

# AIDEA



Alaska Industrial Development and Export Authority

# Mission Statement

**“To encourage economic growth and diversification in Alaska.”**

AIDEA is about financing businesses, helping to diversify the economy of Alaska and creating jobs for Alaskans. AIDEA accomplishes its mission by providing various means of financing and by facilitating the financing of businesses in Alaska. AIDEA also has the ability to own and operate facilities that advance this goal.

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# Governor's Message

With this annual report, which encompasses the year in review for both the Alaska Industrial Development and Export Authority and the Alaska Energy Authority, we formally recognize the integration of these two critical agencies that energize our economy through the development and funding of key projects.

AIDEA and AEA both play an important part in strengthening and diversifying Alaska's economy. AIDEA continues its mission of growing and broadening the state's economy and the economic well-being of Alaska residents through the programs it operates. Creative partnerships with the private sector have helped contribute to AIDEA's continued success.

AEA seeks to provide reasonably priced power

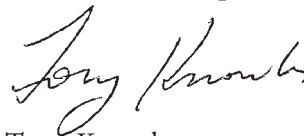
to all regions of the state. The agency also offers training for Alaskans to assist in ongoing maintenance and operation of energy systems across the state. Safe, low-cost power and reliable generation and distribution systems allow economic development to flourish.

Throughout this report, you'll see many examples of unique links established by AIDEA and AEA, which ultimately benefit all Alaskans. AEA, in partnership with the Denali Commission, continues to work with communities that need power system upgrades, bringing unique solutions to areas that need assistance to establish long-term, affordable power.

AIDEA, through its finance programs and relationships with lending institutions, continues to work with qualified

Alaskan businesses, both large and small, to help them get started, expand, and make improvements to existing facilities.

AIDEA and AEA are two integral cornerstones in the foundation of Alaska's economic future. I'm pleased to see these agencies continue to realize their tremendous potential.



Tony Knowles  
Governor



Tony Knowles  
Governor, State of Alaska



# Chairman's Message

## Link between Urban & Rural Alaska

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Each year at AIDEA and AEA we reflect on our past efforts and look to the future to determine how to best serve the people of Alaska. In 2001, infrastructure development and economic diversification were at the forefront of our efforts at AIDEA, while at AEA we sought new ways to provide affordable and efficient energy throughout Alaska. Energy and economic development are interdependent. In Alaska, we try to keep all of this in mind as we consider each new undertaking.

Our annual report this year focuses on a very important part of both AIDEA and AEA's missions — the link between rural and urban Alaska. We hope to demonstrate in this report just how critical this link is, and that in order for one region of the state to

perform well economically, others must do so, too. What we've found over the years is that our rural and urban economies are tied together closely. Urban communities provide services and goods that rural residents rely on. Likewise, rural customers are critical to those urban businesses and service providers.

And underlying the entire fabric of the economy is the need for infrastructure throughout the state — particularly the ability to access reasonably priced energy and investment capital. All communities throughout Alaska require access to energy and investment capital in order to develop existing — as well as new — industries. At AIDEA and AEA we help provide this investment capital and the energy to help fuel Alaska's economic future.



Wilson Hughes  
Chairman, AIDEA

Each project we complete has a separate story and a unique group of Alaskans it affects.

The staff of AIDEA and AEA are proud to report on the accomplishments of our organizations, and to illustrate the key role we play in both rural and urban Alaska.

Through this report we hope you learn more about AIDEA and AEA's missions and of our recent successes in meeting these objectives.

Sincerely,

A handwritten signature in black ink, appearing to read "Wilson Hughes".

Wilson Hughes  
Chairman of the Board

Mr. Hughes is currently Executive Vice President and General Manager of General Communications, Inc. (GCI). He has also held executive positions with Northern Air Cargo, Enserch and Frank Moolin & Associates. Mr. Hughes was appointed as an Authority member in February 1995.

# Executive Director's Letter

Alaska's economy has weathered substantial change over the past 15 years, evolving from a series of boom bust cycles to a considerably more complex and diversified economic system resulting in stable, long-term growth for Alaska. Today there is a strong interdependency between urban and rural economies, intertwining the oil and gas industry, Native and non-Native corporations, tourism, service sectors, telecommunications, health care, financial services, transportation, petroleum refining, construction, and government, to name just a few.

This growing economic diversification in Alaska means employment is no longer driven by the actions of a handful of employers in Alaska. And the array of other economic interdependencies in Alaska are no longer indexed to the

movement in the price of a single commodity — oil.

The consumer profile in Alaska has also changed. In the past, many Alaskan consumers traveled to the Lower 48 states to purchase durable and non-durable consumer goods and to seek healthcare and other services. Today, all of these goods and services can be easily obtained at competitive prices in Alaska's urban distribution centers.

A major factor in shaping today's Alaskan economy occurred in the summer of 1986—a time when Alaska was heavily reliant on oil and gas development and government infrastructure construction. That summer Alaskans woke up to the news that the price of a barrel of oil had fallen to \$10. This devastating news was felt in every sector of the state's economy. As jobs contracted in almost

every segment, financial institutions found their borrowers highly leveraged in real estate, filing bankruptcy at an alarming rate. Real estate prices spiraled downward, and Alaskan banks began to fail. AIDEA found itself with over a 25 percent delinquency rate between 1987 and 1989 as compared with a 1.7 percent rate today.

Looking at the economy of Alaska today, we see a very different picture. Since the economic fall of 1986, oil has dropped to \$10 per barrel twice, in 1994 and again in 1999. But the ramifications to the Alaskan economy have been substantially less. So what has changed?

Alaska has grown up as a state and as an economy. The base of the state's economic platform has shifted from oil, government and construction dependence to an interrelated network

Mr. Poe was appointed executive director of AIDEA in August 2000, bringing to the position expertise in business development, financial planning, public policy and systems operations. Since 1983, Bob has served in many positions for the State of Alaska, including as director of the Governor's Office of International Trade; deputy commissioner for the Department of Transportation; and as the commissioner of the Department of Administration.

of industries and business, both large and small, each contributing to the stability of Alaska's economy. As a result of this diversification, Alaskans are able to secure the goods and services in-state they would have gone to the Lower 48 states for in the mid-80s. And, the increased stability of Alaska's economy has made long term investment capital considerably more available to businesses wishing to expand Alaska's economy.

This annual report for AIDEA and AEA attempts to illustrate the role that both organizations have played and continue to play in the diversification and stabilization of the Alaskan economy. It further serves to underscore the critical interdependence between both urban and rural Alaska, and the inseparable link between energy development and capital

development in the Alaskan economy.

AIDEA and AEA are proud to have played an important role in helping our economy achieve its current success and we look forward to helping Alaska realize its economic future.

Sincerely,



Robert Poe, Jr.  
Executive Director

## The Changing Face of Alaska's Economy

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Robert Poe, Jr.  
Executive Director, AIDEA/AEA



# Economic Climate

## The Evolution of Alaska's Economic Climate

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Great strides have been made in Alaska's economic diversification and AIDEA is proud to have played a part in that growth. Over the next several pages we will present examples of the types of financing AIDEA has participated in to illustrate the role we have and will continue to play in helping Alaskan businesses further diversify our economy. These results are an important qualitative return on Alaska's investment in AIDEA, but AIDEA also provides Alaska a financial dividend.

AIDEA is a public corporation of the State of Alaska. It operates as an enterprise fund and meets all of its financial requirements, including cost of operations and generation of additional financial assets, through its own activities. As explained in the financial statement section of this annual report, AIDEA currently has assets totaling \$1.258 billion and net income in 2001 of \$40.3 million. AIDEA is a profit-oriented organization. AIDEA does not make grants of any kind. All AIDEA income is a result of receipts from loan participations, development projects,

other investments, and services provided by AIDEA.

Alaska has seen a more stable and efficient economy through innovations in the transportation industry and stronger communications technology. It has seen improvements in healthcare available within the state. And tourism has grown into a viable renewable resource. In line with the growth of the state, the construction and retail industries have advanced and adjusted to service the needs of Alaskans.

Over the past ten years, Alaska's population has grown 12 percent, mirroring the number of births in the state. This is a result of people moving to The Last Frontier in the late 70s and early 80s and choosing to stay and raise their families. Much of the economic diversification Alaska has experienced is in response to this larger, more stable population. Unfortunately, Alaska's latest population data does not tell an entirely positive story. Over the same ten-year period, the number of residents between 20 and 34 years of age has



declined in Alaska by 25 percent.

While the Alaskan economy has begun to successfully diversify, other parts of the country have experienced much stronger rates of growth, and this has lured many of Alaska's next generation to take employment outside of Alaska. And while AIDEA has played a significant role in helping diversify the Alaskan economy, our challenge will be to seek ways to help Alaska offer an economic future to coming generations that will allow them to stay in Alaska, raise their families here, and contribute to Alaska's stable, sustainable diversified economy.

### **As Alaska's Economy Grows, So Grows Our Need for Low Cost Power**

In the early 1990's, AIDEA merged management efforts with the Alaska Energy Authority (AEA) which created a strong synergy that helps business ventures succeed in Alaska, and also ensures safe, reliable, and low cost electric power is available to all Alaskans.

Economists everywhere recognize that the availability of low cost power is critical to the development of any modern economy. Alaskan leaders have long recognized this.

AEA is responsible for many of the most important electric generation and distribution assets in Alaska including the Four Dam Pool hydroelectric projects (soon to be transferred to the communities they serve), the Bradley Lake Hydroelectric facility, and the Alaska Intertie that transports Railbelt electricity from Willow to Healy. In 1999, rural energy programs were transferred to AEA to complete the picture. Today, AEA's Rural Energy Group (REG), in partnership with the Denali Commission, is involved in the construction of bulk fuel facilities and electric power systems in rural Alaska, further recognizing the importance of reliable, low cost power to the economy in rural Alaska. And, REG administers the Power Cost Equalization (PCE) program. Today, over 20 percent of the goods and services sold by Anchorage businesses are sold to

customers in the 190 communities across Alaska served by the PCE program. (To learn more about the work of AEA, please turn this annual report over.)

# Economic Toolbox

Throughout the evolution of Alaska's economy, AIDEA has been there every step of the way. AIDEA's programs led to the success of many Alaskan business enterprises that may not have otherwise had the chance to succeed. As all Alaskans know, Alaska is different from other states in the United States. Much of the infrastructure taken for granted in the Lower 48 states is not present in Alaska. Additionally, although assets in our local banking industry continue to grow, many financial institutions are limited in their ability to make larger or longer term loans.

AIDEA's programs are specifically designed to help the Alaskan economy overcome two challenges: assist financial institutions to finance credit-worthy business ventures in Alaska and help provide key economic infrastructure required to enable the Alaskan economy to further develop, expanding the number of jobs available to Alaskans.

AIDEA's programs are designed to assist in

business development for Alaska. These programs provide a wide variety of services to fit each individual business.

## **Loan Participation Program**

The Loan Participation Program provides long-term financing to Alaska businesses for new or existing projects, or for the refinancing of existing loans. This program has helped diversify the Alaska economy by providing financing for a large variety of commercial facilities ranging from office buildings, warehouses and retail establishments to hotels, fishing vessels and manufacturing facilities.

Under the Loan Participation program, AIDEA's customer is actually the financial institution seeking to make a business loan to their customer. AIDEA can participate with a qualified financial institution(s) up to 80 percent but not more than \$10 million of a loan, and with repayment terms as long as 25 years. And, the financial institution may fully amortize their portion of the loan over a shorter term.

By far, this is the most active program offered by AIDEA. It allows financial institutions to service their customers, leverage their lending ability, and to structure loans to help make their customer's business ventures financially feasible. Of course, Alaska benefits from the increased economic activity. While during the economic downturn of the late 80's, AIDEA's loan delinquency rate under this program exceeded 25 percent, today this rate is 1.7 percent.

## **Development Finance Program**

The Development Finance Program is designed to finance the infrastructure necessary to support larger economic development projects in Alaska. In all cases, AIDEA actually owns the project and is repaid for use of the asset through a user fee structure. The user fee works similarly to a lease since once the term of the use agreement is completed, AIDEA retains ownership of the asset for future economic use. These projects must have an economic benefit

for Alaska, be supported by their local governments and be financially feasible. These projects must also be able to pay a return to AIDEA.

### **Business and Export Assistance Program**

This is a loan guarantee program providing financial institutions with a guarantee of up to 80 percent, not to exceed \$1 million on the principal of the loan. Guarantees issued for export transactions guarantee both commercial and political risk. These transactions are primarily intended to assist manufacturing enterprises to export.

### **Conduit Revenue Bond Program**

Increasingly, AIDEA has been involved in helping credit-worthy Alaska projects gain access to the bond market. Conduit revenue bond financing is available for both taxable and tax-exempt projects that qualify under the Internal Revenue Service Code of 1986. This type of financing requires that AIDEA act solely as a conduit for the transaction.

Under the Conduit Revenue Bond Program, neither the assets nor credit of AIDEA is at risk. Rather, the bond market decides to finance the project based solely on the economic viability of the project.

### **Rural Development Initiative Fund (RDIF)**

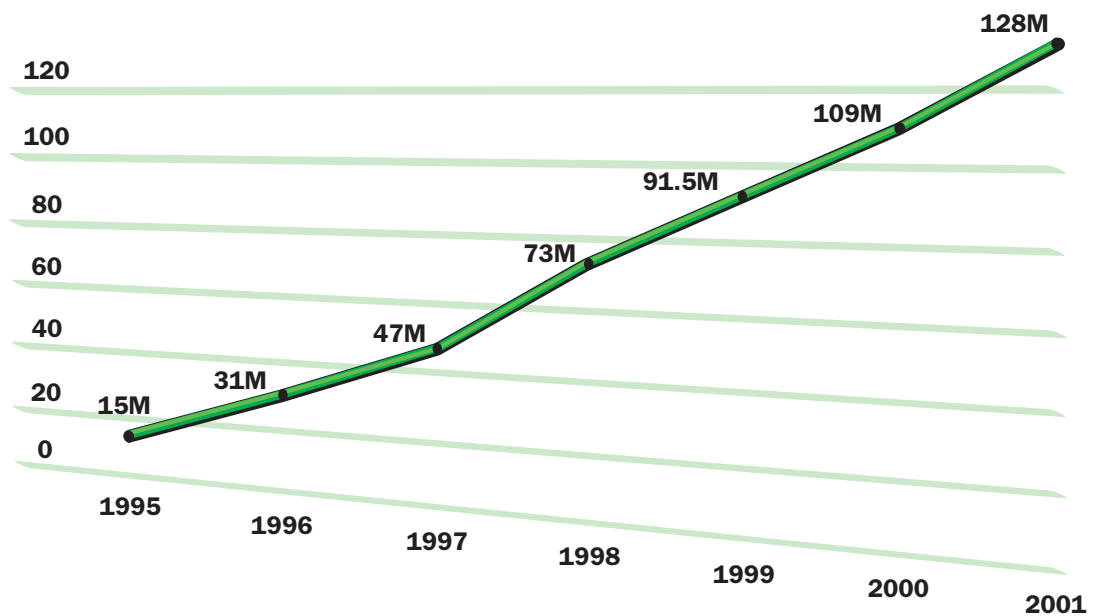
The RDIF is a loan program designed to create job opportunities in rural Alaska by providing small Alaska businesses with needed capital that may not be available in conventional markets. RDIF provides loans for working capital, equipment, construction or other commercial purposes. Businesses eligible for assistance under this program must be Alaskan-owned and be located in a community of 5,000 or less. The RDIF is administered for AIDEA by the Department of Community and Economic Development, Division of Investments.

# Return on Investment

AIDEA is a unique entity financially since it pays for its own operating expenses while continuing to expand our ability to fuel economic development, grow AIDEA loan funds, and pay a dividend back to the state of Alaska.

projected income in future years, project and loan cash-flow projections, its effect on bond covenants, unanticipated needs and rating agency concerns. Since the dividend program was signed into law in 1996, the AIDEA Board has authorized \$128 million in dividends.

AIDEA has directly contributed a dividend back to the State of Alaska's general fund each year since 1997, based on income from several previous years. Under law, the dividend ranges from 25 to 50 percent of net income for the two fiscal years prior to payment of the dividend. Each year, the AIDEA Board of Directors approves the amount of the dividend based on several factors, including



# Helping the Economy

In the 2001 Alaska Business Monthly “The Top 49ers”, ten Regional Native Corporations and three Village Corporations were among the top companies in Alaska. In fact, this group, at \$2.4 billion in revenues, represented 49.7 percent of the revenues and, with 14,588 employees, represented 54.6 percent of the employees in the top 49 Alaskan companies. In 1986, Native corporations represented 25 percent of the revenue of the top 49 companies.

To say Native corporations are important to the diversification of the Alaskan economy would be an understatement. And since all of these companies are headquartered in Alaska, the earnings, the support jobs and the economic multiplier effect from these companies’ activities generally accrue to Alaska.

AIDEA has been proud to work with many of these companies including NANA, our partner in the Red Dog Operations, Goldbelt Inc. on the tram in Juneau, and Ukpeagvik Inupiat Corporation (UIC) on the Alaska Commercial Company store and retail

complex in Barrow. Other Native organizations that have benefited through working with AIDEA include the Seldovia Native Association on the Dimond Center Hotel project, the Tanana Chiefs Conference on their office building in Fairbanks, the Aurora Hotel in Nome owned by the Bering Straits Native Corporation, the dock facility in Haines owned by Klukwan, Inc., and a Tesoro station, NAPA and convenience store with Sitnasuak Native Corporation in Nome.

## The Importance of Native Corporations

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# Tourism

Alaska's most renewable resource, tourism is responsible for nearly \$1 billion in annual revenue in Alaska. Visitors come from all over the world to see the majesty and grandeur that make up the 49th state. Each year, visitors and tourism businesses inject about \$124 million directly into state and local treasuries. And 78 percent of the visitor industry's work force are Alaskans.

In 1996, AIDEA participated in a loan with KeyBank on a joint venture between the Mt. Roberts Development Corporation and Goldbelt, Inc., a Southeast Alaska Native corporation, to build the Mt. Roberts Tramway. The tram, located in Juneau, takes visitors from the cruise ship docks to the 1,800-foot level of Mt. Roberts where a mountain complex hosts a variety of activities for visitors.

Goldbelt was one of the first Native corporations to enter into visitor industry endeavors. This venture has added significantly to Southeast Alaska's tourism offerings and increased employment opportunities in Juneau.

Small businesses comprise 90 percent of the Alaska visitor industry and most of these businesses are Alaskan owned. One such Alaskan that has made his mark in the visitor industry is Steve Mahay.

In 1975, Steve Mahay founded Mahay's Riverboat Service in Talkeetna and since then he has been hosting countless Alaska visitors on riverboat tours throughout the Talkeetna, Susitna and Chulitna rivers. In 1997, he was looking to expand his fleet of jet riverboats. AIDEA was involved in the financing of the addition to Mahay's

fleet through the Business and Export Assistance Program with a guarantee to KeyBank on their loan to Mahay's.

While many visitors travel to Alaska to see its great beauty, many others travel to Anchorage and elsewhere in Alaska for business, conventions, and to visit family and friends. And, a great number of Alaskans travel from rural areas of Alaska to the state's largest commerce hub, Anchorage, for shopping, medical care and to visit family. These are some of the reasons hotel room numbers in Anchorage have increased dramatically in the last few years.

On the horizon for AIDEA is the Dimond Center Hotel, a new 109 room, three-story hotel located at one of Anchorage's major retail hubs. AIDEA will participate in the loan from Wells Fargo Bank to



## A tourism success story: Mahay's Riverboat

Under the Business and Export Assistance Program, AIDEA provided an 80 percent loan guarantee on a loan originated by KeyBank of Alaska to Mahay's Riverboat Service of Talkeetna. Mahay's used the loan to purchase a new, 42-foot river tour boat to serve the growing tourism industry near Denali National Park.

a newly-formed entity comprised of the Seldovia Native Association and Dimond Center, LLC. This will be the first hotel in South Anchorage, an area studies have shown to be one of the prime locations for a hotel in the state. There are expected to be 100 temporary construction jobs and 30 permanent jobs generated by this project upon completion.

AIDEA also watches for opportunities to breathe new life into existing projects like the Kuskokwim Inn in Bethel. Today Bethel has grown to almost 6,000 and is the hub community for the Yukon/Kuskokwim Delta. But travelers wishing to stay overnight in Bethel have only limited bed and breakfast offerings to choose from.

The Kuskokwim Inn, originally built in 1976

and closed in 1997, has recently been acquired, is currently under renovation, and will be re-opened by the Bethel Boys, LLC next year. The project will give a new face to the historic Kuskokwim Inn and will provide business and leisure travelers to Bethel with a badly needed lodging option. AIDEA is making \$1.2 million available in a loan participation with Wells Fargo Bank Alaska to complete this important project for the YK Region of Alaska.

Tourism companies like these comprise just one arm of Alaska's diverse economy and AIDEA appreciates the opportunity to participate in projects that add muscle to Alaska's visitor industry.

## Alaska's Most Renewable Resource

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## A tourism success story: Mt. Roberts Tram

Over the past decade, Juneau-based Goldbelt Incorporated has been expanding its operations into tourism. The company's vision brought the Mount Roberts Tramway to Alaska's Capital City, allowing visitors and residents alike an opportunity to ride 1,800 feet above Juneau aboard the tram.





# Healthcare

Healthcare is the leader for growth in Alaska's services sector. While general employment grew by 19 percent in the 90's, healthcare grew by 59 percent. And, the trend is expected to continue well into the 2000s. By 2008, it is forecasted that 10 of the 15 fastest-growing occupations in Alaska will be in the healthcare field. This growth is partially due to the Alaskan consumer choosing to obtain their health care services in Alaska.

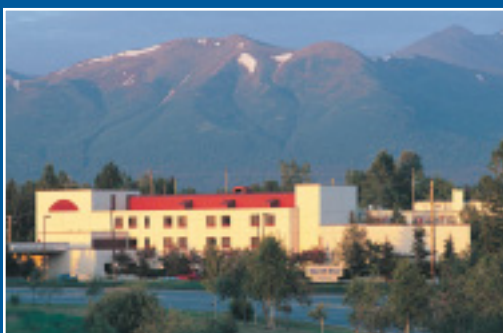
AIDEA has worked in partnership with many organizations to further the availability of quality healthcare in Alaska. In 2001, AIDEA participated in a loan from Northrim Bank to DeBarr Road Properties and Bragaw Street Properties LLC's to bring ownership of two of Alaska's top healthcare facilities under Alaskan ownership — North Star Hospital and Residential Treatment Center.

North Star plans to expand their current facilities to provide a greater percentage of in-state residential treatment needs. Currently there are a limited number of residential treatment facilities in Alaska for young mental-health patients and hundreds of residents must leave the state each year to receive treatment in the Lower 48 states.

Local healthcare has also become available for the rural residents of Glenallen. Mountain View Eye Care was the recipient of backing from AIDEA through a loan guarantee to KeyBank under the Business and Export Assistance Program to provide eye care to the residents of the Copper River Basin. The clinic's principal, Dr. Grant Humphreys, was the eye clinic director for the North Slope Borough for seven years, providing services in Barrow and all remote

villages of the North Slope. This clinic provides the only eye care service in the entire Copper River basin.

The Ketchikan Health Clinic is a project also realized with the financial backing of AIDEA through a loan participation with First Bank. The clinic is located adjacent to Ketchikan General Hospital and focuses on providing acute and chronic medical and dental care for the residents of Ketchikan. The clinic is owned by Ketchikan Indian Corporation, the governing body for Alaska Natives and American Indians residing in the Ketchikan Gateway Borough. The clinic employs 40 professional, technical and clerical staff and provides preferential hire for Alaska Natives.



## North Star Hospital

In 2001, AIDEA worked with DeBarr Road Properties and Bragaw Street Properties LLCs to secure Alaskan ownership of North Star Hospital and Residential Treatment Center. North Star LLC's plans to expand their facilities to provide a greater percentage of instate residential treatment needs.



# Transportation

A major indicator of the economic maturity of Alaska can be gauged by the transportation industry. Alaska's transportation network has evolved from a fueling stop on routes between Europe and Asia, to a base of operation for many companies. As numbers have increased for the transportation of passengers and cargo to and through Alaska, the feasibility to have cargo handling, cargo sorting, customs clearance and aircraft maintenance facilities located within the state has also increased. And, with this transportation infrastructure, Alaska can expect continued growth in transportation-related businesses.

Transportation is also the key factor in the interdependency of rural and urban Alaska. In many cases, rural communities have no roads — air and water transportation are

the chief way goods are transported from urban Alaska distribution centers to rural Alaska. And most of these transportation companies serving rural Alaska are either headquartered in urban Alaska, or have economic ties there.

One of the most important economic transitions for the transportation industry in Alaska was the FedEx international package sorting facility at the Ted Stevens Anchorage International Airport. Federal Express management chose to place a maintenance operation in Anchorage to service their fleet, and approached AIDEA to finance the facility. The facility created approximately 20 permanent pilot positions whose incomes provide direct stimulus to the Alaska economy.

In 1997, Williams-Lynxs management recognized the need for leaseable warehouse

and enclosed air cargo transfer space at the Ted Stevens Anchorage International Airport. This facility strengthens South-central Alaska's economy by providing as many as 200 permanent high paying jobs.

The William-Lynxs Alaska CargoPort was financed through tax-exempt conduit revenue bonds sold by AIDEA, an AIDEA financing approach that is gaining in popularity. The bonds are supported by the project's revenues and a debt service reserve fund. Williams-Lynxs has strengthened Alaska's role as an international air crossroads by improving basic services for air carriers serving Alaska and beyond. Williams-Lynxs has also become one of Alaska's leading exporters due to the sale of jet fuel to foreign carriers transiting Anchorage through this facility.

## Federal Express Facility

The Federal Express Aircraft Maintenance Facility is owned by AIDEA and used by Federal Express, which took occupancy of the facility in February 1995. AIDEA's investment in the \$30 million structure will be repaid through user fees. FedEx has a 20-year user agreement with AIDEA.



# Retail

## All of Alaska Benefits from Retail Growth

The trade industry in Alaska has expanded with the demand for support services in Alaska. Back in the mid-80s it was far more common for Alaskans to travel to the Lower 48 for large retail purchases. Today, the retail industry has grown to supply the increasing demands of a growing and considerably more stable economy and population. The proportion of retail jobs in Alaska are about the same as they were in 1986, but revenues per employee and the associated efficiencies have increased dramatically.

Retail has also grown due to the rural and urban interdependency that exists in Alaska. Rural residents travel to urban areas to shop and in turn, urban areas are able to offer more retail services because their business is supplemented by in-state, rural consumers. In fact, one third of the

output of goods and services from Anchorage are destined for other regions of Alaska and 20 percent are destined for rural Alaska.

In cooperation with Wells Fargo Bank Alaska and UIC Corporation, AIDEA contributed \$5.16 million in a \$6.45 million loan participation to construct the Alaska Commercial Store and retail mall in Barrow. Without these types of facilities in key rural Alaska communities, the interdependence between urban and rural Alaska in the sale of goods and services would not be as possible.

In Fairbanks, the summer days are long, hot and have an almost never-ending supply of sunshine, making for a very productive growing season. James and Marcia Holmes are two Fairbanks residents



## Alaska Commercial Company-Barrow

Ukpeagvik Inupiat Corporation, the Native village corporation in Barrow, received long-term financing for a new Alaska Commercial store in Barrow, through National Bank of Alaska (now Wells Fargo Bank Alaska) and AIDEA's Loan Participation Program. AIDEA provided needed capital and helped bring new products and services to this remote community.

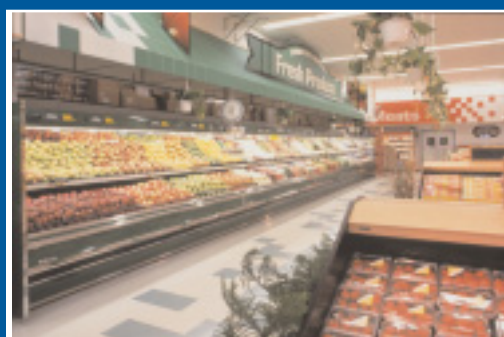
who know the growing season inside and out. They have been in business for nearly 10 years with Holm Town Nursery, a retail nursery and landscaping business, and were looking to make upgrades. AIDEA stepped in and provided assistance through a loan guarantee to Mt. McKinley Bank under the Business and Export Assistance Program, which services the needs of pre-existing businesses to enhance or expand their current operations.

Andy Alsup runs a small business in Anchorage. His company, Noah Marine, provides boat repairs, sale of parts and accessories and storage for up to 30 vessels. He's been in business for more than 10 years and has a loyal following of customers and a solid business track record. A one-person operation, Andy Alsup

received assistance from AIDEA through a loan participation with First National Bank Alaska to help buy the building where his business operates. The acquisition of his building significantly improves the profitability of his business and allows for expansion.

An innovative food and refreshment business that benefited from the Loan Participation Program is the Bear Tooth Theatre Pub. Fresh Ale Pubs LLC was formed in 1996 to operate the immensely popular and successful Moose's Tooth Pub & Pizzeria. Their success continued in June of 2000 with the opening of the Bear Tooth Theatre Pub in the former Denali Theatre in mid-town Anchorage. It was an instant success. So much so, in fact, that the lack of parking became a problem. AIDEA participated with

First National Bank Alaska to purchase an adjacent office building that not only provided the additional parking needed, but also now houses their administrative offices.



# Value Added

## Heading in the Right Direction

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Sometimes it isn't instant success in business. But Alaskans are known for their tenacity and willingness to keep trying until they get it right. Alaska Seafood International (ASI) represents the possibility for Alaskans to make a permanent mark in the value-added seafood market. Due to several factors, the first attempts at making the seafood center profitable were not successful. By restructuring the deal, increasing participation by certain partners in the ASI deal and by bringing in a significant new partner, AIDEA was able to help make an additional \$25.0 million in financing available to ASI.

for shift-based manufacturing jobs as well as the ability to deliver real innovation to our seafood industry.

Since new financing and management have become available to ASI, they have redirected their efforts to the basics of a startup business with a focus on sales and marketing. As a result, in 2001 ASI signed contracts to provide value added Alaska seafood products to a number of new customers.

While ASI is not out of the "financial woods" yet, they are quickly heading in the right direction.

It's no secret that one of Alaska's greatest assets is the world's finest seafood. Alaska has a new opportunity for innovation in the seafood industry with ASI. ASI provides the opportunity



## Alaska Seafood International

In 1993, the Alaska Legislature gave AIDEA bonding authority to construct and own a value-added seafood manufacturing facility. In 2000, Alaska Seafood International completed construction of a processing building, power plant, and proceeded to lease equipment to bring a value-added seafood facility to Alaska.

# New Industries

AIDEA has also assisted in bringing new industries to Alaska to provide greater economic diversification. The Red Dog Mine located near Kotzebue is one such example of AIDEA partnering with industry leaders to provide new industry and economic growth.

The Red Dog Mine brought opportunity for economic growth to a cash poor region of Alaska. The mine is located 90 miles north of Kotzebue within the Northwest Arctic Borough.

Currently, Red Dog is the world's largest zinc mine and provides 485 permanent, full-time jobs. Teck Cominco is currently the only taxpayer in the NW Arctic Borough, providing approximately \$4.5 million annually to the borough's \$7 million budget.

The partners in Red Dog are NANA, AIDEA and

Teck Cominco. AIDEA is the owner of the DeLong Mountain Transportation System, the port complex and 52-mile road to the Red Dog Mine. NANA, the Native regional corporation for Northwestern Alaska, owns the land where both Red Dog and AIDEA's port reside. Teck Cominco is the operator of the mine.

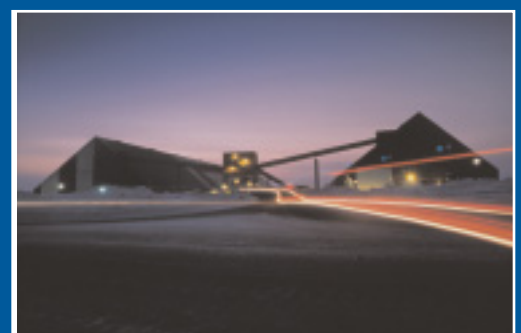
Teck Cominco has adopted a progressive training program that includes management training and a job shadow program. Currently more than 60 percent of the employees at the mine are NANA shareholders, with wages of \$15 million paid to these employees annually.

## Mining Advances Bring Jobs, Training

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## Red Dog Mine

AIDEA's first development project was the DeLong Mountain Transportation System (DMTS), the road and port serving the Red Dog Mine, and the largest zinc mine in the world. The project is a partnership between AIDEA, Teck Cominco Alaska, the mine operator, and NANA Regional Corporation, the landowner.



# AIDEA and AEA Boards

AIDEA is committed to providing economic growth and diversification for Alaskans and their businesses. AIDEA also provides financing assistance programs in order to help serve businesses statewide and provide jobs for Alaskans.

The Alaska Energy Authority places emphasis on lowering the costs and increasing the safety and reliability of rural power systems. Emergency responses to utility systems and fuel storage failures are provided, as necessary, to protect the life, health, and safety of rural Alaskans.

## **Board of Directors**

Wilson Hughes, Chairman

Joe Perkins, Vice Chairman

Deborah Sedwick, Member

Helvi Sandvik, Member

Larry Persily, Member

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[www.aidea.org/aea.htm](http://www.aidea.org/aea.htm)

# Independent Auditors' Report

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(a Component Unit of the State of Alaska)

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

We have audited the accompanying balance sheets of the Alaska Industrial Development and Export Authority Revolving Fund (a Component Unit of the State of Alaska) as of June 30, 2001 and 2000, and the related statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Alaska Industrial Development and Export Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Industrial Development and Export Authority Revolving Fund (a Component Unit of the State of Alaska) as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Anchorage, Alaska  
September 7, 2001



# Balance Sheets

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(a Component Unit of the State of Alaska)

June 30, 2001 and 2000

(Stated in Thousands)

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

See accompanying notes to financial statements.



# Statements of Income

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(a Component Unit of the State of Alaska)

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

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

See accompanying notes to financial statements.

# Statements of Changes in Equity

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(a Component Unit of the State of Alaska)

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

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

See accompanying notes to financial statements.

# Statements of Cash Flows

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(a Component Unit of the State of Alaska)

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

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

See accompanying notes to financial statements.

# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

### (1) Organization and Operations

The activities of the Alaska Industrial Development and Export Authority (Authority) Revolving Fund are authorized pursuant to legislation which established within the Revolving Fund the Enterprise Development Account and the Economic Development Account for separate and distinct purposes. The Authority is a component unit of the State of Alaska (State), constituting a political subdivision within the Department of Community and Economic Development (formerly the Department of Commerce and Economic Development) but with separate and independent legal existence. The Authority's mission is to promote, develop and advance the general prosperity of the people of Alaska, to relieve problems of unemployment and to create additional employment by providing various means of financing and facilitating the financing of industrial, manufacturing, export and business enterprises and other facilities within the State.

Pursuant to legislation enacted in 1993, the members of the Board of Directors of the Authority also serve as the Board of Directors of the Alaska Energy Authority (AEA). The staff of the Authority serves as the staff of AEA. The Authority and AEA continue to exist as separate legal entities. Pursuant to legislation effective July 1, 1999, certain programs previously administered by the former Department of Community and Regional Affairs, Division of Energy, were transferred to AEA for administration. There is no commingling of funds, assets or liabilities between the Authority and AEA and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AEA are not included in the accompanying financial statements.

#### (a) Enterprise Development Account

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

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

#### (b) Economic Development Account

Through the Economic Development Account, the Authority has the ability to own and operate facilities which will help to accomplish its mission. Current own-and-operate projects undertaken through the Economic Development Account are:

- DeLong Mountain Transportation System (Red Dog Project). This project consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit, the largest zinc deposit in the world, located in the DeLong Mountains in northwestern Alaska. The Red Dog Project was financed with Authority funds and bond financings, including \$150,000,000 of general obligation bonds issued in May 1997, which refunded outstanding revenue bonds and provided construction funds.
- Skagway Ore Terminal (Skagway Terminal). This project is a public-use ore terminal port facility in Skagway, Alaska. The Skagway Terminal was financed by a \$25,000,000 bond issue completed in December 1990. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds (see note 7).
- City of Unalaska Marine Center (Unalaska Project). This project is a public port facility located in the Aleutian Islands. The Unalaska Project was financed by a \$7,000,000 bond issue completed in December 1991. In May 2000, the City of Unalaska paid all financial obligations related to the project and, in accordance with the terms of the agreement, the project was transferred to the City.
- Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Anchorage International Airport. The Federal Express Project was partially financed by a \$28,000,000 bond issue completed in September 1992.
- Healy Clean Coal Project (Healy Project). This project is a coal-fired power plant located near Healy, Alaska. The Authority received a \$25,000,000 state legislative appropriation and \$117,327,000 of funding from the U.S.

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

Department of Energy, Clean Coal Technology III Demonstration Grant Program to assist in financing the Healy Project. In May 1998, \$85,000,000 of bonds were issued to refund \$85,000,000 of Variable Rate Revolving Fund Bonds originally issued in July 1996, the proceeds of which were used to finance a portion of the Healy Project.

- Seward Coal Load-Out Facility. In May 1995, the Authority purchased a 49% interest in a coal load-out facility in Seward, Alaska for approximately \$6,900,000. The purchase was subject to specific conditions and the execution of a demand note and repurchase agreement, and corporate guarantees by project participants.
- Ketchikan Shipyard. Ownership of the Ketchikan Shipyard, located in Ketchikan, Alaska, was transferred to the Authority in July 1997, under an agreement between the Authority and the State Department of Transportation and Public Facilities. In connection with the transfer, the City of Ketchikan and the Ketchikan Gateway Borough agreed to provide relief from real property taxes and favorable electric rates for the facility. The Borough agreed to provide ongoing funds for maintenance and repairs for the Ketchikan Shipyard. The Authority also agreed to provide funds for maintenance and repairs in an amount equal to the amount contributed by the Borough.
- Snettisham Hydroelectric Project (Snettisham). This project was acquired in August 1998 when the Authority issued \$100,000,000 of revenue bonds to purchase the project, located in southeast Alaska near Juneau, from the Alaska Power Administration, a federal agency, and to provide funds for the purchase and installation of a submarine cable system. The Authority has agreements with Alaska Electric Light and Power (AEL&P), the sole Juneau electric utility. These agreements provide for the sale of the project's entire electrical capability to AEL&P, require AEL&P to provide the project's operations and maintenance, and provide an option for the purchase of the project at any time after five years from the issue date. Installation of the submarine cable system has been completed.
- Alaska Seafood International. The Authority initially loaned money for the construction of the Alaska Seafood Center (ASC), which performs secondary processing for various types of seafood. An equity interest was purchased in November 1998. The project was completed in September 1999 and the Authority purchased the facility for \$48 million. In addition, the Authority acquired additional equity interests under a December 2000 restructuring.

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

- The Authority has \$55,000,000 of remaining authorization (from an original \$85,000,000 authorization) to issue bonds to finance the acquisition, design and construction of aircraft maintenance/air cargo/air transport support facilities located at Ted Stevens Anchorage International Airport.
- The Authority has bonding authorization of \$50,000,000 for a bulk commodity loading and shipping terminal to be located within Cook Inlet to be owned by the Authority.
- The Authority has bonding authorization of \$50,000,000 for a facility to be constructed in Anchorage for the offloading, processing, storage and transloading of seafoods. The Authority purchased the ASC in September 1999 and no issuance of bonds is anticipated.
- The Authority has bonding authorization of \$20,000,000 to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. The Authority does not currently anticipate that it will participate in financing the projects.
- The Authority has bonding authorization of \$80,000,000 to finance the expansion, improvement and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by the Authority. The project is currently being reviewed by the U.S. Corps of Engineers for potential federal funding of a portion of the improvements.
- The Authority has bonding authorization of \$30,000,000 to finance the improvement and expansion of the Nome port facilities to be owned by the Authority. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of \$28,000,000 to finance development of a railroad right-of-way within a railroad and utility corridor from near Healy to the eastern boundary of Denali National Park.
- The Authority has bonding authorization of \$15,000,000 to finance the construction and improvement of phase 1 of the proposed Hatcher Pass Ski Resort, located in the Matanuska-Susitna Borough.

# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

### (c) Other

The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction for facilities owned by third parties. Stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable only out of revenues derived from the financing of projects or the private businesses for which the projects are financed. The Authority is specifically authorized to issue revenue bonds to finance the construction of power transmission interties to be owned by electric utilities in a collective amount not to exceed \$185,000,000; as of June 30, 2001, no bonds under this authorization have been issued. As of June 30, 2001, the Authority had issued revenue bonds for 299 projects (not including bonds issued to refund other bonds). The principal amount payable for revenue bonds issued after July 1, 1995 was \$107,683,878. The aggregate amount outstanding for the remaining revenue bonds, which were issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$616,000,000 (not including bonds issued to refund other bonds).

### (d) Small Business Economic Development Loan Program

The Authority's Small Business Economic Development Loan Program provides financing to eligible applicants under the United States Economic Development Administration Long-Term Economic Deterioration program and the Sudden and Severe Economic Dislocation program. The Small Business Economic Development Revolving Loan Fund (Loan Fund) was created to receive loan fund grants from the United States Economic Development Administration. The State of Alaska, Department of Community and Economic Development, Division of Investments administers the Small Business Economic Development Loan Program on behalf of the Authority. As the Loan Fund is not a part of the Authority's Revolving Fund, this fund is not included in the Authority's financial statements. The Loan Fund's balance sheet as of June 30, 2001 follows:

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

### (e) Rural Development Initiative Fund Loan Program

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

# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

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

(f) **Estimates**

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

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

(a) **Basis of Accounting – Enterprise Fund Accounting**

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

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

(b) **Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents consist of cash, short term commercial paper and repurchase agreements, whether unrestricted or restricted as to their use.

(c) **Investments**

The Authority's marketable securities are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of net income. Fair values are obtained from independent sources for marketable securities.

(d) **Loans and Interest Income**

Loans are primarily secured by first deeds of trust on real estate located in Alaska and are generally carried at amounts advanced less principal payments collected. Interest income is accrued as earned. Accrual of interest is discontinued whenever the payment of interest or principal is more than ninety days past due or when the loan terms are restructured.

# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

**(e) Net Investment in Direct Financing Leases**

The Authority leases various projects pursuant to certain agreements (as more fully described in note 7) which are recorded in the accompanying financial statements as direct financing leases. Interest income related to direct financing leases is recognized using the effective interest method which produces a constant periodic rate of return on the outstanding investment in the lease.

**(f) Development Projects**

The Authority's development projects are carried at cost, adjusted for permanent impairments of value. The Authority follows Statement of Financial Accounting Standards No. 121 (SFAS No. 121), *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. This statement requires recognition of impairment losses for long-lived assets whenever events or changes in circumstances result in the carrying amount of the assets exceeding the sum of the expected future cash flows associated with such assets.

**(g) Allowance for Loan Losses**

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

**(h) Allowance for Lease Receivables**

The allowance for lease receivables represents management's judgment as to the amount required to absorb potential unrealizable direct financing lease receivables. The factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 2001.

**(i) Other Real Estate Owned**

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

**(j) Environmental Issues**

The Authority's policy relating to environmental issues is to record a liability when the likelihood of Authority responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 2001, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

**(k) Appropriations and Grants**

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

**(l) Income Taxes**

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

**(m) Depreciation**

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



# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

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

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

	<u>2001</u>	<u>2000</u>
Unrestricted	\$ 28,611	27,444
Restricted	11,769	10,826
	<u>\$ 40,380</u>	<u>38,270</u>

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

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

### (4) Investment Securities

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

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

# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

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

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

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

### (5) Loans

The Authority participates with regulated financial institutions in secured commercial real estate and other loans to businesses throughout the State. Although the Authority has a diversified loan portfolio, the Authority's ability to collect on loans is generally contingent upon economic conditions in the State.

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

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

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

	2001		2000	
	Percent	Amount	Percent	Amount
Current	98.39%	\$ 212,163	97.3%	\$ 231,497
Past due:				
31–60 days	0.81%	1,750	2.10%	4,999
61–90 days	0.06%	127	0.10%	223
Over 90 days	0.74%	1,605	0.43%	1,019
	<u>100.00%</u>	\$ <u>215,645</u>	<u>100.00%</u>	\$ <u>237,738</u>

# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

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

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

### (6) Allowance for Loan Losses

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

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

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

#### (a) Direct Financing Leases

- The Authority leases the Federal Express Project under an agreement which is recorded as a direct financing lease, expiring twenty years after the facility was placed in service in March 1995. Minimum lease payments under the agreement will return the cost of the Federal Express Project plus 7.55% interest and are expected to be sufficient to pay the debt service on the \$28,000,000 Revolving Fund Bonds issued September 30, 1992.
- Minimum annual toll fees for usage of the DeLong Mountain Transportation System return the cost of the initial Red Dog Project, which went into service in 1990, to the Authority over 50 years at an interest rate of 6.5%. Toll fees for the expansion to the Red Dog Project return the cost of the expansion from the in-service date through the end of the term of the agreement at a rate based on bonds issued to finance the expansion.
- The Authority leases the Alaska Seafood International project under an agreement which is recorded as a direct financing lease with an initial term of 30 years. Monthly minimum lease payments range from \$360,000 to \$370,000 with several larger payments scheduled during the lease term. During an initial operating term, lease payments may be deferred if certain performance benchmarks are not satisfied.

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

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

# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

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

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

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

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

### (b) Development Projects

- In August 1995, the Authority entered into an agreement with a Canadian mining company (Anvil) to use 75% of the Skagway Terminal for seven years for an annual minimum user fee of \$2,582,500 per year. In early 1998, Anvil shut down operations due to low ore prices and other economic considerations. There are several other mineral deposits in the area and the Authority has had discussions with other parties regarding use of the facility. The Authority believes that additional users will be found for the Skagway Terminal.

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

- See note 10 for information relating to the Healy Project.
- The Authority receives user fees in consideration of its interest in the Seward Coal Load-Out facility. The lessee continues to operate the facility at its sole expense.
- The Authority entered into an operations and maintenance agreement for the Shipyard with Alaska Ship and Drydock (ASD). Under that agreement, the Authority is paid a minimum \$1,500 per month for certain uses of the facility and is also paid a percentage of net profits resulting from ASD's activities at the Shipyard.

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

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

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

### (c) Restricted Direct Financing Lease

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

### (8) Bonds Payable

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

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

At June 30, 2001, all Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. Various bonds are further secured by loan proceeds and capital reserve funds established pursuant to terms of the bond resolutions (note 4). Various bonds are further secured by bond insurance.

# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

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

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

Revolving Fund Bond resolution covenants effective June 30, 2001 preclude the Authority from incurring any general obligation indebtedness unless future estimated net income (as defined in the Revolving Fund Bond Resolution) equals not less than 150% of the general obligation annual debt service requirement in each year or from taking any action to cause its unrestricted surplus (as defined in the Revolving Fund Bond Resolution) to be less than the lesser of \$200,000,000 or the amount of general obligation indebtedness outstanding, and in no event less than \$100,000,000. At June 30, 2001, the Authority has estimated that projected future coverage for each future year exceeds 150%, giving effect only to existing projects at that date, including the projected effect of completion of all current projects, and excluding the effect of proposed projects. At June 30, 2001, unrestricted surplus was approximately \$825,000,000. The Authority is also required by Revolving Fund Bond covenants to maintain 25% of the unrestricted surplus requirement described above in cash and U.S. Treasury securities maturing within one year. At June 30, 2001, the liquidity requirement was \$50,000,000.

The Authority also issued \$100,000,000 of Power Revenue Bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.75% to 6.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. Certain of the bonds are insured by Ambac Assurance Corporation. In December 1999, the Authority defeased \$6,865,000 of the bonds using funds on hand. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2001 are as follows (stated in thousands):

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

### (9) Retirement Plan

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

#### (a) Plan Description

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

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

#### (b) Funding Policy and Annual Pension Cost

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

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

Contribution rates:	
Employee	6.75%
Employer	8.09%
Annual pension cost	\$407,000
Contributions made	\$407,000
Actuarial valuation date	June 30, 1998
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, open
Amortization period	Rolling 25 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Inflation rate	4.00%
Investment return	8.25%
Projected salary increase	
Inflation	4.00%
Productivity and merit	1.50%
Health cost trend	5.50%

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

### (10) Commitments and Contingencies

#### (a) Commitments

At June 30, 2001, the Authority held approximately \$114,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately \$122,082,000 of investments in trust for the construction of two intertie projects. The Authority held approximately \$17,666,000 of investments in trust for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

# Notes to Financial Statements

## ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

June 30, 2001 and 2000

### (b) Healy Clean Coal Project

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

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

### (c) Dividend

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

### (d) Four Dam Pool Sale Financing

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

### (e) Other Commitments and Contingencies

The Authority from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and guarantees, which are not reflected in the accompanying financial statements. At June 30, 2001, the Authority had extended loan commitments for loans of \$18,032,205 and loan guarantees of \$1,905,622. In the opinion of management, the financial position of the Authority will not be affected materially by the final outcome of any present legal proceedings or other contingent liabilities and commitments.

## End of Financial Statements

### Exemption from taxation

The Alaska Industrial Development and Export Authority is a political subdivision of the State of Alaska performing an essential governmental function and as such is not subject to federal or state income taxation. In accordance with AS 44.88.140 (a), the Authority submits the following information describing the nature and extent of the tax exemption of the Authority's property:

All furniture, fixtures and equipment utilized by Authority personnel and real property occupied by the Authority offices within the Municipality of Anchorage are exempt from Municipality of Anchorage property taxes. All real and personal property associated with or part of projects developed, originally owned or operated under the Economic Development account located within cities, municipalities and/or boroughs are exempt from any respective real and personal property taxes.