

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY REVOLVING FUND

Combined Financial Statements

June 30, 1991 and 1990

(With Independent Auditors' Report Thereon)

Certified Public Accountants

601 West Fifth Avenue
Suite 700
Anchorage, AK 99501-2258

Independent Auditors' Report

The Board of Directors
Alaska Industrial Development and Export Authority:

We have audited the accompanying combined balance sheets of the Alaska Industrial Development and Export Authority Revolving Fund as of June 30, 1991 and 1990, and the related combined statements of income and retained earnings and cash flows for the years then ended. These combined financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Industrial Development and Export Authority Revolving Fund as of June 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and cash flows of the individual project groups. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

KPM G Peat Marwick

August 23, 1991



Member Firm of
Klynveld Peat Marwick Goerdeler

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY REVOLVING FUND**

Combined Balance Sheets

June 30, 1991 and 1990
with combining information at June 30, 1991

<u>Assets</u>	<u>Combining Information</u>		<u>Combined</u>	
	<u>Enterprise Development Activities and Unrestricted Economic Development Projects</u>	<u>Restricted Economic Development Projects (note 3)</u>	<u>1991</u>	<u>1990</u>
Cash and cash equivalents	\$ 23,399,389	4,834,112	28,233,501	27,320,352
Investment securities, partially restricted (note 5)	303,086,183	81,450,562	384,536,745	303,378,663
Loans (note 6)	215,871,257	69,373,894	285,245,151	318,676,708
Less allowance for loan losses (note 7)	18,682,541	2,265,104	20,947,645	23,654,780
Net loans	<u>197,188,716</u>	<u>67,108,790</u>	<u>264,297,506</u>	<u>295,021,928</u>
Accrued interest receivable	8,365,469	2,416,655	10,782,124	10,169,105
Prepaid bond insurance, net	-	4,506,929	4,506,929	4,681,955
Investment in development projects (note 3)	-	4,336,108	4,336,108	-
Net investment in direct financing leases (notes 3 and 8)	22,955,740	175,297,571	198,253,311	169,547,582
Other real estate owned	17,170,200	1,251,219	18,421,419	22,261,749
Notes receivable	2,973,747	-	2,973,747	3,024,234
Other	<u>3,016,965</u>	<u>253,184</u>	<u>3,270,149</u>	<u>3,719,239</u>
	<u>\$ 578,156,409</u>	<u>341,455,130</u>	<u>919,611,539</u>	<u>839,124,807</u>
<u>Liabilities and Equity</u>				
Liabilities:				
Bonds payable (note 9)	\$ 157,660,000	103,250,000	260,910,000	249,340,000
Accrued interest payable	3,551,731	1,813,669	5,365,400	5,201,286
Accounts payable	2,178,839	7,354,817	9,533,656	12,554,267
Total liabilities	<u>163,390,570</u>	<u>112,418,486</u>	<u>275,809,056</u>	<u>267,095,553</u>
Equity:				
Contributed capital	197,800,632	170,333,836	368,134,468	341,311,932
Retained earnings	<u>216,965,207</u>	<u>58,702,808</u>	<u>275,668,015</u>	<u>230,717,322</u>
Total equity	<u>414,765,839</u>	<u>229,036,644</u>	<u>643,802,483</u>	<u>572,029,254</u>
Commitments and contingencies (notes 3, 11 and 12)				
	<u>\$ 578,156,409</u>	<u>341,455,130</u>	<u>919,611,539</u>	<u>839,124,807</u>

See accompanying notes to combined financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY REVOLVING FUND**

Combined Statements of Income and Retained Earnings

Years ended June 30, 1991 and 1990
with combining information for 1991

	<u>Combining Information</u>		<u>Combined</u>	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects (note 3)	1991	1990
Revenues:				
Interest income:				
Loans (note 6)	\$ 20,932,902	5,854,814	26,787,716	27,227,937
Investments	24,157,651	5,998,027	30,155,678	24,822,891
Direct financing leases	1,076,947	10,783,022	11,859,969	-
Total interest income	<u>46,167,500</u>	<u>22,635,863</u>	<u>68,803,363</u>	<u>52,050,828</u>
Other income	344,877	36,870	381,747	100,073
Total revenues	<u>46,512,377</u>	<u>22,672,733</u>	<u>69,185,110</u>	<u>52,150,901</u>
Expenses:				
Interest	14,025,263	7,254,675	21,279,938	14,800,563
General and administrative	2,087,543	390,099	2,477,642	2,083,607
Bond insurance	-	175,026	175,026	175,026
Write-downs and net expenses associated with other real estate owned	55,192	246,619	301,811	4,105,769
Provision for loan losses	-	-	-	1,586,382
Total expenses	<u>16,167,998</u>	<u>8,066,419</u>	<u>24,234,417</u>	<u>22,751,347</u>
Net income	30,344,379	14,606,314	44,950,693	29,399,554
Retained earnings at beginning of year	<u>186,620,828</u>	<u>44,096,494</u>	<u>230,717,322</u>	<u>201,317,768</u>
Retained earnings at end of year	<u>\$ 216,965,207</u>	<u>58,702,808</u>	<u>275,668,015</u>	<u>230,717,322</u>

See accompanying notes to combined financial statements.

ALASKA INDUSTRIAL DEVELOPMENT
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Combined Statements of Cash Flows

Years ended June 30, 1991 and 1990
with combining information for 1991

	Combining Information		Combined	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects (note 3)	1991	1990
Cash flows from operating activities:				
Net income	\$ 30,344,379	14,606,314	44,950,693	29,399,554
Adjustments to reconcile net income to net cash provided by operating activities:				
Net amortization (accretion) of premium and discount on investment securities	(459,605)	14,462	(445,143)	(2,588,268)
Provision for loan losses	-	-	-	1,586,382
Amortization of prepaid bond insurance	-	175,026	175,026	175,026
Write-downs and net loss on sale of other real estate owned	282,045	5,699	287,744	3,812,421
Amortization of unearned income on direct financing leases	(1,076,947)	(10,783,022)	(11,859,969)	-
Decrease (increase) in accrued interest receivable and other assets	761,886	(925,815)	(163,929)	(3,824,949)
Increase in accrued interest and accounts payable	70,967	-	70,967	622,265
Net cash provided by operating activities	<u>29,922,725</u>	<u>3,092,664</u>	<u>33,015,389</u>	<u>29,182,431</u>
Cash flows from investing activities:				
Proceeds from maturities of securities	187,290,100	44,042,000	231,332,100	259,320,000
Purchases of investment securities	(223,120,366)	(88,924,673)	(312,045,039)	(276,074,091)
Principal collected on loans	21,552,970	10,533,899	32,086,869	28,224,156
Loans originated or acquired	(540,000)	-	(540,000)	(1,036,902)
Investment in development projects	-	(4,336,108)	(4,336,108)	-
Investment in direct financing leases	(22,990,792)	(736,843)	(23,727,635)	(49,183,285)
Direct financing lease receipts	1,111,999	5,769,876	6,881,875	-
Net proceeds from sale of other real estate owned	2,096,324	431,830	2,528,154	1,575,651
Payments on notes receivable	252,471	-	252,471	175,713
Decrease (increase) in accounts payable	-	(2,927,463)	(2,927,463)	7,443,940
Net cash used in investing activities	<u>(34,347,294)</u>	<u>(36,147,482)</u>	<u>(70,494,776)</u>	<u>(29,554,818)</u>
Cash flows from financing activities:				
Payments on bonds	(13,430,000)	-	(13,430,000)	(19,045,000)
Contributions to capital	-	26,822,536	26,822,536	-
Issuance of bonds	25,000,000	-	25,000,000	-
Net cash provided (used) by financing activities	<u>11,570,000</u>	<u>26,822,536</u>	<u>38,392,536</u>	<u>(19,045,000)</u>
Net increase (decrease) in cash and cash equivalents	7,145,431	(6,232,282)	913,149	(19,417,387)
Cash and cash equivalents at beginning of year	<u>16,253,958</u>	<u>11,066,394</u>	<u>27,320,352</u>	<u>46,737,739</u>
Cash and cash equivalents at end of year	<u>\$ 23,399,389</u>	<u>4,834,112</u>	<u>28,233,501</u>	<u>27,320,352</u>

See accompanying notes to combined financial statements.

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY REVOLVING FUND

Notes to Combined Financial Statements

June 30, 1991 and 1990

(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 public corporation of the State of Alaska (State), constituting a political subdivision within the Department of Commerce and Economic Development but with separate and independent legal existence. The Authority's mission is to promote, develop and advance the general prosperity of the people of Alaska. The purpose of the Authority's Enterprise Development Account is to relieve unemployment and create new 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 Authority, through its Economic Development Account, also has the ability to own and operate facilities which accomplish the same goal.

Enterprise Development Account

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

- a. A tax-exempt and taxable umbrella bond program under which the Authority's bonds are sold on national markets to provide funds for loans of up to \$10,000,000. The proceeds of bond sales are used to purchase portions of loans made by financial institutions to their customers. The Authority participates in up to 80% of the permanent financing for manufacturing facilities, public-use projects and business enterprises (for example, fishing boats, shopping centers, office buildings, warehouses and airplanes). The Authority has both tax-exempt and taxable bonds outstanding under this program, each of which is a general obligation of the Authority.
- b. An export assistance program designed to foster and facilitate international trade by offering guarantees to financial institutions which provide exporters with pre-shipment and post-shipment loans.
- c. A business assistance program, providing up to an 80% guarantee of the principal balance to the financial institution making a loan. The maximum guarantee amount is \$1,000,000.
- d. A venture-capital program whereby the Authority has invested in a venture-capital partnership with the purpose of introducing venture capitalists to investment opportunities in Alaska.

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ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

Economic Development Account

Current own-and-operate projects undertaken through the Economic Development Account include:

- a. The DeLong Mountain Transportation System (Red Dog Project) which consists of a road and port to serve the regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit, one of the largest zinc deposits in the world, located in the DeLong Mountains in northwestern Alaska (note 3).
- b. Acquisition and reconstruction of a public-use, ore terminal port facility in Skagway, Alaska, the Skagway Ore Terminal (Skagway Terminal). The Skagway Terminal is scheduled for completion in April 1992 and was financed by a \$25,000,000 bond issue completed in December 1990.
- c. The Authority is authorized to issue up to \$10,000,000 of bonds for the construction of improvements to the City of Unalaska Marine Center (Unalaska Project), a public port facility located in the Aleutian Islands. Using funds of the Enterprise Development Account, construction has begun on the Unalaska Project and is scheduled for completion in November 1991.
- d. The Authority is authorized to issue up to \$50,000,000 of bonds for the construction of a multibay aircraft maintenance facility to be located at the Anchorage International Airport.

Other

In fiscal 1991, the Authority received a \$25,000,000 appropriation authorized by the 1990 Legislature, received a grant from the U.S. Department of Energy and is authorized to issue up to \$85,000,000 of bonds to assist in the financing of a coal fired power plant near Healy, Alaska, known as the Healy Clean Coal Project (Healy Project) (note 3).

The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction between a business enterprise and a purchaser of the bonds. 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 other funds of the business enterprise. Changes in the tax laws have significantly reduced the Authority's ability to provide tax-exempt financing under this program and to date there has been little or no demand for taxable financing.

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ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

Financial Statement Presentation

In the accompanying financial statements, the column entitled Enterprise Development Activities and Unrestricted Economic Development Projects includes the Enterprise Development Account and the Skagway Terminal and Unalaska Project of the Economic Development Account.

The column entitled Restricted Economic Development Projects includes the Red Dog and Healy Projects of the Economic Development Account (note 3). The amounts reflected in this column are restricted assets of the Revolving Fund and are not available to meet general claims against the Authority.

The combined financial statements include all of the activities of the Enterprise Development and Economic Development Accounts.

(2) Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash and repurchase agreements.

Investments

Investments are recorded at cost, adjusted for the amortization of premium and accretion of discount, which are recognized as adjustments to interest income. Such investments have been designated as investment assets because the Authority has the ability and intent to hold the investments to maturity.

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 ninety days past due or when the loan terms are restructured. Future collections of interest are recorded as interest income when received.

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 loan portfolio.

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ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

Prepaid Bond Insurance

Prepaid bond insurance costs are amortized over the life of the related bond issue using the straight-line method.

Other Real Estate Owned

Other real estate owned represents property acquired through foreclosure on loans or received by deed in lieu of foreclosure. Other real estate owned is recorded at the lower of the loan balance or the estimated fair market value of the property at the time of receipt of the property, with any excess of loan balance over fair market value charged to the allowance for loan losses. Upon final disposition or a further decline in the value of the property, gains or losses are charged or credited to operations in the current period.

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.

Retirement Plan

All employees of the Authority participate in the State of Alaska Public Employees' Retirement System. The State's policy is to fund pension costs accrued.

Furniture and Equipment

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

Appropriations and Grants

Appropriations and grants are recorded as additions to contributed capital when received.

Reclassifications

Certain reclassifications have been made to the 1990 financial statements to conform to the 1991 presentation.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

(3) Restricted Economic Development Projects
DeLong Mountain Transportation System

In 1984, the Legislature addressed the possibility of lending support to the development of lead and zinc mining in the DeLong Mountain area in north-western Alaska through the facilities of the Authority by establishing the Economic Development Account. The 1985 Legislature enacted legislation providing authorization to proceed with the Red Dog Project and to issue bonds for financing. The Red Dog Project consists of a road and port to serve regional needs and to permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit (one of the largest zinc deposits in the world) and other mineral deposits expected to be developed in the area. To assist in providing funding for the Red Dog Project, the Legislature appropriated \$12,000,000 cash and net loans totaling \$131,511,300, previously participated in or made by the State to various borrowers in Alaska under seven economic assistance programs. When moneys are released from the pledge to bond holders of the DeLong Mountain Transportation Project Revenue Bonds, they revert to the State's general fund.

On June 30, 1986, the Authority entered into a contract with Cominco American Incorporated (Cominco) providing for the financing, construction, use, operation and maintenance of the DeLong Mountain Transportation System. The agreement provides that Cominco pay tolls for the use of the DeLong Mountain Transportation System, consisting of fifty-two miles of road and a port facility on the Chukchi Sea, constructed and operated by the Authority. The annual tolls are the amount necessary to amortize the cost of the Red Dog Project over a fifty-year period at an interest rate of 6.5%. Toll payments began January 1, 1991. Certain payments to be made by Cominco are secured by letters of credit. The agreement with Cominco has been recorded on the Authority's books as a direct financing lease.

On August 7, 1986, the Authority entered into an agreement with NANA Regional Corporation, Inc. providing for a ninety-nine year lease of lands for the proposed port and road. Upon execution of the agreement, \$1,100,000 was paid by the Authority for the entire lease term.

On March 17, 1987, the Authority issued \$103,250,000 of DeLong Mountain Transportation Project Revenue Bonds to finance the portion of the Red Dog Project which is a public port facility. All assets and receipts of the Red Dog Project are restricted for use in the Red Dog Project and are pledged to the repayment of the DeLong Mountain Transportation Project Revenue Bonds.

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ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

Healy Clean Coal Project

The 1990 Legislature appropriated \$25,000,000 and authorized the issuance of up to \$85,000,000 of bonds to assist in the financing of a clean-coal burning power plant near Healy, Alaska. The Authority received the appropriation in August 1990. If completed, the Healy Project will also receive up to \$94,000,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program. At June 30, 1991, \$1,822,536 had been received from the U.S. Department of Energy.

In July 1991, the Authority's Board of Directors approved the financing plan for the Healy Project which includes restricting \$51,600,000 of investments in the Enterprise Development Account (plus future interest earnings thereon) for construction costs. The money will be repaid from Healy Project revenues and bonds to be issued to provide long-term financing.

The State appropriation and U.S. Department of Energy grant proceeds are restricted for construction costs of the Healy Project. The Authority's net investment (total expenditures less U.S. Department of Energy grant receipts) in the Healy Project at June 30, 1991 was \$2,513,572.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

Summarized Financial Information

Summarized financial information of the Red Dog and Healy Projects, the Restricted Economic Development Projects, as of and for the year ended June 30, 1991 follows:

Balance Sheet

June 30, 1991

<u>Assets</u>	<u>Red Dog Project</u>	<u>Healy Project</u>	<u>Combined</u>
Cash, cash equivalents and investment securities	\$ 62,420,541	23,864,133	86,284,674
Loans, net of allowance for loan losses	67,108,790	-	67,108,790
Investment in development projects	-	4,336,108	4,336,108
Net investment in direct financing leases	175,297,571	-	175,297,571
Other	<u>7,953,320</u>	<u>474,667</u>	<u>8,427,987</u>
	<u>\$ 312,780,222</u>	<u>28,674,908</u>	<u>341,455,130</u>
 <u>Liabilities and Equity</u>			
Liabilities:			
Bonds payable	\$ 103,250,000	-	103,250,000
Other	<u>9,168,486</u>	<u>-</u>	<u>9,168,486</u>
Total liabilities	<u>112,418,486</u>	<u>-</u>	<u>112,418,486</u>
Equity:			
Contributed capital:			
State of Alaska	143,511,300	25,000,000	168,511,300
U.S. Department of Energy	<u>-</u>	<u>1,822,536</u>	<u>1,822,536</u>
Total contributed capital	143,511,300	26,822,536	170,333,836
Retained earnings	<u>56,850,436</u>	<u>1,852,372</u>	<u>58,702,808</u>
Total equity	<u>200,361,736</u>	<u>28,674,908</u>	<u>229,036,644</u>
	<u>\$ 312,780,222</u>	<u>28,674,908</u>	<u>341,455,130</u>

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

Statement of Income

Year ended June 30, 1991

	<u>Red Dog Project</u>	<u>Healy Project</u>	<u>Combined</u>
Revenues:			
Interest income:			
Loans	\$ 5,854,814	-	5,854,814
Investments	4,145,655	1,852,372	5,998,027
Direct financing leases	<u>10,783,022</u>	-	<u>10,783,022</u>
Total interest income	20,783,491	1,852,372	22,635,863
Other income	<u>36,870</u>	-	36,870
Total revenues	<u>20,820,361</u>	<u>1,852,372</u>	<u>22,672,733</u>
Expenses:			
Interest	7,254,675	-	7,254,675
Other	<u>811,744</u>	-	<u>811,744</u>
Total expenses	<u>8,066,419</u>	-	<u>8,066,419</u>
Net income	\$ <u>12,753,942</u>	<u>1,852,372</u>	<u>14,606,314</u>

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

(4) Additional Information Regarding Cash Flows and Noncash Activities

Additional information regarding cash flows and noncash activities for the years ended June 30, 1991 and 1990 (with combining information for 1991) follows:

	Enterprise Development Activities and Unrestricted Economic Development <u>Projects</u>	Restricted Economic Development <u>Projects</u>	<u>1991</u>	<u>1990</u>
Cash flows:				
Interest collected on loans and investments	\$ 45,262,738	11,067,637	56,330,375	54,621,172
Interest paid	<u>13,861,149</u>	<u>7,254,675</u>	<u>21,115,824</u>	<u>22,522,422</u>
Noncash activity:				
Other real estate owned acquired through foreclosure	\$ 5,673,490	1,239,552	6,913,042	14,018,056
Loans transferred to notes receivable	201,984	-	201,984	2,366,391
Sales of real estate owned	<u>10,136,148</u>	<u>992,534</u>	<u>11,128,682</u>	<u>12,898,793</u>

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

(5) Investment Securities

Major components of investment securities, the maturity distribution and carrying value at June 30, 1991 and 1990 (with combining information for 1991) follow:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	<u>1991</u>	<u>1990</u>
U.S. Treasury securities maturity:				
Within one year	\$ 124,428,914	50,029,849	174,458,763	142,171,127
After one but within five years	115,199,539	21,069,963	136,269,502	76,661,925
After five but within ten years	<u>25,429,756</u>	<u>-</u>	<u>25,429,756</u>	<u>18,653,468</u>
	<u>265,058,209</u>	<u>71,099,812</u>	<u>336,158,021</u>	<u>237,486,520</u>
U.S. Government agencies maturity:				
Within one year	32,987,664	485,513	33,473,177	41,351,153
After one but within five years	<u>5,040,310</u>	<u>1,007,662</u>	<u>6,047,972</u>	<u>9,978,415</u>
	<u>38,027,974</u>	<u>1,493,175</u>	<u>39,521,149</u>	<u>51,329,568</u>
States and political subdivisions maturity - within one year	-	-	-	5,705,000
Guaranteed investment contract maturity - March 1992	<u>-</u>	<u>8,857,575</u>	<u>8,857,575</u>	<u>8,857,575</u>
	<u>\$ 303,086,183</u>	<u>81,450,562</u>	<u>384,536,745</u>	<u>303,378,663</u>

At June 30, 1991, the carrying value of investment securities approximates market value.

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.

(Continued)

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Notes to Combined Financial Statements

Certain investments are restricted by the terms of the Authority's bond resolutions or otherwise. A summary of restricted investments at June 30, 1991 and 1990 (with combining information at June 30, 1991) follows:

<u>Investment</u>	<u>Restriction</u>	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	<u>1991</u>	<u>1990</u>
Capital Reserve Funds	Secure debt service payments - bonds	\$ 16,049,970	8,857,575	24,907,545	25,871,019
Debt Service Funds	Funds held for future debt service - bonds	7,630,681	-	7,630,681	7,423,724
Loan Insurance Fund	Guarantee financing of a wastewater treatment facility in Sitka, Alaska	6,214,286	-	6,214,286	7,642,857
Business Assistance Fund	Guarantee business loans	3,600,000	-	3,600,000	3,600,000
Project Funds	Construction costs and/or to secure debt service payments - bonds	<u>56,939,762</u>	<u>77,403,787</u>	<u>134,343,549</u>	<u>38,778,975</u>
		<u>\$ 90,434,699</u>	<u>86,261,362</u>	<u>176,696,061</u>	<u>83,316,575</u>

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT
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(6) Loans

Loans outstanding at June 30, 1991 and 1990 (with combining information at June 30, 1991) are classified as follows:

Loan type	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Projects		1991		1990	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Appropriated and purchased	402	\$ 39,510,391	1,486	\$ 69,373,894	1,888	\$ 108,884,285	2,112	\$ 130,809,825
Federally guaranteed	22	3,439,450	-	-	22	3,439,450	25	4,035,732
Bond sale	197	124,375,966	-	-	197	124,375,966	212	137,521,747
Defeased bond sale and other	128	48,545,450	-	-	128	48,545,450	124	46,309,404
	<u>749</u>	<u>\$ 215,871,257</u>	<u>1,486</u>	<u>\$ 69,373,894</u>	<u>2,235</u>	<u>\$ 285,245,151</u>	<u>2,473</u>	<u>\$ 318,676,708</u>

The aging of loans at June 30, 1991 and 1990 (with combining information at June 30, 1991) follows:

	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Projects		1991		1990	
	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
Current	90.45%	\$ 195,262,746	92.10%	\$ 63,895,575	90.85%	\$ 259,158,321	87.10%	\$ 277,589,188
Past due:								
30-60 days	2.37	5,110,848	2.07	1,436,726	2.30	6,547,574	1.66	5,293,162
61-90 days	.51	1,097,840	.28	193,091	.45	1,290,931	1.63	5,184,562
Over 90 days	6.67	14,399,823	5.55	3,848,502	6.40	18,248,325	9.61	30,609,796
	<u>100.00%</u>	<u>\$ 215,871,257</u>	<u>100.00%</u>	<u>\$ 69,373,894</u>	<u>100.00%</u>	<u>\$ 285,245,151</u>	<u>100.00%</u>	<u>\$ 318,676,708</u>

(Continued)

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Loans which are more than ninety days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to \$13,022,324 and \$23,998,482 at June 30, 1991 and 1990, respectively. Gross interest income which would have been received on these loans amounted to \$1,344,000 for 1991 and \$1,791,000 for 1990. The amount of interest income collected and included in net income was \$522,810 for 1991 and \$518,106 for 1990.

Loans on which the terms have been restructured amounted to \$46,174,231 and \$57,298,614 at June 30, 1991 and 1990, respectively. Gross interest income which would have been received on these loans amounted to \$4,777,000 for 1991 and \$5,859,000 for 1990. The amount of interest income collected and included in net income was \$3,467,134 for 1991 and \$3,812,524 for 1990.

A member of the Authority's Board of Directors is a general partner in a partnership which in turn is a general partner in another partnership which has an outstanding loan due the Authority in the amount of \$2,187,371 at June 30, 1991. The loan was originated prior to the member's appointment to the Board of Directors and is performing in accordance with its terms at June 30, 1991.

(Continued)

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(7) Allowance for Loan Losses

An analysis of changes in the allowance for loan losses for the years ended June 30, 1991 and 1990 (with combining information at June 30, 1991) follows:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	<u>1991</u>	<u>1990</u>
Balance at beginning of year	\$ 20,800,000	2,854,780	23,654,780	29,780,563
Provision for loan losses	-	-	-	1,586,382
Allowance for loans purchased	-	-	-	32,031
Interest capitalized to loans	198,693	-	198,693	497,034
Recoveries of loans charged off	161,731	8,291	170,022	4,177
Loans charged off	<u>(2,477,883)</u>	<u>(597,967)</u>	<u>(3,075,850)</u>	<u>(8,245,407)</u>
Balance at end of year	\$ <u>18,682,541</u>	<u>2,265,104</u>	<u>20,947,645</u>	<u>23,654,780</u>

(8) Net Investment in Direct Financing Leases

The Authority leases the Skagway Terminal under terms of an agreement, recorded as a direct financing lease, expiring in 2023. Minimum payments under the agreement are the amounts sufficient to amortize the costs of the \$25,000,000 Revolving Fund Bonds issued December 13, 1990 (note 9) in level payments over a fifteen-year period. The annual minimum lease payments are \$2,890,000 plus a throughput fee ranging from \$.38 to \$1.13 per wet metric ton of concentrate shipped in excess of 200,000 tons annually.

Minimum annual toll fees for usage of the DeLong Mountain Transportation System return the cost of the Red Dog Project to the Authority over fifty years at an interest rate of 6.5%.

(Continued)

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Notes to Combined Financial Statements

The components of the Authority's net investment in direct financing leases at June 30, 1991 and 1990 (with combining information at June 30, 1991) are:

	Enterprise Development Activities and Unrestricted Economic Development Projects- Skagway Terminal	Restricted Economic Development Projects- Red Dog	<u>1991</u>	<u>1990</u>
Minimum lease payments receivable	\$ 44,708,078	567,200,877	611,908,955	569,661,718
Less unearned income	<u>21,752,338</u>	<u>391,903,306</u>	<u>413,655,644</u>	<u>400,114,136</u>
Net investment in direct financing leases	\$ <u>22,955,740</u>	<u>175,297,571</u>	<u>198,253,311</u>	<u>169,547,582</u>

At June 30, 1991, future minimum lease payments receivable for each of the five succeeding fiscal years are:

<u>Year ending June 30</u>	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	<u>Combined</u>
1992	\$ 2,890,000	11,540,000	14,430,000
1993	2,890,000	11,540,000	14,430,000
1994	2,890,000	11,540,000	14,430,000
1995	2,890,000	11,540,000	14,430,000
1996	<u>2,890,000</u>	<u>11,540,000</u>	<u>14,430,000</u>

(Continued)

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(9) Bonds Payable

The composition of bonds outstanding at June 30, 1991 and 1990 (with combining information at June 30, 1991) follows:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	<u>1991</u>	<u>1990</u>
Economic Development Bonds:				
10.25% and 10.5%, issued November 1, 1983, maturing through 2009	\$ 5,865,000	-	5,865,000	7,250,000
10% to 10.75%, issued December 1, 1983, maturing through 2009	10,465,000	-	10,465,000	10,850,000
10.75% to 11.4%, issued July 1, 1984, maturing through 2010	7,425,000	-	7,425,000	7,630,000
8.5% to 10%, issued May 1, 1985, maturing through 2004	6,185,000	-	6,185,000	6,585,000
Consolidated Bonds:				
9.5% to 10.25%, issued July 1, 1983, maturing through 2010	12,880,000	-	12,880,000	13,115,000
9.75% to 10.5%, issued November 1, 1983, maturing through 2009	3,715,000	-	3,715,000	8,055,000
10% to 10.75%, issued December 1, 1983, maturing through 2009	1,910,000	-	1,910,000	3,245,000
9.4% to 10.6%, issued November 1, 1984, maturing through 2009	6,340,000	-	6,340,000	6,485,000
Variable Demand/Fixed Rate Bonds - 7.5% and 7.7%, issued October 30, 1984, maturing through 2004	8,975,000	-	8,975,000	9,450,000
Tax-exempt Umbrella Bonds:				
8% to 9.3%, issued May 15, 1985, maturing through 2010	13,225,000	-	13,225,000	14,110,000
7.25% to 8.125%, issued October 21, 1985, maturing through 2006	21,495,000	-	21,495,000	22,135,000
7% to 8.5%, issued December 19, 1985, maturing through 2006	11,580,000	-	11,580,000	12,045,000
7.15% to 8.875%, issued December 19, 1986, maturing through 2012	12,400,000	-	12,400,000	12,825,000
Taxable Umbrella Bonds - 9% to 9.65%, issued August 6, 1987, maturing through 1997	10,810,000	-	10,810,000	12,310,000
Revolving Fund Bonds - 6.55% to 7.95%, issued December 13, 1990, maturing through 2010	24,390,000	-	24,390,000	-
Delong Mountain Transportation Project Revenue Bonds - 5.4% to 7.3%, issued March 17, 1987, maturing through 2017	-	103,250,000	103,250,000	103,250,000
	<u>\$ 157,660,000</u>	<u>103,250,000</u>	<u>260,910,000</u>	<u>249,340,000</u>

(Continued)

**ALASKA INDUSTRIAL DEVELOPMENT
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At June 30, 1991, Economic Development, Consolidated, Variable, Demand/Fixed Rate, Umbrella and Revolving Fund Bonds are secured by the general assets and future revenues of the Enterprise Development Account and the Skagway Terminal of the Economic Development Account. Various bonds are further secured by loans, loan proceeds and capital reserve funds established pursuant to terms of the bond resolutions (note 5). The Taxable Umbrella Bonds are additionally secured by a letter of credit. At June 30, 1991, all assets of the Red Dog Project of the Economic Development Account are restricted for use in the Red Dog Project and are pledged to the repayment of the DeLong Mountain Transportation Project Revenue Bonds, which are additionally secured by bond insurance (note 3).

At June 30, 1991, principal portions of the bonds payable mature as follows:

<u>Year ending June 30</u>	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Projects	<u>Combined</u>
1992	\$	8,090,000	1,600,000	9,690,000
1993		7,180,000	1,685,000	8,865,000
1994		7,720,000	1,780,000	9,500,000
1995		7,685,000	1,885,000	9,570,000
1996		8,305,000	2,000,000	10,305,000
1997-2017		<u>118,680,000</u>	<u>94,300,000</u>	<u>212,980,000</u>
	\$	<u>157,660,000</u>	<u>103,250,000</u>	<u>260,910,000</u>

Enterprise Development Account bond resolution covenants effective June 30, 1991 preclude the Authority from incurring any general obligation indebtedness unless future estimated net income 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 to be less than the lesser of \$200,000,000 or the amount of general obligation indebtedness outstanding. At June 30, 1991, the lowest projected future coverage for any year is 188% (after giving effect to the Healy Project restriction described in note 3). At June 30, 1991, unrestricted surplus was \$398,700,000.

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ALASKA INDUSTRIAL DEVELOPMENT
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(10) Defeased Bonds Outstanding

On July 14, 1988, the Authority defeased \$78,295,000 of Enterprise Development Account bonds: five economic development bond issues (delivered from April 1, 1981 through December 1, 1982) and three consolidated bond issues (delivered from April 1, 1982 through December 1, 1982).

The Authority deposited \$91,269,000 of U.S. Treasury securities into an irrevocable trust. The defeasance resulted in decreased interest expense of \$8,948,000 in fiscal year 1991 and total future debt service savings of \$188,580,000 over the remaining lives of the eight issues from the date of the defeasance (assuming each had been paid out in accordance with their original repayment schedules).

The investment securities deposited into the irrevocable trust and interest earned thereon are sufficient to pay when due the principal or redemption price and interest on the defeased bond issues. The bond issues are subject to redemption prior to maturity on October 1, 1991 and 1992 and April 1, 1992 at 102% or 103% of the principal amount redeemed plus accrued interest, depending on the particular bond issue. The source of funds used to purchase the investment securities for the defeasance was the Authority's unrestricted investments. Seven of these bond issues, aggregating \$58,985,000 and related interest payable at June 30, 1991, remain outstanding but are excluded from the Authority's balance sheet, as are the investment securities.

(11) Retirement Plan

The Authority and its employees participate in the State of Alaska Public Employees' Retirement System (PERS), which is a multiple-employer retirement system. All full-time employees are required to participate. Employees are required to contribute 6.75% of their salary to the plan. The Authority is required to contribute an amount that is actuarially determined on an annual basis; the contribution rate for 1990 was 13.36%. The combined contribution requirement for the year ended June 30, 1991 was \$198,820. Covered payroll for the year ended June 30, 1991 was approximately \$1,000,000, constituting substantially all of the Authority's payroll.

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Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age fifty-five or early retirement age fifty. For employees hired after June 30, 1986, the normal retirement age is sixty and the early retirement age is fifty-five. The normal annual pension benefit is equal to 2% of the member's highest three-year average monthly compensation for the first ten years of service, 2.25% for the second ten years of service and 2.5% thereafter. All service earned prior to July 1, 1986 is calculated using the 2% multiplier. Employees with thirty or more years of credited service may retire at any age and receive a normal benefit. Major medical benefits are provided without cost to all retirees first hired before July 1, 1986. Members first hired after June 30, 1986 may elect major medical benefits.

The pension benefit obligation, the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The following is information related to the State as an employer taken as a whole (000s omitted):

Projected benefit obligation:	
Current retirees and terminated participants	\$ 744,606
Current employees	<u>824,948</u>
	1,569,554
 Net assets available for benefits	 <u>1,453,007</u>
 Unfunded pension benefit obligation	 \$ <u>116,547</u>

(12) Commitments and Contingencies

Commitments

Enterprise Development Activities and Unrestricted Economic Development Projects

Included in other assets is the Authority's initial \$3,000,000 investment in a venture capital partnership in which it is a limited partner. The Authority is committed to invest an additional \$3,000,000 upon receipt of thirty days notice from the general partner.

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At June 30, 1991, the Authority held approximately \$581,000 of borrower and participating lender money which had not yet been remitted or applied. The money and related liability are not reflected in the accompanying financial statements.

In July 1991, the Board of Directors approved a financing plan for the Healy Project which includes restricting \$51,600,000, plus future interest earnings thereon, for construction costs. The money will be repaid in the future from Healy Project revenues and bonds to be issued to provide long-term financing. The \$51,600,000 is shown as a restricted investment.

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. 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.