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ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Basic Financial Statements and Schedules

June 30, 2013
(with summarized financial information for June 30, 2012)

(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)

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June 30, 2013

Overview of the Financial Statements

The accompanying financial statements of the Alaska Industrial Development and Export Authority (the Authority or AIDEA) are divided into two components – the Revolving Fund and the non-major funds. The non-major funds are the Loan Funds and the Sustainable Energy Transmission and Supply Development (SETS) Fund. The financial statements also include a total of the two components as of and for the year ended June 30, 2013, with summarized comparative totals as of and for the year ended June 30, 2012. The Authority conducts the majority of its business and its operations through its major fund, the Revolving Fund. The Revolving Fund is comprised of the Enterprise Development Account and the Economic Development Account. Further information about the two Accounts is included in note 1 to the basic financial statements. AIDEA also 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), that are administered by the Alaska Department of Commerce, Community and Economic Development. The Authority's second non-major fund, the SETS Fund, was established and funded by the Alaska Legislature in September 2012 to promote and provide financing for qualified energy development in the State of Alaska (State). The non-major 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. Additional schedules are included in the financial statements to provide separate reporting of the non-major funds. The Authority's operations are business type activities and follow enterprise fund accounting. The Authority is a component unit of the State and is discretely presented in the State's financial statements. The Authority's basic financial statements include: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the Notes to Basic Financial Statements. Summarized financial information as of and for the year ended June 30, 2012 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 *Statement of Net Position* reports the Authority's assets, liabilities, and net position at year-end. Net position is reported as: invested in development projects-capital assets, net of related debt; invested in capital assets-other; restricted contributions; and unrestricted. Restricted net position is subject to external limits such as bond resolutions, legal agreements, or statutes.

The *Statement of Revenues, Expenses, and Changes in Net Position* reports the Authority's income, expenses, and resulting change in net position during the period reported.

Both of these 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 and cash equivalents resulting from the Authority's activities during the period 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, 2013. The information is 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 the accompanying notes.

Financial Highlights

AIDEA's assets exceeded its liabilities at June 30, 2013 and 2012 by $1.16 billion and $1.08 billion, respectively. Of total net position, $1.04 billion (with $954.7 million of that amount in the Revolving Fund) and $964.7 million (of which, $950.4 million was in the Revolving Fund) at June 30, 2013 and 2012, respectively, was unrestricted and, therefore, available to meet the Authority's financial obligations.

Financial Analysis

Total assets, total liabilities, and total net position at June 30, 2013 and 2012 are as follows (in thousands):

		2013	2012	Increase (decrease)
Current assets	$	247,390	123,342	124,048
Development projects – capital assets		120,146	107,347	12,799
Capital assets		2,095	2,197	(102)
Other noncurrent assets		1,032,834	1,034,596	(1,762)
Total assets	$	1,402,465	1,267,482	134,983
Current liabilities	$	77,681	16,543	61,138
Noncurrent liabilities		163,599	175,283	(11,684)
Total liabilities		241,280	191,826	49,454
Total net position		1,161,185	1,075,656	85,529
Total liabilities and net position	$	1,402,465	1,267,482	134,983

Current assets were $124.0 million higher at June 30, 2013 compared to June 30, 2012. The components of current assets at June 30, 2013 and 2012 are as follows (in thousands):

		2013	2012	Increase (decrease)
Unrestricted cash/cash equivalents/investments	$	124,149	57,890	66,259
Restricted cash/cash equivalents/investments		81,162	21,254	59,908
Loans – current portion		19,783	21,095	(1,312)
Development projects accounted for as direct financing leases – current portion		11,318	11,060	258
Accrued interest receivable/other assets		10,978	12,043	(1,065)
Total	$	247,390	123,342	124,048

- The increase in cash/cash equivalents and investments was substantially due to a $125 million State General Fund appropriation. Of this amount, the SETS Fund was capitalized with $67.5 million of the funding and $57.5 million was designated to fund the Interior Energy Project (IEP).
- The decrease of the current portion of loans was a function of a lower overall loan portfolio balance.
- Other current assets, a component of accrued interest receivable/other assets in the table above, decreased primarily due to a decrease in amounts due from the Alaska Energy Authority (AEA) and from the federal government relating to grant-funded construction at the Ketchikan Shipyard.

Development projects-capital assets increased $12.8 million from June 30, 2012 to June 30, 2013 primarily due to the following:

- Approximately $16 million in Federal and State funded construction increased balances
- Depreciation of $4.0 million decreased balances

Other noncurrent assets declined $1.8 million between June 30, 2012 and 2013. Components of other noncurrent assets at June 30, 2013 and 2012 are as follows (in thousands):

		2013	2012	Increase (decrease)
Unrestricted investments	$	298,002	284,558	13,444
Restricted cash equivalents/investments		9,444	13,714	(4,270)
Loans (net)		415,662	447,516	(31,854)
Development projects		307,530	286,136	21,394
Other assets		2,196	2,672	(476)
	$	1,032,834	1,034,596	(1,762)

- Unrestricted investment securities, a component of **other noncurrent assets**, increased as the Authority's overall portfolio grew during the year, offset by a decrease caused by the transition to current assets of restricted investments as of June 30, 2013.
- **Noncurrent loans (net)** decreased $31.9 million at June 30, 2013 compared to June 30, 2012, the net result of lower loan balances and a lower allowance for loan losses.
- **Development projects,** a component of **other noncurrent assets**, increased $21.4 million primarily due to the following:

  The Authority's investment in preferred interest in operating companies increased $24.1 million during 2013. The Authority invested in two limited liability companies during 2013. The Authority completed its funding obligation for Kenai Offshore Ventures, LLC (KOV), contributing $4.4 million to the company during the year. KOV is a limited liability company that owns a jack-up rig called Endeavor-Spirit of Independence, which is intended to be used in Cook Inlet and other Alaskan waters. The Authority contributed $20 million to Mustang Road LLC pursuant to an operating agreement the Authority entered into in February 2013. The purpose of Mustang Road LLC is to develop, construct, own, and operate roads and a gravel pad that will facilitate the production of crude oil and natural gas from the property known as the Mustang Oil Field from the Southern Miluveach Unit located on the North Slope of Alaska. The Authority is a preferred member in both companies.

  A net decrease of $2.7 million in the balance of the noncurrent and restricted portions of **development projects** accounted for as direct financing leases reduced development project balances at June 30, 2013 compared to 2012. Balances decreased as the net result of principal payments received and the transition to current from long-term of payments projected to be received relating to the Red Dog Project and Federal Express Project during the year ended June 30, 2013. The decreases were partially offset by an increase attributed to the Authority's 2013 investment of $10.3 million in the Coast Guard Armory expansion located on Joint base Elmendorf-Richardson (DMVA Project).

Current liabilities increased $61.1 million between June 30, 2012 and 2013 primarily due to the following:

- $59.1 million increase in unearned revenues related to State appropriations. This increase was primarily due to a State General Fund advance of $57.5 million for the IEP at June 30, 2013.
- Ongoing construction during 2013 related to the DMVA Project contributed to an increase in accounts payable of $1.7 million.
- The current portion of Revolving Fund bonds payable increased at June 30, 2013 compared to 2012. Balances increased as a result of the transition to current liabilities of $7.9 million, partially offset by $7.4 million in principal payments made during the year.
- Accrued interest payable on bonds decreased as a result of lower Revolving Fund bond balances.

Noncurrent liabilities decreased $11.7 million between June 30, 2012 and 2013 substantially due to principal payments of $1.9 million made on the Snettisham Power Revenue bonds and the transition to current from noncurrent liabilities of $7.9 million in Revolving Fund bonds. A decrease in other noncurrent liabilities also contributed to the overall decrease between the two years.

Net position increased $85.5 million during the year ended June 30, 2013, the result of operating income of $20.7 million and a $64.8 million net increase in net position from non-operating activities. The Authority's $20.4 million dividend to the State during the year decreased net position while federal and state contributions increased net position.

Components of the Authority's operating revenues and expenses, nonoperating revenues and expenses, and other revenues and changes in net position for the years ended June 30, 2013 and 2012 are as follows (in thousands):

		2013	2012	Increase (decrease)
Operating revenues:				
Interest on loans	$	20,986	22,436	(1,450)
Income from development projects		14,495	14,104	391
Investment interest		11,766	12,873	(1,107)
Net increase (decrease) in fair value of investments		(10,494)	6,968	(17,462)
Income from state agencies and component units		8,149	7,345	804
Other income		3,069	1,682	1,387
Restricted income		3,991	4,100	(109)
Total operating revenues		51,962	69,508	(17,546)
Operating expenses:				
Interest		3,389	3,867	(478)
General and administrative		7,803	6,492	1,311
Costs reimbursed from state agencies and component units		8,149	7,345	804
Provision for loan losses		(718)	(367)	(351)
Depreciation		4,013	3,318	695
Other project and feasibility/due diligence costs		4,604	2,686	1,918
Interest on liabilities payable from restricted assets		3,991	4,100	(109)
Total operating expenses		31,231	27,441	3,790
Operating income		20,731	42,067	(21,336)
Net nonoperating revenues		809	113	696
Other revenues		84,389	23,349	61,040
Dividend to State of Alaska		(20,400)	(29,400)	9,000
Increase in net position	$	85,529	36,129	49,400

Operating revenues decreased $17.5 million during the year ended June 30, 2013 compared to 2012.

- A decrease of $17.5 million in realized and unrealized losses, related to GASB31 mark to market entries, on the Authority's investment portfolio contributed substantially to the decrease.
- Interest income on investments was lower in 2013 compared to 2012; lower interest rates contributed to the $1.1 million decrease between the two years.
- Interest income on loans decreased; as balances decrease a larger portion of payments are applied to principal rather than interest.
- Income from development projects increased slightly, the net result of an increase due to the recognition of a dividend due relating to the Authority's investment in KOV and a decrease in revenues from direct financing leases.
- Other income increased $1.4 million, substantially due to the recognition of dividends and distributions related to the Authority's investment in the Polaris Fund Limited Partnership.

Operating expenses increased $3.8 million in 2013 compared to 2012.

- The $1.3 million increase in General and Administrative expenses was substantially due to increased costs for current personnel (salaries and benefit increases) and the addition of new personnel. AIDEA and AEA added positions to fulfill their legislative mandates, resulting in higher personnel costs for the Authority.
- Other project and feasibility/due diligence costs increased $1.9 million in 2013 compared to 2012. The Authority has taken the lead on assessing the feasibility of several new projects including the IEP and Ambler Road during 2013. Project costs relating to existing projects of the Authority also increased during 2013 compared to 2012 as higher expenses associated with the Healy Project and Skagway Ore Terminal were partially offset by lower expenses associated with the Ketchikan Shipyard.
- Assets constructed at the Ketchikan Shipyard were placed into service during 2013 resulting in higher depreciation expense compared to the year ended June 30, 2012.
- A larger reduction to the allowance for loan losses was recorded for the year ended June 30, 2013 compared to 2012 as loan balances decreased between the two years.
- The Authority's lower outstanding debt balances during the year ended June 30, 2013 resulted in lower interest expense for the year compared to 2012.

Other revenues increased $61.0 million during the year ended June 30, 2013 compared to 2012. This increase resulted primarily from an increase in state contributions for the Ketchikan Shipyard Project and the $67.5 million capitalization of the SETS Fund, offset by a decrease in federal contributions for the Ketchikan Shipyard construction.

(Continued)

The Authority paid a dividend of $20.4 million to the State during the year ended June 30, 2013, compared to $29.4 million during 2012. AIDEA makes available to the State an annual dividend, which by statute is to be determined by AIDEA's board. 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 to be paid; for example, the statutory net income reported for the fiscal year ended June 30, 2013 (the audit work over which is completed within fiscal year 2014) will become the base for the dividend to be paid by the Authority in fiscal year 2015. 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.

Outlook

Legislative changes to the Authority effective in September 2012 added the Sustainable Energy Transmission and Supply Development (SETS) Fund, which is not part of the Revolving Fund, to the Authority. The addition of this new fund is expected to enhance the Authority's ability to promote and provide financing for qualified energy development. Additionally, the Authority is actively pursuing potential new projects under its Development Finance Program. The loan participation program has a target of $50 million of new loans each year.

KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Board
Alaska Industrial Development and Export Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the

Authority as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Prior-Year Comparative Information

We have previously audited the Authority's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the major fund and the aggregate remaining fund information in our report dated October 19, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 1 – 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplementary information in schedules 4 and 5 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

October 24, 2013

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

Statement of Net Position

June 30, 2013
(with summarized financial information at June 30, 2012)

(In thousands)

Assets		Revolving fund	Aggregate nonmajor funds	Total 2013	Total 2012
Current assets:					
Unrestricted cash and cash equivalents (note 3)	$	38,745	2,177	40,922	21,583
Restricted cash and cash equivalents (note 3)		14,656	20,761	35,417	11,246
Unrestricted investment securities (note 3)		15,747	67,480	83,227	36,307
Restricted investment securities (note 3)		9,006	36,739	45,745	10,008
Due (to) from other funds		57,500	(57,500)	—	—
Loans (note 4)		18,976	807	19,783	21,095
Development projects accounted for as direct financing leases (note 6)		11,318	—	11,318	11,060
Accrued interest receivable		4,174	369	4,543	4,850
Other assets		6,435	—	6,435	7,193
Total current assets		176,557	70,833	247,390	123,342
Noncurrent assets:					
Investment securities (note 3)		298,002	—	298,002	284,558
Restricted investment securities (note 3)		—	—	—	3,996
Loans (note 4)		414,115	11,744	425,859	458,431
Less allowance for loan losses (note 5)		(9,653)	(544)	(10,197)	(10,915)
Net loans		404,462	11,200	415,662	447,516
Development projects accounted for as:					
Direct financing leases (note 6)		190,042	—	190,042	190,783
Capital assets (note 6)		120,146	—	120,146	107,347
Preferred interest in operating company (note 6)		44,436	—	44,436	20,373
Restricted net investment in direct financing lease-Snettisham (note 6)		73,052	—	73,052	74,980
Restricted cash and cash equivalents – Snettisham (note 3)		9,444	—	9,444	9,718
Other assets (note 4, 7)		3,940	351	4,291	4,869
Total noncurrent assets		1,143,524	11,551	1,155,075	1,144,140
Total assets	$	1,320,081	82,384	1,402,465	1,267,482
Liabilities and Net Position					
Current liabilities:					
Bonds payable – current portion (note 8)	$	7,925	—	7,925	7,425
Accrued interest payable		1,021	—	1,021	1,112
Accounts payable		4,951	291	5,242	3,553
Unearned revenue – State of Alaska		63,489	—	63,489	4,438
Other liabilities		—	4	4	15
Total current liabilities		77,386	295	77,681	16,543
Noncurrent liabilities:					
Bonds payable – noncurrent portion (note 8)		73,165	—	73,165	81,090
Other liabilities		7,938	—	7,938	9,495
Liabilities payable from restricted assets – Snettisham:					
Power revenue bonds payable (note 8)		74,045	—	74,045	75,915
Other		8,451	—	8,451	8,783
Total noncurrent liabilities		163,599	—	163,599	175,283
Total liabilities		240,985	295	241,280	191,826
Net position:					
Invested in development projects - capital assets, net of related debt		120,146	—	120,146	107,347
Invested in capital assets - other (note 7)		2,095	—	2,095	2,197
Restricted contributions		2,166	—	2,166	1,368
Unrestricted		954,689	82,089	1,036,778	964,744
Total net position		1,079,096	82,089	1,161,185	1,075,656
Commitments and contingencies (notes 1, 9, and 11)					
Total liabilities and net position	$	1,320,081	82,384	1,402,465	1,267,482

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 Net Position

Year ended June 30, 2013
(with summarized financial information at June 30, 2012)

(In thousands)

	Revolving fund	Aggregate nonmajor funds	Total 2013	Total 2012
Operating revenues:				
Interest on loans (note 4)	$ 20,485	501	20,986	22,436
Income from development projects (note 6)	14,495	—	14,495	14,104
Interest on Snettisham restricted direct financing lease (note 6)	3,991	—	3,991	4,100
Investment interest	11,499	267	11,766	12,873
Net increase (decrease) in fair value of investments	(10,336)	(158)	(10,494)	6,968
Income from state agencies and component units (note 10)	8,149	—	8,149	7,345
Other income	2,070	30	2,100	743
State of Alaska employer relief	954	—	954	726
Federal grant revenue	—	15	15	213
Total operating revenues	51,307	655	51,962	69,508
Operating expenses:				
Interest	3,389	—	3,389	3,867
Interest on Snettisham liabilities payable from restricted assets (note 8)	3,991	—	3,991	4,100
General and administrative	7,723	80	7,803	6,492
Costs reimbursed from state agencies and component units (note 10)	8,149	—	8,149	7,345
Provision for loan losses (note 5)	(770)	52	(718)	(367)
Depreciation (note 6)	4,013	—	4,013	3,318
Project feasibility and due diligence costs	952	325	1,277	—
Other project expenses	3,327	—	3,327	2,686
Total operating expenses	30,774	457	31,231	27,441
Operating income	20,533	198	20,731	42,067
Nonoperating revenues:				
Investment interest	—	11	11	58
Net revenues related to Ketchikan Shipyard Repair and Replacement Fund	798	—	798	55
Total net nonoperating revenues	798	11	809	113
Contributions from the State of Alaska	11,774	67,500	79,274	3,634
Capital grant (note 6)	5,115	—	5,115	19,715
Dividend to State of Alaska	(20,400)	—	(20,400)	(29,400)
Increase in net position	17,820	67,709	85,529	36,129
Net position – beginning of year	1,061,276	14,380	1,075,656	1,039,527
Net position – end of year	$ 1,079,096	82,089	1,161,185	1,075,656

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, 2013
(with summarized financial information at June 30, 2012)

(In thousands)

	Revolving fund	Aggregate nonmajor funds	Total 2013	Total 2012
Cash flows from operating activities:				
Interest received on loans	$ 19,829	459	20,288	21,717
Receipts from borrowers	1,706	30	1,736	1,403
Principal collected on loans	45,566	694	46,260	47,853
Other operating receipts	9,248	—	9,248	12,988
Receipts from other governments	—	15	15	—
Loans originated	(11,039)	(2,543)	(13,582)	(39,764)
Payments to suppliers and employees for services	(19,014)	(31)	(19,045)	(15,489)
Payments to primary government	(889)	(105)	(994)	(725)
Payments to other governments	—	—	—	(3)
Other operating payments	(2,464)	—	(2,464)	(4,731)
Net cash provided by (used for) operating activities	42,943	(1,481)	41,462	23,249
Cash flows from noncapital and related financing activities:				
Receipts from the State of Alaska	—	67,500	67,500	70
Dividend paid to the State of Alaska	(20,400)	—	(20,400)	(29,400)
Operating loans reimbursed from (paid to) the Alaska Energy Authority, net	2,668	—	2,668	(3,992)
Principal paid on noncapital debt	(480)	—	(480)	(465)
Interest paid on noncapital debt	(696)	—	(696)	(414)
Net cash provided by (used for) noncapital and related financing activities	(18,908)	67,500	48,592	(34,201)
Cash flows from capital and related financing activities:				
Direct financing lease receipts	23,348	—	23,348	27,998
Direct financing lease receipts – Snettisham	5,919	—	5,919	5,920
Federal grant receipts	6,665	—	6,665	20,982
Capital appropriation – State of Alaska	11,909	57,500	69,409	4,500
Restricted contributions for development projects	278	—	278	334
Other receipts from capital and financing activities	172	—	172	363
Principal paid on capital debt	(6,945)	—	(6,945)	(12,750)
Interest paid on capital debt	(3,754)	—	(3,754)	(4,406)
Investment in development projects	(16,119)	—	(16,119)	(24,809)
Investment in direct financing lease	(8,019)	—	(8,019)	—
Interest paid on capital debt – Snettisham	(4,047)	—	(4,047)	(4,154)
Principal paid on capital debt – Snettisham	(1,870)	—	(1,870)	(1,770)
Net cash provided by capital and related financing activities	7,537	57,500	65,037	12,208
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	273,000	144,600	417,600	139,022
Purchases of investment securities	(271,222)	(248,977)	(520,199)	(132,537)
Investment in preferred interest in operating company	(24,546)	—	(24,546)	(20,059)
Interest collected on investments	11,864	183	12,047	13,048
Distribution from investment in limited partnership	1,249	—	1,249	—
Interest received on loans	788	—	788	822
Principal collected on loans	1,206	—	1,206	2,841
Net cash provided by (used for) investing activities	(7,661)	(104,194)	(111,855)	3,137
Net increase in cash and cash equivalents	23,911	19,325	43,236	4,393
Cash and cash equivalents at beginning of year	38,934	3,613	42,547	38,154
Cash and cash equivalents at end of year	$ 62,845	22,938	85,783	42,547

(Continued)

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

Statement of Cash Flows

Year ended June 30, 2013
(with summarized financial information at June 30, 2012)

(In thousands)

	Revolving fund	Aggregate nonmajor funds	Total 2013	Total 2012
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income	$ 20,533	198	20,731	42,067
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Principal collected on loans	45,566	694	46,260	47,853
Loans originated	(11,039)	(2,543)	(13,582)	(39,764)
Investment interest income	(11,499)	(267)	(11,766)	(12,873)
Net dividends from operating company	(1,444)	—	(1,444)	—
Distribution from investment in limited partnership	(1,249)	—	(1,249)	—
Amortization of unearned income on direct financing leases	(12,542)	—	(12,542)	(13,578)
Amortization of unearned income on direct financing lease – Snettisham	(3,991)	—	(3,991)	(4,100)
Bond interest expense	4,359	—	4,359	4,831
Bond interest expense – Snettisham	3,991	—	3,991	4,100
Provision for loan losses	(770)	52	(718)	(367)
Depreciation	4,013	—	4,013	3,318
Net decrease (increase) in fair value of investments	10,336	158	10,494	(6,968)
Interest on loans	(744)	—	(744)	(803)
Capitalized interest	(144)	—	(144)	—
Decrease (increase) in accrued interest receivable and other assets	(631)	(43)	(674)	1,384
Increase (decrease) in accounts payable and other liabilities	(1,802)	270	(1,532)	(1,851)
Net cash provided by (used for) operating activities	$ 42,943	(1,481)	41,462	23,249
Noncash investing, capital, and financing activities:				
Noncash contributions for development project	$ 1,417	—	1,417	—
Net decrease (increase) in fair value of investments	10,336	158	10,494	(6,968)
Decrease in accounts payable for development project additions	(724)	—	(724)	(1,591)
Increase in accounts payable for direct financing lease additions	2,160	—	2,160	—
Decrease (increase) in due to/from other fund	57,500	(57,500)	—	—

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 economic growth and diversification in Alaska by providing various means of financing and investment. 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, and considers this its major fund. 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 nonmajor funds that are not part of the Revolving Fund and are therefore reported in a separate column within the accompanying financial statements. AIDEA's nonmajor funds are comprised of the Loan Funds which are two smaller loan programs, the Small Business Economic Development Revolving Loan Fund Program and the Rural Development Initiative Fund Loan Program, and the Sustainable Energy Transmission and Supply Development (SETS) Fund. The SETS Fund was established and funded by the legislature in fiscal year 2013.

Legislation enacted in 2010 gives the Authority the power to consider the interests of local governments impacted by the Authority's activities to share in the benefits of those activities, with appropriate consideration of the Authority's ability to meet debt obligations, issue new debt, and fulfill the Authority's purposes.

(a) Enterprise Development Account

A summary of programs available under the Enterprise Development Account is as 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 generally limited to the lesser of 90% or $20,000,000 of the permanent financing for qualifying facilities.
- 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 that will help to accomplish its mission (development finance program). Legislation was passed during the 2013 legislative session to allow the Economic Development Account to provide development project financing for development projects the Authority does not intend to own and operate. Economic Development Account projects with activity reflected in the accompanying financial statements are:

- DeLong Mountain Transportation System (Red Dog Project). This project consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog Mine, one of the world's largest zinc producing mines, located in the DeLong Mountains in northwestern Alaska. The Red Dog Project was financed with Authority funds and bond financings; currently outstanding bonds related to the project were issued in February 2010.
- Skagway Ore Terminal (Skagway Terminal). This project is a public-use ore terminal port facility in Skagway, Alaska. The Skagway Terminal was originally bond financed. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds. Improvements have been made to the facility, also financed with 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 bond issue; bonds related to the project were issued in June 2002 and all remaining outstanding bonds were called in April 2012.
- 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. Authority funds and bond financing also were used to finance the project.
- 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 financed by a federal grant and matching state and local contributions is complete. Additional improvements have been completed or are planned using appropriations and grants secured for the Shipyard, including the addition of an Assembly Hall that will allow, for the first time, vessel assembly/fabrication to be completed out of the weather.
- 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, which 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.

- Kenai Offshore Ventures, LLC (KOV). The Authority owns a preferred interest in a limited liability company (LLC) that owns a jack-up drilling rig being used in the Cook Inlet and other Alaska waters. The investment in KOV was financed with Authority funds.
- State of Alaska Department of Military and Veterans Affairs (DMVA) Project. Under a license between the State of Alaska and the U.S. Air Force, the Authority is constructing an expansion to the existing National Guard Armory on Joint Base Elmendorf – Richardson (JBER). This construction is being financed with Authority funds.
- Mustang Road LLC. The Authority owns a preferred interest in an LLC that owns roads and a gravel pad located on the North Slope. The roads and gravel pad are intended to facilitate the development of the Mustang Oil Field. The investment in Mustang Road LLC was financed with Authority funds.

Pursuant to authorization from the Authority's board, prefeasibility and due diligence costs for several potential Economic Development Account projects were also incurred by the Economic Development Account and are included in the accompanying financial statements.

During 2013, the Authority became the project sponsor for two potential infrastructure projects, the Interior Energy Project (IEP) and the Ambler Road. The Authority was provided a $57,500,000 capital appropriation and given authorization to provide financing up to a principal amount of $275,000,000 for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production system and affiliated infrastructure on the North Slope and a natural gas distribution system and affiliated infrastructure in Interior Alaska. The Authority is currently evaluating the feasibility of both projects.

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 does not currently anticipate that it will participate in financing the project.
- 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 in 1999 and sold it in 2005; 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 Kodiak launch complex was constructed with other financing and the Authority currently does not 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 $25,000,000 to finance the development of Hatcher Pass, located in the Matanuska-Susitna Borough. The Authority does not currently anticipate that it will participate in financing the project.
- 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. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of $65,000,000 to finance the expansion, modification, improvement, and upgrading of the Skagway Ore Terminal.
- The Authority has bonding authorization of $150,000,000 through the SETS Fund for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production plant and system and affiliated infrastructure on the North Slope and a natural gas distribution system and affiliated infrastructure in Interior Alaska. This bonding authorization expires June 30, 2018 if the Authority does not issue bonds before that date.

(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, 2013, the Authority had issued revenue bonds for 315 projects (not including bonds issued to refund other bonds). At June 30, 2013, the outstanding principal amount of revenue bonds issued after July 1, 1995 was $485,347,600. 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 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 Division of Economic Development within the State Department of Commerce, Community and Economic Development (DCCED).

(e) Sustainable Energy Transmission and Supply Development Program

The 2012 state legislature passed SB 25 establishing the SETS Program and the SETS Fund. The SETS Program was created in the Authority to promote and provide financing for qualified energy developments in the State to alleviate unemployment and contribute to the state's economic diversity and development. The SETS Fund is not an account in the Revolving Fund and the Authority is required to account for the SETS Fund separately. Subject to the requirements of State statute, the Authority may use money in the SETS Fund to assist in the construction, improvement, rehabilitation, and expansion of qualified energy development. Qualified energy development is defined within the legislation establishing the SETS Program. The SETS Program may provide financing for qualified energy developments in the form of loan or bond guarantees and direct loans. Initial capitalization of the SETS Fund was a $125,000,000 State General Fund capital appropriation provided to AIDEA in September 2012. Effective June 30, 2013, $57,500,000 of this initial capitalization was re-appropriated by the legislature for the IEP leaving the remaining $67,500,000 as capitalization of the SETS Fund.

(f) Alaska Energy Authority

Pursuant to legislation enacted in 1993, the members of the board of the Authority also serve as the board of directors of the Alaska Energy Authority (AEA). The Authority provides personnel services for AEA (per statute, AEA has no employees) and has a borrowing arrangement to provide working capital funds to AEA. AIDEA and AEA have separate executive directors, both employees of

AIDEA. 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

As a component unit of the State and for the purpose of preparing financial statements in accordance with U.S. generally accepted accounting principles, AIDEA is subject to the accounting requirements as set forth by the Governmental Accounting Standards Board (GASB).

The accounts of AIDEA are organized as Enterprise Funds. 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.

(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 pools, 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 position. Fair values are obtained from independent sources. Investments are segregated between current and noncurrent based on stated maturity. Investments maturing within one year are considered current.

(d) Loans and Related Interest Income

The Authority's Revolving Fund loans are primarily secured by first deeds of trust on real estate located in Alaska. Loan Fund loans must be secured by collateral that is acceptable to the Division of Economic Development such as a mortgage or other security instrument in real property, equipment, or other tangible assets. The Authority's loans are generally carried at amounts advanced less principal payments collected. Interest income is accrued as earned. Accrual of interest on Revolving Fund loans is discontinued whenever the payment of interest or principal is more than 90 days past due or when loan terms are restructured. Accrual of interest on Loan Fund loans is discontinued when the payment of principal or interest is more than 90 days past due. The collection of accrued interest on Loan Fund loans is pursued until it is deemed uncollectible. Accrual of interest is resumed when a loan is no longer more than 90 days past due.

Loan delinquencies are monitored on a monthly basis. Appropriate communication takes place with the originator for Revolving Fund loans, and the borrower for Loan Fund loans as needed. Revolving Fund loans are analyzed for possible impairment if the loan is more than 90 days past due or has been restructured. Loan Fund loans are analyzed for possible impairment if the loan is more than 90 days past due, has specialized payment arrangements or has an area of specific concern. Revolving Fund loans are charged off when foreclosure or deed in lieu of foreclosure is completed or a determination has been made that no economic benefit results from pursuing legal remedies. Loan Fund loans are charged off when a determination has been made that no economic benefit will result from pursuing legal remedies.

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 net position. All loans except the Power Project Fund loan portfolio held by the Revolving Fund are considered program loans (and therefore cash flows from operating activities) for the purposes of cash flow presentation.

(e) Development Projects – 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 position.

(f) Development Projects – Capital Assets

The Authority's development projects accounted for as capital assets are carried at cost, net of depreciation, adjusted for impairments of value that are not temporary. The Authority begins depreciation on these development projects when they are available for use. In addition, the Authority considers these development projects as investments and recognizes impairment losses whenever the fair value of the asset has declined below the carrying value and the decline is determined to be not temporary in nature. The Authority considers development project activity, except for expenses payable from certain restricted assets, 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 net position.

(g) Development Projects – Preferred Interest in Operating Company

The Authority is a preferred member in two LLC's (as more fully described in note 6), which are recorded in the accompanying financial statements as equity investments and are development projects of the Authority. Income on the investments is recognized as it is earned under the LLC agreement. The investments are carried at cost, less capital distributions received, less any necessary allowance. Transaction costs capitalized and not reimbursable are amortized over the life of the investment. The investments will be reduced by an allowance if the sum of the accrued dividends and the Authority's outstanding equity investment is greater than the Authority's share of the equity of the LLC. The Authority recognizes an impairment loss if the fair value of the asset has declined below the carrying value and the decline is not temporary in nature. The Authority considers activity associated with these investments, 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 net position.

(h) Other Real Estate Owned

Other real estate owned (OREO) 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. OREO is recorded at the estimated fair market value of the property at the time of receipt or transfer of the property less costs to sell, 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.

(i) Allowance for Loan Losses

The allowance for loan losses represents management's judgment as to the amount required to absorb probable 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, debt coverage ratios, guarantor financial strength, and other factors. Management's opinion is that the allowance is currently adequate to absorb known losses and inherent risks in the portfolio.

(j) Allowance for Lease Receivables

The allowance for lease receivables represents management's judgment as to the amount required to absorb probable 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, 2013.

(k) Environmental Issues

The Authority's policy relating to environmental issues is to record a liability when the likelihood of Authority responsibility for pollution remediation activities such as site assessments and cleanups is probable and the costs are reasonably estimable. At June 30, 2013, 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.

(l) Operating Revenue and Expense

The Authority considers all its revenues and expenses except capital contributions, investment income and expenditures related to certain restricted project funds, investment income related to the Loan Funds, the dividend paid to the State, and special or extraordinary items, to be part of its ongoing operations and, therefore, classifies them as operating in the statement of revenues, expenses, and changes in net position.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Segment Information

AIDEA's Snettisham bond resolution requires certain financial statement disclosures. Activity related to Snettisham is reported as a separate segment within the financial statements to meet these disclosure requirements. All assets and liabilities related to Snettisham are considered noncurrent in the statement of net position.

(r) 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.

(s) 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with

(Continued)

the financial statements for the year ended June 30, 2012, from which the summarized information was derived. Certain reclassifications were made to prior year information to conform to current year presentation.

(t) Recently Issued Accounting Pronouncements

In December 2010, the GASB issued GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Statement 62). Statement 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that was previously contained elsewhere. Statement 62 also eliminated the election for enterprise funds and business-type activities to apply post-November 30, 1989 standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB). However, enterprise funds and business-type activities can continue to apply FASB pronouncements that do not conflict with or contradict GASB pronouncements as other accounting literature. The Authority's adoption of Statement 62 during the year ended June 30, 2013 did not have a significant impact on the Authority's financial statements.

In June 2011, the GASB issued GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Statement 63). Statement 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and amended the net asset reporting requirements to rename that measure as net position. The Authority's adoption of Statement 63 during the year ended June 30, 2013 did not have a significant impact on the Authority's financial statements, other than to retitle what was previously known as "Net Assets" as "Net Position."

In March 2012, the GASB issued GASB Statement 65, *Items Previously Reported as Assets and Liabilities* (Statement 65). Statement 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The new standard is effective for periods beginning after December 15, 2012. The Authority has not implemented this Statement for the year ended June 30, 2013 and is currently evaluating the impact the adoption of Statement 65 will have on its financial statements.

In June 2012, the GASB issued GASB Statement 68, *Accounting and Financial Reporting for Pensions* (Statement 68), an amendment of GASB Statement No. 27. This Statement requires that an employer recognize its obligation for pensions net of the amount of the pensions plan's fiduciary net position that is available to satisfy that obligation as well as additional note disclosures regarding the obligation. The new standard is effective for financial statements for periods beginning after December 15, 2012. The Authority has not implemented this Statement for the fiscal year ended June 30, 2013 and is currently evaluating the impact the adoption of Statement 68 will have on its financial statements, however it is expected to be material.

(Continued)

(3) Cash and Investment Securities

(a) Revolving Fund

Cash and Cash Equivalents

A summary of the Revolving Fund's cash and cash equivalents at June 30, 2013 is as follows (in thousands):

Current – unrestricted	$	38,745
Current – restricted		14,656
Noncurrent – restricted – Snettisham		9,444
Carrying amount	$	62,845
Bank balance	$	62,926

Investment Securities

General – Investment Policies and Portfolio Information

The Authority's Revolving Fund investments are governed by Alaska Statute and the Authority's Resolution No. G01-14B as amended during the year ended June 30, 2013 by Resolution No. G01-14C (which was amended subsequent to year end with Resolution No. G01-14D), *Amended and Restated Resolution of the Alaska Industrial Development and Export Authority Relating to Fixed-Income Investment Policies*, or bond resolutions. The bond resolutions specify allowable investments. The Authority has an internally managed portfolio and currently utilizes two external money managers.

Under Resolution No. G01-14C (Resolution), the following securities are eligible for investment by the external money managers:

- Debt instruments issued or guaranteed by the U.S. government, its agencies and instrumentalities, and Government-Sponsored Enterprises (GSEs);
- Dollar-denominated debt instruments that have been issued by domestic and nondomestic entities;
- Non-U.S. dollar denominated investments provided the greater of $200 million or 60% of the externally managed investment portfolios in aggregate are invested in U.S. dollar denominated investments. Restrictions apply to limit the portfolio amount of certain types of non-U.S. dollar denominated investments;
- Mortgage-backed securities issued or guaranteed by federal agencies or GSEs;
- Asset-backed securities, including collateralized mortgage-backed securities and collateralized mortgage obligations (CMOs). CMOs are limited to the more stable classes; prohibited CMO

classes include those where principal and interest components are separated or where leverage is employed;

- Certificates of deposit and term deposits of United States domestic financial institutions provided the institutions meet guidelines set forth in the Resolution; and
- Other money market instruments described in the Resolution.

Under the Resolution, the following securities are eligible for investment in the internally managed portfolio:

- Debt instruments issued or guaranteed by the U.S. government, its agencies and instrumentalities, and GSEs;
- Money market funds and repurchase agreements collateralized by U.S. Treasury and agency securities; and
- Other investments specifically approved by the board.

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

A summary of the Revolving Funds investments at June 30, 2013 is as follows (in thousands):

Current – unrestricted	$	15,747
Current – restricted		9,006
Noncurrent – unrestricted		298,002
	$	322,755

The Revolving Fund portfolio, organized by major investment type, at June 30, 2013 is as follows (in thousands):

U.S. Treasury	$	95,981
U.S. government agency and GSEs		10,121
Corporate securities		133,775
Mortgage-backed securities		75,005
Asset-backed securities		5,750
Municipal bonds		2,123
	$	322,755

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 each externally managed fixed income portfolio must be within plus or minus 25% of the duration of the Barclays Capital Aggregate Bond Index (duration is a weighted average term-to-maturity of a bond's cash flows) for domestic fixed income portfolios and between 0.5 (½ year) and 125% of the contractual non-U.S. dollar denominated benchmark for the portfolios (or sub-portfolio component) available for investment in non-U.S. dollar denominated instruments (at June 30, 2013, there were no portfolios investing in non-U.S. dollar denominated instruments). The Authority is in compliance with the requirements of the investment policy regarding the maturity and duration of the externally managed fixed income portfolios.

For the internally managed portfolio, the duration for longer term investments is 2 years or less. The maximum maturity of any issue is 3 years from the date of purchase. The Authority is in compliance with the requirements of the investment policy regarding the maturity and duration of the internally managed fixed income portfolio.

The June 30, 2013, weighted average effective duration for Revolving Fund cash equivalents and investments 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 portfolios
Money market	0.07	0.09
U.S. Treasury	0.47	6.48
U.S. government agency and GSEs	—	4.22
Corporate-securities	—	4.66
Mortgage-backed securities	—	4.23
Asset-backed securities	—	1.07
Municipal bonds	—	7.49

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.

Investments must carry a rating of BBB- or above at the time of purchase, or, if unrated, be deemed by the external manager to be of investment grade quality. In the event the rating of a security is downgraded below investment grade 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. If the investment manager believes the security is undervalued, the investment manager may request an additional six months to liquidate the security.

The weighted average quality rating of each externally managed portfolio shall be AA- or better. For purposes of determining compliance with quality guidelines, a rating will be the middle rating if ratings are provided by Moody's, Standard & Poor's (S&P), and Fitch; the lower rating if only two ratings exist; and the rating provided if only one rating exists. If a security is unrated, the investment manager shall assign an internal rating for compliance purposes. The total of unrated investments may not exceed 5% of the investment manager's portfolio value and the unrated investments of a single issuer may not exceed 2% of the investment manager's portfolio value. The Authority is in compliance with the requirement of the investment policy regarding the credit quality of the portfolio.

The quality ratings of the Authority's Revolving Fund cash equivalent and investment portfolio at June 30, 2013 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. On September 6, 2008, the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation were placed into conservatorship by the Federal Housing Finance Agency. Prior to this, both corporations were considered GSE's with an implicit backing of the U.S. government. Ratings used are S&P's rating scale unless not rated by S&P or 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	16%
U.S. government agency and GSEs	AA	3
Corporate securities	AAA	1
Corporate securities	AA	3
Corporate securities	A	15
Corporate securities	BBB	7
Corporate securities*	Aaa	2
Corporate securities*	A	1
Corporate securities*	Baa	5
Mortgage-backed securities	AAA	2
Mortgage-backed securities	A	1
Mortgage-backed securities*	Aaa	1
Mortgage-backed securities (issued by GSEs)	Not rated	16
Municipal bonds	AAA	1
Asset-backed securities*	Aaa	1
No credit exposure		25%
		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 $62,664,000 at June 30, 2013, 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.

Restricted Cash, Cash Equivalents, and Investment Securities

Certain investment securities, money market funds, and cash are restricted by the terms of bond resolutions or other agreements. A summary of restricted amounts at June 30, 2013 is as follows (in thousands):

	Allowable usage		
Red Dog Project Sustaining Capital fund	Project costs	$	14,960
Ketchikan Shipyard restricted funds	Project costs		7,237
Ketchikan Shipyard Repair and Replacement Account	Project costs		1,465
Snettisham Hydroelectric Project Funds	Various costs relating to the project		9,444
		$	33,106

(b) *Nonmajor Funds*

Cash and Cash Equivalents

A summary of the nonmajor funds cash and cash equivalents at June 30, 2013 is as follows (in thousands):

Unrestricted – Loan Funds	$	2,177
Restricted for IEP – SETS Fund		20,761
Carrying Amount	$	22,938
Bank balance	$	22,938

Investment Securities

General – Investment Policies and Portfolio Information

Nonmajor fund investments consistent entirely of the SETS Fund. The policies regarding the investment guidelines for the Revolving Fund also were applied to the SETS Fund.

A summary of the SETS Fund investment securities at June 30, 2013 is as follows (in thousands):

Unrestricted – SETS Fund	$	67,480
Restricted for IEP – SETS Fund		36,739
	$	104,219

The SETS Fund portfolio consisted entirely of U.S. Treasury Securities.

Interest Rate Risk

The policies regarding interest rate risk for the Revolving Fund also apply to the SETS Fund.

The June 30, 2013, effective duration for the SETS Fund cash equivalent and investment portfolio is as follows:

Money Market	0.09
U.S. Treasury	0.17

Credit Risk

The policies regarding credit risk for the Revolving Fund also apply to the SETS Fund. 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. The quality ratings of the SETS Fund cash equivalent and investment portfolio at June 30, 2013, are stated in the table below as a percentage of the total portfolio. Ratings used are S&P's rating scale unless not rated by S&P or 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	16%
No credit risk		84
		100%

Custodial Credit Risk

In the SETS Fund, amounts totaling approximately $20,761,000 at June 30, 2013 are held in money market funds. All other investment securities in the SETS Fund are registered in the Authority's name and are held by its custodian, the trust department of a commercial bank; therefore, no custodial risk exists for these securities.

(c) Revolving Fund and Nonmajor Funds

Concentration of Credit Risk

The risk of loss attributed to the magnitude of the Authority's investment in a single issue is concentration of credit risk. The Authority's Revolving Fund and SETS Fund exposure to concentration risk is managed through the Resolution and bond resolutions. The Resolution limits the exposure of each portfolio to any one issuer, other than securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or GSEs, or collateralized by securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or GSEs to 5% of the market value of the portfolio at the time of purchase. Other than securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or GSEs, the Authority had no holdings in a single issuer that exceeded 5% of the market value of the portfolios.

Federal National Mortgage Association and Federal Home Loan Mortgage Corporation securities are not classified as corporate bonds.

At June 30, 2013, the Authority had more than 5% of the combined portfolios invested in the following GSEs (dollar amounts in thousands):

		Revolving Fund	Nonmajor funds	Percent of combined portfolio
Federal National Mortgage Association	$	40,260	33	8%

(4) Loans

Under the Authority's loan participation program, the Authority purchases participations in loans secured by real property or tangible personal property made by commercial banks or other financial institutions. Substantially all such loans relate to real property. Although AIDEA's Revolving Fund loan portfolio is diversified by property type and region within the state, the Authority's ability to collect on loans is generally contingent upon economic conditions in the state.

On September 30, 2010, pursuant to legislation, and an agreement, the Authority purchased 37 loans from AEA. Under the agreement, at AIDEA's request, AEA is required to repurchase any loan upon a payment default.

Loans outstanding at June 30, 2013 are classified as follows (dollar amounts in thousands):

	Number	Amount
Revolving Fund:		
Loan participation:		
Internally funded	235	$ 378,521
Bond sale	1	14,165
OREO sale financing	4	20,942
Purchased loans	28	19,463
Revolving Fund loans	268	433,091
Nonmajor funds – Loan funds	112	12,551
	380	445,642
Less current portion		(19,783)
		$ 425,859

The aging of Revolving Fund loans at June 30, 2013 is as follows (dollar amounts in thousands):

	Percent	Amount
Current	99.49%	$ 430,869
Past due:		
31 – 60 days	0.05	206
Over 90 days	0.46	2,016
	100.00%	$ 433,091

Revolving Fund loans more than 90 days past due, excluding restructured loans, on which the accrual of interest had been discontinued amounted to $2,016,000 at June 30, 2013. Gross interest income, which would have been received on these loans, amounted to $141,000 for the year ended June 30, 2013. The amount of interest income collected on these loans and included in the change in net position was $113,000 for the year ended June 30, 2013.

There were no Revolving Fund loans on which the terms had been restructured at June 30, 2013.

The DCCED administers Loan Funds loans. The aging of Loan Fund loans at June 30, 2013 is as follows (dollar amounts in thousands):

	Percent		Amount
Current	92.56%	$	11,617
Past due:			
31 – 60 days	3.11		391
Over 90 days	4.33		543
	100.00%	$	12,551

Loan Funds loans more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to $407,000 at June 30, 2013. Gross interest income, which would have been received on these loans, amounted to $22,000 for the year ended June 30, 2013. There was no interest income collected on these loans and included in the change in net position for the year ended June 30, 2013.

Loan Funds loans on which the terms had been restructured amounted to $961,000 at June 30, 2013. Gross interest income, which would have been received on these loans, amounted to $47,000 for the year ended June 30, 2013. The amount of interest income on these loans included in the change in net position was $28,000 for the year ended June 30, 2013.

The Loan Funds held OREO totaling $350,000 at June 30, 2013, which is included within other assets in the statement of net position.

(5) Allowance for Loan Losses

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

		Revolving fund	Nonmajor funds – Loan funds	Total
Balance at beginning of year	$	10,423	492	10,915
Provision for loan losses		(770)	52	(718)
Recoveries of loans charged off		—	—	—
Charge-offs		—	—	—
Balance at end of year	$	9,653	544	10,197

(6) Development Projects

(a) Direct Financing Leases

The components of the Authority's net investment in development projects accounted for as direct financing leases by project at June 30, 2013 is as follows (in thousands):

	Minimum lease payments receivable	Unearned income	Net investment in direct financing leases
Federal Express Project	$ 4,906	(316)	4,590
Red Dog Project	441,108	(254,662)	186,446
DMVA Project	10,324	—	10,324
	$ 456,338	(254,978)	201,360

Future minimum lease payments receivable for the fiscal years ending June 30, 2014 through June 30, 2018 are as follows (dollars in thousands):

2014	2015	2016	2017	2018
$ 20,668	19,784	17,669	17,669	17,669

Estimates do not include future tonnage sensitive (released from a reserve fund) or potential price sensitive payments relating to the Red Dog Project.

(b) Capital Assets

The components of the Authority's net investment in development projects accounted for as capital assets by project at June 30, 2013 follows (in thousands):

Healy Project	$ 39,796
Shipyard	80,350
	$ 120,146

Development project activity for the year ended June 30, 2013 is as follows (in thousands):

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Nondepreciable components of development projects:				
Land	$ 1,681	314	—	1,995
Construction work in progress	31,304	15,395	(38,550)	8,149
Total nondepreciable components of development projects	32,985	15,709	(38,550)	10,144
Depreciable components of development projects:				
Buildings	18,624	39,423	—	58,047
Equipment	51,896	—	—	51,896
Infrastructure	31,663	230	—	31,893
Total depreciable components of development projects	102,183	39,653	—	141,836
Less accumulated depreciation for:				
Buildings	(6,603)	(1,325)	—	(7,928)
Equipment	(17,697)	(1,628)	—	(19,325)
Infrastructure	(3,521)	(1,060)	—	(4,581)
Accumulated depreciation	(27,821)	(4,013)	—	(31,834)
Depreciable components of development projects – net	74,362	35,640	—	110,002
Total development projects	$ 107,347	51,349	(38,550)	120,146

 (Continued)

(c) Preferred Interest in Operating Companies

The components of the Authority's investment in development projects accounted for as preferred interest in operating companies by project at June 30, 2013 is as follows (in thousands):

KOV	$	24,390
Mustang Road LLC		20,046
	$	44,436

(d) Restricted Direct Financing Lease

In August 1998, 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 currently provides the majority of the Juneau-Douglas area electrical energy.

The components of the Authority's net investment in the Snettisham Project at June 30, 2013 is as follows (in thousands):

Minimum lease payments receivable	$	121,365
Less unearned income		(48,313)
Net investment in direct financing lease	$	73,052

(7) Capital Assets – Other

Capital assets are included within noncurrent other assets in the statement of net position. Capital asset activity for the year ended June 30, 2013 is as follows (in thousands):

		Balance at June 30, 2012	Additions	Balance at June 30, 2013
Capital assets not being depreciated – land	$	600	—	600
Capital assets being depreciated – building		3,193	58	3,251
Less accumulated depreciation		(1,596)	(160)	(1,756)
Capital assets being depreciated, net		1,597	(102)	1,495
Total capital assets	$	2,197	(102)	2,095

(Continued)

(8) Bonds Payable

The composition of bonds outstanding (in thousands) issued under the Authority's Revolving Fund Bond Resolution (Revolving Fund Bonds) at June 30, is as follows (interest rate and maturity date information is as of June 30, 2013):

		Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013	Amounts due within one year
Series 2010A – 4.375% to 5.250% issued February 24, 2010, maturing through 2027	$	74,510	—	(6,945)	67,565	7,430
Series 2010B – 4.0% to 5.5% issued December 22, 2010, maturing through 2031		14,005	—	(480)	13,525	495
	$	88,515	—	(7,425)	81,090	7,925

At June 30, 2013, all Revolving Fund Bonds are secured by the general assets and future revenues of the Authority.

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2013 are as follows (without considering earlier call provisions) (in thousands):

		Principal	Interest	Total
Years ending June 30:				
2014	$	7,925	4,086	12,011
2015		8,465	3,694	12,159
2016		9,055	3,276	12,331
2017		9,655	2,829	12,484
2018		3,035	2,352	5,387
2019 – 2023		18,605	9,267	27,872
2024 – 2028		21,165	3,714	24,879
2029 – 2031		3,185	337	3,522
	$	81,090	29,555	110,645

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, 2013, the Authority has estimated that projected future

(Continued)

coverage for each future year exceeds 150%. At June 30, 2013, unrestricted Revolving Fund surplus was approximately $1,057,558,000. The Authority is also required by Revolving Fund Bond Resolution covenants to maintain in the Revolving Fund Cash Equivalents (as defined in the Revolving Fund Bond Resolution) maturing within one year in an amount at least equal to the lesser of $50,000,000 or 25% of the amount of general obligation indebtedness outstanding. At June 30, 2013, the liquidity requirement was $20,272,500.

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 5.0% 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. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2013 are as follows (without considering earlier call provisions) (in thousands):

		Principal	Interest	Total
Years ending June 30:				
2014	$	1,985	3,935	5,920
2015		2,105	3,816	5,921
2016		2,230	3,690	5,920
2017		2,350	3,567	5,917
2018		2,480	3,438	5,918
2019 – 2023		14,550	15,059	29,609
2024 – 2028		18,650	10,946	29,596
2029 – 2033		24,075	5,527	29,602
2034		5,620	302	5,922
	$	74,045	50,280	124,325

Pursuant to the Snettisham Power Revenue Bond Resolution, the Authority is required to maintain a Debt Service Reserve Fund. The amount in the Debt Service Reserve Fund must be at least equal to 63% of the Maximum Aggregate Debt Service on the bonds. The Debt Service Reserve Fund is included in restricted cash and cash equivalents in the financial statements.

(9) Retirement Plan

All full-time, regular employees of the Authority participate in the State of Alaska Public Employees Retirement System (PERS), and all employees of the Authority participate in the Alaska Supplemental Annuity Plan (SBS). PERS is a multiple-employer public employee retirement system. Retirement reform legislation passed during 2005 created a new PERS Defined Contribution Retirement (DCR) Plan. Employees entering the system on or after July 1, 2006 are classified as Tier IV members and participate under the DCR portion of PERS. Employees who entered the system prior to July 1, 2006 are classified as Tier I, II, or III members and participate under the PERS Defined Benefit Retirement Plan. Tier I-III employees are required to contribute 6.75% of their annual salaries to PERS. Tier IV employees are required to contribute 8% of their annual salaries to PERS.

Legislation signed into law April 9, 2008 converted the PERS to a cost-sharing multiple-employer plan and provided for an integrated system of accounting for all employers. Under the integrated system, the PERS defined benefit plans' unfunded liability will be shared among all employers. The bill also established a uniform PERS contribution rate of 22% of participating employees' covered payroll. The conversion took effect July 1, 2008. In addition to the uniform PERS contribution of 22%, the Authority contributed $954,000, $726,000, and $486,000 for the fiscal years ended June 30, 2013, 2012, and 2011, respectively, in the form of Employer Relief allocated by the State. This amount represented 100% of the Authority's allocated cost for the plan.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by visiting www.doa.alaska.gov/drb/pers or by calling 907-465-4460.

The SBS is a defined contribution multiple-employer plan that was created under Alaska statutes effective January 1, 1980, pursuant to Internal Revenue Code Section 401(a), to provide benefits in lieu of those provided by the Federal Social Security System. All Authority employees are required to contribute 6.13% of their annual salaries to SBS, and the Authority contributes a matching 6.13% to the plan for the benefit of each employee, up to a specified maximum each year.

(10) Related Party – Alaska Energy Authority

Pursuant to understandings and agreements between AIDEA and AEA, AIDEA provides administrative, personnel, data processing, communications, and other services to AEA. AIDEA recognized revenue totaling $7,993,000 for providing these services during the year ended June 30, 2013. At June 30, 2013 AIDEA had $3,538,000 receivable from AEA for services and borrowings.

(11) Commitments, Contingencies, and Other

(a) Investments

The Authority held approximately $23,528,000 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) 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 $20,745,000 dividend to be paid from the Revolving fund in the year ending June 30, 2014.

(c) 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.

(d) Potential Development Projects

Potential Development Finance projects brought to the Authority by project sponsors are reviewed to determine whether they meet the Authority's ongoing economic development mission and should be considered for participation under the Development Finance Program. Only a few of the projects considered by the Authority are ultimately presented to the Authority's board for approval to conduct third-party due diligence.

(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. Additionally, the Authority may be subject to compliance or other audits conducted by the Internal Revenue Service concerning the Authority's tax-exempt bonds. 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, 2013, the Authority had extended loan participation purchase commitments of $7,496,000 and loan guarantees of $1,265,000.

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.

(f) Risk Management

The Authority is exposed to various risks of loss and obtains coverage for its risks through the purchase of commercial insurance and participation in the State Risk Management Pool. In consultation with the State's Division of Risk Management, the Authority insures its Development Projects using commercial insurance.

Schedule 1

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

Nonmajor Funds – Combining Statement of Net Position

June 30, 2013

(In thousands)

Assets		SETS Fund	Loan Fund	Aggregate nonmajor funds
Current assets:				
Unrestricted cash and cash equivalents	$	—	2,177	2,177
Restricted cash and cash equivalents		20,761	—	20,761
Unrestricted investment securities		67,480	—	67,480
Restricted investment securities		36,739	—	36,739
Due to other funds		(57,500)	—	(57,500)
Loans		—	807	807
Accrued interest receivable		95	274	369
Total current assets		67,575	3,258	70,833
Noncurrent assets:				
Loans		—	11,744	11,744
Less allowance for loan losses		—	(544)	(544)
Net loans		—	11,200	11,200
Other assets		—	351	351
Total noncurrent assets		—	11,551	11,551
Total assets	$	67,575	14,809	82,384
Liabilities and Net Position				
Current liabilities:				
Accounts payable	$	291	—	291
Other liabilities		—	4	4
Total current liabilities		291	4	295
Total liabilities		291	4	295
Net position:				
Unrestricted		67,284	14,805	82,089
Total net position		67,284	14,805	82,089
Total liabilities and net position	$	67,575	14,809	82,384

See accompanying independent auditors' report.

Schedule 2

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

Nonmajor Funds – Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2013

(In thousands)

		SETS Fund	Loan Fund	Aggregate nonmajor funds
Operating revenues:				
Interest on loans	$	—	501	501
Investment interest		267	—	267
Net decrease in fair value of investments		(158)	—	(158)
Other income		—	30	30
Federal grant revenue		—	15	15
Total operating revenues		109	546	655
Operating expenses:				
General and administrative		—	80	80
Provision for loan losses		—	52	52
Project feasibility and due diligence costs		325	—	325
Total operating expenses		325	132	457
Operating (loss) income		(216)	414	198
Nonoperating revenues:				
Investment interest		—	11	11
Total net nonoperating revenues		—	11	11
Contributions from the State of Alaska		67,500	—	67,500
Increase in net position		67,284	425	67,709
Net position – beginning of year		—	14,380	14,380
Net position – end of year	$	67,284	14,805	82,089

See accompanying independent auditors' report.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Nonmajor Funds – Combining Statement of Cash Flows

Year ended June 30, 2013

(In thousands)

		SETS Fund	Loan Fund	Aggregate nonmajor funds
Cash flows from operating activities:				
Interest received on loans	$	—	459	459
Receipts from borrowers		—	30	30
Principal collected on loans		—	694	694
Receipts from other governments		—	15	15
Loans originated		—	(2,543)	(2,543)
Payments to suppliers and employees for services		(31)	—	(31)
Payments to primary government		(3)	(102)	(105)
Net cash used for operating activities		(34)	(1,447)	(1,481)
Cash flows from noncapital and related financing activities:				
Receipts from the State of Alaska		67,500	—	67,500
Net cash provided by noncapital and related financing activities		67,500	—	67,500
Cash flows from capital and related financing activities:				
Capital appropriation – State of Alaska		57,500	—	57,500
Net cash provided by capital and related financing activities		57,500	—	57,500
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities		144,600	—	144,600
Purchases of investment securities		(248,977)	—	(248,977)
Interest collected on investments		172	11	183
Net cash provided by (used for) investing activities		(104,205)	11	(104,194)
Net increase (decrease) in cash and cash equivalents		20,761	(1,436)	19,325
Cash and cash equivalents at beginning of year		—	3,613	3,613
Cash and cash equivalents at end of year	$	20,761	2,177	22,938

See accompanying independent auditors' report.

(Continued)

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

Nonmajor Funds – Combining Statement of Cash Flows

Year ended June 30, 2013

(In thousands)

		SETS Fund	Loan Fund	Aggregate nonmajor funds
Reconciliation of operating income to net cash used for operating activities:				
Operating income (loss)	$	(216)	414	198
Adjustments to reconcile operating income to net cash used for operating activities:				
Principal collected on loans		—	694	694
Loans originated		—	(2,543)	(2,543)
Investment interest income		(267)	—	(267)
Provision for loan losses		—	52	52
Net decrease in fair value of investments		158	—	158
Increase in accrued interest receivable and other assets		—	(43)	(43)
(Decrease) increase in accounts payable and other liabilities		291	(21)	270
Net cash used for operating activities	$	(34)	(1,447)	(1,481)
Noncash investing, capital, and financing activities:				
Net decrease in fair value of investments	$	158	—	158
Increase in due to other fund		(57,500)	—	(57,500)

See accompanying independent auditors' report.

Schedule 4

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

Historical Loan Information – Revolving Fund

Year ended June 30, 2013

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Outstanding loan balance at June 30,									
by loan type: (in thousands)									
Loan participation:									
Internally funded	$ 378,521	411,683	420,397	349,918	339,487	355,254	357,488	330,764	297,398
Bond sale	14,165	14,571	11,982	—	—	—	—	—	764
Bonds retired	—	717	767	815	859	1,685	2,595	5,110	6,601
OREO sale financing	20,942	21,167	21,234	23,844	24,491	24,644	24,745	24,993	25,912
Appropriated	—	17	32	48	95	179	328	601	1,393
Purchased loans	19,463	20,669	23,510	—	—	—	—	—	—
Other	—	—	2,770	3,032	3,277	—	—	—	—
	$ 433,091	468,824	480,692	377,657	368,209	381,762	385,156	361,468	332,068
Number of outstanding loans at June 30, by loan type:									
Loan participation:									
Internally funded	235	257	255	241	238	249	263	249	235
Bond sale	1	1	1	—	—	—	—	—	4
Bonds retired	—	1	1	1	1	11	14	22	29
OREO sale financing	4	5	5	6	6	8	8	10	13
Appropriated	—	1	1	2	7	14	26	43	66
Purchased loans	28	31	37	—	—	—	—	—	—
Other	—	—	1	1	1	—	—	—	—
	268	296	301	251	253	282	311	324	347
Aging percent of outstanding loans at June 30:									
Current	99.49%	99.89%	99.35%	99.11%	99.04%	99.35%	98.85%	99.67%	99.73%
Past due:									
31-60 days	0.05	0.05	0.59	0.17	—	0.13	0.01	0.17	0.06
60-90 days	—	—	—	—	0.88	—	0.62	—	0.01
Over 90 days	0.46	0.06	0.06	0.72	0.08	0.52	0.52	0.16	0.20
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

See accompanying independent auditors' report.

**ALASKA INDUSTRIAL DEVELOPMENT
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Direct Financing Leases

- *Federal Express Project*. 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. The Authority is currently negotiating continuing use of the project with the lessee.

- *Red Dog Project*. 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.

  Teck Alaska has mined the "Main Deposit" of the Red Dog Mine since start-up. At current production rates, the Main Deposit is expected to be depleted by the end of 2013. Teck Alaska has estimated the Red Dog Mine's life will extend to 2031, based on reserves at the Aqqaluk and Qanaiyaq Deposits. The Aqqaluk Deposit is adjacent to the Main Deposit and the Qanaiyaq Deposit is nearby.

  In April 2009, the Northwest Arctic Borough (NWAB) requested that AIDEA reconsider negotiating a sale of the Red Dog Project, or negotiate amendments to the existing agreement to allow the Borough to obtain additional revenues to fund the NWAB's public services. In August 2011 the NWAB requested AIDEA share the benefits it receives from the Red Dog Project with the NWAB, consistent with legislation enacted in 2010 (note 1). The AIDEA board has met with NWAB representatives and preliminary discussions regarding the issues raised have taken place.

- *DMVA Project*. Under a license between the State of Alaska and the U.S. Air Force, the Authority is constructing an expansion to the existing National Guard Armory on Joint Base Elmendorf – Richardson (JBER). When completed the DMVA will operate the facility for the Authority under an agreement. The payments due under the agreement will return the cost of the DMVA Project plus a rate of return of 7%. Construction is anticipated to be completed by December 2013. The term of the agreement is 25 years.

Capital Assets

- *Healy Project*. 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.

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In March 2000, GVEA and the Authority entered into a settlement agreement regarding the Healy Project litigation. Under the settlement agreement, there was an interim shut down of the Healy Project, and it has since been maintained in custodial status by the Authority.

In November 2005, the Authority sued GVEA, alleging various breaches of the March 2000 settlement agreement related to the Healy Project, including failure to provide a land lease and other agreements necessary and appropriate to provide the Authority a full opportunity to maximize the economic utility of the Healy Project. GVEA filed an answer which asserted counter claims against the Authority for damages. The Authority and GVEA in August 2009 entered into an agreement to resolve the litigation. Under the August 2009 agreement, a subsidiary of GVEA, Tri-Valley Electric Cooperative, Inc. (Tri-VEC), would purchase the Healy Project for $50 million, and the Authority would loan up to an additional $45 million under a line of credit to bring the plant out of warm layup status, integrate the Healy Project into GVEA's system, and put the Healy Project into operation. In June 2013, the agreement was modified to provide for a direct sale to GVEA for a purchase price of $42 million plus reimbursement of the Authority's project holding costs from January 1, 2013. The Authority will not loan any amounts to GVEA for the purchase price or any other purposes. The sale is contingent upon approval of the transaction by GVEA's current lenders. Closing is expected before the end of calendar year 2013.

The State Department of Environmental Conservation on February 3, 2012 issued to GVEA the required Title V operating air permit for the Healy Project. This Title V air permit was subject to challenge by the United States, Environmental Protection Agency (EPA) under the Clean Air Act. To avoid the potential challenge by EPA, a consent decree between the United States of America, GVEA, and AIDEA was approved on November 19, 2012 by the U.S. District Court in Fairbanks, Alaska.

The sale transaction includes the contingency that if before January 1, 2014, a third-party intervenes concerning permits of the Healy Project which would restrain or prohibit the sale from being completed, or prevent the Healy Project from being put into commercial operation, then after January 1, 2014, the Authority would have the option to terminate the sale transaction and salvage the Healy Project. Upon any such termination by the Authority, GVEA would have no further obligation to pay the Authority the $42 million purchase price. The ability of the Authority to complete the sale of the Healy Project is subject to certain risks. Economic risks arise relating to the projected competitive cost of power from the Healy Project relative to projected costs of available power. Further, there are environmental risks that potential increased regulatory restrictions, such as restrictions related to carbon dioxide, will be imposed on projects such as the Healy Project to increase the projected costs of power from the Healy Project. While the Authority believes it will be able to complete the sale of the Healy Project, the Authority gives no assurance regarding the possible impact of these risks.

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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 South central Alaska, connected by roads, generating facilities and transmission lines) electrical grid and to provide a market for otherwise unmarketable waste coal. Management believes the Healy Project is a valuable Railbelt energy asset. The Railbelt has significant energy needs, and the Healy Project can be made operational at a cost that will produce competitively priced power.

- *Shipyard*. On October 17, 2005, the Authority entered into an amended and restated operating agreement for the Shipyard with the current operator, Alaska Ship & Drydock, Inc. The agreement provides for a ten-year term beginning December 1, 2005, with 2 ten-year extensions possible. Annual payments under the agreement are based on a percentage of revenue and are applied first to reimburse the Authority for administrative costs up to $18,000 annually, adjusted for inflation; and then to the Repair and Replacement (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 are to be distributed to the Authority and the local Ketchikan governments.

  During 2012, Alaska Ship & Drydock, Inc. was converted into an LLC, Alaska Ship & Drydock, LLC, and the ownership of the LLC transferred to Vigor Industrial, LLC., a Pacific Northwest shipbuilder. The Authority retained ownership of the Shipyard.

  A second shiplift was constructed and placed into service in 2009. The shiplift was financed by a grant from the U.S. Economic Development Agency, with the required match and additional funding by the Ketchikan Gateway Borough and the State. Additional grants and appropriations have been authorized to complete additional work related to further development of the Shipyard, including $47.9 million of federal funds (required match to be provided from other sources). Improvements utilizing these funds are ongoing and substantially all of the federal funding was spent or committed at June 30, 2013. The local Ketchikan governments contributed advanced funds, land, and engineering services to the development project. Additionally, the State Department of Transportation and Public Facilities contributed funding during the year ended June 30, 2013 and design, engineering and construction services in previous years, some of which was funded from available federal funding.

  The State Department of Transportation and Public Facilities also transferred land and buildings located at the Shipyard to the Authority during fiscal year 2013 totaling $1,417,000. The net book value of the transferred buildings was $1,103,000.

- *Skagway Terminal*. In January 2007, the Authority entered into a facilities user agreement for ore storage and loading with a Canadian mining company to use a portion of the Skagway Terminal for shipment of bulk mine products. Improvements have been made to the facility and placed into service. During the year ended June 30, 2011, the user paid off the direct

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financing lease related to the facility. Subsequent to the end of fiscal year 2013, the lease was extended to March 2023, the end of the Authority's sublease. The recent strengthening of base metal prices has generated interest in mining properties in the areas the Skagway Terminal services. Production activity by additional users, if any, could be several years in the future.

Preferred Interest in Operating Companies

- *KOV*. In November, 2011, the Authority became a preferred member in KOV, an LLC that owns a jack-up drilling rig, known as Endeavour-Spirit of Independence. The rig is to be used in the Cook Inlet and other Alaskan waters. The Authority contributed $23,600,000 to the LLC.

  Under the LLC operating agreement for KOV, the Authority's ownership interest will be repurchased through a series of minimum scheduled repurchase payments over a five-year period, with the first repurchase payment expected to occur January 1, 2013 and the final payment expected to occur no later than January 1, 2018. The repurchase payment expected January 1, 2013 was not made and subject to the terms of the LLC operating agreement was deferred. The repurchase of the Authority's ownership interest in KOV may be accelerated upon the occurrence of certain conditions, or by the other members exercising, before December 31, 2014, their option to repurchase the Authority's ownership interest. Under the LLC operating agreement, the Authority is also due an annual dividend of 8% based on the Authority's then-outstanding ownership interest. The dividend anticipated to be paid January 1, 2013 was not paid and was deferred as allowed under the LLC operating agreement. Under the LLC operating agreement, repurchase and other payment obligations owed to the Authority each year are conditioned upon the LLC having "Available Cash" to make such payments after paying senior debt obligations (described below) and establishing and maintaining funds sufficient to cover operations; notwithstanding this condition on payments due the Authority each year, all amounts owed to the Authority, including repurchase obligations, are due and payable in full, regardless of Available Cash, on or before January 1, 2018.

  The payments due the Authority as a preferred member of KOV are secured by a ship mortgage against the jack-up drilling rig and its equipment (and the proceeds of insurance covering these items) and by a security interest in KOV's deposit accounts. The ship mortgage and security interest in KOV's deposit accounts in favor of the Authority are subordinate to senior debt that KOV owes another lender. Under the LLC operating agreement and under an intercreditor agreement with the senior lender, AIDEA has the right to acquire the senior debt along with the guaranty of the senior debt by Singapore-based KOV member Ezion Holdings Ltd. The payments due the Authority as a preferred member of KOV are also secured by security interests that KOV member Buccaneer Alaska Drilling, LLC and its affiliates (Buccaneer) granted to the Authority in (1) certain overriding royalty interests in mineral leases Buccaneer holds in Alaska and Texas, including some of which are not yet producing; and (2) certain exploration incentives and production tax credits Buccaneer may receive from the State.

- *Mustang Road LLC*. The Authority entered into an Operating Agreement with Mustang Road LLC in February 2013. The purpose of Mustang Road LLC is to develop, construct, own and operate roads and a gravel pad that will facilitate the production of crude oil and natural gas from the property known as the Mustang Oil Field from the Southern Miluveach Unit located on the North Slope of Alaska. AIDEA is the only Preferred Member of Mustang Road LLC. The common members at the time the LLC was organized were Ramshorn Investments, Inc. and AVCG LLC. Brooks Range Petroleum Company (BRPC), a wholly owned subsidiary of AVCG LLC, was engaged by Mustang Road LLC to manage the construction and operation of the project upon completion. Construction of the road and pad was completed during 2013.

  The Authority contributed $20 million to Mustang Road LLC during fiscal year 2013, fulfilling its funding obligation under the Operating Agreement.

  Under the terms of the Operating Agreement AIDEA will be repaid for the initial capital contribution through an annual payment (Redemption Payment) commencing December 31, 2014 and ending December 31, 2028. Upon full re-payment, AIDEA's interest and voting interest in the LLC will be reduced to zero. Additionally, AIDEA will be paid a Preferred Member Guaranteed Payment equal to 8% of the outstanding principal balance on the Preferred Members Redemption Amount as of January 31 of the calendar year in which the payment of a Preferred Member Guaranteed Payment is due beginning December 31, 2014.

  In the event that there are not sufficient funds to pay the Authority either the annual Redemption Payment or the Preferred Member Guaranteed Payment, the common members will provide additional funds to the LLC so the payments can be made timely. The common members and BRPC have guaranteed the LLC's obligations due AIDEA as preferred member.

  The payments due the Authority as a preferred member of Mustang Road LLC are secured by a deed of trust against the LLC's 1% working interest in oil and gas leases of the Southern Miluveach Unit, as well as by the working interests held by the common members and BRPC in the Southern Miluveach Unit. The Authority also holds UCC security interests in the personal and fixture property of Mustang Road LLC, the common members, and BRPC. The Authority is further secured by the deposit accounts of Mustang Road LLC and BRPC.