



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY REVOLVING FUND
(a Component Unit of the State of Alaska)

Combined Financial Statements

June 30, 1997 and 1996

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Alaska Industrial Development and Export Authority
(a Component Unit of the State of Alaska):

We have audited the accompanying balance sheets of the Alaska Industrial Development and Export Authority Revolving Fund (a Component Unit of the State of Alaska) as of June 30, 1997 and 1996, and the related combined statements of income, changes in equity, and cash flows for the years then ended. These combined financial statements are the responsibility of the Alaska Industrial Development and Export 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 (a Component Unit of the State of Alaska) as of June 30, 1997 and 1996, 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 29, 1997

ALASKA INDUSTRIAL DEVELOPMENT
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Balance Sheets

June 30, 1997 and 1996

<u>Assets</u>	<u>1997</u>	<u>1996</u>
Cash and cash equivalents, partially restricted (note 5)	\$ 25,735,050	41,340,615
Investment securities, partially restricted (note 5)	482,537,039	389,431,650
Loans (note 6)	262,704,705	260,798,586
Less allowance for loan losses (note 7)	15,557,029	14,292,073
Net loans	<u>247,147,676</u>	<u>246,506,513</u>
Net investment in direct financing leases (notes 3 and 8)	219,930,361	214,357,809
Accrued interest receivable	8,445,873	8,692,388
Prepaid bond insurance, net	-	3,426,141
Development projects (note 8)	254,669,621	170,201,096
Other real estate owned	7,444,935	11,731,876
Venture capital limited partnership investment	5,769,829	5,814,062
Other	<u>7,008,868</u>	<u>3,870,042</u>
	<u>\$ 1,258,689,252</u>	<u>1,095,372,192</u>
 <u>Liabilities and Equity</u>		
Liabilities:		
Bonds payable (notes 9 and 10)	322,645,000	207,295,000
Accrued interest payable	4,573,757	3,577,367
Accounts payable	15,280,116	39,113,492
Total liabilities	<u>342,498,873</u>	<u>249,985,859</u>
Equity:		
Contributed capital	420,869,331	377,945,646
Retained earnings	495,321,048	467,440,687
Total equity	<u>916,190,379</u>	<u>845,386,333</u>
Commitments and contingencies (notes 3, 8, 11, 12 and 13)		
	<u>\$ 1,258,689,252</u>	<u>1,095,372,192</u>

See accompanying notes to combined financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY REVOLVING FUND**
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Combined Statements of Income

Years ended June 30, 1997 and 1996
with combining information at June 30, 1997

	<u>Combining information</u>		<u>Combined</u>	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	<u>1997</u>	<u>1996</u>
Revenues:				
Interest income:				
Loans (note 6)	\$ 20,159,517	1,554,037	21,713,554	21,716,038
Investments	20,431,389	7,025,279	27,456,668	25,636,048
Direct financing leases	5,420,623	8,223,993	13,644,616	13,777,948
Total interest income	<u>46,011,529</u>	<u>16,803,309</u>	<u>62,814,838</u>	<u>61,130,034</u>
Other project income	2,955,921	-	2,955,921	2,749,828
Other income	980,006	-	980,006	1,459,196
Gain on sale of securities	80,297	-	80,297	531,093
Total revenues	<u>50,027,753</u>	<u>16,803,309</u>	<u>66,831,062</u>	<u>65,870,151</u>
Expenses:				
Interest	9,776,291	4,976,842	14,753,133	15,109,344
General and administrative	4,621,230	20,719	4,641,949	3,612,200
Depreciation	936,638	-	936,638	936,640
Bond issuance	-	3,426,141	3,426,141	380,682
Write-downs and net (income) expenses associated with other real estate owned	(329,454)	114,294	(215,160)	2,929,231
Provision for loan and development project losses (note 7)	408,000	-	408,000	-
Total expenses	<u>15,412,705</u>	<u>8,537,996</u>	<u>23,950,701</u>	<u>22,968,097</u>
Net income	<u>\$ 34,615,048</u>	<u>8,265,313</u>	<u>42,880,361</u>	<u>42,902,054</u>

See accompanying notes to combined financial statements.

ALASKA INDUSTRIAL DEVELOPMENT
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Combined Statements of Changes in Equity

Years ended June 30, 1997 and 1996

	Contributed capital			Retained earnings			Total equity
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	Combined contributed capital	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	Combined retained earnings	
Balance at June 30, 1995	\$ 203,085,675	143,511,300	346,596,975	317,230,499	107,308,134	424,538,633	771,135,608
Net income	-	-	-	28,229,478	14,672,576	42,902,054	42,902,054
Contributed capital	31,348,671	-	31,348,671	-	-	-	31,348,671
Balance at June 30, 1996	234,434,346	143,511,300	377,945,646	345,459,977	121,980,710	467,440,687	845,386,333
Net income	-	-	-	34,615,048	8,265,313	42,880,361	42,880,361
Dividend	-	-	-	(15,000,000)	-	(15,000,000)	(15,000,000)
Contributed capital	42,923,685	-	42,923,685	-	-	-	42,923,685
Transfer Restricted Economic Development Project	143,511,300	(143,511,300)	-	130,246,023	(130,246,023)	-	-
Balance at June 30, 1997	\$ 420,869,331	-	420,869,331	495,321,048	-	495,321,048	916,190,379

See accompanying notes to combined financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT
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Combined Statements of Cash Flows

Years ended June 30, 1997 and 1996
with combining information at June 30, 1997

	Combining information		Combined	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	1997	1996
Cash flows from operating activities:				
Net income	\$ 34,615,048	8,265,313	42,880,361	42,902,054
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	936,638	-	936,638	936,640
Net amortization of premium and discount on investment securities	(1,248,459)	381,925	(866,534)	94,096
Gain on sale of securities	(80,297)	-	(80,297)	(531,093)
Provision for loan and development project losses	408,000	-	408,000	-
Amortization of prepaid bond insurance	-	3,426,141	3,426,141	380,683
Write-downs and net loss on sale of other real estate owned	774,793	31,905	806,698	9,130
Amortization of unearned income on direct financing leases	(5,420,623)	(8,223,993)	(13,644,616)	(13,943,227)
(Increase) decrease in accrued interest receivable and other assets	(1,141,106)	78,365	(1,062,741)	(947,030)
Increase (decrease) in accrued interest and accounts payable	(21,047,277)	(3,213,367)	(24,260,644)	26,677,323
Net cash provided by operating activities	<u>7,796,717</u>	<u>746,289</u>	<u>8,543,006</u>	<u>55,578,576</u>
Cash flows from capital and related financing activities:				
Investment in direct financing leases	(11,319,366)	-	(11,319,366)	2,739,858
Direct financing lease receipts	10,426,747	8,964,683	19,391,430	15,550,257
Contributions to capital	42,923,685	-	42,923,685	31,348,671
Transfer of restricted fund cash	(91,460,078)	91,460,078	-	-
Issuance of bonds	235,000,000	-	235,000,000	-
Payments on bonds	(2,135,000)	(94,300,000)	(96,435,000)	(4,020,000)
Net cash provided by capital and related financing activities	<u>183,435,988</u>	<u>6,124,761</u>	<u>189,560,749</u>	<u>45,618,786</u>
Cash flows from noncapital and related financing activities:				
Dividend paid to the State of Alaska	(15,000,000)	-	(15,000,000)	-
Payments on bonds	(23,215,000)	-	(23,215,000)	(9,555,000)
Net cash used by noncapital and related financing activities	<u>(38,215,000)</u>	<u>-</u>	<u>(38,215,000)</u>	<u>(9,555,000)</u>
Cash flows from investing activities:				
Proceeds from maturities of securities	225,169,215	18,475,000	243,644,215	132,159,000
Proceeds from sales of securities	44,625,614	5,301,560	49,927,174	46,242,027
Purchases of investment securities	(350,438,109)	(35,291,838)	(385,729,947)	(211,575,558)
Principal collected on loans	27,239,053	3,491,685	30,730,738	26,393,806
Loans originated	(32,190,000)	-	(32,190,000)	(13,830,000)
Investment in development projects	(85,405,163)	-	(85,405,163)	(61,811,851)
Net proceeds from sales of other real estate owned	3,484,430	-	3,484,430	573,576
Net investment in venture capital limited partnership	44,233	-	44,233	11,999
Net cash used by investing activities	<u>(167,470,727)</u>	<u>(8,023,593)</u>	<u>(175,494,320)</u>	<u>(81,837,001)</u>
Net increase (decrease) in cash and cash equivalents	<u>(14,453,022)</u>	<u>(1,152,543)</u>	<u>(15,605,565)</u>	<u>9,805,361</u>
Cash and cash equivalents at beginning of year	<u>40,188,072</u>	<u>1,152,543</u>	<u>41,340,615</u>	<u>31,535,254</u>
Cash and cash equivalents at end of year	<u>\$ 25,735,050</u>	<u>-</u>	<u>25,735,050</u>	<u>41,340,615</u>

See accompanying notes to combined financial statements.

ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Combined Financial Statements

June 30, 1997 and 1996

(1) Organization and Operations

The activities of the Alaska Industrial Development and Export Authority (Authority) Revolving Fund are authorized pursuant to legislation passed by the Legislature of Alaska (Legislature) which established within the Revolving Fund the Enterprise Development Account and the Economic Development Account for separate and distinct purposes. The Authority is a component unit of the State of Alaska (State), constituting a political subdivision within the Department of 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 are not included in the accompanying financial statements.

Enterprise Development Account

A summary of programs available under the Enterprise Development Account 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 and a guarantee of up to 90 days of interest 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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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 Authority funds.
- 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. Construction of aircraft hangar and maintenance facilities at the Anchorage International Airport (Federal Express Project). The Federal Express Project was partially financed by a \$28,000,000 bond issue completed in September 1992.
- e. 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 also received \$117,327,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program. On July 18, 1996, \$85,000,000 of Variable Rate Revolving Fund Bonds were issued to finance a portion of the Healy Project.
- f. In May 1995, the Authority purchased a 49% interest in the Seward Coal Load-out facility for approximately \$6,900,000. The purchase was subject to specific conditions and the execution of a demand note and repurchase agreement, and a corporate guarantee.

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- g. The Authority has \$55,000,000 of remaining authorization (from an original \$85,000,000 authorization) to issue 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. The facility 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 has bonding authorization of \$50,000,000 for a bulk commodity loading and shipping terminal to be located within the Cook Inlet to be owned by the Authority and \$50,000,000 for a facility to be constructed in Anchorage for the offloading, processing, storage and transloading of seafoods.
- i. The Authority is also authorized to issue bonds of up to \$20,000,000 to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park.
- j. The Authority is also authorized to issue bonds of up to \$100,000,000 for the acquisition of the Snettisham hydroelectric project from the Alaska Power Administration, a federal agency. The current anticipation is that this project and any related bonds would be a restricted economic development project.

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. As of June 30, 1997 the Authority had issued revenue bonds for 291 projects. The principal amount payable for the series issued after July 1, 1995 was \$71,000,000. The aggregate amount outstanding for the remaining revenue bonds, which were issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$601,262,230.

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Small Business Economic Development Loan Program

The Authority's Small Business Economic Development Loan Program provides financing to eligible applicants under the United States Economic Development Administration Long-Term Economic Deterioration program and the Sudden and Severe Economic Dislocation program. The Small Business Economic Development Revolving Loan Fund (Loan Fund) was created to receive loan fund grants from the United States Economic Development Administration. The State of Alaska, Department of Commerce and Economic Development, Division of Investments administers the Small Business Economic Development Loan Program on behalf of the Authority. As the Loan Fund is not a part of the Authority's Revolving Fund, this fund is not included in the Authority's financial statements. The Loan Fund's balance sheet as of June 30, 1997 follows:

	Unaudited (in thousands)
Assets:	
Cash	\$ 159
Interest receivable	18
Due from other funds	100
Loans receivable, net	<u>1,178</u>
	<u>\$ 1,455</u>
Fund equity:	
Unrestricted contributed capital	816
Retained earnings:	
Reserved	25
Unreserved - undesignated	<u>614</u>
	<u>\$ 1,455</u>

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, the Unalaska Project, Federal Express, Seward Coal Load-out, Red Dog (note 3) and Healy Projects of the Economic Development Account.

The column entitled Restricted Economic Development Project includes the initial Red Dog Project of the Economic Development Account (note 3). The amounts reflected in this column were restricted and were not available to meet general claims against the Authority prior to March 27, 1997.

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Notes to Combined Financial Statements

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

In preparing the financial statements, management of the Authority is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. The more significant accounting estimates applied in the preparation of the accompanying financial statements are described in note 2.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

(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, short term commercial paper and repurchase agreements.

Investments

Investments are recorded at cost, adjusted for the amortization of premiums and discounts, which are recognized as adjustments to interest income.

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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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 no allowance for lease receivables is required at June 30, 1997.

Prepaid Bond Insurance

Prepaid bond insurance costs are amortized over the expected 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, received by deed in lieu of foreclosure or transferred from lease receivable when the properties are available for sale. 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 or lease balance over fair market value charged to the respective allowance for loan or lease losses. Upon final disposition or a decline in the value of the property, gains or losses are charged or credited to operations in the current period.

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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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.

Depreciation

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

(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 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 initial 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 initial 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.

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 initial 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%. The agreement with Cominco has been recorded on the Authority's books as a direct financing lease.

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

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On March 27, 1997 the agreement was amended and restated to provide for the financing of an expansion of the Red Dog Project. Concurrently, the DeLong Mountain Transportation Project Revenue Bonds were retired and the pledge of revenues and receipts was eliminated and therefore removing them from restriction. The information relating to the restricted economic development project relates to the period of July 1, 1996 through March 26, 1997.

(4) Additional Information Regarding Cash Flows and Noncash Activities

Additional information regarding cash flows and noncash activities for the years ended June 30, 1997 and 1996 (with combining information for 1997) follows:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	<u>1997</u>	<u>1996</u>
Cash flows:				
Interest collected on loans and investments	\$ 37,472,083	11,471,228	48,943,311	46,673,035
Interest paid	<u>10,134,377</u>	<u>7,157,438</u>	<u>17,291,815</u>	<u>15,248,897</u>
Noncash activity:				
Other real estate owned acquired through foreclosure	\$ 260,100	-	260,100	225,717
Sales of real estate owned	<u>3,484,430</u>	<u>-</u>	<u>3,484,430</u>	<u>5,077,832</u>

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(5) Investment Securities

Major components of investment securities, the maturity distribution and carrying value at June 30 follows:

	<u>1997</u>	<u>1996</u>
U.S. Treasury securities maturity:		
Within one year	\$ 121,918,804	136,645,262
After one but within five years	127,936,191	112,613,839
After five but within ten years	11,607,904	11,270,878
After ten but within twenty-five years	16,569,167	7,613,987
	<u>278,032,066</u>	<u>268,143,966</u>
U.S. Government agencies maturity:		
Within one year	67,426,776	6,497,609
After one but within five years	48,666,044	53,607,482
After five but within ten years	33,122,675	29,533,810
After ten but within twenty-five years	3,357,427	2,589,175
	<u>152,572,922</u>	<u>92,228,076</u>
Corporate securities maturity:		
After one but within five years	9,469,129	9,284,673
After five but within ten years	29,551,055	19,257,850
After ten but within twenty-five years	12,911,867	517,085
	<u>51,932,051</u>	<u>29,059,608</u>
	<u>\$ 482,537,039</u>	<u>389,431,650</u>

At June 30, 1997, the market value of investment securities was \$481,447,774.

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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Certain investment securities, repurchase agreements and cash are restricted by the terms of the Authority's bond resolutions or other agreements. A summary of restricted amounts at June 30 follows:

	<u>Allowable Usage</u>	<u>1997</u>	<u>1996</u>
Capital Reserve Funds	Secure debt service payments - bonds	\$ 4,113,943	15,796,861
Debt Service Funds	Funds held for future debt service - bonds	730,921	40,075
Loan Prepayment Accounts	Funds held for future debt service - bonds	419,203	475,009
Business Assistance Fund	Guarantee business loans	75,325	89,324
Healy Project Funds	Secure Department of Energy payments	10,475,136	23,186,971
Healy Project Replacement and Contingency Fund	Bond repayment and certain project costs	3,521,775	3,344,481
Project Funds	Secure debt service payments - bonds	-	137,529,605
Red Dog Project Sustaining Capital Fund	Project costs	12,746,518	-
Unexpended bond proceeds	Construction costs	<u>61,229,212</u>	<u>-</u>
		<u>\$ 93,312,033</u>	<u>180,462,326</u>

The 1996 legislation eliminated the statutory requirement for the Business Assistance Fund.

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(6) Loans

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

Loans outstanding at June 30 are classified as follows:

<u>Loan program type</u>	<u>1997</u>		<u>1996</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Appropriated	690	\$ 30,778,442	743	\$ 36,778,834
Loan participaton:				
Bonds outstanding	85	40,218,379	142	73,534,031
Bonds retired	104	48,653,162	65	26,400,873
Internally funded	95	116,885,709	83	96,571,679
OREO sale financing	66	24,386,409	68	25,961,832
Other	58	1,782,604	55	1,551,337
	<u>1,098</u>	<u>\$ 262,704,705</u>	<u>1,156</u>	<u>\$ 260,798,586</u>

The aging of loans at June 30 follows:

	<u>1997</u>		<u>1996</u>	
	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>
Current	94.31 %	\$ 247,752,347	93.26 %	\$ 243,225,365
Past due:				
31-60 days	0.42	1,101,700	1.97	5,133,856
61-90 days	2.51	6,598,683	0.31	809,059
Over 90 days	2.76	7,251,975	4.46	11,630,306
	<u>100.00 %</u>	<u>\$ 262,704,705</u>	<u>100.00 %</u>	<u>260,798,586</u>

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Loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to \$6,585,173 and \$4,879,492 at June 30, 1997 and 1996, respectively. Gross interest income which would have been received on these loans amounted to \$476,876 and \$460,075 for the years ended June 30, 1997 and 1996, respectively. The amount of interest income collected and included in net income was \$94,207 and \$226,783 for the years ended June 30, 1997 and 1996, respectively.

Loans on which the terms have been restructured amounted to \$20,458,386 and \$29,823,476 at June 30, 1997 and 1996, respectively. Gross interest income which would have been received on these loans amounted to \$1,907,335 and \$2,653,283 for the years ended June 30, 1997 and 1996, respectively. The amount of interest income collected and included in net income was \$1,416,794 and \$1,723,711 for the years ended June 30, 1997 and 1996, respectively.

(7) Allowance for Loan Losses

An analysis of changes in the allowance for loan losses for the years ended June 30, 1997 and 1996 (with combining information at June 30, 1997) follows:

	Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1997	1996
Balance at beginning of year	\$ 12,474,502	1,817,571	14,292,073	18,218,704
Transfer to unrestricted	1,819,071	(1,819,071)	-	-
Provision for loan losses	408,000	-	408,000	-
Recoveries of loans charged off	1,204,578	1,500	1,206,078	69,190
Loans charged off	(349,122)	-	(349,122)	(3,995,821)
	<u>\$ 15,557,029</u>	<u>-</u>	<u>15,557,029</u>	<u>14,292,073</u>

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

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 \$786,000.

The Authority leases the Federal Express Project under an agreement which is recorded as a direct financing lease, expiring twenty years after the facility was placed in service in March 1995. Minimum lease payments under the agreement will return the cost of the Federal Express Project plus 7.55% interest and are expected to be sufficient to pay the debt service on the \$28,000,000 Revolving Fund Bonds issued September 30, 1992.

Minimum annual toll fees for usage of the DeLong Mountain Transportation System return the cost of the initial Red Dog Project, which went into service in 1990, to the Authority over fifty years at an interest rate of 6.5%. Toll fees for the expansion to the Red Dog Project will return the cost of the expansion from the in service date through the end of the term of the agreement at a rate based on bonds issued to finance the expansion.

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

		<u>1997</u>	<u>1996</u>
Minimum lease payments receivable	\$	583,050,688	590,446,973
Less unearned income		<u>363,120,327</u>	<u>376,089,164</u>
Net investment in direct financing leases	\$	<u>219,930,361</u>	<u>214,357,809</u>

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At June 30, 1997, future minimum lease payments receivable for each of the five succeeding fiscal years are:

Year ending <u>June 30</u>	<u>Amount</u>
1998	\$ 12,690,250
1999	15,687,618
2000	15,685,801
2001	15,681,600
2002	<u>15,673,221</u>

Development Projects

In August 1995, the Authority entered into an agreement with a Canadian mining company (Anvil) to use 75% of the Skagway Terminal for the next seven years for an annual minimum user fee of \$2,582,500 per year; the contract contains optional renewal clauses for two additional seven year terms. In late 1996, Anvil announced it was temporarily suspending output at its mine due to high operating costs and low ore prices. Anvil has obtained a portion of the additional financing required in order to resume full operations. The Authority believes that additional users will be found for the remaining 25% of the Skagway Terminal and that Anvil will renew or another user of the Skagway Terminal will be found at the end of the seven year term, and that the recoverability of its investment is assured.

The Authority will sell all power produced by the Healy Project to Golden Valley Electric Association, Inc., who will also operate the project, under the terms of a power sales agreement providing for a minimum annual payment of approximately \$4,451,000, beginning when the project is commercially operational, currently scheduled for January 1, 1999.

The Authority receives user fees in consideration of its interest in the Seward Coal Load-out facility. The lessee continues to operate the facility at its sole expense.

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(9) Bonds Payable

The composition of bonds outstanding at June 30, 1997 and 1996 follows (maturity date information is as of June 30, 1997):

	<u>1997</u>	<u>1996</u>
Variable Demand/Fixed Rate Bonds - 7.5% issued October 30, 1994, called August 16, 1996	\$ -	1,510,000
Tax-exempt Umbrella Bonds:		
8.0% and 8.125%, issued October 21, 1985, called August 16, 1996	-	6,110,000
8.375% and 8.5%, issued December 19, 1985, called August 16, 1996	-	5,260,000
8.15% to 8.875%, issued December 19, 1986, defeased February 5, 1997	-	7,005,000
DeLong Mountain Transportation Project Revenue Bonds - 6.25% to 7.3%, issued March 17, 1987, defeased March 27, 1997	-	94,300,000
Revolving Fund Bonds:		
7.3% to 7.95%, issued December 13, 1990, maturing through 2010	18,530,000	19,420,000
6.75% to 7.3%, issued December 10, 1991, maturing through 2006	4,900,000	5,295,000
5.5% to 6.5%, issued September 30, 1992, maturing through 2014	25,565,000	26,415,000
5.4% to 6.2%, issued May 17, 1995, maturing through 2007	7,215,000	7,595,000
5% to 6.125%, issued March 27, 1997, maturing through 2027	150,000,000	-
Variable Rate Revolving Fund Bonds - issued July 18, 1996, maturing through 2023	85,000,000	-
Refunding Revolving Fund Bonds:		
4.8% to 6.2%, issued June 3, 1993, maturing through 2010	13,575,000	15,025,000
5.05% to 5.9%, issued March 30, 1994, maturing through 2006	9,265,000	10,125,000
5.25% to 5.85%, issued May 17, 1995, maturing through 2005	<u>8,595,000</u>	<u>9,235,000</u>
	<u>\$ 322,645,000</u>	<u>207,295,000</u>

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At June 30, 1997, Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. Various bonds are further secured by loan proceeds and capital reserve funds established pursuant to terms of the bond resolutions (note 5). Additionally, the Variable Rate Revolving Fund Bonds are secured by a letter of credit and the Revolving Fund Bonds issued March 27, 1997 are secured by bond insurance.

The minimum payments related to the bonds for the five years subsequent to June 30, 1997 and thereafter (excluding \$405,000 of bonds called on July 31, 1997) are as follows:

Year ending June 30	Principal	Interest	Total
1998	\$ 8,435,000	18,417,671	26,852,671
1999	10,345,000	17,235,649	27,580,649
2000	10,510,000	16,694,697	27,204,697
2001	11,365,000	16,108,861	27,473,861
2002	12,025,000	15,493,837	27,518,837
2003-2007	70,000,000	65,888,707	135,888,707
2008-2012	62,110,000	46,009,693	108,119,693
2013-2017	65,405,000	28,814,867	94,219,867
2018-2022	43,875,000	14,457,563	58,332,563
2023-2027	28,170,000	4,354,006	32,524,006
	<u>\$ 322,240,000</u>	<u>243,475,551</u>	<u>565,715,551</u>

Interest payments in the above table on the \$85,000,000 of Variable Rate Revolving Fund Bonds issued July 18, 1996 are computed using a 4% rate.

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Enterprise Development Account bond resolution covenants effective June 30, 1997 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, 1997, 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 expansion of the Red Dog Project, and excluding the effect of other proposed projects and future construction expenditures. At June 30, 1997 unrestricted surplus was approximately \$862,000,000. The Authority is also required by bond covenants to maintain 25% of the unrestricted surplus requirement described above in cash and U.S. Treasury securities maturing within one year. At June 30, 1997, the liquidity requirement was \$50,000,000.

(10) Bond Refunding

On March 27, 1997, the Authority issued \$150,000,000 of Revolving Fund Bonds which included \$80,000,000 for the purpose of redeeming a portion of a bond issue. The refunding, after giving effect to additional cash paid, resulted in debt service payments approximately \$24,000,000 less than the refunded bonds over the next twenty years. There was an economic gain of approximately \$7,500,000. 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.

(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 offering a defined benefits pension plan to its participants. 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 1997 was 13.36%. The combined contribution requirement for the year ended June 30, 1997 was approximately \$296,000. Covered payroll for the year ended June 30, 1997 was approximately \$1,473,000, 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 of fifty-five or early retirement age of 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 with five or more years of credited service first hired after June 30, 1986, but before July 1, 1996, may elect major medical benefits. Members first hired after June 30, 1996 must obtain at least ten years of credited service to be eligible to 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, 1996, the most recent actuarial valuation (in millions):

Projected benefit obligation:	
Current retirees and terminated participants	\$ 1,420
Current employees	<u>1,363</u>
	2,783
 Net assets available for benefits	 <u>2,878</u>
 Overfunded pension benefit obligation	 \$ <u><u>95</u></u>

(12) Commitments and Contingencies

Commitments

At June 30, 1997, the Authority held approximately \$401,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately \$100,835,000 of investments in trust for the construction of two intertie projects. The Authority held approximately \$2,592,000 of investments in trust for others under various agreements. The moneys 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, 1997, 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, 1997, the Authority had extended loan commitments for loans of \$38,377,800 and loan guarantees of \$3,945,273. 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.

(13) Subsequent Event

The Authority acquired title to and ownership of the Ketchikan Shipyard from the State of Alaska Department of Transportation and Public Facilities on July 15, 1997.