



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

Financial Statements

June 30, 1999 and 1998

(With Independent Auditors' Report Thereon)

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

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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, 1999 and 1998, 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, 1999 and 1998, 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.



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The Board of Directors

Alaska Industrial Development and Export Authority

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The year 2000 supplementary information following the footnotes is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Alaska Industrial Development and Export Authority is or will become year 2000 compliant, that the Alaska Industrial Development and Export Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Alaska Industrial Development and Export Authority does business are or will become year 2000 compliant.

KPMG LLP

September 3, 1999

**ALASKA INDUSTRIAL DEVELOPMENT
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Balance Sheets
June 30, 1999 and 1998

Assets	1999	1998
Cash and cash equivalents (note 4)	\$ 29,752,214	20,890,435
Investment securities (note 4)	378,518,267	402,512,124
Loans (note 5)	235,087,951	250,114,786
Less allowance for loan losses (note 6)	12,222,206	12,862,275
Net loans	222,865,745	237,252,511
Net investment in direct financing leases (note 7)	280,974,933	269,760,847
Accrued interest receivable	6,923,002	8,237,972
Development projects (note 7)	149,350,078	291,368,497
Other real estate owned	6,130,441	7,961,145
Due from Alaska Seafood International	41,223,633	9,901,398
Other investments	2,550,996	550,996
Other assets	13,068,071	12,200,626
Restricted assets:		
Cash and cash equivalents (note 4)	25,851,104	202,121
Investment securities (note 4)	21,838,450	43,025,517
Net investment in direct financing leases – Snettisham (note 7)	87,710,567	—
	\$ 1,266,757,501	1,303,864,189
Liabilities and Equity		
Liabilities:		
Bonds payable (note 8)	\$ 299,160,000	312,940,000
Accrued interest payable	4,346,282	4,536,720
Accounts payable	7,856,935	10,504,684
Liabilities payable from restricted assets – Snettisham (note 8):		
Bonds payable	100,000,000	—
Other	8,817,040	—
Total liabilities	420,180,257	327,981,404
Equity:		
Contributed capital	294,338,105	445,006,889
Retained earnings	552,239,139	530,875,896
Total equity	846,577,244	975,882,785
Commitments, contingencies and subsequent events (notes 5, 9 and 10)	\$ 1,266,757,501	1,303,864,189

See accompanying notes to financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT
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Statements of Income

Years ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Revenues:		
Interest income:		
Loans (note 5)	\$ 20,512,161	22,551,358
Investments	23,692,516	24,069,710
Direct financing leases	15,725,996	13,504,337
Restricted direct financing lease (note 7)	4,617,938	—
Total interest income	<u>64,548,611</u>	<u>60,125,405</u>
Other project income	2,684,289	2,178,661
Other income	2,630,666	1,114,004
Net appreciation (depreciation) of investment securities	<u>(4,797,610)</u>	<u>11,846,749</u>
Total revenues	<u>65,065,956</u>	<u>75,264,819</u>
Expenses:		
Interest	16,447,586	14,058,752
Interest on liabilities payable from restricted assets (note 8)	4,617,938	—
General and administrative	5,093,103	4,107,589
Depreciation	1,225,725	1,207,052
Write-downs and net expenses associated with other real estate owned	588,775	1,967,727
Provision for loan losses (note 6)	—	1,550,000
Total expenses	<u>27,973,127</u>	<u>22,891,120</u>
Net income	<u>\$ 37,092,829</u>	<u>52,373,699</u>

See accompanying notes to financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT
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Statements of Changes in Equity

Years ended June 30, 1999 and 1998

	<u>Contributed capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at June 30, 1997	\$ 420,869,331	495,321,048	916,190,379
Net income	—	52,373,699	52,373,699
Cumulative effect of accounting change (note 2)	—	(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>
Balance at June 30, 1998	445,006,889	530,875,896	975,882,785
Net income	—	37,092,829	37,092,829
Write-down of Healy contributed capital (note 7)	(150,398,370)	—	(150,398,370)
Dividend	—	(16,000,000)	(16,000,000)
Depreciation of contributed assets	<u>(270,414)</u>	<u>270,414</u>	<u>—</u>
Balance at June 30, 1999	<u>\$ 294,338,105</u>	<u>552,239,139</u>	<u>846,577,244</u>

See accompanying notes to financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT
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Statements of Cash Flows
Years ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net income	\$ 37,092,829	52,373,699
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,225,725	1,207,052
Net depreciation (appreciation) of investment securities	4,797,610	(11,846,749)
Provision for loan losses	—	1,550,000
Write-downs and net loss on sale of other real estate owned	278,738	1,151,800
Amortization of unearned income on direct financing leases	(15,725,996)	(13,504,337)
Decrease (increase) in accrued interest receivable and other assets	6,207,413	(1,929,048)
Increase in accrued interest and accounts payable	7,386,137	389,940
Net cash provided by operating activities	<u>41,262,456</u>	<u>29,392,357</u>
Cash flows from capital and related financing activities:		
Investment in direct financing leases	(105,881,634)	(48,585,471)
Direct financing lease receipts	22,682,977	12,454,723
Contributions to capital	—	10,840,972
Issuance of bonds	100,000,000	85,000,000
Payments on bonds	(7,405,000)	(90,420,000)
Net cash provided (used) by capital and related financing activities	<u>9,396,343</u>	<u>(30,709,776)</u>
Cash flows from noncapital and related financing activities:		
Dividend paid to the State of Alaska	(16,000,000)	(16,000,000)
Payments on bonds	(6,375,000)	(4,285,000)
Net cash used by noncapital and related financing activities	<u>(22,375,000)</u>	<u>(20,285,000)</u>
Cash flows from investing activities:		
Increase in due from Alaska Seafood International	(31,322,235)	(9,901,398)
Proceeds from maturities of securities	335,398,261	379,301,000
Proceeds from sales of securities	65,143,808	100,390,394
Purchases of investment securities	(360,158,755)	(431,934,512)
Principal collected on loans	35,101,266	43,845,099
Loans originated	(20,714,500)	(40,129,326)
Investment in development projects	(16,820,960)	(30,919,214)
Net proceeds from sales of other real estate owned	1,600,078	2,997,840
Other investments	(2,000,000)	3,310,042
Net cash provided by investing activities	<u>6,226,963</u>	<u>16,959,925</u>
Net increase (decrease) in cash and cash equivalents	<u>34,510,762</u>	<u>(4,642,494)</u>
Cash and cash equivalents at beginning of year	<u>21,092,556</u>	<u>25,735,050</u>
Cash and cash equivalents at end of year	<u>\$ 55,603,318</u>	<u>21,092,556</u>

See accompanying notes to financial statements.

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June 30, 1999 and 1998

(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 Community and Economic Development (formerly 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. Pursuant to legislation effective July 1, 1999, certain programs previously administered by the former Department of Community and Regional Affairs, Division of Energy, were transferred to AEA for administration. 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.

(a) Enterprise Development Account

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

- 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.
- 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.

(b) 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:

- 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, the largest zinc deposit in the world, located in the DeLong Mountains in northwestern Alaska. A port expansion commenced in 1997 and is substantially complete. The final portion of expansion will be complete by May 2000. The

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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.

- 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.
- 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.
- 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.
- 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.
- 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 corporate guarantees by project participants.
- 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.
- Snettisham Hydroelectric Project (Snettisham). 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, and to provide funds for the purchase and installation of a submarine cable system. The Authority has 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

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purchase of the project at any time after five years from the issue date. Installation of the submarine cable system has been completed.

- Alaska Seafood International. The Authority has loaned money for the construction of the Alaska Seafood Center (ASC), which will perform secondary processing for various types of fish. A \$2,000,000 equity interest was purchased in November, 1998. The project was completed in September, 1999 and the Authority purchased the facility for \$48 million.

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

- The Authority has \$55,000,000 of remaining authorization (from an original \$85,000,000 authorization) to issue bonds to finance the acquisition, design and construction of aircraft maintenance/air cargo/air transport support facilities located at Anchorage International Airport.
- The Authority has bonding authorization of \$50,000,000 for a bulk commodity loading and shipping terminal to be located within 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 Authority purchased the ASC in September, 1999 and no issuance of bonds is anticipated.
- 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 projects.
- 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.
- 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.
- 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.
- The Authority has bonding authorization of \$15,000,000 to finance the construction and improvement of phase 1 of Hatcher Pass Ski Resort, located in the Matanuska-Susitna Borough.

(c) 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

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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, 1999, the Authority had issued revenue bonds for 296 projects (not including bonds issued to refund other bonds). The principal amount payable for the series issued after July 1, 1995 was \$109,355,000. 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).

(d) 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 Community 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, 1999 follows:

	Unaudited (in thousands)
Assets:	
Cash	\$ 1,196
Interest receivable	57
Loans receivable, net	<u>2,382</u>
	<u>\$ 3,635</u>
Fund equity:	
Other liabilities	2
Unrestricted contributed capital	2,917
Retained earnings:	
Reserved	25
Unreserved – undesignated	<u>691</u>
	<u>\$ 3,635</u>

(e) 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.

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(2) Summary of Significant Accounting Policies

(a) *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, whether unrestricted or restricted as to their use.

(b) *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.

(c) *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.

(d) *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.

(e) *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.

(f) *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

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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.

(g) *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, 1999.

(h) *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.

(i) *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.

(j) *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.

(k) *Furniture and Equipment*

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

(l) *Depreciation*

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

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(m) Reclassifications

Certain reclassifications have been made to the 1998 financial statements to conform to the 1999 presentation.

(3) Additional Information Regarding Cash Flows and Noncash Activities

Additional information regarding cash flows and noncash activities for the years ended June 30, 1999 and 1998 follows.

Cash and cash equivalents consist of the following:

	<u>1999</u>	<u>1998</u>
Unrestricted	\$ 29,752,214	20,890,435
Restricted	<u>25,851,104</u>	<u>202,121</u>
	<u>\$ 55,603,318</u>	<u>21,092,556</u>

	<u>1999</u>	<u>1998</u>
Cash flows:		
Interest collected on loans and investments	\$ 45,519,647	49,395,617
Interest paid	<u>18,129,882</u>	<u>18,500,016</u>
Noncash activity:		
Other real estate owned acquired through foreclosure	\$ —	4,629,392
Sales of real estate owned	1,600,078	2,997,480
Investment in development projects acquired through contribution of assets	<u>—</u>	<u>13,567,000</u>

(4) Investment Securities

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

	<u>1999</u>	<u>1998</u>
U.S. Treasury securities maturity:		
Within one year	\$ 81,431,181	133,598,263
After one but within five years	30,066,456	88,793,326
After five but within ten years	2,120,630	11,578,017
After ten but within twenty-five years	<u>20,482,243</u>	<u>18,852,314</u>
	<u>154,100,510</u>	<u>252,821,920</u>

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	<u>1999</u>	<u>1998</u>
U.S. Government agencies maturity:		
Within one year	92,387,938	61,110,982
After one but within five years	44,937,044	28,649,614
After five but within ten years	44,660,435	44,993,496
After ten but within twenty-five years	11,085,409	3,996,500
	<u>193,070,826</u>	<u>138,750,592</u>
Corporate securities maturity:		
After one but within five years	8,057,077	12,972,869
After five but within ten years	33,727,314	28,701,490
After ten but within twenty-five years	11,400,990	12,290,770
	<u>53,185,381</u>	<u>53,965,129</u>
	<u>\$ 400,356,717</u>	<u>445,537,641</u>

All investments and collateral for the repurchase agreements are registered in the Authority's name and are held by the Authority or its custodian. This arrangement results in Category 1 safekeeping risk, the lowest safekeeping risk classification as defined by Governmental Accounting Standards Board Statement No. 3 and Technical Bulletin No. 87-1.

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>1999</u>	<u>1998</u>
Capital Reserve Funds	Secure debt service payments – bonds	\$ 3,821,413	3,943,649
Debt Service and Loan Prepayment Accounts	Funds held for future debt service – bonds	1,382,100	632,674
Business Assistance Program	Guarantee business loan	—	61,206
Healy Project Replacement and Contingency Fund	Bond repayment and certain project costs	3,926,644	3,693,671
Red Dog Project Sustaining Capital Fund	Project costs	12,925,297	12,833,093
Unexpended bond proceeds	Construction costs	4,527,627	22,063,345
Snettisham Hydroelectric Project Funds	Various costs relating to the project	21,106,473	—
		<u>\$ 47,689,554</u>	<u>43,227,638</u>

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(5) Loans

The Authority participates with regulated financial institutions in 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:

Loan program type	1999		1998	
	Number	Amount	Number	Amount
Appropriated	545	\$ 18,861,596	649	\$ 25,833,564
Loan participation:				
Bonds outstanding	57	22,741,923	72	30,773,112
Bonds retired	72	30,868,489	88	36,662,885
Internally funded	118	143,032,544	105	132,046,209
OREO sale financing	49	18,362,438	60	23,217,869
Other	38	1,220,961	51	1,581,147
	<u>879</u>	<u>\$ 235,087,951</u>	<u>1,025</u>	<u>\$ 250,114,786</u>

The aging of loans at June 30 follows:

	1999		1998	
	Percent	Amount	Percent	Amount
Current	97.31%	228,754,597	98.33%	\$ 245,946,559
Past due:				
31-60 days	.96	2,263,340	1.11	2,779,195
61-90 days	.25	584,169	0.05	120,744
Over 90 days	1.48	3,485,845	0.51	1,268,288
	<u>100.00%</u>	<u>235,087,951</u>	<u>100.00%</u>	<u>\$ 250,114,786</u>

Loans which are more than 90 days past due on which the accrual of interest has been discontinued amounted to \$3,485,845 and \$1,268,288 at June 30, 1999 and 1998, respectively. Gross interest income which would have been received on these loans amounted to \$338,913 and \$114,783 for the years ended June 30, 1999 and 1998, respectively. The amount of interest income collected and included in net income was \$114,325 and \$79,090 for the years ended June 30, 1999 and 1998, respectively.

Loans on which the terms have been restructured amounted to \$9,113,874 and \$15,103,964 at June 30, 1999 and 1998, respectively. Gross interest income which would have been received on these loans amounted to \$877,698 and \$1,260,810 for the years ended June 30, 1999 and 1998, respectively. The amount of interest

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income collected and included in net income was \$790,138 and \$1,150,696 for the years ended June 30, 1999 and 1998, respectively.

(6) Allowance for Loan Losses

An analysis of changes in the allowance for loan losses for the years ended June 30, 1999 and 1998 follows:

	<u>1999</u>	<u>1998</u>
Balance at beginning of year	\$ 12,862,275	15,557,029
Provision for loan losses	—	1,550,000
Recoveries of loans charged off	28,091	32,114
Loans charged off	<u>(668,160)</u>	<u>(4,276,868)</u>
	<u>\$ 12,222,206</u>	<u>12,862,275</u>

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

(a) 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 \$780,000.
- 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 return the cost of the expansion from the in-service date of January 1999 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>1999</u>	<u>1998</u>
Minimum lease payments receivable	\$ 747,991,456	763,534,121
Less unearned income	<u>(467,016,523)</u>	<u>(493,773,274)</u>
Net investment in direct financing leases	<u>\$ 280,974,933</u>	<u>269,760,847</u>

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At June 30, 1999, future minimum lease payments receivable for each of the five succeeding fiscal years are:

	<u>Amount</u>
Year ending June 30:	
2000	\$ 16,122,000
2001	20,701,000
2002	20,693,000
2003	20,687,000
2004	<u>20,684,000</u>

(b) 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. 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.
- 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 Healy project is currently undergoing the performance tests anticipated by the power sales agreement that will demonstrate whether the project is commercially operable. It is anticipated that the performance testing will be completed by late 1999 (note 10).

In accordance with SFAS No. 121, the Authority wrote-down its investment in the Healy Project by \$150,398,370 during the year ended June 30, 1999. The write-down represents contributions to the project which were made by contractors and federal and state governments. Therefore, contributed capital was also reduced by this amount.

- 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 a minimum \$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.

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(c) Restricted Direct Financing Lease

- During 1999, the Authority purchased the Snettisham Hydroelectric Project from the federal government. Under the terms of various agreements, the project is operated by and all power from the project is sold to Alaska Electric Light and Power (AEL&P). The project provides the majority of the Juneau-Douglas area electrical energy.

(8) Bonds Payable

The composition of bonds outstanding at June 30, 1999 and 1998 follows (interest rate and maturity date information is as of June 30, 1999):

	<u>1999</u>	<u>1998</u>
Revolving Fund Bonds:		
Series 1990A – 7.8% to 7.95%, issued December 13, 1990, maturing through 2010	\$ 16,555,000	17,575,000
Series 1991A – 6.9% to 7.3%, issued December 10, 1991, maturing through 2006	4,035,000	4,480,000
Series 1992A – 5.9% to 6.5%, issued September 30, 1992, maturing through 2014	23,725,000	24,670,000
Series 1995A – 5.55% to 6.0%, issued May 17, 1995, maturing through 2005	4,080,000	6,815,000
Series 1997A – 5% to 6.125%, issued March 27, 1997, maturing through 2027	143,445,000	146,850,000
Refunding Revolving Fund Bonds:		
Series 1993A – 5.25% to 6.2%, issued June 3, 1993, maturing through 2010	10,245,000	11,810,000
Series 1994A – 5.3% to 5.9%, issued March 30, 1994, maturing through 2006	6,545,000	7,845,000
Series 1995B – 5.4% to 5.85%, issued May 17, 1995, maturing through 2005	7,120,000	7,895,000
Series 1998A – 4.5% to 5.25%, issued May 14, 1998, maturing through 2023	83,410,000	85,000,000
	<u>\$ 299,160,000</u>	<u>312,940,000</u>

At June 30, 1999, all 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.

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The minimum payments related to all Revolving Fund Bonds for the five years subsequent to June 30, 1999 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2000	\$ 10,875,000	17,385,130	28,260,130
2001	11,605,000	16,791,905	28,396,905
2002	12,290,000	16,151,630	28,441,630
2003	13,400,000	15,448,438	28,848,438
2004	14,350,000	14,675,795	29,025,795
2005-2009	66,895,000	60,718,771	127,613,771
2010-2014	63,250,000	41,547,965	104,797,965
2015-2019	53,300,000	23,553,266	76,853,266
2020-2024	39,620,000	10,499,300	50,119,300
2025-2027	13,575,000	1,695,706	15,270,706
	<u>\$ 299,160,000</u>	<u>218,467,906</u>	<u>517,627,906</u>

Bond resolution covenants effective June 30, 1999 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, 1999, the Authority has estimated that projected future coverage for each future year exceeds 150%, giving effect only to existing projects at that date, including the projected effect of completion of the Healy Project and completion of the expansion of the Red Dog Project, and excluding the effect of other proposed projects and future construction expenditures. At June 30, 1999, unrestricted surplus was approximately \$790,000,000. 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, 1999, the liquidity requirement was \$50,000,000.

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.

The Authority issued \$100,000,000 of power revenue bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.5% to 6.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. Certain of the bonds are insured by Ambac Assurance Corporation. The minimum payments related to the power revenue bonds for the five years subsequent to June 30, 1999 and thereafter are as follows:

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	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 1,045,000	5,311,366	6,356,366
2001	1,095,000	5,264,341	6,359,341
2002	1,145,000	5,215,066	6,360,066
2003	1,195,000	5,160,679	6,355,679
2004	1,255,000	5,103,916	6,358,916
2005-2009	7,345,000	24,448,444	31,793,444
2010-2014	9,535,000	22,252,139	31,787,139
2015-2019	12,655,000	19,132,491	31,787,491
2020-2024	16,440,000	15,352,841	31,792,841
2025-2027	21,045,000	10,736,513	31,781,513
2030-2034	27,245,000	4,546,444	31,791,444
	<u>\$ 100,000,000</u>	<u>122,524,240</u>	<u>222,524,240</u>

(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 1999 was 8.50%.

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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	8.50%
Annual pension cost	\$239,900
Contributions made	\$239,900
Actuarial valuation date	June 30, 1996
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	8.25%
Projected salary increase	
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

(a) Commitments

At June 30, 1999, the Authority held approximately \$116,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately \$111,283,000 of investments in trust for the construction of two intertie projects. The Authority held approximately \$7,001,000 of investments in trust for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

(b) Environmental Issues

The Authority has identified certain properties and pledged collateral which may contain contaminated soils. 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, 1999, 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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(c) *Healy Clean Coal Project*

Golden Valley Electric Association (GVEA) filed a litigation action and a regulatory action to dispute interpretations of the power sales agreement and to challenge whether GVEA will be required to make the payments specified in the power sales agreement. Trial in the litigation action is scheduled to commence in March 2000. Proceedings in the regulatory action has been stayed pending conclusion of the litigation to determine whether any disputes remain. Management believes that a materially unfavorable outcome is unlikely.

(d) *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, 1999, the Authority had extended loan commitments for loans of \$18,765,000 and loan guarantees of \$2,800,894. 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.

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The Authority has a full understanding of the risks associated with the "Year 2000 (Y2K) Computer Problem" and is committed to achieving Y2K compliance both internally and on all projects. As of June 30, 1999, the Authority has internal and external staff dedicated to the Y2K problem. All components, computers, software, electrical equipment, and service critical systems have been inventoried and assessed for Y2K compliance. Based on that assessment, testing of components and systems has been or is being conducted where appropriate. To further mitigate risk, appropriate repairs, upgrades, and replacements of at risk software, hardware, firmware, products, facilities, or equipment have been or are being made and contingency plans for all critical systems have been or are being prepared.

The Authority is also addressing potential problems with third party organizations. Appropriate suppliers, manufacturers, contractors, and project operators are being required to provide Y2K compliance certification on their internal systems, any Authority owned equipment, facilities and projects they operate on the Authority's behalf, and on any services, software, hardware, firmware, products, facilities, or equipment they may provide to the Authority. In cases where they cannot provide compliance certification, the Authority will work closely with them to share information and to address any potential problems.

Based on efforts completed to date, no significant disruptions are anticipated due to the Year 2000 computer problem.

The Authority relies on many third parties for services and operations of projects throughout the State and cannot guarantee that their services and operations will be unaffected by the Year 2000 Computer Problem. The Authority is not planning to "take over" responsibility for or supercede any efforts of suppliers, manufacturers, service providers, project operators, or other entities to achieve Y2K compliance.

