

ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY REVOLVING FUND

Combined Financial Statements

June 30, 1993 and 1992

(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, 1993 and 1992, 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, 1993 and 1992, 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.

*KPMG Peat Marwick*

August 20, 1993

ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY REVOLVING FUND

Combined Balance Sheets

June 30, 1993 and 1992  
with combining information at June 30, 1993

<u>Assets</u>	<u>Combining Information</u>		<u>Combined</u>	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects (note 3)	1993	1992
Cash and cash equivalents, partially restricted (note 5)	\$ 11,476,129	3,576,652	15,052,781	34,739,566
Investment securities, partially restricted (notes 3 and 5)	355,834,712	92,518,324	448,353,036	406,593,565
Loans (note 6)	216,898,077	50,789,834	267,687,911	268,050,322
Less allowance for loan losses (note 7)	14,804,504	1,924,884	16,729,388	16,478,219
Net loans	<u>202,093,573</u>	<u>48,864,950</u>	<u>250,958,523</u>	<u>251,572,103</u>
Net investment in direct financing leases (notes 3 and 8)	45,406,911	181,652,491	227,059,402	216,586,607
Accrued interest receivable	6,805,502	1,837,803	8,643,305	9,115,368
Prepaid bond insurance, net	-	4,156,876	4,156,876	4,331,903
Investment in development projects (note 3)	-	41,794,949	41,794,949	21,268,368
Other real estate owned	13,015,507	1,203,816	14,219,323	14,193,160
Venture capital limited partnership investment	5,872,666	-	5,872,666	5,898,280
Other	501,440	2,200,419	2,701,859	1,024,721
	<u>\$ 641,006,440</u>	<u>377,806,280</u>	<u>1,018,812,720</u>	<u>965,323,641</u>
<u>Liabilities and Equity</u>				
Liabilities:				
Bonds payable (note 9)	\$ 168,525,000	99,965,000	268,490,000	257,190,000
Accrued interest payable	3,128,862	1,768,479	4,897,341	5,266,327
Accounts payable	2,949,489	4,390,606	7,340,095	9,686,945
Total liabilities	<u>174,603,351</u>	<u>106,124,085</u>	<u>280,727,436</u>	<u>272,143,272</u>
Equity:				
Contributed capital	197,800,632	185,738,673	383,539,305	375,017,489
Retained earnings	268,602,457	85,943,522	354,545,979	318,162,880
Total equity	<u>466,403,089</u>	<u>271,682,195</u>	<u>738,085,284</u>	<u>693,180,369</u>
Commitments and contingencies (notes 3, 11 and 12)				
	<u>\$ 641,006,440</u>	<u>377,806,280</u>	<u>1,018,812,720</u>	<u>965,323,641</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, 1993 and 1992  
with combining information for 1993

	<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>1993</u>	<u>1992</u>
<b>Revenues:</b>				
Interest income:				
Loans (note 6)	\$ 19,618,284	4,170,472	23,788,756	24,565,486
Investments	20,962,955	5,321,412	26,284,367	30,274,419
Direct financing leases	2,275,584	11,273,055	13,548,639	13,633,188
Total interest income	<u>42,856,823</u>	<u>20,764,939</u>	<u>63,621,762</u>	<u>68,473,093</u>
Other income	446,131	-	446,131	478,012
Total revenues	<u>43,302,954</u>	<u>20,764,939</u>	<u>64,067,893</u>	<u>68,951,105</u>
<b>Expenses:</b>				
Interest	13,546,692	7,144,685	20,691,377	21,437,373
General and administrative	2,315,898	490,127	2,806,025	2,936,980
Bond insurance	-	175,026	175,026	175,026
Write-downs and net expense (income) associated with other real estate owned	2,786,009	164,983	2,950,992	(93,139)
Provision for lease losses	-	-	-	2,000,000
Total expenses	<u>18,648,599</u>	<u>7,974,821</u>	<u>26,623,420</u>	<u>26,456,240</u>
Income before extraordinary item	24,654,355	12,790,118	37,444,473	42,494,865
Extraordinary item - loss on refunding of debt (note 10)	(1,061,374)	-	(1,061,374)	-
Net income	<u>23,592,981</u>	<u>12,790,118</u>	<u>36,383,099</u>	<u>42,494,865</u>
Retained earnings at beginning of year	<u>245,009,476</u>	<u>73,153,404</u>	<u>318,162,880</u>	<u>275,668,015</u>
Retained earnings at end of year	\$ <u>268,602,457</u>	<u>85,943,522</u>	<u>354,545,979</u>	<u>318,162,880</u>

See accompanying notes to combined financial statements.

ALASKA INDUSTRIAL DEVELOPMENT  
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Combined Statements of Cash Flows

Years ended June 30, 1993 and 1992  
with combining information for 1993

	<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>1993</u>	<u>1992</u>
<b>Cash flows from operating activities:</b>				
Net income	\$ 23,592,981	12,790,118	36,383,099	42,494,865
Adjustments to reconcile net income to net cash provided (used) by operating activities:				
Net amortization of premium and discount on investment securities	1,942,636	233,186	2,175,822	1,475,767
Provision for loan and lease losses	-	-	-	2,000,000
Amortization of prepaid bond insurance	-	175,026	175,026	175,026
Write-downs and net loss on sale of other real estate owned	1,043,462	68,178	1,111,640	107,986
Amortization of unearned income on direct financing leases	(2,275,584)	(11,273,055)	(13,548,639)	(13,633,188)
Decrease (increase) in accrued interest receivable and other assets	629,950	(1,835,025)	(1,205,075)	912,184
Increase (decrease) in accrued interest and accounts payable	(1,227,722)	(1,488,113)	(2,715,835)	54,216
Net cash provided (used) by operating activities	<u>23,705,723</u>	<u>(1,329,685)</u>	<u>22,376,038</u>	<u>33,586,856</u>
<b>Cash flows from capital related financing activities:</b>				
Investment in direct financing leases	(12,316,240)	(1,259,789)	(13,576,029)	(22,546,614)
Direct financing lease receipts	4,828,450	11,823,424	16,651,874	15,846,506
Contributions to capital	-	8,521,816	8,521,816	6,883,021
Issuance of bonds	28,000,000	-	28,000,000	7,000,000
Payments on bonds	(1,010,000)	(1,685,000)	(2,695,000)	(2,555,000)
Net cash provided by capital related financing activities	<u>19,502,210</u>	<u>17,400,451</u>	<u>36,902,661</u>	<u>4,627,913</u>
<b>Cash flows from noncapital related financing activities:</b>				
Payments on bonds	(39,270,000)	-	(39,270,000)	(8,165,000)
Issuance of bonds	<u>25,265,000</u>	<u>-</u>	<u>25,265,000</u>	<u>-</u>
Net cash provided by financing activities	<u>(14,005,000)</u>	<u>-</u>	<u>(14,005,000)</u>	<u>(8,165,000)</u>
<b>Cash flows from investing activities:</b>				
Proceeds from maturities of securities	124,903,600	41,865,154	166,768,754	225,404,775
Purchases of investment securities	(162,474,941)	(48,229,107)	(210,704,048)	(248,937,362)
Principal collected on loans	22,789,331	8,607,732	31,397,063	27,344,221
Loans originated	(26,243,200)	-	(26,243,200)	(11,052,000)
Investment in development projects	-	(20,526,581)	(20,526,581)	(16,932,260)
Loans and real estate purchased	(5,836,981)	(330,065)	(6,167,046)	-
Net proceeds from sales of other real estate owned	391,939	97,021	488,960	3,527,202
Net investment in venture capital limited partnership	<u>25,614</u>	<u>-</u>	<u>25,614</u>	<u>(2,898,280)</u>
Net cash used in investing activities	<u>(46,444,638)</u>	<u>(18,515,846)</u>	<u>(64,960,484)</u>	<u>(23,543,704)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(17,241,705)</u>	<u>(2,445,080)</u>	<u>(19,686,785)</u>	<u>6,506,065</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>28,717,834</u>	<u>6,021,732</u>	<u>34,739,566</u>	<u>28,233,501</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 11,476,129</u>	<u>3,576,652</u>	<u>15,052,781</u>	<u>34,739,566</u>

See accompanying notes to combined financial statements.

ALASKA INDUSTRIAL DEVELOPMENT  
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Notes to Combined Financial Statements

June 30, 1993 and 1992

(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, 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.

Enterprise Development Account

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

- a. A 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 manufacturing facilities, public-use projects and business enterprises. The Authority currently 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 of any loan is \$1,000,000.
- d. A venture-capital program whereby the Authority has invested in a venture-capital partnership (the Polaris Fund) with the purpose of inducing venture capitalists to Alaska to take advantage of investment opportunities. However, the Polaris Fund is permitted to make investments outside of Alaska.

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ALASKA INDUSTRIAL DEVELOPMENT  
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Notes to Combined Financial Statements

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 include:

- a. The DeLong Mountain Transportation System (Red Dog Project) which consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit, one of the largest zinc deposits in the world, located in the DeLong Mountains in northwestern Alaska (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 was financed by a \$25,000,000 bond issue completed in December 1990. The purchase of a recently completed petroleum products tank farm and vehicle fueling facility (Skagway Tank Farm) was financed using funds of the Enterprise Development Account.
- c. Construction of improvements to the City of Unalaska Marine Center (Unalaska Project), a public port facility located in the Aleutian Islands. The Unalaska Project was financed by a \$7,000,000 bond issue completed in December 1991.
- d. Acquisition, improvement and leaseback of three aircraft hangars located in Fairbanks, Unalaska and Bethel, Alaska (MarkAir Project). The acquisition and improvements were financed using funds of the Enterprise Development Account.
- e. Construction of an aircraft hangar and maintenance facilities at the Anchorage International Airport (Federal Express Project). The Federal Express Project was financed by a \$28,000,000 bond issue completed in September 1992.
- f. In fiscal year 1991, the Authority received a \$25,000,000 appropriation made by the 1990 Legislature, received a grant authorization from the U.S. Department of Energy and was authorized by the 1990 Legislature 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).

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- g. The Authority is authorized to issue up to \$55,000,000 of bonds to finance the acquisition, construction and equipping of a hangar to be located at the Anchorage International Airport which would have provided aircraft maintenance, fleet service and cargo handling and shop areas and would have been leased to Alaska Airlines, Inc. (Alaska Airlines). Alaska Airlines canceled plans to build the facility. However, the Authority continues to have the legislative authorization to build the facility.
- h. The Authority also has bonding authorization for a \$40,000,000 fuel servicing project located at the Anchorage International Airport; \$50,000,000 for a port facility in the Matanuska-Susitna Borough; and \$50,000,000 for the freezer and transportation component of a value-added seafood processing facility to be constructed in Anchorage.

Other

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 federal 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. The Authority is authorized to issue revenue bonds to finance the construction of power transmission interties to be owned by electric utilities in a collective amount not to exceed \$185,000,000.

Financial Statement Presentation

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

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ALASKA INDUSTRIAL DEVELOPMENT  
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Notes to Combined Financial Statements

(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 classified 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 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.

Net Investment in Direct Financing Leases

The Authority leases various projects pursuant to certain agreements (as more fully described in note 8) 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.

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.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT  
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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 the allowance is currently adequate to absorb known losses and inherent risks in the lease portfolio.

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 decline in the value of the property, gains or losses are charged or credited to operations in the current period.

Venture Capital Limited Partnership Investment

The Authority's venture capital limited partnership investment represents an investment in the Polaris Fund. The investment is accounted for at the lower of cost or market.

Income Taxes

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

Furniture and Equipment

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

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ALASKA INDUSTRIAL DEVELOPMENT  
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Notes to Combined Financial Statements

Appropriations and Grants

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

(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 northwestern 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.

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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.

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 1991. If completed, the Healy Project will also receive up to \$103,694,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program. At June 30, 1993, \$17,227,373 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 included designation of \$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. At June 30, 1993, the amount of investments and repurchase agreements so designated totaled \$57,212,356.

The State appropriation and U.S. Department of Energy grant proceeds are restricted for construction costs of the Healy Project.

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Summarized Financial Information

Summarized financial information of the Red Dog and Healy Projects, which constitute the Restricted Economic Development Projects, as of and for the year ended June 30, 1993 follows:

Balance Sheet			
June 30, 1993			
<u>Assets</u>	<u>Red Dog Project</u>	<u>Healy Project</u>	<u>Combined</u>
Cash, cash equivalents and investment securities	\$ 91,708,172	4,386,804	96,094,976
Loans, net of allowance for loan losses	48,864,950	-	48,864,950
Investment in development projects	-	41,794,949	41,794,949
Net investment in direct financing leases	181,652,491	-	181,652,491
Other	<u>9,377,914</u>	<u>21,000</u>	<u>9,398,914</u>
	<u>\$ 331,603,527</u>	<u>46,202,753</u>	<u>377,806,280</u>
<u>Liabilities and Equity</u>			
Liabilities:			
Bonds payable	\$ 99,965,000	-	99,965,000
Other	6,159,085	-	6,159,085
Total liabilities	<u>106,124,085</u>	<u>-</u>	<u>106,124,085</u>
Equity:			
Contributed capital:			
State of Alaska	143,511,300	25,000,000	168,511,300
U.S. Department of Energy	-	17,227,373	17,227,373
Total contributed capital	<u>143,511,300</u>	<u>42,227,373</u>	<u>185,738,673</u>
Retained earnings	81,968,142	3,975,380	85,943,522
Total equity	<u>225,479,442</u>	<u>46,202,753</u>	<u>271,682,195</u>
	<u>\$ 331,603,527</u>	<u>46,202,753</u>	<u>377,806,280</u>

(Continued)

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Notes to Combined Financial Statements

Statement of Income

Year ended June 30, 1993

	<u>Red Dog Project</u>	<u>Healy Project</u>	<u>Combined</u>
Revenues:			
Interest income:			
Loans	\$ 4,170,472	-	4,170,472
Investments	4,727,017	594,395	5,321,412
Direct financing leases	<u>11,273,055</u>	<u>-</u>	<u>11,273,055</u>
Total interest income	<u>20,170,544</u>	<u>594,395</u>	<u>20,764,939</u>
Expenses:			
Interest	7,144,685	-	7,144,685
Other	<u>830,136</u>	<u>-</u>	<u>830,136</u>
Total expenses	<u>7,974,821</u>	<u>-</u>	<u>7,974,821</u>
Net income	<u>\$ 12,195,723</u>	<u>594,395</u>	<u>12,790,118</u>

(4) Additional Information Regarding Cash Flows and Noncash Activities

Additional information regarding cash flows and noncash activities for the years ended June 30, 1993 and 1992 (with combining information for 1993) follows:

	Enterprise Development Activities and Unrestricted Economic Development <u>Projects</u>	Restricted Economic Development <u>Projects</u>	<u>1993</u>	<u>1992</u>
Cash flows:				
Interest collected on loans and investments	\$ 42,691,872	10,029,036	52,720,908	56,506,661
Interest paid	<u>13,892,088</u>	<u>7,168,275</u>	<u>21,060,363</u>	<u>21,536,446</u>
Noncash activity:				
Other real estate owned acquired through foreclosure	\$ 3,019,978	632,538	3,652,516	3,048,531
Sales of real estate owned	<u>3,731,895</u>	<u>577,921</u>	<u>4,309,816</u>	<u>7,401,014</u>

(Continued)

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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, 1993 and 1992 (with combining information for 1993) follow:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	1993	1992
U.S. Treasury securities maturity:				
Within one year	\$ 92,927,907	23,753,521	116,681,428	138,291,615
After one but within five years	171,665,832	49,989,492	221,655,324	228,534,946
After five but within ten years	-	-	-	9,969,060
	<u>264,593,739</u>	<u>73,743,013</u>	<u>338,336,752</u>	<u>376,795,621</u>
U.S. Government agencies maturity:				
Within one year	48,028,283	5,602,795	53,631,078	6,010,825
After one but within five years	43,212,690	13,172,516	56,385,206	23,787,119
	<u>91,240,973</u>	<u>18,775,311</u>	<u>110,016,284</u>	<u>29,797,944</u>
	<u>\$ 355,834,712</u>	<u>92,518,324</u>	<u>448,353,036</u>	<u>406,593,565</u>

At June 30, 1993, the market value of investment securities was as follows:

Enterprise Development Activities and Unrestricted Economic Development Projects	\$ 365,000,000
Restricted Economic Development Projects	<u>99,000,000</u>
	<u>\$ 464,000,000</u>

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.

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**ALASKA INDUSTRIAL DEVELOPMENT  
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Certain investment securities, repurchase agreements and cash are restricted by the terms of the Authority's bond resolutions. A summary of restricted amounts at June 30, 1993 and 1992 (with combining information at June 30, 1993) follows:

	<u>Restriction</u>	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	<u>1993</u>	<u>1992</u>
Capital Reserve Funds	Secure debt service payments - bonds	\$ 13,908,504	8,857,575	22,766,079	24,539,208
Debt Service Funds	Funds held for future debt service - bonds	752,030	-	752,030	1,216,164
Loan Prepayment Accounts	Funds held for future debt service - bonds	3,614,076	-	3,614,076	3,652,766
Loan Insurance Fund	Guarantee financing of a wastewater treatment facility in Sitka, Alaska	3,357,143	-	3,357,143	4,785,714
Business Assistance Fund	Guarantee business loans	123,642	-	123,642	558,199
Unexpended Bond Proceeds	Construction costs or, if not so used, future mandatory bond redemption	20,476,055	-	20,476,055	1,296,966
Project Funds	Construction costs and/or to secure debt service payments - bonds	-	83,660,749	83,660,749	83,551,714
		<u>\$ 42,231,450</u>	<u>92,518,324</u>	<u>134,749,774</u>	<u>119,600,731</u>

(Continued)



ALASKA INDUSTRIAL DEVELOPMENT  
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Notes to Combined Financial Statements

Certain investment securities and repurchase agreements have been designated by the Board of Directors or otherwise for various purposes. A summary of designated amounts in the Enterprise Development Activities and Unrestricted Economic Development Projects at June 30, 1993 and 1992 follows:

	<u>Designation</u>	<u>1993</u>	<u>1992</u>
Business Assistance Fund	Guarantee business loans	\$ 5,139,358	3,041,801
Healy Project Funds	Construction costs	57,212,356	53,729,018
Lease receipts	Funds held for future debt service - bonds	<u>1,683,913</u>	<u>806,180</u>
		<u>\$ 64,035,627</u>	<u>57,576,999</u>

(6) Loans

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

Loans outstanding at June 30, 1993 and 1992 (with combining information at June 30, 1993) are classified as follows:

<u>Loan program type</u>	<u>Enterprise Development Activities and Unrestricted Economic Development Projects</u>		<u>Restricted Economic Development Projects</u>		<u>1993</u>		<u>1992</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Appropriated	212	\$ 20,979,670	1,152	\$ 50,789,834	1,364	\$ 71,769,504	1,615	\$ 86,840,855
Bond sale	196	107,624,525	-	-	196	107,624,525	193	118,480,371
OREO sale								
financing	68	23,051,479	-	-	68	23,051,479	57	21,536,991
Defeased bond								
sale	63	22,886,936	-	-	63	22,886,936	56	21,177,206
Other	115	42,355,467	-	-	115	42,355,467	113	20,014,899
	<u>654</u>	<u>\$ 216,898,077</u>	<u>1,152</u>	<u>\$ 50,789,834</u>	<u>1,806</u>	<u>\$ 267,687,911</u>	<u>2,034</u>	<u>\$ 268,050,322</u>

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT  
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The aging of loans at June 30, 1993 and 1992 (with combining information at June 30, 1993) follows:

Loan type	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Projects		1993		1992	
	Number	Amount	Percent	Amount	Percent	Amount	Percent	Amount
Current	95.34%	\$ 206,795,254	94.68%	\$ 48,089,426	95.22%	\$ 254,884,680	89.29%	\$ 239,345,940
Past due:								
31-60 days	.81	1,754,706	1.37	693,073	.91	2,447,779	3.03	8,119,057
61-90 days	1.06	2,288,876	.87	442,557	1.02	2,731,433	1.29	3,445,446
Over 90 days	2.79	6,059,241	3.08	1,564,778	2.85	7,624,019	6.39	17,139,879
	<u>100.00%</u>	<u>\$ 216,898,077</u>	<u>100.00%</u>	<u>\$ 50,789,834</u>	<u>100.00%</u>	<u>\$ 267,687,911</u>	<u>100.00%</u>	<u>\$ 268,050,322</u>

Payments on loans totaling \$11,286,292 are pledged to the repayment of the Economic Development Bonds (note 9).

Loans which are more than ninety days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to \$4,635,945 and \$15,845,389 at June 30, 1993 and 1992, respectively. Gross interest income which would have been received on these loans amounted to \$444,022 for 1993 and \$1,348,000 for 1992. The amount of interest income collected and included in net income was \$260,943 for 1993 and \$806,184 for 1992.

Loans on which the terms have been restructured amounted to \$47,457,608 and \$44,204,963 at June 30, 1993 and 1992, respectively. Gross interest income which would have been received on these loans amounted to \$4,605,000 for 1993 and \$4,594,000 for 1992. The amount of interest income collected and included in net income was \$3,391,294 for 1993 and \$3,562,458 for 1992.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT  
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Notes to Combined Financial Statements

(7) Allowance for Loan Losses

An analysis of changes in the allowance for loan losses for the years ended June 30, 1993 and 1992 (with combining information at June 30, 1993) follows:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	1993	1992
Balance at beginning of year	\$ 14,496,815	1,981,404	16,478,219	20,947,645
Recoveries of loans charged off	102,710	500	103,210	16,813
Loans charged off	(1,440,815)	(107,064)	(1,547,879)	(4,486,239)
Additions to allowance for purchased loans	<u>1,645,794</u>	<u>50,044</u>	<u>1,695,838</u>	<u>-</u>
Balance at end of year	\$ <u>14,804,504</u>	<u>1,924,884</u>	<u>16,729,388</u>	<u>16,478,219</u>

(8) Net Investment in Direct Financing Leases

Curragh, Inc. (Curragh) has certain non-exclusive, priority rights in connection with the Skagway Terminal under the terms of a Terminal Access Agreement, recorded as a direct financing lease. Minimum payments under the Terminal Access Agreement are the amounts sufficient to amortize the costs of the \$25,000,000 Revolving Fund Bonds issued December 13, 1990 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. The Authority's investment in the Skagway Tank Farm is scheduled to be repaid over a seven-year period, at the prime rate plus one percent.

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Notes to Combined Financial Statements

On April 5, 1993, Curragh instituted proceedings in Toronto, Ontario, Canada, under the Companies Creditors Arrangement Act (CCAA) and an ancillary proceeding under Section 304 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Alaska. To date, Curragh has not been successful in reaching an arrangement with its creditors under the CCAA. Recently, receivers have been appointed in the CCAA proceeding in connection with all or substantially all of Curragh's assets and Curragh has become delinquent under the Terminal Access Agreement. Management of the Authority believes that any amounts not collected by the Authority pursuant to the existing agreement with Curragh would not be material to the financial statements.

The Authority leases the Unalaska Project under terms of an agreement, recorded as a direct financing lease, which transfers the Unalaska Project to the City of Unalaska after all financial obligations have been met. Minimum payments under the agreement are the amounts required to pay the annual debt service costs of the \$7,000,000 Revolving Fund Bonds issued December 10, 1991. The annual minimum lease payments range from \$742,000 to \$807,000.

The Authority leases the MarkAir Project under terms of an agreement, recorded as a direct financing lease, expiring January 1, 2007. The scheduled minimum lease payment for 1994 is \$600,000. Scheduled annual minimum lease payments for 1995 and thereafter are \$1,000,000. The tenant of the MarkAir Project is operating under U.S. Bankruptcy Court protection at June 30, 1993.

The Authority will lease the Federal Express Project under terms of an agreement which will be recorded as a direct financing lease, expiring twenty years after the facility is placed in service. 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 Red Dog Project to the Authority over fifty years at an interest rate of 6.5%.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT  
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The components of the Authority's net investment in direct financing leases at June 30, 1993 and 1992 (with combining information at June 30, 1993) are:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects- Red Dog	<u>1993</u>	<u>1992</u>
Minimum lease payments receivable	\$ 75,095,023	565,059,369	640,154,392	624,396,048
Less:				
Unearned income	27,688,112	383,406,878	411,094,990	415,809,441
Allowance for lease receivables	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>	<u>2,000,000</u>
Net investment in direct financing leases	\$ <u>45,406,911</u>	<u>181,652,491</u>	<u>227,059,402</u>	<u>216,586,607</u>

At June 30, 1993, future minimum lease payments receivable, including the projected receivable for the Federal Express Project, for each of the five succeeding fiscal years are:

Year ending <u>June 30</u>	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	<u>Combined</u>
1994	\$ 4,447,000	11,958,000	16,405,000
1995	6,930,000	11,958,000	18,888,000
1996	7,568,000	11,958,000	19,526,000
1997	7,562,000	11,958,000	19,520,000
1998	<u>7,560,000</u>	<u>11,958,000</u>	<u>19,518,000</u>

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ALASKA INDUSTRIAL DEVELOPMENT  
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(9) Bonds Payable

The composition of bonds outstanding at June 30, 1993 and 1992 (with combining information at June 30, 1993) follows (maturity date information is as of June 30, 1993):

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Projects	<u>1993</u>	<u>1992</u>
Economic Development Bonds:				
10.25% and 10.5%, issued November 30, 1983, called July 1993	\$ 70,000	-	70,000	5,420,000
10.5% and 10.75%, issued December 29, 1983, maturing through 2004	750,000	-	750,000	10,000,000
10.75% to 11.4%, issued July 26, 1984, maturing through 2010	5,175,000	-	5,175,000	6,965,000
9% to 10%, issued December 20, 1984, maturing through 2004	5,265,000	-	5,265,000	5,745,000
Consolidated Bonds:				
9.5% to 10.25%, issued August 4, 1983	-	-	-	12,630,000
9.75% to 10.5%, issued November 30, 1983	-	-	-	3,600,000
10.5% and 10.75%, issued December 29, 1983, maturing through 2004	800,000	-	800,000	1,850,000
9.75% to 10.6%, issued November 8, 1984, maturing through 2009	4,725,000	-	4,725,000	4,855,000
Variable Demand/Fixed Rate Bonds - 7.5% and 7.7%, issued October 30, 1984, maturing through 2004	7,905,000	-	7,905,000	8,460,000
Tax-exempt Umbrella Bonds:				
8.5% to 9.3%, issued June 12, 1985, maturing through 2010	12,285,000	-	12,285,000	12,775,000
7.5% to 8.125%, issued October 21, 1985, maturing through 2006	19,370,000	-	19,370,000	20,530,000
7.5% to 8.5%, issued December 19, 1985, maturing through 2006	10,560,000	-	10,560,000	11,085,000
7.65% to 8.875%, issued December 19, 1986, maturing through 2012	11,295,000	-	11,295,000	11,930,000
Taxable Umbrella Bonds - 9.375% to 9.65%, issued August 6, 1987, maturing through 1997	7,635,000	-	7,635,000	9,260,000
Revolving Fund Bonds:				
6.9% to 7.95%, issued December 13, 1990, maturing through 2010	23,060,000	-	23,060,000	23,745,000
6% to 7.3%, issued December 10, 1991, maturing through 2006	6,365,000	-	6,365,000	6,690,000
4.9% to 6.5% issued September 30, 1992, maturing through 2014	28,000,000	-	28,000,000	-
Refunding Revolving Fund Bonds:				
3.5% to 6.2%, issued June 3, 1993, maturing through 2010	25,265,000	-	25,265,000	-
Delong Mountain Transportation Project Revenue Bonds - 5.8% to 7.3%, issued March 17, 1987, maturing through 2017	-	99,965,000	99,965,000	101,650,000
	<u>\$ 168,525,000</u>	<u>99,965,000</u>	<u>268,490,000</u>	<u>257,190,000</u>

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ALASKA INDUSTRIAL DEVELOPMENT  
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Notes to Combined Financial Statements

At June 30, 1993, Economic Development, Consolidated, Variable, Demand/Fixed Rate, Umbrella and Revolving Fund Bonds (including Refunding) are secured by the general assets and future revenues of the Enterprise Development Account and the Unrestricted Economic Development Account Projects. Various bonds are further secured by loans, loan proceeds and capital reserve funds established pursuant to terms of the bond resolutions (notes 5 and 6). The Taxable Umbrella Bonds are additionally secured by a letter of credit. At June 30, 1993, 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, 1993, principal portions of the bonds payable mature as follows:

Year ending June 30	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Projects	Combined
1994	\$	7,850,000	1,780,000	9,630,000
1995		8,525,000	1,885,000	10,410,000
1996		9,155,000	2,000,000	11,155,000
1997		11,760,000	2,120,000	13,880,000
1998		9,220,000	2,250,000	11,470,000
1999-2017		<u>122,015,000</u>	<u>89,930,000</u>	<u>211,945,000</u>
	\$	<u>168,525,000</u>	<u>99,965,000</u>	<u>268,490,000</u>

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ALASKA INDUSTRIAL DEVELOPMENT  
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## Notes to Combined Financial Statements

Enterprise Development Account bond resolution covenants effective June 30, 1993 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, and in no event less than \$100,000,000. At June 30, 1993, the lowest projected future coverage for any year is 193%, giving effect only to existing projects at that date, including the projected effect of completion of the Healy Project, and excluding the effect of other proposed projects and future construction expenditures. At June 30, 1993, unrestricted surplus was \$445,600,000.

(10) Bond Refunding

On June 3, 1993, the Authority issued \$25,265,000 of Refunding Revolving Fund Bonds for the purpose of redeeming all or a portion of five bond issues. The refunding resulted in debt service payments approximately \$11,000,000 less than the refunded bonds over the next seventeen years. There was an economic gain of approximately \$4,800,000. Economic gain is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid. The financial statements reflect a \$1,061,374 extraordinary loss on refunding.

(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 1993 was 14.92%. The combined contribution requirement for the year ended June 30, 1993 was \$239,000. Covered payroll for the year ended June 30, 1993 was approximately \$1,100,000, 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 and is at June 30, 1992, the most recent actuarial valuation (in millions):

Projected benefit obligation:	
Current retirees and terminated participants	\$ 1,037
Current employees	<u>1,107</u>
	2,144
 Net assets available for benefits	 <u>1,858</u>
 Unfunded pension benefit obligation	 \$ <u>286</u>

(12) Commitments and Contingencies

Commitments

At June 30, 1993, the Authority held approximately \$668,000 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.

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Environmental Issues

The Authority has identified certain properties and pledged collateral which may contain contaminated soils, and is currently undergoing environmental site assessments. The Authority's policy is to record a liability when the likelihood of responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 1993, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

Other Commitments and Contingencies

The Authority from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and guarantees, which are not reflected in the accompanying financial statements. At June 30, 1993, the Authority had entered into loan commitment agreements for loans of \$11,120,000 and committed to purchase \$1,000,000 of investment securities. 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.