KPMG

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2005

(With Summarized Financial Information for June 30, 2004)

(With Independent Auditors' Report Thereon)

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

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AND EXPORT AUTHORITY
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June 30, 2005

Overview of the Financial Statements

The accompanying financial statements for the Alaska Industrial Development and Export Authority (Authority or AIDEA) 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, 2005, with summarized comparative totals at June 30, 2004. 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 basic 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 Loan Funds are not part of the Revolving Fund and are therefore presented separately in the accompanying financial statements.

The financial statements consist of two sections: management's discussion and analysis, and the basic financial statements. The Authority's operations are business type activities and follow enterprise fund accounting. The Authority is a component unit of the State of Alaska (the State) and is discretely presented in the State's financial statements. The Authority's basic financial statements include: the Balance Sheet; the Statement of Revenues, Expenses and Changes in Fund Net Assets; the Statement of Cash Flows and the Notes to Basic Financial Statements. Summarized financial information for FY 2004 is also presented and is intended to facilitate and enhance understanding of the Authority's financial position, results of operations and cash flows for the current fiscal year in comparison to the prior fiscal year.

Basic Financial Statements

The *Balance Sheet* reports the Authority's assets, liabilities, and resulting net assets. The net assets are reported as: invested in development projects, net of related debt; invested in capital assets; restricted; and unrestricted. Restricted net assets are subject to external limits such as bond resolutions, legal agreements or statutes.

The *Statement of Revenues, Expenses, and Changes in Fund Net Assets* report the Authority's income, expenses, and resulting change in net assets during the periods reported.

Both statements report using the accrual basis of accounting and economic resources measurement focus.

The *Statement of Cash Flows* reports the Authority's sources and uses of cash and change in cash balance resulting from the Authority's activities during the periods reported.

The *Notes to Basic Financial Statements* provide additional information required to fully understand the amounts reported in the basic financial statements.

Management’s Discussion and Analysis

This section presents management’s discussion and analysis of the financial position and results of operations at and for the fiscal year ended June 30, 2005. This information is being presented to assist the reader in focusing on significant financial issues and to provide additional information regarding the activities of the Authority. This information should be read in conjunction with the Independent Auditors’ Report, the audited financial statements and accompanying notes.

Financial Highlights

AIDEA’s assets exceeded its liabilities at June 30, 2005 and 2004 by $841.0 million and $822.9 million, respectively. Of the total net assets, $849.6 million ($840.1 million of which was in the Revolving Fund) and $837.4 million ($829.1 million of which was in the Revolving Fund) at June 30, 2005 and 2004, 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, 2005 and 2004 follows (in thousands):

	2005	2004	Increase (decrease)
Current assets	$ 122,583	191,960	(69,377)
Capital assets	2,680	2,815	(135)
Other noncurrent assets and restricted assets	1,025,939	951,545	74,394
Total assets	$ 1,151,202	1,146,320	4,882
Current liabilities	$ 14,461	16,807	(2,346)
Noncurrent liabilities and those payable from restricted assets	295,735	306,627	(10,892)
Total liabilities	310,196	323,434	(13,238)
Total net assets	841,006	822,886	18,120
Total liabilities and net assets	$ 1,151,202	1,146,320	4,882

The decrease in current assets resulted from the payoff of The Four Dam Pool Power Agency loan in October 2004 (see note 8 to the basic financial statements).

(Continued)

The increase in noncurrent assets occurred in two primary areas (investment securities and loans). The Authority's Revolving Fund purchased $66.3 million of loan participations and the loan funds funded $2.9 million in new loans during the year ended June 30, 2005. Principal collected on loans decreased loan balances by $36.6 million during the 2005 fiscal year; loan payoffs accounted for more than $20.0 million of the amount collected. In June 2005, the Authority sold the Alaska Seafood International Project (ASI) and financed $23.5 million of the sale (see note 11 to the basic financial statements); ASI was included in Other Real Estate Owned (OREO) at June 30, 2004. The combination of these factors resulted in a net increase in the noncurrent portion of loans of $55.7 million between the two year ends (and a decrease in OREO of $24.5 million primarily due to the sale of ASI for its recorded value).

The payoff of The Four Dam Pool Power Agency loan in October 2004 provided the funds that resulted in the $46.6 million increase in the noncurrent portion of the Authority's investment portfolio at June 30, 2005 from June 30, 2004.

The Authority's Healy Clean Coal Project (Healy Project) had a carrying value of $50.6 million at June 30, 2005. 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 the energy needs still exist and the Healy Project can be made operational at a cost resulting in competitively priced power. On October 3, 2005, the Authority entered into a Letter Agreement with Homer Electric Association related to the restart of the Healy Project (see note 6 to the basic financial statements). Management believes that there has been no permanent decline in the value of the Healy Project.

The decline in total liabilities was primarily caused by the $11 million payment of bonds during the year; no new debt was issued during the year.

The $18.1 million increase in net assets during the year ended June 30, 2005, resulted from operating income of $34.0 million offset by net nonoperating expenses of $15.9 million, which was comprised substantially of the Authority's $22 million fiscal year 2005 dividend to the State of Alaska (State). The dividend expense was partially offset by $5.7 million of capital contributed from the local Ketchikan governments and the State for the Ketchikan Shipyard, an Authority owned development project.

(Continued)

Components of the Authority's operating revenues, operating expenses and nonoperating revenues and expenses for the years ended June 30, 2005 and 2004 follows (in thousands):

	2005	2004	Increase (decrease)
Operating revenues:			
Interest on loans	$ 18,411	15,104	3,307
Interest on The Four Dam Pool Power Agency loan	1,476	4,846	(3,370)
Interest on direct financing leases	17,285	17,500	(215)
Investment interest	14,232	14,360	(128)
Net increase (decrease) in fair value of investments	3,781	(13,432)	17,213
Other income	4,344	4,663	(319)
Restricted income	4,660	4,723	(63)
Total operating revenues	64,189	47,764	16,425
Operating expenses:			
Interest	12,387	12,948	(561)
General and administrative	7,246	6,009	1,237
Provision for loan losses	1,327	294	1,033
Depreciation	1,949	1,949	—
Write-downs and net expenses associated with other assets	702	847	(145)
Other project expenses	1,908	2,383	(475)
Interest on liabilities payable from restricted assets	4,660	4,723	(63)
Total operating expenses	30,179	29,153	1,026
Operating income	34,010	18,611	15,399
Nonoperating revenues	6,110	222	5,888
Dividend to State of Alaska	(22,000)	(18,176)	(3,824)
Increase in net assets	$ 18,120	657	17,463

Operating revenues increased $16.4 million during the year ended June 30, 2005 compared to 2004. A net increase in fair value of investment securities of $17.2 million created the significant change between the two years. The Authority recognized a net $3.8 million increase in fair value of investments in 2005 as rates fluctuated and the yield curve flattened during the year, versus a $13.4 million decrease in fair value of investments in 2004 as rates rose over the year and at June 30, 2004.

(Continued)

The changes to the loan portfolio and The Four Dam Pool Power Agency loan payoff described above had an impact on interest earnings. Interest on loans increased $3.3 million during the year ended June 30, 2005 compared to the same period in 2004 due to the higher loan balances. Interest from The Four Dam Pool Power Agency loan decreased $3.4 million during the year ended June 30, 2005 compared to the prior year due to the payoff in October 2004.

Operating expenses increased $1.0 million net in 2005 compared to 2004. Of this total increase, $1.0 million resulted from a higher provision for loan losses in 2005 than 2004. General and administrative costs increased $1.2 million in 2005 compared to 2004, substantially due to increased personnel costs resulting from higher retirement, salary and health insurance costs. These increases were offset by decreases in the other operating expense categories, resulting in the net increase of $1.0 million.

The Authority paid a dividend of $22 million to the State for the year ended June 30, 2005, compared to $18.2 million for 2004; $1.8 million of the fiscal year 2004 dividend was paid in fiscal year 2005. 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.

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Independent Auditors' Report

The Board of Directors
Alaska Industrial Development and Export Authority:

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, 2005, 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 2004 financial statements and, in our report dated September 24, 2004 (with subsequent event note dated October 21, 2004), 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 consideration of internal control over financial reporting as a basis for designed audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005, 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 5 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 23, 2005,
(October 17, 2005 as to note 6(c))

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

Balance Sheet

June 30, 2005
(With summarized financial information at June 30, 2004)

(In thousands)

Assets	Revolving Fund	Loan Funds	Total 2005	Total 2004
Current assets:				
Cash and cash equivalents (note 3)	$ 27,189	2,524	29,713	34,848
Investment securities (note 3)	70,441	—	70,441	62,505
Loans (note 4)	11,815	665	12,480	12,151
The Four Dam Pool Power Agency loan (note 8)	—	—	—	73,536
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	3,595	—	3,595	3,365
Accrued interest receivable	4,760	—	4,760	4,380
Other assets	1,424	170	1,594	1,175
Total current assets	119,224	3,359	122,583	191,960
Noncurrent assets:				
Investment securities (note 3)	272,992	—	272,992	226,436
Loans (note 4)	320,253	7,894	328,147	272,449
Less allowance for loan losses (note 5)	(13,419)	(706)	(14,125)	(13,316)
Net loans	306,834	7,188	314,022	259,133
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	268,556	—	268,556	272,151
Development projects (note 6)	54,863	—	54,863	55,274
Other real estate owned	275	—	275	24,756
Other assets (note 7)	6,125	—	6,125	6,920
Restricted assets:				
Cash and cash equivalents (note 3)	4,261	—	4,261	932
Investment securities (note 3)	12,828	—	12,828	11,764
Snettisham (note 6):				
Cash and cash equivalents (note 3)	8,796	—	8,796	9,821
Net investment in direct financing leases (note 6)	85,901	—	85,901	87,173
Total noncurrent assets	1,021,431	7,188	1,028,619	954,360
Total assets	$ 1,140,655	10,547	1,151,202	1,146,320
Liabilities and Net Assets				
Current liabilities:				
Bonds payable – current portion (note 9)	$ 9,350	—	9,350	9,795
Accrued interest payable	2,904	—	2,904	3,037
Accounts payable	1,135	144	1,279	785
Dividend payable to State of Alaska	—	—	—	1,760
Other liabilities	—	928	928	1,430
Total current liabilities	13,389	1,072	14,461	16,807
Noncurrent liabilities:				
Bonds payable – noncurrent portion (note 9)	197,160	—	197,160	206,510
Other liabilities	3,878	—	3,878	3,123
	201,038	—	201,038	209,633
Liabilities payable from restricted assets – Snettisham:				
Power revenue bonds payable (note 9)	86,560	—	86,560	87,790
Other	8,137	—	8,137	9,204
Total liabilities	309,124	1,072	310,196	323,434
Net assets:				
Invested in development projects, net of related debt	(15,932)	—	(15,932)	(17,871)
Invested in capital assets	2,680	—	2,680	2,815
Restricted contributions	4,130	—	4,130	—
Restricted for debt service	558	—	558	564
Unrestricted	840,095	9,475	849,570	837,378
Total net assets	831,531	9,475	841,006	822,886
Commitments and contingencies (notes 1, 10, and 11)				
Total liabilities and net assets	$ 1,140,655	10,547	1,151,202	1,146,320

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, 2005
(With summarized financial information for the year ended June 30, 2004)

(In thousands)

		Revolving Fund	Loan Funds	Total 2005	Total 2004
Operating revenues:					
Interest on loans (note 4)	$	18,166	245	18,411	15,104
Interest on The Four Dam Pool Power Agency loan (note 8)		1,476	—	1,476	4,846
Interest on direct financing leases (note 6)		17,285	—	17,285	17,500
Interest on Snettisham restricted direct financing lease (note 6)		4,660	—	4,660	4,723
Investment interest		14,232	—	14,232	14,360
Net increase (decrease) in fair value of investments		3,781	—	3,781	(13,432)
Other income		3,776	40	3,816	3,490
Federal grants		—	507	507	914
Other project income		21	—	21	259
Total operating revenues		63,397	792	64,189	47,764
Operating expenses:					
Interest		12,387	—	12,387	12,948
Interest on Snettisham liabilities payable from restricted assets (note 9)		4,660	—	4,660	4,723
General and administrative		7,176	70	7,246	6,012
Provision for loan losses		1,316	11	1,327	291
Write-downs and net expenses associated with other assets		702	—	702	847
Depreciation		1,949	—	1,949	1,949
Other project expenses		1,908	—	1,908	2,383
Total operating expenses		30,098	81	30,179	29,153
Operating income		33,299	711	34,010	18,611
Nonoperating revenues (expenses):					
Contributed capital		5,658	—	5,658	—
Capital grant		—	—	—	85
Transfers from primary government		—	376	376	122
Investment interest		—	76	76	15
Dividend to State of Alaska		(22,000)	—	(22,000)	(18,176)
Net nonoperating revenues (expenses)		(16,342)	452	(15,890)	(17,954)
Increase in net assets		16,957	1,163	18,120	657
Net assets – beginning of year		814,574	8,312	822,886	822,229
Net assets – ending of year	$	831,531	9,475	841,006	822,886

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, 2005
(With summarized financial information for the year ended June 30, 2004)

(In thousands)

	Revolving Fund	Loan Funds	Total 2005	Total 2004
Cash flows from operating activities:				
Interest received on loans	$ 17,722	246	17,968	14,739
Interest received on The Four Dam Pool Power Agency loan	1,568	—	1,568	4,821
Receipts from borrowers	1,445	—	1,445	2,118
Principal collected on loans	35,938	632	36,570	28,260
Principal collected on The Four Dam Pool Power Agency loan	73,536	—	73,536	1,508
Other operating receipts	3,818	—	3,818	2,533
Loans originated	(66,316)	(2,937)	(69,253)	(80,572)
Payments to suppliers and employees for services	(6,985)	(2)	(6,987)	(8,779)
Payments to primary government	(1,202)	(57)	(1,259)	(1,166)
Payments to other governments	—	—	—	(21)
Other operating payments	(2,913)	—	(2,913)	(329)
Net cash provided (used) by operating activities	56,611	(2,118)	54,493	(36,888)
Cash flows from noncapital and related financing activities:				
Transfers from primary government	—	376	376	122
Dividend paid to the State of Alaska	(23,760)	—	(23,760)	(16,416)
Interest paid on noncapital debt	(115)	(32)	(147)	(327)
Operating loans collected from (paid to) the Alaska Energy Authority, net	(182)	—	(182)	975
Principal paid on noncapital debt	(1,420)	—	(1,420)	(3,210)
Net cash provided (used) by noncapital and related financing activities	(25,477)	344	(25,133)	(18,856)
Cash flows from capital and related financing activities:				
Direct financing lease receipts	20,650	—	20,650	20,402
Direct financing lease receipts – Snettisham	5,931	—	5,931	5,300
Restricted contributions for development projects	4,255	—	4,255	—
Investment in development projects	(135)	—	(135)	—
Proceeds from capital grants	—	—	—	94
Other receipts from capital and financing activities	269	—	269	252
Interest paid on capital debt	(12,031)	—	(12,031)	(12,446)
Principal paid on capital debt	(8,375)	—	(8,375)	(7,970)
Interest paid on capital debt – Snettisham	(4,692)	—	(4,692)	(4,753)
Principal paid on capital debt – Snettisham	(1,230)	—	(1,230)	(1,170)
Net cash provided (used) by capital and related financing activities	4,642	—	4,642	(291)
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	341,578	—	341,578	515,706
Purchases of investment securities	(393,352)	—	(393,352)	(478,012)
Receipts from notes receivable	—	—	—	5,777
Interest and dividends collected on investments	14,066	121	14,187	15,273
Net proceeds from sales of other real estate owned	754	—	754	404
Net cash provided (used) by investing activities	(36,954)	121	(36,833)	59,148
Net increase (decrease) in cash and cash equivalents	(1,178)	(1,653)	(2,831)	3,113
Cash and cash equivalents at beginning of year	41,424	4,177	45,601	42,488
Cash and cash equivalents at end of year	$ 40,246	2,524	42,770	45,601

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ALASKA INDUSTRIAL DEVELOPMENT
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Statement of Cash Flows

Year ended June 30, 2005
(With summarized financial information for the year ended June 30, 2004)

(In thousands)

	Revolving Fund	Loan Funds	Total 2005	Total 2004
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	$ 33,299	711	34,010	18,611
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Principal collected on loans	35,938	632	36,570	28,260
Principal collected on The Four Dam Pool Power Agency loan	73,536	—	73,536	1,508
Loans originated	(66,316)	(2,937)	(69,253)	(80,572)
Investment interest income	(14,232)	—	(14,232)	(14,360)
Amortization of unearned income on direct financing leases	(17,285)	—	(17,285)	(17,500)
Amortization of unearned income on direct financing lease – Snettisham	(4,660)	—	(4,660)	(4,723)
Interest income – notes receivable	—	—	—	(241)
Bond interest expense	12,014	—	12,014	12,597
Bond interest expense – Snettisham	4,660	—	4,660	4,723
Provision for loan losses	1,316	11	1,327	291
Depreciation	1,949	—	1,949	1,949
Net depreciation (appreciation) of investment securities	(3,781)	—	(3,781)	13,432
Write-downs and net loss on sale of other assets	76	—	76	519
Decrease (increase) in accrued interest receivable – The Four Dam Pool Power Agency loan	92	—	92	(24)
Decrease (increase) in accrued interest receivable and other assets	(31)	(164)	(195)	316
Increase (decrease) in accounts payable and other liabilities	36	(371)	(335)	(1,674)
Net cash provided (used) by operating activities	$ 56,611	(2,118)	54,493	(36,888)
Noncash investing, capital and financing activities:				
Reclassification of development project to other real estate owned (note 11b)	$ —	—	—	24,405
Financing provided for sales of other real estate owned (note 11b)	23,760	—	23,760	—
Contributed assets received for development project (note 6c)	1,403	—	1,403	—

See accompanying notes to basic financial statements.

(1) Organization and Operations

The Alaska Industrial Development and Export Authority (AIDEA or the Authority) is the primary economic development financing agency of the State of Alaska (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, established pursuant to legislation. The Authority's Revolving Fund has two main programs under which it transacts 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 with activity reflected in the accompanying financial statements are (also see note 6):

- 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 mine, the world's largest zinc producer, 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 second shiplift is currently in the procurement phase and will be financed by a $5,000,000 federal grant and matching state and local contributions.
- 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.

(Continued)

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 11) 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; no bonds under this authorization have been issued. As of June 30, 2005, the

(Continued)

Authority had issued revenue bonds for 304 projects (not including bonds issued to refund other bonds). At June 30, 2005, the outstanding principal amount of revenue bonds issued after July 1, 1995 was $231,341,000. 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 basic financial statements, cash and cash equivalents for the Authority consist of cash, short term commercial paper, investments in money market funds, and equity of the Loan Funds in the State's investment's pool, whether unrestricted or restricted as to their use.

(c) Investments

The Authority's marketable securities are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of the change in 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 loan terms are restructured.

AIDEA considers lending activities to be part of its principal ongoing operations and classifies them 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 6), 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 statement of revenues, expenses, and changes in net assets.

(Continued)

(f) Development Projects

The Authority's development projects are carried at cost, net of depreciation, adjusted for permanent impairments of value. The Authority begins depreciation on development projects when they are available for use. In addition, 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 statement 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, 2005.

(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, 2005, 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.

(Continued)

(k) Appropriations and Grants

AIDEA recognizes grant revenue and revenue related to contributed capital 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 31 years.

(n) Transfers

Transfers out, including the dividend to the State and transfers to State departments, 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 to make disclosures of contingent assets and liabilities as of the date of the basic financial statements. Actual results could differ from the 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, 2004, from which the summarized information was derived.

(r) Reclassifications

Certain reclassifications have been made to the 2004 financial information to conform to the 2005 presentation.

(3) Cash and Investment Securities

Revolving Fund

Cash and Cash Equivalents

A summary of the Revolving Fund's cash and cash equivalents (excluding Snettisham) at June 30, 2005 follows (in thousands):

Restricted	$	4,261
Unrestricted		27,189
Carrying amount	$	31,450
Bank balance	$	31,467

Investment Securities

General – Investment Policies, Portfolio Information and Restrictions

The Authority's Revolving Fund investments are governed by Alaska Statute and the Authority's Resolution No. G01-14, Resolution of the Alaska Industrial Development and Export Authority Relating to Fixed-Income Investment Policies (Resolution) or bond resolutions. The bond resolutions specify allowable investments. Under the Resolution, the Authority has an internally managed portfolio and utilizes two external money managers.

The following securities are eligible for investment under the Resolution:

- Debt instruments issued by the U.S. government, its agencies and instrumentalities;
- Debt instruments issued by domestic entities rated triple B minus or above by both Standard & Poor's (S&P) and Moody's Rating Service (Moody's) and dollar denominated debt instruments of comparable quality issued by nondomestic entities; corporate debt instruments in the internally managed portfolio are limited to a maturity of less than one year;
- Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation mortgage backed instruments as well as asset backed securities;
- Certificates of deposit and term deposits of United States domestic financial institutions provided the institutions meet guidelines set forth in the Resolution;

- Other money market instruments described in the Resolution; and
- Other investments specifically approved by the board of directors (for the internally managed portfolio).

Snettisham project investments are subject to the investment guidelines provided in the Snettisham Power Revenue Bond Resolution. The guidelines dictate allowable investment type and quality, but not duration, other than requiring moneys to be available when needed and be invested at the direction of the Authority.

The Revolving Fund portfolio, organized by major investment type at June 30, 2005 follows (in thousands):

U.S. Treasury notes	$	131,932
U.S. Government Agency		38,923
Corporate securities		84,033
Mortgage backed securities		86,362
Asset backed securities		15,011
	$	356,261

Certain investment securities, money market funds, and cash are restricted by the terms of the Revolving Fund bond resolution or other agreements. A summary of restricted amounts at June 30 follows (in thousands):

	Allowable usage		2005	2004
Capital reserve funds	Secure debt service payments – bonds	$	540	556
Debt service and loan prepayment accounts	Funds held for future debt service – bonds		18	8
Red Dog Project Sustaining Capital Fund	Project costs		12,401	12,132
Ketchikan Shipyard restricted contribution	Project costs		4,130	—
Snettisham Hydroelectric Project Funds	Various costs relating to the project		8,796	9,821
		$	25,885	22,517

(Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will negatively affect the fair value of an investment. The Resolution addresses interest rate risk. The duration of the externally managed fixed income portfolios, evaluated in total by money manager, must be within plus or minus 20% of the duration of the Lehman Aggregate Bond Index (duration is a weighted average term-to-maturity of a bond's cash flows). The Authority is in compliance with the requirements of the investment policy regarding the duration of the externally managed fixed income portfolio.

For the internally managed portfolio, the duration for longer term investments is 2 years or less. The maximum maturity of any issue shall be 3 years from the date of purchase. The June 30, 2005, weighted average effective duration for Revolving Fund investments and money market funds follows. The duration values in the table below take into account any put or call options embedded in the security, any expected sinking-fund paydowns or expected principal prepayments:

	Internally managed portfolio	Externally managed portfolio
Money market	0.18	0.25
U.S. Treasury notes	0.68	4.34
U.S. Government Agency	0.65	3.20
Corporate securities	—	5.83
Mortgage backed securities	—	2.60
Asset backed securities	—	1.23

Credit Risk

Credit risk is the financial risk that an issuer or other counterparty to an investment will not fulfill its obligations and a loss will result. The Resolution sets guidelines for investment quality.

In the event the rating of a security is downgraded below triple B minus while owned by the Authority, it will no longer be eligible for purchase and the Investment Manager will report the downgrade to the Authority with a plan of action for monitoring the security and its disposition within six months.

The weighted average quality rating of each externally managed portfolio shall be AA- or better, as determined by S&P or equivalent nationally recognized rating agency.

(Continued)

The quality ratings of the Authority's portfolio at June 30, 2005 are stated in the table below as a percentage of the total portfolio. U.S. Treasury securities and securities of agencies and corporations explicitly guaranteed by the U.S. government are not considered to have credit risk and are reported as such in the table. Ratings used are S&P's rating scale unless rated lower by Moody's in which case Moody's is used. Rate modifiers are not disclosed.

Investment type	Rating	Percentage of total
Money market	AAA	8%
Money market	Not rated	2
U.S. Government Agency	AAA	8
U.S. Government Agency	A	1
Corporate securities	AAA	2
Corporate securities	AA	2
Corporate securities	A	8
Corporate securities	BBB	5
Corporate securities	BB	1
Corporate securities*	A	1
Corporate securities*	A	1
Corporate securities*	Baa	2
Mortgage backed securities	AAA	2
Mortgage backed securities	Not rated	20
Asset backed securities	AAA	4
No credit exposure		33
		100%

* Moody's rating

Custodial Credit Risk

Custodial credit risk of investments is the risk that, in the event of the failure of a custodian, the value of investments or collateral securities may not be recovered. In the Revolving Fund, amounts totaling approximately $40,000,000 at June 30, 2005, are held in money market funds. All other investment securities in the Revolving Fund are registered in the Authority's name and are held by its custodian, the trust department of a commercial bank; therefore no custodial credit risk exists for these securities.

Loan Funds

Cash and Cash Equivalents

A summary of the Loan Fund's cash and cash equivalents at June 30, 2005 follows (in thousands):

Carrying amount – unrestricted	$	2,524
Bank balance	$	2,524

Investment Securities

General – Investment Policies and Portfolio Information

The Loan Funds are invested in the State's internally managed General Fund and Other Non-Segregated Investments Pool (GeFONSI). The Loan Funds GeFONSI investments are in the State's Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division (Treasury). A complete description of the investment policy for each pool is included in the State's CAFR (see Department of Revenue, Treasury Division, Policies and Procedures). GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature.

The Loan Fund portfolio, organized by major investment type at June 30, 2005 follows (in thousands):

		Fair value	
Investment type	**Short-term fixed income pool**	**Intermediate-term fixed income pool**	**Total**
Overnight sweep account	$ 9	—	9
Commercial paper	109	—	109
U.S. Treasury bills	83	—	83
U.S. Treasury notes	72	530	602
U.S. Treasury strips	—	11	11
U.S. Government Agency discount notes	18	75	93
U.S. Government Agency	—	144	144
Mortgage-backed	209	226	435
Other asset-backed	587	57	644
Corporate bonds	266	171	437
Yankees-Corporate	10	1	11
Total invested assets	1,363	1,215	2,578
Pool related net assets (liabilities)	14	(68)	(54)
Net invested assets	$ 1,377	1,147	2,524

Interest Rate Risk

Interest rate risk for the Short-term Fixed Income Pool is governed by Treasury's investment policy. The policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life and floating rate securities are limited to three years in maturity or expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to $\pm$20% of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2005 was 2.31 years.

The June 30, 2005, weighted average effective duration for Loan Funds Intermediate-term Fixed Income Pool follows:

U.S. Treasury notes	2.26
U.S. Treasury strips	0.86
U.S. Government Agencies	3.01
Corporate securities	2.60
Yankees-Corporate	3.09
Mortgage backed securities	2.01
Asset backed securities	0.84
Pool effective duration	2.10

The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Credit Risk

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of S&P, Moody's and Fitch is A3 or equivalent. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

Intermediate-term Fixed Income Pool investments are limited to securities with a long-term credit rating of at least BBB3 or equivalent and securities with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of S&P, Moody's and Fitch is BBB3 or equivalent. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA.

The quality ratings of the Loan Funds portfolio's at June 30, 2005 are stated in the table below as a percentage of the total portfolio. U.S. Treasury securities and securities of agencies and corporations that are explicitly guaranteed by the U.S. government are not considered to have credit risk and are reported as such in the table. Ratings used are S&P's rating scale. Rate modifiers are not disclosed.

Investment type	Rating	Short-term fixed income pool	Intermediate-term fixed income pool
Commercial paper	A	8%	—%
U.S. Government Agency	Not rated	—	13
U.S. Government Agency discount notes	Not rated	1	7
Corporate Bonds	AAA	1	1
Corporate Bonds	AA	11	2
Corporate Bonds	A	9	6
Corporate Bonds	BBB	—	6
Yankees-Corporate	A	1	—
Mortgage backed securities	AAA	15	6
Mortgage backed securities (Agency)	Not rated	—	11
Other asset backed	AAA	39	4
Asset backed	A	3	1
No credit exposure		12	43
		100%	100%

Revolving Fund and Loan Funds

Concentration of Credit Risk

The risk of loss attributed to the magnitude of the Authority's investment in a single issuer is concentration of credit risk. The Authority's exposure to concentration risk is managed through the requirements of its investment policies, including the Resolution, and bond resolutions. The Resolution limits the exposure of each portfolio to any one issuer, other than securities of the U.S. Government, its agencies or instrumentalities, to 5% of the market value of the portfolio at the time of purchase; generally the Authority has three portfolios; one internally managed and two externally managed. Other than securities of the U.S. Government, its agencies or instrumentalities, the Authority had no holdings in a single issuer that exceeded 5% of the market value of the portfolios.

Treasury's policy with regard to concentration of credit risk for the Loan Funds portfolio is to prohibit the purchase of more than 5% of a pool's holdings in corporate bonds of any one company or affiliated group.

At June 30, 2005 the Authority had more than 5% of the combined portfolios invested in the following U.S. Government agency issuer (dollar amounts in thousands).

	Revolving Fund	Loan Funds	Percent of combined portfolio
Federal National Mortgage Association	$ 70,894	209	18%

(4) 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 in thousands):

	2005		2004	
	Number	Amount	Number	Amount
Appropriated	66	$ 1,393	147	$ 2,547
Loan participation:				
Bonds outstanding	4	764	7	1,091
Bonds retired	29	6,601	35	8,669
Internally funded	235	297,398	218	262,241
OREO sale financing	13	25,912	14	3,543
Other	—	—	3	70
Loan funds	79	8,559	62	6,439
	426	340,627	486	284,600
Less current portion		(12,480)		(12,151)
		$ 328,147		$ 272,449

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

	2005		2004	
	Percent	**Amount**	**Percent**	**Amount**
Current	99.73%	$ 331,180	98.50%	$ 273,974
Past due:				
31–60 days	0.06%	194	0.36%	1,003
61–90 days	0.01%	15	0.37%	1,032
Over 90 days	0.20%	679	0.77%	2,152
	100.00%	$ 332,068	100.00%	$ 278,161

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 $679,000 and $1,666,000 at June 30, 2005 and 2004, respectively. Gross interest income, which would have been received on these loans, amounted to $68,000 and $138,000 for the years ended June 30, 2005 and 2004, respectively. The amount of interest income included in the change in net assets was $20,000 and $85,000 for the years ended June 30, 2005 and 2004, respectively.

Revolving Fund loans on which the terms have been restructured amounted to $1,032,000 and $1,518,000 at June 30, 2005 and 2004, respectively. Gross interest income, which would have been received on these loans, amounted to $74,000 and $116,000 for the years ended June 30, 2005 and 2004, respectively. No interest income for these loans was collected and included in the change in net assets for the year ended June 30, 2005. The amount of interest income collected and included in the change in net assets for the year ended June 30, 2004 was $93,000.

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

	2005		2004	
	Percent	**Amount**	**Percent**	**Amount**
Current	90.06%	$ 7,708	85.08%	$ 5,478
Past due:				
31-60 days	—	—	1.24%	80
Over 90 days	9.94%	851	13.68%	881
	100.00%	$ 8,559	100.00%	$ 6,439

Loan Funds loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to $806,000 and $542,000 at June 30, 2005 and 2004, respectively. Gross interest income, which would have been received on these loans, amounted to $52,000 and $17,000 for the years ended June 30, 2005 and 2004, respectively. The amount of interest income collected and included in the change in net assets was $17,000 and $8,000 for the years ended June 30, 2005 and 2004, respectively.

Loan Funds loans on which the terms have been restructured amounted to $767,000 and $1,097,000 at June 30, 2005 and 2004, respectively. Gross interest income, which would have been received on these loans, amounted to $9,000 and $10,000 for the years ended June 30, 2005 and 2004, respectively. The amount of interest income collected and included in the change in net assets was $9,000 and $10,000 for the years ended June 30, 2005 and 2004, respectively.

(5) Allowance for Loan Losses

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

	Revolving Fund	Loan Funds	Total 2005	Total 2004
Balance at beginning of year	$ 12,304	1,012	13,316	12,916
Provision for loan losses	1,316	11	1,327	291
Recoveries of loans charged off	291	—	291	109
Charge-offs	(492)	(317)	(809)	—
Balance at end of year	$ 13,419	706	14,125	13,316

(6) 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 (in thousands):

		2005	2004
Minimum lease payments receivable	$	650,135	670,786
Less unearned income		(377,984)	(395,270)
Net investment in direct financing leases	$	272,151	275,516

Future minimum lease payments receivable for each of the five succeeding fiscal years, ending June 30, 2006, through June 30, 2010, are $20,650,000.

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

		2005	2004
Federal Express Project	$	20,549	21,975
Red Dog Project		251,602	253,541
	$	272,151	275,516

(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% interest 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. 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. Discussions between the Authority and GVEA have 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 the energy needs still exist and the Healy Project can be made operational at a cost that will produce competitively priced power.

On October 3, 2005, the Authority entered into a Letter Agreement with Homer Electric Association (HEA) related to the restart of the Healy Project. Under the terms of the Letter Agreement, AIDEA and HEA will undertake certain preliminary development activities, including an engineering review and physical inspection to determine the current condition of the Healy Project. The results of the inspection will be used to develop the scope of work that will be required to make any necessary repairs and modifications to the Healy Project in order to restart and operate the Healy Project.

AIDEA and HEA will also negotiate and finalize certain other agreements under which HEA will assume responsibility for managing work required for restart and operating and maintaining the Healy Project following completion of the restart work. These agreements will include terms under which HEA may operate and maintain the Healy Project and purchase power generated by it after restart. Accordingly, management believes that there has been no permanent decline in the value of the Healy Project.

- On October 17, 2005, the Authority entered into an amended and restated operating agreement for the Shipyard with the current operator, Alaska Ship and Drydock. The agreement provides for a ten-year term beginning December 1, 2005, with two ten-year extensions possible. Payments under the agreement are based on a percentage of revenue and will be applied first to reimburse the Authority for administrative costs up to $18,000 annually, adjusted for inflation; and then to the R&R Account established under the agreement, up to 125% of the amount required under the R&R Project Schedule defined in the agreement. Any remaining funds will be distributed to the Authority and the local Ketchikan governments; the Authority has no current projection of when, if ever, any distribution might be received.

  A second shiplift is currently in the procurement stage and will be financed by a $5 million grant from the U.S. Economic Development Agency, with the $5 million required match funded by the Ketchikan Gateway Borough and the State of Alaska. Additional grants and appropriations are being sought to complete the additional work related to further development of the shipyard. The local Ketchikan governments contributed $5.7 million during the year ended June 30, 2005 for the project, which included advanced funds, contributed land and engineering services.

- The Skagway Terminal is currently unused. AIDEA continues to seek potential new users. In August 2005, the Authority entered into a reimbursement agreement with a Canadian mining company to participate in a feasibility study of shipping coal through the Skagway Project. Also, the recent strengthening of base metal prices has generated interest in mining properties in the areas 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 (in thousands):

		2005	2004
Healy Clean Coal Project	$	50,581	52,387
Ketchikan Shipyard		4,282	2,887
	$	54,863	55,274

Development project activity for the year ended June 30, 2005 follows (in thousands):

		Balance at June 30, 2004	Additions	Transfers and deletions	Balance at June 30, 2005
Development projects not being depreciated	$	1,163	1,538	—	2,701
Development projects being depreciated		68,159	—	—	68,159
Accumulated depreciation		(14,048)	(1,949)	—	(15,997)
Development projects being depreciated, net		54,111	(1,949)	—	52,162
Total development projects	$	55,274	(411)	—	54,863

(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.

(7) Capital Assets

Capital asset activity for the year ended June 30, 2005 follows (in thousands):

	Balance at June 30, 2004	Additions	Transfers and deletions	Balance at June 30, 2005
Capital assets not being depreciated – land	$ 600	—	—	600
Capital assets being depreciated	2,698	—	—	2,698
Accumulated depreciation	(483)	(135)	—	(618)
Capital assets being depreciated, net	2,215	(135)	—	2,080
Total capital assets	$ 2,815	(135)	—	2,680

(8) 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, a joint action agency, on January 31, 2002, to acquire the Four Dam Pool Project from AEA. The Four Dam Pool Project consists 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. The Four Dam Pool loan, with interest at 6.5% per annum, was payable in installments over no more than 25 years. The loan was paid off in October 2004, and all security was released.

(9) Bonds Payable

The composition of bonds outstanding (in thousands) 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, 2005):

	Balance at June 30, 2004	Additions	Deletions	Balance at June 30, 2005	Amounts due within one year
Revolving Fund Bonds:					
Series 1995A – issued May 17, 1995	$ 895	—	895	—	—
Series 1997A – 5.60% to 6.125%, issued March 27, 1997, maturing through 2027	123,630	—	4,625	119,005	4,890
Revolving Fund Refunding Bonds:					
Series 1994A – 5.9%, issued March 30, 1994, maturing in 2006	1,050	—	525	525	525
Series 1998A – 5.0% to 5.25%, issued May 14, 1998, maturing through 2023	73,145	—	2,350	70,795	2,470
Series 2002A – 4.0% to 5.5%, issued June 20, 2002, maturing through 2014	17,585	—	1,400	16,185	1,465
	$ 216,305	—	9,795	206,510	9,350

At June 30, 2005, 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 3). All but the Series 1994A bonds are further secured by bond insurance.

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2005 are as follows (in thousands):

		Principal	Interest	Total
Year ending June 30:				
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		10,950	9,464	20,414
2011-2015		62,215	37,530	99,745
2016-2020		49,455	20,545	70,000
2021-2025		35,690	8,263	43,953
2026-2027		9,315	864	10,179
	$	206,510	119,982	326,492

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, 2005, the Authority has estimated that projected future coverage for each future year exceeds 150%. At June 30, 2005, unrestricted Revolving Fund surplus was approximately $778,819,000. 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, 2005, 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; $6,385,000 of the defeased bonds remain outstanding at June 30, 2005. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2005 are as follows (in thousands):

		Principal	Interest	Total
Year ending June 30:				
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		1,590	4,332	5,922
2011-2015		9,400	20,206	29,606
2016-2020		12,430	17,165	29,595
2021-2025		16,100	13,508	29,608
2026-2030		20,615	8,986	29,601
2031-2034		20,810	2,870	23,680
	$	86,560	85,143	171,703

(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. 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-Actual	12.65%
Employer-Actuarially required	25.46%
Actuarial valuation date	June 30, 2004
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% – 14%

(Continued)

In the current year, the Authority determined in accordance with the provisions of GASB Statement No. 27 that a pension liability existed to PERS. No previously reported liability (asset) to PERS existed. Additionally the Authority chose to early implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Retirement Benefits Other Than Pensions.* The components of annual pension and post-retirement benefits other than pensions (OPEB) follow (in thousands):

		Pension	OPEB	Total
Annual Required Contribution (ARC)	$	535	358	893
Interest on Net Pension Obligation (NPO)		—	—	—
Adjustment to ARC		—	—	—
Annual Pension/OPEB cost		535	358	893
Contributions made		(266)	(178)	(444)
Increase in NPO/OPEB cost		269	180	449
NPO/OPEB Obligation, beginning of year		—	—	—
NPO/OPEB Obligation, end of year	$	269	180	449

(11) Commitments, Contingencies and Other

(a) Investments

At June 30, 2005, the Authority held approximately $32,000 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 $39,600,000 of investments that are expected to be returned to the state general fund. The Authority held approximately $24,924,000 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) Alaska Seafood International

The Authority provided construction financing and, upon substantial completion in 1999, acquired the ASI facility and underlying and associated real estate and lease of the facilities. 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. The facility was sold in June 2005 for $24,500,000; the Authority financed $23,500,000 of that amount.

(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 $8,812,000 dividend for the year ending June 30, 2006.

(d) Alaska Insurance Guaranty Association

The Authority has legislative authorization to guarantee loans made to the Alaska Insurance Guaranty Association (Association). The Association pays, from assessments to member insurers, the claims of insurance companies put into liquidation by insurance regulators. Any guarantee is limited to loans necessary to make the Association financially able to meet cash flow needs up to a maximum outstanding principal balance at any time of $30,000,000. No loans have been made pursuant to this authorization.

(e) 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, 2005, the Authority had extended open loan commitments of $32,587,000 and loan guarantees of $2,172,000. 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.