ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2004

(With Summarized Financial Information for 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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ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2004

This discussion and analysis is intended to serve as an introduction to the June 30, 2004 financial statements of the Alaska Industrial Development and Export Authority (AIDEA or the Authority).

The Authority's June 30, 2004 financial statements are divided into two components – the Revolving Fund and the Loan Funds. The financial statements also include a total of the two components as of and for the year ended June 30, 2004, with summarized comparative totals at June 30, 2003. 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 Revolving Loan Fund Program and the Rural Development Initiative Fund Loan Program (collectively the "Loan Funds"), which are administered by the Alaska Department of Commerce, 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, 2004 and 2003 by $822.9 million and $822.2 million, respectively. Of the total net assets, $837.4 million ($829.1 million of which was in the Revolving Fund) and $810.4 million ($803.2 million of which was in the Revolving Fund) at June 30, 2004 and 2003, 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, 2004 and 2003 follows (stated in thousands):

	2004	2003	Increase (decrease)
Current assets	$ 191,960	156,106	35,854
Capital assets	2,815	2,949	(134)
Other noncurrent assets and restricted assets	952,825	1,000,333	(47,508)
Total assets	$ 1,147,600	1,159,388	(11,788)
Current liabilities	$ 16,807	17,029	(222)
Noncurrent liabilities and those payable from restricted assets	307,907	320,130	(12,223)
Total liabilities	324,714	337,159	(12,445)
Total net assets	822,886	822,229	657
Total liabilities and net assets	$ 1,147,600	1,159,388	(11,788)

The increase in current assets results from the reclassification of the balance of The Four Dam Pool Power Agency loan from noncurrent to current, reflecting the loan payoff in October 2004 (see note 9 to the basic financial statements). That increase was partially offset by a decrease in investment securities maturing in one year or less. As discussed further below, proceeds from investment maturities were used to purchase loan participations during the fiscal year.

The decrease in noncurrent assets occurred in two primary areas (investment securities and The Four Dam Pool Power Agency loan) and was partially offset by an increase in loans. As discussed above, the October 2004 payoff, and resulting transfer to current, of The Four Dam Pool Power Agency loan created a $73.6 million decrease in noncurrent assets.

As borrowers continued to take advantage of the low interest rate environment, the Authority's Revolving Fund purchased a record $78.7 million of loan participations and the loan funds funded $1.9 million in new loans during the year ended June 30, 2004, resulting in a net increase in the noncurrent portion of loans of $50.6 million between the two year ends. During the year ended June 30, 2003, $61 million of loans were funded. Borrowers made $28.3 million in principal payments on loans during the year ended June 30, 2004, with loan payoffs accounting for in excess of $14.7 million of the amount collected. During the year ended June 30, 2003, principal repayments totaled $49.2 million, which included more than $34 million of loan payoffs.

At June 30, 2004, the Authority had $48.2 million of outstanding commitments to purchase loan participations and all were projected to be funded during the four months following year end. The cash requirements for funding the new and anticipated loans resulted in a decrease in noncurrent investment securities at June 30, 2004 compared to June 30, 2003.

The Alaska Seafood International (ASI) facility was accounted for as a development project at June 30, 2003. In March 2004, the facility and adjacent land were placed on the market for sale and reclassified to other real estate owned. An offer of $24.5 million has been received to purchase the facility and the Authority's board has approved purchase financing and authorized staff to pursue the sale (see note 12 to the basic financial statements).

The Authority's primary development project is the Healy Clean Coal Project (Healy Project), which had a carrying value of $52.4 million at June 30, 2004. The Healy Project has been idle since completion of a 90-day test period in December 1999. The Healy Project was initially built to meet projected increasing energy demand, to provide fuel diversity in the Alaska Railbelt (the power-sharing area between Interior Alaska and Southcentral Alaska, connected by roads, generating facilities and transmission lines) electrical grid and to provide a market for otherwise unmarketable waste coal. Management believes that the energy needs still exist and that the Healy Project can be made operational at a cost that will produce competitively priced power. Discussions are currently underway with various groups regarding the potential sale and/or operation of the Healy Project. At June 30, 2004, management believes that there has been no permanent decline in the value of the Healy Project.

The decline in total liabilities was caused by payments on bonds during the year. During the year ended June 30, 2004, bonds declined $12.4 million and no new debt was issued.

The increase in net assets during the year ended June 30, 2004, resulted from operating income of $18.6 million offsetting net nonoperating expenses of $18 million, which was comprised substantially of the Authority's $18.2 million dividend to the State of Alaska.

Components of the Authority's operating revenues, operating expenses and nonoperating revenues and expenses for the years ended June 30, 2004 and 2003 follows (stated in thousands):

	2004	2003	Increase (decrease)
Operating revenues:			
Interest on loans	$ 15,104	14,990	114
Interest on Four Dam Pool Power Agency loan	4,846	4,913	(67)
Interest on direct financing leases	17,500	17,702	(202)
Investment interest	14,360	16,750	(2,390)
Net increase (decrease) in fair value of investments	(13,432)	15,241	(28,673)
Other income	4,663	4,727	(64)
Restricted income	4,723	4,780	(57)
Total operating revenues	47,764	79,103	(31,339)
Operating expenses:			
Interest	12,948	13,795	(847)
General and administrative	6,303	6,456	(153)
Depreciation	1,949	2,169	(220)
Write-down of development projects	—	1,700	(1,700)
Write-downs and net expenses associated with other assets	847	996	(149)
Assumption of debt	—	1,700	(1,700)
Other project expenses	2,383	5,076	(2,693)
Interest on liabilities payable from restricted assets	4,723	4,780	(57)
Total operating expenses	29,153	36,672	(7,519)
Operating income	18,611	42,431	(23,820)
Nonoperating revenues	222	359	(137)
Dividend to State of Alaska	(18,176)	(20,150)	1,974
Increase in net assets	$ 657	22,640	(21,983)

Operating revenues decreased $31.3 million during the year ended June 30, 2004 compared to 2003. A net decrease in fair value of investment securities of $28.7 million created the significant decline between the two years. Interest rates increased at and during the year ended June 30, 2004 compared to June 30, 2003 and rates on that date were lower than at June 30, 2002. The Authority recognized a net $13.4 million decrease in fair value of investments in 2004 as rates rose over the year, versus a $15.2 million net increase in fair value of investments in 2003, when rates declined over the year.

The changes to the investment and loan portfolios described above had an impact on interest earnings. Investment interest declined by $2.4 million during the year ended June 30, 2004 compared to 2003, corresponding to the smaller total investment portfolio. Interest on loans increased $114,000 during the year ended June 30, 2004 compared to the same period in 2003. Interest earned on higher loan balances offset the lowered income earned from newer, lower interest rate, loans.

Operating expenses decreased $7.5 million in 2004 compared to 2003. Of this total decline, $6.1 million related to decreased expenses relating to the Authority's development projects. As more fully described in the notes to the financial statements, during the year ended June 30, 2003, the Authority assumed $1.7 million of debt related to the ASI project, wrote off its remaining $1.7 million investment in the Skagway Ore Terminal development project and spent $3.1 million demolishing that project's concentrate storage facility due to deterioration and the determination that no potential near term users were evident. Correspondingly, in 2004, approximately $200,000 was spent to complete the demolition project resulting in a $6.3 million decrease in development project expenses between the two years.

The Authority distributed a dividend of $18.2 million to the State of Alaska (State) during the year ended June 30, 2004, compared to $20.2 million during the same period ended in 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 paid. 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 LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

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 and for the year ended June 30, 2004, 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 2003 financial statements and, in our report dated October 10, 2003, 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 the 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, 2004, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 4 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

September 24, 2004 (October 21, 2004 as to note 9)

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

Balance Sheet

June 30, 2004
(With summarized financial information at June 30, 2003)

(In thousands)

Assets	Revolving Fund	Loan Funds	Total 2004	Total 2003
Current assets:				
Cash and cash equivalents (notes 3 and 4)	$ 30,671	4,177	34,848	32,169
Investment securities (note 4)	62,505	—	62,505	96,285
Loans (note 5)	11,725	426	12,151	10,319
The Four Dam Pool Power Agency loan (note 9)	73,536	—	73,536	1,482
Development projects accounted for as:				
Net investment in direct financing leases (note 7)	3,365	—	3,365	3,149
Notes receivable (note 7)	—	—	—	5,335
Accrued interest receivable	4,242	138	4,380	4,818
Other assets	1,175	—	1,175	2,549
Total current assets	187,219	4,741	191,960	156,106
Noncurrent assets:				
Investment securities (note 4)	226,436	—	226,436	241,777
Loans (note 5)	266,436	6,013	272,449	221,852
Less allowance for loan losses (note 6)	(12,304)	(1,012)	(13,316)	(12,916)
Net loans	254,132	5,001	259,133	208,936
The Four Dam Pool Power Agency loan (note 9)	—	—	—	73,562
Development projects accounted for as:				
Net investment in direct financing leases (note 7)	272,151	—	272,151	275,268
Development projects (note 7)	55,274	—	55,274	81,628
Other real estate owned	24,756	—	24,756	1,274
Other assets	6,920	—	6,920	7,720
Restricted assets:				
Cash and cash equivalents (notes 3 and 4)	932	—	932	741
Investment securities (note 4)	11,764	—	11,764	13,768
Snettisham (note 7):				
Cash and cash equivalents (notes 3 and 4)	9,821	—	9,821	9,578
Net investment in direct financing leases (note 7)	88,453	—	88,453	89,030
Total noncurrent assets	950,639	5,001	955,640	1,003,282
Total assets	$ 1,137,858	9,742	1,147,600	1,159,388
Liabilities and Net Assets				
Current liabilities:				
Bonds payable – current portion (note 10)	$ 9,795	—	9,795	10,495
Accrued interest payable	3,037	—	3,037	3,187
Accounts payable	785	—	785	1,647
Dividend payable to State of Alaska	1,760	—	1,760	—
Other liabilities	—	1,430	1,430	1,700
Total current liabilities	15,377	1,430	16,807	17,029
Noncurrent liabilities:				
Bonds payable – noncurrent portion (note 10)	206,510	—	206,510	216,990
Other liabilities	3,123	—	3,123	4,532
	209,633	—	209,633	221,522
Liabilities payable from restricted assets – Snettisham:				
Power revenue bonds payable (note 10)	87,790	—	87,790	88,960
Other	10,484	—	10,484	9,648
Total liabilities	323,284	1,430	324,714	337,159
Net assets:				
Invested in development projects, net of related debt	(17,871)	—	(17,871)	6,243
Invested in capital assets	2,815	—	2,815	2,949
Restricted for debt service	564	—	564	2,628
Unrestricted	829,066	8,312	837,378	810,409
Total net assets	814,574	8,312	822,886	822,229
Commitments and contingencies (notes 1, 11, and 12)				
Total liabilities and net assets	$ 1,137,858	9,742	1,147,600	1,159,388

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, 2004
(With summarized financial information for the year ended June 30, 2003)

(In thousands)

	Revolving Fund	Loan Funds	Total 2004	Total 2003
Operating revenues:				
Interest on loans (note 5)	$ 14,861	243	15,104	14,990
Interest on The Four Dam Pool Power Agency loan (note 9)	4,846	—	4,846	4,913
Interest on direct financing leases (note 7)	17,500	—	17,500	17,702
Interest on Snettisham restricted direct financing lease (note 7)	4,723	—	4,723	4,780
Investment interest	14,360	—	14,360	16,750
Net increase (decrease) in fair value of investments	(13,432)	—	(13,432)	15,241
Other income	3,475	15	3,490	4,296
Federal grants	—	914	914	—
Other project income	259	—	259	431
Total operating revenues	46,592	1,172	47,764	79,103
Operating expenses:				
Interest	12,948	—	12,948	13,795
Interest on Snettisham liabilities payable from restricted assets (note 10)	4,723	—	4,723	4,780
General and administrative	6,116	187	6,303	6,456
Write-downs associated with development projects (note 7)	—	—	—	1,700
Write-downs and net expenses associated with other assets	847	—	847	996
Assumption of debt (note 12)	—	—	—	1,700
Depreciation	1,949	—	1,949	2,169
Other project expenses	2,383	—	2,383	5,076
Total operating expenses	28,966	187	29,153	36,672
Operating income	17,626	985	18,611	42,431
Nonoperating revenues (expenses)				
Capital grant	85	—	85	112
Transfers from primary government	—	122	122	—
Investment interest	—	15	15	247
Dividend to State of Alaska	(18,176)	—	(18,176)	(20,150)
Net nonoperating revenues (expenses)	(18,091)	137	(17,954)	(19,791)
Increase (decrease) in net assets	(465)	1,122	657	22,640
Net assets – beginning of year	815,039	7,190	822,229	799,589
Net assets – ending of year	$ 814,574	8,312	822,886	822,229

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, 2004
(With summarized financial information for the year ended June 30, 2003)

(In thousands)

	Revolving Fund	Loan Funds	Total 2004	Total 2003
Cash flows from operating activities:				
Interest received on loans	$ 14,530	209	14,739	15,593
Interest received on The Four Dam Pool Power Agency loan	4,821	—	4,821	4,928
Receipts from borrowers	2,118	—	2,118	1,865
Principal collected on loans	27,618	642	28,260	49,245
Principal collected on The Four Dam Pool Power Agency loan	1,508	—	1,508	1,402
Other operating receipts	2,533	—	2,533	2,384
Loans originated	(78,682)	(1,890)	(80,572)	(61,011)
Payments to suppliers and employees for services	(9,882)	(1)	(9,883)	(10,053)
Payment to primary government	—	(62)	(62)	—
Payment to other governments	—	(21)	(21)	—
Other operating payments	(329)	—	(329)	(346)
Net cash provided (used) by operating activities	(35,765)	(1,123)	(36,888)	4,007
Cash flows from noncapital and related financing activities:				
Transfers from primary government	—	122	122	—
Dividend paid to the State of Alaska	(16,416)	—	(16,416)	(20,150)
Interest paid on noncapital debt	(304)	(23)	(327)	(861)
Operating loans collected from the Alaska Energy Authority-net	975	—	975	60
Principal paid on noncapital debt	(3,210)	—	(3,210)	(8,250)
Net cash provided (used) by noncapital and related financing activities	(18,955)	99	(18,856)	(29,201)
Cash flows from capital and related financing activities:				
Direct financing lease receipts	20,402	—	20,402	20,898
Direct financing lease receipts – Snettisham	5,300	—	5,300	5,143
Investment in development projects	—	—	—	(2,130)
Proceeds from capital grants	94	—	94	417
Other receipts from capital and financing activities	252	—	252	237
Interest paid on capital debt	(12,446)	—	(12,446)	(12,615)
Principal paid on capital debt	(7,970)	—	(7,970)	(7,845)
Interest paid on capital debt – Snettisham	(4,753)	—	(4,753)	(4,806)
Principal paid on capital debt – Snettisham	(1,170)	—	(1,170)	(1,115)
Net cash used by capital and related financing activities	(291)	—	(291)	(1,816)
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	515,706	—	515,706	525,351
Purchases of investment securities	(478,012)	—	(478,012)	(507,044)
Receipts from notes receivable	5,777	—	5,777	850
Interest and dividends collected on investments	15,235	38	15,273	18,517
Net proceeds from sales of other real estate owned	404	—	404	1,140
Purchase of equity investment	—	—	—	(500)
Net cash provided by investing activities	59,110	38	59,148	38,314
Net increase (decrease) in cash and cash equivalents	4,099	(986)	3,113	11,304
Cash and cash equivalents at beginning of year	37,325	5,163	42,488	31,184
Cash and cash equivalents at end of year	$ 41,424	4,177	45,601	42,488

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT
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Statement of Cash Flows

Year ended June 30, 2004
(With summarized financial information for the year ended June 30, 2003)

(In thousands)

		Revolving Fund	Loan Funds	Total 2004	Total 2003
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	$	17,626	985	18,611	42,431
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Principal collected on loans		27,618	642	28,260	49,245
Principal collected on The Four Dam Pool Power Agency loan		1,508	—	1,508	1,402
Loans originated		(78,682)	(1,890)	(80,572)	(61,011)
Investment interest income		(14,360)	—	(14,360)	(16,750)
Amortization of unearned income on direct financing leases		(17,500)	—	(17,500)	(17,702)
Amortization of unearned income on direct financing lease – Snettisham		(4,723)	—	(4,723)	(4,780)
Interest income – notes receivable		(241)	—	(241)	(414)
Bond interest expense		12,597	—	12,597	13,480
Bond interest expense – Snettisham		4,723	—	4,723	4,780
Provision for loan losses		165	126	291	49
Depreciation		1,949	—	1,949	2,169
Net depreciation (appreciation) of investment securities		13,432	—	13,432	(15,241)
Write-downs and net loss on sale of other assets		519	—	519	838
Write-down of development projects		—	—	—	1,700
Decrease (increase) in accrued interest receivable – The Four Dam Pool Power Agency loan		(24)	—	(24)	15
Decrease (increase) in accrued interest receivable and other assets		362	(46)	316	1,231
Increase (decrease) in accounts payable and other liabilities		(734)	(940)	(1,674)	2,565
Net cash provided (used) by operating activities		(35,765)	(1,123)	(36,888)	4,007
Noncash investing, capital and financing activities:					
Reclassification of direct financing lease to development project (note 12)	$	—	—	—	22,400
Reclassification of development project to other real estate owned (note 12)		24,405	—	24,405	—

See accompanying notes to basic financial statements.

(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 Revolving Loan Fund Program and the Rural Development Initiative Fund Loan 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. Economic Development Account projects at June 30, 2004 are (also see note 7):

- 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. The Authority sold its interest in the facility in November 2003 and the demand note was paid in full.
- 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. A $10,000,000 second shiplift is currently in the design phase and will be financed by a $5,000,000 federal grant and matching state and local contributions. The Authority is negotiating with the current operator regarding a long-term operating agreement.
- Snettisham Hydroelectric Project (Snettisham). This project, located in southeast Alaska near Juneau, was acquired from the Alaska Power Administration, a federal agency, in August 1998. The Authority issued $100,000,000 of revenue bonds to purchase the project and 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, that provide for the sale of the project's entire electrical capability to AEL&P, require AEL&P to operate and maintain the project, and provide an option for the purchase of the project.

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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 Alaska Seafood International (ASI) in 1999 (see note 12) 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 Authority has bonding authorization of $30,000,000 to finance 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.
- The Authority has bonding authorization of $20,000,000 to finance the acquisition, development, improvement and construction of port and related facilities on Lynn Canal in Southeast Alaska, to be owned by the Authority.

(c) Revenue Bond Program

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, 2004 no bonds under this authorization have been issued. As of

June 30, 2004 the Authority had issued revenue bonds for 302 projects (not including bonds issued to refund other bonds). The principal amount payable for revenue bonds issued after July 1, 1995 was $115,178,000. 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 Revolving Loan Fund Program and Rural Development Initiative Fund Loan Program

AIDEA's Small Business Economic Development Revolving Loan Fund 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 2,000 or less on the road or rail system or off-road or rail communities of 5,000 or less.

These Loan Programs are administered by the State Department of Commerce, Community and Economic Development.

(e) Alaska Energy Authority

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 and has a borrowing arrangement to provide working capital funds to AEA. AEA continues to exist as a separate legal entity. 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.

(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 investments in money market funds, 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.

(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 statement 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 permanent impairments of value. The Authority recognizes impairment losses for development projects whenever the fair value of the asset has declined below the carrying value and the decline is determined to be permanent in nature. 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) Other Real Estate Owned

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

(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, 2004.

(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, 2004, 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.

(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 financial 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, 2003, from which the summarized information was derived.

(r) Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

(3) Additional Information Regarding Cash and Cash Equivalents

At June 30, 2004 AIDEA's carrying amount of cash and cash equivalents (excluding Snettisham) was $45,601,000 ($932,000 was restricted) and the bank balance was $45,642,000.

(4) Investment Securities

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

		2004	2003
U.S. Treasury securities maturity:			
Within one year	$	62,441	72,880
After one but within five years		13,476	17,718
After five but within ten years		3,487	4,153
Thereafter		1,864	12,962
		81,268	107,713
U.S. Government agencies maturity:			
Within one year		11,828	31,130
After one but within five years		24,758	21,046
After five but within ten years		10,867	3,187
Thereafter		72,907	67,740
		120,360	123,103
Corporate securities maturity:			
After one but within five years		33,094	4,732
After five but within ten years		39,982	54,072
Thereafter		26,001	62,210
		99,077	121,014
	$	300,705	351,830

Amounts totaling approximately $41,300,000 held in money market funds result in Category 3 safekeeping risk. All other cash and investment securities in the Revolving Fund are registered in the Authority's name and are held by 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 are invested by the State Department of Revenue and are represented by participation in an investment pool and, as such, cannot be categorized into one of the three risk categories defined by GASB Statement No. 3 because the amount reported represents shares in a pool rather than specific, identifiable deposits and securities.

Certain investment securities, money market funds, 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	2004	2003
Capital reserve funds	Secure debt service payments – bonds	$ 556	1,487
Debt service and loan prepayment accounts	Funds held for future debt service – bonds	8	1,141
Red Dog Project Sustaining Capital Fund	Project costs	12,132	11,881
Snettisham Hydroelectric Project Funds	Various costs relating to the project	9,821	9,578
		$ 22,517	24,087

(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):

	2004		2003	
	Number	Amount	Number	Amount
Appropriated	147	$ 2,547	207	$ 5,348
Loan participation:				
Bonds outstanding	7	1,091	25	3,848
Bonds retired	35	8,669	33	10,696
Internally funded	218	262,241	184	200,569
OREO sale financing	14	3,543	20	6,359
Other	3	70	6	168
Loan funds	62	6,439	60	5,183
	486	284,600	535	232,171
Less current portion		(12,151)		(10,319)
		$ 272,449		$ 221,852

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

	2004		2003	
	Percent	**Amount**	**Percent**	**Amount**
Current	98.50%	$ 273,974	94.15%	$ 213,713
Past due:				
31–60 days	0.36%	1,003	1.10%	2,506
61–90 days	0.37%	1,032	—	—
Over 90 days	0.77%	2,152	4.75%	10,769
	100.00%	$ 278,161	100.00%	$ 226,988

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 $1,666,000 and $10,769,000 at June 30, 2004 and 2003, respectively. Gross interest income which would have been received on these loans amounted to $138,000 and $484,000 for the years ended June 30, 2004 and 2003, respectively. The amount of interest income included in the change in net assets was $85,000 and $(65,000) for the years ended June 30, 2004 and 2003, respectively.

Revolving Fund loans on which the terms have been restructured amounted to $1,518,000 at June 30, 2004 and 2003. Gross interest income which would have been received on these loans amounted to $116,000 for the years ended June 30, 2004 and 2003. The amount of interest income collected and included in the change in net assets was $93,000 and $113,000 for the years ended June 30, 2004 and 2003, respectively.

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

	2004		2003	
	Percent	**Amount**	**Percent**	**Amount**
Current	85.08%	$ 5,478	74.37%	$ 3,854
Past due:				
31-60 days	1.24%	80	3.37%	175
Over 90 days	13.68%	881	22.26%	1,154
	100.00%	$ 6,439	100.00%	$ 5,183

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 $542,000 and $860,000 at June 30, 2004 and 2003, respectively. Gross interest income which would have been received on these loans amounted to $17,000 and $13,000 for the years ended June 30, 2004 and 2003, respectively. The amount of interest income collected and included in the change in net assets was $8,000 and $4,000 for the years ended June 30, 2004 and 2003, respectively.

(Continued)

Loan Fund loans on which the terms have been restructured amounted to $1,097,000 and $792,000 at June 30, 2004 and 2003, respectively. Gross interest income which would have been received on these loans amounted to $10,000 and $13,000 for the years ended June 30, 2004 and 2003, respectively. The amount of interest income collected and included in the change in net assets was $10,000 and $4,000 for the years ended June 30, 2004 and 2003, 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 2004	Total 2003
Balance at beginning of year	$	12,030	886	12,916	12,867
Provision for loan loss		165	126	291	49
Recoveries of loans charged off		109	—	109	—
Balance at end of year	$	12,304	1,012	13,316	12,916

(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 March 2015. Minimum lease payments under the agreement return the cost of the Federal Express Project plus 7.55% interest.
- 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 components of the Authority's net investment in direct financing leases at June 30, are (stated in thousands):

		2004	2003
Minimum lease payments receivable	$	670,786	691,187
Less unearned income		(395,270)	(412,770)
Net investment in direct financing leases	$	275,516	278,417

Future minimum lease payments receivable for each of the five succeeding fiscal years ending June 30, 2005, through June 30, 2009 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):

		2004	2003
Federal Express Project	$	21,975	23,054
Red Dog Project		253,541	255,363
	$	275,516	278,417

(b) *Notes Receivable*

In November 2003, the Alaska Railroad Corporation purchased the Authority's partial interest in the Seward Coal Load-Out facility. Prior to the sale, the Authority received user fees in consideration of its interest in the facility. The user maintained the facility at its sole expense. The Authority accounted for its ownership interest as a note receivable with a 7.5% rate. The outstanding note balance, plus accrued interest, was paid in full at the time of sale.

(c) *Development Projects*

- The Healy Project has been idle since completion of a 90-day test period in December 1999. A Power Sales Agreement (PSA) 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 PSA, among other allegations.

  In March 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 but is being depreciated because it is available for use. 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 PSA.

  Members of the Authority's board, management, and staff worked with members of GVEA's board, management, and staff to explore options for returning the Healy Project to operations. Subsequent to June 30, 2004, discussions between the Authority and GVEA ceased.

  The Healy Project was initially built to meet projected increasing energy demand, to provide fuel diversity in the Alaska Railbelt (the power-sharing area between Interior Alaska and Southcentral Alaska, connected by roads, generating facilities and transmission lines) electrical grid and to provide a market for otherwise unmarketable waste coal. Management believes that the energy needs still exist and that the Healy Project can be made operational at a cost that will produce competitively priced power. Discussions are currently underway with various groups regarding the potential sale and/or operation of the Healy Project. At June 30, 2004, management believes that there has been no permanent decline in the value of the Healy Project.

- The Authority entered into an operations and maintenance agreement for the Shipyard with Alaska Ship and Drydock (ASD). The Authority and ASD are currently negotiating to amend and extend the operating agreement for 30 years.
- The Skagway Terminal is currently unused. During 2003, the Authority wrote-off its remaining $1,700,000 investment in the Skagway Terminal after the project's concentrate storage facility was demolished due to physical deterioration and Authority management assessed that no near term users were evident. AIDEA continues to seek potential new users. The recent strengthening of base metal prices has generated interest in mining properties in the areas that the Skagway Terminal services. However, production activity, if any, is several years in the future.

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

		2004	2003
Healy Clean Coal Project	$	52,387	54,194
Ketchikan Shipyard		2,887	3,029
ASI (note 12)		—	22,400
ASI land (note 12)		—	2,005
	$	55,274	81,628

Development project activity for the Authority for the year ended June 30, 2004 follows (stated in thousands):

		Balance at June 30, 2003	Additions	Transfers and deletions	Balance at June 30, 2004
Development projects not being depreciated	$	25,568	—	(24,405)	1,163
Development projects being depreciated		68,159	—	—	68,159
Accumulated depreciation		(12,099)	(1,949)	—	(14,048)
Development projects being depreciated, net		56,060	(1,949)	—	54,111
Total Development Projects	$	81,628	(1,949)	(24,405)	55,274

(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) Capital Assets

Capital asset activity for the Authority for the year ended June 30, 2004 follows (stated in thousands):

		Balance at June 30, 2003	Additions	Transfers and deletions	Balance at June 30, 2004
Capital assets not being depreciated - land	$	600	—	—	600
Capital assets being depreciated		2,698	—	—	2,698
Accumulated depreciation		(349)	(134)	—	(483)
Capital assets being depreciated, net		2,349	(134)	—	2,215
Total Capital Assets	$	2,949	(134)	—	2,815

(9) The Four Dam Pool Power Agency Loan

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

The projects consist of four generation and transmission facilities and other property providing power to 1) Ketchikan, 2)Wrangell and Petersburg, 3)Valdez and Glennallen, and 4) Kodiak, (collectively, the Four Dam Pool Project). At the present time, none of the individual projects or the communities they serve are interconnected. Power from the projects is sold pursuant to a Long Term Power Sales Agreement (PSA) entered into between AEA and the utilities purchasing power from the Four Dam Pool Project. (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 Four Dam Pool loan, with interest at 6.5% per annum, was payable in installments over no more than 25 years. The Authority's interests in the Four Dam Pool loan were secured under a trust agreement and a deed of trust and security agreement.

The loan was paid off on October 21, 2004, and all security was released.

(10) 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, 2004. Dollar amounts are stated in thousands):

	Balance at June 30, 2003	Additions	Deletions	Balance at June 30, 2004	Amounts due within one year
Revolving Fund Bonds:					
Series 1995A - 6.0%, issued May 17, 1995, maturing in 2005	$ 1,845	—	950	895	895
Series 1997A - 5.75% to 6.125%, issued March 27, 1997, maturing through 2027	128,015	—	4,385	123,630	4,625
Revolving Fund Refunding Bonds:					
Series 1994A - 5.9%, issued March 30, 1994, maturing through 2006	1,655	—	605	1,050	525
Series 1995B - issued May 17, 1995, defeased May 17, 2004	1,655	—	1,655	—	—
Series 1998A - 5.0% to 5.25%, issued May 14, 1998, maturing through 2023	75,385	—	2,240	73,145	2,350
Series 2002A - 4.5% to 5.5%, issued June 20, 2002, maturing through 2014	18,930	—	1,345	17,585	1,400
	$ 227,485	—	11,180	216,305	9,795

At June 30, 2004, all Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. The Series 1994A bonds are further secured by loan proceeds and a capital reserve fund established pursuant to terms of the bond resolution (note 4). Various bonds are further secured by bond insurance.

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2004 are as follows (stated in thousands):

		Principal	Interest	Total
Year ending June 30:				
2005	$	9,795	12,147	21,942
2006		9,350	11,616	20,966
2007		9,310	11,095	20,405
2008		9,840	10,571	20,411
2009		10,385	10,034	20,419
2010-2014		61,130	40,918	102,048
2015-2019		53,300	23,553	76,853
2020-2024		39,620	10,499	50,119
2025-2027		13,575	1,696	15,271
	$	216,305	132,129	348,434

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, 2004, the Authority has estimated that projected future coverage for each future year exceeds 150%. At June 30, 2004, unrestricted Revolving Fund surplus was approximately $761,927,000. 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, 2004, the liquidity requirement was $50,000,000.

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; $6,475,000 of the defeased bonds remain outstanding at June 30, 2004. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2004 are as follows (stated in thousands):

	Principal	Interest	Total
Year ending June 30:			
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	1,520	4,405	5,925
2010-2014	8,885	20,722	29,607
2015-2019	11,780	17,816	29,596
2020-2024	15,310	14,298	29,608
2025-2029	19,600	9,998	29,598
2030-2034	25,370	4,233	29,603
	$ 87,790	89,835	177,625

(11) 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. The 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	7.65%
Annual pension cost	$239,000
Contributions made	$239,000
Actuarial valuation date	June 30, 2003
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.

(12) Commitments and Contingencies

(a) Investments

At June 30, 2004, the Authority held approximately $56,000 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 that are expected to be returned to the state general fund. The Authority held approximately $25,070,000 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.

(Continued)

(b) Alaska Seafood International

The Authority provided construction financing and, upon substantial completion in 1999, acquired the ASI facility and underlying and associated real estate. The Authority entered into a long-term lease of the facilities, with rent payments scheduled to commence in October 2000. In February 2000, the project encountered financial difficulties. A restructuring occurred in which the Authority became an equity owner in ASI and operations at the plant resumed in 2001.

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. As part of the restructuring, the Authority purchased from ASI land adjacent to the ASI facility for $2,000,000 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 was expensed in 2003. The restructuring provided ASI with working capital to continue operations.

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 $1,700,000 mortgage associated with the facility. In March 2004, the facility and adjacent land was placed on the market for sale and the facility was reclassified to other real estate owned. An offer of $24,500,000 has been received to purchase the facility and the Authority's board has approved purchase financing and authorized staff to pursue the sale.

(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 $22,000,000 dividend for the year ending June 30, 2005.

(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, 2004, the Authority had extended open loan commitments of $48,242,000 and loan guarantees of $2,091,000. 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.