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ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Financial Statements

June 30, 2007
(with summarized financial information for June 30, 2006)

(With Independent Auditors' Report Thereon)

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

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AND EXPORT AUTHORITY
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June 30, 2007

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, 2007, with summarized comparative totals at June 30, 2006 and for the year then ended. The Authority conducts the majority of its business and its operations through the Revolving Fund. The Revolving Fund is comprised of the Enterprise Development Account and the Economic Development Account. Further information about the two Accounts is included in note 1 to the basic financial statements. AIDEA has two statutory loan programs, the Small Business Economic Development Revolving Loan Fund Program and the Rural Development Initiative Fund Loan Program (collectively, the Loan Funds), which are administered by the Alaska Department of Commerce, Community and Economic Development. The Loan Funds are not part of the Revolving Fund and are therefore presented separately in the accompanying financial statements.

The financial statements consist of two sections: management's discussion and analysis and the basic financial statements. The Authority's operations are business type activities and follow enterprise fund accounting. The Authority is a component unit of the State of Alaska (the State) and is discretely presented in the State's financial statements. The Authority's basic financial statements include: the Balance Sheet; the Statement of Revenues, Expenses and Changes in Fund 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, 2006 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 Fund 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, 2007. 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, 2007 and 2006 by $898.7 million and $855.6 million, respectively. Of total net assets, $895.6 million (with $883.7 million of that amount in the Revolving Fund) and $863.1 million (of which, $851.9 million was in the Revolving Fund) at June 30, 2007 and 2006, 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, 2007 and 2006 follow (amounts are in thousands):

	2007	2006	Increase (decrease)
Current assets	$ 133,148	112,997	20,151
Capital assets	2,410	2,545	(135)
Other noncurrent assets and restricted assets	1,060,575	1,040,526	20,049
Total assets	$ 1,196,133	1,156,068	40,065
Current liabilities	$ 15,659	13,928	1,731
Noncurrent liabilities and those payable from restricted assets	281,810	286,553	(4,743)
Total liabilities	297,469	300,481	(3,012)
Total net assets	898,664	855,587	43,077
Total liabilities and net assets	$ 1,196,133	1,156,068	40,065

The increase in current assets resulted from an increase in the current portion of loans receivable coupled with an increase in other assets. Loans from two related borrowers, totaling in excess of $17 million, were reclassified from noncurrent to current due to their payoff subsequent to June 30, 2007. The increase at June 30, 2007 in other current assets results from federal and state grants receivable relating to the Ketchikan Shipyard.

The increase in noncurrent assets and restricted assets resulted substantially from an increase in development project and net loan balances, partially offset by a decline in investment securities. Net loan balances were $11.8 million higher at June 30, 2007 than at June 30, 2006. The Authority's Revolving Fund purchased $56.9 million of loan participations and the Loan Funds funded $1.4 million of new loans during the year ended

(Continued)

June 30, 2007. Principal collected on loans decreased loan balances by $34.3 million during the 2007 fiscal year; loan payoffs accounted for more than $17.1 million of the amount collected. Investment balances declined by approximately $4 million as funds were used to purchase new loans. Due to improvements made at the Skagway Ore Terminal and Ketchikan Shipyard, net development project balances increased approximately $12 million; the costs of improvements were partially offset by depreciation and principal collected on development projects accounted for as direct financing leases.

The Authority's Healy Clean Coal Project (Healy Project) had a carrying value of $47 million at June 30, 2007. The Healy Project has been idle since completion of a 90-day test period in December 1999. The Healy Project was initially built to meet projected increasing energy demand, to provide fuel diversity in the Alaska Railbelt (the power-sharing area between Interior Alaska and Southcentral Alaska, connected by roads, generating facilities and transmission lines) electrical grid and to provide a market for otherwise unmarketable waste coal. Management believes the energy needs still exist and the Healy Project can be made operational at a cost resulting in competitively priced power. The Authority and Homer Electric Association are cooperatively working together related to the restart of the Healy Project (see note 6 to the basic financial statements). Management believes that there has been no permanent decline in the value of the Healy Project.

The decline in total liabilities was primarily caused by the scheduled principal payments on bonds during the year of $9.3 million, partially offset by $113 million of new bonds issued to refund $109 million of outstanding bonds and pay costs of issuance.

The $43.1 million increase in net assets during the year ended June 30, 2007, resulted from operating income of $47.5 million, offset by net nonoperating expenses of $4.4 million. Net nonoperating expenses were comprised of the Authority's $16.7 million fiscal year 2007 dividend to the State of Alaska (State), offset by federal and State contributions and grant revenues relating to the Ketchikan Shipyard.

Components of the Authority's operating revenues, operating expenses and nonoperating revenues and expenses for the years ended June 30, 2007 and 2006 follows (in thousands):

		2007	2006	Increase (decrease)
Operating revenues:				
Interest on loans	$	25,535	21,555	3,980
Interest on direct financing leases		16,810	17,055	(245)
Investment interest		17,599	16,016	1,583
Net increase (decrease) in fair value of investments		3,581	(14,113)	17,694
Other income		4,136	5,266	(1,130)
Restricted income		4,522	4,593	(71)
Total operating revenues		72,183	50,372	21,811
Operating expenses:				
Interest		10,757	11,882	(1,125)
General and administrative		8,101	7,796	305
Provision for loan losses		(3,508)	145	(3,653)
Depreciation		1,949	1,949	—
Write-downs and net expenses associated with other assets		—	76	(76)
Other project expenses		2,872	2,964	(92)
Interest on liabilities payable from restricted assets		4,522	4,593	(71)
Total operating expenses		24,693	29,405	(4,712)
Operating income		47,490	20,967	26,523
Nonoperating revenues		12,237	2,426	9,811
Dividend to State of Alaska		(16,650)	(8,812)	(7,838)
Increase in net assets	$	43,077	14,581	28,496

Operating revenues increased $21.8 million during the year ended June 30, 2007 compared to 2006. A net increase in fair value of investment securities of $17.7 million between the two years created the significant change. The Authority recognized a net $3.6 million increase in fair value of investments in 2007 as rates declined at June 30, 2007 compared to June 30, 2006; this compared to a $14.1 million decrease in fair value of investments in 2006 as rates rose and the yield curve flattened over the year.

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Increases in the amount of outstanding loans coupled with changing investment interest rates to increase interest earnings during the year ended June 30, 2007 compared to 2006. Interest on loans increased $4.0 million during the year ended June 30, 2007 compared to the same period in 2006 due to higher loan balances. Interest on investments increased $1.6 million during 2007 compared to 2006 due to higher rates earned during the year.

Operating expenses decreased $4.7 million net in 2007 compared to 2006. Of the total decrease, $3.7 million resulted from the net change in provision for loan losses. The negative provision in 2007 was caused by improvements in certain of the Authority's classified loans. Interest expense decreased $1.1 million in 2007 compared to 2006, due to a lower amount of bonds outstanding. General and administrative costs increased $305,000 in 2007 compared to 2006, mostly due to increased personnel expenses resulting from higher retirement, salary and health insurance costs. Other project expenses were virtually the same during the year ended June 30, 2007 compared to 2006, as the Authority continued to incur costs relating to the restart of the Healy Project.

Nonoperating revenues increased $9.8 million during the year ended June 30, 2007 compared to 2006, resulting from federal, State and local contributions and grant revenues relating to the Ketchikan Shipyard.

The Authority paid a dividend of $16.7 million to the State during the year ended June 30, 2007, compared to $8.8 million during 2006. AIDEA makes available to the State an annual dividend, which by statute is to be determined by AIDEA's board of directors. The dividend must be at a level between 25% and 50% of audited "net income" (as defined in the statute) for the "base year." The "base year" is the fiscal year ending two years before the end of the fiscal year in which the dividend payment is paid. In no case may the dividend exceed base year unrestricted audited "net income". The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.

KPMG

KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

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, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2006 financial statements and, in our report dated October 6, 2006 (with subsequent event note dated October 17, 2006), we expressed an unqualified opinion on the respective financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Authority as of June 30, 2007, 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 25, 2007 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.

(Continued)

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 25, 2007

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

Balance Sheet

June 30, 2007
(With summarized financial information at June 30, 2006)

(In thousands)

Assets	Revolving fund	Loan funds	Total 2007	Total 2006
Current assets:				
Cash and cash equivalents (note 3)	$ 11,942	2,547	14,489	25,238
Investment securities (note 3)	70,914	—	70,914	61,782
Loans (note 4)	29,707	623	30,330	14,441
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	3,855	—	3,855	3,593
Accrued interest receivable	5,752	207	5,959	5,451
Other assets	7,095	506	7,601	2,492
Total current assets	129,265	3,883	133,148	112,997
Noncurrent assets:				
Investment securities (note 3)	260,388	—	260,388	264,350
Loans (note 4)	355,449	9,786	365,235	356,883
Less allowance for loan losses (note 5)	(8,958)	(1,017)	(9,975)	(13,370)
Net loans	346,491	8,769	355,260	343,513
Development projects accounted for as:				
Net investment in direct financing leases (note 6)	266,365	—	266,365	264,715
Development projects (note 6)	63,932	—	63,932	53,537
Other assets (note 7)	7,779	—	7,779	5,283
Restricted assets:				
Cash and cash equivalents (note 3)	2,632	—	2,632	5,080
Investment securities (note 3)	13,342	—	13,342	12,619
Snettisham (note 6):				
Cash and cash equivalents (note 3)	10,129	—	10,129	9,413
Net investment in direct financing leases (note 6)	83,158	—	83,158	84,561
Total noncurrent assets	1,054,216	8,769	1,062,985	1,043,071
Total assets	$ 1,183,481	12,652	1,196,133	1,156,068
Liabilities and Net Assets				
Current liabilities:				
Bonds payable – current portion (note 8)	$ 10,050	—	10,050	9,310
Accrued interest payable	1,378	—	1,378	2,774
Accounts payable	3,423	177	3,600	1,182
Other liabilities	—	631	631	662
Total current liabilities	14,851	808	15,659	13,928
Noncurrent liabilities:				
Bonds payable – noncurrent portion (note 8)	181,965	—	181,965	187,850
Other liabilities	6,558	—	6,558	4,729
	188,523	—	188,523	192,579
Liabilities payable from restricted assets – Snettisham:				
Power revenue bonds payable (note 8)	83,905	—	83,905	85,265
Other	9,382	—	9,382	8,709
Total liabilities	296,661	808	297,469	300,481
Net assets:				
Invested in development projects, net of related debt	(1,802)	—	(1,802)	(14,788)
Invested in capital assets	2,410	—	2,410	2,545
Restricted contributions	2,473	—	2,473	4,723
Unrestricted	883,739	11,844	895,583	863,107
Total net assets	886,820	11,844	898,664	855,587
Commitments and contingencies (notes 1, 9, and 10)				
Total liabilities and net assets	$ 1,183,481	12,652	1,196,133	1,156,068

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 Fund Net Assets

Year ended June 30, 2007
(With summarized financial information for the year ended June 30, 2006)

(In thousands)

	Revolving fund	Loan funds	Total 2007	Total 2006
Operating revenues:				
Interest on loans (note 4)	$ 25,089	446	25,535	21,555
Interest on direct financing leases (note 6)	16,810	—	16,810	17,055
Interest on Snettisham restricted direct financing lease (note 6)	4,522	—	4,522	4,593
Investment interest	17,599	—	17,599	16,016
Net increase (decrease) in fair value of investments	3,581	—	3,581	(14,113)
Other income	4,111	24	4,135	4,520
Federal grants	—	—	—	735
Other project income	1	—	1	11
Total operating revenues	71,713	470	72,183	50,372
Operating expenses:				
Interest	10,757	—	10,757	11,882
Interest on Snettisham liabilities payable from restricted assets (note 8)	4,522	—	4,522	4,593
General and administrative	8,014	87	8,101	7,796
Provision for loan losses	(3,674)	166	(3,508)	145
Write-downs and net expenses associated with other assets	—	—	—	76
Depreciation	1,949	—	1,949	1,949
Other project expenses	2,872	—	2,872	2,964
Total operating expenses	24,440	253	24,693	29,405
Operating income	47,273	217	47,490	20,967
Nonoperating revenues (expenses):				
Contributions from primary government	5,680	326	6,006	675
Contributed capital	1,886	—	1,886	1,184
Capital grant	3,893	—	3,893	459
Investment interest	162	120	282	223
Net revenues (expenses) related to Ketchikan Shipyard Repair and Replacement Fund	170	—	170	(115)
Dividend to State of Alaska	(16,650)	—	(16,650)	(8,812)
Net nonoperating revenues (expenses)	(4,859)	446	(4,413)	(6,386)
Increase in net assets	42,414	663	43,077	14,581
Net assets – beginning of year	844,406	11,181	855,587	841,006
Net assets – ending of year	$ 886,820	11,844	898,664	855,587

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, 2007
(With summarized financial information for the year ended June 30, 2006)

(In thousands)

	Revolving fund	Loan funds	Total 2007	Total 2006
Cash flows from operating activities:				
Interest received on loans	$ 24,930	439	25,369	21,168
Receipts from borrowers	1,292	—	1,292	1,697
Principal collected on loans	33,353	949	34,302	31,298
Other operating receipts	4,948	—	4,948	3,995
Loans originated	(56,928)	(1,387)	(58,315)	(63,481)
Payments to suppliers and employees for services	(8,942)	(3)	(8,945)	(9,291)
Payments to primary government	(1,205)	(105)	(1,310)	(1,155)
Other operating payments	(728)	—	(728)	(821)
Net cash used by operating activities	(3,280)	(107)	(3,387)	(16,590)
Cash flows from noncapital and related financing activities:				
Transfers from primary government	—	326	326	675
Dividend paid to the State of Alaska	(16,650)	—	(16,650)	(8,812)
Interest paid on noncapital debt	—	—	—	(25)
Operating loans collected from (paid to) the Alaska Energy Authority, net	(135)	—	(135)	121
Principal paid on noncapital debt	—	—	—	(525)
Net cash provided (used) by noncapital and related financing activities	(16,785)	326	(16,459)	(8,566)
Cash flows from capital and related financing activities:				
Net proceeds from bond refunding	109,666	—	109,666	—
Direct financing lease receipts	20,650	—	20,650	20,898
Direct financing lease receipts – Snettisham	5,925	—	5,925	5,933
Federal grant receipts	1,917	—	1,917	—
Restricted contributions for development projects	1,055	—	1,055	1,159
Capital appropriation – State of Alaska	1,000	—	1,000	—
Other receipts from capital and financing activities	304	—	304	286
Principal paid on capital debt	(118,240)	—	(118,240)	(8,825)
Interest paid on capital debt	(11,559)	—	(11,559)	(11,585)
Investment in development projects	(8,111)	—	(8,111)	(444)
Interest paid on capital debt – Snettisham	(4,559)	—	(4,559)	(4,627)
Net investment in direct financing lease	(3,481)	—	(3,481)	—
Principal paid on capital debt – Snettisham	(1,360)	—	(1,360)	(1,295)
Costs of issuance relating to bond refunding	(432)	—	(432)	—
State of Alaska capital appropriation held by others	(971)	—	(971)	—
Net cash provided (used) by capital and related financing activities	(8,196)	—	(8,196)	1,500
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	232,477	—	232,477	192,282
Purchases of investment securities	(234,789)	—	(234,789)	(188,885)
Interest and dividends collected on investments	17,452	120	17,572	16,104
Distribution from limited partnership investment	301	—	301	—
Net proceeds from sales of other real estate owned	—	—	—	1,116
Net cash provided by investing activities	15,441	120	15,561	20,617
Net increase (decrease) in cash and cash equivalents	(12,820)	339	(12,481)	(3,039)
Cash and cash equivalents at beginning of year	37,523	2,208	39,731	42,770
Cash and cash equivalents at end of year	$ 24,703	2,547	27,250	39,731

ALASKA INDUSTRIAL DEVELOPMENT
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Statement of Cash Flows

Year ended June 30, 2007
(With summarized financial information for the year ended June 30, 2006)

(In thousands)

	Revolving fund	Loan funds	Total 2007	Total 2006
Reconciliation of operating income to net cash used by operating activities:				
Operating income	$ 47,273	217	47,490	20,967
Adjustments to reconcile operating income to net cash used by operating activities:				
Principal collected on loans	33,353	949	34,302	31,298
Loans originated	(56,928)	(1,387)	(58,315)	(63,481)
Investment interest income	(17,599)	—	(17,599)	(16,016)
Amortization of unearned income on direct financing leases	(16,810)	—	(16,810)	(17,055)
Amortization of unearned income on direct financing lease – Snettisham	(4,522)	—	(4,522)	(4,593)
Bond interest expense	10,173	—	10,173	11,480
Bond interest expense – Snettisham	4,522	—	4,522	4,593
Provision for loan losses	(3,674)	166	(3,508)	145
Depreciation	1,949	—	1,949	1,949
Net (increase) decrease in fair value of investments	(3,581)	—	(3,581)	14,113
Write-downs and net gain on sale of other assets	—	—	—	(308)
Increase (decrease) in accrued interest receivable and other assets	1,125	(61)	1,064	(460)
Increase in accounts payable and other liabilities	1,439	9	1,448	778
Net cash used by operating activities	$ (3,280)	(107)	(3,387)	(16,590)
Noncash investing, capital and financing activities:				
Contributed assets received for development project (note 6(b))	$ 4,116	—	4,116	—
Net increase (decrease) in fair value of investments	3,581	—	3,581	(14,113)
Increase in accounts payable for direct financing lease additions	2,168	—	2,168	—
Increase in accounts payable for development project additions	117	—	117	—

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 the general prosperity of the people of Alaska, to relieve problems of unemployment and to create additional employment by providing various means of financing and facilitating the financing of industrial, manufacturing, export and business enterprises, and other facilities within the State. AIDEA has various powers that support its economic development mission, including, but not limited to, the ability to adopt regulations, to acquire ownership interests in projects, to lease projects, to issue bonds, and to acquire and manage projects. AIDEA conducts the majority of its business through its Revolving Fund, established pursuant to legislation, and considers this its major fund. The Authority's Revolving Fund has two main programs under which it transacts business, as more fully described below under the headings "Enterprise Development Account" and "Economic Development Account". AIDEA has two smaller programs (Loan Funds), the Small Business Economic Development Revolving Loan Fund Program and the Rural Development Initiative Fund Loan Program that are not part of the Revolving Fund. The Loan Funds are included in a separate column within the accompanying financial statements.

(a) Enterprise Development Account

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

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

(b) Economic Development Account

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

- DeLong Mountain Transportation System (Red Dog Project). This project consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog mine, the world's largest zinc producer, located in the DeLong Mountains in northwestern Alaska. The Red Dog Project was financed with Authority funds and bond financings, including $150,000,000 of general obligation bonds issued in March 1997, which refunded outstanding revenue bonds and provided construction funds. The issue was refunded in February 2007 with the issuance of $113,095,000 of variable rate bonds.

- Skagway Ore Terminal (Skagway Terminal). This project is a public-use ore terminal port facility in Skagway, Alaska. The Skagway Terminal was financed by a $25,000,000 bond issue completed in December 1990; all remaining outstanding bonds were called in April 2002. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds. Improvements are currently being made to the facility, financed with Authority funds.
- Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Ted Stevens Anchorage International Airport. The Federal Express Project was partially financed by a $28,000,000 bond issue completed in September 1992; the issue was refunded in June 2002.
- Healy Clean Coal Project (Healy Project). This project is a coal-fired power plant located near Healy, Alaska. The Authority received a $25,000,000 state legislative appropriation and $117,327,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program to assist in financing the Healy Project. In May 1998, $85,000,000 of bonds were issued to refund $85,000,000 of Variable Rate Revolving Fund Bonds originally issued in July 1996, the proceeds of which were used to finance a portion of the Healy Project construction cost.
- Ketchikan Shipyard (Shipyard). Ownership of the Shipyard, located in Ketchikan, Alaska, was transferred to the Authority in July 1997, under an agreement between the Authority and the State Department of Transportation and Public Facilities. A second shiplift financed by a $5,000,000 federal grant and matching state and local contributions is currently in the construction phase. Additional improvements have been completed or are planned using appropriations and grants secured for the Shipyard.
- Snettisham Hydroelectric Project (Snettisham). This project, located in southeast Alaska near Juneau, was acquired from the Alaska Power Administration, a federal agency, in August 1998. The Authority issued $100,000,000 of revenue bonds to purchase the project and provide funds for the purchase and installation of a submarine cable system (which has been completed). The Authority has agreements with Alaska Electric Light and Power (AEL&P), the sole Juneau electric utility, that provide for the sale of the project’s entire electrical capability to AEL&P, require AEL&P to operate and maintain the project, and provide an option for the purchase of the project.

Proposed own-and-operate projects for which the Legislature has authorized the issuance of bonds are:

- The Authority has $55,000,000 of remaining authorization (from an original $85,000,000 authorization) to issue bonds to finance the acquisition, design, and construction of aircraft maintenance/air cargo/air transport support facilities located at Ted Stevens Anchorage International Airport.

- The Authority has bonding authorization of $50,000,000 for a bulk commodity loading and shipping terminal to be located within Cook Inlet to be owned by the Authority.
- The Authority has bonding authorization of $50,000,000 for a facility to be constructed in Anchorage for the offloading, processing, storage, and transloading of seafoods. The Authority purchased Alaska Seafood International in 1999 and sold it in 2005; no issuance of bonds is anticipated.
- The Authority has bonding authorization of $20,000,000 to finance the acquisition, design, and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. The Kodiak launch complex was constructed with other financing and the Authority currently does not anticipate that it will participate in financing the projects.
- The Authority has bonding authorization of $80,000,000 to finance the expansion, improvement and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by the Authority.
- The Authority has bonding authorization of $30,000,000 to finance improvement and expansion of the Nome port facilities to be owned by the Authority. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of $25,000,000 to finance the development of Hatcher Pass, located in the Matanuska-Susitna Borough. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of $20,000,000 to finance the acquisition, development, improvement and construction of port and related facilities on Lynn Canal in Southeast Alaska, to be owned by the Authority.

(c) Revenue Bond Program

The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction for facilities owned by third parties. Stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable only out of revenues derived from the financing of projects or the private businesses for which the projects are financed. The Authority is specifically authorized to issue revenue bonds to finance the construction of power transmission interties to be owned by electric utilities in a collective amount not to exceed $185,000,000; no bonds under this authorization have been issued. As of June 30, 2007, the Authority had issued revenue bonds for 309 projects (not including bonds issued to refund other bonds). At June 30, 2007, the outstanding principal amount of revenue bonds issued after July 1, 1995 was $439,354.000. The aggregate amount outstanding for the remaining revenue bonds, which were issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled $616,000,000 (not including bonds issued to refund other bonds).

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

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

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

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

(e) Alaska Energy Authority

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting – Enterprise Fund Accounting

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

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

(b) Cash and Cash Equivalents

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

(c) Investments

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

(d) Loans and Related Interest Income

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

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

(e) Net Investment in Direct Financing Leases

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

(f) Development Projects

The Authority's development projects are carried at cost, net of depreciation, adjusted for permanent impairments of value. The Authority begins depreciation on development projects when they are available for use. In addition, the Authority recognizes impairment losses for development projects whenever the fair value of the asset has declined below the carrying value and the decline is determined to be permanent in nature. The Authority considers development project activity, except for expenses payable from restricted assets, including impairments, if any, to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses, and changes in fund net assets.

(g) Other Real Estate Owned

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

(h) Allowance for Loan Losses

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

(i) Allowance for Lease Receivables

The allowance for lease receivables represents management's judgment as to the amount required to absorb potential unrealizable direct financing lease receivables. The factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 2007.

(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, 2007, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

(k) Appropriations and Grants

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

(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, 2006, 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, 2007 follows (in thousands):

Restricted	$	2,632
Unrestricted		11,942
Carrying amount	$	14,574
Bank balance	$	14,263

Investment Securities

General – Investment Policies, Portfolio Information and Restrictions

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

Under the Resolution, the following securities are eligible for investment by the external money managers:

- Debt instruments issued or guaranteed by the U.S. government, its agencies and instrumentalities and Government Sponsored Enterprises (GSEs);
- Dollar-dominated debt instruments that have been issued by domestic and nondomestic entities;
- Mortgage-backed securities issued or guaranteed by Federal agencies or GSEs;
- Asset backed securities, including collateralized mortgage backed securities and collateralized mortgage obligations (CMOs). CMOs are limited to the more stable classes; prohibited CMO classes include those where principal and interest components are separated or where leverage is employed;
- Certificates of deposit and term deposits of United States domestic financial institutions provided the institutions meet guidelines set forth in the Resolution; and
- Other money market instruments described in the Resolution.

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

- Debt instruments issued or guaranteed by the U.S. government, its agencies and instrumentalities and GSEs;
- Money market funds and repurchase agreements collateralized by U.S. Treasury and agency securities; and,
- Other investments specifically approved by the board of directors.

Snettisham project investments are subject to the investment guidelines provided in the Snettisham Power Revenue Bond Resolution. The guidelines dictate investments be made at the direction of the Authority and specify allowable investment type and quality, but not duration, other than requiring moneys to be available when needed.

The Revolving Fund portfolio, organized by major investment type at June 30, 2007 follows (in thousands):

U.S. Treasury	$	87,850
U.S. government agency and GSEs		33,306
Corporate securities		75,673
Mortgage backed securities		140,646
Asset backed securities		4,453
GSEs – Discount notes		2,716
	$	344,644

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

	Allowable usage		2007	2006
Debt service accounts	Funds held for future debt service – bonds	$	435	19
Red Dog Project Sustaining Capital Fund	Project costs		12,992	12,688
Ketchikan Shipyard restricted contribution	Project costs		1,693	4,060
Ketchikan Shipyard Repair and Replacement Account	Project costs		854	932
Snettisham Hydroelectric Project Funds	Various costs relating to the project		10,129	9,413
		$	26,103	27,112

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 Lehman Aggregate Bond Index (duration is a weighted average term-to-maturity of a bond’s cash flows). The Authority is in compliance with the requirements of the investment policy regarding the duration of the externally managed fixed income portfolio.

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

(Continued)

The June 30, 2007, 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	0.11	0.25
U.S. Treasury	0.49	4.16
U.S. government agency and GSEs	0.52	3.81
Corporate securities	—	6.37
Mortgage backed securities	—	3.66
Asset backed securities	—	0.23
GSEs – Discount notes	0.26	—

Credit Risk

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

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

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

The quality ratings of the Authority's Revolving Fund portfolio at June 30, 2007 are stated in the table below as a percentage of the total portfolio. U.S. Treasury securities and securities of agencies and corporations explicitly guaranteed by the U.S. government are not considered to have credit risk and are reported as such in the table. Ratings used are S&P's rating scale unless rated lower by Moody's, in which case Moody's is used. Rate modifiers are not disclosed.

Investment type	Rating	Percentage of total
Money market	AAA	5%
U.S. government agency and GSEs	AAA	7
U.S. government agency and GSEs	AA	1
U.S. government agency and GSEs	A	1
U.S. government agency and GSEs*	A	1
GSEs – Discount notes	Not rated	1
Corporate securities	AAA	1
Corporate securities	AA	4
Corporate securities	A	8
Corporate securities	BBB	6
Corporate securities*	A	1
Corporate securities*	Baa	1
Mortgage backed securities	AAA	3
Mortgage backed securities*	Aaa	1
Mortgage backed securities (issued by GSEs)	Not rated	34
Asset backed securities	AAA	1
No credit exposure		24
		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 $24,000,000 at June 30, 2007, are held in money market funds. All other investment securities in the Revolving Fund are registered in the Authority's name and are held by its custodian, the trust department of a commercial bank; therefore no custodial credit risk exists for these securities.

Loan Funds

Cash and Cash Equivalents

At June 30, 2007, the carrying amount and bank balance of the Loan Fund's unrestricted cash and cash equivalents was $2,547,000.

Investment Securities

General – Investment Policies and Portfolio Information

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

The Loan Fund's share of pooled investments, organized by major investment type at June 30, 2007 follows (in thousands):

	Fair value			
Investment type	**Short-term fixed income pool**	**Intermediate-term fixed income pool**	**Unallotted cash**	**Total**
Overnight sweep account	$ 7	—	—	7
Commercial paper	107	—	—	107
Short-term Investment Fund	48	158	—	206
U.S. Treasury	—	475	—	475
U.S. Government Agency	—	415	—	415
Mortgage-backed	82	217	—	299
Other asset-backed	591	58	—	649
Corporate bonds	307	140	—	447
Yankees-Corporate	65	48	—	113
Yankees-Government	—	18	—	18
Total invested assets	1,207	1,529	—	2,736
Unallotted cash	—	—	8	8
Pool related net assets (liabilities)	4	(201)	—	(197)
Net invested assets	$ 1,211	1,328	8	2,547

(Continued)

Interest Rate Risk

Interest rate risk for the Short-term Fixed Income Pool is governed by Treasury's investment policy. The policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life and floating rate securities are limited to three years in maturity or expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2007, the expected average life of individual fixed rate securities ranged from four days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to 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, 2007 was 2.24 years.

The June 30, 2007, weighted average effective duration for the Loan Funds Intermediate-term Fixed Income Pool follows:

U.S. Treasury	2.41
U.S. government agency	1.76
Corporate securities	2.73
Yankees-Corporate	3.58
Yankees-Government	4.29
Mortgage backed securities	3.10
Other asset backed securities	1.56
Pool effective duration	1.93

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

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

Credit Risk

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

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

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

The quality ratings of the Loan Funds portfolio's at June 30, 2007 are stated in the table below as a percentage of the total portfolio. U.S. Treasury securities and securities of agencies and corporations that are explicitly guaranteed by the U.S. government are not considered to have credit risk and are reported as such in the table. Ratings used are S&P's rating scale. Rate modifiers are not disclosed.

Investment type	Rating	Short-term fixed income pool	Intermediate-term fixed income pool
Overnight sweep account	Not rated	1%	—%
Short-term investment account	Not rated	4	—
Commercial paper	AA	2	—
Commercial paper	A	3	—
Commercial paper	Not rated	4	—
U.S. government agency discount notes	Not rated	—	12
U.S. government agency	AAA	—	31
Mortgage-backed	AAA	7	15
Mortgage-backed (agency)	Not rated	—	2
Other asset-backed	AAA	41	2
Other asset-backed	AA	1	—
Other asset-backed	A	6	1
Other asset-backed	Not rated	1	1
Corporate bonds	AAA	2	1
Corporate bonds	AA	15	4
Corporate bonds	A	8	3
Corporate bonds	BBB	—	3

 (Continued)

Investment type	Rating	Short-term fixed income pool	Intermediate-term fixed income pool
Yankees:			
Government	AAA – BBB	—%	1%
Corporate	AAA	—	2
Corporate	AA	3	1
Corporate	A	2	—
No credit exposure		—	21
		100%	100%

Revolving Fund and Loan Funds

Concentration of Credit Risk

The risk of loss attributed to the magnitude of the Authority's investment in a single issuer is concentration of credit risk. The Authority's Revolving Fund exposure to concentration risk is managed through the Resolution and bond resolutions. The Resolution limits the exposure of each portfolio to any one issuer, other than securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or GSEs, or collateralized by securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or GSEs to 5% of the market value of the portfolio at the time of purchase. Other than securities issued or guaranteed by the U.S. government, its agencies or instrumentalities or GSEs, the Authority had no holdings in a single issuer that exceeded 5% of the market value of the portfolios.

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

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

At June 30, 2007 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	$ 96,983	342	26%
Federal Home Loan Mortgage Corporation	51,077	643	14

(4) Loans

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

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

	2007		2006	
	Number	**Amount**	**Number**	**Amount**
Appropriated	26	$ 328	43	$ 601
Loan participation:				
Bonds retired	14	2,595	22	5,110
Internally funded	263	357,488	249	330,764
OREO sale financing	8	24,745	10	24,993
Revolving Fund loans	311	385,156	324	361,468
Loan Funds	98	10,409	89	9,856
	409	395,565	413	371,324
Less current portion		(30,330)		(14,441)
		$ 365,235		$ 356,883

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

	2007		2006	
	Number	**Amount**	**Number**	**Amount**
Current	98.85%	$ 380,729	99.67%	$ 360,262
Past due:				
31–60 days	0.01	47	0.17	620
61–90 days	0.62	2,399	—	3
Over 90 days	0.52	1,981	0.16	583
	100.00%	$ 385,156	100.00%	$ 361,468

Revolving Fund loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest had been discontinued amounted to $1,981,000 and $583,000 at June 30, 2007 and 2006, respectively. Gross interest income, which would have been received on these loans, amounted to $159,000 and $43,000 for the years ended June 30, 2007 and 2006, respectively. The amount of interest income included in the change in net assets was $87,000 and $19,000 for the years ended June 30, 2007 and 2006, respectively.

(Continued)

There were no Revolving Fund loans at June 30, 2007 and 2006 on which the terms had been restructured.

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

	2007		2006	
	Number	Amount	Number	Amount
Current	93.53%	$ 9,736	97.51%	$ 9,611
Past due over 90 days	6.47	673	2.49	245
	100.00%	$ 10,409	100.00%	$ 9,856

There were no Loan Funds loans at June 30, 2007 which are more than 90 days past due, excluding restructured loans, on which the accrual of interest had been discontinued. At June 30, 2006, there were $210,000 of Loan Funds loans more than 90 days past due, excluding restructured loans, on which the accrual of interest had been discontinued. Gross interest income, which would have been received on these loans, amounted to $11,000 for the year ended June 30, 2006. The amount of interest income collected and included in the change in net assets was $11,000 for the year ended June 30, 2006.

Loan Funds loans on which the terms had been restructured amounted to $1,025,000 and $1,055,000 at June 30, 2007 and 2006, respectively. Gross interest income, which would have been received on these loans, amounted to $33,500 and $33,000 for the years ended June 30, 2007 and 2006, respectively. The amount of interest income collected and included in the change in net assets was $21,500 and $10,000 for the years ended June 30, 2007 and 2006, respectively.

(5) Allowance for Loan Losses

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

	Revolving fund	Loan funds	Total 2007	Total 2006
Balance at beginning of year	$ 12,519	851	13,370	14,125
Provision for loan losses	(3,674)	166	(3,508)	145
Recoveries of loans charged off	113	—	113	119
Charge-offs	—	—	—	(1,019)
Balance at end of year	$ 8,958	1,017	9,975	13,370

(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.

  On June 2, 2006, the Mayor of the Northwest Arctic Borough (the Borough) sent a letter to then-Governor Murkowski, including a proposal under which the Borough would acquire ownership of the Red Dog Project. The terms of the proposal provide, in general, that the Borough would issue its revenue bonds in order to provide for the defeasance and redemption of the Revolving Fund bonds related to the Red Dog Project. The Authority provided an informal response on June 22, 2006, and staff of the Authority met with Governor Murkowski and representatives of the Borough on August 14, 2006. The Authority raised a number of issues, *e.g.*, whether it is in the best interests of the State, the Authority and the Red Dog Project to pursue a transfer and, if so, the proper method of the valuation of the Red Dog Project and fair pricing of the Red Dog Project assets. On January 16, 2007, Authority staff met with representatives of the Borough to further discuss the Borough's proposal. Although a transfer, if consummated under the terms of the Borough's original proposal, would have a negative impact on annual cash flow and the financial position of the Authority, the Authority does not have any reason to believe that those terms, initially proposed, will be the terms, if any, finally agreed upon.

- In January 2007, AIDEA entered into a facilities user agreement for ore storage and loading with a Canadian mining company to use a portion of the Skagway Terminal for shipment of bulk mine products. Construction of improvements was in process at June 30, 2007. Limited use of the facility began subsequent to year-end. 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, are (in thousands):

		2007	2006
Minimum lease payments receivable	$	614,339	629,237
Less unearned income		(344,119)	(360,929)
Net investment in direct financing leases	$	270,220	268,308

Future minimum lease payments receivable for the fiscal year ending June 30, 2008 is $20,402,000 and is $20,650,000 for each of the four succeeding fiscal years, ending June 30, 2009, through June 30, 2012. The Skagway Terminal improvements are currently in the construction phase; payments under the facilities user agreement will not be known until project completion, therefore, they are not included in the forecasted payments.

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

		2007	2006
Federal Express Project	$	17,122	18,769
Red Dog Project		247,346	249,539
Skagway Terminal		5,752	—
	$	270,220	268,308

(b) Development Projects

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

  In March 2000, GVEA and the Authority entered into a settlement agreement regarding the Healy Project litigation. The settlement agreement provided for the interim shutdown of the Healy Project, which is now maintained in custodial status by the Authority. The settlement agreement further provided terms of partial financial assistance under which GVEA, if it elected to proceed, could either retrofit the plant to conventional combustor technology or operate the Healy Project under existing systems. The settlement agreement also provided that if GVEA elected not to proceed, that the Authority could place the Healy Project into operation, and GVEA would execute a land lease and “such agreements as are necessary and appropriate to provide the Authority a full opportunity to maximize the economic utility of [the Healy Project], recognizing GVEA's desire and necessity to retain the beneficial use of Healy #1." In April 2003, GVEA elected to not proceed and terminated the PSA.

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

In November 2005, the Authority brought suit against GVEA, alleging various breaches of the March 2000 settlement agreement related to the Healy Project. GVEA filed an answer which asserted counter claims against AIDEA for damages. GVEA successfully moved to stay the litigation pending mediation over disputed issues, including disputes over a land lease and other agreements necessary and appropriate to provide the Authority a full opportunity to maximize the economic utility of the Healy Project. The court mandated mediation is ongoing.

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

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

AIDEA and HEA have entered agreements under which HEA will assume responsibility for managing work required for restart, and under which HEA will operate and maintain the Healy Project and market or purchase power generated by it after restart. Accordingly, management believes that there has been no permanent decline in the value of the Healy Project.

- On October 17, 2005, the Authority entered into an amended and restated operating agreement for the Shipyard with the current operator, Alaska Ship and Drydock. The agreement provides for a ten-year term beginning December 1, 2005, with two ten-year extensions possible. Payments under the agreement are based on a percentage of revenue and will be applied first to reimburse the Authority for administrative costs up to $18,000 annually, adjusted for inflation; and then to the R&R Account established under the agreement, up to 125% of the amount required under the R&R Project Schedule defined in the agreement. Any remaining funds will be distributed to the Authority and the local Ketchikan governments; the Authority has no current projection of when, if ever, any distribution might be received.

A second shiplift is currently in the construction phase and is financed by a grant from the U.S. Economic Development Agency, with the required match and additional funding by the Ketchikan Gateway Borough and the State of Alaska. Additional grants and appropriations have been authorized to complete additional work related to further development of the Shipyard, including $42.5 million of federal funds (required match to be provided from other sources), subject to final appropriation. The local Ketchikan governments contributed advanced funds, land and engineering services to the development project. Additionally, the State Department of Transportation and Public Facilities contributed $4.1 million in design, engineering and construction services during the year ended June 30, 2007, some of which was funded from available federal funding.

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

		2007	2006
Healy Clean Coal Project	$	46,968	48,774
Ketchikan Shipyard		16,964	4,763
	$	63,932	53,537

Development project activity for the year ended June 30, 2007 follows (in thousands):

		Balance at June 30, 2006	Additions	Deletions/ transfers	Balance at June 30, 2007
Nondepreciable component of development projects	$	3,324	12,344	—	15,668
Depreciable components of development projects		68,159	—	(6,154)*	62,005
Accumulated depreciation		(17,946)	(1,949)	6,154*	(13,741)
Depreciable components of development projects – net		50,213	(1,949)	—	48,264
Total development projects	$	53,537	10,395	—	63,932

* Represents transfer of Skagway Terminal to direct financing leases resulting from the January 2007 facilities user agreement.

(Continued)

(c) Restricted Direct Financing Lease

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

(7) Capital Assets

Capital asset activity for the year ended June 30, 2007 follows (in thousands):

	Balance at June 30, 2006	Additions	Balance at June 30, 2007
Capital assets not being depreciated – land	$ 600	—	600
Capital assets being depreciated	2,698	—	2,698
Accumulated depreciation	(753)	(135)	(888)
Capital assets being depreciated, net	1,945	(135)	1,810
Total capital assets	$ 2,545	(135)	2,410

(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, 2007):

	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007	Amounts due within one year
Revolving Fund Bonds:					
Series 1997A – issued March 27, 1997, defeased February 22, 2007	$ 114,115	—	114,115	—	—
Revolving Fund Refunding Bonds:					
Series 1998A – 5.2% and 5.25%, issued May 14, 1998, maturing through 2023	68,325	—	2,590	65,735	2,725
Series 2002A – 4.0% to 5.5%, issued June 20, 2002, maturing through 2014	14,720	—	1,535	13,185	1,615
Series 2007A&B Variable rate bonds, issued February 22, 2007, maturing through 2027	—	113,095	—	113,095	5,710
	$ 197,160	113,095	118,240	192,015	10,050

At June 30, 2007, all Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. All bonds are further secured by bond insurance. Certain of the bonds are callable prior to scheduled maturity. The Series 2007A&B bonds are variable rate bonds. Rates are set daily by each remarketing agent. A rate of 4.13% is used in the following table to calculate interest to maturity. This rate is based on the established rates at June 30, 2007.

In February 2007, the Authority issued $113,095,000 of variable rate Revolving Fund Refunding Bonds for purposes of refunding and defeasing $108,930,000 of Series 1997A Revolving Fund Bonds; an additional $5,185,000 of the Series 1997A bonds were defeased using Authority funds. The defeased bonds were called in April 2007. The refunding resulted in aggregate debt service payments over the next twenty years in a total amount approximately $15,000,000 less than the debt service payments which would have been due on the refunded bonds. There was an economic gain of approximately $11,600,000, which is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate.

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2007 are as follows (without considering earlier call provisions) (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2008	$	10,050	8,024	18,074
2009		10,605	8,340	18,945
2010		11,185	7,857	19,042
2011		11,800	7,337	19,137
2012		12,455	6,797	19,252
2013-2017		66,195	25,043	91,238
2018-2022		41,675	12,344	54,019
2023-2027		28,050	3,166	31,216
	$	192,015	78,908	270,923

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, 2007, the Authority has estimated that projected future coverage for each future year exceeds 150%. At June 30, 2007, unrestricted Revolving Fund surplus was approximately $836,909,000. The Authority is also required by Revolving Fund Bond Resolution covenants to maintain 25% of the unrestricted surplus requirement described above in cash and U.S. Treasury securities maturing within one year. At June 30, 2007, the liquidity requirement was $48,003,750.

In August 1998, the Authority issued $100,000,000 of Power Revenue Bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.85% to 6.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. The bonds are insured by Ambac Assurance Corporation. In December 1999, the Authority defeased $6,865,000 of the bonds using funds on hand; $6,190,000 of the defeased bonds remain outstanding at June 30, 2007. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2007 are as follows (without considering earlier call provisions) (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2008	$	1,440	4,485	5,925
2009		1,520	4,405	5,925
2010		1,590	4,332	5,922
2011		1,670	4,254	5,924
2012		1,770	4,154	5,924
2013-2017		10,540	19,055	29,595
2018-2022		13,810	15,792	29,602
2023-2027		17,765	11,834	29,599
2028-2032		22,850	6,755	29,605
2033-2034		10,950	891	11,841
	$	83,905	75,957	159,862

(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 percent of their annual salaries to PERS. Tier IV employees are required to contribute 8 percent of their annual salaries to PERS. The Authority contributed a matching 22.65 percent to the PERS system for the benefit of each Tier I-III employee during the year ended June 30, 2007. The Authority contributed a matching 5 percent to the PERS system for the benefit of each Tier IV employee during the year ended June 30, 2007.

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 percent of their annual salaries to SBS, and the Authority contributes a matching 6.13 percent to the plan for the benefit of each employee, up to a specified maximum each year.

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

		Pension	OPEB	Total
Annual Required Contribution	$	669	471	1,140
Interest on Net Pension Obligation (NPO)		42	29	71
Amoritization adjustment		(33)	(22)	(55)
Annual pension/OPEB cost		678	478	1,156
Contributions made		(495)	(349)	(844)
Increase in NPO/OPEB cost		183	129	312
NPO/OPEB obligation, June 30, 2006		515	352	867
NPO/OPEB obligation, June 30, 2007	$	698	481	1,179

(10) Commitments, Contingencies and Other

(a) Investments

At June 30, 2007, the Authority held approximately $3,000 of borrower and participating lender money, which had not yet been remitted or applied. Additionally, the Authority was the administrator of grant funds and held approximately $39,600,000 of investments which were returned to the state general fund during the fiscal year ending June 30, 2007. The Authority held approximately $23,901,000 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 $10,000,000 dividend for the year ending June 30, 2008.

(c) Alaska Insurance Guaranty Association

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

(d) Other Commitments and Contingencies

AIDEA from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and guarantees, which are not reflected in the accompanying financial statements. At June 30, 2007, the Authority had extended loan commitments of $27,673,000 and loan guarantees of $1,907,000. In the opinion of management, the financial position of AIDEA will not be affected materially by the final outcome of any present legal proceedings or other contingent liabilities and commitments.