan guarantees of $2,800,894. 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.

Required Supplementary Information

The Authority has a full understanding of the risks associated with the "Year 2000 (Y2K) Computer Problem" and is committed to achieving Y2K compliance both internally and on all projects. As of June 30, 1999, the Authority has internal and external staff dedicated to the Y2K problem. All components, computers, software, electrical equipment, and service critical systems have been inventoried and assessed for Y2K compliance. Based on that assessment, testing of components and systems has been or is being conducted where appropriate. To further mitigate risk, appropriate repairs, upgrades, and replacements of at risk software, hardware, firmware, products, facilities, or equipment have been or are being made and contingency plans for all critical systems have been or are being prepared.

The Authority is also addressing potential problems with third party organizations. Appropriate suppliers, manufacturers, contractors, and project operators are being required to provide Y2K compliance certification on their internal systems, any Authority owned equipment, facilities and projects they operate on the Authority's behalf, and on any services, software, hardware, firmware, products, facilities, or equipment they may provide to the Authority. In cases where they cannot provide compliance certification, the Authority will work closely with them to share information and to address any potential problems.

Based on efforts completed to date, no significant disruptions are anticipated due to the Year 2000 computer problem.
The Authority relies on many third parties for services and operations of projects throughout the State and cannot guarantee that their services and operations will be unaffected by the Year 2000 Computer Problem. The Authority is not planning to "take over" responsibility for or supercede any efforts of suppliers, manufacturers, service providers, project operators, or other entities to achieve Y2K compliance.

This publication on the activities and financial condition of the Alaska Industrial Development and Export Authority is submitted in accordance with AS 44.88.210. This report was printed at a cost of $5.26 per copy and was printed on recycled paper in Anchorage, Alaska. Design and production by Northwest Strategies. Printing by Northern Printing.

Photography: Chris Arend Photography, Mark Kelley, Ken Graham, Doug Vaught/Ken Graham Agency, courtesy Alaska Seafood International.

Alaska Industrial Development
and Export Authority

480 West Tudor Road
Anchorage, AK 99503
Tel. (907) 269-3000 • Fax (907) 269-3044
www.aidea.org