

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY REVOLVING FUND

Combined Financial Statements

June 30, 1994 and 1993

(With Independent Auditors' Report Thereon)

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, 1994 and 1993, 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, 1994 and 1993, 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 LLP

August 16, 1994



Member Firm of
Klynveld Peat Marwick Goerdeler

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

Combined Balance Sheets

June 30, 1994 and 1993
with combining information at June 30, 1994

<u>Assets</u>	<u>Combining Information</u>		<u>Combined</u>	
	<u>Enterprise Development Activities and Unrestricted Economic Development Projects</u>	<u>Restricted Economic Development Project (note 3)</u>	<u>1994</u>	<u>1993</u>
Cash and cash equivalents, partially restricted (note 5)	\$ 36,847,343	1,880,574	38,727,917	15,052,781
Investment securities, partially restricted (note 5)	300,961,458	108,684,395	409,645,853	448,353,036
Loans (note 6)	216,343,028	41,329,634	257,672,662	267,687,911
Less allowance for loan losses (note 7)	14,746,705	1,852,301	16,599,006	16,729,388
Net loans	<u>201,596,323</u>	<u>39,477,333</u>	<u>241,073,656</u>	<u>250,958,523</u>
Net investment in direct financing leases (notes 3 and 8)	37,120,293	180,897,584	218,017,877	227,059,402
Accrued interest receivable	5,519,285	1,968,681	7,487,966	8,643,305
Prepaid bond insurance, net	-	3,981,850	3,981,850	4,156,876
Investment in development projects (note 8)	72,338,750	-	72,338,750	41,794,949
Other real estate owned	12,504,980	473,255	12,978,235	14,219,323
Venture capital limited partnership investment	5,834,006	-	5,834,006	5,872,666
Other	<u>2,381,048</u>	<u>2,562,508</u>	<u>4,943,556</u>	<u>2,701,859</u>
	<u>\$ 675,103,486</u>	<u>339,926,180</u>	<u>1,015,029,666</u>	<u>1,018,812,720</u>
<u>Liabilities and Equity</u>				
Liabilities:				
Bonds payable (notes 9 and 10)	\$ 130,515,000	98,185,000	228,700,000	268,490,000
Accrued interest payable	2,326,211	1,742,669	4,068,880	4,897,341
Accounts payable	4,027,139	2,747,115	6,774,254	7,340,095
Total liabilities	<u>136,868,350</u>	<u>102,674,784</u>	<u>239,543,134</u>	<u>280,727,436</u>
Equity:				
Contributed capital	244,897,695	143,511,300	388,408,995	383,539,305
Retained earnings	<u>293,337,441</u>	<u>93,740,096</u>	<u>387,077,537</u>	<u>354,545,979</u>
Total equity	<u>538,235,136</u>	<u>237,251,396</u>	<u>775,486,532</u>	<u>738,085,284</u>
Commitments and contingencies (notes 3, 8, 11 and 12)				
	<u>\$ 675,103,486</u>	<u>339,926,180</u>	<u>1,015,029,666</u>	<u>1,018,812,720</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, 1994 and 1993
with combining information for 1994

	<u>Combining Information</u>		<u>Combined</u>	
	<u>Enterprise Development Activities and Unrestricted Economic Development Projects</u>	<u>Restricted Economic Development Project (note 3)</u>	<u>1994</u>	<u>1993</u>
Revenues:				
Interest income:				
Loans (note 6)	\$ 18,427,386	3,363,953	21,791,339	23,788,756
Investments	19,096,572	5,243,828	24,340,400	26,284,367
Direct financing leases	625,072	11,298,620	11,923,692	13,548,639
Total interest income	<u>38,149,030</u>	<u>19,906,401</u>	<u>58,055,431</u>	<u>63,621,762</u>
Other income	509,689	-	509,689	446,131
Total revenues	<u>38,658,719</u>	<u>19,906,401</u>	<u>58,565,120</u>	<u>64,067,893</u>
Expenses:				
Interest	10,124,065	7,048,105	17,172,170	20,691,377
General and administrative	2,524,317	414,602	2,938,919	2,806,025
Bond insurance	-	175,026	175,026	175,026
Write-downs and net expense associated with other real estate owned	949,645	496,714	1,446,359	2,950,992
Provision for loan and development project losses	2,000,000	-	2,000,000	-
Total expenses	<u>15,598,027</u>	<u>8,134,447</u>	<u>23,732,474</u>	<u>26,623,420</u>
Income before extraordinary item	23,060,692	11,771,954	34,832,646	37,444,473
Extraordinary item - loss on refunding and defeasance of debt (note 10)	(2,301,088)	-	(2,301,088)	(1,061,374)
Net income	<u>20,759,604</u>	<u>11,771,954</u>	<u>32,531,558</u>	<u>36,383,099</u>
Retained earnings at beginning of year	<u>272,577,837</u>	<u>81,968,142</u>	<u>354,545,979</u>	<u>318,162,880</u>
Retained earnings at end of year	<u>\$ 293,337,441</u>	<u>93,740,096</u>	<u>387,077,537</u>	<u>354,545,979</u>

See accompanying notes to combined financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT
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Combined Statements of Cash Flows

Years ended June 30, 1994 and 1993
with combining information for 1994

	<u>Combining Information</u>		<u>Combined</u>	
	<u>Enterprise Development Activities and Unrestricted Economic Development Projects</u>	<u>Restricted Economic Development Project (note 3)</u>	<u>1994</u>	<u>1993</u>
Cash flows from operating activities:				
Net income	\$ 20,759,604	11,771,954	32,531,558	36,383,099
Adjustments to reconcile net income to net cash provided (used) by operating activities:				
Net amortization of premium and discount on investment securities	1,100,260	344,828	1,445,088	2,175,822
Provision for loan and development project losses	2,000,000	-	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	325,330	303,011	628,341	1,111,640
Amortization of unearned income on direct financing leases	(625,072)	(11,298,620)	(11,923,692)	(13,548,639)
Increase in accrued interest receivable and other assets	(572,391)	(513,966)	(1,086,357)	(1,205,075)
Increase (decrease) in accrued interest and accounts payable	302,228	(1,669,302)	(1,367,074)	(2,715,835)
Net cash provided (used) by operating activities	<u>23,289,959</u>	<u>(887,069)</u>	<u>22,402,890</u>	<u>22,376,038</u>
Cash flows from capital related financing activities:				
Investment in direct financing leases	(13,529,705)	95,091	(13,434,614)	(13,576,029)
Direct financing lease receipts	1,233,623	11,958,436	13,192,059	16,651,874
Contributions to capital	4,869,690	-	4,869,690	8,521,816
Issuance of bonds	-	-	-	28,000,000
Payments on bonds	(2,365,000)	(1,780,000)	(4,145,000)	(2,695,000)
Net cash provided (used) by capital related financing activities	<u>(9,791,392)</u>	<u>10,273,527</u>	<u>482,135</u>	<u>36,902,661</u>
Cash flows from noncapital related financing activities:				
Payments on bonds	(47,080,000)	-	(47,080,000)	(39,270,000)
Issuance of bonds	11,435,000	-	11,435,000	25,265,000
Net cash used by noncapital related financing activities	<u>(35,645,000)</u>	<u>-</u>	<u>(35,645,000)</u>	<u>(14,005,000)</u>
Cash flows from investing activities:				
Proceeds from maturities of securities	176,370,000	34,502,394	210,872,394	166,768,754
Purchases of investment securities	(120,597,006)	(53,013,292)	(173,610,298)	(210,704,048)
Principal collected on loans	29,644,883	9,365,048	39,009,931	31,397,063
Loans originated	(29,145,000)	-	(29,145,000)	(26,243,200)
Investment in development projects	(10,336,029)	-	(10,336,029)	(20,526,581)
Loans and real estate purchased	(1,734,996)	-	(1,734,996)	(6,167,046)
Net proceeds from sales of other real estate owned	890,331	450,118	1,340,449	488,960
Net investment in venture capital limited partnership	38,660	-	38,660	25,614
Net cash provided (used) by investing activities	<u>45,130,843</u>	<u>(8,695,732)</u>	<u>36,435,111</u>	<u>(64,960,484)</u>
Net increase (decrease) in cash and cash equivalents	22,984,410	690,726	23,675,136	(19,686,785)
Cash and cash equivalents at beginning of year	13,862,933	1,189,848	15,052,781	34,739,566
Cash and cash equivalents at end of year	\$ 36,847,343	1,880,574	38,727,917	15,052,781

See accompanying notes to combined financial statements.

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY REVOLVING FUND

Notes to Combined Financial Statements

June 30, 1994 and 1993

(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.

In addition to the Revolving Fund, the Authority administers certain activities of the Alaska Energy Authority, which activities are not included in the accompanying financial statements.

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 tax-exempt bonds outstanding under this program, which are general obligations 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.

(Continued)

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 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). The Healy Project will also receive up to \$117,327,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program. At June 30, 1994, \$22,097,063 had been received from the U.S. Department of Energy.

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Notes to Combined Financial Statements

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, 1994, the amount of investments and repurchase agreements so designated totaled \$59,631,821.

- 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 (the potential user of this facility is proceeding with financing exclusive of Authority involvement); \$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.

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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, the Skagway Terminal and the Unalaska, MarkAir, Federal Express and Healy Projects of the Economic Development Account.

The column entitled Restricted Economic Development Project includes the Red Dog Project 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 premiums and accretion of discounts, 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.

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ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

Allowance for Loan Losses

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

Allowance for Lease Receivables

The allowance for lease receivables represents management's judgment as to the amount required to absorb potential unrealizable direct financing lease receivables. The factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions and other factors. Management's opinion is that 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.

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ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

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.

(3) Restricted Economic Development Project

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 Authority's unrestricted programs under legislation passed in 1994 which requires the payment of \$60,000,000 by the Authority to the State's General Fund during fiscal year 1995.

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.

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Notes to Combined Financial Statements

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.

- (4) Additional Information Regarding Cash Flows and Noncash Activities
Additional information regarding cash flows and noncash activities for the years ended June 30, 1994 and 1993 (with combining information for 1994) follows:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	<u>1994</u>	<u>1993</u>
Cash flows:				
Interest collected on loans and investments	\$ 38,810,175	8,476,903	47,287,078	52,720,908
Interest paid	<u>10,926,716</u>	<u>7,073,915</u>	<u>18,000,631</u>	<u>21,060,363</u>
Noncash activity:				
Skagway lease receivable reclassified to investment in development projects (note 8)	\$ 20,207,771	-	20,207,771	-
Other real estate owned acquired through foreclosure	4,025,686	60,318	4,086,004	3,652,516
Sales of real estate owned	<u>3,078,572</u>	<u>488,118</u>	<u>3,566,690</u>	<u>4,309,816</u>

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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, 1994 and 1993 (with combining information for 1994) follow:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	<u>1994</u>	<u>1993</u>
U.S. Treasury securities maturity:				
Within one year	\$ 78,150,300	41,015,218	119,165,518	116,681,428
After one but within five years	<u>102,097,972</u>	<u>54,073,089</u>	<u>156,171,061</u>	<u>221,655,324</u>
	<u>180,248,272</u>	<u>95,088,307</u>	<u>275,336,579</u>	<u>338,336,752</u>
U.S. Government agencies maturity:				
Within one year	41,331,115	9,746,663	51,077,778	53,631,078
After one but within five years	72,863,024	3,849,425	76,712,449	56,385,206
After five but within ten years	<u>6,519,047</u>	<u>-</u>	<u>6,519,047</u>	<u>-</u>
	<u>120,713,186</u>	<u>13,596,088</u>	<u>134,309,274</u>	<u>110,016,284</u>
	<u>\$ 300,961,458</u>	<u>108,684,395</u>	<u>409,645,853</u>	<u>448,353,036</u>

At June 30, 1994, the market value of investment securities was as follows:

Enterprise Development Activities and Unrestricted Economic Development Projects	\$ 300,074,908
Restricted Economic Development Project	<u>109,365,515</u>
	<u>\$ 409,440,423</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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Notes to Combined Financial Statements

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, 1994 and 1993 (with combining information at June 30, 1994) follows:

	<u>Restriction</u>	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	<u>1994</u>	<u>1993</u>
Capital Reserve Funds	Secure debt service payments - bonds	\$ 8,584,077	8,857,575	17,441,652	22,766,079
Debt Service Funds	Funds held for future debt service - bonds	51,913	-	51,913	752,030
Loan Prepayment Accounts	Funds held for future debt service - bonds	1,606,057	-	1,606,057	3,614,076
Loan Insurance Fund	Guarantee financing of a wastewater treatment facility in Sitka, Alaska	1,928,572	-	1,928,572	3,357,143
Business Assistance Fund	Guarantee business loans	111,365	-	111,365	123,642
Unexpended Bond Proceeds	Construction costs or, if not so used, future mandatory bond redemption	7,634,900	-	7,634,900	22,258,671
Project Funds	Secure debt service payments - bonds	-	101,707,394	101,707,394	87,237,401
		<u>\$ 19,916,884</u>	<u>110,564,969</u>	<u>130,481,853</u>	<u>140,109,042</u>

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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, 1994 and 1993 follows:

	<u>Designation</u>	<u>1994</u>	<u>1993</u>
Business Assistance Fund	Guarantee business loans	\$ 5,261,886	5,139,358
Healy Project Funds	Construction costs	59,631,821	57,212,356
Lease receipts	Funds held for future debt service - bonds	-	1,683,913
		<u>\$ 64,893,707</u>	<u>64,035,627</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, 1994 and 1993 (with combining information at June 30, 1994) are classified as follows:

<u>Loan program type</u>	<u>Enterprise Development Activities and Unrestricted Economic Development Projects</u>		<u>Restricted Economic Development Project</u>		<u>1994</u>		<u>1993</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	131	\$ 15,393,679	944	\$ 41,329,634	1,075	\$ 56,723,313	1,364	\$ 71,769,504
Loan participation:								
Bonds								
outstanding	157	83,440,319	-	-	157	83,440,319	196	107,624,525
Bonds retired	70	30,663,230	-	-	70	30,663,230	63	22,886,936
Internally funded	54	62,201,048	-	-	54	62,201,048	27	37,539,426
OREO sale financing	68	21,659,183	-	-	68	21,659,183	68	23,051,479
Other	66	2,985,569	-	-	66	2,985,569	88	4,816,041
	<u>546</u>	<u>\$ 216,343,028</u>	<u>944</u>	<u>\$ 41,329,634</u>	<u>1,490</u>	<u>257,672,662</u>	<u>1,806</u>	<u>\$ 267,687,911</u>

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT
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The aging of loans at June 30, 1994 and 1993 (with combining information at June 30, 1994) follows:

Loan type	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Project		1994		1993	
	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
Current	91.95%	\$ 198,920,205	91.39%	\$ 37,770,348	91.85%	\$ 236,690,553	95.22%	\$ 254,884,680
Past due:								
31-60 days	6.71	14,527,240	4.23	1,747,766	6.32	16,275,006	.91	2,447,779
61-90 days	.41	883,171	1.39	574,911	.57	1,458,082	1.02	2,731,433
Over 90 days	.93	2,012,412	2.99	1,236,609	1.26	3,249,021	2.85	7,624,019
	<u>100.00%</u>	<u>\$ 216,343,028</u>	<u>100.00%</u>	<u>\$ 41,329,634</u>	<u>100.00%</u>	<u>\$ 257,672,662</u>	<u>100.00%</u>	<u>\$ 267,687,911</u>

Loans which are more than ninety days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to \$2,524,348 and \$4,635,945 at June 30, 1994 and 1993, respectively. Gross interest income which would have been received on these loans amounted to \$265,147 for 1994 and \$444,022 for 1993. The amount of interest income collected and included in net income was \$161,032 for 1994 and \$260,943 for 1993.

Loans on which the terms have been restructured amounted to \$33,472,399 and \$47,457,608 at June 30, 1994 and 1993, respectively. Gross interest income which would have been received on these loans amounted to \$3,006,709 for 1994 and \$4,605,000 for 1993. The amount of interest income collected and included in net income was \$2,056,008 for 1994 and \$3,391,294 for 1993.

(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, 1994 and 1993 (with combining information at June 30, 1994) follows:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	<u>1994</u>	<u>1993</u>
Balance at beginning of year	\$ 14,804,504	1,924,884	16,729,388	16,478,219
Provision for loan losses	1,000,000	-	1,000,000	-
Recoveries of loans charged off	30,144	12,605	42,749	103,210
Loans charged off	(1,204,130)	(85,188)	(1,289,318)	(1,547,879)
Additions to allowance for purchased loans	<u>116,187</u>	<u>-</u>	<u>116,187</u>	<u>1,695,838</u>
Balance at end of year	\$ <u>14,746,705</u>	<u>1,852,301</u>	<u>16,599,006</u>	<u>16,729,388</u>

(8) Net Investment in Direct Financing Leases

The Authority leases the Unalaska Project under terms of an agreement, recorded as a direct financing lease, which transfers the Unalaska Project to the City of Unalaska after all financial obligations have been met. Minimum payments under the agreement are the amounts required to pay the annual debt service costs of the \$7,000,000 Revolving Fund Bonds issued December 10, 1991. The annual minimum lease payments range from \$742,000 to \$797,000.

The Authority leases the MarkAir Project under terms of an agreement, recorded as a direct financing lease, expiring January 1, 2007. Scheduled annual minimum lease payments are approximately \$700,000 in 1995, \$1,200,000 per year in 1996 through 2000, and \$1,000,000 per year thereafter. The tenant of the MarkAir Project emerged from U.S. Bankruptcy Court protection during the year ended June 30, 1994.

(Continued)

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Notes to Combined Financial Statements

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%.

The components of the Authority's net investment in direct financing leases at June 30, 1994 and 1993 (with combining information at June 30, 1994) are:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	<u>1994</u>	<u>1993</u>
Minimum lease payments receivable	\$ 47,761,201	553,005,842	600,767,043	640,154,392
Less:				
Unearned income	8,640,908	372,108,258	380,749,166	411,094,990
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>37,120,293</u>	<u>180,897,584</u>	<u>218,017,877</u>	<u>227,059,402</u>

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ALASKA INDUSTRIAL DEVELOPMENT
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At June 30, 1994, 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 <u>Projects</u>	Restricted Economic Development <u>Project</u>	<u>Combined</u>
1995	\$ 1,576,890	11,958,000	13,534,890
1996	2,190,100	11,958,000	14,148,100
1997	2,184,789	11,958,000	14,142,789
1998	2,182,336	11,958,000	14,140,336
1999	2,177,726	11,958,000	14,135,726

The Authority, under the terms of a Terminal Access Agreement recorded as a direct financing lease, had provided Curragh, Inc. (Curragh) with certain nonexclusive, priority rights in connection with the Skagway Terminal. 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. Curragh has been liquidated, and the receiver appointed in the CCAA proceeding is in the process of selling substantially all of Curragh's assets. The Authority has not received payment from Curragh pursuant to the Terminal Access Agreement since April 1993. As a result of Curragh's liquidation, the Authority has reclassified the direct financing lease receivable of \$20,207,771 to investment in development projects in the accompanying financial statements. The Authority believes that another user of the Skagway Terminal will be found through the process of selling Curragh's assets, and that the recoverability of its investment in the Skagway Terminal is assured.

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**ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

(9) Bonds Payable

The composition of bonds outstanding at June 30, 1994 and 1993 (with combining information at June 30, 1994) follows (maturity date information is as of June 30, 1994):

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1994	1993
Economic Development Bonds:				
10.25% and 10.5%, issued November 30, 1983	\$ -	-	-	70,000
10.5% and 10.75%, issued December 29, 1983	-	-	-	750,000
10.75% to 11.4%, issued July 26, 1984	-	-	-	5,175,000
9% to 10%, issued December 20, 1984	-	-	-	5,265,000
Consolidated Bonds:				
10.5% and 10.75%, issued December 29, 1983	-	-	-	800,000
9.75% to 10.6%, issued November 8, 1984	-	-	-	4,725,000
Variable Demand/Fixed Rate Bonds - 7.5% and 7.7%, issued October 30, 1984, maturing through 2004	7,300,000	-	7,300,000	7,905,000
Tax-exempt Umbrella Bonds:				
8.7% to 9.3%, issued June 12, 1985, maturing through 2010	10,365,000	-	10,365,000	12,285,000
7.6% to 8.125%, issued October 21, 1985, maturing through 2006	7,785,000	-	7,785,000	19,370,000
7.7% to 8.5%, issued December 19, 1985, maturing through 2006	6,530,000	-	6,530,000	10,560,000
7.85% to 8.875%, issued December 19, 1986, maturing through 2012	7,790,000	-	7,790,000	11,295,000
Taxable Umbrella Bonds - 9.375% to 9.65%, issued August 6, 1987	-	-	-	7,635,000
Revolving Fund Bonds:				
7% to 7.95%, issued December 13, 1990, maturing through 2010	21,035,000	-	21,035,000	23,060,000
6.25% to 7.3%, issued December 10, 1991, maturing through 2006	6,025,000	-	6,025,000	6,365,000
4.9% to 6.5% issued September 30, 1992, maturing through 2014	28,000,000	-	28,000,000	28,000,000
Refunding Revolving Fund Bonds:				
4% to 6.2%, issued June 3, 1993, maturing through 2010	24,250,000	-	24,250,000	25,265,000
4.35% to 5.9%, issued March 30, 1994, maturing through 2006	11,435,000	-	11,435,000	-
Delong Mountain Transportation Project Revenue Bonds - 6% to 7.3%, issued March 17, 1987, maturing through 2017	-	98,185,000	98,185,000	99,965,000
	<u>\$ 130,515,000</u>	<u>98,185,000</u>	<u>228,700,000</u>	<u>268,490,000</u>

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At June 30, 1994, 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 loan proceeds and capital reserve funds established pursuant to terms of the bond resolutions (note 5). At June 30, 1994, 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, 1994, principal portions of the bonds payable mature as follows:

<u>Year ending June 30</u>	<u>Enterprise Development Activities and Unrestricted Economic Development Projects</u>	<u>Restricted Economic Development Project</u>	<u>Combined</u>
1995	\$ 8,780,000	1,885,000	10,665,000
1996	6,345,000	2,000,000	8,345,000
1997	6,925,000	2,120,000	9,045,000
1998	7,485,000	2,250,000	9,735,000
1999	7,925,000	2,395,000	10,320,000
2000-2004	44,090,000	14,615,000	58,705,000
2005-2009	35,435,000	20,625,000	56,060,000
2010-2014	13,530,000	29,195,000	42,725,000
2015-2017	-	23,100,000	23,100,000
	<u>\$ 130,515,000</u>	<u>98,185,000</u>	<u>228,700,000</u>

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Enterprise Development Account bond resolution covenants effective June 30, 1994 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, 1994, the Authority has estimated that projected future coverage for any year exceeds 150%, giving effect only to existing projects at that date, including the projected effect of completion of the Healy Project, and excluding the effect of other proposed projects and future construction expenditures. At June 30, 1994, unrestricted surplus was \$470,900,000.

(10) Bond Refunding and Defeasance

On March 30, 1994, the Authority issued \$11,435,000 of Refunding Revolving Fund Bonds for the purpose of redeeming all or a portion of three bond issues. The refunding resulted in debt service payments approximately \$4,500,000 less than the refunded bonds over the next sixteen years. There was an economic gain of approximately \$2,900,000. 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 Authority recognized a loss of \$2,301,088 for the year ended June 30, 1994 from the March 30, 1994 defeasance of \$23,840,000. The loss resulted from the deposit of United States Treasury securities costing \$26,663,000 (including accrued interest receivable) into an irrevocable trust, necessary to effect the defeasance transaction. The defeasance resulted in decreased interest expense of \$469,000 in fiscal year 1994 and total future debt service savings of \$36,563,000 over the remaining lives of the bonds defeased (assuming each had been paid out in accordance with their original repayment schedules).

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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 bonds. The bonds mature or are subject to redemption prior to maturity on April 1, 1995, 1996 and 1997 at 102% of the principal amount redeemed plus accrued interest, depending on the particular bond. The source of funds used to purchase the investment securities for the defeasance was the Authority's unrestricted investments. Defeased bonds, aggregating \$21,485,000 and related interest payable at June 30, 1994, remain outstanding but are excluded from the Authority's balance sheet, as are the investment securities.

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 \$6,800,000. 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 for the year ended June 30, 1993.

(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 1994 was 15.71%. The combined contribution requirement for the year ended June 30, 1994 was \$270,000. Covered payroll for the year ended June 30, 1994 was approximately \$1,200,000, 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, 1993, the most recent actuarial valuation (in millions):

Projected benefit obligation:	
Current retirees and terminated participants	\$ 1,113
Current employees	<u>1,238</u>
	2,351
 Net assets available for benefits	 <u>2,160</u>
 Unfunded pension benefit obligation	 \$ <u>191</u>

(12) Commitments and Contingencies

Commitments

At June 30, 1994, the Authority held approximately \$659,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately \$91,333,000 of investments in trust for the construction to two intertie projects. The moneys and related liability are not reflected in the accompanying financial statements.

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ALASKA INDUSTRIAL DEVELOPMENT
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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, 1994, 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, 1994, the Authority had extended loan commitments for loans of \$36,140,200 and loan guarantees of \$957,000. 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.