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

Basic Financial Statements

June 30, 2011
(with summarized financial information for June 30, 2010)

(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, 2011, with summarized comparative totals at June 30, 2010 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 also has two statutory loan programs, the Small Business Economic Development Revolving Loan Fund Program and the Rural Development Initiative Fund Loan Program (collectively, the Loan Funds), 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, 2010 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, 2011. 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, 2011 and 2010 by $1.04 billion and $1.01 billion, respectively. Of total net assets, $948.6 million (with $934.9 million of that amount in the Revolving Fund) and $927.2 million (of which, $913.8 million was in the Revolving Fund) at June 30, 2011 and 2010, 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, 2011 and 2010 follow (amounts are in thousands):

| | | 2011 | 2010 | Increase (decrease) |
|---|---|---|---|---|
| Current assets | $ | 108,777 | 142,653 | (33,876) |
| Capital assets | | 2,176 | 2,111 | 65 |
| Other noncurrent assets and restricted assets | | 1,138,152 | 1,067,844 | 70,308 |
| Total assets | $ | 1,249,105 | 1,212,608 | 36,497 |
| Current liabilities | $ | 15,990 | 11,146 | 4,844 |
| Noncurrent liabilities and those payable from restricted assets | | 193,588 | 189,280 | 4,308 |
| Total liabilities | | 209,578 | 200,426 | 9,152 |
| Total net assets | | 1,039,527 | 1,012,182 | 27,345 |
| Total liabilities and net assets | $ | 1,249,105 | 1,212,608 | 36,497 |

The decrease in current assets resulted from a decrease in the current portion of cash, cash equivalents and investments coupled with a decrease in the current portion of development projects accounted for as direct financing leases. These decreases were partially offset by increases in the current portion of loans and other assets. The decrease in cash, cash equivalents and investments was primarily due to a net decrease in the Revolving Fund cash and investment portfolio resulting from loan participation purchases; the Revolving Fund purchased a record $116.8 million of loan participations during the year ended June 30, 2011. Additionally, $20.6 million was used to purchase at a discount substantially all of the Power Project Fund loan portfolio from the Alaska Energy Authority pursuant to legislation. This decrease was partially offset by increased loan payments and payments received on development projects accounted for as direct financing leases. The decrease in the current portion of development projects was caused by the early payoff of the Skagway Ore Terminal direct financing lease and an overall decrease in the balance of development projects accounted for as direct financing leases. The current portion of loans increased as the total loan portfolio increased during the year. Other current assets increased due to reimbursements receivable from the federal government for grant funded construction at the Ketchikan Shipyard.



(Continued)

The increase in other noncurrent assets and restricted assets resulted substantially from a net increase in the noncurrent portion of loans offset by a decrease in the noncurrent portion of direct financing leases and investment securities. Net noncurrent loans increased $98.6 million at June 30, 2011 compared to June 30, 2010, the net result of increased loan balances and an increased allowance for loan losses. Record loan participation purchases, offset by increased direct financing lease receipts and principal collections on loans contributed to a $12.4 million decrease in the noncurrent portion of investments. Noncurrent development project balances declined $19.6 million, to $289.2 million at June 30, 2011, the net result of principal payments received, including the early payoff of the Skagway Ore Terminal direct financing lease; 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, 2012; and depreciation, offset by additional investment made to the Ketchikan Shipyard development project.

The increase in total liabilities was primarily caused by the $14.47 million issuance of Revolving Fund bonds to purchase a loan participation financing the construction of a wastewater facility to be used in conjunction with the Goose Creek Corrections Center, a State of Alaska prison. This increase was partially offset by scheduled bond principal payments of $8 million during the year ended June 30, 2011. In addition, current liabilities increased as the Authority increased construction at the Ketchikan Shipyard.

The $27.3 million increase in net assets during the year ended June 30, 2011, resulted from operating income of $41.1 million, offset by $13.7 million of other increases and decreases in net assets. The Authority's $23.4 million dividend to the State during the year decreased net assets while federal and State contributions increased net assets.


(Continued)

Components of the Authority's operating revenues and expenses, nonoperating revenues and expenses and other revenues and changes in net assets for the years ended June 30, 2011 and 2010 follows (in thousands):

| | | 2011 | 2010 | Increase (decrease) |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Interest on loans | $ | 21,280 | 22,901 | (1,621) |
| Interest on direct financing leases | | 15,092 | 16,356 | (1,264) |
| Investment interest | | 14,267 | 15,342 | (1,075) |
| Net increase in fair value of investments | | 346 | 16,558 | (16,212) |
| Other income | | 13,078 | 7,000 | 6,078 |
| Restricted income | | 4,204 | 4,293 | (89) |
| Total operating revenues | | 68,267 | 82,450 | (14,183) |
| Operating expenses: | | | | |
| Interest | | 3,699 | 2,787 | 912 |
| General and administrative | | 11,429 | 10,970 | 459 |
| Provision for loan losses | | 1,775 | (154) | 1,929 |
| Depreciation | | 3,267 | 3,023 | 244 |
| Other project expenses | | 2,815 | 2,665 | 150 |
| Interest on liabilities payable from restricted assets | | 4,204 | 4,293 | (89) |
| Total operating expenses | | 27,189 | 23,584 | 3,605 |
| Operating income | | 41,078 | 58,866 | (17,788) |
| Net nonoperating revenues (expenses) | | (17) | 558 | (575) |
| Other revenues | | 9,707 | 952 | 8,755 |
| Dividend to State of Alaska | | (23,423) | (22,720) | (703) |
| Increase in net assets | $ | 27,345 | 37,656 | (10,311) |



(Continued)

Operating revenues decreased $14.2 million during the year ended June 30, 2011 compared to 2010 substantially resulting from a $16.2 million decrease in unrealized gains on the Authority's investment portfolio. Investment interest rates at June 30, 2011 did not fluctuate substantially from rates at June 30, 2010. However, rates at June 30, 2010 were significantly lower than rates at June 30, 2009, resulting in the decrease between the two years. Interest income on loans decreased $1.6 million compared to 2010. A large percentage of the difference in interest income between the two years was due to borrowers taking advantage of the Authority's interest rate modification program for Revolving Fund loans. Approximately $159 million of loans in this program were modified to lower rates. An offset to this decrease in interest income was an increase of $2.0 million in other operating revenues resulting substantially from the 1% fee received on the modified Revolving Fund loans.

Interest income on direct financing leases decreased due to the early payoff of the Skagway Ore Terminal direct financing lease and, as direct financing lease balances decrease, a greater amount of payments are applied to principal. These decreases were offset by a $6.1 million increase in other operating income which included $3.9 million of revenue recorded on the purchase of the Power Project Fund loan portfolio and increased fees received from the interest rate modification program described above. The loan portfolio was purchased at a discount, but governmental accounting rules applicable to the Authority's financial statements resulted in recognition of the discount as other income in the year ended June 30, 2011.

Operating expenses increased $3.6 million in 2011 compared to 2010. A substantial portion of the increase in operating expense was the $1.8 million provision for loan losses recorded in 2011 which was mostly attributable to the overall increase in the Revolving Fund loan portfolio.

General and administrative expenses increased $459,000, mostly due to increased costs for current personnel (salaries and benefit increases) and the addition of new personnel. Depreciation increased $244,000, as improvements made to the Ketchikan Shipyard were completed and placed into service during 2011. In order to take advantage of low long term interest rates, in February 2010, the Authority refunded outstanding variable rate debt with fixed rate; interest expense increased $912,000 in 2011 compared to 2010, as the short term variable rates were lower than the rates on the long term bonds issued. Other project expenses increased during the year ended June 30, 2011 compared to 2010, as higher costs relating to the Ketchikan Shipyard were partially offset by lower costs incurred on the Healy Project.

Other revenues increased $8.8 million during the year ended June 30, 2011 compared to 2010. This increase resulted from an increase in Federal and State contributions for the Ketchikan Shipyard Project.

The Authority paid a dividend of $23.4 million to the State during the year ended June 30, 2011, compared to $22.7 million during 2010. 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, 2011, 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 2010 financial statements and, in our report dated October 28, 2010, 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, 2011, 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 26, 2011 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 26, 2011

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

Balance Sheet

June 30, 2011
(With summarized financial information at June 30, 2010)

(In thousands)

| Assets | Revolving fund | Loan funds | Total 2011 | Total 2010 |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents (note 3) | $ 15,611 | 3,741 | 19,352 | 24,177 |
| Investment securities (note 3) | 45,451 | — | 45,451 | 75,692 |
| Loans (note 4) | 18,659 | 540 | 19,199 | 17,150 |
| Development projects accounted for as: | | | | |
| Net investment in direct financing leases (note 6) | 14,472 | — | 14,472 | 17,340 |
| Accrued interest receivable | 4,887 | 166 | 5,053 | 5,642 |
| Other assets | 5,250 | — | 5,250 | 2,652 |
| Total current assets | 104,330 | 4,447 | 108,777 | 142,653 |
| Noncurrent assets: | | | | |
| Investment securities (note 3) | 274,896 | — | 274,896 | 287,259 |
| Loans (note 4) | 462,033 | 9,844 | 471,877 | 370,738 |
| Less allowance for loan losses (note 5) | (10,726) | (824) | (11,550) | (9,000) |
| Net loans | 451,307 | 9,020 | 460,327 | 361,738 |
| Development projects accounted for as: | | | | |
| Net investment in direct financing leases (note 6) | 201,791 | — | 201,791 | 227,433 |
| Development projects (note 6) | 87,447 | — | 87,447 | 81,372 |
| Other assets (note 7) | 5,835 | 390 | 6,225 | 5,874 |
| Restricted assets: | | | | |
| Cash and cash equivalents (note 3) | 9,267 | — | 9,267 | 4,915 |
| Investment securities (note 3) | 14,040 | — | 14,040 | 14,031 |
| Snettisham: | | | | |
| Cash and cash equivalents (note 3) | 9,535 | — | 9,535 | 8,813 |
| Net investment in direct financing leases (note 6) | 76,800 | — | 76,800 | 78,520 |
| Total noncurrent assets | 1,130,918 | 9,410 | 1,140,328 | 1,069,955 |
| Total assets | $ 1,235,248 | 13,857 | 1,249,105 | 1,212,608 |
| **Liabilities and Net Assets** | | | | |
| Current liabilities: | | | | |
| Bonds payable – current portion (note 8) | $ 8,950 | — | 8,950 | 7,955 |
| Accrued interest payable | 1,278 | — | 1,278 | 1,203 |
| Accounts payable | 5,525 | 3 | 5,528 | 1,985 |
| Other liabilities | — | 234 | 234 | 3 |
| Total current liabilities | 15,753 | 237 | 15,990 | 11,146 |
| Noncurrent liabilities: | | | | |
| Bonds payable – noncurrent portion (note 8) | 92,780 | — | 92,780 | 87,260 |
| Other liabilities | 14,473 | — | 14,473 | 14,687 |
| | 107,253 | — | 107,253 | 101,947 |
| Liabilities payable from restricted assets – Snettisham: | | | | |
| Power revenue bonds payable (note 8) | 77,685 | — | 77,685 | 79,355 |
| Other | 8,650 | — | 8,650 | 7,978 |
| Total liabilities | 209,341 | 237 | 209,578 | 200,426 |
| Net assets: | | | | |
| Invested in development projects, net of related debt | 87,447 | — | 87,447 | 81,372 |
| Invested in capital assets | 2,176 | — | 2,176 | 2,111 |
| Restricted contributions | 1,340 | — | 1,340 | 1,460 |
| Unrestricted | 934,944 | 13,620 | 948,564 | 927,239 |
| Total net assets | 1,025,907 | 13,620 | 1,039,527 | 1,012,182 |
| Commitments and contingencies (notes 1, 9, and 11) | | | | |
| Total liabilities and net assets | $ 1,235,248 | 13,857 | 1,249,105 | 1,212,608 |

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, 2011
(With summarized financial information at June 30, 2010)

(In thousands)

| | Revolving fund | Loan funds | Total 2011 | Total 2010 |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Interest on loans (note 4) | $ 20,850 | 430 | 21,280 | 22,901 |
| Interest on direct financing leases (note 6) | 15,092 | — | 15,092 | 16,356 |
| Interest on Snettisham restricted direct financing lease (note 6) | 4,204 | — | 4,204 | 4,293 |
| Investment interest | 14,267 | — | 14,267 | 15,342 |
| Net increase in fair value of investments | 346 | — | 346 | 16,558 |
| Other income | 12,030 | 58 | 12,088 | 6,192 |
| State of Alaska Employer Relief | 486 | — | 486 | 304 |
| Other project income | 504 | — | 504 | 504 |
| Total operating revenues | 67,779 | 488 | 68,267 | 82,450 |
| Operating expenses: | | | | |
| Interest | 3,699 | — | 3,699 | 2,787 |
| Interest on Snettisham liabilities payable from restricted assets (note 8) | 4,204 | — | 4,204 | 4,293 |
| General and administrative | 11,209 | 220 | 11,429 | 10,970 |
| Provision for loan losses | 1,637 | 138 | 1,775 | (154) |
| Depreciation | 3,267 | — | 3,267 | 3,023 |
| Other project expenses | 2,815 | — | 2,815 | 2,665 |
| Total operating expenses | 26,831 | 358 | 27,189 | 23,584 |
| Operating income | 40,948 | 130 | 41,078 | 58,866 |
| Nonoperating revenues (expenses): | | | | |
| Investment interest | — | 57 | 57 | 110 |
| Net revenues (expenses) related to Ketchikan Shipyard Repair and Replacement Fund | (74) | — | (74) | 448 |
| Total net nonoperating revenues (expenses) | (74) | 57 | (17) | 558 |
| Contributions from primary government | 2,174 | — | 2,174 | 305 |
| Capital grant | 7,533 | — | 7,533 | 647 |
| Dividend to State of Alaska | (23,423) | — | (23,423) | (22,720) |
| Increase in net assets | 27,158 | 187 | 27,345 | 37,656 |
| Net assets – beginning of year | 998,749 | 13,433 | 1,012,182 | 974,526 |
| Net assets – end of year | $ 1,025,907 | 13,620 | 1,039,527 | 1,012,182 |

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, 2011
(With summarized financial information at June 30, 2010)

(In thousands)

| | Revolving fund | Loan funds | Total 2011 | Total 2010 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Interest received on loans | $ 21,231 | 489 | 21,720 | 23,115 |
| Receipts from borrowers | 3,718 | — | 3,718 | 1,057 |
| Principal collected on loans | 38,353 | 1,999 | 40,352 | 29,725 |
| Other operating receipts | 7,680 | 15 | 7,695 | 7,316 |
| Receipts from other governments | — | 228 | 228 | — |
| Loans originated | (116,845) | (2,329) | (119,174) | (39,078) |
| Loans purchased | (20,631) | — | (20,631) | — |
| Payments to suppliers and employees for services | (12,903) | — | (12,903) | (11,936) |
| Payments to primary government | (605) | (33) | (638) | (1,314) |
| Payments to other governments | — | (35) | (35) | — |
| Other operating payments | (1,631) | — | (1,631) | (3,276) |
| Net cash provided (used) by operating activities | (81,633) | 334 | (81,299) | 5,609 |
| Cash flows from noncapital and related financing activities: | | | | |
| Gross proceeds from bond issuance | 14,911 | — | 14,911 | — |
| Dividend paid to the State of Alaska | (23,423) | — | (23,423) | (22,720) |
| Operating loans collected from (paid to) the Alaska Energy Authority, net | (174) | — | (174) | 280 |
| Net cash used by noncapital and related financing activities | (8,686) | — | (8,686) | (22,440) |
| Cash flows from capital and related financing activities: | | | | |
| Net proceeds from bond refunding | — | — | — | 94,944 |
| Direct financing lease receipts | 43,602 | — | 43,602 | 31,835 |
| Direct financing lease receipts – Snettisham | 5,924 | — | 5,924 | 5,923 |
| Federal grant receipts | 5,120 | — | 5,120 | 496 |
| Capital appropriation – State of Alaska | — | — | — | 684 |
| Restricted contributions for development projects | 2,436 | — | 2,436 | 2,694 |
| Other receipts from capital and financing activities | 392 | — | 392 | 368 |
| Principal paid on capital debt | (7,955) | — | (7,955) | (103,110) |
| Interest paid on capital debt | (4,832) | — | (4,832) | (1,857) |
| Net investment in direct financing leases | — | — | — | (289) |
| Investment in development projects | (6,145) | — | (6,145) | (1,008) |
| Interest paid on capital debt – Snettisham | (4,253) | — | (4,253) | (4,332) |
| Principal paid on capital debt – Snettisham | (1,670) | — | (1,670) | (1,590) |
| Costs of issuance relating to bond refunding | (5) | — | (5) | (597) |
| Net cash provided by capital and related financing activities | 32,614 | — | 32,614 | 24,161 |
| Cash flows from investing activities: | | | | |
| Proceeds from sales and maturities of investment securities | 175,631 | — | 175,631 | 146,398 |
| Purchases of investment securities | (132,691) | — | (132,691) | (167,357) |
| Interest collected on investments | 14,623 | 57 | 14,680 | 15,562 |
| Proceeds from equity investment | — | — | — | 187 |
| Net cash provided (used) by investing activities | 57,563 | 57 | 57,620 | (5,210) |
| Net increase (decrease) in cash and cash equivalents | (142) | 391 | 249 | 2,120 |
| Cash and cash equivalents at beginning of year | 34,555 | 3,350 | 37,905 | 35,785 |
| Cash and cash equivalents at end of year | $ 34,413 | 3,741 | 38,154 | 37,905 |



(Continued)

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

Statement of Cash Flows

Year ended June 30, 2011
(With summarized financial information at June 30, 2010)

(In thousands)

| | | Revolving fund | Loan funds | Total 2011 | Total 2010 |
|---|---|---|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | | | | |
| Operating income | $ | 40,948 | 130 | 41,078 | 58,866 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | |
| Principal collected on loans | | 38,353 | 1,999 | 40,352 | 29,725 |
| Loans originated | | (116,845) | (2,329) | (119,174) | (39,078) |
| Loans purchased | | (20,631) | — | (20,631) | — |
| Investment interest income | | (14,267) | — | (14,267) | (15,342) |
| Proceeds from equity investment | | — | — | — | (187) |
| Amortization of unearned income on direct financing leases | | (15,092) | — | (15,092) | (16,356) |
| Amortization of unearned income on direct financing lease – Snettisham | | (4,204) | — | (4,204) | (4,293) |
| Bond interest expense | | 4,730 | — | 4,730 | 2,796 |
| Bond interest expense – Snettisham | | 4,204 | — | 4,204 | 4,293 |
| Gain on loan purchase | | (3,623) | — | (3,623) | — |
| Provision for loan losses | | 1,637 | 138 | 1,775 | (154) |
| Depreciation | | 3,267 | — | 3,267 | 3,023 |
| Net increase in fair value of investments | | (346) | — | (346) | (16,558) |
| Capitalized loan interest | | (42) | — | (42) | — |
| Decrease in accrued interest receivable and other assets | | 199 | 162 | 361 | 609 |
| Increase (decrease) in accounts payable and other liabilities | | 79 | 234 | 313 | (1,735) |
| Net cash (used) provided by operating activities | $ | (81,633) | 334 | (81,299) | 5,609 |
| Noncash investing, capital and financing activities: | | | | | |
| Noncash contributions for development project | $ | 132 | — | 132 | 96 |
| Net increase in fair value of investments | | 346 | — | 346 | 16,558 |
| Decrease in accounts payable for direct financing lease additions | | — | — | — | (260) |
| Increase (decrease) in accounts payable for development project additions | | 3,065 | — | 3,065 | (137) |

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 also 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 generally limited to the lesser of 90% or $20,000,000 of the permanent financing for qualifying facilities.
- The business and export assistance program, under which the Authority provides up to an 80% guarantee of the principal balance and a guarantee of interest to the financial institution making a qualifying loan. The maximum guarantee amount of any loan is $1,000,000.

### *(b) Economic Development Account*

Through the Economic Development Account, the Authority has the ability to own and operate facilities 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, one of the world's largest zinc producing mines, located in the DeLong Mountains in northwestern Alaska. The Red Dog Project was financed with Authority funds and bond financings; currently outstanding bonds related to the project were issued in February 2010.

- Skagway Ore Terminal (Skagway Terminal). This project is a public-use ore terminal port facility in Skagway, Alaska. The Skagway Terminal was originally bond financed. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds. Improvements have been made to the facility, also financed with Authority funds.
- Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Ted Stevens Anchorage International Airport. The Federal Express Project was partially financed by a bond issue; currently outstanding bonds related to the project were issued 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. Authority funds and bond financing also were used to finance the project.
- Ketchikan Shipyard (Shipyard). Ownership of the Shipyard, located in Ketchikan, Alaska, was transferred to the Authority in July 1997, under an agreement between the Authority and the State Department of Transportation and Public Facilities. A second shiplift financed by a federal grant and matching state and local contributions is complete. Additional improvements have been completed or are planned using appropriations and grants secured for the Shipyard.
- 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.
- The Authority has bonding authorization of $65,000,000 to finance the expansion, modification, improvement, and upgrading of the Skagway Ore Terminal.

***(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, 2011, the Authority had issued revenue bonds for 314 projects (not including bonds issued to refund other bonds). At June 30, 2011, the outstanding principal amount of revenue bonds issued after July 1, 1995 was $416,795,000. 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 (per statute, AEA has no employees) and has a borrowing arrangement to provide working capital funds to AEA. AIDEA and AEA have separate executive directors, both employees of AIDEA. There is no commingling of funds, assets, or liabilities between AIDEA and AEA and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AEA are not included in the accompanying financial statements.

## (2) Summary of Significant Accounting Policies

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

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 pools, whether unrestricted or restricted as to their use.

***(c) Investments***

The Authority's marketable securities are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of the change in net assets. Fair values are obtained from independent sources. Investments are segregated between current and noncurrent based on stated maturity. Investments maturing within one year are considered current.

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

The Authority's Revolving Fund loans are primarily secured by first deeds of trust on real estate located in Alaska 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. Accrual of interest is resumed when a loan is no longer more than 90 days past due.

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

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 certain restricted assets, including impairments, if any, to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses, and changes in net 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 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, debt coverage ratios, guarantor financial strength and other factors. Management's opinion is that the allowance is currently adequate to absorb known losses and inherent risks in the portfolio.

***(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, 2011.

***(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, 2011, 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.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, 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, 2011.

***(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, 2010, 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, 2011 follows (in thousands):

| | | |
|---|---|---|
| Restricted | $ | 9,267 |
| Unrestricted | | 15,611 |
| Carrying amount | $ | 24,878 |
| Bank balance | $ | 24,899 |

***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. G01-14B, *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 currently 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-denominated debt instruments that have been issued by domestic and nondomestic entities;
- Non-U.S. dollar denominated investments provided the greater of $200 million or 60% of the externally managed investment portfolios in aggregate are invested in U.S. dollar denominated investments. Restrictions apply to limit the portfolio amount of certain types of non-U.S. dollar denominated investments.
- Mortgage-backed securities issued or guaranteed by Federal agencies or GSEs;
- Asset backed securities, including collateralized mortgage backed securities and collateralized mortgage obligations (CMOs). CMOs are limited to the more stable classes; prohibited CMO classes include those where principal and interest components are separated or where leverage is employed;
- Certificates of deposit and term deposits of United States domestic financial institutions provided the institutions meet guidelines set forth in the Resolution; and
- Other money market instruments described in the Resolution.

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

- Debt instruments issued or guaranteed by the U.S. government, its agencies and instrumentalities and GSEs;
- Money market funds and repurchase agreements collateralized by U.S. Treasury and agency securities; and,
- Other investments specifically approved by the board 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, 2011 follows (in thousands):

| | | |
|---|---|---|
| U.S. Treasury | $ | 71,363 |
| U.S. government agency and GSEs | | 15,933 |
| Corporate securities | | 113,047 |
| Mortgage backed securities | | 121,446 |
| Asset backed securities | | 4,040 |
| Municipal bonds | | 8,558 |
| | $ | 334,387 |

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 | | 2011 | 2010 |
|---|---|---|---|---|
| Red Dog Project Sustaining Capital Fund | Project costs | $ | 14,424 | 14,031 |
| Ketchikan Shipyard restricted funds | Project costs | | 4,130 | 3,482 |
| Series 2010B bonds restricted funds | Purchase loan participation and pay bond interest | | 3,305 | — |
| Ketchikan Shipyard Repair and Replacement Account | Project costs | | 1,448 | 1,433 |
| Snettisham Hydroelectric Project Funds | Various costs relating to the project | | 9,535 | 8,813 |
| | | $ | 32,842 | 27,759 |

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will negatively affect the fair value of an investment. The Resolution addresses interest rate risk. The duration of each externally managed fixed income portfolio must be within plus or minus 25% of the duration of the Barclays Capital Aggregate Bond Index (duration is a weighted average term-to-maturity of a bond’s cash flows) for domestic fixed income portfolios and within plus or minus 25% of the Citigroup World Bond Index Ex-US for portfolios permitted to invest in non-U.S. dollar denominated instruments (at June 30, 2011, there were no portfolios investing in non-U.S. dollar denominated instruments). The Authority is in compliance with the requirements of the investment policy regarding the duration of the externally managed fixed income portfolios.

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

The June 30, 2011, 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 | 0.05 | 0.09 |
| U.S. Treasury | 0.50 | 5.43 |
| U.S. government agency and GSEs | 0.19 | 4.04 |
| Corporate securities | — | 5.41 |
| Mortgage backed securities | — | 2.37 |
| Asset backed securities | — | 0.51 |
| Municipal bonds | — | 10.70 |

**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.


(Continued)

The quality ratings of the Authority's Revolving Fund portfolio at June 30, 2011 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 | 9% |
| U.S. government agency and GSEs | AAA | 4 |
| U.S. government agency and GSEs | A | 1 |
| Corporate securities | AAA | 2 |
| Corporate securities | AA | 4 |
| Corporate securities | A | 11 |
| Corporate securities | BBB | 9 |
| 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 | 28 |
| Municipal bonds | A | 2 |
| Asset backed securities | AAA | 1 |
| No credit exposure | | 19 |
| | | 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 $34,000,000 at June 30, 2011, 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.



(Continued)

## Loan Funds

### *Cash and Cash Equivalents*

At June 30, 2011, the carrying amount and bank balance of the Loan Fund's unrestricted cash and cash equivalents was $3,741,000.

### *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 internally managed 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, 2011 follows (in thousands):

| | | Fair value | | | |
|---|---|---|---|---|---|
| **Investment type** | | **Short-term fixed income pool** | **Intermediate-term fixed income pool** | **Unallotted cash** | **Total** |
| Overnight sweep | $ | 19 | — | — | 19 |
| Commercial paper | | 156 | 6 | — | 162 |
| U.S. Treasury bills | | 326 | — | — | 326 |
| U.S. Treasury notes | | — | 1,156 | — | 1,156 |
| U.S. Treasury strip | | — | 1 | — | 1 |
| U.S. government agency | | 38 | 77 | — | 115 |
| U.S. government agency discount note | | 57 | — | — | 57 |
| Mortgage-backed | | 32 | 59 | — | 91 |
| Other asset-backed | | 692 | 28 | — | 720 |
| Corporate bonds | | 690 | 296 | — | 986 |
| Yankees-Corporate | | 14 | 49 | — | 63 |
| Yankees-Government | | — | 13 | — | 13 |
| Total invested assets | | 2,024 | 1,685 | — | 3,709 |
| Unallotted cash | | — | — | 1 | 1 |
| Pool related net assets | | 2 | 29 | — | 31 |
| Net invested assets | $ | 2,026 | 1,714 | 1 | 3,741 |

**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, 2011, the expected average life of individual fixed rate securities ranged from one day to one year and the expected average life of floating rate securities ranged from 8 days to fourteen 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, 2011, was 2.54 years.



(Continued)

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.

The June 30, 2011, effective duration for the Loan Funds Intermediate-term Fixed Income Pool follows:

| | |
|---|---|
| Commercial Paper | 0.05 |
| U.S. Treasury notes | 3.09 |
| U.S. Treasury strip | 6.37 |
| U.S. government agency | 2.65 |
| Corporate securities | 2.01 |
| Yankees-Corporate | 2.28 |
| Yankees-Government | 1.92 |
| Mortgage backed securities | 1.52 |
| Other asset backed securities | 1.08 |
| Pool effective duration | 2.53 |

**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, 2011, 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 | 7% | —% |
| Commercial paper | Not rated | 1 | — |
| Corporate bonds | AAA | 23 | 10 |
| Corporate bonds | AA | 1 | 1 |
| Corporate bonds | A | 3 | 3 |
| Corporate bonds | BBB | — | 1 |
| Corporate bonds | Not Rated | 6 | — |
| Mortgage-backed | AAA | 1 | 3 |
| Other asset-backed | AAA | 31 | 1 |
| Other asset-backed | Not Rated | 4 | — |
| U.S. government agency | AAA | 2 | 4 |
| U.S. government agency discount notes | Not Rated | 3 | 1 |
| U.S. treasury bills | AAA | 16 | — |
| U.S. treasury notes | AAA | — | 62 |
| Yankees: | | | |
| Government | AA | — | 1 |
| Corporate | AAA | — | 1 |
| Corporate | AA | 1 | 1 |
| Corporate | A | — | 1 |
| No credit exposure | | 1 | 10 |
| | | 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 portfolios 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, 2011, 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 | $ | 76,225 | 54 | 20% |
| Federal Home Loan Mortgage Corporation | | 37,456 | 11 | 10 |

## (4) Loans

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

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

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Number** | **Amount** | **Number** | **Amount** |
| Appropriated | 1 | $ 32 | 2 | $ 48 |
| Loan participation: | | | | |
| Bond sale | 1 | 11,982 | — | — |
| Bonds retired | 1 | 767 | 1 | 815 |
| Internally funded | 255 | 420,397 | 241 | 349,918 |
| OREO sale financing | 5 | 21,234 | 6 | 23,844 |
| Purchased loans | 37 | 23,510 | — | — |
| Other | 1 | 2,770 | 1 | 3,032 |
| Revolving Fund loans | 301 | 480,692 | 251 | 377,657 |
| Loan Funds | 98 | 10,384 | 99 | 10,231 |
| | 399 | 491,076 | 350 | 387,888 |
| Less current portion | | (19,199) | | (17,150) |
| | | $ 471,877 | | $ 370,738 |

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Percent** | **Amount** | **Percent** | **Amount** |
| Current | 99.35% | $ 477,564 | 99.11% | $ 374,291 |
| Past due: | | | | |
| 31 – 60 days | 0.59 | 2,826 | 0.17 | 645 |
| Over 90 days | 0.06 | 302 | 0.72 | 2,721 |
| | 100.00% | $ 480,692 | 100.00% | $ 377,657 |

Revolving Fund loans more than 90 days past due, excluding restructured loans, on which the accrual of interest had been discontinued amounted to $302,000 and $2,721,000 at June 30, 2011 and 2010, respectively. Gross interest income, which would have been received on these loans, amounted to $21,000 and $182,000 for the years ended June 30, 2011 and 2010, respectively. The amount of interest income included in the change in net assets was $18,000 and ($30,000) for the years ended June 30, 2011 and 2010, respectively.

There were no Revolving Fund loans on which the terms had been restructured at June 30, 2011 or 2010.



(Continued)

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Percent** | **Amount** | **Percent** | **Amount** |
| Current | 94.2% | $ 9,787 | 96.8% | $ 9,908 |
| Past due: | | | | |
| 31 – 60 days | — | — | 1.8 | 181 |
| 61 – 90 days | 0.1 | 8 | — | — |
| Over 90 days | 5.7 | 589 | 1.4 | 142 |
| | 100.0% | $ 10,384 | 100.0% | $ 10,231 |

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 $589,000 at June 30, 2011. Gross interest income, which would have been received on these loans, amounted to $22,000 for the year ended June 30, 2011. The amount of interest income collected and included in the change in net assets was $9,900 for the year ended June 30, 2011. There were no Loan Funds loans more than 90 days past due, excluding restructured loans, on which the accrual of interest had been discontinued at June 30, 2010.

Loan Funds loans on which the terms had been restructured amounted to $293,000 and $432,000 at June 30, 2011 and 2010, respectively. Gross interest income, which would have been received on these loans, amounted to $23,000 and $37,000 for the years ended June 30, 2011 and 2010, respectively. The amount of interest income included in the change in net assets was $19,000 and $27,000 for the years ended June 30, 2011 and 2010, respectively.

The Loan Funds held OREO totaling $200,000 and $300,000 at June 30, 2011, and 2010, respectively, which is included within other assets in the balance sheet. A $100,000 market value decline was recognized during the year ended June 30, 2011.

## (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 2011 | Total 2010 |
|---|---|---|---|---|
| Balance at beginning of year | $ 8,314 | 686 | 9,000 | 9,301 |
| Provision for loan losses | 1,637 | 138 | 1,775 | (154) |
| Recoveries of loans charged off | 70 | — | 70 | 111 |
| Charge-offs | — | — | — | (258) |
| Adjustment for purchased loans | 705 | — | 705 | — |
| Balance at end of year | $ 10,726 | 824 | 11,550 | 9,000 |

## (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 the end of 2011. Teck Alaska has estimated the Red Dog Mine’s life will extend to 2031, based on reserves at the Aqqaluk and Qanaiyaq Deposits. The Aqqaluk Deposit is adjacent to the Main Deposit and the Qanaiyaq Deposit is nearby.

  In April 2009 the Northwest Arctic Borough (NWAB) requested that AIDEA reconsider negotiating a sale of the Red Dog Project, or negotiate amendments to the existing agreement to allow the Borough to obtain additional revenues to fund public services. In August 2011 the NWAB requested AIDEA share the benefits it receives from the Red Dog Project with the NWAB, consistent with legislation enacted in 2010 (note 1). The AIDEA board has met with Borough representatives and preliminary discussions regarding the issues raised 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. During the year ended June 30, 2011, the user paid off the direct financing lease related to the facility. 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):

| | | 2011 | 2010 |
|---|---|---|---|
| Minimum lease payments receivable | $ | 497,361 | 542,168 |
| Less unearned income | | (281,098) | (297,395) |
| Net investment in direct financing leases | $ | 216,263 | 244,773 |

Future minimum lease payments receivable, including projections of certain variable payments relating to the Red Dog Project, for the fiscal years ending June 30, 2012, through June 30, 2016 are (dollars in thousands):

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| $ | 28,050 | 24,760 | 25,163 | 26,303 | 21,932 |

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

| | | 2011 | 2010 |
|---|---|---|---|
| Federal Express Project | $ | 9,266 | 11,475 |
| Red Dog Project | | 206,997 | 223,858 |
| Skagway Terminal | | — | 9,440 |
| | $ | 216,263 | 244,773 |

***(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.

  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), would purchase the Healy Project for $50 million, and the Authority would loan up to an additional $45 million under a line of credit to bring the plant out of warm layup status, integrate the Healy Project into GVEA's system, and put the Healy Project into operation. The purchase price would be paid over 30 years, and the loan would 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. To obtain those approvals and close the sale, the parties anticipate the probable need to amend certain terms of the existing agreements. Pending final closing of the sale, the litigation between the Authority and GVEA regarding the Healy Project is stayed. Under the power sales agreement between GVEA and Tri-VEC, Tri-VEC will sell to GVEA all power the Healy Project 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 Repair and Replacement (R&R) Account established under the agreement, up to 125% of the amount required under the R&R Project Schedule defined in the agreement. Any remaining funds are to be distributed to the Authority and the local Ketchikan governments; 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 was financed by a grant from the U.S. Economic Development Agency, with the required match and additional funding by the Ketchikan Gateway Borough and the State 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, 2011, 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):

| | | 2011 | 2010 |
|---|---|---|---|
| Healy Project | $ | 43,775 | 45,765 |
| Shipyard | | 43,672 | 35,607 |
| | $ | 87,447 | 81,372 |

Development project activity for the year ended June 30, 2011 follows (in thousands):

| | | Balance at June 30, 2010 | Additions | Deletions | Balance at June 30, 2011 |
|---|---|---|---|---|---|
| Nondepreciable components of development projects | $ | 6,616 | 9,342 | (4,268) | 11,690 |
| Depreciable components of development projects | | 95,992 | 4,268 | — | 100,260 |
| Accumulated depreciation | | (21,236) | (3,267) | — | (24,503) |
| Depreciable components of development projects – net | | 74,756 | 1,001 | — | 75,757 |
| Total development projects | $ | 81,372 | 10,343 | (4,268) | 87,447 |

***(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.

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

| | | 2011 | 2010 |
|---|---|---|---|
| Minimum lease payments receivable | $ | 133,204 | 139,128 |
| Less unearned income | | (56,404) | (60,608) |
| Net investment in direct financing lease | $ | 76,800 | 78,520 |

## (7) Capital Assets

Capital assets are included within noncurrent other assets in the balance sheet. Capital asset activity for the year ended June 30, 2011 follows (in thousands):

| | | Balance at June 30, 2010 | Additions | Balance at June 30, 2011 |
|---|---|---|---|---|
| Capital assets not being depreciated – land | $ | 600 | — | 600 |
| Capital assets being depreciated | | 2,811 | 210 | 3,021 |
| Accumulated depreciation | | (1,300) | (145) | (1,445) |
| Capital assets being depreciated, net | | 1,511 | 65 | 1,576 |
| Total capital assets | $ | 2,111 | 65 | 2,176 |

## (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, 2011):

| | | Balance at June 30, 2010 | Additions | Deletions | Balance at June 30, 2011 | Amounts due within one year |
|---|---|---|---|---|---|---|
| Series 2002A – 4.75% and 5.5%, issued June 20, 2002, maturing through 2014 | $ | 8,110 | — | (1,870) | 6,240 | 1,975 |
| Series 2010A – 4.375% to 5.250% issued February 24, 2010, maturing through 2027 | | 87,105 | — | (6,085) | 81,020 | 6,510 |
| Series 2010B – 3% to 5.5% issued December 22, 2010, maturing through 2031 | | — | 14,470 | — | 14,470 | 465 |
| | $ | 95,215 | 14,470 | (7,955) | 101,730 | 8,950 |

At June 30, 2011, 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.

In December 2010, the Authority issued $14,470,000 of Revolving Fund Bonds to purchase a loan participation under the Loan Participation Program of the Enterprise Development Account. The loan participation finances the construction of a wastewater facility to be used in conjunction with the Goose Creek Corrections Center, a State of Alaska prison. The Authority holds title to the wastewater facility as security to long-term financing provided by purchasing a 100% participation in a bank loan related to the wastewater facility; the project was substantially completed in August 2011 and the final participation purchase was effective September 1, 2011, the date the loan term began.

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2011 are as follows (without considering earlier call provisions) (in thousands):

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2012 | $ 8,950 | 4,761 | 13,711 |
| 2013 | 9,505 | 4,668 | 14,173 |
| 2014 | 10,110 | 4,190 | 14,300 |
| 2015 | 8,465 | 3,694 | 12,159 |
| 2016 | 9,055 | 3,276 | 12,331 |
| 2017 – 2021 | 23,090 | 11,301 | 34,391 |
| 2022 – 2026 | 22,855 | 6,138 | 28,993 |
| 2027 – 2031 | 9,700 | 1,059 | 10,759 |
| | $ 101,730 | 39,087 | 140,817 |

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, 2011, the Authority has estimated that projected future coverage for each future year exceeds 150%. At June 30, 2011, unrestricted Revolving Fund surplus was approximately $999,860,000. 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, 2011, the liquidity requirement was $25,432,500.

In August 1998, the Authority issued $100,000,000 of Power Revenue Bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 5.0% to 6.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. The bonds are insured. In December 1999, the Authority defeased $6,865,000 of the bonds using funds on hand; no defeased bonds remain outstanding at June 30, 2011. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2011 are as follows (without considering earlier call provisions) (in thousands):

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 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 | 2,230 | 3,690 | 5,920 |
| 2017 – 2021 | 13,105 | 16,493 | 29,598 |
| 2022 – 2026 | 16,915 | 12,688 | 29,603 |
| 2027 – 2031 | 21,695 | 7,907 | 29,602 |
| 2032 – 2034 | 16,010 | 1,751 | 17,761 |
| | $ 77,685 | 58,481 | 136,166 |

## (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 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

$486,000, $304,000 and $623,000 for the fiscal years ending June 30, 2011, 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) Related Party – Alaska Energy Authority

Pursuant to understandings and agreements between AIDEA and AEA, AIDEA provides administrative, personnel, data processing, communications, and other services to AEA. AIDEA recognized revenue totaling $5,692,000 and $5,245,000 for providing these services during the years ending June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, AIDEA had $1,671,000 and $1,770,000, respectively, receivable from AEA for services and borrowings.

As discussed in note 4, pursuant to legislation, during the year ended June 30, 2011, AIDEA purchased $24,254,000 of loans from AEA.

## (11) Commitments, Contingencies and Other

### *(a) Investments*

The Authority held approximately $23,578,000 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 $29,400,000 dividend to be paid in the year ending June 30, 2012.

### *(c) Alaska Insurance Guaranty Association*

The Authority has legislative authorization to guarantee loans made to the Alaska Insurance Guaranty Association (Association). The Association pays, from assessments to member insurers, the claims of insurance companies put into liquidation by insurance regulators. Any guarantee is limited to loans necessary to make the Association financially able to meet cash flow needs up to a maximum outstanding principal balance at any time of $30,000,000. No loans have been made pursuant to this authorization.

### *(d) Potential Development Projects*

Potential Development Finance projects are reviewed on a periodic basis as part of the Authority's ongoing economic development mission. Very few of the projects considered by the Authority are ultimately presented to the Authority's Board for approval to conduct formal due diligence. The Authority's Board has approved additional analysis and is currently engaged in due diligence on two projects. Those projects include a fish waste processing plant in Sitka and a road to the Lik zinc deposit. No decision has been made as to participation in either of these projects.

Additionally, the Board has authorized the Authority to invest in a limited liability company that will own a natural gas drilling rig. The Authority signed an agreement to invest up to $30,000,000 in a joint project formed to acquire, modify, and mobilize a specifically identified drilling rig to be used in the Cook Inlet and other Alaska waters if certain conditions are met. The conditions precedent for funding had not been met at June 30, 2011. However, approximately $600,000 at June 30, 2011 had been spent by the Authority in transaction related costs. These costs are included within other assets in the balance sheet.

### *(e) Other Commitments and Contingencies*

AIDEA from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. Additionally, the Authority may be subject to compliance or other audits conducted by the Internal Revenue Service concerning the Authority's tax-exempt bonds. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and guarantees, which are not reflected in the accompanying financial statements. At June 30, 2011, the Authority had extended loan participation purchase commitments of $19,328,000 and loan guarantees of $614,000.

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.


(Continued)

***(f) Risk Management***

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

***(g) Subsequent Event***

On August 5, 2011, Standard & Poor's downgraded its long-term sovereign credit rating on U.S. issued and U.S. backed securities from AAA to AA+. If this event had occurred on or prior to June 30, 2011, the U.S. issued and U.S. backed securities shown as AAA and the securities shown as no credit exposure in note 3 would have been reported with a rating of AA.