ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Basic Financial Statements

June 30, 2010

(with summarized financial information for June 30, 2009)

(With Independent Auditors' Report Thereon)

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

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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, 2010, with summarized comparative totals at June 30, 2009 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, 2009 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, 2010. 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, 2010 and 2009 by $1.0 billion and $974.5 million, respectively. Of total net assets, $927.2 million (with $913.8 million of that amount in the Revolving Fund) and $888.1 million (of which, $875.2 million was in the Revolving Fund) at June 30, 2010 and 2009, 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, 2010 and 2009 follow (amounts are in thousands):

		2010	2009	Increase (decrease)
Current assets	$	142,653	112,175	30,478
Capital assets		2,111	2,227	(116)
Other noncurrent assets and restricted assets		1,067,844	1,069,113	(1,269)
Total assets	$	1,212,608	1,183,515	29,093
Current liabilities	$	11,146	10,863	283
Noncurrent liabilities and those payable from restricted assets		189,280	198,126	(8,846)
Total liabilities		200,426	208,989	(8,563)
Total net assets		1,012,182	974,526	37,656
Total liabilities and net assets	$	1,212,608	1,183,515	29,093

The increase in current assets resulted from an increase in the current portion of investment securities coupled with an increase in the current portion of loans and development projects accounted for as direct financing leases. The increase in the current portion of investment securities was in the Authority–managed liquidity portfolio, which increased in anticipation of the purchase of Power Project Fund loans from the Alaska Energy Authority (see note 10 to the basic financial statements). The increase in the current portion of loans substantially resulted from a $2.4 million balloon payment due June 2011 on the Authority's largest loan (an OREO sale financing), resulting in higher scheduled current payments as the payment transitioned from long-term to due within a year; per terms of the loan, the loan principal is payable in two balloon payments, the second due at maturity. 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 began effective June 30, 2009 and, additionally, 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 development projects, partially offset by an increase in investment securities. Net noncurrent development project balances declined $21.5 million, to $387.3 million at June 30, 2010, the net result of principal payments received; the transition to current from long-term of the Red Dog Project zinc price escalator and reserve release payments projected to be received during the year ended June 30, 2011; and depreciation, offset by additional investments made to three of the five unrestricted development projects. Noncurrent investment balances increased by approximately $12.9 million as more funds were retained than spent.

The decline in total liabilities was primarily caused by scheduled principal payments of $9.8 million on bonds during the year ended June 30, 2010.

The $37.7 million increase in net assets during the year ended June 30, 2010, resulted from operating income of $58.9 million, offset by $21.2 million of other increases and decreases in net assets. The Authority's $22.7 million dividend to the State during the year decreased net assets while federal and state contributions and net revenues relating to the Ketchikan Shipyard Repair and Replacement Fund increased net assets.

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, 2010 and 2009 follows (in thousands):

		2010	2009	Increase (decrease)
Operating revenues:				
Interest on loans	$	22,901	24,054	(1,153)
Interest on direct financing leases		16,356	16,863	(507)
Investment interest		15,342	15,462	(120)
Net increase in fair value of investments		16,558	2,047	14,511
Other income		7,000	6,670	330
Restricted income		4,293	4,369	(76)
Total operating revenues		82,450	69,465	12,985
Operating expenses:				
Interest		2,787	3,715	(928)
General and administrative		10,970	10,170	800
Provision for loan losses		(154)	(228)	74
Depreciation		3,023	2,353	670
Other project expenses		2,665	2,926	(261)
Interest on liabilities payable from restricted assets		4,293	4,369	(76)
Total operating expenses		23,584	23,305	279
Operating income		58,866	46,160	12,706
Net nonoperating revenues (expenses)		558	(14)	572
Other revenues		952	5,129	(4,177)
Dividend to State of Alaska		(22,720)	(23,800)	1,080
Extraordinary item-NPO/OPEB write-off		—	1,109	(1,109)
Increase in net assets	$	37,656	28,584	9,072

Operating revenues increased $13 million during the year ended June 30, 2010 compared to 2009 substantially resulting from a $14.5 million increase in unrealized gains on the Authority's investment portfolio. Interest rates on investments declined during the year compared to the prior year. Interest income on loans and direct financing leases decreased as a greater amount of payments were applied to principal rather than interest.

(Continued)

Operating expenses increased slightly in 2010 compared to 2009. Increases in general and administrative expenses and depreciation were offset by decreases in interest expense and project expenses. General and administrative expenses increased $800,000, mostly due to increased costs for personnel to support Alaska Energy Authority programs. Depreciation increased $670,000, as improvements made to the Ketchikan Shipyard were completed and placed into service during 2010. Interest expense decreased $928,000 in 2010 compared to 2009, due to a lower amount of bonds outstanding and to low rates paid on variable rate bonds. Other project expenses decreased during the year ended June 30, 2010 compared to 2009, as the Authority incurred less costs relating to the Healy Project.

Other revenues decreased $4.2 million during the year ended June 30, 2010 compared to 2009. This net decrease resulted from a decrease in Federal, State and local contributions for the Ketchikan Shipyard Project.

The Authority paid a dividend of $22.7 million to the State during the year ended June 30, 2010, compared to $23.8 million during 2009. 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, 2010, 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 opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2009 financial statements and, in our report dated October 23, 2009, we expressed unqualified opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Authority as of June 30, 2010, 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 28, 2010 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 28, 2010

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

Balance Sheet

June 30, 2010
(With summarized financial information at June 30, 2009)

(In thousands)

Assets	Revolving fund	Loan funds	Total 2010	Total 2009
Current assets:				
Cash and cash equivalents (note 3)	$ 20,827	3,350	24,177	23,771
Investment securities (note 3)	75,692	—	75,692	51,469
Loans (note 4)	16,382	768	17,150	13,063
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	17,340	—	17,340	14,991
Accrued interest receivable	5,435	207	5,642	5,980
Other assets	2,651	1	2,652	2,901
Total current assets	138,327	4,326	142,653	112,175
Noncurrent assets:				
Investment securities (note 3)	287,259	—	287,259	274,353
Loans (note 4)	361,275	9,463	370,738	365,669
Less allowance for loan losses (note 5)	(8,314)	(686)	(9,000)	(9,301)
Net loans	352,961	8,777	361,738	356,368
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	227,433	—	227,433	245,232
Development projects (note 6)	81,372	—	81,372	83,428
Other assets (note 7)	5,537	337	5,874	6,150
Restricted assets:				
Cash and cash equivalents (note 3)	4,915	—	4,915	2,003
Investment securities (note 3)	14,031	—	14,031	13,645
Snettisham (note 6):				
Cash and cash equivalents (note 3)	8,813	—	8,813	10,011
Net investment in direct financing leases (note 6)	78,520	—	78,520	80,150
Total noncurrent assets	1,060,841	9,114	1,069,955	1,071,340
Total assets	$ 1,199,168	13,440	1,212,608	1,183,515
Liabilities and Net Assets				
Current liabilities:				
Bonds payable – current portion (note 8)	$ 7,955	—	7,955	8,165
Accrued interest payable	1,203	—	1,203	156
Accounts payable	1,981	4	1,985	2,538
Other liabilities	—	3	3	4
Total current liabilities	11,139	7	11,146	10,863
Noncurrent liabilities:				
Bonds payable – noncurrent portion (note 8)	87,260	—	87,260	103,055
Other liabilities	14,687	—	14,687	4,910
	101,947	—	101,947	107,965
Liabilities payable from restricted assets – Snettisham:				
Power revenue bonds payable (note 8)	79,355	—	79,355	80,945
Other	7,978	—	7,978	9,216
Total liabilities	200,419	7	200,426	208,989
Net assets:				
Invested in development projects, net of related debt	81,372	—	81,372	83,428
Invested in capital assets	2,111	—	2,111	2,226
Restricted contributions	1,460	—	1,460	819
Unrestricted	913,806	13,433	927,239	888,053
Total net assets	998,749	13,433	1,012,182	974,526
Commitments and contingencies (notes 1, 9, and 10)				
Total liabilities and net assets	$ 1,199,168	13,440	1,212,608	1,183,515

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

Year ended June 30, 2010
(With summarized financial information at June 30, 2009)

(In thousands)

	Revolving fund	Loan funds	Total 2010	Total 2009
Operating revenues:				
Interest on loans (note 4)	$ 22,418	483	22,901	24,054
Interest on direct financing leases (note 6)	16,356	—	16,356	16,863
Interest on Snettisham restricted direct financing lease (note 6)	4,293	—	4,293	4,369
Investment interest	15,342	—	15,342	15,462
Net increase in fair value of investments	16,558	—	16,558	2,047
Other income	6,170	22	6,192	5,641
State of Alaska Employer Relief	304	—	304	623
Other project income	504	—	504	406
Total operating revenues	81,945	505	82,450	69,465
Operating expenses:				
Interest	2,787	—	2,787	3,715
Interest on Snettisham liabilities payable from restricted assets (note 8)	4,293	—	4,293	4,369
General and administrative	10,910	60	10,970	10,170
Provision for loan losses	(166)	12	(154)	(228)
Depreciation	3,023	—	3,023	2,353
Other project expenses	2,665	—	2,665	2,926
Total operating expenses	23,512	72	23,584	23,305
Operating income	58,433	433	58,866	46,160
Nonoperating revenues (expenses):				
Investment interest	—	110	110	128
Net revenues (expenses) related to Ketchikan Shipyard Repair and Replacement Fund	448	—	448	(142)
Total net nonoperating revenues (expenses)	448	110	558	(14)
Contributions from primary government	305	—	305	1,293
Capital grant	647	—	647	3,836
Dividend to State of Alaska	(22,720)	—	(22,720)	(23,800)
Extraordinary item-NPO/OPEB write-off (note 9)	—	—	—	1,109
Increase in net assets	37,113	543	37,656	28,584
Net assets – beginning of year	961,636	12,890	974,526	945,942
Net assets – end of year	$ 998,749	13,433	1,012,182	974,526

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, 2010
(With summarized financial information at June 30, 2009)

(In thousands)

	Revolving fund	Loan funds	Total 2010	Total 2009
Cash flows from operating activities:				
Interest received on loans	$ 22,627	488	23,115	24,088
Receipts from borrowers	1,057	—	1,057	1,479
Principal collected on loans	28,465	1,260	29,725	44,781
Other operating receipts	7,316	—	7,316	8,230
Payments from primary government	—	—	—	5
Loans originated	(37,803)	(1,275)	(39,078)	(31,132)
Payments to suppliers and employees for services	(11,936)	—	(11,936)	(11,410)
Payments to primary government	(1,204)	(110)	(1,314)	(1,232)
Other operating payments	(3,276)	—	(3,276)	(4,580)
Net cash provided by operating activities	5,246	363	5,609	30,229
Cash flows from noncapital and related financing activities:				
Dividend paid to the State of Alaska	(22,720)	—	(22,720)	(23,800)
Operating loans collected from the Alaska Energy Authority, net	280	—	280	27
Net cash used by noncapital and related financing activities	(22,440)	—	(22,440)	(23,773)
Cash flows from capital and related financing activities:				
Net proceeds from bond refunding	94,944	—	94,944	—
Direct financing lease receipts	31,835	—	31,835	27,599
Direct financing lease receipts – Snettisham	5,923	—	5,923	5,915
Federal grant receipts	496	—	496	3,720
Capital appropriation – State of Alaska	684	—	684	827
Restricted contributions for development projects	2,694	—	2,694	1,584
State of Alaska capital appropriation held by others	—	—	—	404
Other receipts from capital and financing activities	368	—	368	345
Other receipts from financing activities-Snettisham	—	—	—	277
Principal paid on capital debt	(103,110)	—	(103,110)	(7,735)
Interest paid on capital debt	(1,857)	—	(1,857)	(3,176)
Net investment in direct financing leases	(289)	—	(289)	(2,942)
Investment in development projects	(1,008)	—	(1,008)	(9,289)
Interest paid on capital debt – Snettisham	(4,332)	—	(4,332)	(4,405)
Principal paid on capital debt – Snettisham	(1,590)	—	(1,590)	(1,520)
Costs of issuance relating to bond refunding	(597)	—	(597)	(14)
Net cash provided by capital and related financing activities	24,161	—	24,161	11,590
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	146,398	—	146,398	111,875
Purchases of investment securities	(167,357)	—	(167,357)	(141,342)
Interest collected on investments	15,452	110	15,562	15,113
Proceeds from equity investment	187	—	187	—
Net cash (used) provided by investing activities	(5,320)	110	(5,210)	(14,354)
Net increase in cash and cash equivalents	1,647	473	2,120	3,692
Cash and cash equivalents at beginning of year	32,908	2,877	35,785	32,093
Cash and cash equivalents at end of year	$ 34,555	3,350	37,905	35,785

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

Statement of Cash Flows

Year ended June 30, 2010
(With summarized financial information at June 30, 2009)

(In thousands)

		Revolving fund	Loan funds	Total 2010	Total 2009
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	$	58,433	433	58,866	46,160
Adjustments to reconcile operating income to net cash provided by operating activities:					
Principal collected on loans		28,465	1,260	29,725	44,781
Loans originated		(37,803)	(1,275)	(39,078)	(31,132)
Investment interest income		(15,342)	—	(15,342)	(15,462)
Proceeds from equity investment		(187)	—	(187)	—
Amortization of unearned income on direct financing leases		(16,356)	—	(16,356)	(16,863)
Amortization of unearned income on direct financing lease – Snettisham		(4,293)	—	(4,293)	(4,369)
Bond interest expense		2,796	—	2,796	3,036
Bond interest expense – Snettisham		4,293	—	4,293	4,369
Provision for loan losses		(166)	12	(154)	(228)
Depreciation		3,023	—	3,023	2,353
Net increase in fair value of investments		(16,558)	—	(16,558)	(2,047)
Decrease (increase) in accrued interest receivable and other assets		626	(17)	609	381
(Decrease) increase in accounts payable and other liabilities		(1,685)	(50)	(1,735)	(750)
Net cash provided by operating activities	$	5,246	363	5,609	30,229
Noncash investing, capital and financing activities:					
Noncash contributions for development project	$	96	—	96	—
Net increase in fair value of investments		16,558	—	16,558	2,047
Decrease in accounts payable for direct financing lease additions		(260)	—	(260)	(258)
Decrease in accounts payable for development project additions		(137)	—	(137)	(529)

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.

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

(a) Enterprise Development Account

A summary of programs available under the Enterprise Development Account 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. The variable rate bonds were refunded in February 2010 with the issuance of $87,105,000 of fixed 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 have been 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 does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of $50,000,000 for a facility to be constructed in Anchorage for the offloading, processing, storage, and transloading of seafoods. The Authority purchased Alaska Seafood International in 1999 and sold it in 2005; no issuance of bonds is anticipated.
- The Authority has bonding authorization of $20,000,000 to finance the acquisition, design, and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. The Kodiak launch complex was constructed with other financing and the Authority currently does not anticipate that it will participate in financing the projects.
- The Authority has bonding authorization of $80,000,000 to finance the expansion, improvement and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by the Authority.
- The Authority has bonding authorization of $30,000,000 to finance improvement and expansion of the Nome port facilities to be owned by the Authority. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of $25,000,000 to finance the development of Hatcher Pass, located in the Matanuska-Susitna Borough. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of $20,000,000 to finance the acquisition, development, improvement and construction of port and related facilities on Lynn Canal in Southeast Alaska, to be owned by the Authority. The Authority does not currently anticipate that it will participate in financing the project.

(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

(Continued)

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, 2010, the Authority had issued revenue bonds for 310 projects (not including bonds issued to refund other bonds). At June 30, 2010, the outstanding principal amount of revenue bonds issued after July 1, 1995 was $404,026,000. 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. AIDEA and AEA have separate executive directors, both employees of AIDEA. There is no commingling of funds, assets, or liabilities between AIDEA and AEA and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AEA are not included in the accompanying financial statements.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting – Enterprise Fund Accounting

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

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 probable losses in the loan portfolio. The factors used by management to determine the allowance required include historical loss experience, individual loan delinquencies, collateral values, economic conditions 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 probable unrealizable direct financing lease receivables. The factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 2010.

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(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, 2010, 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, 2010.

(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, 2009, 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, 2010 follows (in thousands):

Restricted	$	4,915
Unrestricted		20,827
Carrying amount	$	25,742
Bank balance	$	25,766

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, 2010 follows (in thousands):

U.S. Treasury	$	103,805
U.S. government agency and GSEs		21,765
Corporate securities		119,228
Mortgage backed securities		121,325
Asset backed securities		5,311
Municipal bonds		5,548
	$	376,982

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		2010	2009
Red Dog Project Sustaining Capital Fund	Project costs	$	14,031	13,663
Ketchikan Shipyard restricted funds	Project costs		3,482	1,138
Ketchikan Shipyard Repair and Replacement Account	Project costs		1,433	847
Snettisham Hydroelectric Project Funds	Various costs relating to the project		8,813	10,011
		$	27,759	25,659

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.

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The June 30, 2010, 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	0.06	0.08
U.S. Treasury	0.33	5.64
U.S. government agency and GSEs	1.16	3.88
Corporate securities	—	5.65
Mortgage backed securities	—	1.90
Asset backed securities	—	0.60
Municipal bonds	—	11.12

Credit Risk

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

Investments must carry a rating of BBB – or above at the time of purchase, or, if unrated, be deemed by the external manager to be of investment grade quality. In the event the rating of a security is downgraded below investment grade while owned by the Authority, it will no longer be eligible for purchase and the investment manager will report the downgrade to the Authority with a plan of action for monitoring the security and its disposition within six months. If the investment manager believes the security is undervalued, the investment manager may request an additional six months to liquidate the security.

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

The quality ratings of the Authority's Revolving Fund portfolio at June 30, 2010 are stated in the table below as a percentage of the total portfolio. U.S. Treasury securities and securities of agencies and corporations explicitly guaranteed by the U.S. government are not considered to have credit risk and are reported as such in the table. On September 6, 2008, the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation were placed into conservatorship by the Federal Housing Finance Agency. Prior to this, both corporations were considered GSE's with an implicit backing of the U.S. government. Ratings used are S&P's rating scale unless 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%
U.S. government agency and GSEs	AAA	4
U.S. government agency and GSEs	A	1
Corporate securities	AAA	1
Corporate securities	AA	4
Corporate securities	A	11
Corporate securities	BBB	8
Corporate securities	BB	1
Corporate securities*	A	2
Corporate securities*	Baa	2
Mortgage backed securities	AAA	3
Mortgage backed securities	A	1
Mortgage backed securities*	Aaa	1
Mortgage backed securities (issued by GSEs)	Not rated	25
Municipal bonds	A	1
Asset backed securities	AAA	1
No credit exposure		26
		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 $25,000,000 at June 30, 2010, 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.

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Loan Funds

Cash and Cash Equivalents

At June 30, 2010, the carrying amount and bank balance of the Loan Fund's unrestricted cash and cash equivalents was $3,350,000.

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, 2010 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		82	—	—	82
U.S. Treasury bills		199	—	—	199
U.S. Treasury notes		—	508	—	508
U.S. Treasury when-issued		31	660	—	691
U.S. government agency		109	172	—	281
U.S. government agency discount note		—	37	—	37
Mortgage-backed		13	97	—	110
Other asset-backed		360	2	—	362
Corporate bonds		768	233	—	1,001
Yankees-Corporate		22	60	—	82
Yankees-Government		—	15	—	15
Total invested assets		1,581	1,784	—	3,365
Unallotted cash		—	—	14	14
Pool related net assets (liabilities)		12	(41)	—	(29)
Net invested assets	$	1,593	1,743	14	3,350

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 upon purchase and floating rate securities are limited to three years in maturity or expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2010, the expected average life of individual fixed rate securities ranged from one day to 29 years and the expected average life of floating rate securities ranged from one day to nine and three-quarters 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, 2010 was 2.49 years.

The June 30, 2010, weighted average effective duration for the Loan Funds Intermediate-term Fixed Income Pool follows:

U.S. Treasury notes	2.91
U.S. Treasury when-issued	2.73
U.S. government Agency discount note	0.67
U.S. government Agency	1.69
Corporate securities	2.24
Yankees-Corporate	2.65
Yankees-Government	1.87
Mortgage backed securities	1.71
Other asset backed securities	0.65
Pool effective duration	2.47

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 may be purchased if only rated by one of these agencies if they are rated AAA.

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, 2010 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	1%	—
Commercial paper	Not rated	4	—
Corporate bonds	AAA	42	7
Corporate bonds	AA	2	2
Corporate bonds	A	4	3
Corporate bonds	BBB	—	1
Corporate bonds	Not Rated	1	—
Mortgage-backed	AAA	1	5
Mortgage-backed	Not Rated	—	1
Other asset-backed	AAA	21	—
Other asset-backed	Not Rated	2	—
U.S. government agency	AAA	1	9
U.S. government agency	Not Rated	6	—
U.S. government agency discount notes	Not Rated	—	2
U.S. treasury bills	AAA	13	—
U.S. treasury notes	AAA	—	28
U.S. treasury when-issued	AAA	2	36
Yankees:			
Government	AA	—	1
Corporate	AAA	—	2
Corporate	AA	—	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, 2010, 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	$ 78,467	179	19%
Federal Home Loan Mortgage Corporation	35,510	37	8%

(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):

	2010		2009	
	Number	**Amount**	**Number**	**Amount**
Appropriated	2	$ 48	7	$ 95
Loan participation:				
Bonds retired	1	815	1	859
Internally funded	241	349,918	238	339,487
OREO sale financing	6	23,844	6	24,491
Other	1	3,032	1	3,277
Revolving Fund loans	251	377,657	253	368,209
Loan Funds	99	10,231	101	10,523
	350	387,888	354	378,732
Less current portion		(17,150)		(13,063)
		$ 370,738		$ 365,669

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

	2010		2009	
	Percent	**Amount**	**Percent**	**Amount**
Current	99.11%	$ 374,291	99.04%	$ 364,656
Past due:				
31 – 60 days	0.17	645	—	—
61 – 90 days	—	—	0.88	3,243
Over 90 days	0.72	2,721	0.08	310
	100.00%	$ 377,657	100.00%	$ 368,209

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 $2,721,000 and $310,000 at June 30, 2010 and 2009, respectively. Gross interest income, which would have been received on these loans, amounted to $182,000 and $30,000 for the years ended June 30, 2010 and 2009, respectively. The amount of interest income included in the change in net assets was ($30,000) and $18,000 for the years ended June 30, 2010 and 2009, respectively.

There were no Revolving Fund loans on which the terms had been restructured at June 30, 2010 and 2009.

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

	2010		2009	
	Percent	**Amount**	**Percent**	**Amount**
Current	96.80%	$ 9,908	95.70%	$ 10,070
Past due:				
31 – 60 days	1.80	181	—	—
Over 90 days	1.40	142	4.30	453
	100.00%	$ 10,231	100.00%	$ 10,523

There are no loan fund loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued at June 30, 2010. These loans 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.

Loan Funds loans on which the terms had been restructured amounted to $432,000 and $653,000 at June 30, 2010 and 2009, respectively. Gross interest income, which would have been received on these loans, amounted to $37,000 and $87,000 for the years ended June 30, 2010 and 2009, respectively. The amount of interest income collected and included in the change in net assets was $27,000 and $29,000 for the years ended June 30, 2010 and 2009, 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 2010	Total 2009
Balance at beginning of year	$ 8,369	932	9,301	9,418
Provision for loan losses	(166)	12	(154)	(228)
Recoveries of loans charged off	111	—	111	111
Charge-offs	—	(258)	(258)	—
Balance at end of year	$ 8,314	686	9,000	9,301

(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.

  Teck Alaska has mined the "Main Deposit" of the Red Dog Mine since start-up. At current production rates, the Main Deposit is expected to be depleted by 2011. Teck Alaska has estimated the Red Dog Mine's life will extend to 2031, based on reserves at the Main, Aqqaluk and Qanaiyaq Deposits. The Aqqaluk Deposit is adjacent to the Main Deposit and the Qanaiyaq Deposit is nearby.

  Teck Alaska has applied for a renewal of its National Pollutant Discharge Elimination System (NPDES) permit and for a Corps of Engineers wetlands permit for the adjacent Aqqaluk Deposit, which is planned to be mined after the Main Deposit is depleted.

  The Corps of Engineers issued the wetlands permit. The U.S. Environmental Protection Agency issued the NPDES permit on January 8, 2010, but later withdrew some provisions of that permit after several environmental organizations appealed the State of Alaska's certification of the NPDES permit. Those portions of the 2010 permit not withdrawn became effective in April of this year and remain controlling. In lieu of the provisions that were withdrawn, the 1998 permit remains in full force and effect. Because Teck Alaska cannot comply with those 1998 provisions, reinvigoration of that permit raised questions whether the 1998 permit provided Teck with sufficient authority to discharge wastewater necessary for its operations. However, Teck announced in May 2010 that it will proceed with development of the Aqqaluk Deposit and shipped the first concentrate from the Aqqaluk Deposit in the 2010 shipping season.

  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. Improvements have been made to the facility and placed into service. 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.

(Continued)

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

		2010	2009
Minimum lease payments receivable	$	542,168	573,974
Less unearned income		(297,395)	(313,751)
Net investment in direct financing leases	$	244,773	260,223

Future minimum lease payments receivable, including projections of certain variable payments relating to the Red Dog Project, for the fiscal year ending June 30, 2011, through June 30, 2015 are (dollars in thousands):

	2011	2012	2013	2014	2015
$	32,685	27,822	27,001	26,961	25,026

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

		2010	2009
Federal Express Project	$	11,475	13,532
Red Dog Project		223,858	235,441
Skagway Terminal		9,440	11,250
	$	244,773	260,223

(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 under a line of credit to bring the plant out of warm layup status, integrate the Healy Project into GVEA's system, and put the Healy Project into operation. The purchase price will be paid over 30 years, and the loan will be repaid over 25 years. The Authority, GVEA and Tri-VEC have executed an Asset Purchase and Sale Agreement, and a Closing Agreement, to implement the sale transaction, under which the actual sale is contingent upon approval by the Regulatory Commission of Alaska (RCA) of a power sales agreement between GVEA and Tri-VEC, and approval of the transaction by GVEA's current lenders. Pending final closing of the sale, the litigation between the Authority and GVEA regarding the Healy Plant is stayed. Under the power sales agreement between GVEA and Tri-VEC, Tri-VEC will sell to GVEA all power the Healy Plant generates, GVEA assumes a take or pay obligation to pay amounts Tri-VEC owes the Authority under the power sales agreement, regardless of whether the Healy Project operates, and the Authority may enforce this obligation upon a payment default. The Authority will obtain a secured interest in the Healy Project under the sale transaction, including rights to step-in and operate the project. The sale transaction also includes the contingency that if before January 1, 2014, a third-party intervenes concerning permits of the Healy Project which would restrain or prohibit the sale from being completed, or prevent the Healy Project from being put into commercial operation, then after January 1, 2014, the Authority would have the option to terminate the sale transaction and salvage the Healy Project. Upon any such termination by the Authority, neither GVEA nor Tri-VEC would have any further obligation to pay the Authority the $50 million purchase price, but Tri-VEC would have an obligation to pay any amounts drawn on the $45 million line of credit under scheduled payments with interest, with GVEA's obligation to pay arising under the power sales agreement. The ability of the Authority to complete the sale of the Healy Project is subject to certain risks. The RCA approval of the power sales agreement between GVEA and Tri-VEC is subject to certain risks. Economic risks arise relating to the projected competitive cost of power from the Healy Project relative to projected costs of available power. Further, there are environmental risks that potential increased regulatory restrictions, such as restrictions related to carbon dioxide, will be imposed on projects such as the Healy Project to increase the projected costs of power from the Healy Project. While the Authority believes it will be able to complete the sale of the Healy Project, the Authority gives no assurance regarding the possible impact of these risks.

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

- 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 was constructed and placed into service. 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 $47.9 million of federal funds (required match to be provided from other sources). Improvements utilizing these funds are ongoing. The local Ketchikan governments contributed advanced funds, land and engineering services to the development project. Additionally, the State Department of Transportation and Public Facilities contributed funding, design, engineering and construction services during the year ended June 30, 2010, 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):

		2010	2009
Healy Project	$	45,765	47,555
Shipyard		35,607	35,873
	$	81,372	83,428

Development project activity for the year ended June 30, 2010 follows (in thousands):

		Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Nondepreciable component of development projects	$	27,531	967	(21,882)	6,616
Depreciable components of development projects		74,110	21,882	—	95,992
Accumulated depreciation		(18,213)	(3,023)	—	(21,236)
Depreciable components of development projects – net		55,897	18,859	—	74,756
Total development projects	$	83,428	19,826	(21,882)	81,372

(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. Unearned income related to the restricted direct financing lease totaled $60,608,000 at June 30, 2010.

(Continued)

(7) Capital Assets

Capital assets are included within other assets in the balance sheet. Capital asset activity for the year ended June 30, 2010 follows (in thousands):

		Balance at June 30, 2009	Additions	Balance at June 30, 2010
Capital assets not being depreciated – land	$	600	—	600
Capital assets being depreciated		2,787	24	2,811
Accumulated depreciation		(1,160)	(140)	(1,300)
Capital assets being depreciated, net		1,627	(116)	1,511
Total capital assets	$	2,227	(116)	2,111

(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, 2010):

		Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Amounts due within one year
Series 2002A – 4.75% to 5.5%, issued June 20, 2002, maturing through 2014	$	9,885	—	(1,775)	8,110	1,870
Series 2008 A and B – variable rate bonds, issued May 29, 2008, refunded February 24, 2010		101,335	—	(101,335)	—	—
Series 2010A – 4.375% to 5.250% issued February 24, 2010, maturing through 2027		—	87,105	—	87,105	6,085
	$	111,220	87,105	(103,110)	95,215	7,955

At June 30, 2010, 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.

In February 2010, the Authority issued $87,105,000 of fixed rate Revolving Fund Refunding Bonds for the purpose of refunding $94,945,000 of Series 2008 A and B Revolving Fund Refunding Bonds. The refunded bonds were redeemed February 24, 2010. The refunding resulted in aggregate debt service payments over the next seventeen years in a total amount approximately $3,200,000 less than the debt service payments which would have been due on the refunded bonds (at an assumed 4% rate on the refunded bonds). There was an economic gain of approximately $1,710,000, which is calculated as the net difference between the present value of the old debt service requirements (at an assumed 4% rate on the refunded bonds) 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, 2010 are as follows (without considering earlier call provisions) (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2011	$	7,955	4,813	12,768
2012		8,485	4,406	12,891
2013		9,025	3,972	12,997
2014		9,615	3,511	13,126
2015		7,950	3,035	10,985
2016 – 2020		25,540	9,743	35,283
2021 – 2025		17,645	5,085	22,730
2026 – 2027		9,000	678	9,678
	$	95,215	35,243	130,458

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, 2010, the Authority has estimated that projected future coverage for each future year exceeds 150%. At June 30, 2010, unrestricted Revolving Fund surplus was approximately $974,238,000. 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, 2010, the liquidity requirement was $23,804,000.

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 5.0% to 6.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. The bonds are insured. In December 1999, the Authority defeased $6,865,000 of the bonds using funds on hand; $5,860,000 of the defeased bonds remain outstanding at June 30, 2010. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2010 are as follows (without considering earlier call provisions) (in thousands):

		Principal	Interest	Total
Year ending June 30:				
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		2,105	3,816	5,921
2016 – 2020		12,430	17,165	29,595
2021 – 2025		16,100	13,508	29,608
2026 – 2030		20,615	8,986	29,601
2031 – 2034		20,810	2,870	23,680
	$	79,355	62,735	142,090

(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 multiple-employer 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. In addition to the uniform PERS contribution of 22%, the Authority contributed $304,000 and $623,000 for the fiscal years ending June 30, 2010 and June 30, 2009 respectively in the form of Employer Relief allocated by the State of Alaska. This amount represented 100% of the Authority's allocated cost for the plan.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by 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.

(10) Commitments, Contingencies and Other

(a) Investments

The Authority held approximately $23,713,000 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 $23,423,000 dividend for the year ending June 30, 2011.

(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. Additionally, the Authority may be subject to compliance or other audits conducted by the Internal Revenue Service concerning the Authority's tax-exempt bonds. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and guarantees, which are not reflected in the accompanying financial statements. At June 30, 2010, the Authority had extended loan commitments of $8,513,000 and loan guarantees of $708,000.

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.

(e) Subsequent Event

Pursuant to an agreement, on September 30, 2010 for $20,631,000 the Authority purchased from AEA, thirty seven (37) loans with an outstanding balance of $24,254,000, plus accrued interest. Under the agreement, at AIDEA's request, AEA is required to repurchase any loan upon a payment default.