

HB

218

HFIN

FILE

Alaska State Legislature

Juneau

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Member

House Finance Committee
Legislative Budget & Audit

Representative Mike Kelly *House District 7*

MEMORANDUM

DATE: March 27, 2007
TO: Representative Kelly
FROM: Derek Miller
RE: Sectional Analysis for HB 218
(Version 25-LS0519\C)

A sectional summary of a bill should not be considered an authoritative interpretation of the bill. The bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Adds language requiring the Alaska Aerospace Development Corporation to adopt a policy that pays out a dividend to the state each fiscal year. Establishes methods for calculating the dividend and defines terms.

Section 2. Permits the FY 2008 Aerospace dividend to be appropriated to the Teachers Retirement System Fund or for any other public purpose.

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HB 218 Sponsor Statement

"An Act relating to dividends paid by the Alaska Aerospace Development Corporation and to appropriation of the dividend for fiscal year 2008"

In 1991 the Alaska State Legislature created the Alaska Aerospace Development Corporation (AADC). The mission of the Corporation is to create a new high-technology industry for the state – space launch services. Since 1991, the State of Alaska has appropriated over \$15 million to the corporation and received no payment in return. The state's FY '08 General Fund budget ballooned to \$3.45 billion this year. The state owns a retirement system unfunded liability of \$10 billion. It is in the state's best interest to look for new revenue from diversified sources. HB 218 accomplishes this by allowing AADC to pay an annual dividend to the state.

Since 1936 the Alaska Housing Finance Corporation (AHFC) has contributed nearly \$1.5 billion to the state. Since 1996 the Alaska Industrial Development Authority (AIDEA) has contributed nearly \$205 million. Both of these public entities have contributed funds to help pay for schools, roads, public safety, etc... AADC has the financial resources and potential to do so as well.

HB 218 adds language in AADC statute to provide for an annual dividend, not less than 25 percent nor more than 50 percent of net income, in a given fiscal year. The bill also stipulates that a dividend may not exceed the total unrestricted net income for AADC in that year. If AADC has no unrestricted net income, they would not pay the state a dividend.

HB 218 is a revenue-generating bill and I urge your support for it.

"General Fund" funding of the Alaska Aerospace Development Corporation

Prepared By Div of Administrative Services March 2007

FY92 **302.5**

Operating Appropriations	AK Science & Technology Endowment	General Fund
FY93	348.4	175.2
FY94	725.1	
FY95	511.2	
FY96	511.3	
FY97	511.1	
FY98	507.6	
FY99	551.7	
FY00	555.2	
FY01	555.2	
FY02	185.1	

AK Science & Technology Foundation Eliminated
 All Cash From The Endowment Reverted Back To The Gen Fund
 Since That Is Where It Came From Originally

Operating Total	4,961.9	175.2 477.7
2 Capital Appropriations	10,000.0	0.0

Total	14,961.9	175.2 477.7
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\$ 15,439.6 million

In Opposition to House Bill No. 218

Introduced by Rep. Mike Kelly

"An Act relating to the payment of dividends by the Alaska Aerospace Development Corporation to the state, and to appropriation of the dividend for fiscal year 2008".

I am Sharon Anderson, a resident of Anchorage, and today representing the Board of Directors of the Alaska Aerospace Development Corporation (AADC) which owns and operates the Kodiak Launch Complex (KLC). Our 11 member board is a diverse representation of the aerospace and defense industries, University of Alaska President and Geophysical Institute, the State of Alaska Administration, both houses, and private industry – all very qualified and dedicated to extending the mission and goals of the Alaska Aerospace Development Corp. The Board meets quarterly, or more often as required. Although I am here to speak in opposition to HB 218, I want to state emphatically that it was the unanimous position of last years Board of Directors to provide the State of Alaska with an annual dividend, when it is financially wise.

I would like to take this opportunity to thank the State of Alaska for the vision, support, and initial seed investment of \$10 million from the Alaska Science & Technology Foundation to create the AADC, an independent state corporation. How many of you have personally visited Alaska's space port located on Narrow Cape on Kodiak Island? Have you actually experienced the pride of knowing Alaska is the home of one of our Nation's Strategic Assets; that within it's first decade of operations, has conducted 10 successful launches in support of science and national defense missions? It may have been Gen. Billy Mitchell that recognized the strategic location of Alaska to the military, but it was AADC President Pat Ladner that recognized Kodiak Island's latitude and unobstructed flight paths away from populated areas that would make an ideal site for launching satellites into polar orbits, and sub-orbital payloads. It has been and will remain a wise investment for the State of Alaska as AADC continues to expand its revenue and customer base.

During the last two years, AADC has completed two projects that expand the KLC into a \$100 million facility with the capabilities to perform an essential supportive role not only to our National Defense but also to the growing commercial aerospace and high-technology industries in our State. The high speed communications via a new fiber optic project, between Kodiak Island and the Kenai Peninsula, expands the capabilities for the University of Alaska, telemedicine and Homeland Security, as well as KLC current and future customers. The construction and installation of the Range Safety and Telemetry System has been completed, which allows the KLC to perform on the same or higher level of rocket data gathering capabilities as White Sands, Vandenberg or Kwajalein.

Since the initial state investment, AADC has been totally self-supporting primarily through launch contracts. Doing business in the aerospace and defense industries has its positive points and also brings several challenges. Outside dollars flow through AADC bringing new dollars to the State, instead of re-circulating dollars already among residents and businesses. Although working within a very capital intensive industry, AADC provides its own payroll, retirement, employee benefits, as well as a very costly annual maintenance of the sophisticated and highly technological equipment required to support launch infrastructure. Our financial impact on Kodiak has been significant as well as our support to the University of Alaska and Fairbanks with the development of earth stations and Poker Flat research projects. The Board established a scholarship program in partnership with the University of Alaska Foundation to enable high school seniors seeking a Bachelor's degree in math, physics, engineering, business or a technical field such as computer science the opportunity to apply for a \$5000 scholarship to pay for their educational expenses, and can be used at any U of A campus. Ten scholarships are awarded each year to students across the state. To date, AADC has donated \$300,000 to the University of Alaska Foundation. The Board is proud to keep the best and the brightest in the State and urge them to pursue their science dreams. AADC also supports the Challenger Learning Center and nationally recognized Space Explorers Program bringing interactive science materials for students from Kindergarten through 12th grade. In 2006, AADC co-sponsored this program in over 100 schools throughout Alaska. The Board views all of these as vital dividends to the residents of our State.

- Payroll in FY06 totaled \$3.6 million and is projected to be \$3.9 million in FY 07.
- AADC's business activities in FY 05 totaled \$24 million in Kodiak, and supported a total of 45 FTE employees and another 72 indirect jobs in Kodiak.
- Approximately 20 FTE in supported in Anchorage.
- Wages paid in Kodiak displaced reductions from other industries on the island; without AADC real earnings would have dropped more than 9% in FY05
- AADC related jobs are well paying; average wages paid out by AADC on Kodiak Island nearly double the borough average.

To review the AADC financials, one could think that there should be a few dollars to spare. This is where the basic business model differences begin between AADC and other independent state corporations. AADC does not provide long-term loans or rents that secure revenue over long periods of time that can be used to cover expenditures of the organization and enable them to provide a stable dividend to the state. In early years, AADC conducted commercial launches, but currently has only one customer, the Missile Defense Agency in support of the Ground-based Midcourse Defense program. The problem with relying on revenues from launches is that scheduling is totally unpredictable and not guaranteed creating a challenge in predicting year to year revenues.

AADC has very strict demands from the MDA to maintain a high level of readiness – both from the intellectual and personnel skill base but also with the complicated electronic hardware and software, fiber communications, vehicles, large metal buildings with integral cranes, a high tech clean room for satellite processing, and multiple HVAC systems; of which all are susceptible to adverse effects from corrosion and normal wear and tear from day-to day operations. Due to these expensive preventative maintenance costs, which vary from year to year, daily operating cash amounts must be maintained at a higher level than most organizations. To remain competitive with other launch facilities and retain the MDA level of readiness, the high maintenance costs are part of “doing business” owing to the fact that launch delays are even costlier. A one day delay for the MDA costs \$1 million.

Revenues must also be reinvested for future capital expenditures. To expand and diversify AADC’s customer and revenue base, a third launch sub-orbital launch pad is necessary. While MDA is in a “holding pattern”, which can sometime go on for months, no other launches can be conducted in the current pad area. Continuous funding for various quantities of launch support equipment is required, as they are reaching the 10 year mark; some are obsolete, others require repair or replacement. The current draft KLC Improvement Modernization Plan totals over \$16 million.

To close, the AADC Board of Directors has every intention of providing the State a dividend as soon as it is financially practical. However, to provide a dividend using the proposed HB 218 model without having the ability to set aside appropriate funding for capital repair, replacement, and expansion, would not be financially wise and have serious negative affects on the ability to sustain the KLC. We have a lot yet to do. Our Corporation is working to improve its infrastructure and capabilities, as our Annual Report for 2006 illustrates. Alaskans have accomplished a lot with AADC in the last 10 years, and there’s a bright future for Alaska in the support of space industry

Thank you.

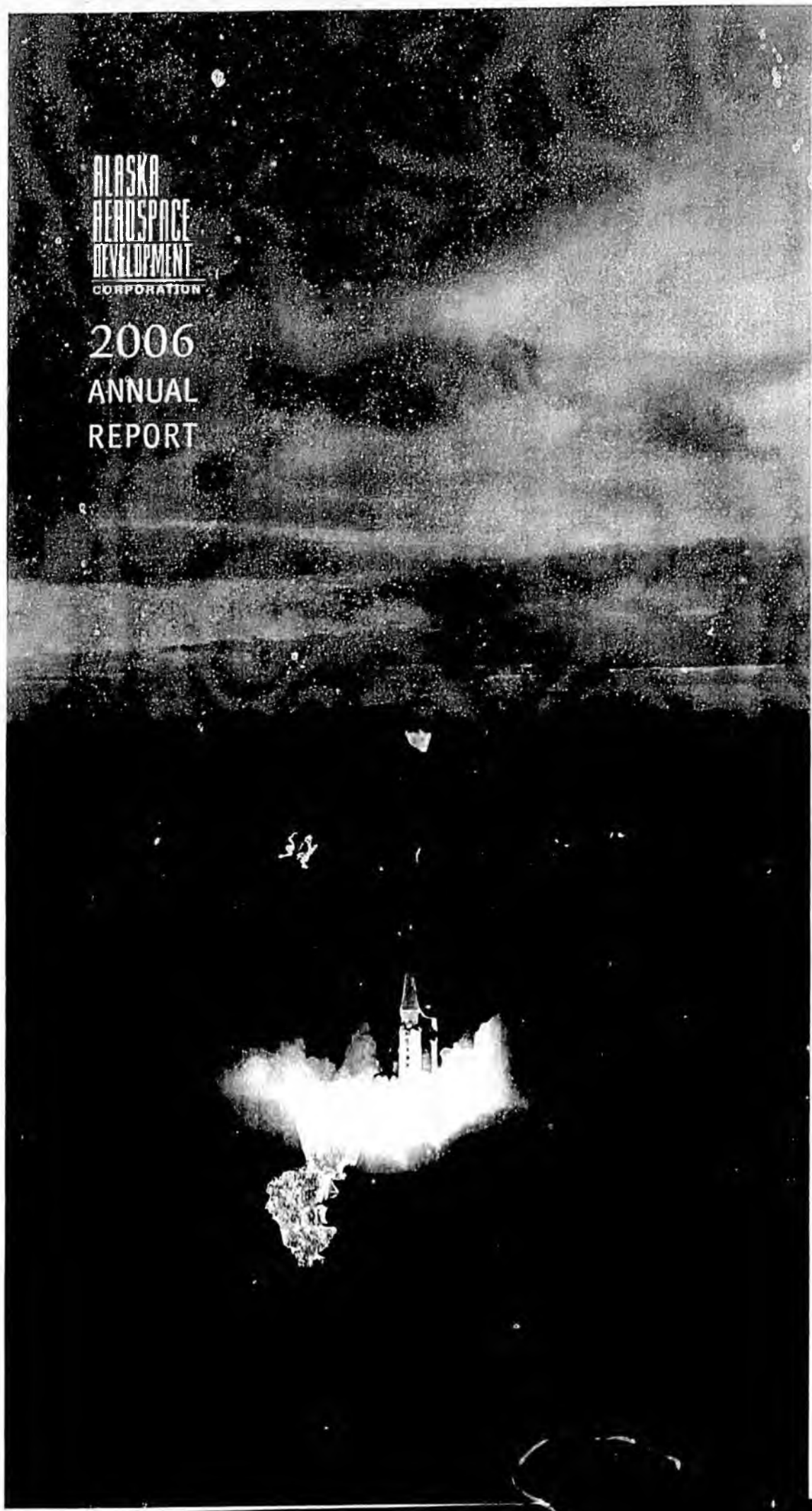
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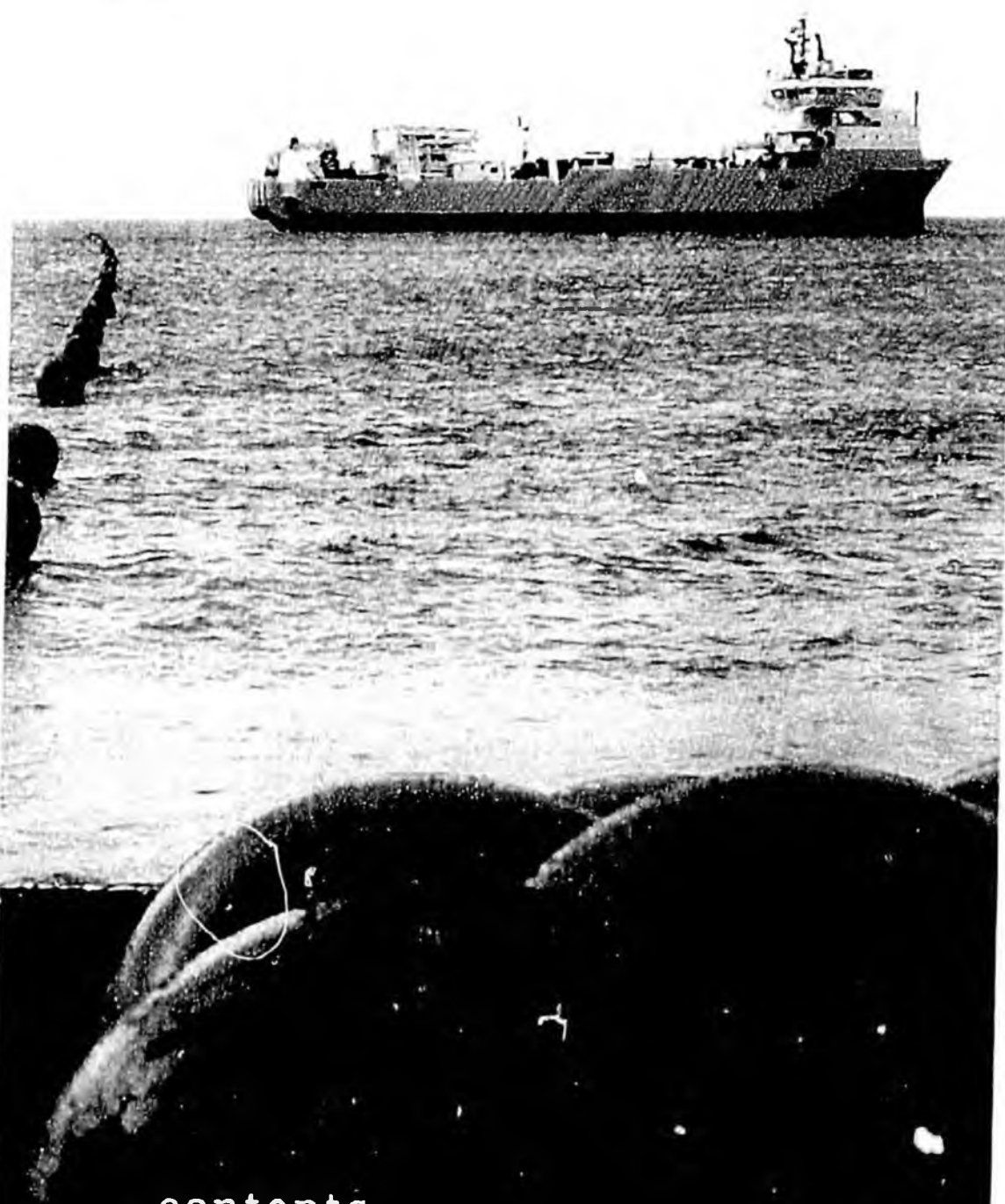
ALASKA
AEROSPACE
DEVELOPMENT
CORPORATION

2006
ANNUAL
REPORT



605.62 miles

length of fiber optic cable
that will provide service with
light speed between Australia
and London



contents

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June 1994 cover photo: photographs of the ship and
by AAFCO, Inc. in the Australian Ocean

cover photo of ATC Co. by the author of the book
of the Scripps National Laboratory

2006

LAUNCH SERVICES

The tenth launch from the Kodiak Launch Complex (KLC) on September 1st was a significant milestone for Alaska Aerospace Development Corporation (AADC). It demonstrated AADC's ability to deliver launch services consistently, professionally and cost-effectively as a commercial facility.

TELECOMMUNICATIONS LEADER

The new fiber optic cable project spearheaded by AADC and the Kodiak Kenai Cable Company will bring high-speed telecommunications technology to Kodiak Island and the Kenai Peninsula and for the first time.

This major economic infrastructure development will bring the KLC online with secure, fast data transmission capabilities and provide high-speed Internet access to the residents and businesses of Kodiak and the Kenai Peninsula.

SUPPORT FOR EDUCATION

AADC broadened its support of education in 2006 with an increase in contributions to the AADC Scholarship Program and a continued commitment to the Space Explorers Program for grades K-12.

AADC was also the major sponsor for a fundraising event to benefit the Challenger Learning Center of Alaska (CLCA). This memorable event on November 10th raised over \$225,000 to support the CLCA, a unique science education learning facility located in Kenai that serves students across the state.

INFRASTRUCTURE DEVELOPMENTS

AADC completed the construction and installation of a permanent telemetry site in Cordova for the second unit of the Range Safety and Telemetry System. The dual systems, one at Cordova and one at the KLC, have also been greatly expanded to provide exceptional data receiving and processing capabilities.

CHAIRMAN'S LETTER

To the Governor, the State Legislature and the People of Alaska

The Alaska Aerospace Development Corporation is at a turning point as an organization that serves the state of Alaska.

Our accomplishments and growth over the last year have demonstrated that AADC is an aerospace company able to meet the demands of the industry with efficiency, flexibility and a high degree of customer satisfaction.

AADC has never been in a stronger position operationally, financially, or as a supporter of education and community development. The new fiber optic project provides us with communications connectivity to the Kodiak Launch Complex will bring high-speed internet access to Kodiak and benefit the local economy. This is one of many infrastructure additions strengthening AADC capabilities and multiplying its economic impact.

I am particularly proud of the scholarship program and the level of support we provide to high school seniors as they enter college. AADC is highly committed to the education of Alaska. The success of the scholarship program is just one of the many efforts AADC makes to help to help students achieve their dreams.

AADC accomplishes more with a staff of thirty-five than other aerospace companies do with hundreds of employees. The strength of the AADC team is one of our key assets and I am proud to be a part of it.

Sincerely,

Mark Hamilton
President of the Board of Directors



PRESIDENT'S LETTER

To the Governor, the State Legislature and the People of Alaska:

I am pleased to present the 2006 Annual Report for Alaska Aerospace Development Corporation to the people of Alaska. Each year of operations for AADC results in greater and greater success and this year has been the most dynamic we've had to date.

I can truly say we are no longer an aerospace company in "development" but have matured and grown to become an innovative, respected and highly efficient organization. In true Alaskan fashion, we have taken an industry layered in decades of tradition and made it our own, with great results.

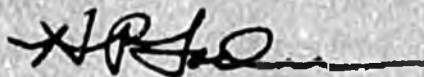
We celebrated our 10th successful launch on September 1, 2006 and are proud of this milestone and what it represents.

The infrastructure of AADC operations continues to grow with the installation of a permanent telemetry site in Cordova and the expansion of our overall telemetry capabilities.

AADC, along with the Kodiak Kenai Cable Company, spearheaded the development of a fiber optic cable to the Kodiak Launch Complex. This network will provide fiber optic connectivity to the Kodiak Island Borough, the nation's largest US Coast Guard facility at Kodiak and the entire Kenai Peninsula. This project also expands the capabilities for the University of Alaska, telemedicine and Homeland Security with high-speed Internet. The system is scheduled to be operational in early 2007.

We have many other milestones and accomplishments for you to review. I hope this report provides you with a greater understanding of the benefits AADC and the aerospace industry bring to Alaska.

Sincerely,

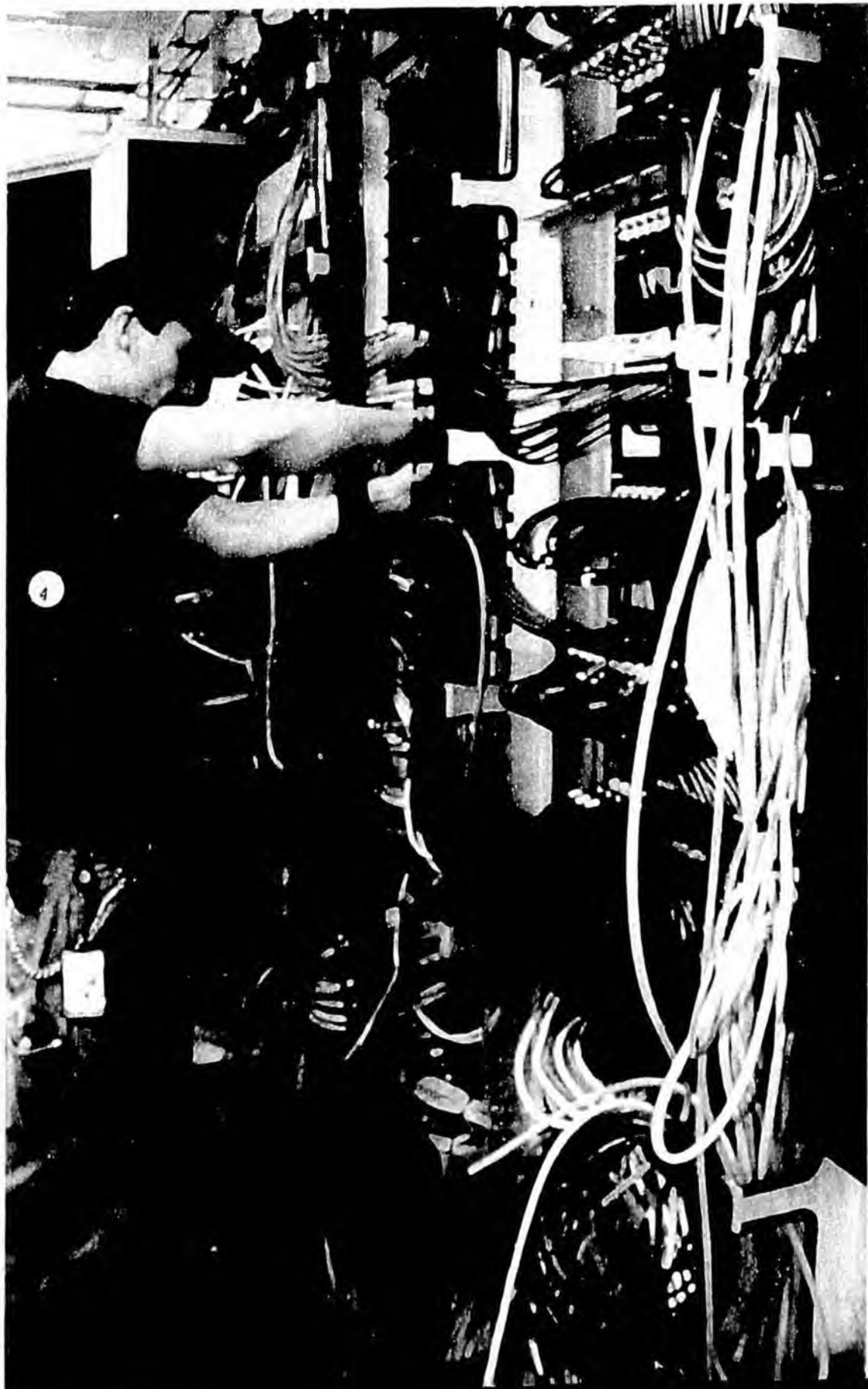


*Pat Laddner
President & CEO*



3,042,511.2

length of fiber optic strands
installed in the nation's R.T.
communications network



in review

LAUNCH SUCCESS

Tenth Launch for KLC: a Milestone for a Mature AADC

The business of launching rockets is complex and demanding. It takes seamless teamwork and professionalism to coordinate the many safety, communications, engineering, logistical and business activities involved in a launch campaign.

AADC has consistently provided a level of service to its customers demonstrating these capabilities. These skills are applied to every launch and support function conducted at the KLC.

As a result, 2006 was another successful year of launch operations with the lift-off of two rockets in support of the Ground-based Mid-course Defense program for the Missile Defense Agency (MDA).

04-

A long-range Strategic Targets System (STARS) rocket, FT 04-1, was launched on February 23rd from Launch Pad 2 at the KLC. This launch supported the MDA's data gathering and testing of the upgraded early warning radar located at Beale Air Force Base in northern California.

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02

On September 1st, STARS rocket FTG-02 lifted-off from Launch Pad 2 and was a landmark as the 10th successful launch at the KLC. This MDA flight was for data gathering and the concurrent testing of an interceptor missile's rocket motor system. While not a planned objective for this data collection flight test, an intercept of the target warhead was achieved.



the year
in review

KODIAK ISLAND

High-Speed Telecommunications Come to Kodiak Island & Kenai Peninsula

This year AADC, along with the Kodiak Kenai Cable Company, spearheaded the development of a submarine fiber optic cable network to bring high-speed connectivity to the Kodiak Launch Complex. The economic impact of this major infrastructure advancement will directly benefit the people of Kodiak and Alaska. This new network will connect the Kodiak Island Borough, the nation's largest Coast Guard facility (based in Kodiak), and the entire Kenai Peninsula to the existing fiber optic network that runs throughout the state and to the Lower 48.



This groundbreaking infrastructure development will also expand the capabilities for University of Alaska distance learning, increase the use of telemedicine and further the development of resources available to Homeland Security.

AADC has long sought high-speed connectivity for the KLC to provide secure, fast data transmission and voice communications. AADC entered into a long-term use agreement with the Kodiak Kenai Cable Company that financially enabled the project.

Kodiak Kenai Cable Company was established by Ouzinkie Native Corporation and Old Harbor Native Corporation to construct and operate this advanced telecommunications system. KKCC will operate as a "carrier's carrier," offering broadband capacity to local and long distance exchange carriers for telephone, Internet and other data services.

The shielded and reinforced cable is installed underwater. Landing points will be located at Anchorage, Kenai, Homer, Seward, Kodiak and the Kodiak Launch Complex at Narrow Cape.

\$24.4 million

The economic impact of
KLC operations on the
Kodiak economy

ECONOMIC IMPACT

KLC Operations Impact Kodiak Economy

In 2006, AADC initiated an independent analysis of the economic effect on the Kodiak area from the ongoing operations and various projects at the KLC. This analysis covered the 2005 calendar year.

The Economic Impact Study, conducted by Van Wyhe Rogers Group and Information Insights, Inc., details the impact KLC has on boosting the local economy and mitigating the unemployment rate.

Wages paid by AADC and additional jobs created by AADC spending offset the impact of job reductions from other industries; without AADC, real earnings in Kodiak would have dropped more than 9 percent in 2005.

AADC makes a concerted effort to purchase goods and services from Kodiak vendors whenever possible and practicable. As a result, about 25 percent, or \$6.7 million, of total overall spending stays in the local economy with Kodiak vendors.

About \$7 million is spent with other vendors within the state, portions of which flow into the Kodiak economy.

The impact launch customers have on spending in Kodiak is significant. In 2005, an estimated \$1.9 million was spent on travel and hospitality during launch operations. This figure includes 480 trips to Kodiak and 7,000 room nights.

When all local spending is factored together, along with standard multipliers accounting for the flow of dollars within the community, KLC operations had an overall impact of \$24.4 million on the Kodiak economy.

The 2005 Economic Impact Study can be found in the Documents section of the AADC website at www.akaerospace.com.



the year
in review

INFRASTRUCTURE

KLC Facilities Upgrades Increase Capabilities

Permanent Cordova Site

AADC constructed a permanent telemetry site in Cordova to accommodate customer equipment and the off-axis unit of the Range Safety and Telemetry System. AADC is now able to deliver an optimum level of professional, flexible service to customers and support a variety of instrumentation with the completion of this permanent facility.

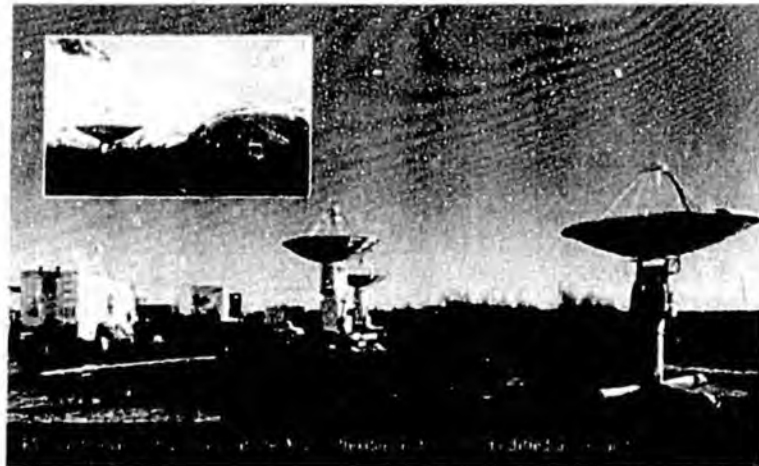
The facility includes a 3.5 acre fenced gravel pad with power and back-up power, an expandable communications Earth station (presently configured for six T-1 lines), offices with a conference room and a security guard station. The off-axis mobile RSTS unit can be relocated to King Salmon, as needed, maintaining the built-in flexibility of the system to meet the requirements of each launch. AADC and its customers work very closely with the Cordova community for housing, communications, supplies and support.

8



122,532 feet

Highest altitude attained
by KLC weather balloon



Antenna Mobility

The KLC infrastructure is designed to be highly adaptable in meeting customer launch campaign requirements. In response to a request for a change in signal monitoring during Missile Defense Agency launches, KLC personnel relocated a major RSTS tracking antenna to an optimum position approximately one mile from the Antenna Field at Narrow Cape. This quick action was possible because of the inherent mobility designed into the system.

Weather Support

KLC weather support is a critical part of launch operations. Without accurate up-to-the-minute readings, a launch could be delayed due to unknown weather conditions. Precise measurements on the ground and at many different altitudes are required to ensure that a complete picture of the weather is clearly known at any given moment.

AADC completed a \$250,000 upgrade to the weather station and related equipment. These improvements included new weather radar with greater resolution and expansion of the balloon sonde upper air observation capabilities. The KLC can now provide six simultaneous upper air observations at various altitudes, up from three, in preparation for a launch.

These upgrades provide state-of-the-art capabilities like those found at the major launch ranges.

EDUCATION

AADC Increases Educational Support for Alaska's Students



Not Pictured: Kirstin Berntsen - Kodiak

10

Scholarships

As stated in Alaska State Statute, Section 14.40.861, the purpose of the corporation is "... to stimulate space-related business and educational and research development... in the state." In accordance with this statute, AADC has established a significant scholarship program in partnership with the University of Alaska Foundation.

High school seniors seeking a Bachelor's degree in math, physics, engineering, business or a technical field such as computer science can apply for a generous \$5,000 scholarship to pay for their educational expenses. The scholarships can be used at any University of Alaska campus.

Ten scholarships are awarded each year to students across the state. Depending upon available funding, continuing students who meet eligibility criteria may be able to receive additional scholarships in future years.

To date AADC has donated \$300,000 to the University of Alaska Foundation to fund this program.

Internships

An important part of learning is doing. AADC has established a popular intern program for engineering and science students who want hands-on experience in the aerospace field.

Interns accepted into the program, which began in 2002, are based at the KLC and become active and responsible members of the aerospace team. They receive training in the daily operations and technical demands of a working launch facility and gain career-building experience for future success.



Challenger Learning Center of Alaska

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AADC was the principal sponsor of a gala fundraising event on November 10th to benefit the Challenger Learning Center of Alaska (CLCA). Honorary Host and Special Guest Senator Ted Stevens, Governor-elect Sarah Palin, Mark Hamilton, President of the University of Alaska, and many other special guests from across the US attended the event. Dr. June Scobee Rodgers, the founding Chairperson of the national Challenger Center network, was the featured guest speaker.

This special evening entitled "It's About the Kids!" raised over \$225,000 to support the long-term sustainability of the CLCA.

Space Explorers

As stated in Alaska State Statute, Section 14.40.851, the purpose of the corporation is "... to stimulate space-related business and educational and research development... in the state."

Providing support to science teachers and students is very important in this modern age. Studies show that young people twelve years old and higher seem to lose interest in science education. That means fewer and fewer high school seniors are studying engineering, applied sciences and other technical fields. This directly impacts our ability to compete in the increasingly technological world and global economy.

AADC supports the innovative and nationally recognized Space Explorers Program. This resource brings on-line, interactive science materials and exciting learning opportunities into the classroom for students from Kindergarten through 12th grade.

Science teachers receive lesson plans and other curriculum support they can immediately apply to their classes. It is a significant step toward sparking student interest in learning about science and maintaining that enthusiasm through graduation.

In 2006, AADC co-sponsored this program in over 100 schools throughout Alaska.

the year
in

RSTS

RSTS Expansion Increases Data Processing Capabilities

An important aspect of a rocket's flight is gathering data and recording it. This information is vital for tracking and monitoring the vehicle's health, status and trajectory.

AADC has two state-of-the-art mobile Range Safety and Telemetry System (RSTS) units; one at the KLC and an identical system in Cordova. The RSTS is a GPS based, S-band telemetry receiving and UHF command destruct system, with redundant auto-tracking 5.4-meter telemetry antennas and redundant UHF omni-directional and directional antennas for command destruct. The directional command destruct antennas are integrated with the telemetry auto-tracking antennas.

The prime purpose of the RSTS is to provide the range safety and telemetry functions necessary to track, receive and process critical telemetry data and verify a safe rocket flight within prescribed boundaries, or safely terminate an errant rocket.

The capabilities of the system were significantly increased with the addition of 8 redundant (or 16 individual) S-band telemetry receiving, recording and processing links. With this expansion, the RSTS meets a variety of customer data receiving and processing requirements with a total availability of 12 redundant (or 24 individual) S-band links.

12



KODIAK

June Board Meeting Held in Kodiak



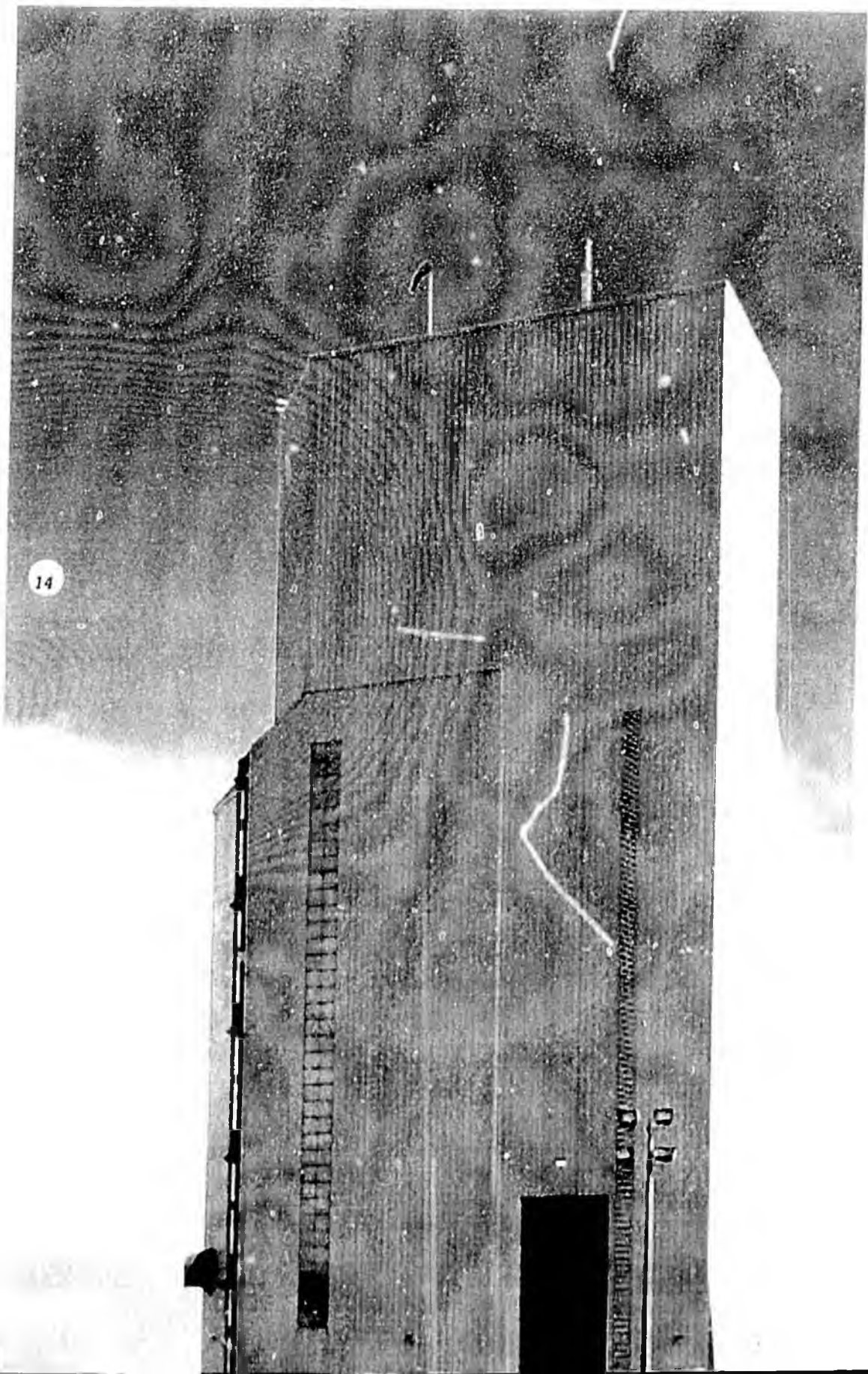
On June 15th, the AADC Board of Directors met in Kodiak as a part of their regular schedule of quarterly meetings. In addition to conducting regular business during the meeting, it provided an opportunity for Board members to further build Kodiak community relations and address comments, questions or concerns residents had about operations at the KLC.

Of special note at this meeting was the presentation of scholarship medallions to two of the 2006/2007 AADC Scholarship Program recipients. Mark Hamilton, President of the University of Alaska and Chair of the AADC Board, Pat Ladner, AADC President and CEO, and Brian Rogers, member of the University of Alaska Board of Regents congratulated Willie Nelson of Port Lions and Kelsey Peterson from Old Harbor for their academic achievements and wished them success in their future studies.

James Rahr, a University of Arizona student intern at the KLC, gave a special presentation on his work in the intern program and the many benefits this unique opportunity provided. He stated, "I would absolutely recommend this position. It has been very hands-on and very interesting."

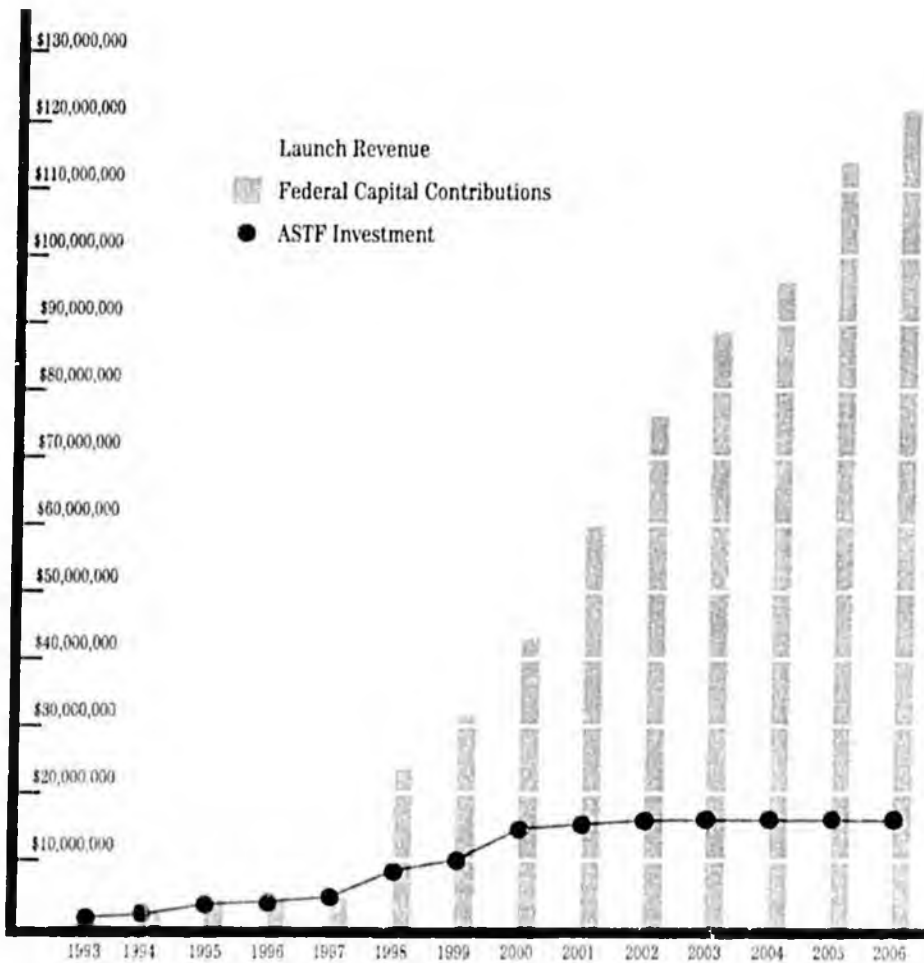
Also at this meeting, Brian Rogers, in his role as principal consultant with Van Wyhe Rogers Group and Information Insights, Inc., discussed the independent financial analysis his firm completed detailing the economic impact AADC had on the Kodiak economy in 2005. The study determined that AADC had an overall impact of over \$24 million as a result of KLC operations.

174 feet
Launch Service Structure on
Launch Pad 1 (alt 10)



financials

RETURN ON INVESTMENT (CUMULATIVE)



15

The above depicts a total of \$180.2 million in revenue from launches (\$55.4 million) and capital contributions (\$124.8 million from NASA, US Air Force and US Army) that has been brought to the State of Alaska as a return on the initial financial investment of \$15.6 million provided by the Alaska Science and Technology Foundation (ASTF).

financials

TABLE 1: STATEMENT OF NET ASSETS

	Current Year	Prior Year	Change
Assets			
Current assets	\$19,509,995	\$36,450,320	(\$16,940,325)
Capital assets, net	78,875,194	66,970,104	11,905,090
Total Assets	\$98,385,189	103,420,424	(5,035,235)
Liabilities			
Current liabilities	1,796,117	4,912,185	(3,116,068)
Noncurrent liabilities	12,546,120	27,415,473	(14,869,353)
Total Liabilities	14,342,237	32,327,658	(17,985,421)
Net Assets			
Invested in capital assets	78,875,194	66,970,104	11,905,090
Unrestricted	5,167,758	1,122,662	1,045,096
Total Net Assets	\$84,042,952	\$71,092,766	\$12,950,186

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The total net assets increase of 18 percent is the result of \$12.9 million of capitalized projects at KLC. The majority of the KLC capital additions are related to the continued construction of the telemetry system, design of a new launch pad and rocket motor storage facility and the installation of fiber optic cable. The construction of the Maintenance and Storage Facility was completed in 2005.

Business-type Activities

AADC's operating revenues are supported by a contract secured with the Missile Defense Agency for operations and launch activity. Depreciation on the KLC continues to be a significant operating expense. The table below highlights the changes in net assets of Alaska Aerospace Development Corporation's business-type activities.

TABLE 2: CHANGES IN NET ASSETS

	Current Year	Prior Year	Change
Operating Revenues	\$16,892,116	\$16,914,593	(\$22,477)
Operating Expenses			
Personal services	3,595,677	2,385,675	1,210,002
Travel	1,003,921	1,046,714	(42,793)
Contractual services	8,919,394	11,642,643	(1,723,249)
Supplies	689,511	674,054	15,757
Equipment	1,339,187	715,507	623,680
Depreciation	3,713,769	3,423,326	290,443
Total Operating Expenses	20,261,759	19,887,919	373,840
Net Operating Loss	(3,369,643)	(2,973,326)	(396,317)
Nonoperating Revenues			
Interest income unrestricted	155,070	52,287	102,783
Cooperative Agreement	296,077	1,406,902	(1,110,825)
Total Nonoperating Expenses	451,147	1,459,189	(1,008,042)
Loss Before Capital Contributions	(2,018,496)	(1,514,137)	(1,404,359)
Capital Contributions	15,868,682	12,546,700	3,321,982
Change in Net Assets	12,950,186	11,032,563	1,917,623
Net Assets - Beginning of Year	71,092,766	60,060,203	11,032,563
Net Assets - End of Year	\$84,042,952	\$71,092,766	\$12,950,186

financials

Launch operating revenues and expenses in fiscal year 2006 remained comparable to fiscal year 2005. The contributing factors for these results include:

- Revenues remained at \$16 million for fiscal year 2006 with two launches completed. The forecasted launch operating revenue for fiscal year 2007 is expected to increase with three scheduled launches.
- The level of activity at the KLC remained consistent compared to the previous fiscal year. Management expects fiscal year 2007 expenses to continue in proportion to the launch operating revenues described above.
- The depreciation expense in fiscal year 2006 increased by \$290,000 from fiscal year 2005 due to KLC capital additions and completion of the Maintenance and Storage Facility. Management expects the depreciation expense to increase in future years with completion of the RSTS expansion (in fiscal year 2007) and additional capital projects.
- AADC has never received any general funds from the State of Alaska; AADC is fully self-sufficient.

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AADC's Budgetary Highlights

The State of Alaska approves the annual AADC budget. Neither the Board of Directors nor management has the authority to modify the budget. The budget has historically included provisions granting AADC "receive and expend authority". This allows AADC to contemporaneously receive funding from launch customers and expend funds as necessary to provide services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2006, AADC had \$78.8 million invested in various capital assets both in Kodiak and Anchorage that support its mission to foster the aerospace industry in Alaska (see Table 3 below). This amount represents a net increase (including additions and deductions) of \$11.9 million, or 18 percent, over the prior year.

In fiscal year 2006, major capital additions consisted primarily of continued telemetry system construction and design of a launch pad and rocket motor storage facility. The \$8 million in other assets represents an Indefeasible Right of Use (IRU) for two fiber optic lines at KLC.

TABLE 3: CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)

Kodiak Launch Complex	Current Year	Prior Year	Change
Infrastructure	\$6,158,435	\$6,445,294	(\$286,859)
Buildings, structures	33,758,193	27,465,610	6,292,583
Vehicles and equipment	17,636,563	18,540,979	(904,416)
Office furniture and equipment	354,953	322,158	32,795
Other assets	8,013,119	0	8,013,119
Construction in progress	12,953,931	14,196,063	(1,242,132)
Total Capital Assets	\$78,875,194	\$66,970,104	\$11,905,090

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Debt Administration

AADC has no long-term liabilities that require debt administration. AADC has the authority to issue bonds but has not issued any to date.

AADC participates in the State of Alaska Risk Management Pool, which costs considerably less than commercial insurance. Other obligations include forecasted pension obligations and accrued leave. More detailed information about AADC long-term liabilities is presented in financial statement notes.

financials

ECONOMIC FACTORS & NEXT YEAR'S BUDGETS

The AADC Board of Directors considered many factors when setting the fiscal year 2007 budget, such as completion of the construction projects in progress, launch fees that will be charged for the business-type activities and depreciation of the KLC facilities. Amounts budgeted for launch operating revenue are \$26 million with three expected launches. AADC may be asked to further develop KLC infrastructure through its National Guard Cooperative Agreement.

AADC commissioned an independent analysis of the economic impact of KLC operations on the Kodiak Island Borough for 2005. This study was issued to the Alaska State Legislature in spring 2006. Copies are available on the corporation's website at www.akaerospace.com.

CONTACTING AADC'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of AADC finances and to show AADC accountability for the money it receives. If you have questions about this report or need additional financial information, contact Alaska Aerospace Development Corporation at 4300 B Street, Suite 101, Anchorage, Alaska, (907) 561-3338.

AADC BOARD OF DIRECTORS

Mark Hamilton (Chair)
President, University of Alaska Statewide System

Jack Eidson
Lockheed Martin Space Operations

Robert Smith
Director, Geophysical Institute, University of Alaska, Fairbanks

Wallace Sawyer
BAAW (retired)

Sharon Anderson
Principal, Anderson Business

Emil Notti
Commissioner
Department of Commerce, Community & Economic Development

Michael Hartz
Deputy Chief of Staff, Office of the Governor

John Sweeney
Owner, Sweeney Insurance

Thomas Walters
Owner, Maritime Helicopters

Ex Officio

Senator Gary Wilken (non-voting)
Alaska State Senate

Representative Gabrielle LeDoux (non-voting)
Alaska State House of Representatives



Alaska Aerospace Development Corporation
4300 B Street, Suite 101 • Anchorage, Alaska 99503
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ALASKA HOUSING FINANCE CORPORATION

Summary of Capital Contributions from and Transfers to the State of Alaska from Inception through FY 2006

(\$'s in thousands)

Fiscal Year	State Approps Received	Debt Repaid	State Assets Purchased	Dividends Paid	State Direct Transfer	Other State Housing	Other State Funding	SGPB/JAA Debt Service	State Total	AHFC Capital Portion	AHFC Total Budget
1976	391.0	-	-	-	-	-	-	-	-	-	-
1977	2,109.0	-	-	-	-	-	-	-	-	-	-
1978	995.0	-	-	-	-	-	-	-	-	-	-
1979	3,630.0	-	-	-	-	-	-	-	-	-	-
1980	405,505.0	-	-	-	-	-	-	-	-	-	-
1981	155,590.0	-	-	-	-	-	-	-	-	-	-
1982	265,000.0	-	-	-	-	-	-	-	-	-	-
1983	150,000.0	-	-	-	-	-	-	-	-	-	-
1984	49,051.0	-	-	-	-	-	-	-	-	-	-
1985	-	-	-	-	-	-	-	-	-	-	-
1986	-	12,141.0	-	-	-	-	-	-	12,141.0	-	12,141.0
1987	-	16,127.0	70,000.0	-	-	-	-	-	86,127.0	-	86,127.0
1988	-	-	-	-	-	-	-	-	-	-	-
1989	-	-	-	-	-	-	-	-	-	-	-
1990	-	-	-	-	-	-	-	-	-	-	-
1991	-	-	-	17,171.0	-	-	-	-	17,171.0	-	17,171.0
1992	-	-	179,892.0	19,412.0	-	-	-	-	199,304.0	-	199,304.0
1993	37,252.0	-	-	40,715.0	-	-	-	-	40,715.0	-	40,715.0
1994	-	1,573.0	1,114.0	16,983.0	-	-	-	-	19,670.0	-	19,670.0
1995	-	-	-	20,043.0	200,000.0	-	-	-	220,043.0	-	220,043.0
1996	-	-	1,261.0	-	70,000.0	24,026.0	7,000.0	-	102,287.0	24,713.0	127,000.0
1997	-	-	-	-	50,000.0	19,205.3	1,865.0	-	71,070.3	29,377.8	100,448.1
1998	-	-	-	-	70,000.0	16,742.5	21,557.1	-	108,299.6	24,214.0	132,513.6
1999	-	-	-	-	24,019.9	36,265.0	18,974.0	8,856.1	88,115.0	14,885.0	103,000.0
2000	-	-	-	-	14,556.0	30,166.8	17,444.0	19,000.0	81,166.8	22,471.5	103,638.3
2001	-	-	-	-	15,007.5	28,649.7	9,229.6	35,992.5	88,879.3	14,120.7	103,000.0
2002	-	-	-	-	6,000.0	28,600.0	4,429.5	45,000.0	84,029.5	18,970.5	103,000.0
2003	-	-	-	-	18,700.0	18,818.8	1,476.0	51,000.0	89,994.8	13,005.2	103,000.0
2004	-	-	-	-	8,861.1	24,852.2	835.0	50,001.7	84,550.0	18,450.0	103,000.0
2005	-	-	-	-	31,942.6	531.5	3,746.9	51,000.0	87,221.0	15,779.0	103,000.0
2006	-	-	-	-	18,854.6	-	6,281.8	57,001.6	82,138.0	20,862.0	103,000.0
Totals	1,069,523.0	29,841.0	252,267.0	114,324.0	527,941.7	227,857.8	92,838.9	317,851.9	1,562,922.3	216,848.7	1,779,771.0

General Notes:

Contributions from the State are shown during fiscal year paid; Transfers to the State are based on when the legislative authorization took place and not the actual payment date.

Fiscal years through 1980 ended on November 30, FY 1981 reflects 7 months from December 1 through June 30; Fiscal years 1982 and later end on June 30

See AHFC Budget Summary Reports (located on Intranet) for details of specific appropriations from FY 1996 through FY 2006.



FOR RELEASE: December 1, 2006

For more information contact:
Becky Gay at 269-3024

AIDEA Board approves \$10 million dividend today

Anchorage – Today, at its last regular meeting of 2006, the AIDEA Board approved a dividend of \$10 million to go to the state general fund for FY2008.

The dividend represents the maximum allowed under law, or 50% of the \$20 million net operating income AIDEA realized in FY 2006. The Board has approved a maximum payout in each of the past three years.

Since the program inception in 1996, AIDEA has cumulatively paid nearly \$205 million to the state, including the \$10 million approved today.

Below is a recap of the dividend program.

For FY ending June 30	Payable in FY	Dividend \$
1995	1997	\$15,000,000
1996	1998	\$16,000,000
1997	1999	\$16,000,000
1998	2000	\$26,000,000
1999	2001	\$18,500,000
2000	2002	\$17,500,000
2001	2003	\$20,149,500
2002	2004	\$18,175,900
2003	2005	\$22,000,000
2004	2006	\$8,812,000
2005	2007	\$16,649,500
2006	2008	\$10,000,000
Cumulative		<u>\$204,786,900</u>

###

**Alaska Aerospace Development
Dividend to the State**

(Change in Net Assets include Capital Contributions^{***})

	Change in Net Assets - "Net Income"	Unrestricted Change in Net Assets - "Unrestricted Net Income"	25% of Net Income Dividend	50% of Net Income Dividend	Dividend to the State
FY'02	\$ 301,657.00	1,101,953.00	\$2,325,414.25	\$4,650,828.50	\$1,101,953.00
FY'03	2,263,960.00	-220,035.00	\$815,990.00	\$1,631,980.00	\$0.00
FY'04	8,328,026.00	1,613,144.00	\$2,082,006.50	\$4,164,013.00	\$1,613,144.00
FY'05	11,032,563.00	1,836,459.00	\$2,758,140.75	\$5,516,281.50	\$1,836,459.00
FY'06	12,950,186.00	1,045,096.00	\$3,237,546.50	\$6,475,093.00	\$1,045,096.00
				Total Dividend to the State FY '02 - FY '06	\$5,596,652.00

Prepared by the Office of Representative Mike Kelly

Sources: Alaska Aerospace Development Corporation Annual Reports: FY 2002 thru FY 2006



- TOUR INFO
- SITE MAP
- CONTACT US

AADC HOME	KODIAK LAUNCH COMPLEX	DOCUMENTS	VISITING AADC
NEWS HISTORY	GLOBAL LOCATION EDUCATION ABOUT US	RELATED LINKS	OPPORTUNITIES



You are here: [AADC Home](#) > [History](#)

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- + [Space industry in Fairbanks](#)
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AADC History

The Alaska State Legislature created the Alaska Aerospace Development Corporation in 1991. The corporation was given the mission of creating a new high-technology industry for the state – space launch services.

From 1992 through 1994, AADC organized itself, completed a feasibility study for an orbital launch facility, raised funds and began permitting for a launch facility at Narrow Cape, on Kodiak Island. Narrow Cape was selected because launches into polar orbit can be made over the North Pacific Ocean, avoiding populated areas. In 1995 the legislature approved funding for the Kodiak Launch Complex. Design work was initiated and work on permits continued. In 1996, the U.S. Air Force Atmospheric Interceptor Test Program committed to two launches from the Kodiak Launch Complex.

Bids for construction were solicited in 1997 and construction began in 1998. AADC signed its first contract with a commercial customer that year, Lockheed Martin Corporation. Construction was completed in 2000.

In 2003 Alaska Aerospace Development Corporation and the U.S. Missile Defense Agency entered into a five-year contract for AADC to provide launch support services for numerous launches in connection with tests of the nation's missile defense system. The first and second launches under this contract took place on 14 December 2004 and 13 February 2005, respectively.



AADC helped initiate a space information industry in Fairbanks

While its primary mission is launch services through the Kodiak Launch Complex, AADC also has helped initiate a space information industry in Fairbanks. To encourage a space information industry in Fairbanks, AADC has provided a preliminary feasibility study of an earth station in Fairbanks. The information proved important to several commercial space information firms in their decisions to build stations in Fairbanks. Fairbanks, with its high latitude location, is well suited as a location to retrieve, or "down-link", data from remote sensing, research, or other observation satellites in polar orbits. A satellite in polar orbit offers data to a receiving earth station in Fairbanks more times a day than would be possible if the earth station were at a more southerly location.

As the use of space and polar orbiting satellites becomes more common for a wide variety of uses, the existing earth stations in Fairbanks, the University of Alaska Fairbanks and its supercomputer center, and the established fiber optic infrastructure

Kodiak Launch List

February 23, 2006
Flight Test rocket FT 04-1 was successfully launched from the Kodiak Launch Complex for the Missile Defense Agency in support of a target missile tracking test.

February 13, 2005
Integrated Flight Test missile (IFT) 14 - The U.S. Missile Defense Agency launched the second Integrated Flight Test missile from KLC as a continuing test of the nation's missile defense system.

December 14, 2004
Integrated Flight Test (IFT) 13C - The U.S. Missile Defense Agency launched the first of several rockets from KLC to test the nation's missile defense system.

April 24, 2002
ORLV-2 - Air Force - Northern Edge U.S. Air Force launched second Quick Reaction Launch Vehicle, simulating an enemy missile attack on U.S. forces. The launch was part of the Alaska Command's Northern Edge 2002 exercise.

November 9, 2001
STARS - WCRF - U.S. Army - SMDC

September 29, 2001
Kodiak Star - Lockheed/NASA

March 22, 2001 - Quick Reaction Launch Vehicle (ORLV-1).

September 15, 1999
U.S. Air Force AIT-2 - Air Force - Second Air Force atmospheric interceptor technology launch.

November 5, 1998
U.S. Air Force AIT-1 - Air

for high-speed data transmission between Fairbanks and Anchorage will provide the foundation for further growth in information services related to space.

[^ top](#)

Force – First Air Force atmospheric interceptor technology test missile launched with just the essential core facilities of the KLC constructed.

[+ View Launch Videos](#)



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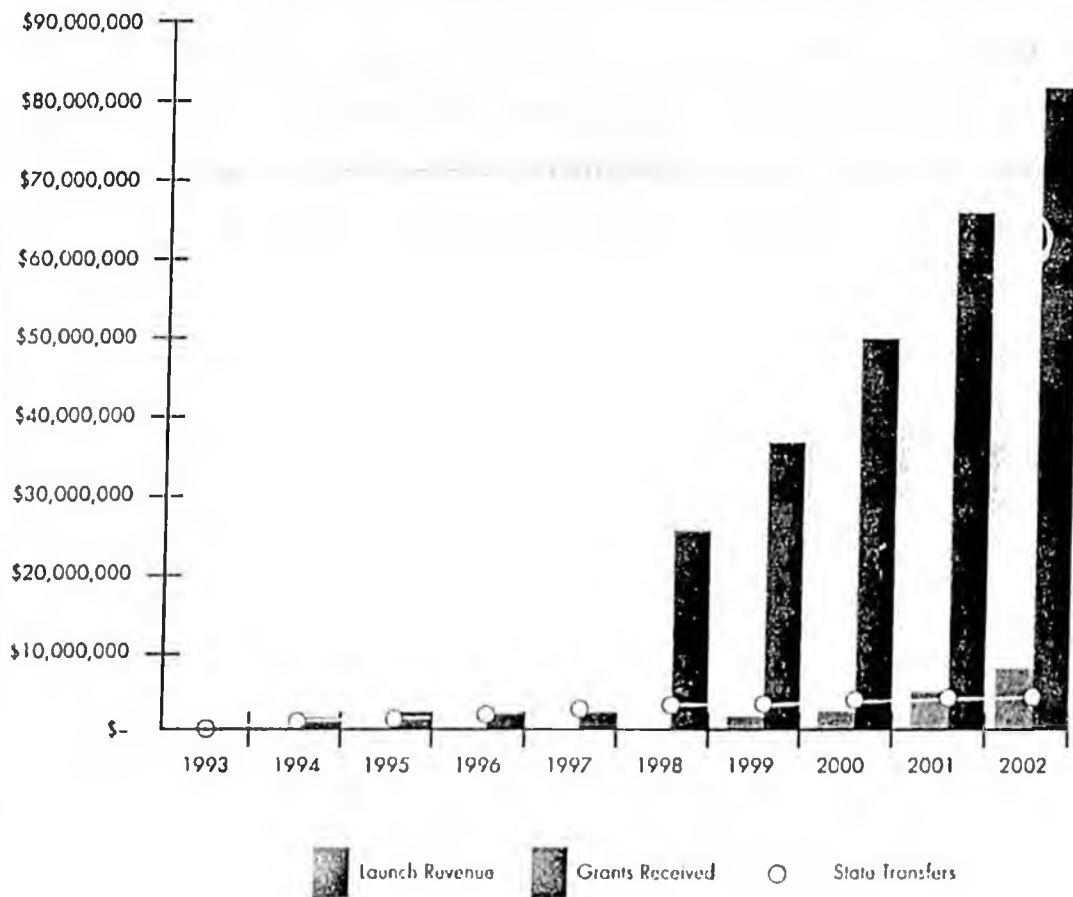
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2002

Financials

The completion of fiscal year 2002 marks the Tenth Anniversary of AADC's operations. During this period, AADC received approximately \$98 million from grants, launch revenue, and state appropriations. The following graph summarizes the cumulative effects of the three classes:

AADC Cumulative Funding Sources Since Inception



During FY 02, AADC's total net assets increased from \$39 million to \$48 million, primarily through Federally contributed capital. Our analysis below compares the net assets of AADC's business-type activities.

Table 1: Statement of Net Assets (in Millions)

	Current Year	Prior Year	Change	% Change
Assets				
Capital assets	\$47,575,123	\$39,375,419	\$8,199,704	20.8%
Current and other assets	27,156,553	27,713,975	(557,422)	-2.0%
Total assets	74,731,676	67,089,394	7,642,282	11.4%
Liabilities				
Long-term liabilities	25,656,015	26,002,394	(346,379)	-1.3%
Other liabilities	607,444	1,920,440	(1,312,996)	-66.4%
Total Liabilities	26,263,459	27,922,834	(1,659,375)	11.4%
Net assets:				
Invested in capital assets, net of related debt	47,575,123	39,375,419	8,199,704	20.8%
Restricted	-	-	-	-
Unrestricted	893,094	(208,859)	1,101,953	527.6%
Total Net Assets	\$48,468,217	\$39,166,560	\$9,301,657	23.7%

The 23.7% increase in net assets is due mainly from the completion of the Kodiak Launch Complex (KLC). The receipt of \$12,462,678 from the Federal grants offset the \$12,809,254 expended on the Complex during the current year. Of that amount, \$9,940,131 was capitalized to the Kodiak Launch Complex. The majority of the KLC additions related to the construction of the Range Safety and Telemetry System (RSTS), which is scheduled for completion in 2003.



Business-type Activities

AADC's total revenues increased modestly while the total cost of all programs and services increased significantly. However, the primary cause of the increase in expenses came from the first year of depreciation on the KLC. Our analysis below focuses on the changes in net assets of AADC's business-type activities.

Table 2 Changes in Net Assets (in Millions)

	Current Year	Prior Year	Change	% Change
Launch revenue	\$4,614,743	\$4,225,231	\$389,512	9.2%
Expenses				
Lunch expenses	2,230,526	1,155,636	1,074,890	93.0%
Personal services	748,172	718,247	29,925	4.2%
Travel	157,168	101,538	55,630	54.8%
Contractual services	780,545	1,017,532	(236,987)	-23.3%
Supplies	115,416	107,661	7,755	7.2%
Depreciation	1,743,331	26,984	1,716,347	6360.6%
Total operating expenses	5,775,158	3,127,598	2,647,560	84.7%
Excess (deficit)	(1,160,415)	1,097,633	(2,258,048)	-205.7%
Interest income	331,874	98,546	233,328	236.8%
From component units	185,067	555,200	(370,133)	-66.7%
Change in Net Assets	(\$643,474)	\$1,751,379	(\$2,394,853)	-136.7%

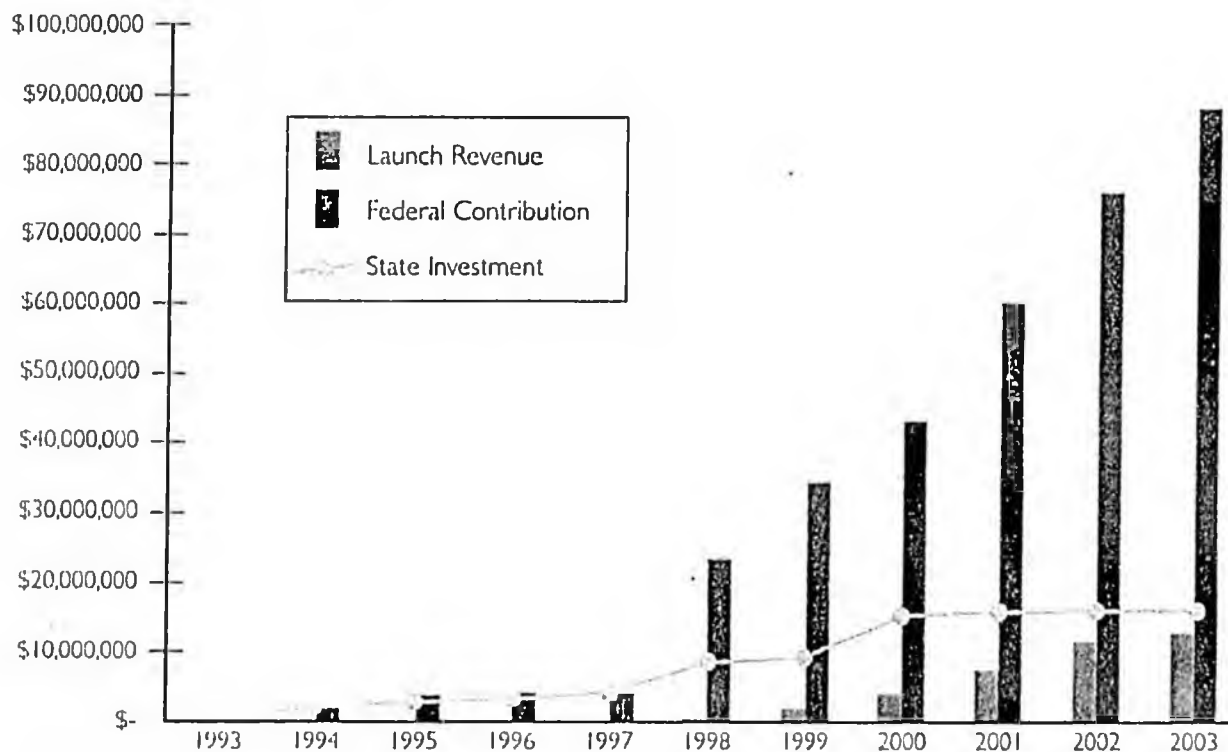
Revenues of AADC's business-type activities increased by 9.2 percent (\$4.6 million in 2002 compared to \$4.2 million in 2001) and the related expenses increased by 84.7 percent. The factors driving these results include:

- Revenues increased due to the three launches in 2002, while only one launch occurred in 2001. However, progress billings of \$2,827,964 related to fiscal year 2002 launches were received in 2001.
- The primary factor driving the increased expenses results stems from the depreciation of the KLC facilities. AADC began depreciating the KLC during 2002 in accordance with GASBS 34. Management expects the depreciation expense to increase in future years with the completion of the Range Safety System and the retroactive implementation of the infrastructure provisions of GASBS 34.

Financials

The completion of fiscal year 2003 marks the eleventh anniversary of AADC's operations. During this period, AADC received approximately \$114 million from Federal grants, launch revenue and State appropriations. The following graph summarizes what the State Investment in AADC has garnered in Federal and industry support.

Return on State Investment



2003

During FY03, AADC's total net assets increased from \$48 million to \$51 million, primarily through Federally contributed capital.

Table I Statement of Net Assets (in Millions)

	Current Year	Prior Year	Change	Percent Change
Assets				
Capital assets	\$51,059,118	\$47,575,123	\$3,483,995	7.3%
Current and other assets	32,817,703	27,156,553	5,661,150	20.8%
Total assets	83,876,821	74,731,676	9,145,145	12.2%
Liabilities				
Long-term liabilities	31,890,358	25,656,015	6,234,343	24.3%
Other liabilities	254,286	607,444	(353,158)	-58.1%
Total Liabilities	32,144,644	26,263,459	5,881,185	-22.4%
Net assets:				
Invested in capital assets, net of related debt	51,059,118	47,575,123	3,483,995	7.3%
Restricted	-	-	-	-
Unrestricted	673,059	893,094	(220,035)	24.6%
Total net assets	\$51,732,177	\$48,468,217	\$3,263,960	6.7%

The total net assets increase of 6.7% is due to \$5,117,447 capitalized to Kodiak Launch Complex (KLC) and a net loss of \$1,853,487. The depreciation expense of \$1,881,959 significantly contributed to the net loss. The agency received \$14.6 million from the Federal grants and expended \$8.1 million during the current year. Of that amount, \$3.2 million was used for operations, with the remainder capitalized to the Kodiak Launch Complex. The majority of the KLC additions related to the construction of the Range Safety and Telemetry System (RSTS). The RSTS is scheduled for completion in 2004.

Business-type Activities

The reduction in AADC's revenues was expected, as there was no launches in fiscal year 2003. However, management expects the launch revenue to increase dramatically in 2004 due to the anticipated Missile Defense Agency launches. As expected, the current year expenses also decreased with no launches. Depreciation on the KLC continues to be a significant operating expense. The analysis below focuses on the changes in net assets of AADC's business-type activities.

Table 2 Changes in Net Assets (in Millions)

	Current Year	Prior Year	Change	Percent Change
Launch revenue	\$378,750	\$4,614,413	(\$4,235,993)	-91.8%
Operating Expenses				
Launch expenses	-	2,230,526	(2,230,526)	-100.0%
Personal services	1,120,502	3,617,295	(2,496,793)	-69.0%
Travel	471,125	157,168	313,957	199.8%
Contractual services	1,219,418	780,545	438,873	56.2%
Supplies	852,471	115,416	737,055	638.6%
Depreciation	1,881,959	1,743,331	138,628	8.0%
Total operating expenses	5,545,475	8,644,281	(3,098,806)	-35.8%
Excess (deficit)	(5,166,725)	(4,029,538)	(1,137,187)	28.2%
Interest income	64,034	331,874	(267,840)	-80.7%
KLC grants recognized	3,249,704	2,869,125	380,080	13.2%
From component units	-	185,067	(185,067)	-100.0%
Change in Net Assets	(\$1,853,487)	(\$643,474)	(\$1,210,014)	188.0%

Launch revenues decreased by 91.8 percent (\$4 million in 2003 compared to \$4.6 million in 2002) and the related expenses decreased by 35.8 percent. The factors driving these results include:

- Revenues decreased due to no launches in 2003, while there were three launches in 2002. The current year launch revenue relates to 2002 launches.
- The activity at the KLC decreased which primarily contributed to the decrease in expenses. Management expects the 2004 expenses to increase in proportion to the launch revenues described above. AADC's net income excluding the effects of depreciation was \$28,471.
- AADC has not traditionally budgeted for depreciation expense since the amounts have been immaterial to the overall operations. The depreciation expense increased by \$138,628 from 2002 due to current year capital additions to the KLC. The depreciation expense increased slightly due to current year property additions. Management expects the depreciation expense to increase in future years with the completion of the Range Safety and Telemetry System and the retroactive implementation of the infrastructure provisions of GASBS 34.

- AADC did not receive any operating transfers from the State of Alaska during fiscal year 2003. Management does not anticipate any future transfers and has taken steps to become fully self-sufficient. Consequently, AADC's 2004 budget forecasts four launches with a net income of \$1,896,000.
- AADC budgeted \$200,000 for a deferred maintenance fund, but did not set aside any monies.

AADC's Budgetary Highlights

The State of Alaska approves AADC's budget annually. Accordingly, neither the Board of Directors nor management has the authority to modify the budget. However, the budget has historically included provisions granting AADC "receive and expend authority". This allows AADC to contemporaneously receive funding from launch customers and expend funds as necessary to provide services.

The significant variance between the adopted budget for the year 2003, and the actual results were due to the omission of depreciation in the budget and effects of recognizing grant revenue.

If the 2004 budgeted net income is realized, AADC's net assets are expected to increase by \$1.9 million. If this occurs, approximately \$200,000 will be used to fund a deferred maintenance account. The rest will be used for working capital demands and continued expansion of the Kodiak Launch Complex.

2004

Financials

Return on State Investment (Cumulative)

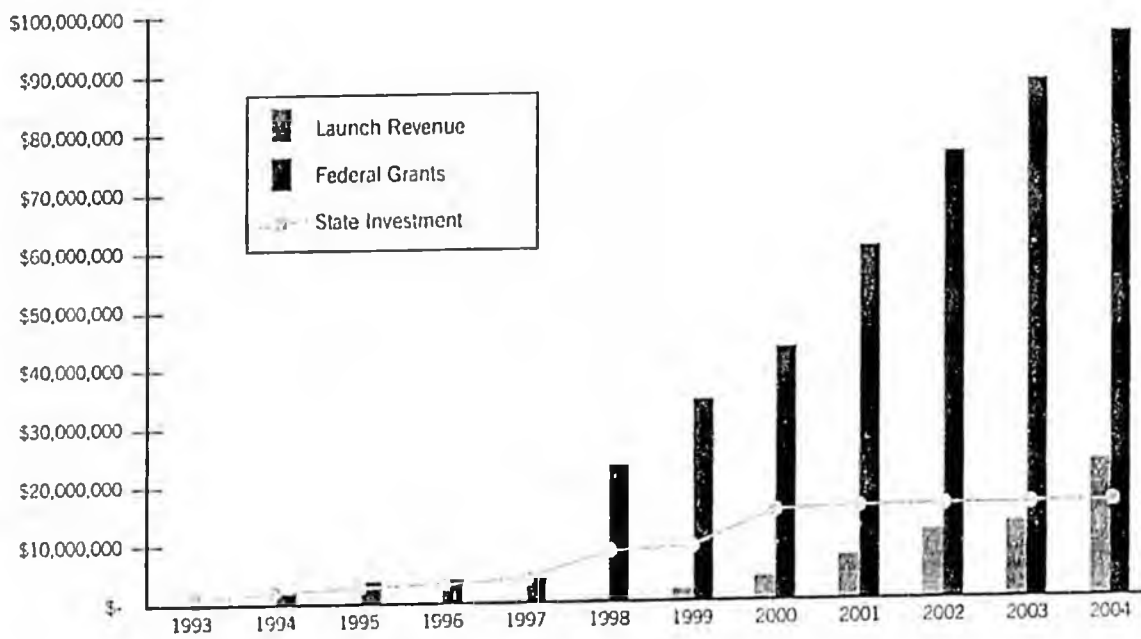


Table 1: Statement of Net Assets

	Current Year	Prior Year	Change	% Change
Assets				
Capital assets	\$57,774,000	\$51,059,118	\$6,714,882	13.2%
Current and other assets	36,072,975	32,817,703	3,255,272	9.9%
Total assets	93,846,975	83,876,821	9,970,154	11.9%
Liabilities				
Long-term liabilities	27,063,968	31,890,358	(4,826,390)	-15.1%
Other liabilities	6,722,804	254,286	6,468,518	2543.8%
Total Liabilities	33,786,772	32,144,644	1,642,128	5.1%
Net assets:				
Invested in capital assets, net of related debt	57,774,000	51,059,118	6,714,882	13.2%
Restricted	-	-	-	-
Unrestricted	2,286,203	673,059	1,613,144	239.7%
Total Net Assets	\$60,060,203	\$51,732,177	\$8,328,026	16.1%

The total net assets increase of 16.1% is due to \$8,994,408 capitalized to the Kodiak Launch Complex (KLC) and a net loss of (\$666,382). The depreciation expense of \$2,298,109 contributed to the net loss. The AADC received \$7.6 million from Federal grants and expended \$12.7 million during the current year. Of that amount, \$3.5 million was used for launch related operations, with the remainder capitalized to the Kodiak Launch Complex. The majority of the KLC additions related to the construction of the Range Safety and Telemetry System (RSTS) and the Maintenance and Storage Facility. The RSTS was completed in July, 2004.



Business-type Activities

The increase in AADC's revenues was expected due to Missile Defense Agency launch contracts secured during fiscal year 2004. The current year expenditures also increased with the additional activity. Depreciation on the KLC continues to be a significant operating expense. The analysis below focuses on the changes in net assets of AADC's business-type activities.

Table 2: Changes in Net Assets

	Current Year	Prior Year	Change	% Change
Launch revenue	\$10,229,566	\$378,750	\$9,850,816	2600.9%
Operating Expenses				
Personal services	1,568,628	1,120,502	448,126	40.0%
Travel	644,936	471,125	173,811	36.9%
Contractual services	8,136,968	1,219,418	6,917,550	567.3%
Supplies	1,931,480	852,471	1,079,009	126.6%
Depreciation	2,298,109	1,881,959	416,150	22.1%
Total operating expenses	14,580,121	5,545,475	9,034,646	162.9%
Excess (deficit)	(4,350,555)	(5,166,725)	816,170	-15.8%
Interest income	11,579	64,034	(52,455)	-81.9%
KLC grants recognized	3,672,594	3,249,204	423,390	13.0%
From component units	-	-	-	-
Change in Net Assets	(\$666,382)	(\$1,853,487)	\$1,187,105	64.0%



Launch revenues increased materially during the current year, while the related expenses increased marginally in comparison. The factors driving these results include:

- Revenues increased due to new launch contracts in 2004, while there were no launches in 2003. The forecasted launch revenue is expected to continue at or above the current level.
- The activity at the KLC increased due to launch contracts and construction. This primarily contributed to the increase in expenses. Management expects the 2005 expenses to continue in proportion to the launch revenues described above.
- AADC has not traditionally budgeted for depreciation expense, but expects to include an estimate in the future. The depreciation expense increased by \$416,150 from 2003 due to KLC capital additions and depreciation of infrastructure. Management expects the depreciation expense to increase in future years with the completion of the Range Safety and Telemetry System and the Maintenance and Storage Facility.
- AADC did not receive any general funds from the State of Alaska during fiscal year 2004. Management does not anticipate any future general funds and is fully self-sufficient.

AADC's Budgetary Highlights

The State of Alaska approves AADC's budget annually. In fiscal year 2004, the Board approved a budget prior to the State. Neither the Board of Directors nor management has the authority to modify the budget once approved by the State. However, the budget has historically included provisions granting AADC "receive and expend authority". This allows AADC to contemporaneously receive funding from launch customers and expend funds as necessary to provide services.

The variance between the adopted budget for the year 2004 and the actual results were due to the omission of depreciation in the budget and the effects of recognizing grant revenue.



2005

Financials

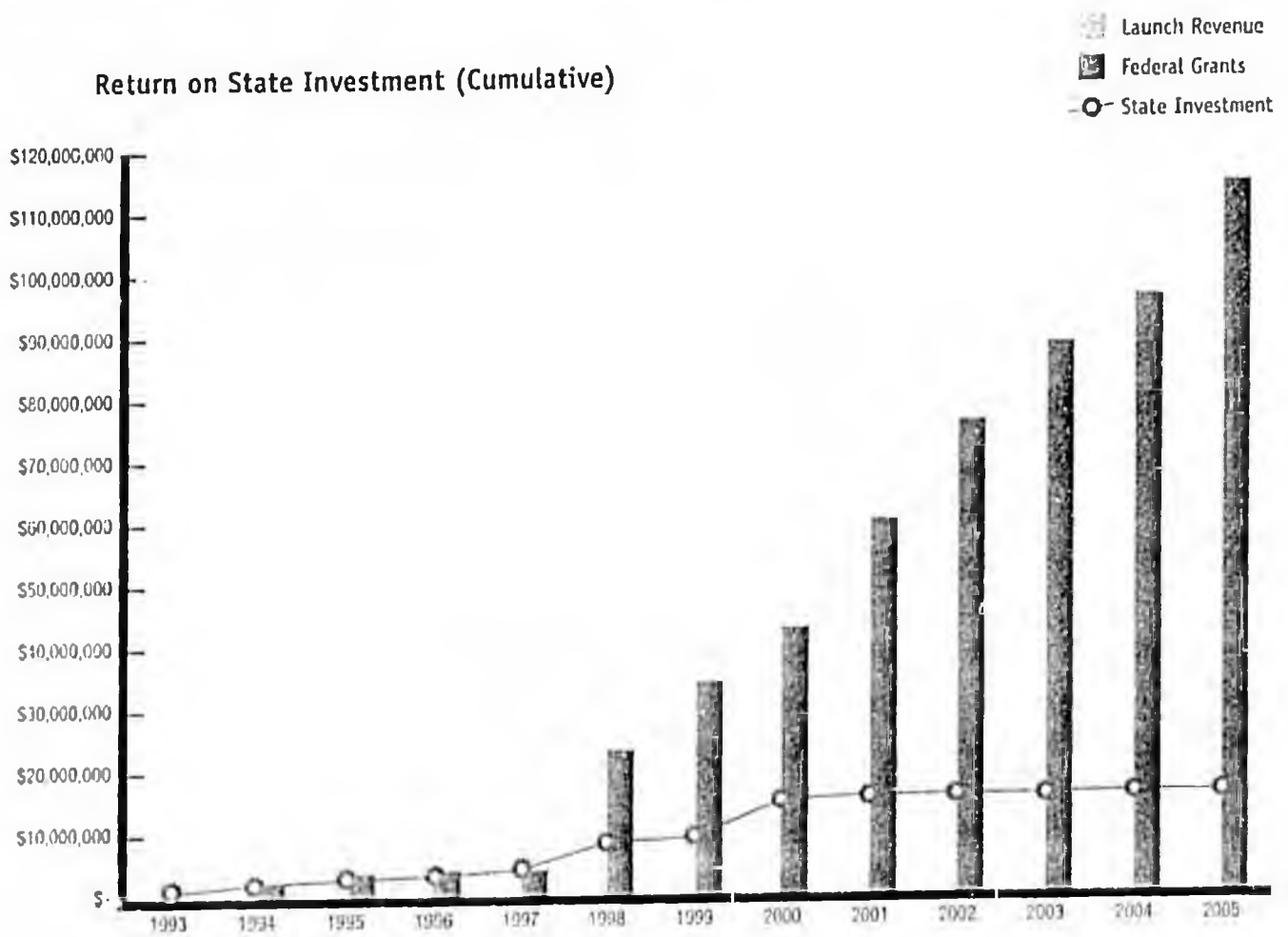


Table 1: Statement of Net Assets

	Current Year	Prior Year	Change	% Change
Assets				
Capital assets	\$66,970,104	\$57,774,000	\$9,196,104	16%
Current and other assets	36,450,320	36,072,975	377,345	1%
Total Assets	103,420,424	93,846,975	9,573,449	10%
Liabilities				
Long-term liabilities	27,415,473	27,061,797	353,676	1%
Other liabilities	4,912,185	6,724,975	(1,812,790)	(27%)
Total Liabilities	32,327,658	33,786,772	(1,459,114)	(4%)
Net Assets				
Invested in capital assets, net of related debt	66,970,104	57,774,000	9,196,104	16%
Unrestricted	4,122,662	2,286,203	1,836,459	80%
Total Net Assets	\$71,092,766	\$60,060,203	\$11,032,563	18%

The total net assets increase of 18% is due to \$12.5 million capitalized to Kodiak Launch Complex (KLC) against a net loss of (\$1.5 million). The distribution of the depreciation expense of \$3.4 million applied against operating revenue resulted in a net loss. The corporation received \$13.9 million from federal grants. The majority of the net asset increase was attributable to the construction of the Mobile Telemetry System (MIS) vans, Maintenance and Storage Facility (MSF), and additional equipment. The construction of the MSF will be completed in the coming fiscal year.

Financials

Business-type Activities

The increase in revenue is supported by a contract with the Missile Defense Agency for operations support and launch activity. The current year expenditures increased based on customer requirements to support launch activity. Depreciation on the Kodiak Launch Complex continues to be a significant operating expense. The analysis below highlights the changes in net assets of Alaska Aerospace Development Corporation's business-type activities.

Table 2: Changes in Net Assets

	Current Year	Prior Year	Change	% Change
Operating Revenue	\$16,914,593	\$10,229,566	\$6,685,027	65%
Operating Expenses				
Personal services	2,385,675	1,568,628	817,047	52%
Travel	1,046,714	644,936	401,778	62%
Contractual services	11,642,643	8,136,968	3,505,675	43%
Supplies	674,054	1,931,480	(1,257,426)	(65%)
Equipment	715,506		715,506	100%
Depreciation	3,423,327	2,298,109	1,125,218	49%
Total Operating Expenses	19,887,919	14,580,121	5,307,798	36%
Net Operating Loss	(2,973,326)	(4,350,555)	1,377,229	32%
Interest income	52,287	11,579	40,708	352%
Federal grants	1,406,902	3,672,594	(2,265,692)	(62%)
Loss Before Contribution	(\$1,514,137)	(\$666,382)	(\$847,755)	(127%)

Operating revenue and expenses increased during the current year. The factors driving these results include:

- Revenue increased as a result of the two successful launch campaigns completed during the fiscal year. Launch revenue is expected to increase marginally in 2006.
- Facilities construction and launch contract activity increased operations at the KLC. This contributed to the increase in expenses. Management expects expenses for 2006 to increase in proportion to launch revenues, similar to 2005.
- The depreciation expense increased by \$1.1 million from 2004 as a result of KLC capital additions, completion of the Range Safety and Telemetry System, and the depreciation of infrastructure. Management expects depreciation expenses to increase in the future with the completion of the Maintenance and Storage Facility in fiscal year 2006 and additional capital projects.
- AADC did not receive any general funds from the State of Alaska during fiscal year 2005 or any other year since inception. Management does not anticipate receiving any future general funds as AADC is self-sufficient.
- AADC's 2006 budget forecasts three launches generating \$24 million in operating revenue.

AADC's Budgetary Highlights

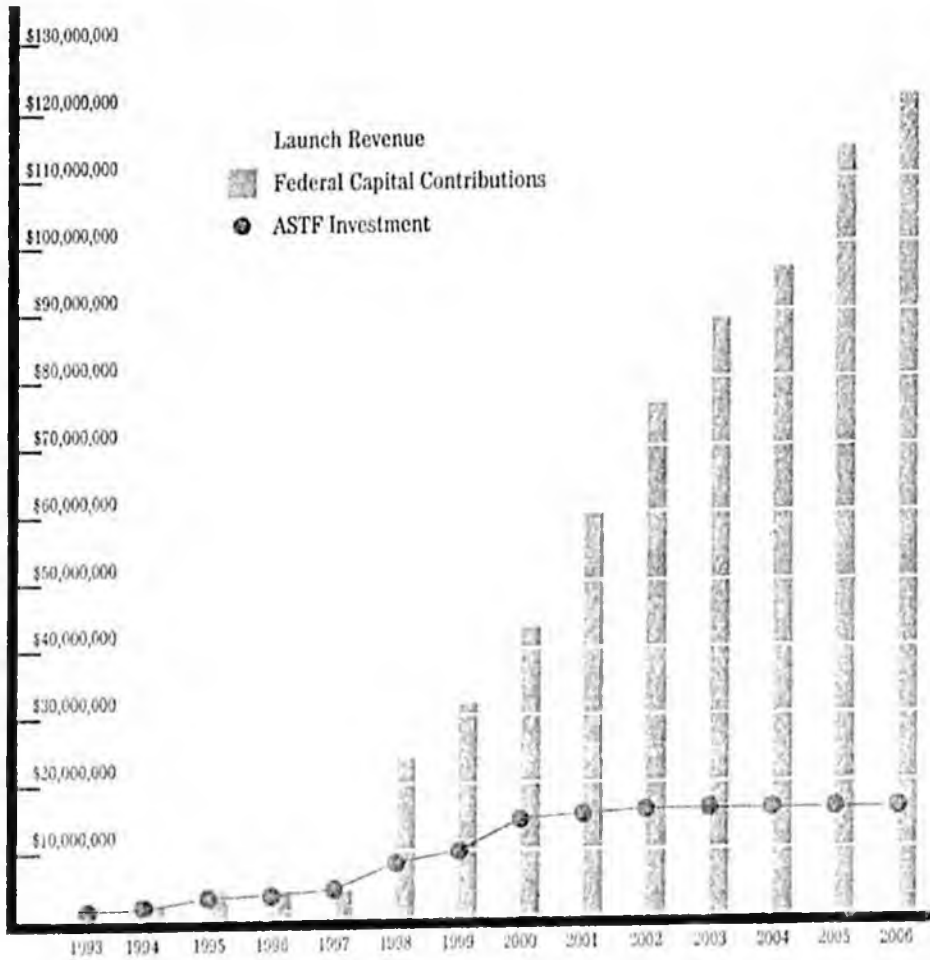
The State of Alaska approves AADC's budget annually. Accordingly, neither the Board of Directors nor management has the authority to modify the budget. However, the budget has historically included provisions granting AADC "receive and expend authority." This allows AADC to receive funding from launch customers and expend funds as necessary to meet contract obligations and business opportunities.



2006

financials

RETURN ON INVESTMENT (CUMULATIVE)



The above depicts a total of \$180.2 million in revenue from launches (\$55.4 million) and capital contributions (\$124.8 million from NASA, US Air Force and US Army) that has been brought to the State of Alaska as a return on the initial financial investment of \$15.6 million provided by the Alaska Science and Technology Foundation (ASTF).

financials

TABLE 1: STATEMENT OF NET ASSETS

	Current Year	Prior Year	Change
Assets			
Current assets	\$10,509,995	\$36,450,320	(\$16,940,325)
Capital assets, net	78,875,194	66,970,104	11,905,090
Total Assets	\$98,385,189	103,420,424	(5,035,235)
Liabilities			
Current liabilities	1,796,117	4,912,185	(3,116,068)
Noncurrent liabilities	12,546,120	27,415,473	(14,869,353)
Total Liabilities	14,342,237	32,327,658	(17,985,421)
Net Assets			
Invested in capital assets	78,875,194	66,970,104	11,905,090
Unrestricted	5,167,758	4,122,662	1,045,096
Total Net Assets	\$84,042,952	\$71,092,766	\$12,950,186

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The total net assets increase of 18 percent is the result of \$12.9 million of capitalized projects at KLC. The majority of the KLC capital additions are related to the continued construction of the telemetry system, design of a new launch pad and rocket motor storage facility and the installation of fiber optic cable. The construction of the Maintenance and Storage Facility was completed in 2005.

Business-type Activities

AADC's operating revenues are supported by a contract secured with the Missile Defense Agency for operations and launch activity. Depreciation on the KLC continues to be a significant operating expense. The table below highlights the changes in net assets of Alaska Aerospace Development Corporation's business-type activities.

TABLE 2: CHANGES IN NET ASSETS

	Current Year	Prior Year	Change
Operating Revenues	\$16,892,116	\$16,914,593	(\$22,477)
Operating Expenses			
Personal services	3,595,677	2,385,675	1,210,002
Travel	1,003,921	1,046,714	(42,793)
Contractual services	9,919,394	1,642,643	(1,723,249)
Supplies	689,811	674,054	15,757
Equipment	1,339,187	715,507	623,680
Depreciation	3,713,769	3,423,326	290,443
Total Operating Expenses	20,261,759	19,887,919	373,840
Net Operating Loss	(3,369,643)	(2,973,326)	(396,317)
Nonoperating Revenues			
Interest income unrestricted	155,070	52,287	102,783
Cooperative Agreement	296,077	1,406,902	(1,110,825)
Total Nonoperating Expenses	451,147	1,459,189	(1,008,042)
Loss Before Capital Contributions	(2,918,496)	(1,514,137)	(1,404,359)
Capital Contributions	15,868,682	12,546,700	3,321,982
Change in Net Assets	12,950,186	11,032,563	1,917,623
Net Assets - Beginning of Year	71,092,766	60,060,203	11,032,563
Net Assets - End of Year	\$84,042,952	\$71,092,766	\$12,950,186