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

Basic Financial Statements

June 30, 2009
(with summarized financial information for June 30, 2008)

(With Independent Auditors' Report Thereon)

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

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June 30, 2009

Overview of the Financial Statements

The accompanying financial statements for the Alaska Industrial Development and Export Authority (the 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, 2009, with summarized comparative totals at June 30, 2008 and for the year then ended. The Authority conducts the majority of its business and its operations through the Revolving Fund. The Revolving Fund is comprised of the Enterprise Development Account and the Economic Development Account. Further information about the two Accounts is included in note 1 to the basic financial statements. AIDEA 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 Net Assets; the Statement of Cash Flows and the Notes to Basic Financial Statements. Summarized financial information as of and for the year ended June 30, 2008 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 net assets at year end. 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 Net Assets* reports the Authority's income, expenses, and resulting change in net assets during the period reported.

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

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

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

Management's Discussion and Analysis

This section presents management's discussion and analysis of the financial position and results of operations at and for the fiscal year ended June 30, 2009. The information is presented to assist the reader in focusing on significant financial issues and to provide additional information regarding the activities of the Authority. This information should be read in conjunction with the Independent Auditors’ Report, the audited financial statements and the accompanying notes.

Financial Highlights

AIDEA’s assets exceeded its liabilities at June 30, 2009 and 2008 by $974.5 million and $945.9 million, respectively. Of total net assets, $888.1 million (with $875.2 million of that amount in the Revolving Fund) and $863.4 million (of which, $850.9 million was in the Revolving Fund) at June 30, 2009 and 2008, 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, 2009 and 2008 follow (amounts are in thousands):

		2009	2008	Increase (decrease)
Current assets	$	112,175	86,593	25,582
Capital assets		2,227	2,275	(48)
Other noncurrent assets and restricted assets		1,069,113	1,076,991	(7,878)
Total assets	$	1,183,515	1,165,859	17,656
Current liabilities	$	10,863	12,611	(1,748)
Noncurrent liabilities and those payable from restricted assets		198,126	207,306	(9,180)
Total liabilities		208,989	219,917	(10,928)
Total net assets		974,526	945,942	28,584
Total liabilities and net assets	$	1,183,515	1,165,859	17,656

The increase in current assets resulted from an increase in the current portion of cash, cash equivalents and investment securities coupled with an increase in the current portion of development projects accounted for as direct financing leases. The increase in the current portion of cash, cash equivalents and investment securities was in the Authority managed liquidity portfolio, which increased as more was received from loan principal payments than was used to purchase loan participations; the increased funds were kept in short term securities due to the anticipated funding of up to $45 million to be lent to Tri-Valley Electric Cooperative, Inc. to refurbish the Healy Project, integrate the Healy Project into Golden Valley Electric Association’s system, and put the Healy Project into operation (see note 6 to the basic financial statements). The increase in the current portion of development projects resulted from the projected receipt of a zinc price escalator payment and reserve release revenue stream from the Red Dog Project; semi-annual releases from a reserve fund begin effective June 30, 2009 and the Authority receives an annual payment when zinc prices rise above certain thresholds.

The decrease in other noncurrent assets and restricted assets resulted substantially from decreases in net loans and development projects, partially offset by an increase in investment securities. Net noncurrent loans were

(Continued)

$12.9 million lower at June 30, 2009 than June 30, 2008. Principal collected on loans decreased loan balances by $45 million during the 2009 fiscal year; Revolving Fund loan payoffs accounted for more than $28.9 million of that amount. The Authority's Revolving Fund purchased $30 million of loan participations and the Loan Funds funded $1.1 million of new loans during the year ended June 30, 2009. Net noncurrent development project balances declined $11.3 million, to $328.7 million at June 30, 2009, the net result of principal payments received; the transfer to current of the projected Red Dog Project zinc price escalator and reserve release payments; and depreciation, offset by additional investments made to four of the five unrestricted development projects. Noncurrent investment balances increased by approximately $19.8 million as more funds were retained than spent.

The decline in total liabilities was primarily caused by scheduled principal payments of $9.3 million on bonds during the year ended June 30, 2009. No new issuances of bonds occurred during the year.

The $28.6 million increase in net assets during the year ended June 30, 2009, resulted from operating income of $46.2 million, offset by $17.6 million of other increases and decreases in net assets and an extraordinary item. The Authority's $23.8 million dividend to the State during the year decreased net assets. Federal and State contributions and grant revenues relating to the Ketchikan Shipyard increased net assets. An extraordinary item of $1.1 million was reported during 2009 to reflect the effect of the conversion of the Public Employee Retirement System to a cost sharing plan where individual employers no longer carry a liability for the unfunded costs associated with the plan (see note 9 to the basic financial statements).

(Continued)

Components of the Authority's operating revenues and expenses, nonoperating revenues and expenses and other revenues, transfers and extraordinary item for the years ended June 30, 2009 and 2008 follows (in thousands):

		2009	2008	Increase (decrease)
Operating revenues:				
Interest on loans	$	24,054	25,723	(1,669)
Interest on direct financing leases		16,863	17,106	(243)
Investment interest		15,462	17,614	(2,152)
Net increase in fair value of investments		2,047	3,131	(1,084)
Other income		6,670	5,691	979
Restricted income		4,369	4,445	(76)
Total operating revenues		69,465	73,710	(4,245)
Operating expenses:				
Interest		3,715	9,039	(5,324)
General and administrative		10,170	9,014	1,156
Provision for loan losses		(228)	(416)	188
Depreciation		2,353	2,119	234
Other project expenses		2,926	3,553	(627)
Interest on liabilities payable from restricted assets		4,369	4,445	(76)
Total operating expenses		23,305	27,754	(4,449)
Operating income		46,160	45,956	204
Net nonoperating revenues (expenses)		(14)	122	(136)
Other revenues		5,129	11,200	(6,071)
Dividend to State of Alaska		(23,800)	(10,000)	(13,800)
Extraordinary item-NPO/OPEB write-off		1,109	—	1,109
Increase in net assets	$	28,584	47,278	(18,694)

Operating revenues decreased $4.2 million during the year ended June 30, 2009 compared to 2008 substantially resulting from lower interest earned on loans and investments. Rates on investments declined during the year compared to the prior year. The decreases in loan balances during 2009 resulted in a corresponding decline in interest earned on loans.

Operating expenses decreased $4.4 million in 2009 compared to 2008. The decrease was substantially due to a decrease in interest expense, offset by an increase in general and administrative expenses. Interest expense decreased $5.3 million in 2009 compared to 2008, due to a lower amount of bonds outstanding and to low interest rates during the year on outstanding bonds, the majority of which are variable rate. General and administrative costs increased $1.2 million in 2009 compared to 2008, due to hiring additional personnel during the year. Other project expenses decreased during the year ended June 30, 2009 compared to 2008, as the Authority incurred less costs relating to the Healy Project.

Other revenues decreased $6.1 million during the year ended June 30, 2009 compared to 2008. This net decrease resulted from a decrease in State and local contributions, offset by an increase in federal contributions, relating to the Shipyard.

The Authority paid a dividend of $23.8 million to the State during the year ended June 30, 2009, compared to $10.0 million during 2008. 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 made. 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 the major fund and the aggregate remaining fund information of the Alaska Industrial Development and Export Authority (a Component Unit of the State of Alaska) (Authority) as of and for the year ended June 30, 2009, 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 2008 financial statements and, in our report dated October 22, 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority'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, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 23, 2009

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

Balance Sheet

June 30, 2009
(With summarized financial information at June 30, 2008)

(In thousands)

Assets	**Revolving fund**	**Loan funds**	**Total 2009**	**Total 2008**
Current assets:				
Cash and cash equivalents (note 3)	$ 20,894	2,877	23,771	18,756
Investment securities (note 3)	51,469	—	51,469	40,292
Loans (note 4)	12,984	79	13,063	13,550
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	14,991	—	14,991	5,665
Accrued interest receivable	5,752	228	5,980	5,559
Other assets	2,901	—	2,901	2,771
Total current assets	108,991	3,184	112,175	86,593
Noncurrent assets:				
Investment securities (note 3)	274,353	—	274,353	254,566
Loans (note 4)	355,225	10,444	365,669	378,735
Less allowance for loan losses (note 5)	(8,369)	(932)	(9,301)	(9,418)
Net loans	346,856	9,512	356,368	369,317
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	245,232	—	245,232	262,610
Development projects (note 6)	83,428	—	83,428	77,399
Other assets (note 7)	5,850	300	6,150	7,246
Restricted assets:				
Cash and cash equivalents (note 3)	2,003	—	2,003	3,225
Investment securities (note 3)	13,645	—	13,645	13,095
Snettisham (note 6):				
Cash and cash equivalents (note 3)	10,011	—	10,011	10,112
Net investment in direct financing leases (note 6)	80,150	—	80,150	81,696
Total noncurrent assets	1,061,528	9,812	1,071,340	1,079,266
Total assets	$ 1,170,519	12,996	1,183,515	1,165,859
Liabilities and Net Assets				
Current liabilities:				
Bonds payable – current portion (note 8)	$ 8,165	—	8,165	7,735
Accrued interest payable	156	—	156	322
Accounts payable	2,436	102	2,538	3,149
Other liabilities	—	4	4	1,405
Total current liabilities	10,757	106	10,863	12,611
Noncurrent liabilities:				
Bonds payable – noncurrent portion (note 8)	103,055	—	103,055	111,220
Other liabilities	4,910	—	4,910	4,278
	107,965	—	107,965	115,498
Liabilities payable from restricted assets – Snettisham:				
Power revenue bonds payable (note 8)	80,945	—	80,945	82,465
Other	9,216	—	9,216	9,343
Total liabilities	208,883	106	208,989	219,917
Net assets:				
Invested in development projects, net of related debt	83,428	—	83,428	77,399
Invested in capital assets	2,226	—	2,226	2,275
Restricted contributions	819	—	819	2,879
Unrestricted	875,163	12,890	888,053	863,389
Total net assets	961,636	12,890	974,526	945,942
Commitments and contingencies (notes 1,9, and 10)				
Total liabilities and net assets	$ 1,170,519	12,996	1,183,515	1,165,859

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

June 30, 2009
(With summarized financial information at June 30, 2008)

(In thousands)

	Revolving fund	Loan funds	Total 2009	Total 2008
Operating revenues:				
Interest on loans (note 4)	$ 23,545	509	24,054	25,723
Interest on direct financing leases (note 6)	16,863	—	16,863	17,106
Interest on Snettisham restricted direct financing lease (note 6)	4,369	—	4,369	4,445
Investment interest	15,462	—	15,462	17,614
Net increase in fair value of investments	2,047	—	2,047	3,131
Other income	5,622	19	5,641	4,689
Federal grants	—	—	—	128
State of Alaska Employer Relief	623	—	623	550
Other project income	406	—	406	324
Total operating revenues	68,937	528	69,465	73,710
Operating expenses:				
Interest	3,715	—	3,715	9,039
Interest on Snettisham liabilities payable from restricted assets (note 8)	4,369	—	4,369	4,445
General and administrative	10,063	107	10,170	9,014
Provision for loan losses	(360)	132	(228)	(416)
Depreciation	2,353	—	2,353	2,119
Other project expenses	2,926	—	2,926	3,553
Total operating expenses	23,066	239	23,305	27,754
Operating income	45,871	289	46,160	45,956
Nonoperating revenues (expenses):				
Investment interest	9	119	128	222
Net revenues (expenses) related to Ketchikan Shipyard Repair and Replacement Fund	(142)	—	(142)	(100)
Total net nonoperating revenues (expenses)	(133)	119	(14)	122
Contributions from primary government	1,293	—	1,293	9,377
Contributed capital	—	—	—	114
Capital grant	3,836	—	3,836	1,709
Dividend to State of Alaska	(23,800)	—	(23,800)	(10,000)
Extraordinary item-NPO/OPEB write-off (note 9)	1,109	—	1,109	—
Increase in net assets	28,176	408	28,584	47,278
Net assets – beginning of year	933,460	12,482	945,942	898,664
Net assets – end of year	$ 961,636	12,890	974,526	945,942

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended June 30, 2009
(With summarized financial information for the year ended June 30, 2008)

(In thousands)

	Revolving fund	Loan funds	Total 2009	Total 2008
Cash flows from operating activities:				
Interest received on loans	$ 23,587	501	24,088	25,516
Receipts from borrowers	1,479	—	1,479	1,343
Principal collected on loans	43,656	1,125	44,781	52,691
Other operating receipts	8,230	—	8,230	4,554
Payments from primary government	—	5	5	—
Loans originated	(29,992)	(1,140)	(31,132)	(49,968)
Payments to suppliers and employees for services	(11,409)	(1)	(11,410)	(10,911)
Payments to primary government	(1,232)	—	(1,232)	(1,258)
Other operating payments	(4,580)	—	(4,580)	(1,607)
Net cash provided by operating activities	29,739	490	30,229	20,360
Cash flows from noncapital and related financing activities:				
Dividend paid to the State of Alaska	(23,800)	—	(23,800)	(10,000)
Operating loans collected from (paid to) the Alaska Energy Authority, net	27	—	27	(174)
Net cash used by noncapital and related financing activities	(23,773)	—	(23,773)	(10,174)
Cash flows from capital and related financing activities:				
Net proceeds from bond refunding	—	—	—	107,227
Direct financing lease receipts	27,599	—	27,599	24,862
Direct financing lease receipts – Snettisham	5,915	—	5,915	5,908
Federal grant receipts	3,720	—	3,720	3,977
Capital appropriation – State of Alaska	827	—	827	1,821
Restricted contributions for development projects	1,584	—	1,584	1,177
State of Alaska capital appropriation held by others	404	—	404	567
Other receipts from capital and financing activities	345	—	345	325
Other receipts from financing activities-Snettisham	277	—	277	—
Principal paid on capital debt	(7,735)	—	(7,735)	(180,445)
Interest paid on capital debt	(3,176)	—	(3,176)	(9,312)
Net investment in direct financing leases	(2,942)	—	(2,942)	(7,052)
Investment in development projects	(9,289)	—	(9,289)	(6,540)
Interest paid on capital debt – Snettisham	(4,405)	—	(4,405)	(4,485)
Principal paid on capital debt – Snettisham	(1,520)	—	(1,520)	(1,440)
Costs of issuance relating to bond refunding	(14)	—	(14)	(248)
Net cash provided (used) by capital and related financing activities	11,590	—	11,590	(63,658)
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	111,875	—	111,875	255,037
Purchases of investment securities	(141,342)	—	(141,342)	(215,215)
Interest collected on investments	14,994	119	15,113	18,493
Net cash provided (used) by investing activities	(14,473)	119	(14,354)	58,315
Net increase in cash and cash equivalents	3,083	609	3,692	4,843
Cash and cash equivalents at beginning of year	29,825	2,268	32,093	27,250
Cash and cash equivalents at end of year	$ 32,908	2,877	35,785	32,093

(Continued)

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

Statement of Cash Flows

Year ended June 30, 2009
(With summarized financial information for the year ended June 30, 2008)

(In thousands)

	Revolving fund	Loan funds	Total 2009	Total 2008
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 45,871	289	46,160	45,956
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Principal collected on loans	43,656	1,125	44,781	52,691
Loans originated	(29,992)	(1,140)	(31,132)	(49,968)
Investment interest income	(15,462)	—	(15,462)	(17,614)
Amortization of unearned income on direct financing leases	(16,863)	—	(16,863)	(17,106)
Amortization of unearned income on direct financing lease – Snettisham	(4,369)	—	(4,369)	(4,445)
Bond interest expense	3,036	—	3,036	8,267
Bond interest expense – Snettisham	4,369	—	4,369	4,445
Provision for loan losses	(360)	132	(228)	(416)
Depreciation	2,353	—	2,353	2,119
Net increase in fair value of investments	(2,047)	—	(2,047)	(3,131)
Decrease in accrued interest receivable and other assets	355	26	381	101
Increase (decrease) in accounts payable and other liabilities	(808)	58	(750)	(539)
Net cash provided by operating activities	$ 29,739	490	30,229	20,360
Noncash investing, capital and financing activities:				
Contributed assets received for development project	$ —	—	—	8,247
Net increase in fair value of investments	2,047	—	2,047	3,131
Decrease in accounts payable for direct financing lease additions	(258)	—	(258)	(1,300)
Increase (decrease) in accounts payable for development project additions	(529)	—	(529)	799
Repossessed property received	—	—	—	300

See accompanying notes to basic financial statements.

(1) Organization and Operations

The Alaska Industrial Development and Export Authority (AIDEA or the Authority) is the primary economic development financing agency of the State of Alaska (State), financing economic development projects using existing assets, general obligation bonds or debt secured by project revenues. AIDEA's mission is to promote, develop, and advance economic growth and diversification in Alaska by providing various means of financing and investment. AIDEA has various powers that support its economic development mission, including, but not limited to, the ability to adopt regulations, to acquire ownership interests in projects, to lease projects, to issue bonds, and to acquire and manage projects. AIDEA conducts the majority of its business through its Revolving Fund, established pursuant to legislation, and considers this its major fund. The Authority's Revolving Fund has two main programs under which it transacts business, as more fully described below under the headings "Enterprise Development Account" and "Economic Development Account". AIDEA has two 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. That issue was refunded in February 2007 and those bonds were refunded in May 2008 with the issuance of $107,385,000 of variable rate bonds.

- 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. Improvements are currently being made to the facility, financed with Authority funds.
- Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Ted Stevens Anchorage International Airport. The Federal Express Project was partially financed by a $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. The bonds were defeased in March 2008 and retired in April 2008.
- 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 complete. Additional improvements have been completed or 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.
- The Authority has bonding authorization of $50,000,000 for a facility to be constructed in Anchorage for the offloading, processing, storage, and transloading of seafoods. The Authority purchased Alaska Seafood International in 1999 and sold it in 2005; no issuance of bonds is anticipated.
- The Authority has bonding authorization of $20,000,000 to finance the acquisition, design, and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. The Kodiak launch complex was constructed with other financing and the Authority currently does not anticipate that it will participate in financing the projects.
- The Authority has bonding authorization of $80,000,000 to finance the expansion, improvement and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by the Authority.
- The Authority has bonding authorization of $30,000,000 to finance improvement and expansion of the Nome port facilities to be owned by the Authority. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of $25,000,000 to finance the development of Hatcher Pass, located in the Matanuska-Susitna Borough. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of $20,000,000 to finance the acquisition, development, improvement and construction of port and related facilities on Lynn Canal in Southeast Alaska, to be owned by the Authority.

(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, 2009, the Authority had issued revenue bonds for 309 projects (not including bonds issued to refund other bonds). At June 30, 2009, the outstanding principal amount of revenue bonds issued after July 1, 1995 was $395,693,000. The aggregate amount outstanding for the remaining revenue bonds, which were issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled $616,000,000 (not including bonds issued to refund other bonds).

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

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

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

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

(e) Alaska Energy Authority

Pursuant to legislation enacted in 1993, the members of the board of directors of the Authority also serve as the board of directors of the Alaska Energy Authority (AEA). The Authority provides personnel services for AEA and has a borrowing arrangement to provide working capital funds to AEA. Prior to April 10, 2008, the AIDEA and AEA executive director were the same. On April 10, 2008, the AEA board appointed a separate AEA executive director, who is an employee of AIDEA. There is no commingling of funds, assets, or liabilities between AIDEA and AEA and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AEA are not included in the accompanying financial statements.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting – Enterprise Fund Accounting

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.

Operating Revenue and Expense

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

(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 Revolving Fund 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 on Revolving Fund loans is discontinued whenever the payment of interest or principal is more than 90 days past due or when loan terms are restructured.

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

(e) Net Investment in Direct Financing Leases

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

(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 considers these development projects as investments and recognizes impairment losses whenever the fair value of the asset has declined below the carrying value and the decline is determined to be 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 net assets.

(g) Other Real Estate Owned

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

(h) Allowance for Loan Losses

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

(i) Allowance for Lease Receivables

The allowance for lease receivables represents management's judgment as to the amount required to absorb potential unrealizable direct financing lease receivables. The factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 2009.

(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, 2009, 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.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for periods beginning after December 15, 2007. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. No liability existed under this standard at June 30, 2009.

(k) Appropriations and Grants

AIDEA recognizes grant revenue and revenue related to contributed capital under the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, whereby revenue is recognized when all applicable eligibility requirements, including time requirements, are met.

(l) Income Taxes

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

(m) Depreciation

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

(n) Transfers

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

(o) Segment Information

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

(p) Estimates

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

(q) Prior-Period Information

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2008, from which the summarized information was derived.

(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, 2009 follows (in thousands):

Restricted	$	2,003
Unrestricted		20,894
Carrying amount	$	22,897
Bank balance	$	22,424

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.

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, 2009 follows (in thousands):

U.S. Treasury	$	84,917
U.S. government agency and GSEs		18,573
Corporate securities		106,464
Mortgage backed securities		121,832
Asset backed securities		5,028
Municipal bonds		2,653
	$	339,467

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

	Allowable usage		2009	2008
Red Dog Project Sustaining Capital Fund	Project costs	$	13,663	13,317
Ketchikan Shipyard restricted contribution	Project costs		1,138	1,979
Ketchikan Shipyard Repair and Replacement Account	Project costs		847	1,024
Snettisham Hydroelectric Project Funds	Various costs relating to the project		10,011	10,112
		$	25,659	26,432

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will negatively affect the fair value of an investment. The Resolution addresses interest rate risk. The duration of each externally managed fixed income portfolio must be within plus or minus 25% of the duration of the Barclay 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 is 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.

The June 30, 2009, weighted average effective duration for Revolving Fund investments and money market funds follows. The duration values in the table below take into account any put or call options embedded in the security, any expected sinking-fund paydowns or expected principal prepayments:

	Internally managed portfolio	**Externally managed portfolios**
Money market	0.15	0.25
U.S. Treasury	0.59	6.24
U.S. government agency and GSEs	—	4.50
Corporate securities	—	5.83
Mortgage backed securities	—	2.36
Asset backed securities	—	0.50
Municipal bonds	—	10.62

Credit Risk

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

Investments must carry a rating of BBB- or above at the time of purchase, or, if unrated, be deemed by the external manager to be of investment grade quality. In the event the rating of a security is downgraded below investment grade while owned by the Authority, it will no longer be eligible for purchase and the Investment Manager will report the downgrade to the Authority with a plan of action for monitoring the security and its disposition within six months. If the Investment Manager believes the security is 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 (S&P), and Fitch; the lower rating if only two ratings exist; and the rating provided if only one rating exists. If a security is unrated, the Investment Manager shall assign an internal rating for compliance purposes. The total of unrated investments may not exceed 5% of the Investment Manager's portfolio value and the unrated investments of a single issuer may not exceed 2% of the Investment Manager's portfolio value.

The quality ratings of the Authority's Revolving Fund portfolio at June 30, 2009 are stated in the table below as a percentage of the total portfolio. U.S. Treasury securities and securities of agencies and corporations explicitly guaranteed by the U.S. government are not considered to have credit risk and are reported as such in the table. On September 6, 2008, the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation were placed into conservatorship by the

(Continued)

Federal Housing Finance Agency. Prior to this, both corporations were considered GSE's with an implicit backing of the U.S. government. Ratings used are S&P's rating scale unless rated lower by Moody's, in which case Moody's is used. Rate modifiers are not disclosed.

Investment type	Rating	Percentage of total
Money market	AAA	8%
Money market	A	1
U.S. government agency and GSEs	AAA	4
U.S. government agency and GSEs	A	1
Corporate securities	AAA	1
Corporate securities	AA	3
Corporate securities	A	11
Corporate securities	BBB	8
Corporate securities	BB	1
Corporate securities*	A	2
Corporate securities*	Baa	2
Mortgage backed securities	AAA	4
Mortgage backed securities*	Aaa	1
Mortgage backed securities (issued by GSEs)	Not rated	28
Municipal bonds	A	1
Asset backed securities	AAA	1
No credit exposure		23
		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 $23,000,000 at June 30, 2009, 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, 2009, the carrying amount and bank balance of the Loan Fund's unrestricted cash and cash equivalents was $2,877,000.

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 *Department of Revenue, Treasury Division, Policies and Procedures*.

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality, and type. Investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by the state legislature.

The Loan Funds share of pooled investments, organized by major investment type at June 30, 2009 follows (in thousands):

	Fair value			
Investment type	**Short-term fixed income pool**	**Intermediate-term fixed income pool**	**Unallotted cash**	**Total**
Deposit	$ 3	—	—	3
Commercial paper	69	—	—	69
U.S. Treasury bills	392	—	—	392
U.S. Treasury notes	—	778	—	778
U.S. government agency	30	507	—	537
Mortgage-backed	44	161	—	205
Other asset-backed	138	11	—	149
Corporate bonds	374	187	—	561
Yankees-Corporate	81	73	—	154
Yankees-Government	—	13	—	13
Total invested assets	1,131	1,730	—	2,861
Unallotted cash	—	—	10	10
Pool related net assets	1	5	—	6
Net invested assets	$ 1,132	1,735	10	2,877

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, 2009, the expected average life of individual fixed rate securities ranged from one day to six and one-half years and the expected average life of floating rate securities ranged from one day to eight 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 plus/minus 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, 2009 was 2.54 years.

The June 30, 2009, weighted average effective duration for the Loan Funds Intermediate-term Fixed Income Pool follows:

U.S. Treasury notes	3.07
U.S. government agency	2.02
Corporate securities	2.10
Yankees-Corporate	2.81
Yankees-Government	2.73
Mortgage backed securities	2.42
Other asset backed securities	0.71
Pool effective duration	2.52

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.

Credit Risk

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

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 P-1 or equivalent. Asset backed and nonagency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following rating agencies: S&P, Moody's and Fitch.

Asset backed and nonagency mortgage securities that are not rated AAA by both S&P and Moody's may be purchased if rated AAA by one of those two agencies and Fitch. 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 Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset backed and nonagency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: S&P, Moody's and Fitch. Asset backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

The quality ratings of the Loan Funds portfolio's at June 30, 2009 are stated in the table below as a percentage of the total portfolio. Ratings used are S&P's rating scale. Rate modifiers are not disclosed.

Investment type	Rating	Short-term fixed income pool	Intermediate-term fixed income pool
Commercial paper	A	1%	—
Commercial paper	Not rated	5	—
U.S. Treasury notes	AAA	—	44
U.S. Treasury bills	AAA	35	—
U.S. government agency	AAA	3	28
U.S. government agency	Not rated	—	1
Mortgage-backed	AAA	4	7
Mortgage-backed	Not rated	—	2
Other asset-backed	AAA	11	—
Other asset-backed	AA	1	—
Corporate bonds	AAA	19	5
Corporate bonds	AA	6	1
Corporate bonds	A	8	3
Corporate bonds	BBB	—	2
Yankees:			
Government	AA	—	1
Corporate	AAA	2	3
Corporate	AA	4	1
Corporate	A	1	—
No credit exposure		—	2
		100%	100%

Revolving Fund and Loan Funds

Concentration of Credit Risk

The risk of loss attributed to the magnitude of the Authority's investment in a single issuer is concentration of credit risk. The Authority's 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, 2009 the Authority had more than 5% of the combined portfolios invested in the following GSEs (dollar amounts in thousands).

	Revolving Fund	Loan Funds	Percent of combined portfolio
Federal National Mortgage Association	$ 75,210	185	20%
Federal Home Loan Mortgage Corporation	34,918	183	9%

(4) Loans

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

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

	2009		2008	
	Number	**Amount**	**Number**	**Amount**
Appropriated	7	$ 95	14	$ 179
Loan participation:				
Bonds retired	1	859	11	1,685
Internally funded	238	339,487	249	355,254
OREO sale financing	6	24,491	8	24,644
Other	1	3,277	—	—
Revolving Fund loans	253	368,209	282	381,762
Loan Funds	101	10,523	104	10,523
	354	378,732	386	392,285
Less current portion		(13,063)		(13,550)
		$ 365,669		$ 378,735

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

	2009		2008	
	Percent	**Amount**	**Percent**	**Amount**
Current	99.04%	$ 364,656	99.35%	$ 379,272
Past due:				
31 – 60 days	—	—	0.13	509
61 – 90 days	0.88	3,243	—	—
Over 90 days	0.08	310	0.52	1,981
	100.00%	$ 368,209	100.00%	$ 381,762

Revolving Fund loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest had been discontinued amounted to $310,000 and $1,981,000 at June 30, 2009 and 2008, respectively. Gross interest income, which would have been received on these loans, amounted to $30,000 and $143,000 for the years ended June 30, 2009 and 2008, respectively. The amount of interest income included in the change in net assets was $18,000 and $103,000 for the years ended June 30, 2009 and 2008, respectively.

There were no Revolving Fund loans on which the terms had been restructured at June 30, 2009 and June 30, 2008.

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

	2009		2008	
	Percent	**Amount**	**Percent**	**Amount**
Current	95.70%	$ 10,070	96.95%	$ 10,202
Past due:				
31 – 60 days	—	—	2.10	221
Over 90 days	4.30	453	0.95	100
	100.00%	$ 10,523	100.00%	$ 10,523

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 $189,000 at June 30, 2009. Gross interest income, which would have been received on these loans, amounted to $15,000 for the year ended June 30, 2009. The amount of interest income collected and included in the change in net assets was $5,000 for the year ended June 30, 2009. There were no Loan Fund loans at June 30, 2008 which were more than 90 days past due, excluding restructured loans, on which the accrual of interest had been discontinued.

Loan Funds loans on which the terms had been restructured amounted to $653,000 and $405,000 at June 30, 2009 and 2008, respectively. Gross interest income, which would have been received on these loans, amounted to $87,000 and $21,000 for the years ended June 30, 2009 and 2008, respectively. The amount of interest income collected and included in the change in net assets was $29,000 and $16,000 for the years ended June 30, 2009 and 2008, respectively.

(5) Allowance for Loan Losses

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

	Revolving Fund	Loan Funds	Total 2009	Total 2008
Balance at beginning of year	$ 8,618	800	9,418	9,975
Provision for loan losses	(360)	132	(228)	(416)
Recoveries of loans charged off	111	—	111	159
Charge-offs	—	—	—	(300)
Balance at end of year	$ 8,369	932	9,301	9,418

(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.
- 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.

  In April 2009 the Northwest Arctic Borough requested that AIDEA reconsider negotiating a sale of the Red Dog Project, or negotiate amendments to the existing agreement to allow the Borough to obtain additional revenues to fund public services. The AIDEA board has agreed to meet and discuss these issues with the Borough and preliminary discussions to that end have taken place.
- In January 2007, the Authority entered into a facilities user agreement for ore storage and loading with a Canadian mining company to use a portion of the Skagway Terminal for shipment of bulk mine products. Construction of the initial improvements was substantially complete at June 30, 2008 and placed into service during the 2008 fiscal year. Additional improvements were made and placed into service during the 2009 fiscal year. The recent strengthening of base metal prices has generated interest in mining properties in the areas the Skagway Terminal services. Production activity by additional users, if any, could be several years in the future.

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

		2009	2008
Minimum lease payments receivable	$	573,974	598,173
Less unearned income		(313,751)	(329,898)
Net investment in direct financing leases	$	260,223	268,275

Future minimum lease payments receivable for the fiscal year ending June 30, 2010, through June 30, 2014 are (dollars in thousands):

	2010	2011	2012	2013	2014
$	31,222	32,476	26,798	27,116	26,960

While the Skagway Terminal improvements are substantially complete, final costs have not been agreed to. Payments based on an estimated final cost have been calculated and included in the future minimum lease payments receivable. Payments related to the Red Dog Project include projections of certain variable payments.

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

		2009	2008
Federal Express Project	$	13,532	15,352
Red Dog Project		235,441	242,682
Skagway Terminal		11,250	10,241
	$	260,223	268,275

(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. Under the settlement agreement, there was an interim shut down of the Healy Project, and it has since been maintained in custodial status by the Authority. Under the settlement agreement, the Authority agreed to offer partial financial assistance to GVEA, if it elected to proceed to either retrofit the plant to conventional combustor technology or operate the Healy Project under existing systems and clean-coal technology. If GVEA elected not to proceed, the Authority could place the Healy Project into operation, and GVEA was obligated to 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 sued GVEA, alleging various breaches of the March 2000 settlement agreement related to the Healy Project, including failure to provide a land lease and other agreements necessary and appropriate to provide the Authority a full opportunity to maximize the economic utility of the Healy Project. GVEA filed an answer which asserted counter claims against the Authority for damages. The Authority and GVEA in August 2009 negotiated an agreement which will resolve the litigation. Under the August 2009 agreement, a subsidiary of GVEA, Tri-Valley Electric Cooperative, Inc. (Tri-VEC), will purchase the Healy Project for $50 million, and the Authority will loan up to an additional $45 million to refurbish the Healy Project, integrate the Healy Project into GVEA's system, and put the Healy Project into operation. The purchase price will be paid over 30 years, and the loan will be repaid over 25 years. Tri-VEC will obtain revenues to repay the Authority under a take or pay power sales agreement between Tri-VEC and GVEA under which GVEA will be obligated to pay regardless of whether the Healy Project generates power. GVEA will also guarantee payments to the Authority arising from the power sales agreement. The parties are currently negotiating sale, financing, and security agreements. The sale will be contingent upon the Regulatory Commission of Alaska (RCA) approving the power sales agreement. Trial has been stayed to allow the parties time to implement the sale of the Healy Project. After RCA approves the power sales agreement, the litigation will be dismissed.

The Authority in November 2006 had entered into agreements with Homer Electric Association, Inc. (HEA) related to restarting the Healy Project. The Authority, GVEA, Tri-VEC, and HEA in February 2009 entered an agreement which provided for the sale of the Healy Project with substantially similar terms as the August 2009 agreement, except that HEA would have purchased 50% of power generated by the Healy Project. In May 2009, HEA determined it no longer desired to participate in the Healy Project, leading the Authority, GVEA and Tri-VEC to negotiate and enter the August 2009 agreement.

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 Healy Project is a valuable Railbelt energy asset. The Railbelt has significant energy needs, and the Healy Project can be made operational at a cost that will produce competitively priced power.

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

A second shiplift is currently constructed and was placed into service subsequent to June 30, 2009. The shiplift is financed by a grant from the U.S. Economic Development Agency, with the required match and additional funding by the Ketchikan Gateway Borough and the State of Alaska. Additional grants and appropriations have been authorized 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), subject to final appropriation. The local Ketchikan governments contributed advanced funds, land and engineering services to the development project. Additionally, the State Department of Transportation and Public Facilities contributed design, engineering and construction services during the year ended June 30, 2009, some of which was funded from available federal funding.

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

		2009	2008
Healy Project	$	47,555	47,886
Shipyard		35,873	29,513
	$	83,428	77,399

Development project activity for the year ended June 30, 2009 follows (in thousands):

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
Nondepreciable component of development projects	$ 19,149	8,382	—	27,531
Depreciable components of development projects	74,110	—	—	74,110
Accumulated depreciation	(15,860)	(2,353)	—	(18,213)
Depreciable components of development projects – net	58,250	(2,353)	—	55,897
Total development projects	$ 77,399	6,029	—	83,428

(c) *Restricted Direct Financing Lease*

In August 1998, the Authority purchased the Snettisham Hydroelectric Project from the federal government. Under the terms of various agreements, the project is operated by and all power from the project is sold to AEL&P. The project currently provides the majority of the Juneau-Douglas area electrical energy.

(7) Capital Assets

Capital asset activity for the year ended June 30, 2009 follows (in thousands):

	Balance at June 30, 2008	Additions	Balance at June 30, 2009
Capital assets not being depreciated – land	$ 600	—	600
Capital assets being depreciated	2,698	89	2,787
Accumulated depreciation	(1,023)	(137)	(1,160)
Capital assets being depreciated, net	1,675	(48)	1,627
Total capital assets	$ 2,275	(48)	2,227

(8) Bonds Payable

The composition of bonds outstanding (in thousands) issued under the Authority's Revolving Fund Bond Resolution (Revolving Fund Bonds) at June 30, follows (interest rate and maturity date information is as of June 30, 2009):

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009	Amounts due within one year
Series 2002A – 4.75% to 5.5%, issued June 20, 2002, maturing through 2014	$ 11,570	—	1,685	9,885	1,775
Series 2008 A and B Variable rate bonds, issued May 29, 2008, maturing through 2027	107,385	—	6,050	101,335	6,390
	$ 118,955	—	7,735	111,220	8,165

At June 30, 2009, all Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. The Series 2002A bonds are secured by bond insurance. The Series 2008 bonds are variable rate and secured by a direct pay letter of credit. Certain of the bonds are callable prior to scheduled maturity. Rates are set weekly by each remarketing agent. A rate of 1.15% is used in the following table to calculate interest to maturity. This rate is based on the established rates at June 30, 2009.

In May 2008, the Authority issued $107,385,000 of variable rate Revolving Fund Refunding Bonds for the purpose of refunding $107,385,000 of Series 2007 A and B Revolving Fund Refunding Bonds and pay costs of issuance. The refunded bonds were redeemed May 29, 2008. The refunding resulted in aggregate debt service payments over the next nineteen years in a total amount approximately $11,000,000 less than the debt service payments which would have been due on the refunded bonds. There was an economic gain of approximately $8,600,000, which is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate.

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2009 are as follows (without considering earlier call provisions) (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2010	$	8,165	1,693	9,858
2011		8,620	1,522	10,142
2012		9,110	1,343	10,453
2013		9,625	1,148	10,773
2014		10,160	949	11,109
2015 – 2019		32,880	2,820	35,700
2020 – 2024		18,565	1,477	20,042
2025 – 2027		14,095	330	14,425
	$	111,220	11,282	122,502

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, 2009, the Authority has estimated that projected future coverage for each future year exceeds 150%. At June 30, 2009, unrestricted Revolving Fund surplus was approximately $933,062,000. The Authority is also required by Revolving Fund Bond Resolution covenants to maintain in the Revolving Fund Cash Equivalents (as defined in the Revolving Fund Bond Resolution) maturing within one year in an amount at least equal to the lesser of $50,000,000 or 25% of the amount of general obligation indebtedness outstanding. At June 30, 2009, the liquidity requirement was $27,805,000.

In August 1998, the Authority issued $100,000,000 of Power Revenue Bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.90% 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; $5,975,000 of the defeased bonds remain outstanding at June 30, 2009. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2009 are as follows (without considering earlier call provisions) (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2010	$ 1,590	4,332	5,922
2011	1,670	4,254	5,924
2012	1,770	4,154	5,924
2013	1,870	4,047	5,917
2014	1,985	3,935	5,920
2015 – 2019	11,780	17,816	29,596
2020 – 2024	15,310	14,298	29,608
2025 – 2029	19,600	9,998	29,598
2030 – 2034	25,370	4,233	29,603
	$ 80,945	67,067	148,012

(9) Retirement Plan

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

The Alaska Legislature Senate Bill 125, signed into law April 9, 2008, converted the Public Employees Retirement System to a cost-sharing plan and provided for an integrated system of accounting for all employers. Under the integrated system, the Public Employees' Retirement System defined benefit plans' unfunded liability will be shared among all employers. The unfunded pension liability of $1,109,000 for the Authority was removed in fiscal year 2009 because it is no longer a liability of the employer under the new plan. The Bill also established a uniform PERS contribution rate of 22% of participating employees' covered payroll. The conversion took effect July 1, 2008.

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.

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

The components of annual pension and post-retirement benefits other than pensions (OPEB) follow (in thousands):

		Pension	OPEB	Total
Annual Required Contribution	$	519	1,117	1,636
Annual pension/OPEB cost		519	1,117	1,636
Contributions made		(519)	(1,117)	(1,636)
Conversion to cost sharing plan		(685)	(424)	(1,109)
Decrease in NPO/OPEB liability		(685)	(424)	(1,109)
NPO/OPEB obligation, June 30, 2008		685	424	1,109
NPO/OPEB obligation, June 30, 2009	$	—	—	—

(10) Commitments, Contingencies and Other

(a) Investments

At June 30, 2009, the Authority held approximately $1,300 of borrower and participating lender money, which had not yet been remitted or applied. The Authority held approximately $23,728,000 of investments in trust or as custodian for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

(b) Dividend

Pursuant to Alaska statutes, the Authority's board is required to annually determine the amount of a dividend to be made available for appropriation by the legislature. The dividend made available by the board is to be not less than 25% and not more than 50% of the Authority's audited "net income", as defined in statute, for the fiscal year two years before the fiscal year in which the dividend is to be made. In no event, however, may the dividend exceed unrestricted "net income." The Authority's board has authorized a $22,720,000 dividend for the year ending June 30, 2010.

(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, 2009, the Authority had extended loan commitments of $20,151,000 and loan guarantees of $768,000. Under an agreement dated August 2009, the Authority has agreed to sell the Healy Project to Tri-VEC for $50 million, finance the sale, and loan up to an additional $45 million to refurbish, put into operation, and integrate the Healy Project into GVEA's system (note 6). 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.