AIDEA

Financing Alaska's Future

2003

Alaska
Industrial
Development
and
Export
Authority

2003 Annual Report

Alaska Industrial Development and Export Authority

AIDEA's Mission

To provide various means of financing to promote economic growth and diversification in Alaska.

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Anchorage Businessman

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Management

Ron Miller, Executive Director

Jim McMillan, Deputy Director-Credit and Business Development

Valorie Walker, Deputy Director-Finance

Mike Harper, Deputy Director-Rural Energy

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Message from the Governor

January 2004

Dear Alaskans:

One of the main themes of my campaign in 2002 was the need to build and diversify the state's economy. One of the components of my economic plan is to ensure that the state's asset agencies, including the Alaska Industrial Development and Export Authority (AIDEA), are better managed to create more jobs for Alaskans and to provide a better return to Alaska's citizens for their investment. I am pleased to report that the new board and new management of AIDEA that were installed at the beginning of calendar year 2003 are working hard to fulfill my plans.

I agreed with AIDEA's decision not to invest additional funds in the Alaska Seafood International processing plant in Anchorage. After investing several years and over $50 million in AIDEA funds in the project it was clear that the plant could not continue without substantial subsidies and AIDEA's resources would be better invested elsewhere.

Since 1967, AIDEA has been supporting job creation and retention across a broad spectrum of businesses throughout Alaska—from neighborhood stores and service stations, to athletic clubs, to hotels, to large projects such as the Snettisham Hydroelectric Project in Southeast Alaska, the Federal Express Aircraft Maintenance Facility in Anchorage and the Delong Mountain Transportation System that supports the Red Dog Mine in Northwest Alaska.

In addition to creating jobs and supporting Alaska businesses through its various financing programs, AIDEA also pays a dividend to the state. Since 1996, when AIDEA began paying an annual dividend to the state, its board has approved a total of $169.3 million in dividends payable to Alaska's general fund. This figure includes $22 million payable from Fiscal Year 2003 net income.

A review of AIDEA's record shows that success generally follows when decisions are based on sound business principles rather than political considerations. I am confident that AIDEA's board and management will continue in accordance with my direction and the results will be a major contribution to economic growth and diversification in Alaska. I fully support the AIDEA team in their work to produce a balanced return to the people of Alaska—balanced between economic return in terms of jobs created and financial return in terms of annual dividends.

Sincerely yours,

Frank H. Murkowski
Governor

REPORT TO ALASKANS

2003 was an eventful year for the Alaska Industrial Development and Export Authority (AIDEA) with continued success of its loan participation program, a deliberate course of action to address problem projects, installation of a new Board of Directors and hiring of a new executive director.

AIDEA was established by the Alaska Legislature in 1967 to create jobs and promote economic prosperity in the state. It was capitalized in 1980 and 1981 with a $166 million portfolio of existing state loans and appropriations totaling $23 million. The initial loans and appropriations formed the basis of AIDEA's current Loan Participation Program. In 1985, the Legislature authorized AIDEA to finance, own and operate projects that produce economic benefits to Alaskans. This new capability was the foundation of our Development Finance Program. The Loan Participation Program and the Development Finance Program are the two main tools AIDEA employs to meet its charge of creating jobs for Alaskans, and expanding and diversifying the state's economy.

At the end of the 2003 fiscal year, AIDEA's outstanding loan portfolio consisted of 475 loans with a principal balance of $226.9 million. The portfolio includes loans in all regions of Alaska and in all sectors of the economy including commercial fishing, healthcare, manufacturing, recreation, retail, tourism and transportation. Since 1992, 4,183 construction jobs and 4,069 permanent jobs have been created or retained through AIDEA's loan program.

In 2003, our Board authorized management to negotiate the sale of AIDEA's interest in the Seward Coal Facility to the Alaska Railroad Corporation (ARRC). In 1995, AIDEA purchased a 49% interest in the coal terminal for $7.08 million from Suneel Alaska, a subsidiary of Hyundai Merchant Marine, in a move to ease Suneel's debt obligations and retain Alaskan jobs associated with the export of Alaska coal. AIDEA's interest in the coal facility was carried as a note with payments made to AIDEA by Hyundai on a semi-annual basis. AIDEA's sale of its interest along with ARRC's purchase of Hyundai's interest was a positive move that will allow the Railroad to consolidate ownership in one entity to better facilitate improvement and expansion of the terminal, and to lower the costs of exporting Alaska coal. AIDEA's investment in the Seward facility resulted in a total return of $3.7 million in interest, the original principal, and retained jobs in Seward, Healy and on the Alaska Railroad.

Many Alaskans are aware of the problems associated with two of AIDEA's major development finance projects: Alaska Seafood International (ASI) in Anchorage and the Healy Clean Coal Project (HCCP). Shortly after assuming office, AIDEA's new Board and management decided against investing additional AIDEA funds in ASI. After three business reorganizations in four years, it was clear that ASI could not sustain operations in its location in the AIDEA-owned facility. The company is in the dissolution and windup process with all company assets being liquidated. Proceeds from the liquidation will go to the company's creditors. We intend to market the facility, which consists of a 200,000 square foot building and approximately 33 acres, in a manner that realizes the maximum return possible to AIDEA.

The HCCP represents an investment of over $267 million in federal and state funds in a coal-fired power plant employing new technology at Healy, Alaska. HCCP has been idle since completion of a 90-day test period in December 1999. Disputes between AIDEA, HCCP's owner, and Golden Valley Electric Association (GVEA), the intended plant operator and purchaser of HCCP power, resulted in litigation in 1998 and a settlement in 2000. After the settlement, AIDEA and GVEA could not agree on a future course of action and discussions to resolve differences ceased. AIDEA's position is that the clean coal technology works but the plant may need a partial retrofit while GVEA maintains that the plant needs a complete retrofit to conventional technology. AIDEA's new Board and management decided it was better to meet with their GVEA counterparts than to continue the stalemate.

On May 29, 2003 AIDEA conducted a joint board meeting with GVEA's Board at the Healy plant. The Boards agreed to focus on getting HCCP up and running. A joint committee of AIDEA and GVEA Board members was formed to work on reaching consensus. Several meetings of this joint committee have been held and AIDEA is now awaiting the results of GVEA's latest analyses of HCCP's economics.

Immediately upon taking office, our Board decided to address another problem project by proceeding with the demolition of the concentrate storage building at the Skagway Ore Terminal. Because of severe corrosion, the building posed a safety hazard to local residents and tourists using an adjacent dock on the Skagway waterfront.

AIDEA purchased the Skagway terminal in 1990 for approximately $25 million. The facility had been constructed in 1968 to serve as a warehouse for base metal concentrates being shipped through the Port of Skagway from Canadian mines. The terminal has not been used since a decline in metals prices forced mine closures in 1998. AIDEA is now pursuing alternative uses for the remaining facilities which include conveyors, a ship loader and a fuel tank farm.

A highlight for us in 2003 was AIDEA's hosting the annual conference of the Council of Development Finance Agencies (CDFA) May 7-9 in Anchorage. The CDFA is a national association of the leading members of the U.S. development finance community. The Anchorage conference brought over 150 participants to the state and showcased Alaska's asset management corporations: Alaska Housing Finance Corporation, AIDEA and the Alaska Permanent Fund Corporation. AIDEA's staff is to be commended for their efforts in bringing this convention to Alaska.

Looking ahead, we anticipate an active year in FY 2004 for our loan participation program. During this past session, the Legislature passed an amendment requested by the Governor that allows AIDEA to purchase up to 90% of a bank-originated loan to a maximum of $20 million. Before this change, AIDEA was limited to 80% of a loan to a maximum of $10 million.

Our initial credit projection for FY 2004 was approximately $48 million in loan participations, but with the expanded authority and the increasing popularity of the program among Alaska businesses and financial institutions, we expect to surpass that figure by at least 50%. AIDEA will not alter its credit standards in expanding the loan program. We will continue our high level of due diligence in evaluating every application.

This year, the Legislature also extended our bonding authority through FY 2007. This move allows AIDEA to issue bonds to finance development projects under $10 million and to generate funds for loans. Bonds for development projects greater than $10 million still require legislative approval.

At present, we do not have firm plans for any major investments in, or direct bond issues for, development projects. However, we are reviewing proposals that may entail investments, or financing packages, on our part in the current fiscal year.

AIDEA continues working with the U.S. Army Corps of Engineers (COE), Teck Cominco Alaska and NANA Regional Corporation on the feasibility of expanding the DeLong Mountain Terminal into a deep-water port. The DeLong Mountain Terminal is part of AIDEA's DeLong Mountain Transportation System (DMTS).

The DMTS consists of a shallow-water port and 52-mile road built in support of the world-class Red Dog zinc mine in Northwest Alaska, 90 miles north of Kotzebue. AIDEA's investment base in the DMTS is approximately $267 million and is being repaid through annual user fees with the final payment due in 2040. Without AIDEA's investment it is doubtful that Red Dog would have been developed. AIDEA made the investment to assist in bringing jobs to an economically depressed region of the state and to provide a multi-use port in Northwest Alaska.

As of the summer of 2003, the Red Dog mine and DMTS provided 472 permanent, fulltime jobs, and 57 temporary jobs, of which 296 were held by NANA shareholders. The full-time and temporary employees represent 30% of total non-government jobs in the NANA region. Teck Cominco is currently the only taxpayer in the Northwest Arctic Borough, providing $5.875 million in 2003 to the Borough's budget.

Teck Cominco has proposed that the DeLong Terminal be expanded to include a direct load-out facility that would allow more efficient and less costly loading of increased concentrate production over a longer shipping season and offer opportunities associated with a deep-water port for regional users. AIDEA and the COE are investigating the feasibility of COE participation in dredging and maintaining the DeLong Mountain port as a deep-water port.

In FY 2004 we expect our existing development finance projects such as the DMTS and the Federal Express Aircraft Maintenance Facility in Anchorage to continue producing a return on AIDEA's investment. These returns, plus those from our other programs, allow AIDEA to make additional investments in the Alaska economy, pay for AIDEA operations and provide a dividend to the State General Fund. Since the dividend program began in 1996, the AIDEA Board has made available over $169 million to the State of Alaska. This total includes $22 million based on our FY 2003 net earnings for appropriation by the Legislature in the state's FY 2005 budget. These dividends provide the state with funds to support needed programs, services and projects while, at the same time, providing a measure of certainty and predictability, assuring the bond market of AIDEA's financial soundness and its future.

We anticipate Alaska corporations, both for-profit and non-profit, will continue to make use of our Conduit Revenue Bond Program in FY 2004. Under this program, AIDEA acts only as a conduit for the issuance of either taxable, or tax-exempt, bonds. Neither the assets nor credit of AIDEA is at risk: the creditworthiness of the project and any credit enhancements offered by the applicant are essential to the underwriting and placement of the bonds. From program inception in 1978 through the end of FY 2003, AIDEA has issued revenue bonds totaling over $773 million for 301 projects throughout Alaska. These figures do not include bonds issued to refund other AIDEA conduit bonds.

AIDEA's conduit bonds have supported projects as diverse as tailings disposal at the Fort Knox Gold Mine near Fairbanks and expansion of Hope Community Resources' facilities in Anchorage. Recent AIDEA conduit bond activity includes over $58 million in two issues for Providence Health System to refund outstanding bonds and support expansion or improvement of their Anchorage facilities.

In its 37 years of existence, AIDEA's programs have created or retained thousands of jobs throughout Alaska while providing a financial return to the state. The AIDEA Board and staff are committed to meeting the challenge of continuing to provide a return to Alaskans by working with local businesses and financial institutions to grow and diversify the economy. We are well aware of our fiduciary duties in running a public corporation and welcome input from all Alaskans on all matters associated with the business of AIDEA.

Sincerely,

Mike Barry
Chairman of the Board

Ron Miller
Executive Director

AIDEA PROGRAMS

AIDEA's mission is accomplished through a number of programs that provide financial assistance to Alaska's business community. These programs are grouped under two main categories: Credit and Development Finance. Following is a description of these programs:

Credit Programs

The credit programs include the Loan Participation Program, Business and Export Assistance Program, Conduit Revenue Bond Program, Rural Development Initiative Fund, and the Small Business Economic Development Program.

Contacts for the credit programs are:

Loan Participation Program and Business and Export Assistance Program
Jim McMillan, Deputy Director-Credit and Business Development
Phone: 269-3030
Email: jmcmillan@aidea.org

Bruce Chertkow, Loan Officer
Phone: 269-3037
Email: bchertkow@aidea.org

Leona Hakala, Loan Officer
Phone: 269-3032
Email: lhakala@aidea.org

Conduit Revenue Bond Program
Jim McMillan, Deputy Director-Credit and Business Development
Phone: 269-3030
Email: jmcmillan@aidea.org

Rural Development Initiative Fund and Small Business Economic Development
Department of Community and Economic Development, Division of Investments
Anchorage Office – 269-8150
Juneau Office – 465-2510

Loan Participation

AIDEA can provide up to 90% or a maximum of $20 million in permanent financing, both taxable and tax-exempt, for loans of any size obtained through a qualified originator, for the purpose of developing, acquiring or enhancing Alaska business enterprises. Loans include financing for a large variety of commercial facilities ranging from office buildings, warehouses and retail establishments to hotels, fishing vessels and manufacturing facilities. To be considered for tax-exempt financing, the loan must be eligible under provisions of the IRS code.

The loan request must be sponsored and originated by a financial institution eligible to participate in AIDEA's credit programs. The financial institution is required to execute a Loan Participation and Servicing Agreement and is required to service the loan during its term, including delinquencies and liquidation. The Loan Participation and Servicing Agreement, in accordance with state regulations, sets forth delinquency ratios that, if exceeded, prevent that originator from submitting any further participation requests until the ratio is brought down to an acceptable level. 3 AAC 99.906 states that AIDEA will discontinue purchasing or guaranteeing from a financial institution when that institution's 90 day delinquency rate on participation and guaranteed loans exceeds the greater of two percent or the weighted average delinquency rate of all current qualified originators' portfolios. This regulation causes the banks to be more prudent in their underwriting of loans sent to AIDEA for participation.

When the participation request is received by AIDEA, it has already been analyzed and approved by the originator. However, AIDEA loan officers conduct their own due diligence which includes financial, management, collateral and market analysis to determine a reasonable assurance of repayment and a credit worthy project. Loan officers prepare credit presentations with their recommendations and submit them for approval to an AIDEA Credit Committee comprised of the Executive Director, Deputy Directors and other AIDEA personnel. If AIDEA's participation portion equals or exceeds $3 million, the AIDEA Board of Directors must also approve the request. Upon approval, a commitment letter is sent to the originator setting forth the terms and conditions of AIDEA's approval. Interest rates on AIDEA's portion of the participation, which are established at the time of commitment, are based on AIDEA's true cost of borrowing plus a spread to cover overhead and cost of servicing.

In brief, borrowers apply at a financial institution for a loan. The financial institution, after approval of the loan, applies to AIDEA for participation in the loan. The financial institution retains a minimum of 10% of the loan. The banks' share of the loan can be amortized over a shorter period than AIDEA's (split amortization). Terms can be up to 15 years for personal property or 25 years for real property, based on a maximum loan-to-value ratio of 75%. Longer terms are available for tourism destination projects and power transmission interties.

AIDEA's split amortization program was established in 1991. Under this program AIDEA may allow the loan originator to amortize its portion of the loan over a shorter term than AIDEA's if the project can support the increased debt service and if the shortened amortization schedule is necessary for originator participation. The originator's term must be at least half of AIDEA's amortization or 10 years, whichever is less. In the case where AIDEA's portion of the loan is amortized over 15 years, the originator is allowed to amortize their portion over 7.5 years.

To apply to AIDEA, the financial institution must pay a $1,000 non-refundable application fee. If AIDEA issues a written commitment that is accepted by the bank and borrower, the application fee is credited toward the commitment fee. The commitment fee is equal to 1% of AIDEA's portion of the loan.

Specifically, AIDEA's participation:

1. may not exceed $20 million;

2. is limited to 75% of the value of the collateral offered as security for the loan, except in no event can the loan exceed the amount required to refinance an existing loan plus the cost of new construction, expansion, or acquisition, unless the additional amounts of the loan to be purchased are restricted to uses approved by AIDEA to finance commercial activity in Alaska by a business enterprise;
3. may not be for a term longer than three-quarters of the economic life of the collateral or 25 years from the date the loan is made if secured by real property (15 years if secured by tangible personal property), whichever is less;
4. shall be secured as to repayment by a first deed of trust or security instrument in the manner AIDEA determines feasible to assure timely payment;
5. requires the borrower not be in default on another loan, if any, made by the state or by a public corporation of the state;
6. requires at least 10% of the principal amount of the loan to be retained by the loan originator, and;
7. must be in a loan for a project in Alaska.

Applications to AIDEA by the financial institution should include:

1. letter of transmittal;
2. loan summary, including originator loan approval;
3. current credit report on the borrowers and guarantors, if any;
4. current financial statement, within 90 days of the date of submission, on the borrower and guarantors, if any;
5. borrower’s financial statements and federal income tax returns for the three years preceding the tax year in which the application is made;
6. earnest money receipt and agreement, option to purchase, contract to purchase, or invoice for the purchase of land and improvements, or tangible personal property related to the project;
7. detailed construction cost estimates;
8. fair market value appraisal of any real or personal property being used as collateral for the loan;
9. copies of leases or agreements;
10. financial feasibility analysis;
11. environmental risk assessment, and;
12. any other information necessary to evaluate the application.

Loan Portfolio Statistics

As of June 30, 2003, the outstanding loan portfolio consisted of 475 loans that had an outstanding principal balance of $226.9 million and were allocated by loan program type as shown in Table 1. Tables 2 and 3 show the loan portfolio diversity by geographic region and by industry, respectively. These statistics do not include loans made from the Rural Development Initiative Fund or under the Small Business Economic Development Program.

Table 1

Outstanding Loan Portfolio Balance

June 30, 2003

(000's)

Loan Program Type	#	$ Amount
Appropriated	207	$5,348
Loan Participation:		
Bonds outstanding	25	3,848
Bonds retired	33	10,696
Internally funded	184	200,569
OREO sale financing	20	6,359
Other	6	168
	475	$226,988

OREO = Other Real Estate Owned

Table 2

Loan Portfolio Diversification by Geographic Region

June 30, 2003

Anchorage	50%
Interior	9%
Northern	5%
Mat-Su	3%
Gulf Coast	7%
Southeast	21%
Southwest	5%

Geographic Regions Defined

Anchorage

- Municipality of Anchorage

Interior

- Denali Borough
- Fairbanks North Star Borough
- Southeast Fairbanks Census Area
- Yukon-Koyukuk Census Area

Northern

- Nome Census Area
- North Slope Borough
- Northwest Arctic Borough

Mat-Su

- Matanuska Susitna Borough

Gulf Coast

- Kenai Peninsula Borough
- Kodiak Island Borough
- Valdez-Cordova Census Area

Southeast

- Haines Borough
- Juneau Borough
- Ketchikan Gateway Borough
- Prince of Wales-Outer Ketchikan Census Area
- Sitka Borough
- Skagway-Hoonah-Angoon Census Area
- Wrangell-Petersburg Census Area
- Yakutat Borough

Southwest

- Aleutians East Borough
- Aleutians West Census Area
- Bethel Census Area
- Bristol Bay Borough
- Dillingham Census Area
- Lake and Peninsula Borough
- Wade Hampton Census Area

Table 3

Loan Portfolio Diversification by Industry

June 30, 2003

Industry	%
Hospital/Clinic/Day Care	2.90%
Restaurant	0.45%
Manufacturing	0.31%
Aircraft Hangar	3.33%
Office/Warehouse	6.91%
Recreation	5.44%
Office/Business Condo	11.26%
Retail	30.75%
Tourism: Hotel/Lodge	24.09%
Warehouse/Shop	11.95%
Other	2.61%
	100.00%

The "Other" category includes Single Family Dwelling (loans appropriated to AIDEA by the State in FY1986. AIDEA does not have authority to purchase participation in Single Family Dwelling loans), Equipment, Laundromats and Unimproved Property.

Business and Export Assistance

Through its Business and Export Assistance Program, AIDEA provides loan guarantees for both domestic and export transactions and serves as a city-state partner with the U.S. Export-Import Bank. The Loan Guarantee Program is a means for banks to help mitigate the risks of lending to small businesses. AIDEA can provide financial institutions with a guarantee of up to 80%, not to exceed $1 million on the principal of a loan to a business in Alaska. This added degree of support can make project financing, refinancing and export transactions possible for Alaskan borrowers who might not, otherwise, find commercial financing. Following are highlights of the Loan Guarantee Program:

Use of Loan Funds

- Working Capital
- Accounts Receivable and Inventory Financing
- Real Property
- Equipment
- Refinancing

Term of Loan

- 1 year if secured by inventory and/or accounts receivable
- 5 years maximum if for working capital
- 15 years maximum if secured by tangible personal property (e.g. equipment)
- 20 years maximum if secured by real property

Interest Rate

- Maximum allowable interest rate to be charged by bank is Wall Street Journal Prime plus 2.75% (can be fully floating)

Fees

- $200 non-refundable application fee
- 2% guarantee fee (one-time and based on AIDEA's guaranteed amount)

Collateral Requirements

- First lien on collateral (subordinate liens on real estate allowed if approved by AIDEA)
- Maximum loan-to-value ratio of 75%

Residency Requirements

- Individual or majority of individual partners, members or shareholders must be Alaska residents

U.S. Export-Import Bank City-State Partner Program

Through AIDEA, small and medium enterprises (SMEs) have access to the U.S. Export Import (Ex-Im Bank). The Ex-Im Bank has a cooperative partnership with AIDEA that helps Alaska SMEs make greater use of the Bank's financing programs that include:

- Working capital guarantees;
- Export credit insurance;
- Medium and long-term guarantees; and
- Direct loans to foreign buyers.

Conduit Revenue Bond

Under this program, AIDEA acts only as a conduit for the issuance of either taxable or tax-exempt bonds. Neither the assets nor credit of AIDEA is at risk in this program; the creditworthiness of the project and credit enhancements offered by the applicant are essential to the underwriting and placement of bonds.

A business enterprise may request the adoption of an eligibility resolution for tax-exempt financing by submitting a preliminary application and nonrefundable $500 application fee to AIDEA on a form provided by AIDEA. If the board of directors adopts an eligibility resolution for a project, an applicant then submits an application for financing for the project. A preliminary application is also required for the issuance of taxable bonds, however, the board does not need to adopt an eligibility resolution. In addition to third-party costs, the applicant will pay a financing fee to AIDEA. If the bonds are subject to the volume cap provisions of 26 U.S.C. Sec. 147, the issuance fee is equal to the following:

- one percent (1%) of the first $1 million of the principal amount of the bonds issued;
- one-half percent (.5%) of the next $4 million of the principal amount of the bonds issued;
- one-quarter percent (.25%) of the next $10 million of the principal amount of the bonds issued; and

- one-tenth percent (.10%) of the principal amount of the bonds issued in excess of $15 million.

If the bonds are not subject to the volume cap provision of 26 U.S.C. Sec. 147, the issuance fee is equal to three-quarters of the amount described above.

Rural Development Initiative Fund

This is an AIDEA program that is administered by the Department of Community and Economic Development, Division of Investments. Specific information on the program is located at http://www.dced.state.ak.us/investments.

Loan Program Goal and Objectives
To provide private sector employment by financing the start-up and expansion of businesses that will create significant long-term employment.

General Requirements

- Loans may be made to a business located in a community with a population of 5,000 or less.
- Loans may be made for working capital, equipment, construction or other commercial purposes.
- Loans may not be made to pay costs that were incurred more than 6 months before loan application.
- Loans must result in the creation of new jobs or the retention of existing jobs in the eligible community.

Terms and Conditions

- Maximum loan amount is $100,000 to a person or up to $200,000 to two or more people.
- Maximum loan term is 25 years.
- Interest rate is 1% below the prime rate; not less than 6%.
- Interest rate will be fixed at the time of loan approval.
- All loans must be adequately secured. A loan may not exceed the value of the collateral used to secure the loan.
- A reasonable amount of money from other non-state sources must be committed for use on any project for which money from a loan will be used.

Fees

- A $100 application fee must accompany all applications.
- A 1% origination fee will be charged at the time that the loan is closed.
- Borrower is responsible to pay all direct costs incurred in processing an application including title reports and title insurance, recording fees, appraisals, travel or other direct costs.

Small Business Economic Development

This is an AIDEA program that is administered by the Department of Community and Economic Development, Division of Investments. Specific information on the program is located at http://www.dced.state.ak.us/investments.

Loan Program Goal and Objectives
To provide private sector employment by financing the start-up and expansion of businesses that will create significant long-term employment.

General Requirements

- Companies must be a small business as defined by the Small Business Administration (SBA). The SBA definition includes thresholds for number of employees, net worth and annual net income. Generally, a business must have fewer than 500 employees, have a net worth under $6 million and have an average net income after federal income taxes for the preceding two years of less than $2 million to qualify.
- Applicants are required to match loan funds with cash or other private, non-public financing. In many cases this private match must be twice the loan amount requested.
- Costs incurred prior to receipt of the loan application by the Division of Investments may not be used to meet the private, non-public match requirements.
- Loans may not be made if a bank is willing to finance the entire project. Applicants must supply a turn down letter from a lender listing the reason(s) for denial. If a bank is willing to finance a portion of the project to be used as a match for the loan under this program, applicants must supply a letter from the bank explaining the reason(s) the bank is unable to finance the entire project.
- Loans may not be made to applicants that have been debarred or suspended from receiving federal benefits.
- Loans must result in the creation or retention of jobs that would be lost in eligible areas – for a list of eligible areas, contact the Division of Investments or visit their website at http://www.dced.state.ak.us/investments/sbed.cfml.

Terms and Conditions

- Maximum loan amount is $300,000.
- Interest rate is fixed rate generally below 6%.
- Maximum term of 20 years for fixed asset loans and five years for working capital loans. Terms may not exceed the term of any associated private sector loans.
- All loans must be adequately secured. The loan amount may not exceed 90% of the value of the collateral offered.
- Loans may be in a subordinate position to associated private sector loans.
- All assets purchased with loan proceeds must be offered as collateral for the loan.
- Personal guarantees are required of all persons holding 20% or more ownership interest in the business receiving the loan.

Fees

- A $200 application fee must accompany all applications. This fee will be credited toward the origination fee due if the application is approved.
- A 1% origination fee will be charged ($100 minimum) at the time that the loan is closed.
- Applicants will be responsible for all closing costs.

Development Finance Program

AIDEA can assist Alaskans through its ability to develop, own and operate basic installations and facilities within the state, especially those which advance the prosperity of a region. Roads, ports, airports, utilities, infrastructure for tourism destination facilities or other public use facilities which are essential for the economic well being of an area and are able to produce adequate revenues to repay AIDEA's investment in the project are considered eligible projects. Specifically:

Project Eligibility

Detailed information regarding the scope and characteristics of the project is submitted to the Authority for review. Staff and legal counsel determine whether or not the project is eligible and satisfies the development criteria for AIDEA participation and if the project can meet tax-exempt financing status under the U.S. Internal Revenue Code. AIDEA statutes define a project as:

1. A plant or facility used or intended for use in connection with making, processing, preparing, transporting, or producing in any manner, goods, products, or substances of any kind or nature or in connection with developing or utilizing a natural resource, or extracting, smelting, transporting, converting, assembling, or producing in any manner, minerals, raw material, chemicals, compounds, alloys, fibers, commodities and materials, products, or substances of any kind;

2. A plant or facility demonstrating technological advances of new methods and procedures and prototype, commercial applications for the exploration, development, production, transportation, conversion, and use of energy resources; and

3. Infrastructure for a new tourism destination facility or the expansion of a tourism destination facility.

The following are the most relevant criteria for obtaining AIDEA's participation in the project:

1. The project and its development under AS 44.88 must prove to be economically advantageous to the state and to the general public welfare and must contribute to the economic growth of the state;

2. The project applicant is financially responsible;

3. The project is economically and financially feasible and able to produce revenue adequate to repay the bonds or loans with which it is financed;

4. Increased demand on public facilities that might result from the project will be provided for;

5. The project will provide or retain employment reasonably related to the amount of the financing by the Authority, considering the amount of investment per employee for comparable facilities, and other relevant factors;

6. The scope of the project is sufficient to provide a reasonable expectation of the benefit to the economy of the state;

7. The project is in compliance with applicable law; and

8. Issuance of the bonds is not expected to affect adversely the ability of the state or any political subdivision of the state to market other bonds. The Alaska State Legislature must approve all projects over $10 million.

Project Financing Plan and Features

The Authority will undertake its own economic analysis and financing plan for the project (third party review). The cost of the analysis may be included in the total cost of the project to be repaid through user fees. The study includes not only development cost estimates, but also maintenance and operation cost projections, market analysis and a table detailing sources and uses of funds.

Contact for the Development Finance Program
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ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY
(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2003

(With Independent Auditors' Report Thereon)

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

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This discussion and analysis is intended to serve as an introduction to the June 30, 2003 and 2002 financial statements of the Alaska Industrial Development and Export Authority (AIDEA or the Authority).

The Authority's June 30, 2003 financial statements are divided into two components – the Revolving Fund and the Loan Funds. The Authority conducts the majority of its business and its operations through the Revolving Fund. The Revolving Fund is comprised of the Economic Development Account and the Enterprise Development Account. Further information about the two Accounts is included in note 1 to the financial statements. AIDEA has two statutory loan programs, the Small Business Economic Development Loan Program and the Rural Development Initiative Fund Loan Program, which are administered by the Alaska Department of Community and Economic Development. The two Loan Funds are not part of the Revolving Fund and are therefore presented separately in the accompanying financial statements.

Financial Highlights

AIDEA's assets exceeded its liabilities at June 30, 2003 and 2002 by $822.2 million and $799.6 million, respectively. Of the total net assets, $810.4 million ($803.2 million of which was in the Revolving Fund) and $796.3 million at June 30, 2003 and 2002, respectively, was unrestricted and therefore available to meet the Authority's financial obligations.

Financial Analysis

Total assets, total liabilities, and total net assets at June 30, 2003 and 2002 follow (stated in thousands):

		June 30		Increase
		2003	**2002**	**(Decrease)**
Current assets	$	156,106	127,401	28,705
Noncurrent assets		1,003,282	1,024,015	(20,733)
Total assets	$	1,159,388	1,151,416	7,972
Current liabilities	$	17,029	14,982	2,047
Noncurrent liabilities and those payable from restricted assets		320,130	336,845	(16,715)
Total liabilities		337,159	351,827	(14,668)
Total net assets		822,229	799,589	22,640
Total liabilities and net assets	$	1,159,388	1,151,416	7,972

The increase in current assets results substantially from an increase in cash, cash equivalents, and investment securities maturing in one year or less. The Authority's money managers held in excess of $24 million more in cash, cash equivalents, and short term investments securities, reflecting changes in investment strategy between the two year ends. Additionally, the anticipated payoff of the Seward Coal Load-Out facility note receivable in the fall of 2003 moved the note balance into the current category and contributed $4.9 million towards the increase (see note 7).

(Continued)

The decrease in noncurrent assets occurred in two primary areas (investment securities and development projects) and was offset by an increase in loans. As the investment managers shortened investment maturities, increasing the current asset category as discussed above, there was a corresponding decrease in noncurrent investment securities. Development projects decreased due to the anticipated Seward Coal Load-Out facility note payoff (discussed above), the write-down of the Skagway Ore Terminal, scheduled principal collections on the direct financing leases and depreciation. Due to physical deterioration, the concentrate storage building at the Skagway Ore Terminal was demolished during the year ended June 30, 2003. There are no near term anticipated users for the remaining assets of the project, resulting in the write-off of the balance of the project of $1.7 million during 2003.

The Alaska Seafood International (ASI) facility was accounted for as a direct financing lease at June 30, 2002. Due to the cessation of operations in September 2003, and the termination of the long-term lease and the Authority re-obtaining possession of the facility in October 2003, ASI, which has a carrying value of $22.4 million, has been reclassified as a development project at June 30, 2003 (see note 7).

The noncurrent portion of loan balances increased by almost $12 million at June 30, 2003 compared to June 30, 2002. The Authority's loan participation program was very active during the year ended June 30, 2003, resulting in the increase, as borrowers continued to take advantage of the low interest rate environment. The Authority funded approximately $61 million of loans during the year ended June 30, 2003 compared to only $42 million of loans funded during the previous year. Borrowers made nearly $49 million in principal payments on loans during the year, with loan payoffs accounting for in excess of $34 million of the amount collected. During the year ended June 30, 2002, principal repayments totaled $39 million, including more than $23 million of loan payoffs.

The decline in total liabilities was substantially caused by the reduction in bonds payable during the year resulting from scheduled maturities ($10.4 million) and the early call of bonds ($6 million). In April 2003, in order to retire high rate debt, the Authority called $2.3 million of bonds using funds on hand. No new debt was issued during 2003.

The $23 million increase in net assets results from the operating income of $42 million, offset by the $20 million dividend. The dividend was the largest reduction of net assets incurred during the year.

Components of the Authority's operating revenues, operating expenses and nonoperating revenues and expenses for the year ended June 30, 2003 compared to the same period ended June 30, 2002 follows (stated in thousands).

	June 30		Increase
	2003	**2002**	**(Decrease)**
Operating revenues:			
Interest on loans	$ 14,990	17,132	(2,142)
Interest on Four Dam Pool Power Agency loan	4,913	2,065	2,848
Interest on direct financing leases	17,702	17,890	(188)
Investment interest	16,750	20,103	(3,353)
Net increase in fair value of investments	15,241	7,397	7,844
Other income	4,727	4,706	21
Restricted income	4,780	4,832	(52)
Total operating revenues	79,103	74,125	4,978
Operating expenses:			
Interest	13,795	16,058	(2,263)
General and administrative	6,456	7,666	(1,210)
Depreciation	2,169	3,900	(1,731)
Write-down of development projects	1,700	91,346	(89,646)
Write-downs and net expenses associated with other assets	996	3,074	(2,078)
Assumption of debt	1,700	—	1,700
Other project expenses	5,076	2,017	3,059
Interest on liabilities payable from restricted assets	4,780	4,832	(52)
Total operating expenses	36,672	128,893	(92,221)
Operating income (loss)	42,431	(54,768)	97,199
Nonoperating revenues	359	788	(429)
Dividend to State of Alaska	(20,150)	(17,500)	(2,650)
Change in net assets	$ 22,640	(71,480)	94,120

Operating revenues increased $5 million during the year ended June 30, 2003 compared to 2002. The net increase in fair value of investment securities provided $7.8 million more operating revenue in 2003 than 2002 but investment interest was down $3.4 million over the same period. The changes in these income categories result from the declining interest rate environment that occurred during the year. Similarly, the decline in interest on loans was caused by declining interest rates, as higher rate loans paid off and were replaced by lower rate loans. Interest on the Four Dam Pool Power Agency loan increased during 2003, as the loan was outstanding all of 2003 compared to only five months during 2002.

(Continued)

Operating expenses decreased $92 million in 2003 compared to 2002. Of this total decline, $90 million was attributed to the change in the amount of write-downs on development projects. During the year ended June 30, 2002 (and as more fully described in the financial statements), the Authority recorded impairment losses totaling $91 million on its investments in the Alaska Seafood International and Healy Clean Coal development projects, due to circumstances relating to the two projects. During 2003, the Authority wrote off its remaining $1.7 million investment in the Skagway Ore Terminal development project after the project's concentrate storage facility was demolished due to deterioration and Authority management assessed that no potential near term users were evident.

The $2.3 million decline in interest on bonds results from the decline in bonds outstanding during 2003 compared to 2002 and lower rates on those outstanding bonds. In 2002, $20 million of bonds were refunded and replaced with lower rate bonds and $16 million were called prior to scheduled maturity. An additional $6 million of bonds were retired prior to their scheduled maturity dates during 2003.

Other project expenses increased $3 million during the year ended June 30, 2003 compared to 2002 due to the demolition costs of the Skagway Ore Terminal discussed above.

The Authority distributed a dividend of $20.15 million to the State of Alaska (State) during the year ended June 30, 2003, compared to $17.5 million during the same period ended in 2002. The dividend was the largest reduction in net assets incurred during 2003. AIDEA makes available to the State an annual dividend, which by statute is to be determined by AIDEA's board of directors. The dividend must be at a level between 25% and 50% of audited "net income" (as defined in the statute) for the "base year." The "base year" is the fiscal year ending two years before the end of the fiscal year in which the dividend payment is made. In no case may the dividend exceed base year unrestricted audited "net income". The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.

KPMG

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Independent Auditors' Report

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

We have audited the accompanying balance sheet of the Alaska Industrial Development and Export Authority (a Component Unit of the State of Alaska) (Authority) as of June 30, 2003, and the related statements of revenues, expenses, and changes in fund net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2002 financial statements and, in our report dated September 27, 2002, we expressed an unqualified opinion on the respective financial statements.

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 Authority as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 10, 2003

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

Balance Sheet

June 30, 2003
(with summarized financial information at June 30, 2002)

(Stated in thousands)

Assets	Revolving Fund	Loan Funds	Total 2003	Total 2002
Current assets:				
Cash and cash equivalents (notes 3 and 4)	$ 27,006	5,163	32,169	19,464
Investment securities (note 4)	96,285	—	96,285	82,573
Loans (note 5)	9,969	350	10,319	10,534
The Four Dam Pool Power Agency loan (note 8)	1,482	—	1,482	1,401
Development projects accounted for as:				
Net investment in direct financing leases (note 7)	3,149	—	3,149	2,948
Notes receivable (note 7)	5,335	—	5,335	420
Accrued interest receivable	4,761	57	4,818	6,993
Other assets	2,549	—	2,549	3,068
Total current assets	150,536	5,570	156,106	127,401
Noncurrent assets:				
Investment securities (note 4)	241,777	—	241,777	259,601
Loans (note 5)	217,019	4,833	221,852	209,867
Less allowance for loan losses (note 6)	(12,030)	(886)	(12,916)	(12,867)
Net loans	204,989	3,947	208,936	197,000
The Four Dam Pool Power Agency loan (note 8)	73,562	—	73,562	75,045
Development projects accounted for as:				
Net investment in direct financing leases (note 7)	275,268	—	275,268	301,066
Development projects (note 7)	81,628	—	81,628	61,029
Notes receivable (note 7)	—	—	—	5,335
Other assets	8,951	43	8,994	11,105
Restricted assets:				
Cash and cash equivalents (notes 3 and 4)	741	—	741	2,234
Investment securities (note 4)	13,768	—	13,768	12,721
Snettisham (note 7):				
Cash and cash equivalents (notes 3 and 4)	9,578	—	9,578	9,486
Net investment in direct financing leases (note 7)	89,030	—	89,030	89,393
Total noncurrent assets	999,292	3,990	1,003,282	1,024,015
Total assets	$ 1,149,828	9,560	1,159,388	1,151,416
Liabilities and Net Assets				
Current liabilities:				
Bonds payable – current portion (note 9)	$ 10,495	—	10,495	10,415
Accrued interest payable	3,187	—	3,187	3,183
Accounts payable	1,562	85	1,647	1,384
Other current liabilities	1,700	—	1,700	—
Total current liabilities	16,944	85	17,029	14,982
Noncurrent liabilities:				
Bonds payable – noncurrent portion (note 9)	216,990	—	216,990	233,165
Other liabilities	2,247	2,285	4,532	4,801
Total noncurrent liabilities	219,237	2,285	221,522	237,966
Liabilities payable from restricted assets – Snettisham:				
Power revenue bonds payable (note 9)	88,960	—	88,960	90,075
Other	9,648	—	9,648	8,804
Total liabilities	334,789	2,370	337,159	351,827
Net assets:				
Investment in capital assets, net of related debt	9,192	—	9,192	—
Restricted for debt service	2,628	—	2,628	3,311
Unrestricted	803,219	7,190	810,409	796,278
Total net assets	815,039	7,190	822,229	799,589
Commitments and contingencies (notes 1, 5, 10, and 11)				
Total liabilities and net assets	$ 1,149,828	9,560	1,159,388	1,151,416

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2003
(with summarized financial information for the year ended June 30, 2002)

(Stated in thousands)

	Revolving Fund	Loan Funds	Total 2003	Total 2002
Operating revenues:				
Interest on loans (note 5)	$ 14,751	239	14,990	17,132
Interest on The Four Dam Pool Power Agency loan (note 8)	4,913	—	4,913	2,065
Interest on direct financing leases (note 7)	17,702	—	17,702	17,890
Interest on Snettisham restricted direct financing lease (note 7)	4,780	—	4,780	4,832
Investment interest	16,750	—	16,750	20,103
Net increase in fair value of investments	15,241	—	15,241	7,397
Other income	4,282	14	4,296	3,577
Federal grants	—	—	—	651
Other project income	431	—	431	478
Total operating revenues	78,850	253	79,103	74,125
Operating expenses:				
Interest	13,795	—	13,795	16,058
Interest on Snettisham liabilities payable from restricted assets (note 9)	4,780	—	4,780	4,832
General and administrative	6,222	234	6,456	7,666
Write-downs associated with development projects (notes 7 and 11)	1,700	—	1,700	91,346
Write-downs and net expenses associated with other assets	996	—	996	3,074
Assumption of debt (note 7)	1,700	—	1,700	—
Depreciation	2,169	—	2,169	3,900
Other project expenses	5,076	—	5,076	2,017
Total operating expenses	36,438	234	36,672	128,893
Operating income (loss)	42,412	19	42,431	(54,768)
Non-operating revenues (expenses)				
Capital grant	112	—	112	—
Transfers from primary government	—	—	—	652
Investment interest	—	247	247	136
Dividend to State of Alaska	(20,150)	—	(20,150)	(17,500)
Net non-operating revenues (expenses)	(20,038)	247	(19,791)	(16,712)
Increase (decrease) in net assets	22,374	266	22,640	(71,480)
Net assets – beginning of period	792,665	6,924	799,589	871,069
Net assets – ending of period	$ 815,039	7,190	822,229	799,589

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended June 30, 2003
(with summarized financial information for the year ended June 30, 2002)

(Stated in thousands)

	Revolving Fund	Loan Funds	Total 2003	Total 2002
Cash flows from operating activities:				
Interest received on loans	$ 15,379	214	15,593	17,068
Interest received on The Four Dam Pool Power Agency loan	4,928	—	4,928	1,983
Receipts from borrowers	1,865	—	1,865	2,532
Principal collected on loans	48,619	626	49,245	38,680
Principal collected on The Four Dam Pool Power Agency loan	1,402	—	1,402	654
Receipts from other governments	—	—	—	2,935
Other operating receipts	2,384	—	2,384	1,772
Loans originated	(60,118)	(893)	(61,011)	(41,573)
Loan to The Four Dam Pool Power Agency	—	—	—	(77,100)
Payments to suppliers and employees for services	(10,052)	(1)	(10,053)	(6,783)
Other operating payments	(157)	(189)	(346)	(2,197)
Net cash provided (used) by operating activities	4,250	(243)	4,007	(62,029)
Cash flows from noncapital and related financing activities:				
Intrafund operating subsidies and transfers	(110)	110	—	—
Transfers from primary government	—	—	—	455
Dividend paid to the State of Alaska	(20,150)	—	(20,150)	(17,500)
Interest paid on noncapital debt	(861)	—	(861)	(1,127)
Operating loans (made) collected from the Alaska Energy Authority-net	60	—	60	(929)
Principal paid on noncapital debt	(8,250)	—	(8,250)	(6,020)
Net cash provided (used) by noncapital and related financing activities	(29,311)	110	(29,201)	(25,121)
Cash flows from capital and related financing activities:				
Direct financing lease receipts	21,135	—	21,135	20,649
Direct financing lease receipts – Snettisham	5,143	—	5,143	5,938
Investment in direct financing leases	—	—	—	(4)
Investment in development projects	(2,130)	—	(2,130)	(2,935)
Proceeds from capital debt	—	—	—	20,887
Proceeds from capital grants	417	—	417	1,903
Interest paid on capital debt	(12,615)	—	(12,615)	(15,059)
Principal paid on capital debt	(7,845)	—	(7,845)	(41,940)
Interest paid on capital debt – Snettisham	(4,806)	—	(4,806)	(4,857)
Principal paid on capital debt – Snettisham	(1,115)	—	(1,115)	(1,065)
Net cash used by capital and related financing activities	(1,816)	—	(1,816)	(16,483)
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	525,351	—	525,351	508,693
Purchases of investment securities	(507,044)	—	(507,044)	(439,622)
Receipts from notes receivable	850	—	850	850
Interest collected on investments	18,270	247	18,517	21,055
Net proceeds from sales of other real estate owned	1,140	—	1,140	1,986
Proceeds from return on (purchase of) equity investment	(500)	—	(500)	250
Net cash provided by investing activities	38,067	247	38,314	93,212
Net increase (decrease) in cash and cash equivalents	11,190	114	11,304	(10,421)
Cash and cash equivalents at beginning of year	26,135	5,049	31,184	41,605
Cash and cash equivalents at end of year	$ 37,325	5,163	42,488	31,184

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ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY
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Statement of Cash Flows

Year ended June 30, 2003
(with summarized financial information for the year ended June 30, 2002)

(Stated in thousands)

	Revolving Fund	Loan Funds	Total 2003	Total 2002
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Net operating income (loss)	$ 42,412	19	42,431	(54,768)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Principal collected on loans	48,619	626	49,245	39,103
Principal collected on The Four Dam Pool Power Agency loan	1,402	—	1,402	654
Loans originated	(60,118)	(893)	(61,011)	(41,573)
Loan to The Four Dam Pool Power Agency	—	—	—	(77,100)
Investment interest income	(16,750)	—	(16,750)	(19,927)
Amortization of unearned income on direct financing leases	(17,702)	—	(17,702)	(17,890)
Amortization of unearned income on direct financing lease – Snettisham	(4,780)	—	(4,780)	(4,832)
Interest income – notes receivable	(414)	—	(414)	(445)
Bond interest expense	13,480	—	13,480	15,424
Bond interest expense – Snettisham	4,780	—	4,780	4,832
Provision for loan losses	—	49	49	516
Depreciation	2,169	—	2,169	3,900
Net appreciation of investment securities	(15,241)	—	(15,241)	(7,397)
Write-downs and net loss on sale of other assets	838	—	838	2,939
Write-down of development projects	1,700	—	1,700	91,346
Decrease (increase) in accrued interest receivable – The Four Dam Pool Power Agency loan	15	—	15	(82)
Decrease (increase) in accrued interest receivable and other assets	1,266	(35)	1,231	377
Increase (decrease) in accounts payable and other liabilities	2,574	(9)	2,565	2,894
Net cash provided (used) by operating activities	$ 4,250	(243)	4,007	(62,029)
Noncash investing, capital and financing activities:				
Reclassification of direct financing lease to development project (note 7)	$ 22,400	—	22,400	—

See accompanying notes to basic financial statements.

(continued)

(1) Organization and Operations

The Alaska Industrial Development and Export Authority (AIDEA or the Authority) is a component unit of the State of Alaska (State). AIDEA is the primary economic development financing agency of the State, financing economic development projects using existing assets, general obligation bonds or debt secured by project revenues. AIDEA'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. AIDEA has various powers that support its economic development mission, including, but not limited to, the ability to adopt regulations, to acquire ownership interests in projects, to lease projects, to issue bonds, and to acquire and manage projects. AIDEA conducts the majority of its business through its Revolving Fund (Revolving Fund), established pursuant to legislation. The Authority's Revolving Fund has two main programs under which it transacts its business, as more fully described below under the headings "Enterprise Development Account" and "Economic Development Account". AIDEA has two smaller programs (Loan Funds), the Small Business Economic Development Loan Program and the Rural Development Initiative Program that are not part of the Revolving Fund. The Loan Funds are included in a separate column within 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 90% or $20,000,000 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; all remaining outstanding bonds were called in April 2002. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds.
- Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Ted Stevens Anchorage International Airport. The Federal Express Project was partially financed by a $28,000,000 bond issue completed in September 1992; the issue was refunded in June 2002.
- Healy Clean Coal Project (Healy Project). This project is a coal-fired power plant located near Healy, Alaska. The Authority received a $25,000,000 state legislative appropriation and $117,327,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program to assist in financing the Healy Project. In May 1998, $85,000,000 of bonds were issued to refund $85,000,000 of Variable Rate Revolving Fund Bonds originally issued in July 1996, the proceeds of which were used to finance a portion of the Healy Project construction cost.
- 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. In September 2002, final coal shipments through the facility under the then existing contract occurred; a new contract was negotiated subsequent to year-end and the Authority expects to sell its interest in the facility.
- Ketchikan Shipyard (Shipyard). Ownership of the Shipyard, located in Ketchikan, Alaska, was transferred to the Authority in July 1997, under an agreement between the Authority and the State Department of Transportation and Public Facilities. In connection with the transfer, the City of Ketchikan and the Ketchikan Gateway Borough agreed to provide relief from real property taxes and favorable electric rates for the facility. The Borough agreed to provide ongoing funds for maintenance and repairs for the Shipyard. The Authority also agreed to provide funds for maintenance and repairs in an amount equal to the amount contributed by the Borough.
- 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, which has been completed. 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.

- Alaska Seafood International (ASI). The Authority initially loaned money for the construction of the ASI facility, which performed 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 and underlying and associated real estate for $48 million. In addition, the Authority acquired additional equity interests under a December 2000 restructuring. In September 2002, the Authority purchased land adjacent to the project.

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 ASI 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 $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.

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 Authority provides personnel services for 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

(Continued)

AEA for administration. There is no commingling of funds, assets, or liabilities between AIDEA 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. AEA has a borrowing arrangement with the Authority to provide working capital funds.

(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, 2003, no bonds under this authorization have been issued. As of June 30, 2003, the Authority had issued revenue bonds for 301 projects (not including bonds issued to refund other bonds). The principal amount payable for revenue bonds issued after July 1, 1995 was $105,865,000. The aggregate amount outstanding for the remaining revenue bonds, which were issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled $616,000,000 (not including bonds issued to refund other bonds).

(d) Small Business Economic Development and Rural Development Initiative Fund Loan Programs

AIDEA'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 was created to receive loan fund grants from the United States Economic Development Administration.

AIDEA's Rural Development Initiative Fund Loan Program is designed to create job opportunities in rural Alaska by providing small Alaskan businesses with needed capital that may not be available in conventional markets. Businesses must be Alaskan owned and located in a community of 2,500 or less on the road system or off-road communities of 5,000 or less.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting – Enterprise Fund Accounting

The accounts of AIDEA are organized as an Enterprise Fund. Accordingly, the financial activities of AIDEA are reported using the economic resources measurement focus and 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.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* provides two options for reporting proprietary fund activities. AIDEA 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 statements 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

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

(d) Loans and Related Interest Income

The Authority's 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 90 days past due or when the loan terms are restructured.

AIDEA considers lending activities to be part of its principal ongoing operations and classifies it as operating in the statements of revenues, expenses and changes in fund net assets. Loans are considered program loans for the purposes of cash flow presentation.

(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. AIDEA considers such activity to be part of its principal ongoing operations and classifies it as operating in the statements of revenues, expenses, and changes in fund net assets.

(f) Development Projects

The Authority's development projects are carried at cost, adjusted for depreciation and for permanent impairments of value. The Authority recognizes impairment losses for long-lived assets whenever events or changes in circumstances result in the carrying amount of the assets exceeding the sum of the expected future cash flows associated with such assets. The Authority considers development project activity, including impairments, if any, to be part of its principal ongoing operations and classifies it as operating in the statements of revenues, expenses, and changes in fund net assets.

(g) Notes Receivable

The Authority owns a partial interest in a facility that is accounted for as a note. Interest income is recognized when it is earned and calculated using a rate of 7.5%.

(h) 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.

(i) 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, 2003.

(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, 2003, 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

AIDEA recognizes grant revenue under the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, whereby revenue is recognized when all applicable eligibility requirements, including time requirements, are met.

(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. AIDEA 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, ranging from 10 to 35 years.

(Continued)

(n) Transfers

Transfers out, including the dividend to the State or transfers to State agencies, are recorded when the liability has been incurred and the amount is reasonably estimable.

(o) Segment Information

For purposes of segment reporting, activity related to Snettisham is considered to be a separate segment. The financial statements disclose all information required by the Authority's Snettisham bond resolution.

(p) Estimates

In preparing the financial statements, management of AIDEA 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 sheets and revenue and expenses for the period. Actual results could differ from those estimates.

(q) Prior-period Information

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2002, from which the summarized information was derived.

(3) Additional Information Regarding Cash and Cash Equivalents

At June 30, 2003 AIDEA's carrying amount of cash and cash equivalents was $42,488,000 ($10,318,000 was restricted) and the bank balance was $42,536,000.

(4) Investment Securities

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

		2003	2002
U.S. Treasury securities maturity:			
Within one year	$	72,880	72,233
After one but within five years		17,718	49,875
After five but within ten years		4,153	14,507
Thereafter		12,962	31,710
		107,713	168,325
U.S. Government agencies maturity:			
Within one year		31,130	20,280
After one but within five years		21,046	40,218
After five but within ten years		3,187	28,342
Thereafter		67,740	1,598
		123,103	90,438
Corporate securities maturity:			
After one but within five years		4,732	40,411
After five but within ten years		54,072	42,416
Thereafter		62,210	13,305
		121,014	96,132
	$	351,830	354,895

All cash, investments and collateral for the repurchase agreements in the Revolving Fund 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 GASB Statement No. 3 and Technical Bulletin No. 87-1.

The Loan Funds have cash and cash equivalents held with the State Treasury which is considered Category 3 safekeeping risk. This category includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in AIDEA's name.

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

	Allowable usage	2003	2002
Capital reserve funds	Secure debt service payments – bonds	$ 1,487	2,494
Debt service and loan prepayment accounts	Funds held for future debt service – bonds	1,142	817
Red Dog Project Sustaining Capital Fund	Project costs	11,880	11,644
Snettisham Hydroelectric Project Funds	Various costs relating to the project	9,578	9,486
		$ 24,087	24,441

(5) Loans

AIDEA participates with regulated financial institutions in secured commercial real estate and other loans to businesses throughout the State. Although AIDEA 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):

	2003		2002	
	Number	Amount	Number	Amount
Appropriated	207	$ 5,348	265	$ 8,035
Loan participation:				
Bonds outstanding	25	3,848	34	7,994
Bonds retired	33	10,696	48	15,565
Internally funded	184	200,569	159	173,072
OREO sale financing	20	6,359	28	10,346
Other	6	168	18	478
Loan Funds	60	5,183	56	4,911
	535	232,171	608	220,401
Less current portion		(10,319)		(10,534)
		$ 221,852		$ 209,867

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

	2003			2002		
	Percent		**Amount**	**Percent**		**Amount**
Current	94.15%	$	213,713	97.69%	$	210,505
Past due:						
31–60 days	1.10%		2,506	1.92%		4,134
61–90 days	—		—	0.24%		521
Over 90 days	4.75%		10,769	0.15%		330
	100.00%	$	226,988	100.00%	$	215,490

Revolving Fund loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to $10,769,000 and $330,000 at June 30, 2003 and 2002, respectively. Gross interest income which would have been received on these loans amounted to $484,000 and $32,000 for the years ended June 30, 2003 and 2002, respectively. The amount of interest income included in the change in net assets was $(65,000) and $27,000 for the years ended June 30, 2003 and 2002, respectively.

Revolving Fund loans on which the terms have been restructured amounted to $1,518,000 and $3,583,000 at June 30, 2003 and 2002, respectively. Gross interest income which would have been received on these loans amounted to $116,000 and $306,000 for the years ended June 30, 2003 and 2002, respectively. The amount of interest income collected and included in the change in net assets was $113,000 and $210,000 for the years ended June 30, 2003 and 2002, respectively.

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

	2003			2002		
	Percent		**Amount**	**Percent**		**Amount**
Current	74.37%	$	3,854	63.88%	$	3,137
Past due:						
30 days	3.37%		175	3.57%		175
61–90 days	—		—	31.15%		1,530
Over 90 days	22.26%		1,154	1.40%		69
	100.00%	$	5,183	100.00%	$	4,911

Loan Fund loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to $860,000 and $1,015,000 at June 30, 2003 and 2002, respectively. Gross interest income which would have been received on these loans amounted to $13,000 and $15,000 for the years ended June 30, 2003 and 2002, respectively. The amount of interest income collected and included in the change in net assets was $4,000 and $17,000 for the years ended June 30, 2003 and 2002, respectively.

(Continued)

Loan Fund loans on which the terms have been restructured amounted to $792,000 and $650,000 at June 30, 2003 and 2002, respectively. Gross interest income which would have been received on these loans amounted to $13,000 and $18,000 for the years ended June 30, 2003 and 2002, respectively. The amount of interest income collected and included in the change in net assets was $4,000 and $21,000 for the years ended June 30, 2003 and 2002, 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):

	Revolving Fund	Loan Funds	Total 2003	Total 2002
Balance at beginning of year	$ 12,030	837	12,867	13,034
Provision for loan loss	—	49	49	—
Recoveries of loans charged off	—	—	—	40
Loans charged off	—	—	—	(207)
Balance at end of year	$ 12,030	886	12,916	12,867

(7) Net Investment in Direct Financing Leases, Notes 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 provide funds to pay the debt service on the $20,475,000 Revolving Fund Refunding Bonds issued June 20, 2002.
- 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 Alaska Seafood International (ASI) facility was accounted for as a direct financing lease at June 30, 2002. Due to the cessation of operations in September 2003, and the termination of the long-term lease and the Authority re-obtaining possession of the facility in October 2003, ASI has been reclassified as a development project at June 30, 2003. Additional information regarding ASI is described below.

(Continued)

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

		2003	2002
Minimum lease payments receivable	$	691,187	824,645
Less unearned income		(412,770)	(495,031)
Less impairment loss		—	(25,600)
Net investment in direct financing leases	$	278,417	304,014

At June 30, 2003, future minimum lease payments receivable for each of the five succeeding fiscal years ending June 30, 2004, through June 30, 2008 are $20,650,000.

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

		2003	2002
Alaska Seafood International	$	—	22,400
Federal Express Project		23,054	24,537
Red Dog Project		255,363	257,077
	$	278,417	304,014

The Authority provided construction financing and, upon substantial completion in 1999, acquired the ASI facility and underlying and associated real estate for $48 million. The Authority entered into a long-term lease of the facilities, with rent payments scheduled to commence in October 2000. Initially, private U.S. investors and a Taiwan investment company comprised the ownership of the operator of the facility. In February 2000, following a change in political control in Taiwan, the Taiwan investment company was directed to return to Taiwan, and the project encountered financial difficulties. In April 2001, Sunrise Capital Partners of New York (Sunrise) purchased a 51% interest in ASI. Concurrent with the purchase by Sunrise, the Authority, a secured lender, the other owners and ASI signed an agreement to restructure approximately $25 million of debt, to provide new operating capital and to make the Authority and the secured lender equity owners of ASI. The Authority converted accrued and prospective payments due under the lease agreement and an equity contribution of $2.5 million for a 29% equity interest in ASI. Operations at the plant resumed in 2001. After the restructuring, Sunrise and other equity owners contributed additional equity, so that the Authority's interest in ASI dropped to approximately 20%.

In the third quarter of 2002, the company again ran into financial difficulties and operations became virtually dormant. Another restructuring by the equity owners was completed. The Authority's ownership interest decreased to approximately 8% as a result. As part of the restructuring, the Authority purchased from ASI land adjacent to the ASI facility for $2 million and agreed, under certain conditions, to contribute, for additional equity in ASI, up to $500,000 more to be used for facility related expenses. The Authority contributed the additional equity of $500,000 which is included in write-downs and net expenses associated with other assets. The Authority received land with an estimated market value at least equal to the amount paid for the land. Other participants contributed additional equity of approximately $1,350,000, and further agreed to other deferrals and concessions which effectively provide ASI additional working capital. The restructuring provided ASI with necessary working capital to continue operations. Certain organizational changes also took place, including the appointment of a new president and CEO of ASI.

The Authority recognized an impairment loss of $25,600,000 on its investment in the ASI facility during the year ended June 30, 2002 in response to the operating problems incurred by ASI. The facility was valued at its estimated fair value in the event that ASI operations cease (based upon an appraisal).

In September 2003, ASI announced that it was ceasing operations. In October 2003, the long-term lease of the facility was terminated and the Authority re-obtained possession of the facility and assumed a $1.7 million mortgage associated with the facility. The Authority's investment in the ASI facility was reclassified as a development project at June 30, 2003.

(b) Notes Receivable

The Authority receives user fees in consideration of its interest in the Seward Coal Load-Out facility. The user continues to maintain the facility at its sole expense. The Authority accounts for this transaction as a note receivable. It is anticipated that in the fourth quarter of 2003, the Alaska Railroad Corporation will purchase the Authority's interest in the facility and the Authority will recoup its investment.

(c) Development Projects

- The Skagway Terminal is currently unused. The Authority is attempting to locate potential new users, however low world base metal prices have precluded new mineral development in the areas that the Skagway Terminal services. During the year ended June 30, 2003, the Authority wrote-off its remaining $1.7 million investment in the Skagway Terminal after the project's concentrate storage facility was demolished due to physical deterioration and Authority management assessed that no potential near term users were evident.
- See note 11 for information relating to the Healy Project.
- 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 Authority was negotiating to sell the Shipyard and at June 30, 2002 had reduced the carrying value of its investment to estimated net realizable value. Subsequently, AIDEA's board determined that the Authority would remain owner of the Shipyard.
- See (a) above for information relating to Alaska Seafood International and the ASI land.

(Continued)

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

		2003	2002
Skagway Terminal	$	—	1,982
Healy Clean Coal Project		54,194	56,000
Ketchikan Shipyard		3,029	3,047
Alaska Seafood International		22,400	—
ASI land		2,005	—
	$	81,628	61,029

Capital asset activity for the Authority for the years ended June 30, follows (stated in thousands):

		Balance at June 30, 2002	Additions	Transfers and deletions	Balance at June 30, 2003
Capital assets not being depreciated:					
Development projects	$	2,307	24,530	(1,269)	25,568
Land		600	—	—	600
Total capital assets not being depreciated	$	2,907	24,530	(1,269)	26,168
Capital assets being depreciated:					
Development projects	$	68,652	1,269	(1,762)	68,159
Other capital assets		2,698	—	—	2,698
Total capital assets being depreciated		71,350	1,269	(1,762)	70,857
Less accumulated depreciation for:					
Development projects		9,930	2,169	—	12,099
Other capital assets		214	135	—	349
Total accumulated depreciation		10,144	2,304	—	12,448
Capital assets being depreciated, net	$	61,206	(1,035)	(1,762)	58,409

(d) 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) Four Dam Pool Power Agency Loan

The Four Dam Pool loan is an up to $82,100,000 purchase-money financing the Authority provided to The Four Dam Pool Power Agency, a joint action agency (Agency) on January 31, 2002, to acquire the Four Dam Pool Project from AEA.

The project consists of the generation and transmission facilities and other property associated with the Swan Lake Hydroelectric Project (providing power to Ketchikan), the Lake Tyee Hydroelectric Project (providing power to Wrangell and Petersburg), the Solomon Gulch Hydroelectric Project (providing power to Valdez and Glennallen), and the Terror Lake Hydroelectric Project (providing power to Kodiak) (collectively, the Four Dam Pool Project). At the present time, none of the individual projects or the communities they serve are interconnected. Since the Four Dam Pool Project's inception, power from the projects has been sold pursuant to a Long Term Power Sales Agreement (PSA) entered into between AEA and the City of Ketchikan dba Ketchikan Public Utilities, the City of Wrangell dba Wrangell Municipal Light and Power, the City of Petersburg dba Petersburg Municipal Power and Light, Copper Valley Electric Association, Inc. and Kodiak Electric Association, Inc. (Purchasing Utilities). With certain limited exceptions, the Purchasing Utilities are obligated to purchase their power requirements from the Four Dam Pool Project to the extent the power is available. Power is sold to the Purchasing Utilities at a uniform rate. The Loan Agreement provides that the PSA may not be amended without the Authority's consent.

On January 31, 2002, AEA sold the Four Dam Pool Project to the Agency. The Agency's membership is composed solely of the Purchasing Utilities. Under the terms of the sale, the Agency was assigned all of AEA's interest and assumed all of AEA's obligations in the Four Dam Pool Project and the PSA.

The Authority loaned $77,100,000 to the Agency for the purchase, closing costs, and initial funding of reserves related to the Agency's acquisition of the Four Dam Pool Project. The Authority further agreed to lend to the Agency up to an additional $5,000,000 no later than April 30, 2010, if the Agency meets certain conditions related to construction of an intertie between the Swan Lake Hydroelectric Project and the Lake Tyee Hydroelectric Project or if the Agency owes a purchase credit to AEA because the Agency fails to make timely progress on the Swan-Tyee Intertie project.

The Four Dam Pool loan, comprising both the initial and potential loan, with interest at 6.5% per annum, is payable in installments over no more than 25 years. The Authority's interests in the Four Dam Pool loan are secured under a trust agreement and a deed of trust and security agreement. Under the loan agreement with the Authority, the Agency is required to deposit into a dedicated account the entire debt service component of the power rate from revenues generated by the sale of power from the project which is then available to make the required deposits to the trustee for debt service and required reserve account deposits. The trustee under the trust agreement holds and administers various accounts and assets of the trust estate. Assets that secure the Four Dam Pool loan include the Four Dam Pool Project, project reserve funds and dedicated accounts, the PSA and other associated tangible and intangible assets.

(9) 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, 2003. Dollar amounts are stated in thousands):

	Balance at June 30, 2002	Additions	Deletions	Balance at June 30, 2003	Amounts due within one year
Revolving Fund Bonds:					
Series 1995A – 5.95% and 6.0%, issued May 17, 1995, maturing through 2005	2,670	—	825	1,845	950
Series 1997A – 5.5% to 6.125%, issued March 27, 1997, maturing through 2027	132,175	—	4,160	128,015	4,385
Revolving Fund Refunding Bonds:					
Series 1993A - called April 1, 2003	5,885	—	5,885	—	—
Series 1994A – 5.7% and 5.9%, issued March 30, 1994, maturing through 2006	2,360	—	705	1,655	450
Series 1995B – 5.8% and 5.85%, issued May 17, 1995, maturing through 2005	2,490	—	835	1,655	1,125
Series 1998A – 5.0% to 5.25%, issued May 14, 1998, maturing through 2023	77,525	—	2,140	75,385	2,240
Series 2002A – 4.5% to 5.5%, issued June 20, 2002, maturing through 2014	20,475	—	1,545	18,930	1,345
	$ 243,580	—	16,095	227,485	10,495

At June 30, 2003, 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.

In June 2002, the Authority issued $20,475,000 of Revolving Fund Refunding Bonds for purposes of refunding and defeasing $20,540,000 of Series 1992A Revolving Fund Bonds. The refunded Series 1992A bonds were called in July 2002. The refunding resulted in aggregate debt service payments over the next twelve years in a total amount approximately $2,500,000 less than the debt service payments which would have been due on the refunded bonds. There was an economic gain of approximately $1,576,000, which is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2003 are as follows (stated in thousands):

		Principal	Interest	Total
Year ending June 30:				
2004	$	10,495	12,730	23,225
2005		10,430	12,188	22,618
2006		9,400	11,619	21,019
2007		9,310	11,095	20,405
2008		9,840	10,571	20,411
2009-2013		57,940	44,127	102,067
2014-2018		59,120	26,877	85,997
2019-2023		43,360	12,923	56,283
2024-2027		17,590	2,773	20,363
	$	227,485	144,903	372,388

Revolving Fund Bond resolution covenants 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, 2003, the Authority has estimated that projected future coverage for each future year exceeds 150%, giving effect only to existing projects at that date, and excluding the effect of proposed projects. At June 30, 2003, unrestricted surplus was approximately $761,986,000. 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, 2003, the liquidity requirement was $50,000,000.

As part of the IRS compliance review program, one of the Authority's Revolving Fund Bond issues is under compliance review. To date, the Authority has not been notified of any findings or instances of noncompliance. Management believes that the ultimate resolution of the review will not be material to the financial statements.

(Continued)

In August 1998, the Authority issued $100,000,000 of Power Revenue Bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.85% 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. The bonds are insured by Ambac Assurance Corporation. In December 1999, the Authority defeased $6,865,000 of the bonds using funds on hand; $6,560,000 of the defeased bonds remain outstanding at June 30, 2003. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2003 are as follows (stated in thousands):

		Principal	Interest	Total
Year Ending June 30:				
2004	$	1,170	4,753	5,923
2005		1,230	4,692	5,922
2006		1,295	4,627	5,922
2007		1,360	4,559	5,919
2008		1,440	4,485	5,925
2009-2013		8,420	21,192	29,612
2014-2018		11,150	18,446	29,596
2019-2023		14,550	15,059	29,609
2024-2028		18,650	10,946	29,596
2029-2033		24,075	5,528	29,603
2034		5,620	302	5,922
	$	88,960	94,589	183,549

(10) Retirement Plan

(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.

Contribution rates:	
Employee	6.75%
Employer	7.20%
Annual pension cost	$211,000
Contributions made	$211,000
Actuarial valuation date	June 30, 2002
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	3.50%
Investment return	8.25%
Projected salary increase:	
Inflation	3.50%
Productivity and merit	1.50%
Health cost trend	5% - 12%

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

(11) Commitments and Contingencies

(a) Commitments

At June 30, 2003, the Authority held approximately $75,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority is the administrator of grant funds and held approximately $39,500,000 of investments for the construction of an intertie project. The Authority held approximately $25,484,000 of investments in trust or as custodian for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

(b) Healy Clean Coal Project

A Power Sales Agreement between Golden Valley Electric Association (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. In April 2003, GVEA elected to not proceed and terminated the Power Sales Agreement.

Members of the Authority's board, management, and staff are working with members of GVEA's board, management, and staff to explore options for returning the Healy Project to operations.

During 2002, the Authority determined that the carrying value of the project was impaired, and wrote it down by approximately $66,000,000 to its estimated fair value of $56,000,000. The estimated fair value was determined based upon a future cash flow analysis discounted at the risk free rate. The Healy Project is being depreciated by the Authority because it is available for use.

(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 audited "net income", as defined in statute, 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 $18,175,900 dividend for the year ending June 30, 2004. Currently, the State legislature has appropriated $16,416,000 for the same period.

(d) Other Commitments and Contingencies

AIDEA 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, 2003, the Authority had extended loan commitments of $14,466,000 and loan guarantees of $1,566,000. In the opinion of management, the financial position of AIDEA will not be affected materially by the final outcome of any present legal proceedings or other contingent liabilities and commitments.

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.

2003

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