



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

Financial Statements

June 30, 2006

(With Summarized Financial Information for June 30, 2005)

(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  
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Management's Discussion and Analysis

June 30, 2006

**Overview of the Financial Statements**

The accompanying financial statements for the Alaska Industrial Development and Export Authority (Authority or AIDEA) are divided into two components – the Revolving Fund and the Loan Funds. The financial statements also include a total of the two components as of and for the year ended June 30, 2006, with summarized comparative totals at June 30, 2005. The Authority conducts the majority of its business and its operations through the Revolving Fund. The Revolving Fund is comprised of the Economic Development Account and the Enterprise Development Account. Further information about the two Accounts is included in note 1 to the basic financial statements. AIDEA has two statutory loan programs, the Small Business Economic Development Revolving Loan Fund Program and the Rural Development Initiative Fund Loan Program (collectively the Loan Funds), which are administered by the Alaska Department of Commerce, Community and Economic Development. The Loan Funds are not part of the Revolving Fund and are therefore presented separately in the accompanying financial statements.

The financial statements consist of two sections: management's discussion and analysis, and the basic financial statements. The Authority's operations are business type activities and follow enterprise fund accounting. The Authority is a component unit of the State of Alaska (the State) and is discretely presented in the State's financial statements. The Authority's basic financial statements include: the Balance Sheet; the Statement of Revenues, Expenses and Changes in Fund Net Assets; the Statement of Cash Flows and the Notes to Basic Financial Statements. Summarized financial information for FY 2005 is also presented and is intended to facilitate and enhance understanding of the Authority's financial position, results of operations and cash flows for the current fiscal year in comparison to the prior fiscal year.

**Basic Financial Statements**

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

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

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

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

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

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June 30, 2006

**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, 2006. This information is being presented to assist the reader in focusing on significant financial issues and to provide additional information regarding the activities of the Authority. This information should be read in conjunction with the Independent Auditors' Report, the audited financial statements and accompanying notes.

**Financial Highlights**

AIDEA's assets exceeded its liabilities at June 30, 2006 and 2005 by \$855.6 million and \$841.0 million, respectively. Of the total net assets, \$863.1 million (\$851.9 million of which was in the Revolving Fund) and \$849.6 million (\$840.1 million of which was in the Revolving Fund) at June 30, 2006 and 2005, respectively, was unrestricted and therefore available to meet the Authority's financial obligations.

**Financial Analysis**

Total assets, total liabilities, and total net assets at June 30, 2006 and 2005 follows (in thousands):

	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>
Current assets	\$ 112,997	122,583	(9,586)
Capital assets	2,545	2,680	(135)
Other noncurrent assets and restricted assets	<u>1,040,526</u>	<u>1,025,939</u>	<u>14,587</u>
Total assets	<u>\$ 1,156,068</u>	<u>1,151,202</u>	<u>4,866</u>
Current liabilities	\$ 13,928	14,461	(533)
Noncurrent liabilities and those payable from restricted assets	<u>286,553</u>	<u>295,735</u>	<u>(9,182)</u>
Total liabilities	300,481	310,196	(9,715)
Total net assets	<u>855,587</u>	<u>841,006</u>	<u>14,581</u>
Total liabilities and net assets	<u>\$ 1,156,068</u>	<u>1,151,202</u>	<u>4,866</u>

The decrease in current assets resulted from the decline in cash and investment securities, partially offset by an increase in the current portion of loans receivable.

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The increase in noncurrent assets resulted from an increase in loan balances, offset by a decline in investment securities and payments received and depreciation on the Authority's development projects. Net loan balances were \$29.5 million higher at June 30, 2006 than the same date in 2005. The Authority's Revolving Fund purchased \$60.9 million of loan participations and the Loan Funds funded \$2.6 million in new loans during the year ended June 30, 2006. Principal collected on loans decreased loan balances by \$31.3 million during the 2006 fiscal year; loan payoffs accounted for more than \$18 million of the amount collected. Investment balances declined as funds were used to purchase new loans. Development project balances declined through depreciation and as principal was collected on those accounted for as direct financing leases.

The Authority's Healy Clean Coal Project (Healy Project) had a carrying value of \$48.8 million at June 30, 2006. The Healy Project has been idle since completion of a 90-day test period in December 1999. The Healy Project was initially built to meet projected increasing energy demand, to provide fuel diversity in the Alaska Railbelt (the power-sharing area between Interior Alaska and Southcentral Alaska, connected by roads, generating facilities and transmission lines) electrical grid and to provide a market for otherwise unmarketable waste coal. Management believes the energy needs still exist and the Healy Project can be made operational at a cost resulting in competitively priced power. The Authority and Homer Electric Association are cooperatively working together related to the restart of the Healy Project (see note 6 to the basic financial statements). Management believes that there has been no permanent decline in the value of the Healy Project.

The decline in total liabilities was primarily caused by the principal payment on bonds during the year; no new debt was issued during the year.

The \$14.6 million increase in net assets during the year ended June 30, 2006, resulted from operating income of \$21.0 million offset by net nonoperating expenses of \$6.4 million, which was comprised substantially of the Authority's \$8.8 million fiscal year 2006 dividend to the State of Alaska (State). The dividend expense was partially offset by \$1.2 million of capital contributed from the local Ketchikan governments for the Ketchikan Shipyard, an Authority owned development project.

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Management's Discussion and Analysis

June 30, 2006

Components of the Authority's operating revenues, operating expenses and nonoperating revenues and expenses for the years ended June 30, 2006 and 2005 follows (in thousands):

	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>
Operating revenues:			
Interest on loans	\$ 21,555	18,411	3,144
Interest on The Four Dam Pool Power Agency loan	—	1,476	(1,476)
Interest on direct financing leases	17,055	17,285	(230)
Investment interest	16,016	14,232	1,784
Net increase (decrease) in fair value of investments	(14,113)	3,781	(17,894)
Other income	5,266	4,344	922
Restricted income	4,593	4,660	(67)
Total operating revenues	<u>50,372</u>	<u>64,189</u>	<u>(13,817)</u>
Operating expenses:			
Interest	11,882	12,387	(505)
General and administrative	7,796	7,246	550
Provision for loan losses	145	1,327	(1,182)
Depreciation	1,949	1,949	—
Write-downs and net expenses associated with other assets	76	702	(626)
Other project expenses	2,964	1,908	1,056
Interest on liabilities payable from restricted assets	4,593	4,660	(67)
Total operating expenses	<u>29,405</u>	<u>30,179</u>	<u>(774)</u>
Operating income	20,967	34,010	(13,043)
Nonoperating revenues	2,426	6,110	(3,684)
Dividend to State of Alaska	(8,812)	(22,000)	13,188
Increase in net assets	<u>\$ 14,581</u>	<u>18,120</u>	<u>(3,539)</u>

Operating revenues decreased \$13.8 million during the year ended June 30, 2006 compared to 2005. A net decrease in fair value of investment securities of \$17.9 million between the two years created the significant change. The Authority recognized a net \$14.1 million decrease in fair value of investments in 2006 as rates rose and the yield curve flattened during the year and at June 30, 2006, versus a \$3.8 million increase in fair value of investments in 2005 as rates declined over the year.

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The changes to the loan portfolio, increasing investment rates and The Four Dam Pool Power Agency loan payoff (see note 8 to the basic financial statements) had an impact on interest earnings. Interest on loans increased \$3.1 million during the year ended June 30, 2006 compared to the same period in 2005 due to the higher loan balances. Interest on investments increased \$1.8 million during 2006 compared to 2005 due to higher rates earned. Interest from The Four Dam Pool Power Agency loan decreased \$1.5 million during the year ended June 30, 2006 compared to the prior year due to the payoff in October 2004.

Operating expenses decreased \$774,000 net in 2006 compared to 2005. Of the total decrease, \$1.2 million resulted from a lower provision for loan losses in 2006 than 2005. General and administrative costs increased \$550,000 in 2006 compared to 2005, substantially due to increased personnel costs resulting from higher retirement, salary and health insurance costs. Other project expenses were \$1.1 million higher during the year ended June 30, 2006 compared to the same date in 2005, as the Authority incurred costs relating to the restart of the Healy Project. Interest expense and other operating expense categories decreased in 2006 compared to 2005, resulting in the net decrease of \$774,000 between the two years.

Nonoperating revenues decreased \$3.7 million during the year ended June 30, 2006 compared to 2005, resulting from a smaller contribution received from the local governments for the Ketchikan Shipyard. The Authority paid a dividend of \$8.8 million to the State for the year ended June 30, 2006, compared to \$22 million for 2005. AIDEA makes available to the State an annual dividend, which by statute is to be determined by AIDEA's board of directors. The dividend must be at a level between 25% and 50% of audited "net income" (as defined in the statute) for the "base year." The "base year" is the fiscal year ending two years before the end of the fiscal year in which the dividend payment is paid. In no case may the dividend exceed base year unrestricted audited "net income". The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.



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## **Independent Auditors' Report**

The Board of Directors  
Alaska Industrial Development and Export Authority:

We have audited the accompanying financial statements of each 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, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2005 financial statements and, in our report dated September 23, 2005 (with subsequent event note dated October 17, 2005), we expressed an unqualified opinion on the respective financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designed audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Authority as of June 30, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

October 6, 2006



**ALASKA INDUSTRIAL DEVELOPMENT  
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Balance Sheet

June 30, 2006

(With summarized financial information at June 30, 2005)

(In thousands)

Assets	Revolving fund	Loan funds	Total	
			2006	2005
Current assets:				
Cash and cash equivalents (note 3)	\$ 23,030	2,208	25,238	29,713
Investment securities (note 3)	61,782	—	61,782	70,441
Loans (note 4)	13,757	684	14,441	12,480
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	3,593	—	3,593	3,595
Accrued interest receivable	5,244	207	5,451	4,760
Other assets	2,065	427	2,492	1,594
Total current assets	<u>109,471</u>	<u>3,526</u>	<u>112,997</u>	<u>122,583</u>
Noncurrent assets:				
Investment securities (note 3)	264,350	—	264,350	272,992
Loans (note 4)	347,711	9,172	356,883	328,147
Less allowance for loan losses (note 5)	(12,519)	(851)	(13,370)	(14,125)
Net loans	<u>335,192</u>	<u>8,321</u>	<u>343,513</u>	<u>314,022</u>
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	264,715	—	264,715	268,556
Development projects (note 6)	53,537	—	53,537	54,863
Other real estate owned	—	—	—	275
Other assets (note 7)	5,283	—	5,283	6,125
Restricted assets:				
Cash and cash equivalents (note 3)	5,080	—	5,080	4,261
Investment securities (note 3)	12,619	—	12,619	12,828
Snettisham (note 6):				
Cash and cash equivalents (note 3)	9,413	—	9,413	8,796
Net investment in direct financing leases (note 6)	84,561	—	84,561	85,901
Total noncurrent assets	<u>1,034,750</u>	<u>8,321</u>	<u>1,043,071</u>	<u>1,028,619</u>
Total assets	<u>\$ 1,144,221</u>	<u>11,847</u>	<u>1,156,068</u>	<u>1,151,202</u>
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Bonds payable – current portion (note 9)	\$ 9,310	—	9,310	9,350
Accrued interest payable	2,774	—	2,774	2,904
Accounts payable	1,178	4	1,182	1,279
Other liabilities	—	662	662	928
Total current liabilities	<u>13,262</u>	<u>666</u>	<u>13,928</u>	<u>14,461</u>
Noncurrent liabilities:				
Bonds payable – noncurrent portion (note 9)	187,850	—	187,850	197,160
Other liabilities	4,729	—	4,729	3,878
	<u>192,579</u>	<u>—</u>	<u>192,579</u>	<u>201,038</u>
Liabilities payable from restricted assets – Snettisham:				
Power revenue bonds payable (note 9)	85,265	—	85,265	86,560
Other	8,709	—	8,709	8,137
Total liabilities	<u>299,815</u>	<u>666</u>	<u>300,481</u>	<u>310,196</u>
Net assets:				
Invested in development projects, net of related debt	(14,788)	—	(14,788)	(15,932)
Invested in capital assets	2,545	—	2,545	2,680
Restricted contributions	4,723	—	4,723	4,130
Restricted for debt service	—	—	—	558
Unrestricted	851,926	11,181	863,107	849,570
Total net assets	<u>844,406</u>	<u>11,181</u>	<u>855,587</u>	<u>841,006</u>
Commitments and contingencies (notes 1, 10, and 11)				
Total liabilities and net assets	<u>\$ 1,144,221</u>	<u>11,847</u>	<u>1,156,068</u>	<u>1,151,202</u>

See accompanying notes to basic financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT  
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(A Component Unit of the State of Alaska)

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

Year ended June 30, 2006

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

(In thousands)

	Revolving fund	Loan funds	Total	
			2006	2005
Operating revenues:				
Interest on loans (note 4)	\$ 21,147	408	21,555	18,411
Interest on The Four Dam Pool Power Agency loan (note 8)	—	—	—	1,476
Interest on direct financing leases (note 6)	17,055	—	17,055	17,285
Interest on Snettisham restricted direct financing lease (note 6)	4,593	—	4,593	4,660
Investment interest	16,016	—	16,016	14,232
Net increase (decrease) in fair value of investments	(14,113)	—	(14,113)	3,781
Other income	4,464	56	4,520	3,816
Federal grants	—	735	735	507
Other project income	11	—	11	21
<b>Total operating revenues</b>	<b>49,173</b>	<b>1,199</b>	<b>50,372</b>	<b>64,189</b>
Operating expenses:				
Interest	11,882	—	11,882	12,387
Interest on Snettisham liabilities payable from restricted assets (note 9)	4,593	—	4,593	4,660
General and administrative	7,718	78	7,796	7,246
Provision for loan losses	—	145	145	1,327
Write-downs and net expenses associated with other assets	76	—	76	702
Depreciation	1,949	—	1,949	1,949
Other project expenses	2,964	—	2,964	1,908
<b>Total operating expenses</b>	<b>29,182</b>	<b>223</b>	<b>29,405</b>	<b>30,179</b>
<b>Operating income</b>	<b>19,991</b>	<b>976</b>	<b>20,967</b>	<b>34,010</b>
Nonoperating revenues (expenses):				
Contributed capital	1,184	—	1,184	5,658
Capital grant	459	—	459	—
Transfers from primary government	—	675	675	376
Investment interest	168	55	223	76
Net project expenses payable from restricted assets	(115)	—	(115)	—
Dividend to State of Alaska	(8,812)	—	(8,812)	(22,000)
<b>Net nonoperating revenues (expenses)</b>	<b>(7,116)</b>	<b>730</b>	<b>(6,386)</b>	<b>(15,890)</b>
<b>Increase in net assets</b>	<b>12,875</b>	<b>1,706</b>	<b>14,581</b>	<b>18,120</b>
Net assets – beginning of year	831,531	9,475	841,006	822,886
Net assets – ending of year	\$ 844,406	11,181	855,587	841,006

See accompanying notes to basic financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT  
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Statement of Cash Flows

Year ended June 30, 2006

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

(In thousands)

	Revolving fund	Loan funds	Total	
			2006	2005
Cash flows from operating activities:				
Interest received on loans	\$ 20,820	348	21,168	17,968
Interest received on The Four Dam Pool Power Agency loan	—	—	—	1,568
Receipts from borrowers	1,697	—	1,697	1,445
Principal collected on loans	30,074	1,224	31,298	36,570
Principal collected on The Four Dam Pool Power Agency loan	—	—	—	73,536
Other operating receipts	3,995	—	3,995	3,818
Loans originated	(60,907)	(2,574)	(63,481)	(69,253)
Payments to suppliers and employees for services	(9,282)	(9)	(9,291)	(6,987)
Payments to primary government	(1,121)	(34)	(1,155)	(1,259)
Other operating payments	(821)	—	(821)	(2,913)
Net cash provided (used) by operating activities	(15,545)	(1,045)	(16,590)	54,493
Cash flows from noncapital and related financing activities:				
Transfers from primary government	—	675	675	376
Dividend paid to the State of Alaska	(8,812)	—	(8,812)	(23,760)
Interest paid on noncapital debt	(25)	—	(25)	(147)
Operating loans collected from (paid to) the Alaska Energy Authority, net	121	—	121	(182)
Principal paid on noncapital debt	(525)	—	(525)	(1,420)
Net cash provided (used) by noncapital and related financing activities	(9,241)	675	(8,566)	(25,133)
Cash flows from capital and related financing activities:				
Direct financing lease receipts	20,898	—	20,898	20,650
Direct financing lease receipts – Snettisham	5,933	—	5,933	5,931
Restricted contributions for development projects	1,159	—	1,159	4,255
Investment in development projects	(444)	—	(444)	(135)
Other receipts from capital and financing activities	286	—	286	269
Interest paid on capital debt	(11,585)	—	(11,585)	(12,031)
Principal paid on capital debt	(8,825)	—	(8,825)	(8,375)
Interest paid on capital debt – Snettisham	(4,627)	—	(4,627)	(4,692)
Principal paid on capital debt – Snettisham	(1,295)	—	(1,295)	(1,230)
Net cash provided by capital and related financing activities	1,500	—	1,500	4,642
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	192,282	—	192,282	341,578
Purchases of investment securities	(188,885)	—	(188,885)	(393,352)
Interest and dividends collected on investments	16,050	54	16,104	14,187
Net proceeds from sales of other real estate owned	1,116	—	1,116	754
Net cash provided (used) by investing activities	20,563	54	20,617	(36,833)
Net decrease in cash and cash equivalents	(2,723)	(316)	(3,039)	(2,831)
Cash and cash equivalents at beginning of year	40,246	2,524	42,770	45,601
Cash and cash equivalents at end of year	\$ 37,523	2,208	39,731	42,770

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Statement of Cash Flows

Year ended June 30, 2006

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

(In thousands)

	<u>Revolving fund</u>	<u>Loan funds</u>	<u>Total</u>	
			<u>2006</u>	<u>2005</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 19,991	976	20,967	34,010
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Principal collected on loans	30,074	1,224	31,298	36,570
Principal collected on The Four Dam Pool Power Agency loan	—	—	—	73,536
Loans originated	(60,907)	(2,574)	(63,481)	(69,253)
Investment interest income	(16,016)	—	(16,016)	(14,232)
Amortization of unearned income on direct financing leases	(17,055)	—	(17,055)	(17,285)
Amortization of unearned income on direct financing lease – Snettisham	(4,593)	—	(4,593)	(4,660)
Bond interest expense	11,480	—	11,480	12,014
Bond interest expense – Snettisham	4,593	—	4,593	4,660
Provision for loan losses	—	145	145	1,327
Depreciation	1,949	—	1,949	1,949
Net (increase) decrease in fair value of investments	14,113	—	14,113	(3,781)
Write-downs and net (gain) loss on sale of other assets	(308)	—	(308)	76
Decrease in accrued interest receivable- The Four Dam Pool Power Agency loan	—	—	—	92
Increase in accrued interest receivable and other assets	(49)	(411)	(460)	(195)
Increase (decrease) in accounts payable and other liabilities	1,183	(405)	778	(335)
Net cash provided (used) by operating activities	<u>\$ (15,545)</u>	<u>(1,045)</u>	<u>(16,590)</u>	<u>54,493</u>
Noncash investing, capital and financing activities:				
Financing provided for sales of other real estate owned	\$ —	—	—	23,760
Contributed assets received for development project (note 6(b))	—	—	—	1,403
Net increase (decrease) in fair value of investments	(14,113)	—	(14,113)	3,781

See accompanying notes to basic financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Notes to Basic Financial Statements

June 30, 2006

(With Summarized Financial Information for June 30, 2005)

**(1) Organization and Operations**

The Alaska Industrial Development and Export Authority (AIDEA or the Authority) is the primary economic development financing agency of the State of Alaska (State), financing economic development projects using existing assets, general obligation bonds or debt secured by project revenues. AIDEA's mission is to promote, develop, and advance the general prosperity of the people of Alaska, to relieve problems of unemployment and to create additional employment by providing various means of financing and facilitating the financing of industrial, manufacturing, export and business enterprises, and other facilities within the State. AIDEA has various powers that support its economic development mission, including, but not limited to, the ability to adopt regulations, to acquire ownership interests in projects, to lease projects, to issue bonds, and to acquire and manage projects. AIDEA conducts the majority of its business through its Revolving Fund, established pursuant to legislation, 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 smaller programs (Loan Funds), the Small Business Economic Development Revolving Loan Fund Program and the Rural Development Initiative Fund Loan Program that are not part of the Revolving Fund. The Loan Funds are included in a separate column within the accompanying financial statements.

**(a) Enterprise Development Account**

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

- The loan participation program, under which the Authority purchases participations in loans made by financial institutions to their customers. The Authority's participation is limited to the lesser of 90% or \$20,000,000 of the permanent financing for qualifying facilities.
- The business and export assistance program, under which the Authority provides up to an 80% guarantee of the principal balance and a guarantee of interest to the financial institution making a qualifying loan. The maximum guarantee amount of any loan is \$1,000,000.

**(b) Economic Development Account**

Through the Economic Development Account, the Authority has the ability to own and operate facilities which will help to accomplish its mission. Economic Development Account projects with activity reflected in the accompanying financial statements are (also see note 6):

- DeLong Mountain Transportation System (Red Dog Project). This project consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog mine, the world's largest zinc producer, located in the DeLong Mountains in northwestern Alaska. The Red Dog Project was financed with Authority funds and bond financings, including \$150,000,000 of general obligation bonds issued in March 1997, which refunded outstanding revenue bonds and provided construction funds.

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- Skagway Ore Terminal (Skagway Terminal). This project is a public-use ore terminal port facility in Skagway, Alaska. The Skagway Terminal was financed by a \$25,000,000 bond issue completed in December 1990; all remaining outstanding bonds were called in April 2002. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds.
- Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Ted Stevens Anchorage International Airport. The Federal Express Project was partially financed by a \$28,000,000 bond issue completed in September 1992; the issue was refunded in June 2002.
- Healy Clean Coal Project (Healy Project). This project is a coal-fired power plant located near Healy, Alaska. The Authority received a \$25,000,000 state legislative appropriation and \$117,327,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program to assist in financing the Healy Project. In May 1998, \$85,000,000 of bonds were issued to refund \$85,000,000 of Variable Rate Revolving Fund Bonds originally issued in July 1996, the proceeds of which were used to finance a portion of the Healy Project construction cost.
- 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 \$5,000,000 federal grant and matching state and local contributions is currently in the construction phase. Additional improvements are planned using appropriations and grants secured for the Shipyard.
- Snettisham Hydroelectric Project (Snettisham). This project, located in southeast Alaska near Juneau, was acquired from the Alaska Power Administration, a federal agency, in August 1998. The Authority issued \$100,000,000 of revenue bonds to purchase the project and provide funds for the purchase and installation of a submarine cable system (which has been completed). The Authority has agreements with Alaska Electric Light and Power (AEL&P), the sole Juneau electric utility, that provide for the sale of the project's entire electrical capability to AEL&P, require AEL&P to operate and maintain the project, and provide an option for the purchase of the project.

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.

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- 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 Authority does not currently anticipate that it will participate in financing the projects.
- The Authority has bonding authorization of \$80,000,000 to finance the expansion, improvement and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by the Authority.
- The Authority has bonding authorization of \$30,000,000 to finance improvement and expansion of the Nome port facilities to be owned by the Authority. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of \$25,000,000 to finance the development of Hatcher Pass, located in the Matanuska-Susitna Borough.
- The Authority has bonding authorization of \$20,000,000 to finance the acquisition, development, improvement and construction of port and related facilities on Lynn Canal in Southeast Alaska, to be owned by the Authority.

(c) ***Revenue Bond Program***

The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction for facilities owned by third parties. Stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable only out of revenues derived from the financing of projects or the private businesses for which the projects are financed. The Authority is specifically authorized to issue revenue bonds to finance the construction of power transmission interties to be owned by electric utilities in a collective amount not to exceed \$185,000,000; no bonds under this authorization have been issued. As of June 30, 2006, the Authority had issued revenue bonds for 306 projects (not including bonds issued to refund other bonds). At June 30, 2006, the outstanding principal amount of revenue bonds issued after July 1, 1995 was \$336,428,000. The aggregate amount outstanding for the remaining revenue bonds, which were issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$616,000,000 (not including bonds issued to refund other bonds).

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**(d) *Small Business Economic Development Revolving Loan Fund Program and Rural Development Initiative Fund Loan Program***

AIDEA's Small Business Economic Development Revolving Loan Fund Program provides financing to eligible applicants under the United States Economic Development Administration Long-Term Economic Deterioration program and the Sudden and Severe Economic Dislocation program. The Small Business Economic Development Revolving Loan Fund was created to receive loan fund grants from the United States Economic Development Administration.

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

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

**(e) *Alaska Energy Authority***

Pursuant to legislation enacted in 1993, the members of the board of directors of the Authority also serve as the board of directors of the Alaska Energy Authority (AEA). The Authority provides personnel services for AEA and has a borrowing arrangement to provide working capital funds to AEA. AEA continues to exist as a separate legal entity. There is no commingling of funds, assets, or liabilities between AIDEA and AEA and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AEA are not included in the accompanying financial statements.

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

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

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

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



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**(b) *Cash and Cash Equivalents***

For purposes of the basic financial statements, cash and cash equivalents for the Authority consist of cash, short term commercial paper, investments in money market funds, and equity of the Loan Funds in the State's investment's pool, whether unrestricted or restricted as to their use.

**(c) *Investments***

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

**(d) *Loans and Related Interest Income***

The Authority's loans are primarily secured by first deeds of trust on real estate located in Alaska and are generally carried at amounts advanced less principal payments collected. Interest income is accrued as earned. Accrual of interest is discontinued whenever the payment of interest or principal is more than 90 days past due or when loan terms are restructured.

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

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

The Authority leases various projects pursuant to certain agreements (as more fully described in note 6), which are recorded in the accompanying financial statements as direct financing leases. Interest income related to direct financing leases is recognized using the effective interest method, which produces a constant periodic rate of return on the outstanding investment in the lease. AIDEA considers such activity to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses, and changes in fund net assets.

**(f) *Development Projects***

The Authority's development projects are carried at cost, net of depreciation, adjusted for permanent impairments of value. The Authority begins depreciation on development projects when they are available for use. In addition, the Authority recognizes impairment losses for development projects whenever the fair value of the asset has declined below the carrying value and the decline is determined to be permanent in nature. The Authority considers development project activity, except for expenses payable from 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 fund net assets.

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**(g) Other Real Estate Owned**

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

**(h) Allowance for Loan Losses**

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

**(i) Allowance for Lease Receivables**

The allowance for lease receivables represents management's judgment as to the amount required to absorb potential unrealizable direct financing lease receivables. The factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 2006.

**(j) Environmental Issues**

The Authority's policy relating to environmental issues is to record a liability when the likelihood of Authority responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 2006, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

**(k) Appropriations and Grants**

AIDEA recognizes grant revenue 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.

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**(l) *Income Taxes***

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

**(m) *Depreciation***

Depreciation is charged to operations by use of the straight-line method over the estimated useful lives of depreciable assets, ranging from 10 to 31 years.

**(n) *Transfers***

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

**(o) *Segment Information***

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

**(p) *Estimates***

In preparing the financial statements, management of AIDEA is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and to make disclosures of contingent assets and liabilities as of the date of the basic financial statements. Actual results could differ from the estimates.

**(q) *Prior-Period Information***

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2005, from which the summarized information was derived.

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**(3) Cash and Investment Securities**

***Revolving Fund***

**Cash and Cash Equivalents**

A summary of the Revolving Fund's cash and cash equivalents (excluding Snettisham) at June 30, 2006 follows (in thousands):

Restricted	\$	5,080
Unrestricted		23,030
Carrying amount	\$	28,110
Bank balance	\$	28,017

**Investment Securities**

**General – Investment Policies, Portfolio Information and Restrictions**

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

Under the 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-dominated debt instruments that have been issued by domestic and nondomestic entities;
- 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.

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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 of directors.

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.

The Revolving Fund portfolio, organized by major investment type at June 30, 2006 follows (in thousands):

U.S. Treasury	\$	94,255
U.S. Government Agency and GSE's		37,806
Corporate securities		76,234
Mortgage backed securities		122,248
Asset backed securities		8,208
	\$	<u>338,751</u>

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

	<u>Allowable usage</u>	<u>2006</u>	<u>2005</u>
Capital reserve funds	Secure debt service payments – bonds	\$ —	540
Debt service accounts	Funds held for future debt service – bonds	19	18
Red Dog Project Sustaining Capital Fund	Project costs	12,688	12,401
Ketchikan Shipyard restricted contribution	Project costs	4,060	4,130
Ketchikan Shipyard Repair and Replacement Account	Project costs	932	—
Snettisham Hydroelectric Project Funds	Various costs relating to the project	9,413	8,796
		<u>\$ 27,112</u>	<u>25,885</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will negatively affect the fair value of an investment. The Resolution addresses interest rate risk. The duration of the externally managed fixed income portfolios, evaluated in total by each money manager, must be within plus or minus 25% of the duration of the Lehman Aggregate Bond Index (duration is a weighted average term-to-maturity of a bond's cash flows). The Authority is in compliance with the requirements of the investment policy regarding the duration of the externally managed fixed income portfolio.

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

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The June 30, 2006, weighted average effective duration for Revolving Fund investments and money market funds follows. The duration values in the table below take into account any put or call options embedded in the security, any expected sinking-fund paydowns or expected principal prepayments:

	<b>Internally managed portfolio</b>	<b>Externally managed portfolios</b>
Money market	0.17	0.25
U.S. Treasury	0.48	5.76
U.S. Government Agency and GSEs	0.78	4.28
Corporate securities	—	5.44
Mortgage backed securities	—	3.88
Asset backed securities	—	0.63

**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 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 under valued, 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, 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 five percent 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.

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The quality ratings of the Authority's Revolving Fund portfolio at June 30, 2006 are stated in the table below as a percentage of the total portfolio. U.S. Treasury securities and securities of agencies and corporations explicitly guaranteed by the U.S. government are not considered to have credit risk and are reported as such in the table. Ratings used are S&P's rating scale unless rated lower by Moody's, in which case Moody's is used. Rate modifiers are not disclosed.

<u>Investment type</u>	<u>Rating</u>	<u>Percentage of total</u>
Money market	AAA	7%
Money market	Not rated	3
U.S. Government Agency and GSEs	AAA	8
U.S. Government Agency and GSEs	AA	1
U.S. Government Agency and GSEs	A	1
Corporate securities	AAA	1
Corporate securities	AA	4
Corporate securities	A	8
Corporate securities	BBB	6
Corporate securities*	A	1
Corporate securities*	Baa	1
Mortgage backed securities	AAA	2
Mortgage backed securities (issued by GSEs)	Not rated	30
Asset backed securities	AAA	2
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 \$37,000,000 at June 30, 2006, are held in money market funds. All other investment securities in the Revolving Fund are registered in the Authority's name and are held by its custodian, the trust department of a commercial bank; therefore no custodial credit risk exists for these securities.

**Loan Funds**

**Cash and Cash Equivalents**

At June 30, 2006, the carrying amount and bank balance of the Loan Fund's unrestricted cash and cash equivalents was \$2,208,000.



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**Investment Securities**

**General – Investment Policies and Portfolio Information**

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

The Loan Fund’s share of pooled investments, organized by major investment type at June 30, 2006 follows (in thousands):

<u>Investment type</u>	<u>Fair value</u>			
	<u>Short-term fixed income pool</u>	<u>Intermediate- term fixed income pool</u>	<u>Unallotted cash</u>	<u>Total</u>
Overnight sweep account	\$ 2	—	—	2
Commercial paper	79	—	—	79
Short-term Investment Fund	39	—	—	39
U.S. Treasury	—	641	—	641
U.S. Government Agency	—	238	—	238
Mortgage-backed	68	141	—	209
Other asset-backed	473	32	—	505
Corporate bonds	245	210	—	455
Yankees-Corporate	10	7	—	17
Total invested assets	916	1,269	—	2,185
Unallotted cash	—	—	19	19
Pool related net assets (liabilities)	7	(3)	—	4
Net invested assets	\$ 923	1,266	19	2,208

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**Interest Rate Risk**

Interest rate risk for the Short-term Fixed Income Pool is governed by Treasury's investment policy. The policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life and floating rate securities are limited to three years in maturity or expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2006, the expected average life of individual fixed rate securities ranged from three days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to  $\pm 20\%$  of the Merrill Lynch 1-5 year Government Bond Index. Effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2006 was 2.28 years.

The June 30, 2006, weighted average effective duration for the Loan Funds Intermediate-term Fixed Income Pool follows:

U.S. Treasury	2.01
U.S. Government Agency	2.36
Corporate securities	2.65
Yankees-Corporate	4.17
Mortgage backed securities	2.79
Other asset backed securities	1.06
Pool effective duration	2.16

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

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**Credit Risk**

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

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

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

The quality ratings of the Loan Funds portfolio's at June 30, 2006 are stated in the table below as a percentage of the total portfolio. U.S. Treasury securities and securities of agencies and corporations that are explicitly guaranteed by the U.S. government are not considered to have credit risk and are reported as such in the table. Ratings used are S&P's rating scale. Rate modifiers are not disclosed.

<u>Investment type</u>	<u>Rating</u>	<u>Short-term fixed income pool</u>	<u>Intermediate- term fixed income pool</u>
Short-term Investment Account	Not rated	4%	—
Commercial paper	A-1	9	—
U.S. Government Agency	AAA	—	19
Corporate Bonds	AAA	2	6
Corporate Bonds	AA	15	3
Corporate Bonds	A	10	5
Corporate Bonds	BBB	—	3
Yankees-Corporate	AA	1	—
Mortgage backed securities	AAA	—	10
Mortgage backed securities	Not rated	7	1
Other asset backed	AAA	48	1
Other asset backed	A	3	1
No credit exposure		1	51
		<u>100%</u>	<u>100%</u>

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***Revolving Fund and Loan Funds***

**Concentration of Credit Risk**

The risk of loss attributed to the magnitude of the Authority's investment in a single issuer is concentration of credit risk. The Authority's Revolving 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.

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

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

At June 30, 2006 the Authority had more than 5% of the combined portfolios invested in the following GSEs (dollar amounts in thousands).

	<u>Revolving fund</u>	<u>Loan funds</u>	<u>Percent of combined portfolio</u>
Federal National Mortgage Association	\$ 83,771	208	22%
Federal Home Loan Mortgage Corporation	57,206	178	15%

**(4) Loans**

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

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

	<b>2006</b>		<b>2005</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
Appropriated	43	\$ 601	66	\$ 1,393
Loan participation:				
Bonds outstanding	—	—	4	764
Bonds retired	22	5,110	29	6,601
Internally funded	249	330,764	235	297,398
OREO sale financing	10	24,993	13	25,912
Loan funds	89	9,856	79	8,559
	<u>413</u>	<u>371,324</u>	<u>426</u>	<u>340,627</u>
Less current portion		(14,441)		(12,480)
		<u>\$ 356,883</u>		<u>\$ 328,147</u>

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

	<b>2006</b>		<b>2005</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
Current	99.67%	\$ 360,262	99.73%	\$ 331,180
Past due:				
31–60 days	0.17	620	0.06	194
61–90 days	—	3	0.01	15
Over 90 days	0.16	583	0.20	679
	<u>100.00%</u>	<u>\$ 361,468</u>	<u>100.00%</u>	<u>\$ 332,068</u>

Revolving Fund loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to \$583,000 and \$679,000 at June 30, 2006 and 2005, respectively. Gross interest income, which would have been received on these loans, amounted to \$43,000 and \$68,000 for the years ended June 30, 2006 and 2005, respectively. The amount of interest income included in the change in net assets was \$19,000 and \$20,000 for the years ended June 30, 2006 and 2005, respectively.

There were no Revolving Fund loans at June 30, 2006 on which the terms have been restructured. Revolving Fund loans on which the terms have been restructured amounted to \$1,032,000 at June 30, 2005. Gross interest income, which would have been received on these loans, amounted to \$74,000 for the year ended June 30, 2005 and no interest income was collected and included in the change in net assets for the same year.

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

	<b>2006</b>		<b>2005</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
Current	97.51%	\$ 9,611	90.06%	\$ 7,708
Past due over 90 days	2.49	245	9.94	851
	<u>100.00%</u>	<u>\$ 9,856</u>	<u>100.00%</u>	<u>\$ 8,559</u>

Loan Funds loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to \$210,000 and \$806,000 at June 30, 2006 and 2005, respectively. Gross interest income, which would have been received on these loans, amounted to \$11,000 and \$52,000 for the years ended June 30, 2006 and 2005, respectively. The amount of interest income collected and included in the change in net assets was \$11,000 and \$17,000 for the years ended June 30, 2006 and 2005, respectively.

Loan Funds loans on which the terms have been restructured amounted to \$1,055,000 and \$767,000 at June 30, 2006 and 2005, respectively. Gross interest income, which would have been received on these loans, amounted to \$33,000 and \$9,000 for the years ended June 30, 2006 and 2005, respectively. The amount of interest income collected and included in the change in net assets was \$10,000 and \$9,000 for the years ended June 30, 2006 and 2005, respectively.

**(5) Allowance for Loan Losses**

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

		<b>Revolving</b>		<b>Total</b>	
		<b>fund</b>		<b>Loan funds</b>	<b>2006</b>
Balance at beginning of year	\$	13,419	706	14,125	13,316
Provision for loan losses		—	145	145	1,327
Recoveries of loans charged off		119	—	119	291
Charge-offs		(1,019)	—	(1,019)	(809)
Balance at end of year	\$	<u>12,519</u>	<u>851</u>	<u>13,370</u>	<u>14,125</u>

**(6) Net Investment in Direct Financing Leases and Development Projects**

**(a) Direct Financing Leases**

- The Authority leases the Federal Express Project under an agreement, which is recorded as a direct financing lease, expiring March 2015. Minimum lease payments under the agreement return the cost of the Federal Express Project plus 7.55% interest.

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- Minimum annual toll fees for usage of the DeLong Mountain Transportation System return the cost of the initial Red Dog Project, which went into service in 1990, to the Authority over 50 years at an interest rate of 6.5%. Toll fees for the expansion to the Red Dog Project return the cost of the expansion from the in-service date through the end of the term of the agreement at a rate based on bonds issued to finance the expansion.

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

	<b>2006</b>	<b>2005</b>
Minimum lease payments receivable	\$ 629,237	650,135
Less unearned income	(360,929)	(377,984)
Net investment in direct financing leases	\$ 268,308	272,151

Future minimum lease payments receivable for the fiscal year ending June 30, 2007 is \$20,402,000 and \$20,650,000 for each of the four succeeding fiscal years, ending June 30, 2008, through June 30, 2011.

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

	<b>2006</b>	<b>2005</b>
Federal Express Project	\$ 18,769	20,549
Red Dog Project	249,539	251,602
	\$ 268,308	272,151

**(b) Development Projects**

- The Healy Project has been idle since completion of a 90-day test period in December 1999. A Power Sales Agreement (PSA) between Golden Valley Electric Association (GVEA) and the Authority for the Healy Project was originally entered into in 1991. In 1998, GVEA initiated litigation alleging that the Authority had breached the PSA, among other allegations.

In March 2000, GVEA and the Authority entered into a settlement agreement regarding the Healy Project litigation. The settlement agreement provided for the interim shutdown of the Healy Project, which is now maintained in custodial status by the Authority. The settlement agreement further provided terms of partial financial assistance under which GVEA, if it elected to proceed, could either retrofit the plant to conventional combustor technology or operate the Healy Project under existing systems. The settlement agreement also provided that if GVEA elected not to proceed, that the Authority could place the Healy Project into

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operation, and GVEA would execute a land lease and “such agreements as are necessary and appropriate to provide the Authority a full opportunity to maximize the economic utility of [the Healy Project], recognizing GVEA’s desire and necessity to retain the beneficial use of Healy #1.” In April 2003, GVEA elected to not proceed and terminated the PSA.

Between April 2003 and July 2004, members of the Authority’s board, management, and staff worked with members of GVEA’s board, management, and staff to explore options for returning the Healy Project to operations. Those discussions between the Authority and GVEA have ceased.

In November 2005, the Authority brought suit against GVEA, alleging various breaches of the March 2000 settlement agreement related to the Healy Project. GVEA filed an answer which asserted counter claims against AIDEA for damages. GVEA successfully moved to stay the litigation pending mediation over disputed issues, including disputes over 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. The court mandated mediation is ongoing, with the next mediation session contemplated to occur in November 2006.

The Healy Project was initially built to meet projected increasing energy demand, to provide fuel diversity in the Alaska Railbelt (the power-sharing area between Interior Alaska and Southcentral Alaska, connected by roads, generating facilities and transmission lines) electrical grid and to provide a market for otherwise unmarketable waste coal. Management believes the energy needs still exist and the Healy Project can be made operational at a cost that will produce competitively priced power.

The Authority and Homer Electric Association (HEA) are cooperatively working together related to the restart of the Healy Project. AIDEA and HEA have undertaken certain preliminary development activities, including an engineering review and physical inspection to determine the current condition of the Healy Project. The results of the inspection have been used to develop the scope of work that will be required to make any necessary repairs and modifications to the Healy Project in order to restart and operate the Healy Project.

AIDEA and HEA have substantially negotiated, and management anticipates will soon finalize, certain other agreements under which HEA will assume responsibility for managing work required for restart. These agreements will include terms under which HEA may operate and maintain the Healy Project and market or purchase power generated by it after restart. Accordingly, management believes that there has been no permanent decline in the value of the Healy Project.

- On October 17, 2005, the Authority entered into an amended and restated operating agreement for the Shipyard with the current operator, Alaska Ship and Drydock. The agreement provides for a ten-year term beginning December 1, 2005, with two ten-year extensions possible. Payments under the agreement are based on a percentage of revenue and will be applied first



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to reimburse the Authority for administrative costs up to \$18,000 annually, adjusted for inflation; and then to the R&R Account established under the agreement, up to 125% of the amount required under the R&R Project Schedule defined in the agreement. Any remaining funds will be distributed to the Authority and the local Ketchikan governments; the Authority has no current projection of when, if ever, any distribution might be received.

A second shiplift is currently in the construction phase and is financed by a \$5 million grant from the U.S. Economic Development Agency, with the required match funded by the Ketchikan Gateway Borough and the State of Alaska. Additional grants and appropriations have been secured to complete additional work related to further development of the Shipyard, including \$42.5 million of federal funds (required match to be provided from other sources). The local Ketchikan governments contributed \$250,000 and \$5.7 million during the years ended June 30, 2006 and June 30, 2005, respectively, which included advanced funds, contributed land and engineering services.

- The Skagway Terminal is currently unused. AIDEA is negotiating with a potential new user and has entered into a memorandum of understanding and cost reimbursement agreement with a Canadian mining company to explore using the Skagway Terminal for shipment of bulk mine products beginning in 2007. The recent strengthening of base metal prices has generated interest in mining properties in the areas the Skagway Terminal services. Production activity, if any, could be several years in the future.

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

	<b>2006</b>	<b>2005</b>
Healy Clean Coal Project	\$ 48,774	50,581
Ketchikan Shipyard	4,763	4,282
	\$ 53,537	54,863

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Development project activity for the year ended June 30, 2006 follows (in thousands):

	<b>Balance at June 30, 2005</b>	<b>Additions</b>	<b>Balance at June 30, 2006</b>
Nondepreciable component of development projects	\$ 2,701	623	3,324
Depreciable components of development projects	68,159	—	68,159
Accumulated depreciation	(15,997)	(1,949)	(17,946)
Depreciable components of development projects – net	52,162	(1,949)	50,213
Total development projects	\$ 54,863	(1,326)	53,537

(c) ***Restricted Direct Financing Lease***

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

(7) **Capital Assets**

Capital asset activity for the year ended June 30, 2006 follows (in thousands):

	<b>Balance at June 30, 2005</b>	<b>Additions</b>	<b>Balance at June 30, 2006</b>
Capital assets not being depreciated – land	\$ 600	—	600
Capital assets being depreciated	2,698	—	2,698
Accumulated depreciation	(618)	(135)	(753)
Capital assets being depreciated, net	2,080	(135)	1,945
Total capital assets	\$ 2,680	(135)	2,545

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**(8) The Four Dam Pool Power Agency Loan**

The Four Dam Pool Power Agency loan was an up to \$82,100,000 purchase-money financing the Authority provided to The Four Dam Pool Power Agency, a joint action agency, on January 31, 2002, to acquire the Four Dam Pool Project from AEA. The Four Dam Pool Project consists of four generation and transmission facilities and other property providing power to 1) Ketchikan, 2) Wrangell and Petersburg, 3) Valdez and Glennallen, and 4) Kodiak. The Four Dam Pool loan, with interest at 6.5% per annum, was payable in installments over no more than 25 years. The loan was paid off in October 2004, and all security was released.

**(9) Bonds Payable**

The composition of bonds outstanding (in thousands) issued under the Authority's Revolving Fund Bond Resolution (Revolving Fund Bonds) at June 30, follows (interest rate and maturity date information is as of June 30, 2006):

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>	<u>Amounts due within one year</u>
Revolving Fund Bonds:					
Series 1997A – 5.60% to 6.125%, issued March 27, 1997, maturing through 2027	\$ 119,005	—	4,890	114,115	5,185
Revolving Fund Refunding Bonds:					
Series 1994A – issued March 30, 1994, matured April 2006	525	—	525	—	—
Series 1998A – 5.2% and 5.25%, issued May 14, 1998, maturing through 2023	70,795	—	2,470	68,325	2,590
Series 2002A – 4.0% to 5.5%, issued June 20, 2002, maturing through 2014	16,185	—	1,465	14,720	1,535
	<u>\$ 206,510</u>	<u>—</u>	<u>9,350</u>	<u>197,160</u>	<u>9,310</u>

At June 30, 2006, all Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. All bonds are further secured by bond insurance. Certain of the bonds are callable prior to scheduled maturity.

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The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2006 are as follows (in thousands)(without considering earlier call provisions):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30:			
2007	\$ 9,310	11,095	20,405
2008	9,840	10,571	20,411
2009	10,385	10,034	20,419
2010	10,950	9,464	20,414
2011	11,550	8,863	20,413
2012-2016	63,385	34,061	97,446
2017-2021	45,380	17,761	63,141
2022-2026	31,565	6,223	37,788
2027	4,795	294	5,089
	\$ 197,160	108,366	305,526

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, 2006, the Authority has estimated that projected future coverage for each future year exceeds 150%. At June 30, 2006, unrestricted Revolving Fund surplus was approximately \$793,508,000. The Authority is also required by Revolving Fund Bond Resolution covenants to maintain 25% of the unrestricted surplus requirement described above in cash and U.S. Treasury securities maturing within one year. At June 30, 2006, the liquidity requirement was \$49,290,000.

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In August 1998, the Authority issued \$100,000,000 of Power Revenue Bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.85% to 6.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. The bonds are insured by Ambac Assurance Corporation. In December 1999, the Authority defeased \$6,865,000 of the bonds using funds on hand; \$6,290,000 of the defeased bonds remain outstanding at June 30, 2006. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2006 are as follows (in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30:			
2007	\$ 1,360	4,559	5,919
2008	1,440	4,485	5,925
2009	1,520	4,405	5,925
2010	1,590	4,332	5,922
2011	1,670	4,254	5,924
2012-2016	9,960	19,642	29,602
2017-2021	13,105	16,493	29,598
2022-2026	16,915	12,688	29,603
2027-2031	21,695	7,907	29,602
2032-2034	16,010	1,751	17,761
	\$ 85,265	80,516	165,781

**(10) Retirement Plan**

**(a) Plan Description**

The Authority contributes to the State of Alaska Public Employees' Retirement System (PERS), established and administered by the State to provide pension, postemployment healthcare, death, and disability benefits to eligible employees. PERS is a defined benefit, agent multiple-employer public employee retirement system.

All full-time Authority employees are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

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

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

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

Contribution rates:	
Employee	6.75%
Employer-Actual	17.65%
Employer-Actuarially required	27.65%
Actuarial valuation date	June 30, 2003
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, open
Amortization period	Rolling 25 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Inflation rate	3.50%
Investment return	8.25%
Projected salary increase:	
Inflation	3.50%
Productivity and merit	2.00%
Health cost trend	5% – 12%

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

	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Annual Required Contribution (ARC) \$	618	435	1,053
Interest on Net Pension Obligation (NPO)	22	15	37
Annual Pension/OPEB cost	640	450	1,090
Contributions made	(394)	(278)	(672)
Increase in NPO/OPEB cost	246	172	418
NPO/OPEB Obligation, June 30, 2005	269	180	449
NPO/OPEB Obligation, June 30, 2006	\$ 515	352	867

**(11) Commitments, Contingencies and Other**

**(a) Investments**

At June 30, 2006, the Authority held approximately \$18,000 of borrower and participating lender money, which had not yet been remitted or applied. Additionally, the Authority is the administrator of grant funds and held approximately \$39,600,000 of investments that were returned to the state general fund subsequent to June 30, 2006. The Authority held approximately \$23,994,000 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.

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**(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 \$16,649,500 dividend for the year ending June 30, 2007.

**(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) Other Commitments and Contingencies**

AIDEA from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and guarantees, which are not reflected in the accompanying financial statements. At June 30, 2006, the Authority had extended loan commitments of \$38,629,000 and loan guarantees of \$1,608,000. 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.