

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

**Financial Statements**

**June 30, 1998 and 1997**

**(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, 1998 and 1997, and the related statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Alaska Industrial Development and Export Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in note 2 to the financial statements, the Alaska Industrial Development and Export Authority adopted the provisions of the Governmental Accounting Standards Board's Statement No. 31, *Accounting and Financial Reporting for Certain Investments and For External Investment Pools*, in 1998.

*KPMG Peat Marwick LLP*

August 28, 1998

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

**Balance Sheets**

**June 30, 1998 and 1997**

| <u>Assets</u>   | <u>1998</u>                 | <u>1997</u>                 |
|---|-----------------------------|-----------------------------|
| Cash and cash equivalents, partially restricted (note 4)                    | \$ 21,092,556               | 25,735,050                  |
| Investment securities, partially restricted (note 4)                        | 445,537,641                 | 482,537,039                 |
| Loans (note 5)  | 250,114,786                 | 262,704,705                 |
| Less allowance for loan losses (note 6)                                     | 12,862,275                  | 15,557,029                  |
| Net loans   | <u>237,252,511</u>          | <u>247,147,676</u>          |
| Net investment in direct financing leases (note 7)                          | 269,760,847                 | 219,930,361                 |
| Accrued interest receivable   | 8,237,972                   | 8,445,873                   |
| Development projects (note 7)   | 291,368,497                 | 254,669,621                 |
| Other real estate owned   | 7,961,145                   | 7,444,935                   |
| Venture capital limited partnership investment                              | 550,996                     | 5,769,829                   |
| Other   | <u>22,102,024</u>           | <u>7,008,868</u>            |
|   | <u>\$ 1,303,864,189</u>     | <u>1,258,689,252</u>        |
| <br><u>Liabilities and Equity</u>   |                             |                             |
| Liabilities:  |                             |                             |
| Bonds payable (note 8)  | 312,940,000                 | 322,645,000                 |
| Accrued interest payable  | 4,536,720                   | 4,573,757                   |
| Accounts payable  | 10,504,684                  | 15,280,116                  |
| Total liabilities   | <u>327,981,404</u>          | <u>342,498,873</u>          |
| Equity:   |                             |                             |
| Contributed capital   | 445,006,889                 | 420,869,331                 |
| Retained earnings   | 530,875,896                 | 495,321,048                 |
| Total equity  | <u>975,882,785</u>          | <u>916,190,379</u>          |
| Commitments, contingencies and subsequent events<br>(notes 5, 9, 10 and 11) | <u>                    </u> | <u>                    </u> |
|   | <u>\$ 1,303,864,189</u>     | <u>1,258,689,252</u>        |

See accompanying notes to financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT  
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**Statements of Income**

**Years ended June 30, 1998 and 1997**

|  | <u><b>1998</b></u>          | <u><b>1997</b></u>       |
|--|-----------------------------|--------------------------|
| <b>Revenues:</b>   |                             |                          |
| Interest income:   |                             |                          |
| Loans (note 5)   | \$ 22,551,358               | 21,713,554               |
| Investments  | 24,069,710                  | 27,456,668               |
| Direct financing leases  | <u>13,504,337</u>           | <u>13,644,616</u>        |
| Total interest income  | 60,125,405                  | 62,814,838               |
| Other project income   | 2,178,661                   | 2,955,921                |
| Other income   | 1,114,004                   | 980,006                  |
| Net appreciation of investment securities  | <u>11,846,749</u>           | <u>80,297</u>            |
| Total revenues   | <u>75,264,819</u>           | <u>66,831,062</u>        |
| <b>Expenses:</b>   |                             |                          |
| Interest   | 14,058,752                  | 14,753,133               |
| General and administrative   | 4,107,589                   | 4,641,949                |
| Depreciation   | 1,207,052                   | 936,638                  |
| Bond insurance   | -                           | 3,426,141                |
| Write-downs and net (income) expenses associated<br>with other real estate owned | 1,967,727                   | (215,160)                |
| Provision for loan losses (note 6)   | <u>1,550,000</u>            | <u>408,000</u>           |
| Total expenses   | <u>22,891,120</u>           | <u>23,950,701</u>        |
| Net income   | <u><u>\$ 52,373,699</u></u> | <u><u>42,880,361</u></u> |

See accompanying notes to financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT  
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**Statements of Changes in Equity**

**Years ended June 30, 1998 and 1997**

|  | <b>Contributed<br/><u>capital</u></b> | <b>Retained<br/><u>earnings</u></b> | <b>Total<br/><u>equity</u></b> |
|--|---------------------------------------|-------------------------------------|--------------------------------|
| <b>Balance at June 30, 1996</b>        | \$ 377,945,646                        | 467,440,687                         | 845,386,333                    |
| Net income                             | -                                     | 42,880,361                          | 42,880,361                     |
| Dividend                               | -                                     | (15,000,000)                        | (15,000,000)                   |
| Contributed capital                    | <u>42,923,685</u>                     | <u>-</u>                            | <u>42,923,685</u>              |
| <b>Balance at June 30, 1997</b>        | 420,869,331                           | 495,321,048                         | 916,190,379                    |
| Net income                             | -                                     | 52,373,699                          | 52,373,699                     |
| Cumulative effect of accounting change | -                                     | (1,089,265)                         | (1,089,265)                    |
| Dividend                               | -                                     | (16,000,000)                        | (16,000,000)                   |
| Contributed capital                    | 24,407,972                            | -                                   | 24,407,972                     |
| Depreciation of contributed assets     | <u>(270,414)</u>                      | <u>270,414</u>                      | <u>-</u>                       |
| <b>Balance at June 30, 1998</b>        | \$ <u><u>445,006,889</u></u>          | <u><u>530,875,896</u></u>           | <u><u>975,882,785</u></u>      |

See accompanying notes to financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT  
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**Statements of Cash Flows**

**Years ended June 30, 1998 and 1997**

|   | <u>1998</u>          | <u>1997</u>          |
|---|----------------------|----------------------|
| Cash flows from operating activities:   |                      |                      |
| Net income  | \$ 52,373,699        | 42,880,361           |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                      |
| Depreciation  | 1,207,052            | 936,638              |
| Net amortization of premium and discount on investment securities                 | -                    | (866,534)            |
| Net appreciation of investments   | (11,846,749)         | (80,297)             |
| Provision for loan losses   | 1,550,000            | 408,000              |
| Amortization of prepaid bond insurance  | -                    | 3,426,141            |
| Write-downs and net loss on sale of other real estate owned                       | 1,151,800            | 806,698              |
| Amortization of unearned income on direct financing leases                        | (13,504,337)         | (13,644,616)         |
| Increase in accrued interest receivable and other assets                          | (1,929,048)          | (1,062,741)          |
| Increase (decrease) in accrued interest and accounts payable                      | 389,940              | (24,260,644)         |
| Net cash provided by operating activities   | <u>29,392,357</u>    | <u>8,543,006</u>     |
| Cash flows from capital and related financing activities:                         |                      |                      |
| Investment in direct financing leases   | (58,486,869)         | (11,319,366)         |
| Direct financing lease receipts   | 12,454,723           | 19,391,430           |
| Contributions to capital  | 10,840,972           | 42,923,685           |
| Issuance of bonds   | 85,000,000           | 235,000,000          |
| Payments on bonds   | (90,420,000)         | (96,435,000)         |
| Net cash provided (used) by capital and related financing activities              | <u>(40,611,174)</u>  | <u>189,560,749</u>   |
| Cash flows from noncapital and related financing activities:                      |                      |                      |
| Dividend paid to the State of Alaska  | (16,000,000)         | (15,000,000)         |
| Payments on bonds   | (4,285,000)          | (23,215,000)         |
| Net cash used by noncapital and related financing activities                      | <u>(20,285,000)</u>  | <u>(38,215,000)</u>  |
| Cash flows from investing activities:   |                      |                      |
| Proceeds from maturities of securities  | 379,301,000          | 243,644,215          |
| Proceeds from sales of securities   | 100,390,394          | 49,927,174           |
| Purchases of investment securities  | (431,934,512)        | (385,729,947)        |
| Principal collected on loans  | 43,845,099           | 30,730,738           |
| Loans originated  | (40,129,326)         | (32,190,000)         |
| Investment in development projects  | (30,919,214)         | (85,405,163)         |
| Net proceeds from sales of other real estate owned                                | 2,997,840            | 3,484,430            |
| Net investment in venture capital limited partnership                             | 3,310,042            | 44,233               |
| Net cash provided (used) by investing activities                                  | <u>26,861,323</u>    | <u>(175,494,320)</u> |
| Net decrease in cash and cash equivalents   | (4,642,494)          | (15,605,565)         |
| Cash and cash equivalents at beginning of year                                    | <u>25,735,050</u>    | <u>41,340,615</u>    |
| Cash and cash equivalents at end of year  | <u>\$ 21,092,556</u> | <u>25,735,050</u>    |

See accompanying notes to financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT  
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**Notes to Financial Statements**

**June 30, 1998 and 1997**

**(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.

The Board of Directors of the Authority also serve as the Board of Directors of the Alaska Energy Authority (AEA). The staff of the Authority serves as the staff of AEA. The Authority and AEA continue to exist as separate legal entities. There is no commingling of funds, assets or liabilities between the Authority and AEA and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AEA are not included in the accompanying financial statements.

***Enterprise Development Account***

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

- a. The loan participation program, under which the Authority purchases participations in loans made by financial institutions to their customers. The Authority's participation is limited to the lesser of 80% or \$10,000,000 of the permanent financing for qualifying facilities. The Authority currently has tax-exempt bonds outstanding under this program, which are general obligations of the Authority.
- b. The business and export assistance program, under which the Authority provides up to an 80% guarantee of the principal balance and a guarantee of interest to the financial institution making a qualifying loan. The maximum guarantee amount of any loan is \$1,000,000.
- c. 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. The Polaris Fund is permitted to make and has made investments both within and outside of Alaska.

**(Continued)**

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**Notes to 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 are:

- a. DeLong Mountain Transportation System (Red Dog Project). This project consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit, one of the largest zinc deposits in the world, located in the DeLong Mountains in northwestern Alaska. A port expansion commenced in 1997 and will be completed in late 1998. The Red Dog Project was financed with Authority funds and bond financings, including \$150,000,000 of bonds issued in May 1997, which refunded outstanding revenue bonds and provided construction funds.
- b. Skagway Ore Terminal (Skagway Terminal). This project is a public-use ore terminal port facility in Skagway, Alaska. The Skagway Terminal was financed by a \$25,000,000 bond issue completed in December 1990. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds.
- c. City of Unalaska Marine Center (Unalaska Project). This project is a public port facility located in the Aleutian Islands. The Unalaska Project was financed by a \$7,000,000 bond issue completed in December 1991.
- d. Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Anchorage International Airport. The Federal Express Project was partially financed by a \$28,000,000 bond issue completed in September 1992.
- e. Healy Clean Coal Project (Healy Project). This project is a coal-fired power plant located near Healy, Alaska. The Authority received a \$25,000,000 state legislative appropriation and \$117,327,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program to assist in financing the Healy Project. In May 1998, \$85,000,000 of bonds were issued to refund \$85,000,000 of Variable Rate Revolving Fund Bonds originally issued in July 1996, the proceeds of which were used to finance a portion of the Healy Project.
- f. Seward Coal Load-Out Facility. In May 1995, the Authority purchased a 49% interest in a coal load-out facility in Seward, Alaska for approximately \$6,900,000. The purchase was subject to specific conditions and the execution of a demand note and repurchase agreement, and a corporate guarantee by the project participant.

**(Continued)**



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- g. Ketchikan Shipyard (Shipyard). Ownership of the Shipyard, located in Ketchikan, Alaska, was transferred to the Authority in July 1997, under an agreement between the Authority and the State Department of Transportation and Public Facilities (DOT&PF). In connection with the transfer, the City of Ketchikan and the Ketchikan Gateway Borough agreed to provide relief from real property taxes and favorable electric rates for the facility. The Borough agreed to provide ongoing funds for maintenance and repairs for the Shipyard. The Authority also agreed to provide funds for maintenance and repairs in an amount equal to the amount contributed by the Borough. In addition, the Authority agreed to fund certain identified repairs paid for from funds provided by DOT&PF as part of the transfer.
- h. Snettisham Hydroelectric Project. This project was acquired in August 1998 when the Authority issued \$100,000,000 of revenue bonds to purchase the project, located in southeast Alaska near Juneau, from the Alaska Power Administration, a federal agency (note 11).

Proposed own-and-operate projects for which the Legislature has authorized the issuance of bonds are:

- a. 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.
- b. 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. The Board of Directors has given conditional approval to purchase the seafood facility, but the issuance of bonds to finance the facility is not anticipated.
- c. The Authority has bonding authorization of \$20,000,000 to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. It is currently anticipated that the Authority will not participate in financing the project.

(Continued)

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**Notes to Financial Statements**

- d. The Authority has bonding authorization of \$80,000,000 to finance the expansion, improvement, and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by the Authority.
- e. The Authority has bonding authorization of \$30,000,000 to finance the improvement and expansion of the Nome port facilities to be owned by the Authority.
- f. The Authority has bonding authorization of \$28,000,000 to finance development of a railroad right-of-way within a railroad and utility corridor from near Healy to the eastern boundary of Denali National Park.
- g. The Authority has bonding authorization of \$15,000,000 to finance the construction and improvement of phase 1 of the Hatcher Pass Ski Resort, located in the Matanuska-Susitna Borough.

***Other***

The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction for facilities owned by third parties. Stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable only out of revenues derived from the financing of projects or the private businesses for which the projects are financed. The Authority is 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, 1998, the Authority had issued revenue bonds for 293 projects (not including bonds issued to refund other bonds). The principal amount payable for the series issued after July 1, 1995 was \$94,000,000. 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 \$616,000,000 (not including bonds issued to refund other bonds).

**(Continued)**

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**Notes to Financial Statements**

***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, 1998 follows:

|                                  | <b>Unaudited<br/>(in thousands)</b> |
|----------------------------------|-------------------------------------|
| <b>Assets:</b>                   |                                     |
| Cash                             | \$ 730                              |
| Interest receivable              | 25                                  |
| Due from other funds             | 1                                   |
| Loans receivable, net            | <u>2,062</u>                        |
|                                  | <u>\$ 2,818</u>                     |
| <b>Fund equity:</b>              |                                     |
| Warrants outstanding             | 297                                 |
| Unrestricted contributed capital | 1,912                               |
| Retained earnings:               |                                     |
| Reserved                         | 25                                  |
| Unreserved - undesignated        | <u>584</u>                          |
|                                  | <u>\$ 2,818</u>                     |

***Estimates***

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

(Continued)

**ALASKA INDUSTRIAL DEVELOPMENT  
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**Notes to Financial Statements**

**(2) Summary of Significant Accounting Policies**

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, cash and cash equivalents consist of cash, short term commercial paper and repurchase agreements.

***Investments***

Prior to July 1, 1997, investments were recorded at cost and adjusted for the amortization of premiums and discounts, which were recognized as adjustments to interest income. Effective July 1, 1997, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB 31). The cumulative effect of the adoption of GASB 31 was a decrease in retained earnings at July 1, 1997 in the amount of \$1,089,265 and an increase in net income of \$7,687,681 for the year ended June 30, 1998. The Authority's marketable securities are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of net income. Fair values are obtained from independent sources for marketable securities.

***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 7) which are recorded in the accompanying financial statements as direct financing leases. Interest income related to direct financing leases is recognized using the effective interest method which produces a constant periodic rate of return on the outstanding investment in the lease.

***Development Projects***

The Authority's development projects are carried at cost, adjusted for permanent impairments of value. The Authority follows Statement of Financial Accounting Standards No. 121 (SFAS No. 121), *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. This statement requires recognition of impairment losses for long-lived assets whenever events or changes in circumstances result in the carrying amount of the assets exceeding the sum of the expected future cash flows associated with such assets. The Authority believes that none of its development projects are impaired as contemplated by SFAS No. 121.

(Continued)

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**Notes to 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 no allowance for lease receivables is required at June 30, 1998.

***Other Real Estate Owned***

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

***Appropriations and Grants***

Appropriations and grants are recorded as additions to contributed capital when received. Depreciation of capital assets, acquired from appropriations and grants restricted for capital acquisition, is transferred to the contributed capital account.

***Income Taxes***

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

***Furniture and Equipment***

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

**(Continued)**

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**Notes to Financial Statements**

***Depreciation***

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

**(3) Additional Information Regarding Cash Flows and Noncash Activities**

Additional information regarding cash flows and noncash activities for the years ended June 30, 1998 and 1997 follows:

|  | <u>1998</u>       | <u>1997</u>       |
|--|-------------------|-------------------|
| <b>Cash flows:</b>   |                   |                   |
| Interest collected on loans<br>and investments                                   | \$ 49,395,617     | 48,943,311        |
| Interest paid  | <u>18,500,016</u> | <u>17,291,815</u> |
| <b>Noncash activity:</b>   |                   |                   |
| Other real estate owned<br>acquired through<br>foreclosure                       | \$ 4,629,392      | 260,100           |
| Sales of real estate owned   | 2,997,480         | 3,484,430         |
| Investment in Development<br>Projects acquired through<br>contribution of assets | <u>13,567,000</u> | <u>-</u>          |

(Continued)

**ALASKA INDUSTRIAL DEVELOPMENT  
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**Notes to Financial Statements**

**(4) Investment Securities**

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

|  | <u><b>1998</b></u>    | <u><b>1997</b></u> |
|--|-----------------------|--------------------|
| U.S. Treasury securities maturity:     |                       |                    |
| Within one year                        | \$ 133,598,263        | 121,918,804        |
| After one but within five years        | 88,793,326            | 127,936,191        |
| After five but within ten years        | 11,578,017            | 11,607,904         |
| After ten but within twenty-five years | 18,852,314            | 16,569,167         |
|  | <u>252,821,920</u>    | <u>278,032,066</u> |
| U.S. Government agencies maturity:     |                       |                    |
| Within one year                        | 61,110,982            | 67,426,776         |
| After one but within five years        | 28,649,614            | 48,666,044         |
| After five but within ten years        | 44,993,496            | 33,122,675         |
| After ten but within twenty-five years | 3,996,500             | 3,357,427          |
|  | <u>138,750,592</u>    | <u>152,572,922</u> |
| Corporate securities maturity:         |                       |                    |
| After one but within five years        | 12,972,869            | 9,469,129          |
| After five but within ten years        | 28,701,490            | 29,551,055         |
| After ten but within twenty-five years | 12,290,770            | 12,911,867         |
|  | <u>53,965,129</u>     | <u>51,932,051</u>  |
|  | <u>\$ 445,537,641</u> | <u>482,537,039</u> |

At June 30, 1997, the fair 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.

(Continued)

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

|  | <u>Allowable Usage</u>                     | <u>1998</u>          | <u>1997</u>       |
|--|--|----------------------|-------------------|
| Capital Reserve Funds                          | Secure debt service payments - bonds       | \$ 3,943,649         | 4,113,943         |
| Debt Service and Loan Prepayment Accounts      | Funds held for future debt service - bonds | 632,674              | 1,150,124         |
| Business Assistance Program                    | Guarantee business loan                    | 61,206               | 75,325            |
| Healy Project Funds                            | Secure Department of Energy payments       | -                    | 10,475,136        |
| Healy Project Replacement and Contingency Fund | Bond repayment and certain project costs   | 3,693,671            | 3,521,775         |
| Red Dog Project Sustaining Capital Fund        | Project costs                              | 12,833,093           | 12,746,518        |
| Unexpended bond proceeds                       | Construction costs                         | <u>22,063,345</u>    | <u>61,229,212</u> |
|  |  | <u>\$ 43,227,638</u> | <u>93,312,033</u> |

**(5) 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.

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Loans outstanding at June 30 are classified as follows:

| <u>Loan program type</u> | <u>1998</u>   |                       | <u>1997</u>   |                       |
|--------------------------|---------------|-----------------------|---------------|-----------------------|
|                          | <u>Number</u> | <u>Amount</u>         | <u>Number</u> | <u>Amount</u>         |
| Appropriated             | 649           | \$ 25,833,564         | 690           | \$ 30,778,442         |
| Loan participation:      |               |                       |               |                       |
| Bonds outstanding        | 72            | 30,773,112            | 85            | 40,218,379            |
| Bonds retired            | 88            | 36,662,885            | 104           | 48,653,162            |
| Internally funded        | 105           | 132,046,209           | 95            | 116,885,709           |
| OREO sale financing      | 60            | 23,217,869            | 66            | 24,386,409            |
| Other                    | 51            | 1,581,147             | 58            | 1,782,604             |
|                          | <u>1,025</u>  | <u>\$ 250,114,786</u> | <u>1,098</u>  | <u>\$ 262,704,705</u> |

The aging of loans at June 30 follows:

|              | <u>1998</u>     |                       | <u>1997</u>     |                       |
|--------------|-----------------|-----------------------|-----------------|-----------------------|
|              | <u>Percent</u>  | <u>Amount</u>         | <u>Percent</u>  | <u>Amount</u>         |
| Current      | 98.33 %         | \$ 245,946,559        | 94.31 %         | \$ 247,752,347        |
| Past due:    |                 |                       |                 |                       |
| 31-60 days   | 1.11            | 2,779,195             | 0.42            | 1,101,700             |
| 61-90 days   | 0.05            | 120,744               | 2.51            | 6,598,683             |
| Over 90 days | 0.51            | 1,268,288             | 2.76            | 7,251,975             |
|              | <u>100.00 %</u> | <u>\$ 250,114,786</u> | <u>100.00 %</u> | <u>\$ 262,704,705</u> |

Loans which are more than 90 days past due on which the accrual of interest has been discontinued amounted to \$1,268,288 and \$6,585,173 at June 30, 1998 and 1997, respectively. Gross interest income which would have been received on these loans amounted to \$114,783 and \$476,876 for the years ended June 30, 1998 and 1997, respectively. The amount of interest income collected and included in net income was \$79,090 and \$94,207 for the years ended June 30, 1998 and 1997, respectively.

Loans on which the terms have been restructured amounted to \$15,103,964 and \$20,458,386 at June 30, 1998 and 1997, respectively. Gross interest income which would have been received on these loans amounted to \$1,260,810 and \$1,907,335 for the years ended June 30, 1998 and 1997, respectively. The amount of interest income collected and included in net income was \$1,150,696 and \$1,416,794 for the years ended June 30, 1998 and 1997, respectively.

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**Notes to Financial Statements**

**(6) Allowance for Loan Losses**

An analysis of changes in the allowance for loan losses for the years ended June 30, 1998 and 1997 follows:

|                                 | <u>1998</u>          | <u>1997</u>       |
|---------------------------------|----------------------|-------------------|
| Balance at beginning of year    | \$ 15,557,029        | 14,292,073        |
| Provision for loan losses       | 1,550,000            | 408,000           |
| Recoveries of loans charged off | 32,114               | 1,206,078         |
| Loans charged off               | <u>(4,276,868)</u>   | <u>(349,122)</u>  |
|                                 | <u>\$ 12,862,275</u> | <u>15,557,029</u> |

**(7) 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 \$782,000.

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 50 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.

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

|  | <u><b>1998</b></u>    | <u><b>1997</b></u> |
|--|-----------------------|--------------------|
| Minimum lease payments receivable            | \$ 763,534,121        | 583,050,688        |
| Less unearned income                         | <u>493,773,274</u>    | <u>363,120,327</u> |
| Net investment in direct<br>financing leases | <u>\$ 269,760,847</u> | <u>219,930,361</u> |

At June 30, 1998, future minimum lease payments receivable for each of the five succeeding fiscal years are:

| <b>Year ending<br/><u>June 30</u></b> | <b><u>Amount</u></b> |
|---------------------------------------|----------------------|
| 1999                                  | \$ 18,400,000        |
| 2000                                  | 21,100,000           |
| 2001                                  | 21,100,000           |
| 2002                                  | 21,100,000           |
| 2003                                  | <u>21,000,000</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 seven years for an annual minimum user fee of \$2,582,500 per year. In early 1998, Anvil shutdown operations due to low ore prices and other economic considerations. Anvil has received court protection under the terms of the Creditor Act. In April 1998, Deloitte & Touche, Inc. (DT) was appointed as interim receiver. In July 1998, DT was authorized to sell certain of Anvil's assets and to terminate the agreement with the Authority. Negotiations are in process. There are several other mineral deposits in the area and the Authority has had discussions with other parties regarding use of the facility. The Authority believes that additional users will be found for the Skagway Terminal, however, no new contracts are expected in the near future.

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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 operable.

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

The Authority entered into an operations and maintenance agreement for the Shipyard with Alaska Ship and Drydock (ASD). Under that agreement, the Authority is paid \$1,500 per month for certain uses of the facility and is also paid a percentage of net profits resulting from ASD's activities at the Shipyard.

**(8) Bonds Payable**

The composition of bonds outstanding at June 30, 1998 and 1997 follows (interest rate and maturity date information is as of June 30, 1998):

|  | <u>1998</u>           | <u>1997</u>        |
|--|-----------------------|--------------------|
| Revolving Fund Bonds:  |                       |                    |
| Series 1990A - 7.4% to 7.95%, issued December 13, 1990,<br>maturing through 2010   | \$ 17,575,000         | 18,530,000         |
| Series 1991A - 6.85% to 7.3%, issued December 10, 1991,<br>maturing through 2006   | 4,480,000             | 4,900,000          |
| Series 1992A - 5.7% to 6.5%, issued September 30, 1992,<br>maturing through 2014   | 24,670,000            | 25,565,000         |
| Series 1995A - 5.45% to 6.2%, issued May 17, 1995, maturing<br>through 2007  | 6,815,000             | 7,215,000          |
| Series 1997A - 5% to 6.125%, issued March 27, 1997, maturing<br>through 2027   | 146,850,000           | 150,000,000        |
| Variable Rate Revolving Fund Bonds - issued July 18, 1996,<br>refunded and defeased May 14, 1998 and called August 6, 1998 | -                     | 85,000,000         |
| Refunding Revolving Fund Bonds:  |                       |                    |
| Series 1993A - 5.0% to 6.2%, issued June 3, 1993, maturing<br>through 2010   | 11,810,000            | 13,575,000         |
| Series 1994A - 5.25% to 5.9%, issued March 30, 1994,<br>maturing through 2006  | 7,845,000             | 9,265,000          |
| Series 1995B - 5.3% to 5.85%, issued May 17, 1995, maturing<br>through 2005  | 7,895,000             | 8,595,000          |
| Series 1998A - 4.5% to 5.25%, issued May 14, 1998,<br>maturing through 2023  | 85,000,000            | -                  |
|  | <u>\$ 312,940,000</u> | <u>322,645,000</u> |

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At June 30, 1998, Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. Various bonds are further secured by loan proceeds and capital reserve funds established pursuant to terms of the bond resolutions (note 4). Various bonds are further secured by bond insurance.

The minimum payments related to the bonds for the five years subsequent to June 30, 1998 and thereafter are as follows:

| <b>Year ending</b>    |    |                         |                        |                     |
|-----------------------|----|-------------------------|------------------------|---------------------|
| <b><u>June 30</u></b> |    | <b><u>Principal</u></b> | <b><u>Interest</u></b> | <b><u>Total</u></b> |
| 1999                  | \$ | 10,380,000              | 17,626,016             | 28,006,016          |
| 2000                  |    | 10,955,000              | 17,590,545             | 28,545,545          |
| 2001                  |    | 11,690,000              | 16,993,100             | 28,683,100          |
| 2002                  |    | 12,390,000              | 16,348,235             | 28,738,235          |
| 2003                  |    | 13,515,000              | 15,639,543             | 29,154,543          |
| 2004-2008             |    | 70,780,000              | 65,479,784             | 136,259,784         |
| 2009-2013             |    | 62,985,000              | 45,219,625             | 108,204,625         |
| 2014-2018             |    | 59,295,000              | 26,926,313             | 86,221,313          |
| 2019-2023             |    | 43,360,000              | 12,923,094             | 56,283,094          |
| 2024-2027             |    | 17,590,000              | 2,773,094              | 20,363,094          |
|                       | \$ | <u>312,940,000</u>      | <u>237,519,349</u>     | <u>550,459,349</u>  |

Bond resolution covenants effective June 30, 1998 preclude the Authority from incurring any general obligation indebtedness unless future estimated net income (as defined in the Revolving Fund Bond Resolution) equals not less than 150% of the general obligation annual debt service requirement in each year or from taking any action to cause its unrestricted surplus (as defined in the Revolving Fund Bond Resolution) to be less than the lesser of \$200,000,000 or the amount of general obligation indebtedness outstanding, and in no event less than \$100,000,000. At June 30, 1998, 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 the current expansion of the Red Dog Project, and excluding the effect of other proposed projects and future construction expenditures. At June 30, 1998, unrestricted surplus was approximately \$918,000,000. 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, 1998, the liquidity requirement was \$50,000,000.

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On May 14, 1998, the Authority issued \$85,000,000 of Revolving Fund Refunding Bonds for the purpose of refunding and defeasing the Variable Rate Revolving Fund Bonds issued July 18, 1996. The Variable Rate Revolving Fund Bonds were called on August 6, 1998. Because the refunded bonds had a variable interest rate, there was no economic gain or loss on the refunding.

On March 27, 1997 the Authority issued \$150,000,000 of Revolving Fund Bonds which included \$80,000,000 for the purpose of refunding 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 20 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.

**(9) Retirement Plan**

Effective July 1, 1997, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 27 (GASB 27), *Accounting for Pensions by State and Local Governmental Employers*. There was no impact on the financial statements as a result of GASB 27.

**A. Plan Description**

The Authority contributes to the State of Alaska Public Employees' Retirement System (PERS), a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State of Alaska (State) to provide pension, postemployment healthcare, death and disability benefits to eligible employees. All full-time Authority employees are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907)465-4460.

**B. Funding Policy and Annual Pension Cost**

Employee contribution rates are 6.75% for employees, as required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The Authority's rate for 1998 was 9.43%.

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The Authority's annual pension cost for the current year and the related information is as follows:

|                           |                        |
|---------------------------|------------------------|
| Contribution rates:       |                        |
| Employee                  | 6.75%                  |
| Employer                  | 9.43%                  |
| Annual pension cost       | \$232,100              |
| Contributions made        | \$232,100              |
| Actuarial valuation date  | June 30, 1995          |
| Actuarial cost method     | Projected unit credit  |
| Amortization method       | Level dollar, open     |
| Amortization period       | Rolling 25 years       |
| Asset valuation method    | 5-year smoothed market |
| Actuarial assumptions:    |                        |
| Inflation rate            | 4.0%                   |
| Investment return         | 8.0%                   |
| Projected salary increase | 1.5%                   |
| Inflation                 | 4.0%                   |
| Productivity and merit    | 1.5%                   |
| Health cost trend         | 5.5%                   |

In the current year, the Authority determined, in accordance with provisions of GASB 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset) to PERS.

**(10) Commitments and Contingencies**

***Commitments***

At June 30, 1998, the Authority held approximately \$396,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately \$107,565,000 of investments in trust for the construction of two intertie projects. The Authority held approximately \$2,838,000 of investments in trust for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

***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, 1998, 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.

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***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, 1998, the Authority had extended loan commitments for loans of \$9,682,000 and loan guarantees of \$4,260,920. 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.

**(11) Subsequent Event**

On August 18, 1998, the Authority issued \$100,000,000 of tax-exempt revenue bonds to finance the acquisition of the Snettisham Hydroelectric project from the federal Alaska Power Administration and to provide funds for the purchase and installation of a submarine cable system. These bonds are not general obligation bonds of the Authority. Concurrently, the Authority also entered into three agreements with Alaska Electric Light and Power (AEL&P), the sole Juneau electric utility. These agreements provide for the sale of the project's entire electrical capability to AEL&P, require the project's operations and maintenance by AEL&P, and provide an option for the purchase of the project at any time after five years from the issue date. Contractual agreements for the supply and installation of the submarine cable system have been executed and work initiated, with an anticipated completion date of August 1999.



