KPMG

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY REVOLVING FUND

(a Component Unit of the State of Alaska)

Financial Statements

June 30, 2001 and 2000

(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, 2001 and 2000, 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 auditing standards generally accepted in the United States of America. 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, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 7, 2001

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

Balance Sheets

June 30, 2001 and 2000
(Stated in Thousands)

Assets		**2001**	**2000**
Cash and cash equivalents (notes 3 and 4)	$	28,611	27,444
Investment securities (note 4)		400,302	352,952
Loans (note 5)		215,645	237,738
Less allowance for loan losses (note 6)		(12,197)	(12,273)
Net loans		203,448	225,465
Net investment in direct financing leases (note 7)		332,370	328,771
Accrued interest receivable		7,585	6,634
Development projects (note 7)		150,324	160,241
Other real estate owned		3,747	5,442
Due from Alaska Seafood International		—	2,497
Other investments		3,394	1,801
Other assets		9,784	11,862
Restricted assets:			
Cash and cash equivalents (notes 3 and 4)		11,769	10,826
Investment securities (note 4)		16,268	21,754
Net investment in direct financing leases – Snettisham (note 7)		90,499	91,598
	$	1,258,101	1,247,287
Liabilities and Equity			
Liabilities:			
Revolving Fund Bonds payable (note 8)	$	271,065	282,840
Accrued interest payable		3,945	4,106
Accounts payable		5,459	3,353
Liabilities payable from restricted assets – Snettisham (note 8):			
Power Revenue Bonds payable		91,140	92,160
Other		8,519	8,654
Total liabilities		380,128	391,113
Equity:			
Contributed capital		293,798	294,068
Retained earnings		584,175	562,106
Total equity		877,973	856,174
Commitments, contingencies and subsequent events (notes 5, 9 and 10)			
	$	1,258,101	1,247,287

See accompanying notes to financial statements.

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

Statements of Income

Years ended June 30, 2001 and 2000
(Stated in Thousands)

		2001	2000
Revenues:			
Interest income:			
Loans (note 5)	$	19,151	19,990
Investments		24,887	22,272
Direct financing leases		17,903	17,843
Restricted direct financing lease (note 7)		4,880	5,288
Total interest income		66,821	65,393
Other project income		703	1,457
Other income		3,030	1,566
Net increase (decrease) in fair value of investments		13,022	(2,221)
Total revenues		83,576	66,195
Expenses:			
Interest		16,738	17,679
Interest on liabilities payable from restricted assets (note 8)		4,880	5,288
General and administrative		7,436	5,207
Depreciation		1,244	1,244
Other project expenses		1,131	640
Write-downs associated with development projects (note 7)		10,419	—
Write-downs and net expenses associated with other real estate owned		1,429	540
Total expenses		43,277	30,598
Net income	$	40,299	35,597

See accompanying notes to financial statements.

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

Statements of Changes in Equity

Years ended June 30, 2001 and 2000
(Stated in Thousands)

		Contributed capital	Retained earnings	Total equity
Balance at June 30, 1999	$	294,338	552,239	846,577
Net income		—	35,597	35,597
Dividend (note 10)		—	(26,000)	(26,000)
Depreciation of contributed assets		(270)	270	—
Balance at June 30, 2000		294,068	562,106	856,174
Net income		—	40,299	40,299
Dividend (note 10)		—	(18,500)	(18,500)
Depreciation of contributed assets		(270)	270	—
Balance at June 30, 2001	$	293,798	584,175	877,973

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2001 and 2000
(Stated in Thousands)

		2001	2000
Cash flows from operating activities:			
Net income	$	40,299	35,597
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation		1,244	1,244
Net depreciation (appreciation) of investment securities		(13,022)	2,221
Write-downs and net loss on sale of other real estate owned		1,224	226
Write-down of development project		10,419	—
Write-down of other investments		907	750
Amortization of unearned income on direct financing leases		(17,885)	(18,796)
Increase in accrued interest receivable and other assets		(2,471)	(2,076)
Increase (decrease) in accrued interest and accounts payable		1,780	(1,080)
Net cash provided by operating activities		22,495	18,086
Cash flows from capital and related financing activities:			
Investment in direct financing leases		(652)	(20,754)
Direct financing lease receipts		16,230	29,289
Payments on bonds		(8,970)	(19,420)
Net cash provided (used) by capital and related financing activities		6,608	(10,885)
Cash flows from noncapital and related financing activities:			
Dividend paid to the State of Alaska		(18,500)	(26,000)
Payments on bonds		(3,825)	(4,740)
Net cash used by noncapital and related financing activities		(22,325)	(30,740)
Cash flows from investing activities:			
Cash advanced to Alaska Seafood International		2,500	(2,500)
Proceeds from maturities of securities		155,684	216,248
Proceeds from sales of securities		151,476	36,519
Purchases of investment securities		(336,002)	(229,337)
Principal collected on loans		32,194	30,423
Loans originated		(9,878)	(33,022)
Investment in development projects, net		1,687	(12,587)
Net proceeds from sales of other real estate owned		171	462
Purchase of other investments		(2,500)	—
Net cash provided (used) by investing activities		(4,668)	6,206
Net increase (decrease) in cash and cash equivalents		2,110	(17,333)
Cash and cash equivalents at beginning of year		38,270	55,603
Cash and cash equivalents at end of year	$	40,380	38,270

See accompanying notes to financial statements.

(1) Organization and Operations

The activities of the Alaska Industrial Development and Export Authority (Authority) Revolving Fund are authorized pursuant to legislation 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.

Pursuant to legislation enacted in 1993, the members of 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. The Red Dog Project was financed with Authority funds and bond financings, including $150,000,000 of general obligation 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 (see note 7).
- 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. In May 2000, the City of Unalaska paid all financial obligations related to the project and, in accordance with the terms of the agreement, the project was transferred to the City.
- 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. Ownership of the Ketchikan 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. 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 Ketchikan Shipyard. The Authority also agreed to provide funds for maintenance and repairs in an amount equal to the amount contributed by the Borough.
- 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 AEL&P to provide the project's operations and maintenance, and provide an option for

the 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 initially loaned money for the construction of the Alaska Seafood Center (ASC), which performs secondary processing for various types of seafood. An equity interest was purchased in November 1998. The project was completed in September 1999 and the Authority purchased the facility for $48 million. In addition, the Authority acquired additional equity interests under a December 2000 restructuring.

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 Ted Stevens 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.
- The Authority has bonding authorization of $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. The Authority does not currently anticipate that it will 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 project is currently being reviewed by the U.S. Corps of Engineers for potential federal funding of a portion of the improvements.
- 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 does not currently anticipate that it will participate in financing the project.
- 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 the proposed Hatcher Pass Ski Resort, located in the Matanuska-Susitna Borough.

(Continued)

(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 financed. The Authority is specifically 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, 2001, no bonds under this authorization have been issued. As of June 30, 2001, the Authority had issued revenue bonds for 299 projects (not including bonds issued to refund other bonds). The principal amount payable for revenue bonds issued after July 1, 1995 was $107,683,878. 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, 2001 follows:

		Unaudited (in thousands)
Assets:		
Cash	$	1,219
Interest receivable		71
Loans receivable, net		2,603
	$	3,893
Liabilities and Equity:		
Unrestricted contributed capital	$	2,982
Retained earnings:		
Reserved		25
Unreserved – undesignated		886
	$	3,893

(e) Rural Development Initiative Fund Loan Program

The Authority's Rural Development Initiative Fund (RDIF) Loan Program is designed for businesses that may not have access to conventional commercial financing, and provides financing for working capital, equipment, construction or other commercial purposes by a business located in a community with a population of 5,000 or less. The State of Alaska, Department of Community and Economic Development, Division of Investments administers the RDIF 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 RDIF Loan Program's balance sheet as of June 30, 2001 follows:

		Unaudited (in thousands)
Assets:		
Cash	$	6
Interest receivable		1
Loans receivable, net		388
	$	395
Liabilities and Equity:		
Unrestricted contributed capital	$	390
Retained earnings:		
Unreserved		5
	$	395

(f) 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.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting – Enterprise Fund Accounting

The accounts of the Authority are organized as an Enterprise Fund. Accordingly, the financial activities of the Authority are recorded using the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when goods or services are received or the related liability is incurred.

Statement No. 20 of the Government Accounting Standards Board (GASB), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides two options for reporting proprietary fund activities (including component units using proprietary fund accounting). The Authority has elected to apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

(b) ***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.

(c) ***Investments***

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.

(d) ***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.

(e) ***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.

(f) ***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.

(g) ***Allowance for Loan Losses***

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

(Continued)

(h) 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, 2001.

(i) 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.

(j) Environmental Issues

The Authority's policy relating to environmental issues is to record a liability when the likelihood of Authority responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 2001, 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.

(k) Appropriations and Grants

The Authority recognizes grant revenue under the provisions of Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Nonexchange transactions, whereby, revenue is recognized when all applicable eligibility requirements, including time requirements are met. Depreciation of capital assets acquired from appropriations and grants restricted for capital acquisition is transferred to the contributed capital account.

(l) 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.

(m) Depreciation

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

(Continued)

(3) Additional Information Regarding Cash Flows and Noncash Activities

Cash and cash equivalents consist of the following at June 30 (stated in thousands):

		2001	2000
Unrestricted	$	28,611	27,444
Restricted		11,769	10,826
	$	40,380	38,270

Additional information regarding cash flows and noncash activities for the years ended June 30 follows (stated in thousands):

		2001	2000
Cash flows:			
Interest collected on loans and investments	$	43,087	42,550
Interest paid		16,414	17,413
Noncash activity:			
Sales of real estate owned		350	—

(4) Investment Securities

Major components of investment securities, the maturity distribution and carrying value at June 30 follows (stated in thousands):

	2001	2000
U.S. Treasury securities maturity:		
Within one year	$ 66,107	59,889
After one but within five years	40,780	50,798
After five but within ten years	7,844	—
Thereafter	31,744	20,882
	146,475	131,569
U.S. Government agencies maturity:		
Within one year	115,442	74,047
After one but within five years	33,501	57,866
After five but within ten years	37,825	42,883
Thereafter	1,420	10,541
	188,188	185,337
Corporate securities maturity:		
Within one year	2,701	—
After one but within five years	36,675	21,417
After five but within ten years	26,541	26,145
Thereafter	15,990	10,238
	81,907	57,800
	$ 416,570	374,706

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 (stated in thousands):

	Allowable Usage		2001	2000
Capital Reserve Funds	Secure debt service payments – bonds	$	3,339	3,510
Debt Service and Loan Prepayment Accounts	Funds held for future debt service – bonds		2,437	2,755
Healy Project Replacement and Contingency Fund	Bond repayment and certain project costs		—	4,076
Red Dog Project Sustaining Capital Fund	Project costs		13,101	13,023
Snettisham Hydroelectric Project Funds	Various costs relating to the project		9,160	9,216
		$	28,037	32,580

(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 Authority's ability to collect on loans is generally contingent upon economic conditions in the State.

Loans outstanding at June 30 are classified as follows (dollar amounts stated in thousands):

	2001			2000		
	Number		Amount	Number		Amount
Appropriated	360	$	11,275	442	$	14,609
Loan participation:						
Bonds outstanding	39		14,010	46		18,273
Bonds retired	59		22,803	68		27,430
Internally funded	131		151,432	129		159,304
OREO sale financing	40		15,426	45		17,176
Other	23		699	31		946
	652	$	215,645	761	$	237,738

(Continued)

The aging of loans at June 30 follows (dollar amounts stated in thousands):

	2001		2000	
	Percent	Amount	Percent	Amount
Current	98.39%	$ 212,163	97.37%	$ 231,497
Past due:				
31–60 days	0.81%	1,750	2.10%	4,999
61–90 days	0.06%	127	0.10%	223
Over 90 days	0.74%	1,605	0.43%	1,019
	100.00%	$ 215,645	100.00%	$ 237,738

Loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to $203,605 and $984,914 at June 30, 2001 and 2000, respectively. Gross interest income which would have been received on these loans amounted to $16,059 and $97,867 for the years ended June 30, 2001 and 2000, respectively. The amount of interest income collected and included in net income was $6,875 and $39,322 for the years ended June 30, 2001 and 2000, respectively.

Loans on which the terms have been restructured amounted to $8,391,624 and $11,061,662 at June 30, 2001 and 2000, respectively. Gross interest income which would have been received on these loans amounted to $794,603 and $1,033,782 for the years ended June 30, 2001 and 2000, respectively. The amount of interest income collected and included in net income was $591,114 and $965,428 for the years ended June 30, 2001 and 2000, respectively.

(6) Allowance for Loan Losses

An analysis of changes in the allowance for loan losses for the years ended June 30 follows (stated in thousands):

	2001	2000
Balance at beginning of year	$ 12,273	12,222
Recoveries of loans charged off	57	57
Loans charged off	(133)	(6)
	$ 12,197	12,273

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

(a) Direct Financing Leases

- 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 through the end of the term of the agreement at a rate based on bonds issued to finance the expansion.
- The Authority leases the Alaska Seafood International project under an agreement which is recorded as a direct financing lease with an initial term of 30 years. Monthly minimum lease payments range from $360,000 to $370,000 with several larger payments scheduled during the lease term. During an initial operating term, lease payments may be deferred if certain performance benchmarks are not satisfied.

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

		2001	2000
Minimum lease payments receivable	$	852,368	856,764
Less unearned income		(519,998)	(527,993)
Net investment in direct financing leases	$	332,370	328,771

At June 30, 2001, future minimum lease payments receivable for each of the five succeeding fiscal years are (stated in thousands):

Year ending June 30:		Amount
2002	$	20,649
2003		23,889
2004		25,299
2005		25,089
2006		24,729

The components of the Authority's net investment in direct financing leases by project at June 30 are (stated in thousands):

		2001	2000
Alaska Seafood Center	$	48,000	48,000
Federal Express Project		25,682	26,726
Red Dog Project		258,688	254,045
	$	332,370	328,771

(Continued)

(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.

  In accordance with SFAS 121, the Authority determined that its investment in the Skagway Terminal was impaired and reduced the carrying value by $10,419,000 during the year ended June 30, 2001.

- See note 10 for information relating to the Healy Project.
- 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.

The components of the Authority's net investment in development projects at June 30 are (stated in thousands):

		2001	2000
Healy Project	$	126,227	125,242
Ketchikan Shipyard		15,750	15,076
Skagway Terminal		2,202	13,595
Seward Coal Load-Out Facility		6,145	6,328
	$	150,324	160,241

(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 AEL&P. The project provides the majority of the Juneau-Douglas area electrical energy.

(8) Bonds Payable

The composition of bonds outstanding issued under the Authority's Revolving Fund Bond Resolution (Revolving Fund Bonds) at June 30 follows (interest rate and maturity date information is as of June 30, 2001. Dollar amounts are stated in thousands):

		2001	2000
Revolving Fund Bonds:			
Series 1990A – 7.8% and 7.95%, issued December 13, 1990, maturing through 2010	$	14,285	15,460
Series 1992A – 6.1% to 6.5%, issued September 30, 1992, maturing through 2014		21,665	22,725
Series 1995A – 5.75% to 6.0%, issued May 17, 1995, maturing through 2005		3,165	3,635
Series 1997A – 5.5% to 6.125%, issued March 27, 1997, maturing through 2027		136,115	139,870
Refunding Revolving Fund Bonds:			
Series 1993A – 5.5% to 6.2%, issued June 3, 1993, maturing through 2010		7,605	8,560
Series 1994A – 5.5% to 5.9%, issued March 30, 1994, maturing through 2006		3,330	4,795
Series 1995B – 5.6% to 5.85%, issued May 17, 1995, maturing through 2005		5,325	6,260
Series 1998A – 4.5% to 5.25%, issued May 14, 1998, maturing through 2023		79,575	81,535
	$	271,065	282,840

At June 30, 2001, 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.

(Continued)

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2001 are as follows (stated in thousands):

		Principal	Interest	Total
2002	$	11,325	15,780	27,105
2003		12,350	15,140	27,490
2004		13,205	14,435	27,640
2005		14,290	13,662	27,952
2006		11,985	12,808	24,793
2007-2011		62,370	52,672	115,042
2012-2016		63,800	34,296	98,096
2017-2021		45,380	17,761	63,141
2022-2026		31,565	6,223	37,788
2027		4,795	293	5,088
	$	271,065	183,070	454,135

Revolving Fund Bond resolution covenants effective June 30, 2001 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, 2001, 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 all current projects, and excluding the effect of proposed projects. At June 30, 2001, unrestricted surplus was approximately $825,000,000. The Authority is also required by Revolving Fund 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, 2001, the liquidity requirement was $50,000,000.

(Continued)

The Authority also issued $100,000,000 of Power Revenue Bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.75% 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. In December 1999, the Authority defeased $6,865,000 of the bonds using funds on hand. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2001 are as follows (stated in thousands):

	Principal	Interest	Total
2002	$ 1,065	4,857	5,922
2003	1,115	4,806	5,921
2004	1,170	4,753	5,923
2005	1,230	4,692	5,922
2006	1,295	4,627	5,922
2007-2011	7,580	22,035	29,615
2012-2016	9,960	19,642	29,602
2017-2021	13,105	16,493	29,598
2022-2026	16,915	12,688	29,603
2027-2031	21,695	7,907	29,602
2032-2034	16,010	1,751	17,761
	$ 91,140	104,251	195,391

(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 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.

(Continued)

(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 annual pension cost for the current year and the related information is as follows:

Contribution rates:	
Employee	6.75%
Employer	8.09%
Annual pension cost	$407,000
Contributions made	$407,000
Actuarial valuation date	June 30, 1997
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	4.00%
Investment return	8.25%
Projected salary increase	
Inflation	4.00%
Productivity and merit	1.50%
Health cost trend	5.50%

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, 2001, the Authority held approximately $114,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately $122,082,000 of investments in trust for the construction of two intertie projects. The Authority held approximately $17,666,000 of investments in trust for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

(b) *Healy Clean Coal Project*

A Power Sales Agreement between GVEA and the Authority for the Healy Project was originally entered into in 1991. In 1998, GVEA initiated litigation alleging that the Authority had breached the Healy Project Power Sales Agreement, among other allegations.

(Continued)

On March 9, 2000, GVEA and the Authority entered into a settlement agreement regarding the Healy Project litigation. The settlement agreement provided for the interim shutdown of the Healy Project, which is now maintained in custodial status by the Authority. The settlement agreement further provided terms of partial financial assistance under which GVEA, if it elected to proceed, could either retrofit the plant to conventional combuster technology or operate the Healy Project under existing systems. GVEA has elected to pursue authorization and financing to undertake a full retrofit of the Healy Project. If the retrofit occurs, GVEA would operate the Healy Project and would purchase all power produced by the Healy Project.

(c) Dividend

Pursuant to Alaska statutes the Authority's Board is required to annually determine the amount of a dividend to be made available for appropriation by the legislature. The dividend made available by the Board is to be not less than 25% and not more than 50% of the Authority's net income for the fiscal year two years before the fiscal year in which the dividend is to be made. In no event, however, may the dividend exceed unrestricted net income. The Authority's Board has authorized a $17.5 million dividend to be paid during the year ending June 30, 2002.

(d) Four Dam Pool Sale Financing

Pursuant to legislation enacted in May 2000, the Authority has been authorized to issue bonds or otherwise extend financing to a joint action agency formed by the City of Ketchikan, the City of Wrangell, the City of Petersburg, Copper Valley Electric Association, Inc. and Kodiak Electric Association, Inc. in connection with the sale of the Four Dam Pool (Four Dam Pool) Hydroelectric Projects from the Alaska Energy Authority to the newly formed entity. Pursuant to the authorization, the principal amount of bonds and other financing the Authority may provide may not exceed $110,000,000. The Authority expects to fund the loan using internal assets. The anticipated closing date is December 31, 2001.

(e) 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, 2001, the Authority had extended loan commitments for loans of $18,032,205 and loan guarantees of $1,905,622. 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.