AIDEA

Alaska Industrial Development and Export Authority

2000

annual report

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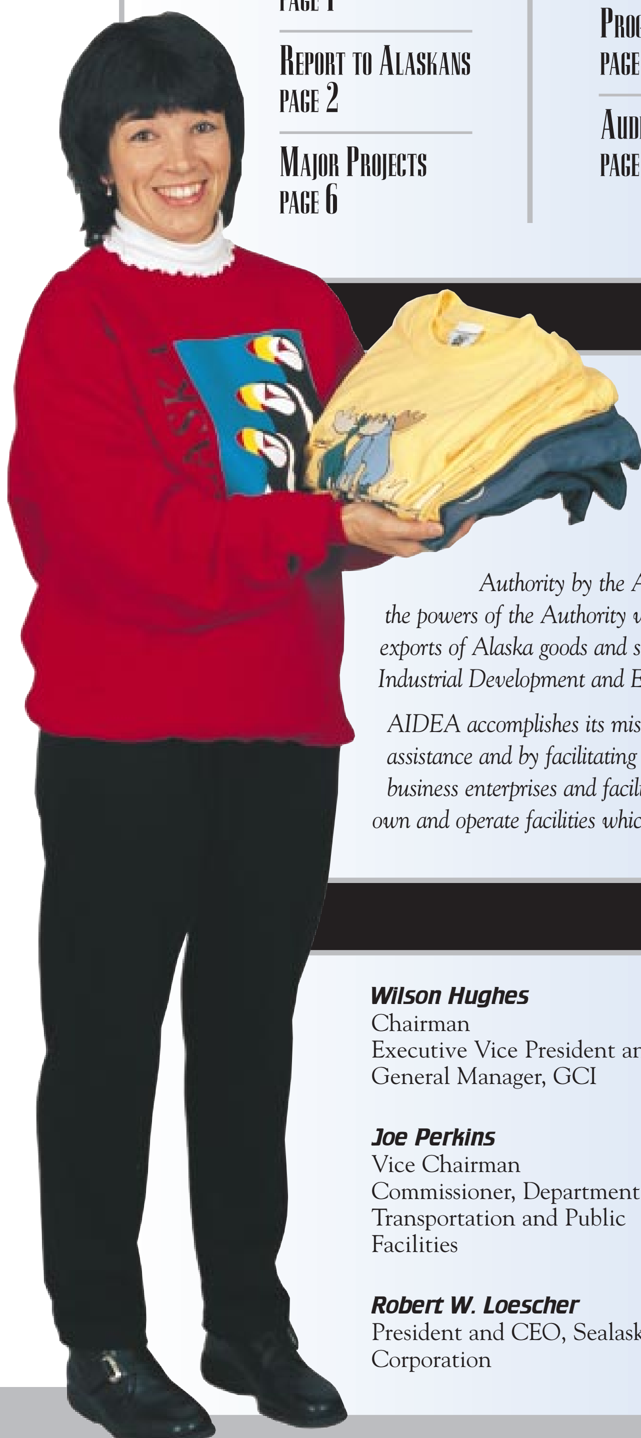


AIDEA's mission

"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.

Board of Directors

Wilson Hughes
Chairman
Executive Vice President and General Manager, GCI

Joe Perkins
Vice Chairman
Commissioner, Department of Transportation and Public Facilities

Robert W. Loescher
President and CEO, Sealaska Corporation

Larry Persily
Deputy Commissioner, Department of Revenue
(Delegate of Wilson L. Condon, Commissioner of Revenue)

Deborah B. Sedwick
Commissioner, Department of Community and Economic Development

LETTER FROM THE Governor

What has been an elusive dream for a generation of Alaskans and Alaska's public officials – a broadly diversified Alaska economy – is finally a reality. Alaska's growing economy is now more diversified than ever, with private sector jobs constituting an all-time high of three-quarters of our employment.

This diversification, one of Alaska's great business stories of the late 1990s, is attributable in part to the foresight in the establishment and subsequent strengthening of the Alaska Industrial Development and Export Authority.

Since 1967, AIDEA has been fostering jobs for Alaskans and economic development in a wide range of industries and locales across the state. As we Alaskans learn to live with declining oil revenues, we must make the most of the tools at hand to broaden and deepen our economic base. State government cannot create jobs and an economy out of whole cloth. The proper role for the state is as a partner with the private sector, to help create the free market environment that allows entrepreneurs to take risks and grow new businesses. And nowhere is that partnership more productive than at AIDEA.

The Authority is a model of effective partnering between the state and private sector. Managed along strong business principles, AIDEA is a proven force for promoting and realizing sustainable economic development. Fortunately, we have resisted various efforts to merge it with other agencies or dilute its economic strength.

AIDEA's mission is to create jobs and promote the economy. Every year, it is living up to that mission and more. Over the last decade, the Authority's projects and programs have resulted in more than 3,500 jobs. From small mom-and-pop businesses in communities around Alaska, to big-ticket projects such as the DeLong Mountain Transportation System that supports the Red Dog Mine, AIDEA is fueling a stable, sustainable, diversified economy. And it is doing so without tapping the state treasury.

Over and above its financing programs, this self-supporting state authority actually contributes a dividend to the state's general fund every year. Since 1996, AIDEA has returned $91.5 million of its earnings back to the state, a financial return on the state's investment that helps support programs and services throughout Alaska.

Simply put, AIDEA is one of the most effective tools we have. Like a fine hand-crafted tool of earlier eras, it proves its value even more with every passing year.

Tony A. Knowles
Governor

REPORT TO Alaskans

Life in Alaska seems never to lack in excitement and fiscal year 2000 proved to be no exception. The year was marked by new developments in several of AIDEA's large projects, internal changes and important legislative action. The latter, especially, reflects public confidence in AIDEA's role and ability as a lead economic driver.

Even as public officials and Alaskan residents struggle to come to terms with declining oil production, we see growing public understanding about the value of AIDEA as a key player in developing viable projects that contribute to a more stable, diversified economy. From small localized enterprises to mining, tourism and airport operations, AIDEA is fueling Alaska's long-term growth.

Since 1985, when the legislature expanded its powers, AIDEA has been a player, sometimes high profile, other times behind the scenes – but always promoting and investing in Alaska's future. This business entails some risk; if it didn't, there would be no need for a state-owned development authority. An important facet of our job is to make sure those risks are calculated and balanced.

While the closing chapter has yet to be written, this year marked a turning point for the Healy Clean Coal Project, a demonstration project with tremendous promise for clean coal technology. In March, AIDEA transferred oversight of the project to Golden Valley Electric Association (GVEA) under a settlement agreement that ended two years of litigation between AIDEA and GVEA. GVEA and AIDEA agreed to a course of action that provides full pay back of AIDEA's investment in the HCCP and protects the interests of Interior ratepayers. GVEA has begun a study to determine whether to use the clean coal technology or seek a partial or full retrofit to conventional technology.

All goals of the project were accomplished and the technologies were demonstrated successfully. However, economic and other site-specific considerations may render it not the most effective way to operate the plant commercially over the long-term.

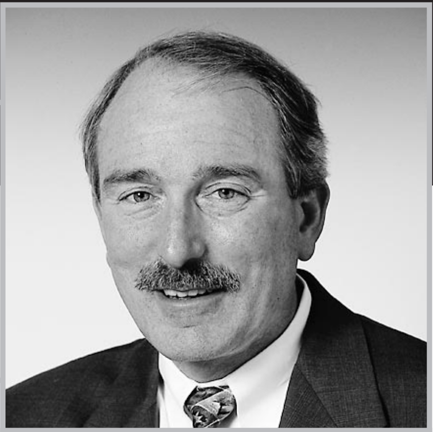
One of our most formidable challenges of the year was a reorganization of Alaska Seafood International (ASI). Not long after start-up early in 2000, the primary investor asked to pull out in the wake of an unexpected political shift in Taiwan, where the investor is based. AIDEA negotiated a reorganization and restructuring; if all parties agree as expected, ASI production should resume in the first quarter of 2001.

Alaska has lost nearly 50 percent market share in the salmon industry over the last decade. ASI can play a major role in Alaska's efforts to recapture market share in the salmon industry by expanding on one of our great natural resources with value-added emphasis.

AIDEA's credit programs continue to promote economic development and generate jobs in myriad enterprises and industries throughout Alaska. From retail sales to social services, from truss and wall panel manufacturing to a health clinic, from hotel improvements to a health and fitness club, AIDEA is there, providing Alaskans with business financing and strengthening the Alaska economy.

Through large projects and small, that has been the story of AIDEA in its 33-year history. In that time, thousands of jobs have been created or retained as a result of AIDEA projects and programs.

Additionally, thanks to the efforts of AIDEA's credit staff, the delinquency rate on loan participations dropped to 0.71 percent soon after we entered fiscal year 2001. That's a lower delinquency rate than most banks average. By way of perspective, during the



1 ***Wilson Hughes, Chairman***

2 ***Bob Poe, Executive Director***

fiscal year ending June 30, 1999, the delinquency rate never dropped below 1.47 percent. The efforts of the credit team help maintain the professional and business-like credibility of AIDEA with the rating agencies and other outside professionals.

This year has been particularly eventful internally at AIDEA. The rural energy staff of the former Division of Energy have been integrated under the AIDEA umbrella to oversee the rural energy programs of AEA. Preparations are under way to move into a new building, able to accommodate the larger staff. And we welcomed a new executive director to succeed D. Randy Simmons, who returned to the private sector after four years as a superb leader at AIDEA. The Board hired Bob Poe from his position as State Commissioner of Administration. Having previously spent a year at the Authority as Business Development Manager, he comes to AIDEA with a firm understanding of its mission and programs.

In a move that reflected public officials' confidence in AIDEA, the Alaska Legislature extended AIDEA's bonding authority through 2003. The extension specifically allows AIDEA to directly issue bonds for projects under $10 million. Projects of more than $10 million still require legislative authorization. The sunset provision of the extension gives the legislature oversight of AIDEA's activities while leaving the day-to-day work to the professional judgement of management and staff. In addition, the legislation eliminated the sunset date for conduit revenue bonds that do not involve the credit of AIDEA or the state.

The same legislation gave AIDEA more tools to provide business financing in rural Alaska, by moving the Rural Development Initiative Fund (RDIF) to AIDEA. The RDIF program provides loans to small businesses in communities with populations of less than 5,000. AIDEA has supported the program since its inception and re-capitalized it in 1993 and 1996 by purchasing loan portfolios from the state.

No report for the Authority is complete without an update on the dividends AIDEA contributes to the state's general fund. Since 1996, when AIDEA began returning an annual dividend to the state, the Authority has contributed $91.5 million to the general fund.

These dividends have two overarching benefits: they provide the State of Alaska and its citizens with funds to support much-needed programs, services and projects. In so doing, these dividends ensure that a broad spectrum of Alaskans benefits from the success of AIDEA and the projects it finances. Second, the annual dividend provides a measure of certainty and predictability, engendering bond market confidence in AIDEA's standing and its future.

As we approach the true beginning of the Millennium, AIDEA looks forward to strong and sustained relationships – both within and outside Alaska – that will continue to foster a diverse and healthy economy for our state.

Sincerely,

Wilson Hughes, Chairman
AIDEA Board of Directors

Bob Poe
Executive Director

MAJOR Projects

DeLong Mountain Transportation System

Since 1985, AIDEA has been financing, owning and operating projects that bring economic benefit to Alaska. The first of these projects was the DeLong Mountain Transportation System (DMTS), a port and road system that supports the mining district that includes the Red Dog Mine in Northwest Alaska. Red Dog, the world's largest lead and zinc mine, is operated by Cominco Alaska in cooperation with resource owner NANA Regional Corporation. The Red Dog Mine and DMTS provide approximately 485 permanent full-time jobs in the Northwest Arctic Borough. Over 60% of the employees are NANA shareholders.

In July 2000, final steps were completed in a major expansion begun in 1996. Even with that expansion, the port is operating at capacity. In the last five years, annual production at Red Dog has increased 100 percent to 1 million tonnes per year of zinc concentrates.

In 2000, work proceeded on a feasibility analysis of a proposed expansion of the port, called the DeLong Mountain Terminal (DMT), to meet increasing production at the mine. The proposed project is a deep water port to allow direct loading and unloading of deep draft ocean-going vessels. The expansion would bring a multitude of benefits. A deep water port will streamline the loading process by eliminating the need for lightering, cut loading time, extend the shipping season into November, and reduce weather-related down time. It will also extend most seasonal jobs at the port and lower the cost of shipping concentrates. In addition, a deep water port will expand the multi-use opportunities at the port for regional uses and other resource development, such as coal and copper.

The feasibility study is being conducted by the U.S. Army Corps of Engineers (Corps) to determine whether there is federal interest in a deep water port. If the project qualifies for federal involvement, the Corps may provide partial funding for construction and maintenance of the DMT and dredging of the shipping channel. The Corps' feasibility analysis is expected to take two years.

The potential benefits of the deep water port extend beyond the Red Dog Mine. An expanded DeLong Mountain Terminal would make fuel delivery more accessible, and therefore less expensive, to communities in both the Northwest Arctic Borough and the North Slope Borough.

Healy Clean Coal Project

In March, AIDEA turned oversight of the Healy Clean Coal Project (HCCP) to Golden Valley Electric Association (GVEA) under a settlement agreement that concluded litigation between the two entities. Under the comprehensive settlement, GVEA and AIDEA agreed to a course of action that provides full pay back of AIDEA's investment in the HCCP and protects the interests of Interior ratepayers.

The settlement allows GVEA the opportunity to explore whether to retrofit the plant to conventional combustor technology. If GVEA does not retrofit the plant to conventional technology, the settlement stipulates terms under which GVEA would operate the demonstration technology.

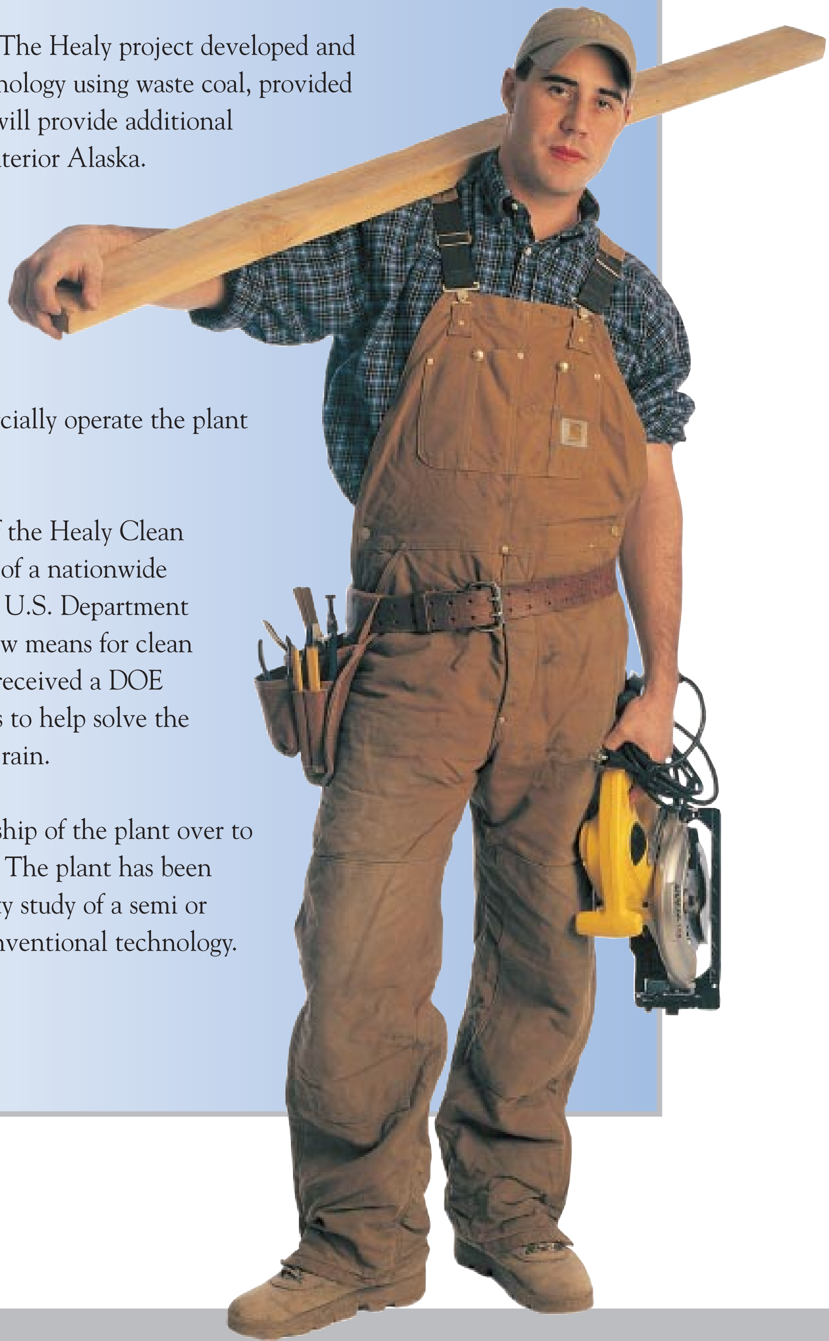
The multi-million dollar project had multiple goals: to test clean-coal technology with combustion and air emissions

1 *AIDEA's programs assist Alaskans and their business ventures all over the state. The Cantwell Food Mart, for example, supports four full-time jobs in the winter and seven in the summer.*

2 *Alaska Wildberry Products could be a poster child for small business success. The candy company took advantage of AIDEA credit financing to build a strong and growing clientele in and outside Alaska.*

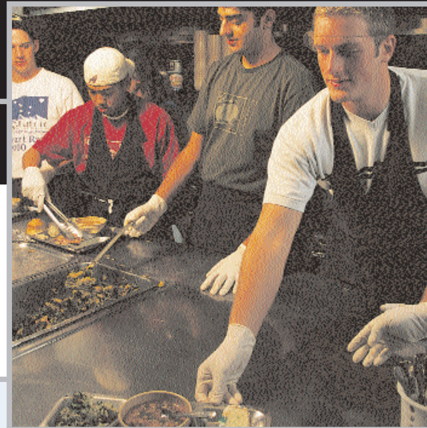
equipment; develop technology to burn waste coal that otherwise would not be used to produce energy; provide a reliable power source in Interior Alaska; provide full payback of AIDEA's investment; and create jobs and economic development in Alaska.

All goals were accomplished. The Healy project developed and demonstrated clean coal technology using waste coal, provided economic development, and will provide additional power to meet the needs of Interior Alaska. Demonstration of the technologies was successful, but because of site specific and other economic considerations, the technologies may not be the most effective way to commercially operate the plant on a long-term basis.



One of the main objectives of the Healy Clean Coal Project, which grew out of a nationwide competition sponsored by the U.S. Department of Energy, was to provide a new means for clean coal technology. The HCCP received a DOE grant to test new technologies to help solve the international problem of acid rain.

AIDEA has turned custodianship of the plant over to GVEA, as originally planned. The plant has been shut down pending a feasibility study of a semi or full retrofit of the plant to conventional technology.



Alaska Seafood International

An unexpected political shift in Taiwan in Spring of 2000 ultimately resulted in a reorganization and refinancing of this important and promising project. The reorganization restructures approximately $25 million in project debt and provides new operating capital, creates a new Alaska Seafood International (ASI) board of directors and gives both AIDEA and Bank SinoPac 22.5 percent equity ownership in the venture.

AIDEA will convert $4 million in future lease payments into equity in ASI and delay payment of approximately $5.6 million in additional rent due over the next two years. Bank SinoPac will convert $8 million of its outstanding loan to ASI into equity and lend ASI another $8 million in operating funds.

ASI is expected to resume production in the first quarter of 2001. ASI uses Alaska-caught seafood to provide private-label, ready-to-eat seafood meals, deliverable to markets in the U.S., Asia and Europe within eight hours. AIDEA became involved in the $125 million project in 1993, when the legislature authorized a $50 million investment to help finance the project through AIDEA's Development Finance Program.

The economic potential of the project is considerable. At capacity, ASI plans to employ 450 people in full-time, year-round manufacturing jobs. The plant will be capable of producing up to 125 million pounds of "heat and serve" manufactured meals a year. ASI will indirectly promote additional employment in rural fishing communities to meet ASI's demand for seafood. Transportation demands – to bring fish to the manufacturing plant and quickly distribute the finished product – are expected to generate many more jobs in rail, truck, barge, air and infrastructure support services.

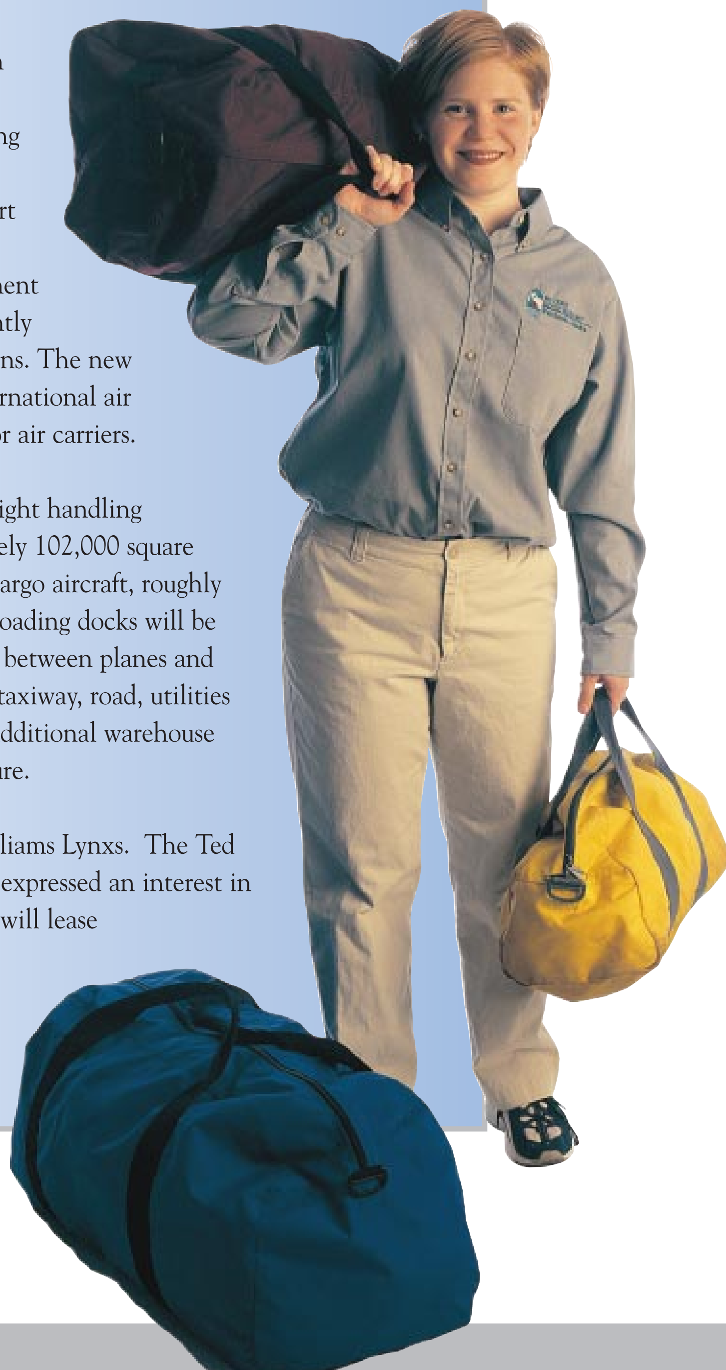
1 *Volunteers from a local high school serve meals at the nonprofit Bean's Café. For-profit businesses aren't the only beneficiaries of AIDEA financing. Bean's Café bought a warehouse with long-term financing from AIDEA and First National Bank of Anchorage.*

2 *Business is booming at Galligaskins, a high-end clothing and gift shop in downtown Juneau. The shop was renovated and expanded with financing from AIDEA and First Bank.*

By adding value to the fish that Alaska sells, ASI can be a significant boost to Alaska's efforts to recoup its market share in the salmon industry.

Alaska Cargoport

This year AIDEA has been in discussions with Williams Lynxs and Ted Stevens Anchorage International Airport about providing financing for a new air cargo transfer facility at the airport. The first phase of the Alaska Cargoport was completed in the fall of 2000. The Alaska Cargoport will provide as many as 200 permanent high-paying jobs. The skilled workforce presently available in Alaska will fill most of the positions. The new facility will strengthen Alaska's role as an international air cargo crossroads by improving basic services for air carriers.



The Alaska Cargoport will consist of three freight handling buildings with a combined area of approximately 102,000 square feet. Parking positions for four wide-body air cargo aircraft, roughly one million square feet of ramp and 52 truck-loading docks will be built. The facility will permit transfer of cargo between planes and refueling services. The project also includes a taxiway, road, utilities and landscaping. The site will accommodate additional warehouse space and aircraft parking positions in the future.

The cargoport is on airport land leased by Williams Lynxs. The Ted Stevens Anchorage International Airport has expressed an interest in taking the owner's position in the facility and will lease the facility to Williams Lynxs, with AIDEA providing the financing through the issuance of tax-exempt conduit revenue bonds.

Ketchikan Shipyard

During the 1980s, the state spent approximately $38 million to acquire a site and construct the Ketchikan Shipyard. Under an agreement with the state, the City of Ketchikan sub-leased operation and management of the shipyard to private contractors. Unfortunately, the operators experienced operational and financial difficulties.

In 1997, the Department of Transportation and Public Facilities (DOT&PF) transferred title of the Ketchikan Shipyard to AIDEA in hopes that the Authority could help the facility operator make it a viable entity. At the time, the facility provided approximately 25 jobs in Ketchikan. Today, Alaska Ship and Drydock (ASD), the facility operator, provides approximately 100 direct jobs and generates up to 150 indirect jobs in Ketchikan.

ASD's list of satisfied customers is growing and includes the federal government (NOAA and the Coast Guard), the Alaska Marine Highway System and many owners of fishing and pleasure boats. Upgrades are in progress to accommodate the shipyard's growing customer base and will include a fabrication shop addition, new employee facilities, new loading dock and a replacement building for hazardous materials storage. Construction is anticipated to begin in January 2001.

1 *Homesteaders Cache provides building materials, truss manufacturing, hardware – and jobs in the Matanuska-Susitna Valley. The company is one of many to take advantage of debt refinancing through AIDEA, with a loan originated by Northrim Bank.*

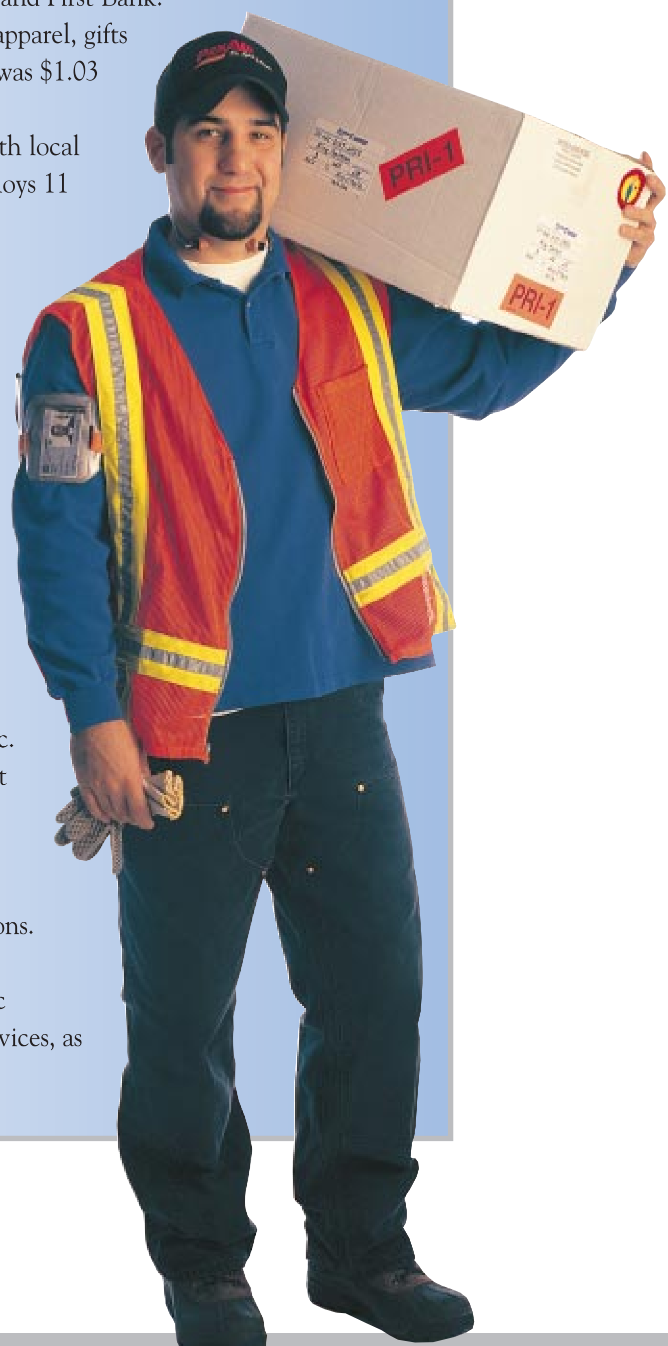
2 *Ketchikan Health Clinic is a classic example of partnerships that make good sense. AIDEA's loan participation with First Bank provided 74 percent of the financing to Ketchikan Indian Corporation for construction of the new clinic.*

CREDIT

Financing

Galligaskins

A clothing and gift store in downtown Juneau was renovated and expanded with financing from a loan participation with AIDEA and First Bank. Galligaskins specializes in moderate to high-end apparel, gifts and accessories. AIDEA's share of the financing was $1.03 million. Galligaskins' location and higher-end attractiveness have created a strong appeal for both local and tourism markets in Juneau. Galligaskins employs 11 year-round staff and 30 seasonal staff.



Ketchikan Health Clinic

A new clinic is providing a wide range of health and medical services to Alaska Natives and other Native Americans in Ketchikan, thanks in part to financing provided by AIDEA under its Loan Participation Program. The Ketchikan Health Clinic is operated by the Ketchikan Indian Corporation under a compact with the Indian Health Services of the United States.

AIDEA provided 74 percent of the financing (approximately $5 million), to build the new clinic. The loan was originated by First Bank. The project qualified for tax-exempt financing because Ketchikan Indian Corporation is a federally-recognized Indian tribe. The project generated 24 construction jobs and eight new permanent positions. The Ketchikan Health Clinic now employs 40 professional, technical and clerical staff. The clinic provides acute and chronic medical and dental services, as well as social and preventive services.

Builders Choice

AIDEA and Northrim Bank teamed up on a loan participation for Builders Choice, Inc., to purchase equipment for truss and wall panel manufacturing. The project resulted in 12 new jobs at Builders Choice, which is located in Anchorage. AIDEA's 80 percent share of the loan participation is $346,200. Builders Choice delivers direct to a job site a complete residential shell, pre-manufactured interior wall studs and the entire truss system required to assemble a house on a foundation.

Beans Café

A nonprofit corporation that serves meals to the indigent in Anchorage purchased a warehouse with long-term financing from AIDEA and First National Bank of Anchorage. Beans Café was established in 1979 to provide the homeless with nutritious meals and referrals to other social service agencies. Prior to purchasing the new property on Ship Avenue in the port area of downtown Anchorage, Beans Café leased other warehouse space. AIDEA's 80 percent share of the loan participation is $294,000. Beans Café revenues come from grants, contributions, fundraising and in-kind donations.

Alaska Club

The Alaska Club Partners LLC took advantage of AIDEA's Loan Participation Program to combine and refinance existing debt. The Alaska Club is the dominant health club network in Southcentral Alaska. NBA brought the loan to AIDEA, which is financing $7.2 million of the $9 million loan. Expansion of the corporation's club in south Anchorage led to the loan

1 *The Ketchikan Shipyard is thriving and growing, thanks in large part to AIDEA's efforts the last couple of years. AIDEA took over the shipyard in 1997; now upgrades are in progress to accommodate growing demand.*

2 *With air travel a way of life in Alaska, local airlines like PenAir are important contributors to Alaska's economy. PenAir utilized long-term financing through National Bank of Alaska and AIDEA to complete a new hangar and office building.*

participation request. Alaska Club South is being doubled in size with the addition of a pool, gym, lockers and another exercise area. The Alaska Club has 275 full and part-time employees.

Aero Twin

Aero Twin, Inc., an aircraft parts manufacturing firm and aircraft alternations station, received a $378,000 loan participation from AIDEA. The $472,500 loan, brought to AIDEA by Northrim Bank, provides long term financing for facility expansion and refinanced existing debt. The company is located at Merrill Field in Anchorage. It manufactures FAA approved aircraft parts, designs in-house aircraft maintenance and alternation projects, and conducts product research and development. The building expansion adds three new positions to Aero Twin's current staff of 22 employees.

A & W Wholesale Company, Inc.

A & W Wholesale Company, Inc. (A&W), a wholesale distribution company in Fairbanks that provides restaurant and janitorial supplies and equipment, received a $1.3 million loan participation from AIDEA. The $1.7 million loan was brought forward by Denali State Bank. The loan provides long term financing for real estate acquisition and warehouse construction. The company currently employs 10 individuals and serves a large trade area from north of the Alaska Range to Barrow.

Association of Village Council Presidents (AVCP)

A nonprofit corporation in Bethel bought a new building with help from AIDEA. AIDEA financed acquisition of land and a building by AVCP, a social services corporation that serves the Yukon Kuskokwim River Delta. AIDEA issued $915,658 of revenue bonds to pay for or reimburse AVCP for the cost of buying the Joe Lomack Building in Bethel. The Lomack Building will be AVCP's principal office.

The total cost of the building was $1,890,000. AVCP paid $1 million cash and financed the balance. AVCP, established in 1964, serves 56 federally recognized tribes on the Yukon Kuskokwim Delta.

The AIDEA bonds are payable solely from payments by the borrower. The bonds do not constitute indebtedness or other liability of the Authority.

1 ***A deep water port proposed for the DeLong Mountain Terminal would eliminate the need for lightering, cut loading time and extend the shipping season. The terminal, part of the AIDEA-owned DeLong Mountain Transportation System, serves the Red Dog Mine in Northwest Alaska.***

2 ***Building a better Alaska. Twelve new jobs were generated when Builders Choice expanded its operations in Anchorage. The company used an AIDEA loan participation to finance new equipment for truss and wall manufacturing.***

LOAN Programs

Development Finance Program

Through this program, AIDEA owns projects that bring economic benefits to the people of Alaska and support private sector investment in the state. Projects are leased to the private sector for operation.

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

Loan Participation Program

The Loan Participation Program provides 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 guarantee of up to 80 percent, not to exceed $1 million, on the principal of the loan. Guarantees issued for export transactions guarantee both commercial and political risk.

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

Rural Development Initiative Fund (RDIF)

The RDIF is a loan program designed to create job opportunities in rural Alaska by providing small companies with business capital. To be eligible for a loan, the business must be owned by Alaska residents and located in a community with a population of 5,000 or less. The RDIF is administered by the Department of Community and Economic Development, Division of Investments for AIDEA.

Conduit Revenue Bond Program

Conduit revenue bond financing is available for both 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 conduit for the transaction. Neither the assets nor credit of AIDEA are at risk under this program.

Independent 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, 2000 and 1999, 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 1, 2000

Balance Sheets

June 30, 2000 and 1999 (Stated in Thousands)

Assets

	2000	1999
Cash and cash equivalents (notes 3 and 4)	$ 27,444	29,752
Investment securities (note 4)	352,952	378,518
Loans (note 5)	237,738	235,088
Less allowance for loan losses (note 6)	12,273	12,222
Net loans	225,465	222,866
Net investment in direct financing leases (note 7)	328,771	280,975
Accrued interest receivable	6,634	6,923
Development projects (note 7)	160,241	149,350
Other real estate owned	5,442	6,130
Due from Alaska Seafood International	2,497	41,224
Other investments	1,801	2,551
Other assets	11,862	13,068
Restricted assets:		
Cash and cash equivalents (notes 3 and 4)	10,826	25,851
Investment securities (note 4)	21,754	21,838
Net investment in direct financing leases – Snettisham (note 7)	91,598	87,711
	$ 1,247,287	1,266,757

Liabilities and Equity

	2000	1999
Liabilities:		
Bonds payable (note 8)	$ 282,840	299,160
Accrued interest payable	4,106	4,346
Accounts payable	3,353	7,857
Liabilities payable from restricted assets – Snettisham (note 8):		
Bonds payable	92,160	100,000
Other	8,654	8,817
Total liabilities	391,113	420,180
Equity:		
Contributed capital	294,068	294,338
Retained earnings	562,106	552,239
Total equity	856,174	846,577
Commitments, contingencies and subsequent events (notes 5, 9 and 10)		
	$ 1,247,287	1,266,757

See accompanying notes to financial statements.

Statements of Income

Years ended June 30, 2000 and 1999 (Stated in Thousands)

	2000	1999
Revenues:		
Interest income:		
Loans (note 5)	$ 19,990	20,512
Investments	22,272	23,693
Direct financing leases	17,843	15,726
Restricted direct financing lease (note 7)	5,288	4,618
Total interest income	65,393	64,549
Other project income	1,457	2,684
Other income	1,566	2,631
Net depreciation of investment securities	(2,221)	(4,798)
Total revenues	66,195	65,066
Expenses:		
Interest	17,679	16,447
Interest on liabilities payable from restricted assets (note 8)	5,288	4,618
General and administrative	5,207	5,093
Depreciation	1,244	1,226
Other project expenses	640	—
Write-downs and net expenses associated with other real estate owned	540	589
Total expenses	30,598	27,973
Net income	$ 35,597	37,093

See accompanying notes to financial statements.

Statements of Changes in Equity

Years ended June 30, 2000 and 1999 (Stated in Thousands)

	Contributed capital	Retained earnings	Total equity
Balance at June 30, 1998	$ 445,007	530,876	975,883
Net income	—	37,093	37,093
Write-down of Healy contributed capital (note 7)	(150,399)	—	(150,399)
Dividend (note 10)	—	(16,000)	(16,000)
Depreciation of contributed assets	(270)	270	—
Balance at June 30, 1999	294,338	552,239	846,577
Net income	—	35,597	35,597
Dividend (note 10)	—	(26,000)	(26,000)
Depreciation of contributed assets	(270)	270	—
Balance at June 30, 2000	$ 294,068	562,106	856,174

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended June 30, 2000 and 1999 (Stated in Thousands)

	2000	1999
Cash flows from operating activities:		
Net income	$ 35,597	37,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,244	1,226
Net depreciation of investment securities	2,221	4,798
Write-downs and net loss on sale of other real estate owned	226	278
Write-down of other investments	750	—
Amortization of unearned income on direct financing leases	(18,796)	(15,726)
Decrease (increase) in accrued interest receivable and other assets	(2,076)	6,207
Increase (decrease) in accrued interest and accounts payable	(1,080)	7,386
Net cash provided by operating activities	18,086	41,262
Cash flows from capital and related financing activities:		
Investment in direct financing leases	(20,754)	(105,882)
Direct financing lease receipts	29,289	22,683
Issuance of bonds	—	100,000
Payments on bonds	(19,420)	(7,405)
Net cash provided (used) by capital and related financing activities	(10,885)	9,396
Cash flows from noncapital and related financing activities:		
Dividend paid to the State of Alaska	(26,000)	(16,000)
Payments on bonds	(4,740)	(6,375)
Net cash used by noncapital and related financing activities	(30,740)	(22,375)
Cash flows from investing activities:		
Cash advanced to Alaska Seafood International	(2,500)	(31,322)
Proceeds from maturities of securities	216,248	335,398
Proceeds from sales of securities	36,519	65,144
Purchases of investment securities	(229,337)	(360,158)
Principal collected on loans	30,423	35,101
Loans originated	(33,022)	(20,715)
Investment in development projects	(12,587)	(16,821)
Net proceeds from sales of other real estate owned	462	1,600
Other investments	—	(2,000)
Net cash provided by investing activities	6,206	6,227
Net increase (decrease) in cash and cash equivalents	(17,333)	34,510
Cash and cash equivalents at beginning of year	55,603	21,093
Cash and cash equivalents at end of year	$ 38,270	55,603

See accompanying notes to financial statements.

(1) Organization and Operations

The activities of the Alaska Industrial Development and Export Authority (Authority) Revolving Fund are authorized pursuant to legislation 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.

Pursuant to legislation enacted in 1993, the members of 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. The Red Dog Project was financed with Authority funds and bond financings, including $150,000,000 of general obligation 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. In May 2000, the City of Unalaska paid all financial obligations related to the project and, in accordance with the terms of the agreement, the project was transferred to the City.

- 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. Ownership of the Ketchikan 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 Ketchikan Shipyard. The Authority also agreed to provide funds for maintenance and repairs in an amount equal to the amount contributed by the Borough.

- 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 AEL&P to provide the project's operations and maintenance, 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 initially loaned money for the construction of the Alaska Seafood Center (ASC), which performs secondary processing for various types of seafood. An 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 Ted Stevens 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.

- The Authority has bonding authorization of $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. The Authority does not currently anticipate that it will 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 project is currently being reviewed by the U.S. Corps of Engineers for potential federal funding of a portion of the improvements.

- 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 does not currently anticipate that it will participate in financing the project.

- 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 the proposed 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 specifically 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, 2000, the Authority had issued revenue bonds for 297 projects (not including bonds issued to refund other bonds). The principal amount payable for revenue bonds issued after July 1, 1995 was $112,387,287. 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).

Pursuant to legislation enacted in May 2000, the Authority has been authorized to issue bonds or otherwise extend financing to an entity to be formed by the City of Ketchikan, the City of Wrangell, the City of Petersburg, Copper Valley Electric Association, Inc. and Kodiak Electric Association, Inc. in connection with the sale of the Four Dam Pool Hydroelectric Projects from the Alaska Energy Authority to the newly formed entity. Pursuant to the authorization, the principal amount of bonds and other financing the Authority may provide may not exceed $110,000,000.

(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, 2000 follows:

	Unaudited (in thousands)
Assets:	
Cash	$ 1,078
Interest receivable	50
Loans receivable, net	2,724
	$ 3,852
Liabilities and Equity:	
Warrants Outstanding	$ 39
Unrestricted contributed capital	2,982
Retained earnings:	
Reserved	25
Unreserved – undesignated	806
	$ 3,852

(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.

(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

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, 2000.

(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.

(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) Depreciation

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

(l) Reclassifications

Certain reclassifications have been made to the 1999 financial statements to conform to the 2000 presentation.

(3) Additional Information Regarding Cash Flows and Noncash Activities

Cash and cash equivalents consist of the following at June 30 (stated in thousands):

	2000	1999
Unrestricted	$ 27,444	29,752
Restricted	10,826	25,851
	$ 38,270	55,603

Additional information regarding cash flows and noncash activities for the years ended June 30 follows (stated in thousands):

	2000	1999
Cash flows:		
Interest collected on loans and investments	$ 42,550	45,520
Interest paid	17,413	18,130
Noncash activity:		
Sales of real estate owned	—	323

(4) Investment Securities

Major components of investment securities, the maturity distribution and carrying value at June 30 follows (stated in thousands):

	2000	1999
U.S. Treasury securities maturity:		
Within one year	$ 59,889	81,431
After one but within five years	50,798	50,067
After five but within ten years	—	2,121
After ten but within twenty-five years	20,882	20,482
	131,569	154,101
U.S. Government agencies maturity:		
Within one year	74,047	92,388
After one but within five years	57,866	44,937
After five but within ten years	42,883	44,660
After ten but within twenty-five years	10,541	11,085
	185,337	193,070
Corporate securities maturity:		
After one but within five years	21,417	8,057
After five but within ten years	26,145	33,727
After ten but within twenty-five years	10,238	11,401
	57,800	53,185
	$ 374,706	400,356

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 (stated in thousands):

	Allowable Usage	2000	1999
Capital Reserve Funds	Secure debt service payments – bonds	$ 3,510	3,821
Debt Service and Loan Prepayment Accounts	Funds held for future debt service – bonds	2,755	1,382
Healy Project Replacement and Contingency Fund	Bond repayment and certain project costs	4,076	3,926
Red Dog Project Sustaining Capital Fund	Project costs	13,023	12,926
Unexpended bond proceeds	Construction costs	—	4,528
Snettisham Hydroelectric Project Funds	Various costs relating to the project	9,216	21,106
		$ 32,580	47,689

(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 Authority's ability to collect on loans is generally contingent upon economic conditions in the State.

Loans outstanding at June 30 are classified as follows (dollar amounts stated in thousands):

	2000			1999		
	Number		Amount	Number		Amount
Appropriated	442	$	14,609	545	$	18,862
Loan participation:						
Bonds outstanding	46		18,273	57		22,742
Bonds retired	68		27,430	72		30,868
Internally funded	129		159,304	118		143,033
OREO sale financing	45		17,176	49		18,362
Other	31		946	38		1,221
	761	$	237,738	879	$	235,088

The aging of loans at June 30 follows (dollar amounts stated in thousands):

	2000			1999		
	Percent		Amount	Percent		Amount
Current	97.37%	$	231,497	97.31%	$	228,755
Past due:						
31–60 days	2.10%		4,999	0.96%		2,263
61–90 days	0.10%		223	0.25%		584
Over 90 days	0.43%		1,019	1.48%		3,486
	100.00%	$	237,738	100.00%	$	235,088

Loans which are more than 90 days past due on which the accrual of interest has been discontinued amounted to $984,914 and $3,485,845 at June 30, 2000 and 1999, respectively. Gross interest income which would have been received on these loans amounted to $97,867 and $338,913 for the years ended June 30, 2000 and 1999, respectively. The amount of interest income collected and included in net income was $39,322 and $114,325 for the years ended June 30, 2000 and 1999, respectively.

Loans on which the terms have been restructured amounted to $11,061,662 and $9,113,874 at June 30, 2000 and 1999, respectively. Gross interest income which would have been received on these loans amounted to $1,033,782 and $877,698 for the years ended June 30, 2000 and 1999, respectively. The amount of interest income collected and included in net income was $965,428 and $790,138 for the years ended June 30, 2000 and 1999, respectively.

(6) Allowance for Loan Losses

An analysis of changes in the allowance for loan losses for the years ended June 30 follows (stated in thousands):

		2000	1999
Balance at beginning of year	$	12,222	12,862
Recoveries of loans charged off		57	28
Loans charged off		(6)	(668)
	$	12,273	12,222

(7) Net Investment in Direct Financing Leases and Development Projects

(a) Direct Financing Leases

- 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 Authority leases the Alaska Seafood International project under an agreement which is recorded as a direct financing lease with an initial term of 30 years. Monthly minimum lease payments range from $360,000 to $370,000. As the result of defaults under the agreement, subsequent to year end the Authority exercised a $5 million capital call to one of the project's principal investors; this amount was received. Additionally, a tentative agreement with various interested parties has been reached which will restructure Alaska Seafood International and provide funding for operations.

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

		2000	1999
Minimum lease payments receivable	$	856,764	747,992
Less unearned income		(527,993)	(467,017)
Net investment in direct financing leases	$	328,771	280,975

At June 30, 2000, future minimum lease payments receivable for each of the five succeeding fiscal years are (stated in thousands):

Year ending June 30:		Amount
2001	$	19,927
2002		19,927
2003		23,251
2004		24,247
2005		24,347

The components of the Authority's net investment in direct financing leases by project at June 30 are (stated in thousands):

		2000	1999
Alaska Seafood Center	$	48,000	—
Federal Express Project		26,726	27,467
Red Dog Project		254,045	249,502
Unalaska Project		—	4,006
	$	328,771	280,975

(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 shutdown 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.

- Subject to the terms of a settlement agreement, the Authority will sell all power produced by the Healy Project to Golden Valley Electric Association, Inc. (GVEA), 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. In March 2000, the Authority and GVEA reached an agreement which concluded pending litigation. See note 10 for further discussion.

  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.

The components of the Authority's net investment in development projects at June 30 are (stated in thousands):

		2000	1999
Healy Project	$	125,242	112,611
Ketchikan Shipyard		15,076	15,326
Skagway Terminal		13,595	14,569
Seward Coal Load-Out Facility		6,328	6,844
	$	160,241	149,350

(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.

(8) Bonds Payable

The composition of bonds outstanding at June 30 follows (interest rate and maturity date information is as of June 30, 2000. Dollar amounts are stated in thousands):

	2000	1999
Revolving Fund Bonds:		
Series 1990A – 7.8% to 7.95%, issued December 13, 1990, maturing through 2010	$ 15,460	16,555
Series 1991A – issued December 10, 1991, defeased May 31, 2000; called June 30, 2000	—	4,035
Series 1992A – 6.0% to 6.5%, issued September 30, 1992, maturing through 2014	22,725	23,725
Series 1995A – 5.65% to 6.0%, issued May 17, 1995, maturing through 2005	3,635	4,080
Series 1997A – 5% to 6.125%, issued March 27, 1997, maturing through 2027	139,870	143,445
Refunding Revolving Fund Bonds:		
Series 1993A – 5.4% to 6.2%, issued June 3, 1993, maturing through 2010	8,560	10,245
Series 1994A – 5.4% to 5.9%, issued March 30, 1994, maturing through 2006	4,795	6,545
Series 1995B – 5.5% to 5.85%, issued May 17, 1995, maturing through 2005	6,260	7,120
Series 1998A – 4.5% to 5.25%, issued May 14, 1998, maturing through 2023	81,535	83,410
	$ 282,840	299,160

At June 30, 2000, 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, 2000 and thereafter are as follows (stated in thousands):

	Principal	Interest	Total
2001	$ 10,860	16,424	27,284
2002	11,470	15,833	27,303
2003	12,510	15,185	27,695
2004	13,390	14,472	27,862
2005	14,375	13,687	28,062
2006-2010	63,060	56,520	119,580
2011-2015	62,715	37,895	100,610
2016-2020	49,455	20,544	69,999
2021-2025	35,690	8,263	43,953
2026-2027	9,315	864	10,179
	$ 282,840	199,687	482,527

Bond resolution covenants effective June 30, 2000 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, 2000, 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 all current projects, and excluding the effect of proposed projects. At June 30, 2000, unrestricted surplus was approximately $800,000,000. 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, 2000, the liquidity requirement was $50,000,000.

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. In December 1999, the Authority defeased $6,865,000 of the bonds using funds on hand. The minimum payments related to the power revenue bonds for the five years subsequent to June 30, 2000 and thereafter are as follows (stated in thousands):

		Principal	Interest	Total
2001	$	1,020	4,903	5,923
2002		1,065	4,857	5,922
2003		1,115	4,806	5,921
2004		1,170	4,753	5,923
2005		1,230	4,692	5,922
2006-2010		7,205	22,408	29,613
2011-2015		9,400	20,206	29,606
2016-2020		12,430	17,165	29,595
2021-2025		16,100	13,508	29,608
2026-2030		20,615	8,986	29,601
2031-2034		20,810	2,870	23,680
	$	92,160	109,154	201,314

(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 2000 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	8.13%
Annual pension cost	$249,000
Contributions made	$249,000
Actuarial valuation date	June 30, 1997
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	4.00%
Investment return	8.25%
Projected salary increase:	
Inflation	4.00%
Productivity and merit	1.50%
Health cost trend	5.50%

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.

(10) Commitments and Contingencies

(a) Commitments

At June 30, 2000, the Authority held approximately $156,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately $115,927,000 of investments in trust for the construction of two intertie projects. The Authority held approximately $12,433,000 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, 2000, 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

A Power Sales Agreement between GVEA and the Authority for the Healy Project was originally entered into in 1991. In 1998, GVEA initiated litigation alleging that the Authority had breached the Healy Project Power Sales Agreement, among other allegations.

On March 9, 2000, GVEA and the Authority entered into a settlement agreement regarding the Healy Project litigation. The settlement agreement provides for the interim shutdown of the Healy Project and the immediate custody of the Healy Project by GVEA. In addition, the agreement provides for the appointment of an engineer to determine the technical and economic feasibility of retrofitting the Healy Project to conventional combustor technology. If GVEA determines not to retrofit, it may, alternatively, elect to operate the Healy Project under its current combustor technology. Depending on which retrofit alternative GVEA elects, it has payment obligations, including payment of a portion of the engineering costs associated with the retrofit, payment of a portion of the costs associated with a full or limited retrofit, and payment to purchase the capability of the Healy Project, all in accordance with the terms of the settlement agreement and the amended Power Sales Agreement. The Authority has agreed to finance a portion of GVEA's share of the engineering and retrofit costs through a loan to GVEA. GVEA may elect to forego further efforts to retrofit and operate the Healy Project and terminate its agreements to purchase Healy Project capability, returning the project to the Authority's control, at any time prior to GVEA's decision to proceed with either alternative configuration.

(d) Dividend

Pursuant to Alaska statutes the Authority's Board is required to annually determine the amount of a dividend to be made available for appropriation by the legislature. The dividend made available by the Board is to be not less than 25% and not more than 50% of the Authority's net income for the fiscal year two years before the fiscal year in which the dividend is to be made. In no event, however, may the dividend exceed unrestricted net income. The Authority paid a dividend of $26 million and $16 million during the years ended June 30, 2000 and 1999, respectively.

(e) 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, 2000, the Authority had extended loan commitments for loans of $7,699,347 and loan guarantees of $2,319,458. 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.

End of Financial Statements

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 extend 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.

The publication on the activities and financial condition of the Alaska Industrial Development and Export Authority is submitted in accordance with AS44.88.210. The report was printed at a cost of $4.92 per copy and was printed on recycled paper in Anchorage, Alaska. Design and production by Northwest Strategies. Printing by Northern Printing.

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