

SB

265



2005 ANNUAL REPORT

ALASKA MUNICIPAL BOND BANK
1000 W. ALASKA STREET, SUITE 1000

LETTER FROM THE GOVERNOR



The Office of
Governor Frank H. Murkowski



December 2005

Dear Alaskans:

It seems that too often, whether through over regulation or bureaucratic inefficiency, government hinders rather than helps construction of sound economic development or public works projects.

I am proud to present the Alaska Municipal Bond Bank Authority as a great example of government getting it right. The job of the authority is to help municipalities. This report shows that in fiscal year 2005 the authority issued \$123.0 million in bonds and provided direct savings of \$16.7 million to Alaska municipalities.

Local governments sell their bonds to the authority to achieve lower costs and take advantage of the Bond Bank's high credit ratings. Because bonds issued by the authority are backed by the moral obligation of the state, they have higher credit ratings than bonds issued by most Alaska municipalities.

In fiscal year 2005, bonds sold by the authority financed school construction in Kodiak, Petersburg, Sitka, and Ketchikan, harbor improvements in Adak, a hospital in Juneau, street improvements in North Pole, and a new ice rink in Palmer. It also financed roof repairs for Anchorage's Performing Arts Center and refinanced outstanding bonds for savings to Haines, Palmer, Ketchikan, Fairbanks, Cordova, Sitka, Unalaska, and the Northwest Arctic Borough.

My administration has made a concerted effort to maintain the state's credit ratings over the past three years. The payoff for fiscal discipline, curtailing the use of debt, and laying the groundwork for a long-term fiscal plan has been a return to stable credit ratings. In the case of the Bond Bank, this has resulted in a credit upgrade to A1 from Moody's Investors Service in fiscal year 2005. It is gratifying to see these efforts converted to real and measurable savings for Alaskans throughout their municipal governments.

Our job is not finished. Economic and resource development through improved infrastructure and efficient government continue as a main focus of my administration.

The benefits of the effort come in greater opportunities for Alaskans to find the careers needed to raise families and enjoy the great bounty of the Last Frontier.

Sincerely yours,

A handwritten signature in black ink that reads "Frank H. Murkowski".

Frank H. Murkowski
Governor

LETTER FROM THE CHAIRPERSON

To all Alaskans:

The year 2005 marked the 30th year of existence for the Alaska Municipal Bond Bank Authority (Bond Bank). Since its inception in August of 1975, the Bond Bank has helped Alaskan communities secure over \$800 million dollars in financing for public works projects that have improved the standards of health, safety and education for our citizens. The municipalities using the services of the Bond Bank have realized significant savings, reducing the burden on taxpayers throughout the state.

The Bond Bank was created to assist Alaskan communities issue bonds. Some communities simply lack familiarity with the financial markets, others seek to reduce the cost of issuing bonds, and some municipalities find they can get better terms on bonds issued by the Bond Bank.

The Bond Bank realizes savings for communities in a number of ways. We pool bonds, selling much larger issues than any one community would, thereby creating economies of scale. Because of our level of activity, we contract for professional services at a lower cost than could less active bond issuers. The Bond Bank also has a better credit rating than is available to most communities, resulting in lower interest rates.

The Bond Bank provides services to urban and rural communities in every region of the State as demonstrated by a review of the financial information that follows.

Beginning in 1977, the Bond Bank has remitted to the State of Alaska annual investment earnings in excess of operating needs. At \$26.9 million, those remittances now exceed, by over \$8.3 million, the \$18.6 million appropriated by the State of Alaska to the Bond Bank between the years 1976 and 1986.

Fiscal year 2005 saw a continuation of the trend of increased use of the Bond Bank. Six series of bonds were issued for \$123 million for fourteen Alaskan communities. Bond Bank participation in these transactions is estimated to have saved over \$16.7 million.

The Bond Bank is indeed an idea that works an example of the benefits that can be realized through good government.

In accordance with Alaska Statute 44.85.100, we respectfully submit the attached year 2005 report of the activities and financial condition of the Bond Bank.

We hope you share with us our pride in the Bond Bank's accomplishments this outstanding year.

Sincerely,



R. Desmond Mayo

THE BOND BANK *An Idea That Works*

THE ALASKA MUNICIPAL BOND BANK AUTHORITY

The Bond Bank is a public corporation that aids Alaskan communities by issuing bonds, and using the proceeds to purchase the municipalities' general obligation and revenue bonds. It commenced operations in August 1975.

The Bond Bank has a legal existence independent of and separate from the State of Alaska. Bonds issued by the Bond Bank are payable only from Bond Bank funds. The State has pledged its moral obligation to the maintenance of a debt service reserve for all of the Bond Bank's bonds. (For more information please see Notes to Financial Statements.)

The powers of the Bond Bank are vested in its Board of Directors. The membership of the Board consists of five directors representing both the public and private sectors. The three private sector board members are

appointed by the Governor and serve four-year terms. They are joined on the Board by the Commissioner of Revenue and the Commissioner of Commerce, Community & Economic Development (or their assigned representatives).

The Board of Directors operates in accordance with the Bond Bank Act (AS 44.85), its published regulations (15 AAC 144) and its by-laws. The board's main responsibility is to approve bond issues.

The Bond Bank may not issue revenue bonds in excess of \$75 million in any fiscal year unless the Alaska Legislature approves a greater amount. The Bond Bank is further restricted to a limit of \$500 million of bonds or notes outstanding. As of June 30, 2005, obligations totaled \$409.4 million, allowing for additional bond issuances of approximately \$90.6 million.



AN IDEA THAT WORKS

The Bond Bank pays its own way. The Bond Bank's reserve accounts serve to both guarantee the bonds and provide investment income. All of the Bond Bank's costs are paid from these investment earnings. The statutory earnings from its investment accounts exceeded expenses by \$402,427 during the fiscal year ending June 30, 2005. Such excess funds are payable to the State of Alaska. The Bond Bank is transferring \$250,000 of non statutory investment earnings to the State of Alaska in fiscal year 2006. Since 1977 the Bond Bank has returned excess earnings to the State for a cumulative total of \$26.9 million, exceeding by over \$8.3 million the State's original investment of \$18.6 million (appropriated in the years 1976 through 1986).

Alaska's investment in the Bond Bank is compounded in other ways.

Alaskan communities taking advantage of the Bond Bank's services realize considerable savings. These

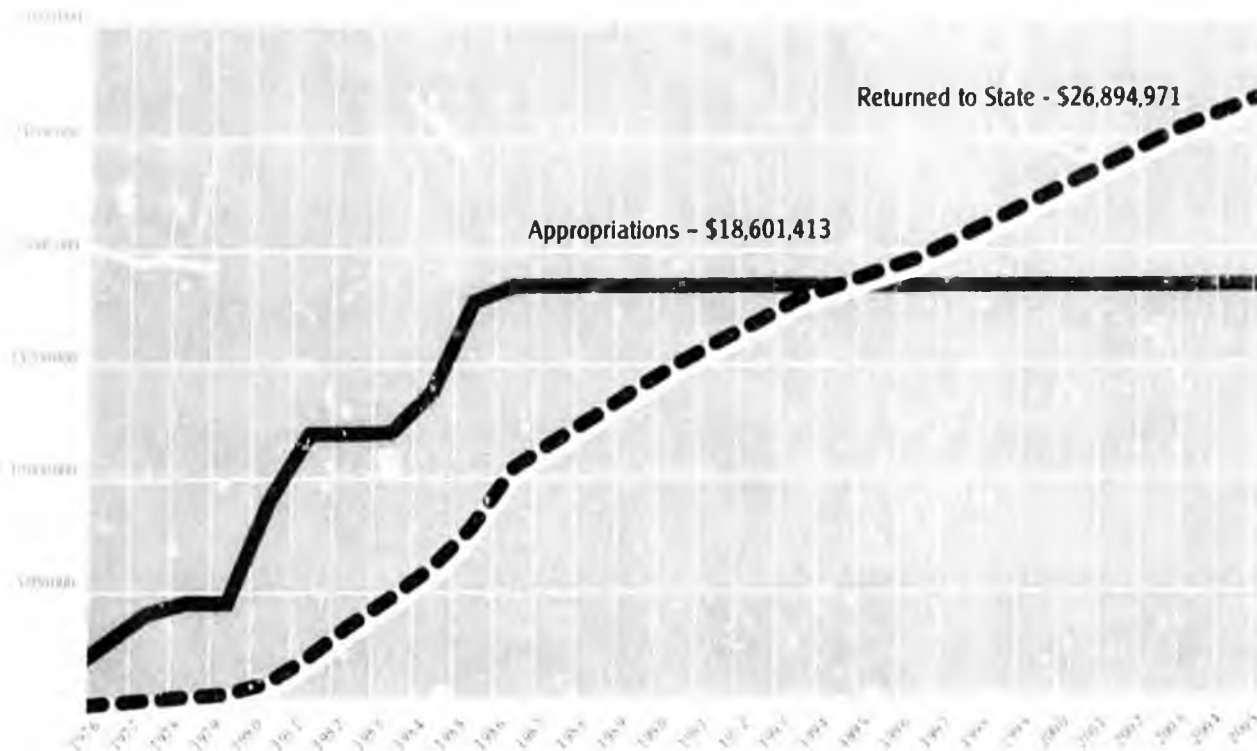
communities may have low bond ratings or, although credit worthy, have not issued bonds or notes, or have little outstanding debt, and lack investor familiarity.

Some larger communities, capable of issuing their own bonds, find that the Bond Bank's services result in less expense, especially for small bond issues.

In addition to the annual dividends received from the Bond Bank, it costs the State of Alaska less money to reimburse communities for such capital projects as schools built with funds provided by Bond Bank issues. Since bonding expenses for Alaskan communities are less than they would be otherwise, the interest expense is less for the State.

The Bond Bank operates efficiently. Department of Revenue staff serve as executive director and provide accounting support. Where economies of scale dictate, the Bond Bank hires outside professional staff.

CUMULATIVE APPROPRIATIONS COMPARED TO CUMULATIVE EXCESS EARNINGS RETURNED TO STATE



THE BOND BANK *An Idea That Works*

HELPING ALASKAN COMMUNITIES

The Bond Bank is organized to work with all Alaska municipalities, especially new and infrequent issuers of debt for capital projects. From the time a municipality contacts the Bond Bank, legal and financial professionals with extensive experience in Alaska financing begin working with municipal managers to develop the most advantageous financing program for the community.

If it becomes clear that debt financing through the Bond Bank is neither possible nor appropriate, for any particular municipality, the Bond Bank will continue

to work with the municipality's administration to find other means or ways of meeting their financial objectives.

In most instances the Bond Bank is able to relieve municipalities from paying certain costs of issuing bonds, such as official statement printing, trustee and paying agent fees. For this reason, even large communities with a track record of issuing bonds occasionally seek the services provided by the Bond Bank.



ALL BOND PROCEEDS DISTRIBUTION BY AREA PERCENTAGES

BOND PROCEEDS DISTRIBUTION BY COMMUNITY (IN THOUSANDS) DOES NOT INCLUDE REFUNDINGS OR RESERVES

ISSUING BONDS

The Bond Bank issues mostly tax exempt bonds. Purchasers of these bonds, including bond mutual funds, institutional investors, and insurance companies do not have to pay taxes on the income received.

Each individual issue of the Bond Bank is reviewed by Moody's Investors Service and Standard and Poor's Corporation. Because the Bond Bank has received 'A' ratings, considered "investment grade," from two major national bond rating agencies, it is able to borrow money at lower interest rates than most Alaskan municipalities.

In addition, when it is economical and cost effective to do so, the Bond Bank obtains bond insurance, and thereby secures 'AAA' ratings.

The Bond Bank strengthens its portfolio by including Alaskan communities widely distributed geographically, with different economic bases, and limiting the total percentage of bonds committed to any one municipality.

The Bond Bank often pools municipal general obligation bond issues into a single issue. Following the sale of the issue, the Bond Bank purchases the individual issues from each community.

LEVERAGING STATE DOLLARS

An important reason for the Bond Bank's favorable bond rating and lower borrowing costs is that it secures its bonds with reserve funds supported by the "moral obligation" of the State of Alaska.

The reserve funds are available to cure defaults, should they occur. For General Obligation Bonds, two-thirds of the reserve is funded from bond bank assets and one-third is funded from the proceeds of new bond issues.

The reserve fund is normally used to leverage debt at better than an eleven to one ratio. For every \$1 million placed in the reserve fund, more than \$11 million of outside capital is attracted to the state.

CURRENT FINANCINGS FY 2005 BONDS ISSUED

\$14,575,000

GENERAL OBLIGATION BONDS 2004 SERIES C

City of Palmer - Ice Rink
City of Petersburg - Elementary, Middle and High School Renovations
Standard & Poor's AAA, Moody's Aaa: FSA Insurance
Competitive Sale - CityGroup Global Markets
20 year: True Interest Cost 4.373%

\$28,845,000

REVENUE BONDS 2004 SERIES A

City & Borough of Juneau - Hospital
Standard & Poor's AAA: Fitch AAA: MBIA Issued
Negotiated sale - RBC Darn Kauscher
30 year: True Interest Cost 4.962%

\$5,265,000

REVENUE BONDS 2004 SERIES B

Municipality of Anchorage - Performing Arts Center
Standard & Poor AAA: Fitch AAA: MBIA Insured
Competitive Sale - Wachovia Securities
30 year: True Interest Cost 4.732%

\$13,925,000

GENERAL OBLIGATION BONDS 2004 SERIES D

Kodiak Island Borough - High School and New Pool
City of Adak - Small Boat Harbor
Standard & Poor's AAA: Moody's Aaa: XL Capital Insured
Competitive Sale - Wells Fargo Brokerage
20 year: True Interest Cost 4.176%

\$32,675,000

GENERAL OBLIGATION BONDS 2005 SERIES A

City of Ketchikan, City of Fairbanks, City of Cordova, City of Unalaska, City and Borough of Sitka, Northwest Arctic Borough - Refunding
Standard & Poor's AAA: Moody's Aaa: FGIC Insured
18 years: True Interest Cost 4.2035%

\$37,625,000

GENERAL OBLIGATION BONDS 2005 SERIES B

City of North Pole - Street Improvements
City and Borough of Sitka - Elementary, Middle & High School Improvements
Ketchikan Gateway Borough - Elementary and Middle School
Haines Borough and City of Palmer - Refunding
Standard and Poor's AAA: Moody's Aaa: MBIA
20 years: True Interest Costs 3.9385%

Issued amounts are inclusive of Reserve obligations

THE BOND BANK *An Idea That Works*

GENERAL OBLIGATION BONDS

Municipal general obligation bonds, the Bond Bank's mainstream program, are usually issued to finance facilities that do not generate revenue, such as schools, roads, public safety and municipal buildings. Such bonds must be approved by the municipal voters.

Bonds issued by the Bond Bank to purchase municipal general obligation bonds are secured by:

- Full faith and credit of each respective community with no taxing limitation for the general bonded debt issued to the Bond Bank.
- The Bond Bank's general obligation debt service reserve fund. This reserve is generally funded in an amount equal to maximum annual debt service on all the Bond Bank general obligation bonds.
- All Bond Bank assets shall be used to restore the debt service reserve to an amount that equals the maximum annual debt service on the Bond Bank bonds.
- The statutory right of the Bond Bank, in the event of default, to demand and receive any funds held by a state agency which are payable to the defaulting municipality.
- The moral obligation of the State of Alaska to maintain the debt service reserves at their required levels.

REVENUE BONDS

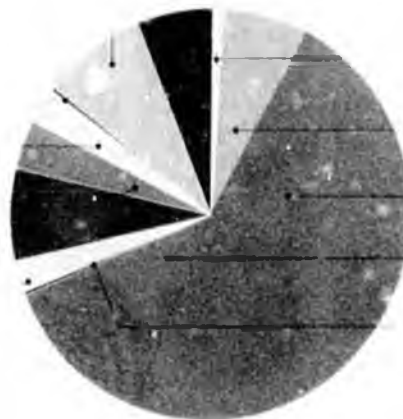
Revenue Bonds are used to finance revenue-producing capital improvements such as utility or port facilities. Because they are not secured by a municipality's taxing power, such bonds do not normally require municipal voter approval.

Bonds issued by the Bond Bank to purchase municipal revenue bonds are secured by:

- A pledge of the revenues from the facility being financed.
- The municipalities' reserve fund under their bond resolutions. The reserve fund generally is funded in an amount equal to maximum annual debt service on the municipalities' bonds.
- The Bond Bank reserve fund under the bond resolution for that issue. The reserve fund generally is funded in an amount equal to maximum annual debt service on the Bond Bank bonds.
- The statutory right of the Bond Bank, in the event of a default, to demand and receive from a state agency any funds held by that state agency which are payable to the defaulting municipality.
- The moral obligation of the State of Alaska to maintain the debt service reserves at their required levels.

USES OF BOND PROCEEDS — INCEPTION TO DATE DOES NOT INCLUDE REFUNDINGS

Water Sewer	\$10,353,119
Utilities	\$57,761,392
Transportation	\$1,863,000
Roads	\$19,340,000
Public Safety	\$27,040,000
Port - Harbor Facilities	\$49,443,500
Parking	\$17,100,000



Airports	\$6,735,000
Community	\$46,700,000
Schools	\$332,220,000
Hospitals	\$8,503,000
Municipalities	\$113,950,000

SUMMARY OF DEBT SERVICE

SCHEDULE OF TOTAL DEBT SERVICE BY CLASSIFICATION AT JUNE 30, 2005

1976 GENERAL BOND RESOLUTION FUND	PRINCIPAL	INTEREST	TOTAL
1995 Series A	\$ 2,330,000	134,750	2,464,750
1995 Series C	1,090,000	32,700	1,122,700
1995 Series D	90,000	2,644	92,644
1996 Series A	610,000	27,450	637,450
1996 Series B	895,000	61,931	956,931
1997 Series A	385,000	29,390	414,390
1997 Series B	1,435,000	103,320	1,538,320
1998 Series A	6,590,000	2,289,201	8,879,201
1998 Series B	1,830,000	225,268	2,055,268
1999 Series A	10,045,000	3,803,634	13,848,634
2000 Series A	2,830,000	406,175	3,236,175
2000 Series B	2,960,000	623,775	3,583,775
2000 Series C	6,360,000	1,233,868	7,593,868
2000 Series D	1,580,000	851,326	2,431,326
2000 Series E	11,050,000	2,756,937	13,806,937
2000 Series F	810,000	213,060	1,023,060
2001 Series A	14,270,000	6,657,000	20,927,000
2001 Series B	3,480,000	1,583,934	5,063,934
2002 Series A	12,470,000	2,433,975	14,903,975
2002 Series B	11,055,000	5,053,623	16,108,623
2003 Series A	8,745,000	4,020,297	12,765,297
2003 Series B	2,035,000	79,200	2,114,200
2003 Series C	6,800,000	1,051,538	7,851,538
2003 Series D	13,965,000	6,913,223	20,878,223
2003 Series E	31,125,000	24,888,937	56,013,937
2003 Series F	1,690,000	122,087	1,812,087
2003 Series G	22,825,000	12,069,287	34,894,287
2004 Series A	19,190,000	5,920,097	25,110,097
2004 Series B	16,690,000	6,234,875	22,924,875
2004 Series C	14,575,000	7,140,192	21,715,192
2004 Series D	13,925,000	6,649,633	20,574,633
2005 Series A	32,655,000	16,177,276	48,832,276
2005 Series B	27,625,000	1,336,977	40,258,697
	<u>303,920,000</u>	<u>132,430,300</u>	<u>436,350,300</u>

COASTAL ENERGY IMPACT PROGRAM REVENUE BONDS

	PRINCIPAL	INTEREST	TOTAL
Coastal Energy Reserve Loan Fund	11,005,878	-	11,005,878
1995A Revenue Bond Resolution	2,265,000	759,293	3,024,293
1997A Revenue Bond Resolution	13,935,000	5,756,352	19,691,352
1998A Revenue Bond Resolution	6,170,000	1,196,700	7,366,700
1998B Revenue Bond Resolution	1,105,000	113,222	1,218,222
1999A Revenue Bond Resolution	1,660,000	809,324	2,469,324
2000A Revenue Bond Resolution	445,000	24,030	469,030
2000B Revenue Bond Resolution	2,725,000	1,386,249	4,111,249
2001A Revenue Bond Resolution	1,550,000	566,344	2,116,344
2001B Revenue Bond Resolution	2,285,000	855,611	3,170,611
2002A Revenue Bond Resolution	5,380,000	1,193,975	6,573,975
2003A Revenue Bond Resolution	2,935,000	92,337	3,027,337
2003B Revenue Bond Resolution	19,000,000	9,982,156	28,982,156
2003C Revenue Bond Resolution	820,000	55,175	875,175
2004A Revenue Bond Resolution	28,845,000	27,554,705	56,399,705
2004B Revenue Bond Resolution	5,365,000	4,714,045	10,079,045
	<u>\$ 409,410,878</u>	<u>187,519,818</u>	<u>596,930,696</u>

SUMMARY OF TOTAL DEBT SERVICE REQUIREMENTS BY FISCAL YEAR

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2006	31,885,000	17,960,479	49,845,479
2007	25,240,000	16,598,854	41,838,854
2008	22,530,000	15,696,521	38,226,521
2009	21,785,000	14,826,328	36,611,328
2010	21,905,000	13,947,354	35,852,354
2011-2015	106,440,000	55,656,371	162,096,371
2016-2020	93,730,878	33,431,444	127,162,322
2021-2025	59,645,000	13,399,601	73,044,601
2026 and after	26,250,000	6,002,866	32,252,866
	<u>\$ 409,410,878</u>	<u>187,519,818</u>	<u>596,930,696</u>

THE BOND BANK HAS FIVE DIRECTORS CONSISTING OF THREE PUBLIC MEMBERS APPOINTED BY THE GOVERNOR, THE COMMISSIONER OF REVENUE AND THE COMMISSIONER OF COMMUNITY AND ECONOMIC DEVELOPMENT. THE COMMISSIONERS HAVE TRADITIONALLY APPOINTED DELEGATES TO SERVE IN THEIR PLACE.

THE BOARD OF DIRECTORS

R. DESMOND "DESI" MAYO

Chairman

Term expires July 15, 2007

Mr. Mayo was appointed on September 15, 1999 and reappointed on July 29, 2003. Mr. Mayo is the Chief Financial Officer of the Matanuska Telephone Association. Prior to his current employment, Mr. Mayo has served as Chief Financial Officer for the Matanuska-Susitna Borough and more recently Municipal Light and Power, an enterprise of the Municipality of Anchorage. He has also served in the capacity of Corporate Controller for Alyeska Pipeline Service Company. Mr. Mayo graduated from the University of Alaska and has attended graduate classes at Alaska Pacific University. Mr. Mayo served as Governor Knowles' appointee to the Alaska State Pension Investment Board and served on Governor Murkowski's Mat-Su Finance Policy Transition Team. Mr. Mayo has also served on the boards of Northwest Public Power Association, Matanuska Electric Association, Alaska Rural Electric Cooperative Association, the United Way of Matanuska-Susitna Borough and Habitat for Humanity Mat-Su.

MARK PFEFFER

Vice Chairman

Term expires July 15, 2009

Mr. Pfeffer was appointed October 10, 2001. Mr. Pfeffer is a registered architect who has owned and led an architectural practice in Alaska for over 20 years. He is active in the development, design and management of commercial real estate projects, many of which include public/private partnerships. He is a partner in the firms Koonce Pfeffer Bettis, Inc. and Venture Development Group, LLC. Mr. Pfeffer received a Bachelor of Architecture Degree from the University of Nebraska in 1980.

TOM BOUTIN
Member

Mr. Boutin is the first delegate for William A. Corbus, Commissioner of the Department of Revenue. Mr. Boutin spent his first 22 years in New Hampshire, logging and working for dairies. He then moved to Alaska, working as a logging engineer for Ketchikan Pulp Co. and as a timber faller, rigging slinger and equipment operator for various logging and road building firms. He bought and sold logs, lumber, veneer and plywood for North Pacific Lumber Company, and was chief Financial Officer and then President and Chief Financial Officer for Klukwan, Inc. an ANCSA corporation involved in forest products and money management. His government service experience consists of State Debt Manager for the Alaska Department of Revenue, Alaska State Forester, and currently, Deputy Commissioner for the Alaska Department of Revenue. Mr. Boutin has a Bachelor of Science from the University of New Hampshire, and an MBA in Finance from the University of Oregon. He has lived in Juneau for the past 20 years.

WILLIAM F. LARGE
Member
term expires July 15, 2006

Mr. Large was appointed on May 2, 2005. Mr. Large is a member of the Alaska Bar and has practiced law in Alaska and nationwide for 10 years. His practice focuses primarily on complex commercial litigation, with emphases on national resources, oil & gas and corporate disputes. After graduating from law school in 1995, Mr. Large served as a law clerk for one year to the Hon. Andrew J. Kleinfeld, U.S. Court of Appeals for the 9th Circuit, before joining the predecessor to his current firm, Hosie McArthur L.L.P. Mr. Large has a Bachelor of Science degree from the Massachusetts Institute of Technology and a Law Degree from Harvard Law School.

GREG WINEGAR
Member

Mr. Winegar is the first delegate for William Noll, Commissioner of the Department of Community and Economic Development. Mr. Winegar was appointed Director of the Division of Investments on May 22, 2000. This Division administers various direct lending programs for the State and services loans for other State agencies, representing approximately 3,500 accounts totaling \$250 million. Prior to his appointment as Acting Director, Mr. Winegar served as the Division of Investment's Lending Branch Manager for 21 years. Mr. Winegar received his Bachelor's degree from the Evergreen State College in 1973. In 1974, he accepted a position with the predecessor to the Department of Community and Economic Development as a Clerk Typist III and was promoted several times over the next five years. In addition to his work as Lending Branch Manager, he also served as a Loan Officer for the Department for five years where his responsibilities included credit analysis and recommendations for commercial, multi-family, residential and consumer loan requests.

THE STATE'S DEPARTMENT OF REVENUE-TREASURY
DIVISION (DOR-TREASURY) FULFILLS ADMINISTRATIVE AND
MANAGEMENT RESPONSIBILITIES FOR THE BOND BANK.

DEVEN MITCHELL

Executive Director, appointed April 7, 1998

Mr. Mitchell also serves as the State Debt Manager and Investment officer in Department of Revenue-Treasury. Mr. Mitchell has worked for the State of Alaska Department of Revenue since 1992. He previously held several positions in Alaskan financial institutions. Mr. Mitchell holds a Bachelor of Science in Business Administration from Northern Arizona University.

SUSAN TAYLOR, CPA

Deputy Treasurer, appointed August 9, 2005

Ms. Taylor is the State Comptroller for the Alaska Department of Revenue, Treasury Division. Ms. Taylor started her career as an auditor with the Legislative Audit Division; she has held various positions of increasing responsibility in Alaska state government. These included Senior Fiscal Analyst for the Legislative Finance Division, Budget Analyst for the Office of Management and Budget and positions with the Departments of Revenue and Health and Social Services. Ms. Taylor holds a Bachelor of Business Administration-Accounting degree from the University of Alaska, Anchorage. She is a Certified Public Accountant in the State of Alaska, and a member of the American Institute of Certified Public Accountants.

RATHER THAN EMPLOY STAFF
THE BOND BANK CONTRACTS
IN THE PRIVATE SECTOR FOR A
WIDE RANGE OF PROFESSIONAL
SERVICES. THE EXECUTIVE
DIRECTOR COORDINATES
THE ACTIVITIES OF THESE
PROFESSIONALS INCLUDING BOND
COUNSEL, FINANCIAL ADVISOR,
ACCOUNTANTS, AUDITORS, FUND
TRUSTEES, BOND TRUSTEES AND
CLERICAL SUPPORT.

FINANCIAL ADVISOR

WESTERN FINANCIAL GROUP, LLC

Provides loan analysis services, including recommendations as to the adequacy of loan applications, credit worthiness, projected capability to repay, and the overall effect a proposed loan will have on the credit of the Bond Bank. Assists in preparation of the official statements, recommends type and timing of bond sales, negotiates with underwriters and assists with investment of various funds. Also coordinates financial reviews with bond rating houses and prepares other general financial reviews and analyses required by the Bond Bank.

BOND COUNSEL

**WOHLFORTH JOHNSON BRECHT CARFLEDGE &
BROOKING**

Prepares for the authorization, sale, issuance and delivery of Bond Bank bonds. Prepares series resolutions, notices of sale; assists in preparation of official statements; renders necessary opinions as required; and provides other general legal services.

TRUSTEE/PAYING AGENT

J.P. MORGAN TRUST COMPANY

Acts as custodian of the bond proceeds and supervises the investment of funds for the purposes specified in the bond resolutions. The trustee oversees debt service funds and maintenance of certain reserve accounts required in the contract with the bondholders. As paying agent, makes all necessary interest and principal payments to the bondholders.

INVESTMENT MANAGER

**ALASKA PERMANENT CAPITAL MANAGEMENT
COMPANY**

Supervises and controls the investment of the custodial funds and the trustee funds. Also provides analyses of investments, advice on investment guidelines, and directs the investment of all funds in accordance with Authority procedures and guidelines.

CUSTODIAL BANK

FIRST NATIONAL BANK OF ALASKA

Acts as the Authority's bank for processing all fund transactions.

FINANCIAL STATEMENTS

JUNE 30, 2005

TABLE OF CONTENTS

Management Discussion & Analysis	14
Independent Auditors' Report	20
Statement of Net Assets and Governmental Funds Balance Sheet	21
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	22
Notes to Financial Statements	23

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is required by GASB 34, a rule established by the Governmental Accounting Standards Board. This section is intended to make the financial statements more understandable to the average reader who is not familiar with traditional accounting terminology.

This financial report has two integral parts: this MD&A and the financial statements with the accompanying notes that follow. Together, they present the Alaska Municipal Bond Bank Authority's ("Bond Bank") financial performance during the fiscal year ended June 30, 2005. Summarized prior fiscal year information is shown within this MD&A, as needed for comparative purposes.

REQUIRED FINANCIAL STATEMENTS

GASB 34 requires two financial statements: the statement of net assets and governmental fund balance sheet and the statement of activities and governmental fund revenues, expenditures and changes in fund balances. These statements report financial information about the Bond Bank's activities using generally accepted accounting principles.

FINANCIAL HIGHLIGHTS

During fiscal year 2005 the Bond Bank approved 10 municipalities' applications and purchased \$78.4 million in municipal bonds. The subsequent issuance of Bond Bank Bonds resulted in approximate savings of \$14.8 million to the borrowing communities. Additionally, the Bond Bank entered into amended loan agreements on 10 existing bond issues and purchased \$41 million in municipal bonds. The amended bond issues resulted in approximately \$1.9 million in savings to the borrowing communities. Total bond issuance for FY 2005 was \$123.0 million, funding \$119.4 million in 20 loans to 16 communities and providing total savings of \$16.7 million. This activity level and community benefit is comparable to FY 2004 when the Bond Bank issued \$109.5 million to fund fourteen communities' projects and provided savings of \$4.8 million to the borrowing communities.

The financial position of the Bond Bank remains strong. All reserves are fully funded and invested. Fiscal year 2005 investment earnings funded fiscal year 2005 operations and will provide for a \$402,427 transfer to the state's general fund in fiscal year 2006. This transfer will be in addition to the \$250,000 transfer provided in the state's fiscal year 2006 operating budget. The Bond Bank holds unrestricted reserves adequate to make up shortfalls in years that investment earnings are not sufficient to fund operations.

STATEMENT OF NET ASSETS

The statement of net assets report assets, liabilities and net assets of the Bond Bank.

ASSETS

Assets represent 1) the value of the Bond Bank's investments and investment income receivable on the financial statement dates, recorded at fair market value, and 2) bond principal and interest payments receivable from municipalities. The investments generate income for the Bond Bank to use to meet reserve requirements and pay operating costs. Excess investment earnings are distributed to the State of Alaska's (State) general fund each year. Interest received on bonds

purchased from municipalities is used to pay the Bond Bank's corresponding interest payments on the bonds that it has issued.

LIABILITIES

Liabilities represent claims against the fund for 1) goods and services provided before the financial statement date but not yet paid for at that date, and 2) interest and bond payments due to purchasers of the Bond Bank's bonds after the financial statement date.

RESTRICTED AND UNRESTRICTED NET ASSETS

Net assets are comprised of two components. The restricted portion reflects monies maintained in separate trust accounts where their use is limited by applicable bond covenants for repayment of bonds. The unrestricted portion reflects the accumulated excess of the Authority's share of earnings on investments held over those earnings distributed to the State as well as investment income that has not been realized and therefore is not yet subject to distribution to the State's general fund.

The following table shows the value of Bond Bank assets summarized as of June 30, 2005 and 2004 as well as liabilities and net assets.

	As of June 30		Change from 2004 to 2005 Increase (Decrease)	
	2005	2004	Dollars	Percent
ASSETS				
Cash and Investments	\$ 533,371,233	\$ 503,966,591	\$ 27,404,642	5.4%
Bonds and bond interest receivable	408,074,781	341,840,489	66,234,292	19.4%
Total assets	<u>461,211,904</u>	<u>392,237,080</u>	<u>68,974,824</u>	<u>17.6%</u>
LIABILITIES				
Accounts payable and accrued liabilities	365,881	175,126	190,755	108.4%
Bonds and bond interest payable	418,074,486	352,440,648	65,633,838	18.6%
Due to primary government	402,427	-	402,427	100.0%
Total liabilities	<u>424,362,794</u>	<u>352,615,821</u>	<u>71,746,973</u>	<u>20.3%</u>
NET ASSETS				
Restricted	26,838,760	23,994,579	2,844,181	11.9%
Unrestricted	12,237,414	15,617,727	(3,380,313)	-21.6%
Total net assets	<u>\$ 39,076,174</u>	<u>\$ 39,612,306</u>	<u>\$ (536,132)</u>	<u>-1.4%</u>

The increase in cash and investments reflects realized and unrealized investment income.

The increase in bonds and bond interest receivable, as well as in bonds and bond interest payable, reflects the issuance of approximately \$123 million in new bonds during the year net of principal payments on bonds previously issued of over \$54.7 million.

Communities monies received in advance of payment date are not applied to their debt liability until due. In FY2005 the increase was over \$3.4 million for the change in accounts payable and accrued liabilities.

Due to primary government represents the excess of realized investment income over current year operating expenses and reserve requirements. The increase reflects higher investment earnings on fixed income marketable securities resulting in current year realized investment income greater than current year operating expenses. There is excess investment income in the current year due to primary government.

Restricted net assets represents the original appropriations made by the State of \$18,601,414 to fund the Bond Bank, as well as Bond Bank funds placed into separate accounts in accordance with the reserve requirements of each bond indenture. There have been no new State appropriations since 1986. The increase in restricted net assets reflects a reclassification of one bond reserve fund as well as the funding of additional special reserves during the year from the Custodian account.

Unrestricted net assets represent accumulated earnings on Bond Bank investments, not used to fund reserves, and unrealized gains that are segregated until realized. The decrease in unrestricted net assets is due primarily to the funding of bond issue reserves. The Bond Bank's investments are all held in U.S. Government securities.

STATEMENTS OF ACTIVITIES

The statement of activities shows the activity that occurred during each of the last fiscal year.

Revenues

Revenues include earnings on investments and interest payments received from municipalities. Earnings on investments include interest on fixed income marketable securities and the change in fair market value of those investments.

Expenses

Expenses include interest payments made to bond holders who purchased the Bond Bank's bonds, payments made to the State of Alaska and operating expenses. Operating expenses include all expenditures required to issue bonds during the current year and include in-house expenses, as well as external consultant fees. Expenses are subtracted from revenues.

	For the Year Ended		Change from 2004 to 2005 Increase (Decrease)	
	June 30, 2005	June 30, 2004	Dollars	Percent
REVENUES				
Interest income on bonds receivable	\$ 15,749,064	\$ 11,820,112	\$ 4,419,952	39.0%
Investment earnings	1,696,533	614,226	1,382,307	439.9%
Total income	17,445,597	11,647,338	5,802,259	49.8%
EXPENSES				
Interest expense on bonds payable	16,201,177	11,840,151	4,353,326	36.7%
Operating expenses	602,825	755,529	(152,704)	-20.2%
Payments to primary government	11,774,27	775,000	402,427	51.9%
Total expenses	17,981,729	13,370,680	4,603,049	3.3%
Change in net assets	(536,132)	(1,735,342)	1,199,210	-69.1%
Net assets beginning of period	39,612,306	41,347,648	(1,735,342)	-4.2%
Net assets end of period	\$ 39,076,174	\$ 39,612,306	\$ (536,132)	-1.4%

Interest income and expense on bonds receivable and payable are a function of the total amount of bonds outstanding, the age of the bonds and the interest rates at which they are issued. The increases in both these line items are consistent with the net increase in bond interest receivable and payable of \$8.5 million and \$8.6 million, respectively.

Investment earnings are a function of market conditions. The Bond Bank uses other assets to subsidize debt service during times of low investment returns in bond reserve funds.

GOVERNMENTAL FUNDS

The governmental funds include the General Fund, which accounts for the primary operations of the Bond Bank, and the Debt Service Fund, which accounts for the resources accumulated and payments made on the long-term debt of the Bond Bank. The primary difference between the governmental funds and the statement of net assets is the elimination of inter-fund payables and receivables and bond proceeds are reported as an other financing source in the governmental funds and this contributes to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of debt principal is recorded as an expenditure in the governmental funds, but reduces the liability in the statement of net assets.

The following tables show the changes in governmental funds.

GENERAL FUND

	As of June 30,		Change from 2004 to 2005 Increase (Decrease)	
	2005	2004	Dollars	Percent
ASSETS				
Cash and Investments	\$ 10,687,308	\$ 14,085,271	\$ (3,397,963)	-24.1%
Accrued interest receivable	238,949	299,956	(61,007)	-20.4%
Interfund receivable	2,019,779	723,595	1,296,175	179.1%
Total assets	<u>12,946,027</u>	<u>15,108,822</u>	<u>(2,162,795)</u>	<u>-14.3%</u>
LIABILITIES				
Accounts payable and accrued liabilities	149,023	165,888	(16,865)	-10.2%
Due to primary government	402,427	-	402,427	100.0%
Total liabilities	<u>551,450</u>	<u>165,888</u>	<u>385,562</u>	<u>232.4%</u>
FUND BALANCE				
Unreserved	12,394,577	14,942,934	(2,548,357)	-17.1%
Total fund balance	<u>12,394,577</u>	<u>14,942,934</u>	<u>(2,548,357)</u>	<u>-17.1%</u>
Total liabilities and fund balance	<u>\$ 12,946,027</u>	<u>\$ 15,108,822</u>	<u>\$ (2,162,795)</u>	<u>-14.3%</u>

DEBT SERVICE FUND

	As of June 30,		Change from 2004 to 2005 Increase (Decrease)	
	2005	2004	Dollars	Percent
ASSETS				
Cash and investments and related receivables	\$ 436,387.91	\$ 367,729.51	\$ 68,658.40	18.7%
Bonds and bond interest receivable	406,646,856	341,078,902	65,567,954	19.2%
Total assets	<u>450,285,647</u>	<u>377,851,853</u>	<u>72,433,794</u>	<u>19.2%</u>
LIABILITIES				
Accounts payable and accrued liabilities	3,509,794	12,238	3,497,556	25,579.5%
Interfund payables	20,197,770	7,235,955	12,961,815	179.1%
Total liabilities	<u>55,295,644</u>	<u>7,358,333</u>	<u>47,937,311</u>	<u>651.5%</u>
FUND BALANCE:				
Reserved	444,756,083	377,116,020	67,640,063	17.9%
Total liabilities and fund balance	<u>\$ 450,285,647</u>	<u>\$ 377,851,853</u>	<u>\$ 72,433,794</u>	<u>19.2%</u>

GENERAL FUND

	As of June 30,		Change from 2004 to 2005 Increase (Decrease)	
	2005	2004	Dollars	Percent
REVENUES				
Interest income	\$ 601,815	\$ 256,257	\$ 345,558	134.8%
Total income	<u>601,815</u>	<u>256,257</u>	<u>345,558</u>	<u>134.8%</u>
EXPENDITURES				
Operating expenses	602,825	755,520	(152,704)	-20.2%
Payments to primary government	1,177,427	775,000	402,427	51.9%
Total expenses	<u>1,780,252</u>	<u>1,530,520</u>	<u>249,732</u>	<u>16.3%</u>
Excess of revenues over expenditures	(1,178,437)	(1,274,272)	95,835	-7.5%
Other financing sources (uses) - transfers	(1,369,920)	(1,551,805)	181,885	-11.7%
Fund balance, beginning of period	14,942,934	17,769,011	(2,826,077)	-15.9%
Fund balance, end of period	<u>\$ 12,491,577</u>	<u>\$ 14,942,934</u>	<u>\$ (2,548,357)</u>	<u>-17.1%</u>

DEBT SERVICE FUND

	For the Year Ended		Change from 2004 to 2005 Increase (Decrease)	
	June 30, 2005	June 30, 2004	Dollars	Percent
REVENUES				
Interest income on bonds receivable	\$ 15,664,431	\$ 11,329,112	\$ 4,335,319	38.3%
Investment earnings	1,179,351	57,969	1,121,382	1934.5%
Total income	16,843,782	11,387,081	5,456,701	47.9%
EXPENDITURES				
Interest payable	15,218,639	12,576,973	2,641,666	21.0%
Principal payments	58,345,000	34,075,000	23,570,000	66.8%
Total expenses	73,563,639	47,551,973	26,011,666	54.7%
Excess of revenues over expenditures	(56,719,857)	(36,164,892)	20,554,965	56.8%
Other financing sources -				
Bond proceeds	122,990,000	113,225,000	9,765,000	8.6%
Transfers	1,369,920	1,551,505	(181,585)	-11.7%
Excess of revenues and transfers over expenditures	67,640,063	78,611,913	(10,971,850)	-14.0%
Fund balance, beginning of period	377,116,020	298,504,107	78,611,913	26.3%
Fund balance, end of period	\$ 444,756,083	\$ 377,116,020	\$ 67,640,063	17.9%

DEBT

At year end the Bond Bank had \$398,123,878 of bonds and notes outstanding up 19% from \$333,513,378 at June 30, 2004. The debt is secured by the assets of the Bond Bank. The outstanding balance is comprised of the following:

General obligation bonds payable	\$ 294,157,500
Revenue bonds payable	92,960,000
Coastal Energy note payable	11,005,878
	<u>\$ 398,123,378</u>

INDEPENDENT AUDITORS' REPORT

ELGEE REHFELD MERTZ, LLP

The Board of Directors
Alaska Municipal Bond Bank Authority

We have audited the accompanying basic financial statements of the Alaska Municipal Bond Bank Authority (the Authority), a component unit of the State of Alaska, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides 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 Municipal Bond Bank Authority as of June 30, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 14 through 19, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The Supplemental Schedule of Statutory Reserve Accounts - Assets, Liabilities and Account Reserves is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

ERM

September 23, 2005

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2005

	General Fund	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Net Assets
ASSETS					
Cash and cash equivalents	\$ 212,461	5,324,110	5,536,571	-	5,536,571
Investments, at fair value (note 4)	9614,847	37,985,705	47,600,552	-	47,600,552
Accrued interest receivable:					
Bonds receivable	15,469	8,523,475	8,538,947	-	8,538,947
Investment securities	223,480	328,976	552,456	-	552,456
Bonds receivable (note 5)	860,000	398,123,378	398,983,378	-	398,983,378
Intrafund receivables	2,019,770	-	2,019,770	(2,019,770)	-
Total assets	<u>\$ 12,946,027</u>	<u>450,285,647</u>	<u>463,231,674</u>	<u>(2,019,770)</u>	<u>461,211,904</u>
LIABILITIES					
Accounts payable	\$ 12,277	-	12,277	-	12,277
Deferred revenue	-	3,509,794	3,509,794	-	3,509,794
Accrued interest payable	-	-	-	866,3608	866,3608
Arbitrage interest rebate payable	136,746	-	136,746	-	136,746
Due to Primary Government	402,427	-	402,427	-	402,427
Intrafund payables	-	2,019,770	2,019,770	(2,019,770)	-
Long-term liabilities (notes 5 and 6):					
Portion due or payable within one year:					
General obligation bonds payable	-	-	-	21,695,000	21,695,000
Revenue bonds payable	-	-	-	4,790,000	4,790,000
Other long-term debt	-	-	-	5,400,000	5,400,000
Portion due or payable after one year:					
General obligation bonds payable	-	-	-	282,225,000	282,225,000
Revenue bonds payable	-	-	-	89,695,000	89,695,000
Other long-term debt	-	-	-	5,605,878	5,605,878
Total liabilities	<u>551,450</u>	<u>5,529,564</u>	<u>6,081,014</u>	<u>416,054,716</u>	<u>422,135,730</u>
FUND BALANCES/NET ASSETS					
Fund Balances:					
Reserved	-	444,756,083	444,756,083	(444,756,083)	-
Unreserved	12,394,577	-	12,394,577	(12,394,577)	-
Total fund balances	<u>12,394,577</u>	<u>444,756,083</u>	<u>457,150,660</u>	<u>(457,150,660)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 12,946,027</u>	<u>450,285,647</u>	<u>463,231,674</u>		
Net assets:					
Restricted for debt service				26,838,760	26,838,760
Unrestricted				12,237,414	12,237,414
Total net assets				<u>\$ 39,076,174</u>	<u>39,076,174</u>

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES/NET ASSETS

For the year ended June 30, 2005

	General Fund	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Net Assets
REVENUES:					
Investment earnings	\$ 517,182	1,179,351	1,696,533	-	1,696,533
Interest income on bonds receivable	84,633	15,644,217	15,728,850	-	15,728,850
Total revenues	601,815	16,843,782	17,445,597	-	17,445,597
EXPENDITURES / EXPENSES					
Debt service	-	58,345,000	58,345,000	(57,215,000)	-
Principal payments	-	15,218,639	15,218,639	982,838	16,201,477
Interest payments - expense	-	-	-	-	1,177,427
Payments to primary government	1,177,427	-	1,177,427	-	491,031
Professional services	491,031	-	491,031	-	-
Arbitrage interest	-	-	-	-	-
Personal services	71,400	71,400	142,800	-	71,400
Printing and advertising	26,685	26,685	53,370	-	26,685
Administrative travel	9,970	-	9,970	-	9,970
Office expense	3,155	-	3,155	-	3,155
Miscellaneous expenses	584	-	584	-	584
Total expenditures - expense	1,780,252	73,563,639	75,343,891	(57,362,162)	17,981,729
Excess (deficiency) of revenues over expenditures - expenses	(1,178,437)	(56,719,857)	(57,898,294)	57,362,162	(536,132)
OTHER FINANCING SOURCE/USES					
Proceeds of bonds payable	-	1,229,900,000	1,229,900,000	(1,229,900,000)	-
Transfers to non-fundamental fund	(2,844,181)	2,844,181	-	-	-
Transfers - internal activities	1,474,261	(1,474,261)	-	-	-
Total other financing source/use	(1,369,920)	1,247,359,920	1,245,990,000	(1,229,900,000)	-
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(2,548,357)	67,640,063	65,091,706	(65,627,838)	(536,132)
FUND BALANCES / NET ASSETS					
Beginning of the year	14,429,934	377,116,020	391,545,954	(352,446,648)	39,099,306
End of the year	\$ 12,394,577	444,756,083	457,150,660	(418,074,486)	39,076,174

See accompanying notes to financial statements



NOTES TO FINANCIAL STATEMENTS

NOTE 1 ► HISTORY/REPORTING ENTITY

The Alaska Municipal Bond Bank Authority (Authority or Bond Bank) was created pursuant to Alaska Statute, Chapter 85, Title 44, as amended, (Act) as a public corporation and instrumentality of the State of Alaska (State), but with a legal existence independent of and separate from the State. The authority is a discretely presented component unit of the State of Alaska for purposes of financial reporting.

The Authority was created for the purpose of making moneys available to municipalities within the State to finance capital projects or for other authorized purposes by means of issuance of bonds by the Authority and use of proceeds from such bonds to purchase from the municipalities their general obligation and revenue bonds. The Authority commenced operations in August 1975.

The bonds are obligations of the Authority, payable only from revenues or funds of the Authority, and the State of Alaska is not obligated to pay principal or interest thereon, and neither the faith and credit nor the taxing power of the State is pledged to the bonds. The municipal bonds and municipal bond payments, investments thereof and proceeds of such investments, if any, and all funds and accounts established by the bond resolution to be held by the Trustee (with the exception of the Coastal Energy Loan Debt Service Program, which is administered by the Authority) are pledged and assigned for the payment of bonds.

The Authority may not issue revenue bonds in excess of \$75 million in any fiscal year unless the State of Alaska Legislature approves a greater amount.

AS 44.85.180(c) was enacted in 1975, limiting Bond Bank bonds outstanding at any time to \$150 million. This Statute has been periodically amended to raise the limit. In 2003, the limit was raised to \$500 million. Total Bond Bank bonds and notes outstanding as of June 30, 2005 are approximately \$409.4 million. Thus, the limit on additional bond issuance as of June 30, 2005 is approximately \$90.6 million.

NOTE 2 ► SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the Authority's accounting policies are described below.

(A) GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The statement of net assets and the statement of changes in net assets report information on all of the activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. The balance sheet and statement of revenues, expenditures and changes in fund balances are provided for governmental funds.

(B) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Authority reports the following major governmental funds:

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of the Authority.

The purposes of each of these funds are described in the following paragraphs:

GENERAL FUND

The General Fund is comprised of a custodian account and an operating account. The custodian account is established to account for appropriations by the State of Alaska Legislature available to fund the special reserve account. The Operating Account is established to account for the ordinary operations of the Authority. Moneys are derived from the following sources: (a) amounts appropriated by the Legislature, (b) fees and charges collected, (c) income on investments of the Statutory Reserve Account in excess of required debt service reserves required by bond resolutions and (d) any other moneys made available for purposes of the General Fund from any other source.

Amounts in the Operating Account may be used to pay (a) administrative expenses of the Authority, (b) fees and expenses of the Trustee and paying agents, (c) financing costs incurred with respect to issuance of bonds and (d) any expenses in carrying out any other purpose then authorized by the Act. The excess revenues of the Operating Account are returned to the State of Alaska.

DEBT SERVICE FUND

Within the Debt Service Fund, separate Debt Service Programs have been established for each bond resolution to account for the portion of bond sale proceeds used to purchase obligations of the municipalities and for the payment of interest and principal on all bonds of the Authority issued under the nine resolutions. Each program is comprised of an "interest account" and a "principal account", both of which are maintained by a trustee.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

The receipts of interest and principal from the municipalities and the Statutory Reserve Account are deposited in these programs and are used to pay interest and principal on the Authority bonds. One additional Debt Service Program has been established to account for transactions not involving bond resolutions. This is the Coastal Energy Loan Debt Service Program. The Coastal Energy Loan Debt Service Program is not maintained by a trustee. Payments of interest and principal by municipalities having coastal energy loans are made directly to the federal government by the municipalities and are accounted for in the Coastal Energy Loan Debt Service Program.

Each debt service fund programs contains a Statutory Reserve Account established to account for (a) money available to fund debt service reserves required by future bond sales under various bond resolutions (Custodian Account) and by (b) debt service reserves which have already been established under various bond resolutions which are to be used in the case of deficiency in a Debt Service Program in accordance with its respective bond resolution (reserve accounts). Separate reserve accounts exist under each bond resolution as follows:

1976 General Bond Resolution – The amount on deposit in the reserve account is to be the greater of the maximum annual debt service requirement or 10% of all municipal loan obligations outstanding. The reserve account is comprised of an ordinary reserve sub-account and a special reserve sub-account. The ordinary reserve sub-account is created as a result of the Authority increasing each bond issue by the amount necessary to fund one-third of the required debt service reserve or with a transfer from the Custodian Account unreserved investment earnings account. The special reserve sub-account is created and funded from the Custodian Account at an amount equal to two-thirds of the required debt service reserve. Both sub-accounts are maintained by a trustee.

On August 23, 1999, the Authority amended the debt service reserve requirement for the 1976 bond resolution that takes effect when all bonds outstanding as of the date of the resolution are retired. Under this new requirement, the reserve must be the least of: (i) 10% of the original stated principal amount of all bonds outstanding; (ii) the maximum annual principal and interest requirements on all bonds then outstanding; (iii) 125% of the average principal and interest requirements on all bonds then outstanding; or (iv) such lesser amount as shall be required to maintain the exemption of interest of all bonds outstanding from inclusion in gross income for federal income tax purposes under the Internal Revenue Code.

1990 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

1993 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

Summary of Significant Accounting Policies (continued)

1995 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

1997 Revenue Bond Resolution – Under this resolution an ordinary reserve account was created at an amount equal to the lesser of 10% of the proceeds of the 1997 Series A bonds or the maximum annual debt service on all Series 1997 A bonds outstanding under the resolution.

1998 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

1999 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2000 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2001 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2002 A Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2003 A Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2003 B Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2003 C Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

NOTES TO FINANCIAL STATEMENTS. CONTINUED

2004 A Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2004 B Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

Amounts in the Statutory Reserve Account in excess of (a) required debt service reserves, (b) appropriations by the legislature residing in the Custodian Account, and (c) income on non-legislature-appropriated funds are transferred to the Operating Account. Income on non-legislature-appropriated funds, representing excess of revenues over expenditures of the ordinary reserve accounts and interest earned on the unreserved investment earnings account is accumulated in the Custodian Account and is available to fund the Special Reserve account.

(C) RESTRICTED ASSETS

Certain resources set aside for the repayment of the Authority's bonds, net of certain proceeds from additional bonds issued, are classified as restricted net assets on the statement of net assets because they are maintained in separate trust accounts and their use is limited by applicable bond covenants. Cash and cash equivalents and investments include \$26,838,760 of restricted assets. These assets were funded from the issuance of \$9,762,500 of reserve bonds and a transfer of \$18,601,414 of State appropriation.

(D) LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

(E) FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. In the government-wide financial statements, restrictions of net assets are reported when externally imposed.

(F) INTEREST ARBITRAGE REBATE

Bonds issued after August 15, 1986 are subject to Internal Revenue Service income tax regulations which require rebates to the U.S. Government of interest income earned on investments purchased with the proceeds from the bonds or any applicable reserves in excess of the allowable yield of the issue.

(G) INCOME TAXES

The Authority is exempt from paying federal and state income taxes.

NOTE 3 ► CASH

The Authority considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents at June 30 consist of demand deposits with various financial institutions.

The bank balance of all of the Authority's deposits with financial institutions are insured by the FDIC or collateralized by securities held in the Authority's name by its custodial agent. At June 30, 2005, the amounts recorded in the Authority's books equaled its bank balances.

NOTE 4 ► INVESTMENTS

The fair value as of June 30, 2005 of the Authority's investments is \$47,600,552. At June 30, 2005 the investments held in the reserve accounts total \$37,985,705 and the Custodian account totals \$9,614,847.

The fair value as of June 30, 2005 of debt security investments by contractual maturity is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	Investment Maturities (in Years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Treasury securities	\$ 2,686,175	12,016,891	-	483,000	15,186,066
U.S. Government					
corporation securities	14,184,819	16,150,800	504,845	1,577,962	32,418,426
Total investments	\$ 16,871,994	28,167,691	504,845	2,062,962	47,607,552

(A) INVESTMENT POLICIES

The Authority has distinct investment objectives and policies associated with the Custodian Account, Reserve Funds, and municipal debt payments. The three classes of funds are listed below:

- **Custodian Account** – The Custodian Account investment portfolio is designed with the objective of attaining the highest market rate of return subject to the required use of the Custodian Account for operation, funding transfers to the state, and funding reserves. When the Custodian Account balance allows, a longer investment horizon is implemented for the Custodian Account, accepting the limited probability of short-term loss in exchange for higher yield on investments. The Custodian Account balance must exceed \$15 million, and be forecast to exceed \$15 million for the subsequent six month period before return on investment will be the highest priority of the Custodian Account. The Custodian Account has to maintain sufficient liquidity to meet operating requirements, provide the prior fiscal year's state dividend, and to allow transfers to reserves as needed for bond issuance activity. Long-term preservation of principal is the third objective of the Custodian Account's investment program. Investments shall be undertaken in a manner that minimizes the probability of long-term loss.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Investment Policies (continued)

- The Custodian Account balance is a critical component in determining anticipated life, ability to diversify, and investment policy in this account. Accordingly, when the account balance is above \$15 million a more aggressive policy will be implemented. When the account balance is below \$15 million a more conservative policy will be used.
- Shifting from one asset allocation to another may be approved by the investment committee.
- There are no arbitrage restrictions.
- When the Custodian Account balance is less than \$15 million:
 - 100% government agencies and U.S. Treasuries with maturities of less than 5 years.
 - Performance benchmark is 100% Merrill Lynch 1-5 Government Index.
- When the Custodian Account balance exceeds and is expected to remain in excess of \$15 million:
 - 10% Money Market Fund.
 - 90% Broad US Bond Market Fund.
 - Performance benchmark is 10% Three-month U.S. Treasury Bill and 90% Lehman Brothers Aggregate Index.
- The following transactions are prohibited with the Custodian Account unless those transactions have the prior written consent of the Investment Committee:
 - Short sale of securities (the sale and settlement of a security not currently owned by the Authority and a formal agreement to borrow the security to facilitate the settlement of the short sale);
 - Purchases of futures, forwards or options for the purpose of speculating (currency futures, forwards and options are permitted only for hedging or to facilitate otherwise permissible transactions);
 - Borrowing to leverage the return on investments. Extended settlement of securities purchases executed to facilitate or improve the efficiency of a transaction will not be considered borrowing, provided that sufficient cash equivalent securities or receivables are available to facilitate the extended settlement;
 - Purchases of "private placement" or unrated corporate bonds;
- Bond Reserve Funds — Preservation of Principal is the foremost objective of the Reserve Funds investment program. These Funds shall be managed to ensure that the corpus is preserved. These Funds will not be expended until the final maturity of the bond issue they secure, unless there is a failure to pay debt service by a community. As there is limited benefit in maximizing return it is the least important objective of

the Reserve Funds. It is anticipated that the Reserve Funds cumulative average return should target the blended arbitrage yield limit of the bond issues secured.

- Bond Resolutions limit allowed investment of these funds. Investment risk should be examined on an annual basis to ensure that no greater than the minimum level of risk required to achieve the highest probability of earning the arbitrage yield limit on the bonds is incurred.
- 100% government agencies and U.S. Treasuries with maturities of less than 5 years.
- Performance benchmark is 100% Merrill Lynch 1-5 Government Index.
- Municipal Debt Payments — Preservation of Principal and liquidity are the foremost objectives of the Municipal Debt Payments investment program, as these funds will be expended within seven business days of receipt. Return on investment is a benefit of holding these funds for the advance payment period, but not the focus of investing the funds. The bond resolutions limit investments.
 - 100% Money Market Fund.
 - Performance benchmark is 10% Three-month U.S. Treasury Bill.

It is the policy of the Authority to diversify its investments and to ensure the safety and liquidity of the investments by observing the following sound investment practices:

- Not more than 5% of the Custodian Account may be invested in the corporate debt of any one issuer, at the time of purchase.
- In the event of a credit downgrade which reduces a security below the required rating written notification will be made to the Investment Committee setting forth the particulars of the downgrade and recommending a course of action.
- Not more than 50% of the Custodian Account may be invested in corporate securities, at the time of purchase.
- The duration of the Custodian Account must remain within 80 to 120 percent of the duration of the Lehman Brothers Aggregate Index.
- Purchases of more than 10% of a corporate bond issue shall not be made.

(B) CONCENTRATION RISK

Concentration risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for pledged investments. The Authority's policies set out maximum concentration limits for investments managed by the external investment manager.

(C) CREDIT RISK

Credit risk is the risk of loss due to the failure of the security or backer. The Authority mitigates its credit risk by limiting investments permitted in the investment policies. The credit quality ratings of the Authority's investments are AAA and Aaa as of June 30, 2005 as described by nationally recognized statistical rating organization Standard and Poor, and Moody's, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

U.S. Treasury securities and securities of agencies that are explicitly guaranteed by the U.S. government total \$47,600,552, and are not considered to have credit risk.

(D) CUSTODIAL CREDIT RISK

The Authority assumes levels of custodial credit risk for its deposits with financial institutions, bank investment agreements, and investments. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority has not established a formal custodial credit risk policy for its investments.

The Authority had no investments registered in the name of a counterparty.

(E) INTEREST RATE RISK

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. For non-pledged investments, the Authority mitigates interest rate risk by structuring its investment's maturities to meet cash requirements, thereby avoiding the need to sell securities in the open market prior to maturity. For investments held in trust, investment maturities are structured to meet cash requirements as outlined in its bond indentures and contractual and statutory agreements.

(F) MODIFIED DURATION

Modified duration estimates the sensitivity of an investment to interest rate changes. The following table shows the Authority's investments with their weighted average modified duration as of June 30, 2005 by investment type:

	Investment Fair Value	Modified Duration
U.S. Treasury securities	\$ 15,182,066	308
U.S. Government agencies securities	32,418,486	385
Total Portfolio	<u>\$ 47,600,552</u>	360

The Authority's investment policies require the duration of the Custodian Account must remain within 80 to 120 percent of the duration of the Lehman Brothers Aggregate Index.

NOTE 5 ► BOND AND NOTES RECEIVABLE

Bonds and notes receivable by debt service program at June 30, 2003 mature in varying annual installments as follows:

Year ending June 30	1976 General	1995A Seward Revenue	1997A Ketchikan Revenue	1998B Ketchikan Revenue	1998B Homer Revenue	1999A Inter-Island Ferry Revenue
2006	\$ 19,820,500	170,000	690,000	750,000	235,000	75,000
2007	18,025,000	180,000	725,000	485,000	250,000	80,000
2008	17,000,000	195,000	760,000	715,000	255,000	85,000
2009	16,905,000	205,000	800,000	755,000	180,000	85,000
2010	17,115,000	215,000	840,000	755,000	185,000	90,000
2011-2015	78,788,000	1,300,000	4,930,000	2,570,000	-	535,000
2016-2020	71,589,000	-	3,665,000	-	-	710,000
2021-2025	46,035,000	-	-	-	-	-
2026-2030	8,800,000	-	-	-	-	-
2031 and after	-	-	-	-	-	-
	<u>\$294,157,500</u>	<u>2,265,000</u>	<u>12,410,000</u>	<u>6,170,000</u>	<u>1,105,000</u>	<u>1,660,000</u>

Year ending June 30	2000A Unalaska Revenue	2000B Seward Revenue	2001A Ketchikan Revenue	2001B Ketchikan Revenue	2002A Ketchikan Revenue	2003A CBJ Revenue
2006	\$ 445,000	105,000	80,000	175,000	460,000	1,445,000
2007	-	110,000	85,000	170,000	475,000	1,490,000
2008	-	115,000	90,000	170,000	490,000	-
2009	-	120,000	90,000	175,000	505,000	-
2010	-	125,000	95,000	175,000	520,000	-
2011-2015	-	745,000	555,000	1,250,000	2,930,000	-
2016-2020	-	950,000	555,000	1,250,000	-	-
2021-2025	-	455,000	-	-	-	-
2026-2030	-	-	-	-	-	-
2031 and after	-	-	-	-	-	-
	<u>\$ 445,000</u>	<u>2,725,000</u>	<u>1,550,000</u>	<u>2,225,000</u>	<u>5,380,000</u>	<u>2,935,000</u>

Year ending June 30	2003B Valdez Revenue	2003C Kodiak Revenue	2004A CBJ Revenue	2004B Anchorage Revenue	Coastal Energy Loan	Total Principal
2006	-	200,000	-	750,000	5,400,000	30,010,000
2007	665,000	200,000	500,000	750,000	400,000	23,085,000
2008	675,000	205,000	515,000	750,000	400,000	21,730,000
2009	680,000	215,000	535,000	750,000	400,000	21,710,000
2010	680,000	-	555,000	750,000	450,000	21,905,000
2011-2015	5,005,000	-	3,120,000	750,000	2,250,000	104,153,000
2016-2020	6,600,000	-	3,875,000	750,000	1,705,878	91,199,878
2021-2025	4,695,000	-	4,995,000	975,000	-	57,085,000
2026-2030	-	-	6,460,000	1,145,000	-	16,485,000
2031 and after	-	-	8,290,000	1,475,000	-	9,765,000
	<u>\$ 19,000,000</u>	<u>820,000</u>	<u>28,845,000</u>	<u>5,375,000</u>	<u>11,005,878</u>	<u>398,123,378</u>

NOTES TO FINANCIAL STATEMENTS, CONTINUED

The general fund includes \$150,000 of 7.9% bonds receivable due from the City of Haines that mature through 2009, and \$710,000 of 6.9% bonds receivable due from the City of Yakutat that mature through 2014.

Under the Coastal Energy Loan Program (Program), the Authority issued \$5,000,000 1986 Series A Coastal Energy Bonds (Bonds) payable to the National Oceanic and Atmospheric Administration (NOAA). The proceeds of these bonds were used to purchase port revenue bonds from the City of Nome. The City of Nome entered into a tripartite agreement with NOAA and the Authority effective August 2, 1994 to defer payment of the principal and accrual of interest for ten years. The related loan payable does not represent a general obligation of the Authority as it is payable only from proceeds received from the City of Nome.

Also under the Program, the Authority issued \$6,563,000 1987 Series A Coastal Energy Bonds payable to NOAA. The proceeds of these bonds were used to purchase port revenue bonds from the City of St. Paul. The City of St. Paul entered into a tripartite agreement with NOAA and the Authority effective December 14, 2000 to modify and amend the repayment terms including principal and interest.

The related loan payables do not represent a general obligation of the Authority as they are payable only from proceeds received from the City of Nome and St. Paul, respectively. Payment of principal and interest on the Bond Bank's Coastal Energy Bonds is not secured by a pledge of any amounts held by or payable to the Bond Bank under the General Bond Resolution, including the Reserve Account, and is not in any way a debt or liability of the Bond Bank.

NOTE 6 ► LONG TERM LIABILITIES

ISSUE	Debt Service Account		Statutory Reserve Account Ordinary Reserve Sub-Account	
	Interest Rate	Principal Outstanding	Interest Rate	Principal Outstanding
1990 Coastal Energy Resolutions Program				
1990 Series A City of Haines Kenai Peninsula Borough	4.5-7%	\$ 8,000,000	4.5-7%	\$ 740,000
1995 Series C - Lake and Peninsula Borough	8.5-9%	700,000	-	710,000
1995 Series D - City of Homer	8.5-9%	0	-	-
1996 Series A City of Kodiak City of Seward	10-5.5%	0	-	-
1996 Series E City of Seward	4.5%-7.5%	0	-	-
1997 Series A Lake & Peninsula Borough City of Yakutat	6.5-5.1%	5,000,000	-	-
1997 Series E - City of Kodiak	4.5%-6%	1,150,000	-	-
1998 Series A City of Wrangell Aleutians East Borough	4.63%-6%	6,200,000	0%	100,000
1998 Series B City of Homer City of Cordova	4%-4.375%	1,800,000	-	-
1999 Series A City of Sitka Aleutians East Borough	4.375%-5.5%	900,000	4.375%-5.5%	200,000

Long Term Liabilities - continued

ISSUE	Debt Service Account		Statutory Reserve Account Ordinary Reserve Sub-Account	
	Interest Rate	Principal Outstanding	Interest Rate	Principal Outstanding
2000 Series A City of Fairbanks City of Cordova	5.5%-5.575%	2,830,000	-	-
2000 Series B City of Kaktovik City of Silka City of Unalaska	4.8%-6%	2,960,000	-	-
2000 Series C - Northwest Arctic Borough	4.53%-5.75%	6,360,000	-	-
2000 Series D - Petersburg	4.55%-5.70%	1,580,000	-	-
2000 Series E Kenai Kodiak Island Borough Lake and Peninsula Wrangell Nome - School	4.75%-5.25%	10,577,000	5% - 5.375%	4,710,000
2000 Series F - Kodiak Island Borough	6.9%-9%	810,000	-	-
2001 Series A - Northwest Arctic Borough	4.4%-5%	1,350,000	4.4%-5%	420,000
2001 Series B - Aleutians East Borough	3.875%-4.75%	3,195,000	3.875%-4.75%	285,000
2002 Series A - City of Wasilla	2.9%-4.5%	11,715,000	2.9%-4.5%	755,000
2002 Series B City of Wrangell Northwest Arctic Borough	3.875%-4.80%	10,530,000	3.875%-4.80%	825,000
2003 Series A - Ketchikan Gateway Borough	4.79%-4.80%	8,440,000	4.80%	305,000
2003 Series B - Kodiak Island Borough	2.00%-4.75%	2,035,000	-	-
2003 Series C Kenai Peninsula Borough Lake & Peninsula Borough	2.00%-3.625%	6,890,000	2.00%-3.625%	210,000
2003 Series D 2003 Series E Aleutians East Borough Kenai Peninsula Borough	4.00%-6.00%	1,560,000	4.00%-6.00%	650,000
2003 Series F - Seward	2.00%-5.25%	31,125,000	-	-
2003 Series G - Seward	2.00%-3.5%	1,690,000	-	-
2003 Series H - NW Arctic Borough	2.00%-5.00%	22,825,000	-	-
2004 A Series Fairbanks Silka	3.00%-4.40%	18,390,000	3.00%-4.40%	800,000
2004 B Series Nome Valdez Petersburg Cody Seward	2.00%-4.00%	16,355,500	2.00%-4.00%	3,115,000
2004 C Series Kodiak Island Borough Fairbank Petersburg	4.00%-5.00%	14,307,000	5.00%	268,000
2004 D Series Adak Kodiak Island Borough	3.00%-5.00%	12,550,000	5.00%	1,375,000
2005 A Series Cordova Fairbanks Ketchikan Gateway Borough Northwest Arctic Borough Silka Unalaska	2.75%-5.00%	31,180,000	2.75%-5.00%	1,475,000

NOTES TO FINANCIAL STATEMENTS, CONTINUED

ISSUE	Debt Service Account		Statutory Reserve Account Ordinary Reserve Sub-Account	
	Interest Rate	Principal Outstanding	Interest Rate	Principal Outstanding
2005 B Series		27,160,000	5.00%	465,000
Haines	4.00%-5.00%			
Ketchikan Gateway Borough	4.00%-5.25%			
City of Kodiak	3.00%-5.25%			
Palmer	3.00%-5.00%			
Sitka	3.00%-5.25%			
Total 1976 General Bond Resolution Fund		<u>27,160,000</u>		<u>465,000</u>
1995A Seward Revenue Bond Resolution Program	4.50%-7.35%	2,265,000	-	-
1997A Ketchikan Revenue Bond Resolution Program	4.9%-7.5%	12,410,000	4.9%-5.75%	1,525,000
1998A Ketchikan Revenue Bond Resolution Program	4%-4.5%	6,170,000	-	-
1998B Kodiak Revenue Bond Resolution Program	4%-4.5%	1,105,000	-	-
1999A Interisland Ferry Revenue Bond Resolution Program	5.125%-5.9%	1,600,000	-	-
2000A Unalaska Revenue Bond Resolution Program	4.9%-5.75%	445,000	-	-
2000B Seward Revenue Bond Resolution Program	4.35%-5.5%	2,225,000	-	-
2001A Ketchikan Revenue Bond Resolution Program	4.5%-4.9%	1,350,000	-	-
2001B Ketchikan Revenue Bond Resolution Program	4.5%-4.9%	2,255,000	-	-
2002A Ketchikan Revenue Bond Public Utilities	4.00%-5.00%	5,300,000	-	-
2002B Kodiak Revenue Bond Resolution Program	2.00%-4.00%	2,657,000	-	-
2003A City of Anchorage Revenue Bond Resolution Program	2.75%-5.25%	1,000,000	-	-
2003B City of Kodiak Revenue Bond Resolution Program	2.00%-4.00%	8,000,000	-	-
2004A City and Borough of Kotzebue Revenue Bond Program	6.25%-4.575%	2,874,000	-	-
2004B Anchorage Revenue Bond Resolution Program	4.00%-4.75%	6,650,000	-	-
Total Revenue Bonds		<u>69,660,000</u>		<u>1,525,000</u>
Trusts (Energy Revenue Loan Account)				
City of Anchorage Energy Revenue Bond	5.50%	6,000,000	-	-
City of Kodiak Energy Revenue Bond	5%	6,955,575	-	-
Total Coastal Energy Revenue Loan Account		<u>12,955,575</u>		<u>-</u>
		<u>\$ 82,615,575</u>		<u>\$ 11,250,000</u>

During the year ended June 30, 2005 the Authority's long-term liabilities changed as follows:

	Beginning of year	New debt	Repayments	End of year
General obligation bonds payable	\$ 267,825,000	88,780,000	52,685,000	303,920,000
Revenue bonds payable	65,995,000	33,210,000	56,300,000	94,485,000
Other long-term debt	11,035,875	-	30,000	11,005,875
Total	<u>\$ 344,765,875</u>	<u>122,090,000</u>	<u>58,445,000</u>	<u>409,410,875</u>

General obligation bonds are secured by bonds receivable and by amounts in the ordinary reserve account. The Act further provides that if a municipality defaults on its principal and/or interest payments, upon written notice by the Authority, the State of Alaska must pay to the Authority all funds due from the defaulting municipality from the State in an amount sufficient to clear the default. Loans made under the Coastal Energy Loan Program are payable only from proceeds received from the municipalities to which the loans were made.

The above bonds mature in varying annual installments. The maturities at June 30, 2005 are as follows:

Year ending June 30	- 1976-		1995A	1997A	General Reserve	1998A	1998B
	General	Reserve	Seward Revenue	Ketchikan Revenue		Ketchikan Revenue	Homer Revenue
2006	\$ 19,820,500	1,874,500	170,000	690,000	-	660,000	235,000
2007	18,025,000	1,155,000	180,000	725,000	-	685,000	250,000
2008	17,000,000	800,000	195,000	760,000	-	715,000	255,000
2009	16,905,000	75,000	205,000	800,000	-	755,000	180,000
2010	17,115,000	5,000	215,000	840,000	-	785,000	185,000
2011-2015	78,788,000	2,287,000	1,300,000	4,930,000	-	2,370,000	-
2016-2020	71,589,000	1,006,000	-	3,665,000	1,525,000	-	-
2021-2025	46,035,000	2,560,000	-	-	-	-	-
2026-2030	8,850,000	-	-	-	-	-	-
2031 and after	-	-	-	-	-	-	-
	<u>\$ 294,157,500</u>	<u>9,762,500</u>	<u>2,265,000</u>	<u>12,410,000</u>	<u>1,525,000</u>	<u>6,170,000</u>	<u>1,105,000</u>

Year ending June 30	1999A	2000A	2000B	2001A	2002B	2002A	2003A
	Inter-Island Ferry Revenue	Unalaska Revenue	Seward Revenue	Ketchikan Revenue	Ketchikan Revenue	Ketchikan Revenue	CBI Revenue
2006	75,000	445,000	105,000	80,000	115,000	460,000	1,445,000
2007	80,000	-	110,000	85,000	120,000	475,000	1,490,000
2008	85,000	-	115,000	90,000	130,000	490,000	-
2009	85,000	-	120,000	90,000	135,000	505,000	-
2010	90,000	-	125,000	95,000	140,000	520,000	-
2011-2015	535,000	-	745,000	555,000	825,000	2,930,000	-
2016-2020	710,000	-	950,000	555,000	820,000	-	-
2021-2026	-	-	455,000	-	-	-	-
2026-2030	-	-	-	-	-	-	-
2031 and after	-	-	-	-	-	-	-
	<u>\$ 1,660,000</u>	<u>445,000</u>	<u>2,725,000</u>	<u>1,550,000</u>	<u>2,285,000</u>	<u>5,380,000</u>	<u>2,935,000</u>

Year ending June 30	2003B	2003C	2004A	2004B	Coastal Energy Loan	Total Principal	Total Interest
	Valdez Revenue	Kodiak Revenue	CBI Revenue	Anchorage Revenue			
2006	-	200,000	-	110,000	5,400,000	31,885,000	17,903,479
2007	665,000	200,000	500,000	95,000	400,000	25,216,000	16,398,854
2008	675,000	205,000	515,000	100,000	400,000	22,530,000	15,696,521
2009	680,000	215,000	535,000	100,000	400,000	21,785,000	14,826,328
2010	680,000	-	555,000	105,000	450,000	21,905,000	13,947,354
2011-2015	5,005,000	-	3,120,000	600,000	2,230,000	106,440,000	55,656,371
2016-2020	6,000,000	-	3,875,000	730,000	1,705,878	93,730,878	33,431,444
2021-2025	4,395,000	-	4,995,000	905,000	-	59,645,000	13,399,601
2026-2030	-	-	6,460,000	1,145,000	-	16,485,000	4,526,241
2031 and after	-	-	8,290,000	1,475,000	-	9,765,000	1,476,625
	<u>\$ 19,000,000</u>	<u>820,000</u>	<u>28,845,000</u>	<u>5,365,000</u>	<u>11,005,878</u>	<u>409,410,878</u>	<u>187,519,818</u>

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE 7 ► ADJUSTMENTS

Certain adjustments are considered to be necessary to the governmental funds in order to present the Authority's financial position and the results of its operations. These adjustments include the elimination of inter-fund payables and receivables. Additionally, bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.

NOTE 8 ► COMMITMENTS

In fiscal year 2006, \$250,000 in earnings from the Custodian Account will be transferred to the State of Alaska and deposited in the State's Debt Service Fund. The entire Custodian Account balance is available for appropriation, at any time, by the State Legislature.

NOTE 9 ► SUBSEQUENT EVENT

Subsequent to June 30, 2005, the Bond Bank issued two general obligation bond series to follow:

General Obligation Bonds, 2005 Series C, in the face amount of \$32,060,000 with interest rates ranging from 4.0% to 5.00% over maturities of October 1, 2006 through October 1, 2025.

General Obligation Bonds, 2005 Series One, in the face amount of \$18,450,000, sold in October 2005. Interest rates ranging from 3.00% to 5.25% over maturities of June 1, 2006 through June 2025.

In September 2005, \$250,000 in earnings from the Custodian Account was transferred to the State of Alaska and deposited in the State's Debt Retirement Fund.

City of Nome and St. Paul have entered in negotiations, with NOAA, for the restructuring and possible forgiveness of their respective Coastal Energy loans. The related loan payables do not represent a general obligation of the Authority, as they are payable only from proceeds received from the City of Nome and St. Paul, respectively. Payment of principal and interest on the Bond Bank's Coastal Energy Bond is not secured by a pledge of any amounts held by or payable to the Bond Bank under the General Bond Resolution, including the Reserve Account, and is not in any way a debt or liability of the Bond Bank. Loan payments due in August 2005 have not been made.

THE BOND BANK

An Idea That Works

SUPPLEMENTAL SCHEDULE OF STATUTORY RESERVE ACCOUNTS — ASSETS, LIABILITIES AND ACCOUNT RESERVES

For the year ended June 30, 2005

	1976 General "Ordinary"	1976 Special	1990A Yakutat	1995A Seward	1997A Ketchikan
ASSETS					
Cash	\$ 1,209,148	194,219	-	2,685	20,531
Accrued interest receivable	32,714	207,221	-	5,106	14,200
Marketable securities	8,495,264	20,149,165	-	297,083	1,508,623
Interaccount receivables	1,027,439	498,407	-	-	-
	<u>10,764,565</u>	<u>20,959,015</u>	<u>-</u>	<u>304,874</u>	<u>1,543,354</u>
LIABILITIES					
Interaccount payables	847,181	2,416,167	-	4,517	95,265
Bond payable	9,762,500	-	-	-	1,525,000
Accrued interest payable	133,299	-	-	-	6,831
	<u>10,742,979</u>	<u>2,416,167</u>	<u>-</u>	<u>4,517</u>	<u>1,627,096</u>
RESERVES					
Special Reserve - State Appropriated	-	15,663,362	-	299,550	-
Special Reserve - Unappropriated	-	2,944,662	-	-	-
Special Reserve - Unrealized Gain (Loss)	-	(65,050)	-	807	-
Ordinary Reserve - Unallocated	121,770	-	-	-	4,765
Ordinary Reserve - Unrealized Gain (Loss)	(99,984)	-	-	-	(8,977)
	<u>21,786</u>	<u>18,542,844</u>	<u>-</u>	<u>300,357</u>	<u>(83,742)</u>
	<u>\$10,764,565</u>	<u>20,959,015</u>	<u>-</u>	<u>304,874</u>	<u>1,543,354</u>

	1998A Ketchikan	1998B Homer	999A Inter-Island	2000A Unalaska	2000B Seward
ASSETS					
Cash	\$ 7,203	1,028	22,707	22,288	278,339
Accrued interest receivable	30,478	571	458	688	688
Marketable securities	1,271,667	242,021	149,433	224,156	224,156
Interaccount receivables	4,542	-	-	-	2,893
	<u>1,363,750</u>	<u>253,619</u>	<u>172,603</u>	<u>247,132</u>	<u>255,576</u>
LIABILITIES					
Interaccount payables	2,0083	5,727	6,394	9,523	2,931
Bond payable	-	-	-	-	-
Accrued interest payable	-	-	-	-	-
	<u>2,0083</u>	<u>5,727</u>	<u>6,394</u>	<u>9,523</u>	<u>2,931</u>
RESERVES					
Special Reserve - State Appropriated	1,341,299	251,396	169,804	243,000	245,518
Special Reserve - Unappropriated	-	-	-	-	-
Special Reserve - Unrealized Gain (Loss)	2,368	890	(3,595)	(5,391)	4,127
Ordinary Reserve - Unallocated	-	-	-	-	-
Ordinary Reserve - Unrealized Gain (Loss)	-	-	-	-	-
	<u>1,343,667</u>	<u>252,286</u>	<u>166,209</u>	<u>237,609</u>	<u>252,645</u>
	<u>\$ 1,363,750</u>	<u>253,619</u>	<u>172,603</u>	<u>247,132</u>	<u>255,576</u>

SUPPLEMENTAL SCHEDULE OF STATUTORY RESERVE ACCOUNTS — ASSETS, LIABILITIES AND ACCOUNT RESERVES

For the year ended June 30, 2005

	2001A Ketchikan	2001B Ketchikan	2002A Ketchikan	2003A CBI	2000B Valdez
ASSETS					
Cash	\$ 32,174	33,764	36,300	22,872	16,288
Accrued interest receivable	382	611	805	1,594	20,256
Marketable securities	124,531	199,250	597,750	544,767	1,749,879
Interaccount receivables	-	-	-	-	9,407
	<u>157,087</u>	<u>233,625</u>	<u>634,855</u>	<u>569,233</u>	<u>1,795,830</u>
LIABILITIES					
Interaccount payables	5,407	5,547	24,231	6,691	-
Bond payable	-	-	-	-	-
Accrued interest payable	-	-	-	-	-
	<u>5,407</u>	<u>5,547</u>	<u>24,231</u>	<u>6,691</u>	<u>-</u>
RESERVES					
Special Reserve - State Appropriated	154,675	229,570	-	-	-
Special Reserve - Unappropriated	-	-	625,000	565,500	1,780,963
Special Reserve - Unrealized Gain (Loss)	(2,995)	(3,792)	(14,376)	(5,958)	15,767
Ordinary Reserve - Unallocated	-	-	-	-	-
Ordinary Reserve - Unrealized Gain (Loss)	-	-	-	-	-
	<u>151,680</u>	<u>225,778</u>	<u>610,624</u>	<u>562,542</u>	<u>1,795,830</u>
	<u>\$ 157,087</u>	<u>233,625</u>	<u>634,855</u>	<u>569,233</u>	<u>1,795,830</u>

	2003C Kodiak	2003A CBI	2004B Anchorage	Total
ASSETS				
Cash	\$ 26,773	34,569	44,674	1,814,317
Accrued interest receivable	211	585	607	328,974
Marketable securities	740,399	1,336,124	297,787	37,985,705
Interaccount receivables	283	-	-	1,452,971
	<u>101,306</u>	<u>1,875,078</u>	<u>343,068</u>	<u>41,581,967</u>
LIABILITIES				
Interaccount payables	56	16,549	3673	3,472,741
Bond payable	-	-	-	11,287,500
Accrued interest payable	-	-	-	140,130
	<u>56</u>	<u>16,549</u>	<u>3673</u>	<u>14,900,371</u>
RESERVES				
Special Reserve - State Appropriated	-	-	-	18,601,414
Special Reserve - Unappropriated	101,500	1,875,750	341,931	8,237,346
Special Reserve - Unrealized Gain (Loss)	(2,500)	(13,211)	(2,536)	(95,005)
Ordinary Reserve - Unallocated	-	-	-	46,805
Ordinary Reserve - Unrealized Gain (Loss)	-	-	-	(108,961)
	<u>101,250</u>	<u>1,861,729</u>	<u>339,395</u>	<u>26,681,596</u>
	<u>\$ 101,306</u>	<u>1,875,078</u>	<u>343,068</u>	<u>41,581,967</u>

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 265
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Alaska Municipal Bond Bank Authority Bond Cap RDU Revenue Programs and Services
 Component Alaska Municipal Bond Bank
 Sponsor Senator Sledman
 Requester Senator Sledman Component No. 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual	50.0	100.0	100.0	100.0	100.0	100.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	50.0	100.0	100.0	100.0	100.0	100.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Bond Bank Investment Earnings	50.0	100.0	100.0	100.0	100.0	100.0
TOTAL	50.0	100.0	100.0	100.0	100.0	100.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The Bond Bank is a self supporting public corporation of the State of Alaska. The Bond Bank saves communities, and often the state through reduced reimbursements, by borrowing more efficiently and with enhanced credit strength compared to individual communities borrowing capability.

Increasing the statutory cap on borrowing from \$500 million to \$750 million will allow the Bond Bank to continue to meet the capital needs of Alaska's municipalities. The contractual cost noted above reflects an anticipated continued increased use of the Bond Bank by communities. The costs incurred will be directly correlated to future increased borrowing activity of the Bond Bank due to the increase in the borrowing cap. All costs will be funded from Bond Bank fund earnings.

Prepared by: Deven Mitchell Phone 465-3409
 Division Alaska Municipal Bond Bank Authority Date/Time 2/10/06 12:00 AM
 Approved by: Jerry Burnett Date 2/10/2006
 Agency Department of Revenue