ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Basic Financial Statements and Schedules

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

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Overview of the Financial Statements

The Alaska Energy Authority's (AEA or Authority) is composed of the following programs – AEA owned hydroelectric and intertie projects, rural energy programs, and energy development programs. Further information on AEA's programs can be found in note 1 to the financial statements.

This financial report consists of three sections: management's discussion and analysis, basic financial statements, and supplementary schedules. AEA's operations are business type activities and are considered an enterprise fund. The Authority is a component unit of the State of Alaska (State) and is discretely presented in the State's financial statements. The Authority's basic financial statements are the Balance Sheets; the Statements of Revenues, Expenses, and Changes in Net Assets; the Statements of Cash Flows; and the Notes to Basic Financial Statements.

Basic Financial Statements

The *Balance Sheets* report the Authority's assets, liabilities, and resulting net assets. The net assets are reported as invested in capital assets less debt, restricted, and unrestricted. Restricted net assets are subject to external limits such as bond resolutions, legal agreements, or statutes.

The *Statements of Revenues, Expenses, and Changes in Net Assets* report the Authority's income, expenses, and resulting change in net assets during the periods reported.

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

The *Statements of Cash Flows* report the Authority's sources and uses of cash and change in cash balance resulting from the Authority's activities during the periods 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 AEA management's analysis of the Authority's financial position and results of operations at and for the years ended June 30, 2010 and 2009. This information is presented to help the reader focus on significant financial issues and 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

AEA's assets exceeded its liabilities by $643 million and $627 million at June 30, 2010 and 2009, respectively. Of the total net assets at June 30, 2010, $129 million was invested in capital assets net of related debt, $40 million was restricted and $474 million was unrestricted. Of the total net assets at June 30, 2009, $132 million was invested in capital assets net of related debt, $42 million was restricted and $453 million was unrestricted.

Financial Analysis

Financial Position

Total assets, total liabilities, and total net assets at June 30, 2010, 2009, and 2008 follows (stated in thousands):

		2010	2009	2008
Current assets	$	32,092	12,133	16,825
Capital assets, net		236,472	245,054	251,834
Other noncurrent and restricted assets		504,105	515,785	478,603
Total assets		772,669	772,972	747,262
Current liabilities		27,809	38,672	37,757
Noncurrent liabilities		101,812	107,578	112,838
Total liabilities		129,621	146,250	150,595
Total net assets		643,048	626,722	596,667
Total liabilities and net assets	$	772,669	772,972	747,262

The 2009 balance amounts reported above are before reclassifications of balance sheet amounts in the current year comparative financial statements. The reclassifications resulted from moving $222 thousand Due from State of Alaska (which was netted in current liabilities, Due to State of Alaska) to current assets.

Current assets were $20 million higher at June 30, 2010 compared to June 30, 2009 and $4.7 million lower at June 30, 2009 compared to June 30, 2008. Components of the changes were (stated in millions):

		2010 vs. 2009	2009 vs. 2008
Increase in non-operating transfers due from State of Alaska	$	25.2	—
Increase in receivables due from state agencies and component units		0.5	—
Increase (decrease) in investment interest receivable		0.1	(0.1)
Increase (decrease) in receivable from Department of Energy		0.2	(0.5)
Increase (decrease) in operating receivable from operating plants		0.5	(0.2)
(Decrease) increase in receivable from Denali Commission		(1.9)	1.3
Decrease in receivable for advanced grant funds to grantees		(4.9)	(4.3)
Net increase (decrease) in short-term loans originated, net of loan collections		0.3	(0.9)
	$	20.0	(4.7)

Capital assets were $8.6 million lower at June 30, 2010 compared to June 30, 2009 and $6.8 million lower at June 30, 2009 compared to June 30, 2008 substantially due to depreciation of capital assets, offset by improvements. Improvements to the below projects (stated in millions) were:

		2010 vs. 2009	2009 vs. 2008
Bradley Lake Hydroelectric Project	$	1.6	0.5
Alaska Intertie Project		—	0.2
Napakiak Intertie Project		0.1	2.7
	$	1.7	3.4

Other noncurrent and restricted assets were $11.7 million lower at June 30, 2010 compared to June 30, 2009 and $37.2 million higher at June 30, 2009 compared to June 30, 2008. Components of the changes were (stated in millions):

		2010 vs. 2009	2009 vs. 2008
Increase (decrease) in PCE Endowment Fund realized investment income	$	5.0	(7.0)
Increase (decrease) in PCE Endowment Fund fair value		33.3	(42.1)
Contribution to Renewable Energy Grant Fund		—	100.0
Contribution to Bulk Fuel Revolving Loan Fund		—	5.5
Net increase in other funds from investment income and fair value		4.7	4.3
Decrease due to TAPL, PCE and Renewable Energy Funds expenditures		(49.0)	(30.0)
Increase in investments relating to operating plants		0.6	—
Decrease due to increased capital expenditures		—	(1.2)
Increase in long-term loan fundings		—	1.4
Net (decrease) increase in State advances on appropriations		(6.3)	6.3
	$	(11.7)	37.2

(Continued)

Current liabilities were $10.9 million lower at June 30, 2010 compared to June 30, 2009 and $0.9 million higher at June 30, 2009 compared to June 30, 2008. Components of the changes were (stated in millions):

		2010 vs. 2009	2009 vs. 2008
Net decrease in State advances on appropriations	$	(1.8)	(12.2)
(Decrease) increase in short-term borrowings		(0.1)	0.2
Decrease in current portion of arbitrage interest payable		(0.2)	(0.7)
Increased budgeted revenues in excess of actual expenses on hydroelectric and intertie projects		1.7	0.1
(Decrease) increase in other accrued expenditures		(10.5)	13.5
	$	(10.9)	0.9

The decrease in noncurrent liabilities between June 30, 2010 and 2009 was substantially caused by the change in the long-term portion of bonds payable at year end. The decrease between June 30, 2009 and 2008 was caused by the decreases in the long-term portion of bonds payable and the noncurrent portion of arbitrage interest payable. There were no new borrowings during either year.

The increase in net assets from June 30, 2009 to June 30, 2010 resulted primarily from the $25 million Renewable Energy Fund contribution from the State of Alaska and $38 million of investment income in the PCE Endowment Fund, offset by the $52 million operating loss. The increase in net assets from June 30, 2008 to June 30, 2009 resulted primarily from the $100 million Renewable Energy Fund contribution from the State of Alaska offset by the investment losses in the PCE Endowment Fund.

Operations

Components of the Authority's operating revenues, operating expenses, nonoperating investment income and operating loss for the years ended June 30, 2010 through 2008 follows (stated in thousands):

		2010	2009	2008
Operating revenues:				
Federal grants	$	14,184	20,545	19,817
Revenue from operating plants		18,709	17,890	17,185
State appropriations		21,292	61,394	22,612
Other		1,849	1,763	2,312
Total operating revenues		56,034	101,592	61,926
Operating expenses:				
Grants and projects		52,791	72,010	27,594
PCE grants		31,210	37,074	28,235
Depreciation		10,277	10,233	10,160
Interest expense		6,393	7,116	7,577
Plant operating		5,201	5,077	4,489
General and administrative		1,787	1,940	1,894
Provision for loan loss		(3)	(40)	(106)
Total operating expenses		107,656	133,410	79,843
Operating loss		(51,622)	(31,818)	(17,917)
Nonoperating:				
State of Alaska Bulk Fuel Revolving Loan Fund contribution		—	5,500	—
State of Alaska Renewable Energy Fund contribution		25,000	100,001	—
State of Alaska Power Cost Equalization and Rural Electric Capitalization Fund contribution		199	—	—
Investment income (loss), net		42,749	(43,628)	(14,672)
Increase (decrease) in net assets	$	16,326	30,055	(32,589)

Operating revenues decreased $45.6 million during the year ended June 30, 2010 compared to the prior year and increased $39.6 million during the year ended June 30, 2009 compared to the same period in 2008. Components of the changes were (stated in millions):

		FY 2010-2009 Net change	FY 2009-2008 Net change
Decreased grant revenue from Denali Commission	$	(3.5)	(1.8)
Decreased grant revenue from Department of Energy		(0.4)	(0.7)
(Decreased) increased revenue from other grantors		(2.8)	3.2
Fluctuations in Bradley Lake and Alaska Intertie approved budget expenditures		0.8	0.7
Increased (decreased) revenue from other State agencies		0.3	(0.6)
(Decreased) increased revenue from State for PCE grants		(8.1)	2.8
(Decreased) increased revenue from State general fund for Swan Tyee Intertie capital project		(32.6)	33.7
Increased revenue from other State general fund operating and capital appropriations		0.7	2.3
	$	(45.6)	39.6

Operating expenses decreased $25.8 million during the year ended June 30, 2010 compared to the prior year and were $53.6 million higher during the year ended June 30, 2009 compared to the same period in 2008. Components of the changes were (stated in millions):

		FY 2010-2009 Net change	FY 2009-2008 Net change
(Decreased) increased federal funded grant and project expenses in active rural energy construction projects	$	(6.3)	0.7
(Decreased) increased State funded grant and project expenses		(13.2)	44.4
Increased (decreased) State agency and component unit funded expenses for interagency contracts		0.3	(0.6)
(Decreased) increased PCE grant expenditures		(5.9)	8.8
Decreased bond interest expense		(0.7)	(0.4)
Increased operating plants expense		0.1	0.6
(Decreased) increased other expenses		(0.1)	0.1
	$	(25.8)	53.6

During the year ended June 30, 2010, the PCE Endowment Fund had unrealized gains of $33.3 million and $11.1 million in net interest income and realized gains from other funds which were offset by realized losses of $1.7 million.

During the year ended June 30, 2009, the PCE Endowment had unrealized losses of $42 million and realized losses of $13.4 million that offset $11.8 million in net interest income and realized gains from other funds.

(Continued)

Outlook

Annual operation of the owned hydroelectric and intertie projects are per annual budgets approved by the utilities that use the assets and pursuant to bond resolutions and other agreements. Annual operation of the rural energy programs and energy development programs are per State legislation, annual appropriations and federal grant awards.

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Independent Auditors' Report

The Board of Directors
Alaska Energy Authority:

We have audited the accompanying balance sheets of the Alaska Energy Authority (a Component Unit of the State of Alaska) (Authority) as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits 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 auditing 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 7 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 to 3 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

October 28, 2010

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Balance Sheets

June 30, 2010 and 2009

(Stated in thousands)

Assets		**2010**	**2009**
Current assets:			
Grants receivable	$	1,772	3,566
Loans receivable (note 6)		2,265	1,970
Operating revenue receivable		1,252	5,417
Due from State of Alaska		25,415	160
Accrued interest receivable		1,388	1,242
Total current assets		32,092	12,355
Noncurrent assets:			
Restricted cash and investments (note 3)		22,407	23,015
Cash and investments designated for specific purposes (note 3)		456,987	467,464
Loans receivable, net of allowance (note 6)		24,711	25,306
Capital assets (note 4)		448,971	447,276
Less accumulated depreciation		(212,499)	(202,222)
Capital assets, net		236,472	245,054
Total noncurrent assets		740,577	760,839
Total assets	$	772,669	773,194
Liabilities and Net Assets			
Current liabilities:			
Due to State of Alaska	$	320	2,365
Accounts payable		18,104	27,022
Bonds payable – current portion (note 5)		6,255	6,030
Arbitrage interest payable – current portion (note 5)		122	357
Accrued interest payable		3,008	3,120
Total current liabilities		27,809	38,894
Noncurrent liabilities:			
Bonds payable – noncurrent portion, net (note 5)		101,424	107,301
Arbitrage interest payable-noncurrent portion (note 5)		285	174
Other liabilities		103	103
Total noncurrent liabilities		101,812	107,578
Total liabilities		129,621	146,472
Net assets:			
Invested in capital assets, net of related debt		128,793	131,723
Restricted for debt service		19,399	19,896
Restricted by agreements with external parties		21,080	21,883
Unrestricted net assets		473,776	453,220
Total net assets		643,048	626,722
Commitments and contingencies (notes 7 and 9)			
Total liabilities and net assets	$	772,669	773,194

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

(Stated in thousands)

		2010	2009
Operating revenues:			
Federal grants	$	14,184	20,545
Revenue from operating plants		18,709	17,890
State of Alaska appropriations		21,292	61,394
Revenue from state agencies and component units		581	551
Interest on loans		1,147	1,099
Other revenue		121	113
Total operating revenues		56,034	101,592
Operating expenses:			
Grants and projects		52,791	72,010
Power cost equalization grants		31,210	37,074
Depreciation		10,277	10,233
Interest expense		6,393	7,116
Plant operating		5,201	5,077
General and administrative		1,787	1,940
Provision for loan loss (note 6)		(3)	(40)
Total operating expenses		107,656	133,410
Operating loss		(51,622)	(31,818)
Nonoperating:			
State of Alaska Bulk Fuel Revolving Loan Fund contribution		—	5,500
State of Alaska Power Cost Equalization and Rural Electric Capitalization Fund contribution		199	—
State of Alaska Renewable Energy Fund contribution		25,000	100,001
Investment income (loss), net		42,749	(43,628)
Total nonoperating		67,948	61,873
Increase in net assets		16,326	30,055
Net assets – beginning		626,722	596,667
Net assets – ending	$	643,048	626,722

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
Statements of Cash Flows
Years ended June 30, 2010 and 2009
(Stated in thousands)

		2010	2009
Cash flows from operating activities:			
Receipts from federal grants	$	15,977	19,789
Receipts from customers and users		19,451	17,473
Receipts from State of Alaska appropriations		23,422	49,190
Principal collected on loans		10,609	11,716
Receipts from state agencies		443	787
Interest collected on loans		1,063	1,101
Other operating receipts		211	62
Loans originated		(10,305)	(12,232)
Payments to suppliers		(20,603)	(13,073)
Payments to grantees		(79,833)	(84,240)
Net cash used by operating activities		(39,565)	(9,427)
Cash flows from noncapital and related financing activities:			
Net unremitted interest returned on State appropriation advances		(24)	(21)
Renewable Energy Fund contribution from State appropriation		—	100,001
Bulk Fuel Revolving Loan Fund contribution from State appropriations		—	5,500
Decrease in State appropriation advance held in trust for others		—	(432)
Subreceipient grant advances		(158)	—
Net (payment) receipt from operating loans from AIDEA		(280)	27
Net cash (used) provided by noncapital and related financing activities		(462)	105,075
Cash flows from capital and related financing activities:			
Principal paid on bonds		(6,030)	(5,820)
Interest paid on bonds		(6,127)	(6,344)
Purchase of capital assets		(1,463)	(3,421)
Net cash used by capital and related financing activities		(13,620)	(15,585)
Cash flows from investing activities:			
Purchase of investments		(182,083)	(354,684)
Proceeds from sales and maturities of investments		215,382	289,767
Interest received from investments		11,227	11,353
Net cash provided (used) by investing activities		44,526	(53,564)
Net (decrease) increase in cash and cash equivalents		(9,121)	26,499
Cash and cash equivalents at beginning of year		57,240	30,741
Cash and cash equivalents at end of year (note 3)	$	48,119	57,240
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$	(51,622)	(31,818)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation		10,277	10,233
Provision for loan loss and bad debt expense		(3)	(40)
Bond interest expense		6,393	7,116
Changes in assets and liabilities:			
Decrease in due to State of Alaska		(2,020)	(11,917)
Increase in due from the State of Alaska		(55)	—
Decrease (increase) in grants receivable		1,793	(756)
Decrease (increase) in loans receivable		303	(516)
Decrease (increase) in interest receivable		(84)	1
Decrease in operating revenue receivable		4,432	4,488
(Decrease) increase in operating accounts payable		(8,979)	13,782
Net cash used by operating activities	$	(39,565)	(9,427)
Noncash capital and investing activities:			
Amount included in accounts payable for capital asset additions	$	482	248
Net increase (decrease) in fair value of investments		33,133	(42,092)

See accompanying notes to basic financial statements.

(1) Organization and Operations

The Alaska Energy Authority (Authority or AEA) was created by the Alaska State Legislature in 1976. AEA is a public corporation and a component unit of the State of Alaska (State). AEA's mission is to reduce the cost of energy in Alaska.

Throughout the 1980's, AEA worked to develop the State's energy resources as a key element in diversifying Alaska's economy. A number of large–scale projects were constructed; four of those projects were sold in 2002 and one was transferred to the City of Larsen Bay in the fall of 2010. The Bradley Lake Hydroelectric project together with the Alaska Intertie's 170 miles of transmission line help provide Interior Alaska with the cheaper energy available in the Southcentral portion of the State.

Pursuant to statute, on August 12, 1993, the board of directors of the Alaska Industrial Development and Export Authority (AIDEA), a public corporation and a political subdivision of the State, became the board of directors of AEA. AEA continues to exist as a separate legal entity. The corporate structure and operating assets of AEA were retained but the ability to have employees, and construct or acquire energy projects was eliminated. Among other things, AIDEA provides personnel services for AEA. The board appointed, on April 10, 2008, a separate and independent, AEA executive director who is an employee of AIDEA, but is not subject to supervision by AIDEA's executive director. Previously, the AEA and AIDEA executive directors were the same. 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 AIDEA are not included in the accompanying financial statements. The 1993 legislation required AEA, to the maximum extent feasible, to enter contracts with public utilities and other entities to carry out AEA duties respecting the ongoing operation and maintenance of the AEA owned operating assets; this has occurred with oversight responsibility retained by AEA.

Pursuant to legislation effective July 1, 1999, rural energy programs previously administered by the former Department of Community and Regional Affairs, Division of Energy, were transferred to AEA for administration, as part of a larger reorganization of state agencies. Five general energy programs comprising more than twenty smaller programs were moved to AEA. Rural energy programs were originally part of AEA prior to the reorganization that occurred in 1993. During fiscal year 2008, legislation added energy development programs to AEA.

The following is a description of AEA's existing projects and programs:

(a) Bradley Lake Hydroelectric Project

The project has 120 megawatts of installed capacity and transmits its power to the State's main power grid via two parallel 20–mile transmission lines. The project, which cost in excess of $300 million, went into commercial operation in 1991. The project is now operated by Homer Electric Association under contract with AEA. Bradley Lake serves Alaska's Railbelt from the Kenai Peninsula to Fairbanks as well as the Delta Junction area.

(b) Alaska Intertie Project

The 170–mile transmission line, designed for 345 kilovolts and is operating at 138 kilovolts, runs between Willow and Healy, and interconnects the power systems in the Anchorage and Fairbanks areas. The Alaska Intertie allows Golden Valley Electric Association in Fairbanks to purchase electricity produced with lower cost energy, such as natural gas and hydroelectric, from the Anchorage and Kenai Peninsula utilities and allows utilities from the Mat-Su Valley, Anchorage and the Kenai Peninsula to purchase power from Fairbanks during power shortages. The Alaska Intertie reduces the number of black/brownouts throughout the system. Operations and maintenance duties are overseen by the Intertie Operating Committee under the Alaska Intertie Agreement (Agreement).

Effective July 1, 2002, the State appropriated $20,300,000 to AEA to upgrade and extend a portion of the Alaska Intertie. Through June 30, 2008, AEA incurred $489,000 in costs for preliminary design work. In August 2007, AEA issued a contract to the Municipality of Anchorage dba Municipal Light and Power (ML&P) for $19,500,000 for the upgrade; the work began in September 2007. Effective July 1, 2008, the State re-appropriated $10,000,000 of the original funds for certain specific capital repairs on the Intertie. As a result, AEA amended the existing contract with ML&P to reduce scope of work regarding extending a portion of the Intertie, and entered into a separate $10,000,000 contract on August 26, 2010 with ML&P to repair static VAR compensators and a tower foundation. The estimated completion date of the second contract is December 31, 2012.

AEA management and participating utilities identified defects in the Agreement that AEA management believes should be corrected. Attempts to cure the identified defects were unsuccessful because amending the Agreement requires unanimous consent of each member of the Intertie Operating Committee, and at least one utility member objected to each proposed cure. AEA management, on October 16, 2006, issued contractually required notice that the Agreement will terminate in 48 months, on October 17, 2010. Amendments to extend the term of the Agreement to January 28, 2011, were executed in early October 2010. AEA management anticipates that amendments to extend the term of the Agreement will be implemented on or before the existing agreement terminates January 28, 2011.

(c) Larsen Bay Hydroelectric Project

The 475–kilowatt project produces electricity and provides water for the City of Larsen Bay (City), an isolated Kodiak Island community. It went into commercial operation in 1991 and replaced the City’s old water supply system and provided a better source of water with reduced maintenance and improved water quality. The City operates the project. The Authority conveyed the project to the City in the fall of 2010.

(d) Rural Energy Programs

The rural energy programs include Bulk Fuel Storage Upgrades, Rural Power System Upgrades, Power Cost Equalization (PCE), Alternative Energy, Utility Training, and Technical Assistance, two active loan programs funded from the Bulk Fuel Revolving Loan Fund and the Power Project Fund, and one inactive loan program.

(e) Energy Development Programs

The energy development programs include the energy sustainability plan and renewable energy grants program pursuant to legislation passed in 2008.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting – Enterprise Fund Accounting

The accounts of the Authority are organized as an Enterprise Fund. Accordingly, the financial activities of the Authority 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.

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 (including component units using proprietary fund accounting). The Authority 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 investment income and fund transfers with the State, to be part of its principal ongoing operations and therefore classifies these revenues and expenses as operating in the statement of revenues, expenses, and changes in net assets.

(b) Capital Assets

Capital assets are stated at cost and depreciation is charged to operations by use of the straight–line method over their estimated useful lives. The estimated economic lives of the assets are as follows:

Utility plant	Life in years
Intangible	30 – 50
Production	30 – 50
Transmission	20 – 40
General	5 – 30

The Authority recognizes impairment losses for long–lived assets whenever there is a significant unexpected decline in service utility.

(c) Cash and Investments

All of AEA's cash and investments are restricted as to use by AEA. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash, short term commercial paper and money market funds.

AEA'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.

(Continued)

(d) Loans and Related Interest Income

Loans 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 ninety days past due or when the loan terms are restructured. The Authority considers lending activities to be part of its principal operations and classifies it as operating in the statement of revenues, expenses, and changes in net assets. For purposes of the statement of cash flows, loans are treated as program loans.

(e) Allowance for Loan Losses

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

(f) Environmental Issues

The Authority's policy relating to environmental issues is to record a liability when the likelihood of Authority responsibility for clean–up is probable and the costs are reasonably estimable. At June 30, 2010 and 2009, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for periods beginning after December 15, 2007. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. No liability existed under this standard at June 30, 2010.

(g) 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. AEA is a political subdivision of the State performing an essential governmental function and is therefore exempt from State and federal income taxes.

(h) Appropriations and Grants

The Authority recognizes grant revenue 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.

(Continued)

(i) Segment Information

The financial statements disclose all financial information required by the Authority's Bradley Lake bond indenture.

(j) Estimates

In preparing the financial statements, management of the Authority is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the balance sheet. These estimates impact revenue and expenses for the period. Actual results could differ from those estimates.

(k) Reclassifications

Certain reclassifications, which have no impact on net assets or revenues, have been made to the 2009 financials to conform to current year classifications.

(3) Cash and Investments

Pursuant to various agreements, appropriations and statutory requirements relating to its operations, AEA has established accounts for assets restricted to construction, operation, and financing activities (as used herein, Fund means a separate account established by the State legislature and does not refer to a separate group of self balancing accounts as contemplated by U.S. generally accepted accounting principles.

At June 30, 2010 and 2009, the Authority's carrying amount of deposits (all of which were restricted or designated for specific purposes) was $48,119,000 and $57,240,000, respectively. The total of all bank balances was $48,589,000 and $58,536,000, respectively.

The restricted and designated cash and investments were held in trust accounts for the following activities as of June 30, 2010 (stated in thousands):

		Cash and cash equivalents	**Investments**	**Total**
Power Cost Equalization Endowment Fund	$	16	320,697	320,713
Renewable Energy Grant Fund		—	58,392	58,392
Bradley Lake Hydroelectric Project		9,449	19,863	29,312
Rural Energy Loan Funds		7,497	18,974	26,471
Rural Energy and Energy Development Programs		2,427	13,349	15,776
Funds advanced from State and federal agencies		7,448	—	7,448
Renewable Energy Grant Program		17,652	—	17,652
Power Development Fund		2,171	—	2,171
Alaska Intertie Project		1,459	—	1,459
Total cash and investments	$	48,119	431,275	479,394

The restricted and designated cash and investments were held in trust accounts for the following activities as of June 30, 2009 (stated in thousands):

		Cash and cash equivalents	**Investments**	**Total**
Power Cost Equalization Endowment Fund	$	13	303,341	303,354
Renewable Energy Grant Fund		—	87,143	87,143
Bradley Lake Hydroelectric Project		9,149	18,626	27,775
Rural Energy Loan Funds		17,405	8,587	25,992
Rural Energy and Energy Development Programs		3,067	15,542	18,609
Funds advanced from State and federal agencies		13,879	—	13,879
Renewable Energy Grant Program		11,021	—	11,021
Power Development Fund		1,867	—	1,867
Alaska Intertie Project		839	—	839
Total cash and investments	$	57,240	433,239	490,479

At June 30, 2010 and 2009, amounts restricted for debt service totaled $22,407,000 and $23,015,000, respectively, for the Bradley Lake Hydroelectric Project.

(Continued)

Investment Holdings

Power Cost Equalization Endowment Fund and Renewable Energy Grant Fund – The Power Cost Equalization Endowment Fund (PCE Fund), created under Alaska Statute 42.45.070, and the Renewable Energy Grant Fund (RE Fund), created under Alaska Statute 42.45.045, are under the fiduciary authority of the State Department of Revenue, Treasury Division (Treasury). The purpose of the PCE Fund is to provide a long–term stable financing source for power cost equalization in order to provide affordable levels of electric utility costs in otherwise high–cost service areas in the state. The purpose of the RE Fund is to finance renewable energy projects in Alaska.

State investments are managed in pools. PCE Fund assets are held in the State's internally managed Short–term Fixed Income Pool and the Conservative Broad Market Pool (which consists solely of investments in the Broad Market and U.S. Treasury Fixed Income Pools), as well as the State's externally managed Domestic Equity account and International Equity Pool. RE Fund assets are held in the State's internally managed General Fund and Other Non-Segregated Investments Pool (GeFONSI). The GeFONSI consists of investments in the State's Short-term and Intermediate-term Fixed Income Pools. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures.

Fixed income and international equity securities are valued each business day using prices obtained from a pricing service. The Domestic Equity account is valued each business day by the Trustee Committee in good faith and pursuant to procedures established by the Trustee. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates.

The accrual basis of accounting is used for investment income. Income in the other fixed income pools and the International Equity Pool is allocated to pool participants daily on a pro rata basis. Domestic equity income is distributed quarterly.

At June 30, 2010, AEA had the following cash and investments in the PCE and RE Funds (stated in thousands):

		Cash	Investments at fair value			
		PCE Fund	RE Fund	PCE FUND		
Investment type		**Short-term fixed income pool**	**Short and intermediate-terms fixed income pool**	**Broad market and U.S. Treasuries fixed income pools**	**Equity**	**Total**
Deposit	$	(31)	(54)	—	57	57
Short-term Investment Fund		—	—	—	1,880	1,880
Municipal Bond		—	—	41	—	41
Commercial paper		830	1,435	—	—	—
U.S. Treasury bonds		—	—	7,516	—	7,516
U.S. Treasury bills		2,020	3,492	—	—	—
U.S. Treasury notes		—	8,891	35,139	—	35,139
U.S. Treasury when-issued		311	12,084	—	—	—
U.S. government agency		1,103	4,925	5,117	—	5,117
U.S. government agency discount notes		—	654	—	—	—
Mortgage-backed		131	1,923	44,521	—	44,521
Other asset-backed		3,648	6,353	2,544	—	2,544
Corporate bonds		7,774	17,515	25,617	—	25,617
Yankee:						
Government		—	257	1,330	—	1,330
Corporate		218	1,426	4,283	—	4,283
Domestic equity		—	—	—	127,800	127,800
International equity		—	—	—	59,605	59,605
Total invested assets		16,004	58,901	126,108	189,342	315,450
Pool related net liabilities		(32)	(509)	(11,048)	339	(10,709)
Other pool ownership		(15,956)	—	15,956	—	15,956
Net invested assets	$	16	58,392	131,016	189,681	320,697

At June 30, 2009, AEA had the following cash and investments in the PCE and RE Funds (stated in thousands):

	Cash	Investments at fair value			
	PCE Fund	RE Fund	PCE FUND		
Investment type	**Short-term fixed income pool**	**Short and intermediate-terms fixed income pool**	**Broad market and U.S. Treasuries fixed income pools**	**Equity**	**Total**
Deposit	$ 19	105	—	—	—
Short-term Investment Fund	—	—	—	1,069	1,069
Commercial paper	382	2,111	—	—	—
U.S. Treasury bonds	—	—	3,146	—	3,146
U.S. Treasury bills	2,156	11,907	—	—	—
U.S. Treasury notes	—	23,650	24,215	—	24,215
U.S. government agency	167	16,335	4,260	—	4,260
Mortgage-backed	241	6,213	48,802	—	48,802
Other asset-backed	761	4,526	1,220	—	1,220
Corporate bonds	2,059	17,057	20,420	—	20,420
Yankee:					
Government	—	406	273	—	273
Corporate	442	4,688	3,936	—	3,936
Domestic equity	—	—	—	141,032	141,032
International equity	—	—	—	50,286	50,286
Total invested assets	6,227	86,998	106,272	192,387	298,659
Pool related net liabilities	(14)	145	(1,744)	226	(1,518)
Other pool ownership	(6,200)	—	6,200	—	6,200
Net invested assets	$ 13	87,143	110,728	192,613	303,341

Other AEA Cash and Investments – Bradley Lake Hydroelectric Project investments are substantially invested pursuant to investment agreements with JP Morgan Chase Bank that end the earlier of July 1, 2021 or the date of repayment of the Bradley Lake Power Revenue Bonds, First and Second Series. All other AEA assets are managed by internal staff for liquidity and minimal risk. There is no AEA board approved investment policy, but staff follows AIDEA’s board approved investment policy. The AEA managed portfolio consists of the following eligible securities:

- Debt instruments issued or guaranteed by the U.S. government, its agencies and instrumentalities, and Government Sponsored Enterprises (GSEs); and
- Money market funds and repurchase agreements collateralized by U.S. Treasury and agency securities.

At June 30, 2010 and 2009, AEA had the following cash and investments in its other funds (stated in thousands):

Investment type		2010 Fair value short-term fixed income	2009 Fair value short-term fixed income
Deposits	$	288	29
Money market		54,642	57,198
GSE-Mortgage-backed		12,146	5,031
U.S. Treasury notes		13,349	19,098
Investment agreements		19,863	18,626
Total invested assets	$	100,288	99,982

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short–Term Fixed Income Pool – As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months to maturity or fourteen months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2010, the expected average life of individual fixed rate securities ranged from one day to twenty-nine years and the expected average life of floating rate securities ranged from one day to nine and three-quarters years. At June 30, 2009, the expected average life of individual fixed rate securities ranged from one day to six and one-half years and the expected average life of floating rate securities ranged from one day to eight years.

Intermediate-Term Fixed Income Pool – Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting effective duration of the Intermediate-term Fixed Income Pool to ± 20% of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2010 was 2.49 years. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2009 was 2.54 years.

Broad Market and U.S. Treasury Fixed Income Pools – Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its other fixed income pool portfolios to the following:

For 2010 and 2009, Treasury limited Broad Market Fixed Income Pool to ± 20% of the Barclay's Capital U.S. Aggregate Bond Index. The effective duration of the Index at June 30, 2010 and June 30, 2009 was 4.3 years.

For 2010 and 2009, Treasury limited U.S. Treasury Fixed Income Pool to ± 20% of the Barclay's Capital U.S. Aggregate Treasury Index. The effective duration of the Index at June 30, 2010 was 5.27 years. The effective duration of the Index at June 30, 2009 was 5.13 years.

Investment Agreements – Bradley Lake Hydroelectric Project investments are invested pursuant to agreements with JP Morgan Chase Bank that guarantees annual interest earnings of 7.38% or 7.41% per annum until the earlier of July 1, 2021 or the date of repayment of the Bradley Lake Power Revenue Bonds, First and Second Series. The investment contracts are collateralized.

Under the Internal Revenue Code of 1986, as amended, certain earnings in excess of arbitrage yield on the Bradley Lake bonds must be rebated to the U.S. Treasury. The bulk of the Bradley Lake investments are subject to rebate.

AEA Internally Managed Investments – There is no written policy for interest rate risk for AEA's internally managed investments, but AIDEA's policy is followed. The duration for investments is 2 years or less. The maximum maturity of any issue is 3 years from the date of purchase.

Duration – Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100–basis point change in interest rates. Duration is a weighted average term–to–maturity of an investment's 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. Duration for the AEA managed investments are as reported on Bloomberg.

Treasury has no policy with regard to interest rate risk for the money market balance held in the International Equity Pool.

At June 30, 2010 and 2009, the effective duration by investment type (not including the investment agreements) was as follows:

Managed by Treasury	Intermediate-term fixed income pool	Broad market fixed income pool	U.S. Treasury fixed income pool
		2010	
U.S. Treasury notes	2.91	4.37	3.60
U.S. Treasury when-issued	2.73	—	—
U.S. Treasury bonds	—	9.94	8.34
U.S. government agency	1.69	4.74	4.70
U.S. government agency discount notes	0.67	—	—
Mortgage-backed	1.71	2.70	—
Other asset-backed	0.65	3.10	—
Corporate bonds	2.24	6.18	2.01
Municipal bonds	—	12.56	—
Yankees:			
Government	1.87	4.95	4.29
Corporate	2.65	5.32	—
Portfolio effective duration	2.47	4.29	3.97
		2009	
U.S. Treasury notes	—	6.01	4.70
U.S. Treasury bonds	3.07	12.81	9.58
U.S. government agency	2.02	6.92	8.95
Mortgage-backed	2.42	—	—
Other asset-backed	0.71	—	—
Corporate bonds	2.10	—	2.57
Yankees:			
Government	2.73	11.37	—
Corporate	2.81	4.80	—
Portfolio effective duration	2.52	4.19	5.12

	Managed by AEA	
	2010	**2009**
Money market	0.07	0.16
U.S. Treasury notes	0.23	0.33
U.S. government agency and GSE discount notes	0.62	0.03
Portfolio effective duration	0.18	0.37

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

Short-Term Fixed Income Pool – 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 three rating agencies: Standard & Poor's Corporation, 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-Fixed Income Pool – 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: Standard & Poor's Corporation, 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.

Broad Market Fixed Income Pool – The Broad Market 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: Standard & Poor's Corporation, 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.

U.S. Treasury Fixed Income Pool – In the U.S. Treasury Fixed Income Pool, commercial paper must be rated at least P-1 by Moody's and A-1 by Standard & Poor's Corporation. In addition, corporate, 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: Standard & Poor's Corporation, Moody's and Fitch. In addition, asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

Treasury has no policy with regard to credit risk for the money market balance held in the International Equity Pool. The Conservative Broad Market Fixed Income Pool does not have its own investment policy because it invests only in existing pools, which have established policies.

There is no written policy with regard to credit risk for investments managed by AEA. Since AEA only invests in highly rated money markets and U.S. government and agency securities and GSEs, credit risk is minimal.

The Bradley Lake Hydroelectric Project investments are substantially invested in collateralized investment agreements, which minimizes credit risk.

At June 30, 2010, the Pools managed by Treasury and the investments managed by AEA consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale).

Investment type	Rating	Short-term fixed income pool	Intermediate-term fixed income pool	Broad market fixed income pool	U.S. Treasury income pool	AEA managed
Money market	AAA	—%	—%	—%	—%	55%
Commercial paper	A-1	1	—	—	—	—
Commercial paper	Not Rated	4	—	—	—	—
U.S. Treasury notes	AAA	—	28	22	74	13
U.S. Treasury bills	AAA	13	—	—	—	—
U.S. Treasury bonds	AAA	—	—	5	10	—
U.S. Treasury When-Issued	AAA	2	36	—	—	—
U.S. government agency and GSE discount notes	AAA	1	9	4	6	—
U.S. government agency and GSE	Not Rated	6	2	—	—	12
Mortgage-backed	AAA	1	5	27	—	—
Mortgage-backed	AA	—	—	1	—	—
Mortgage-backed	Not Rated	—	1	9	—	—
Other asset-backed	AAA	21	—	2	—	—
Other asset-backed	Not Rated	1	—	—	—	—
Corporate bonds	AAA	42	7	2	9	—
Corporate bonds	AA	2	2	3	—	—
Corporate bonds	A	4	3	9	—	—
Corporate bonds	BBB	—	1	7	—	—
Corporate bonds	Not Rated	1	—	—	—	—
Yankees – government	AAA	—	—	1	—	—
Yankees – government	AA	—	1	—	1	—
Yankees – corporate	AAA	1	2	1	—	—
Yankees – corporate	AA	—	1	1	—	—
Yankees – corporate	A	—	—	1	—	—
Yankees – corporate	BBB	—	—	1	—	—
No credit exposure		—	2	4	—	—
Investment agreements	Not Rated	—	—	—	—	20
		100%	100%	100%	100%	100%

[1]Rating modifiers are not disclosed.

The International Equity Pool was 100% no credit exposure.

At June 30, 2009, the Pools managed by Treasury and the investments managed by AEA consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale).

Investment type	Rating	Short-term fixed income pool	Intermediate-term fixed income pool	Broad market fixed income pool	U.S. Treasury income pool	AEA managed
Money market	AAA	—%	—%	—%	—%	57%
Commercial paper	A-1	1	—	—	—	—
Commercial paper	Not Rated	5	—	—	—	—
U.S. Treasury notes	AAA	—	—	16	69	19
U.S. Treasury bills	AAA	35	44	—	—	—
U.S. Treasury bonds	AAA	—	—	2	11	—
U.S. government agency and GSE discount notes	AAA	3	28	2	—	5
U.S. government agency and GSE	Not Rated	—	1	1	6	—
Mortgage-backed	AAA	3	7	46	—	—
Mortgage-backed	Not Rated	—	2	4	—	—
Other asset-backed	AAA	11	—	1	—	—
Other asset-backed	AA	1	—	—	—	—
Corporate bonds	AAA	19	5	2	8	—
Corporate bonds	AA	6	1	3	—	—
Corporate bonds	A	8	3	9	—	—
Corporate bonds	BBB	—	2	6	—	—
Yankees – government	AA	—	1	—	—	—
Yankees – corporate	AAA	2	3	1	—	—
Yankees – corporate	AA	4	1	—	—	—
Yankees – corporate	A	—	—	2	—	—
Yankees – corporate	BBB	2	—	1	—	—
No credit exposure		—	2	4	6	—
Investment agreements	Not Rated	—	—	—	—	19
		100%	100%	100%	100%	100%

[1]Rating modifiers are not disclosed.

Custodial Credit Risk – Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. Treasury's policy with regard to custodial credit risk is to collateralize State deposits to the extent possible. At June 30, 2010, AEA's deposits managed by Treasury were uncollateralized and uninsured.

With respect to AEA managed investments, amounts totaling approximately $45,193,000 at June 30, 2010 and $48,048,000 at June 30, 2009, are held in money market funds not registered in AEA's name. The investment agreements are collateralized. All other investment securities are registered in AEA's name and are held by its custodian, the trust department of a commercial bank; therefore no custodial risk exists for these securities.

Foreign Currency Risk – The Commissioner of Revenue formally adopts asset allocation policies for AEA's PCE Fund at the beginning of each fiscal year which places policy limitations on the amount of international securities the PCE Fund is allowed to hold. The following policy was in place during fiscal years 2010 and 2009, and invested assets included the following holdings at June 30, 2010 and 2009, for the PCE Fund's investment in the International Equity Pool:

	Policy	**Actual**
FY10	20%+5%	19.29%
FY09	18%+5%	17.00%

At June 30, 2010 and 2009, AEA's PCE Fund had exposure to foreign currency risk as follows (stated in thousands):

Currency		**FY10 Fair value**	**FY09 Fair value**
Deposits:			
Euro Currency	$	1	—
Japanese Yen		54	7
Pound Sterling		—	(7)
		55	—
Investment – international equity:			
Australian Dollar		453	—
Canadian Dollar		1,238	565
Danish Krone		563	421
Euro Currency		10,848	14,396
Hong Kong Dollar		1,465	345
Japanese Yen		11,240	7,347
Norwegian Krone		390	—
Pound Sterling		13,988	9,578
Singapore Dollar		525	843
Swedish Krona		—	531
Swiss Franc		4,727	4,109
		45,437	38,135
Total	$	45,492	38,135

Concentration of Credit Risk – Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group. However, such prohibition does not apply to securities backed by the full faith and credit of the U.S. Government. Federal National Mortgage Association securities are not classified as corporate bonds. AEA has no written policy with respect to concentration of credit risk for its other investments.

(Continued)

At June 30, 2010, AEA's investments (excluding U.S. Treasury securities) included the following concentrations greater than 5% (dollar amounts stated in thousands):

Issuer	Amount	Percent
Federal National Mortgage Association	$ 42,134	9%

At June 30, 2009, AEA's investments (excluding U.S. Treasury securities) included the following concentrations greater than 5% (dollar amounts stated in thousands):

Issuer	Amount	Percent
Federal National Mortgage Association	$ 57,375	12%

(4) Capital Assets

Capital asset activity for the years ended June 30, 2010 and 2009 was as follows (stated in thousands):

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Capital assets:				
Intangible	$ 14	—	—	14
Production	252,541	755	—	253,296
Transmission	188,726	916	—	189,642
General	5,995	24	—	6,019
Total capital assets	447,276	1,695	—	448,971
Less accumulated depreciation for:				
Intangible	(4)	—	—	(4)
Production	(89,678)	(5,278)	—	(94,956)
Transmission	(107,465)	(4,959)	—	(112,424)
General	(5,075)	(40)	—	(5,115)
Total accumulated depreciation	(202,222)	(10,277)	—	(212,499)
Capital assets, net	$ 245,054	(8,582)	—	236,472

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
Capital assets:				
Intangible	$ 14	—	—	14
Production	252,199	342	—	252,541
Transmission	186,459	2,267	—	188,726
General	5,151	844	—	5,995
Total capital assets	443,823	3,453	—	447,276
Less accumulated depreciation for:				
Intangible	(4)	—	—	(4)
Production	(84,411)	(5,267)	—	(89,678)
Transmission	(102,531)	(4,934)	—	(107,465)
General	(5,043)	(32)	—	(5,075)
Total accumulated depreciation	(191,989)	(10,233)	—	(202,222)
Capital assets, net	$ 251,834	(6,780)	—	245,054

Effective September 2010, AEA conveyed the fully depreciated Larsen Bay hydroelectric facility to the City of Larsen Bay. Also, during the fall of 2010, AEA will complete construction of the Napakiak Intertie (cost $3,130,000) and convey it to the City of Napakiak pursuant to the federal grant agreement that provided funding for the project.

(5) Long–Term Debt

Long–term debt activity for the years ended June 30, 2010 and 2009 was as follows (stated in thousands):

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Due within one year
Bradley Lake Power Revenue Bonds:					
First Series (a)	$ 100	—	—	100	—
Second Series (a)	4,605	—	(2,300)	2,305	2,305
Refunding, Third Series (a)	41,315	—	(3,595)	37,720	3,810
Refunding, Fourth Series (a)	37,030	—	(135)	36,895	140
Refunding, Fifth Series (a) (b)	30,640	—	—	30,640	—
Total bonds payable	113,690	—	(6,030)	107,660	6,255
Arbitrage interest payable (c)	531	233	(357)	407	122
(Less) plus bond discount and deferred interest	(359)	—	377	18	—
	$ 113,862	233	(6,010)	108,085	6,377

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009	Due within one year
Bradley Lake Power Revenue Bonds:					
First Series (a)	$ 100	—	—	100	—
Second Series (a)	6,910	—	(2,305)	4,605	2,300
Refunding, Third Series (a)	44,705	—	(3,390)	41,315	3,595
Refunding, Fourth Series (a)	37,155	—	(125)	37,030	135
Refunding, Fifth Series (a)	30,640	—	—	30,640	—
Total bonds payable	119,510	—	(5,820)	113,690	6,030
Arbitrage interest payable (c)	1,288	250	(1,007)	531	357
Less bond discount and					—
deferred interest	(1,236)	—	877	(359)	—
	$ 119,562	250	(5,950)	113,862	6,387

(a) AEA issued the Power Revenue Bonds, First and Second Series (Bradley Lake Bonds), in September 1989 and August 1990, respectively, for the long term financing of the construction costs of the Bradley Lake Hydroelectric Project and refunded AEA's Variable Rate Demand Bonds which were issued in November 1985 to provide interim financing of the project. AEA issued the Power Revenue Refunding Bonds, Third and Fifth Series in April 1999 to refund a portion of the First Series Bonds and to provide costs of issuance. AEA issued the Power Revenue Refunding Bonds, Fourth Series in April 2000 to refund a portion of the Second Series Bonds and to provide costs of issuance. All of the revenues derived by AEA from the operation of the project and all moneys, securities and funds (except the excess earnings fund), including a capital reserve fund, held or set aside are pledged and assigned to secure the payment of principal, redemption premium, if any, and interest on the bonds. No other revenues of AEA are pledged as security for the payment of the bonds. AEA has covenanted to notify the State Legislature of any failure to maintain the capital reserve fund at its required level. The bonds are further secured by bond insurance. AEA collects from each power purchaser a percentage share of annual project costs. The outstanding Bradley Lake Bonds mature annually each July 1 through the year 2021 with interest rates ranging from 5% to 6.25%.

(b) In July 2010 the Authority issued $28,800,000 of Power Revenue Refunding Bonds, Sixth Series, to refund $30,640,000 aggregate outstanding principal amount of the Authority's Power Revenue Bonds, Fifth Series, and to pay costs of issuing the bonds. The refunding resulted in aggregate debt service payments over the next eleven years of approximately $3,316,000 less than the debt service payments which would have been due on the refunded bonds. There was an economic gain of approximately $2,350,000 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 and adjusted for additional cash paid. The refunded bonds were called on August 2, 2010.

(c) The arbitrage interest payable is due to the United States Treasury for the excess of investment income on the proceeds of each series of AEA's tax exempt Bradley Lake bonds over the related interest expense computed in accordance with Section 148 of the Internal Revenue Code of 1986, as amended. The accumulated arbitrage interest payable amount is computed each year, and the amount for each series is first due after the end of the fifth bond year and every five years thereafter. AEA maintains a separate account for each series with the trustee and each year sets aside a sufficient amount to satisfy the liability.

The minimum payments related to all bonds for the years subsequent to June 30, 2010 are as follows (stated in thousands):

		Principal	Interest	Total
Year ending June 30:				
2011	$	6,255	5,897	12,152
2012		6,495	5,583	12,078
2013		6,880	5,182	12,062
2014		7,300	4,757	12,057
2015		7,735	4,306	12,041
2016 – 2020		49,255	13,509	62,764
2021 – 2022		23,740	1,290	25,030
	$	107,660	40,524	148,184

In addition, the Authority has participated in the following debt agreements:

- *Other Debt* – In 1982, AEA assumed $44,859,000 of 5% mortgage notes payable which requires quarterly principal and interest payments to the Rural Utilities Service (RUS) in connection with the Solomon Gulch Hydroelectric Project. Concurrent with the assumption, AEA deposited with a trustee Treasury notes sufficient to satisfy and provide for timely repayment of all principal and interest due on the assumed RUS loans. Accordingly, the loans and related trust assets are not included in the financial statements of AEA. At June 30, 2010, the unpaid principal balance of the notes was $11,173,000 and the trust assets had a fair value of $12,321,000.

- *Conduit Financing – City and Borough of Sitka – Utility Revenue Refunding Bonds, Series 1997 and Utility Revenue Bonds, Series 1992* – In May 1992, AEA issued $56,890,000 of tax–exempt bonds that allowed the City and Borough of Sitka (Sitka) to refinance its 1979 municipal bonds, resulting in significant debt service savings to Sitka. In November 1997, AEA issued $22,080,000 of tax–exempt bonds to advance refund and defease $20,145,000 of the Series 1992 bonds (collectively with the Series 1992 bonds, the Sitka Bonds). The Sitka Bonds are not included in these financial statements. As of June 30, 2010, the outstanding balance was $35,285,000.

  The Sitka Bonds are special obligations of AEA secured under a trust indenture by and between AEA and U.S. Bank National Association, as trustee. The Sitka Bonds are payable solely from the sources provided under the trust indenture. They are equally and ratably secured by a pledge and assignment of the municipal revenue bonds of Sitka held by AEA under the trust indenture, the obligation of Sitka to make payments under its loan agreement with AEA and the money and securities held under the trust indenture, including a capital reserve fund. AEA has covenanted to notify the State Legislature of any failure to maintain the capital reserve fund at its required level. The bonds are further secured by bond insurance.

The Sitka Bonds do not constitute an indebtedness or other liability of the State, including AEA, and do not directly, indirectly or contingently obligate the State, including AEA, or any political subdivision thereof to levy any form of taxation for the payment of the bonds. Neither the full faith and credit nor the taxing power of the State, including AEA, or Sitka is pledged for the payment of the Sitka Bonds.

(6) Loans

The Authority administers the Power Project Loan Program, the Rural Electrification Revolving Loan Program and the Bulk Fuel Revolving Loan Program. Loans outstanding at June 30, 2010 and 2009 are classified as follows (dollar amounts stated in thousands):

	2010		2009	
	No. of loans	**Amount**	**No. of loans**	**Amount**
Power Project Loan Program	42	$ 25,635	47	$ 26,330
Rural Electrification Revolving Loan Program	2	593	2	646
Bulk Fuel Revolving Loan Program	17	1,582	23	1,352
	61	27,810	72	28,328
Less allowance for loan losses		(834)		(1,052)
		$ 26,976		$ 27,276

Loans that are more than 90 days past due on which the accrual of interest has been discontinued amounted to $69,121 and $368,520 at June 30, 2010 and 2009, respectively.

An analysis of changes in the allowance for loan losses for the years ended June 30, 2010 and 2009 follows (stated in thousands):

	2010	2009
Balance at beginning of year	$ 1,052	1,092
Write-offs	(215)	—
Provision for loan loss	(3)	(40)
Balance at end of year	$ 834	1,052

(7) Risk Management

AEA 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.

(8) Related Parties

(a) Alaska Industrial Development and Export Authority

Pursuant to understandings and agreements between AIDEA and AEA, AIDEA provides administrative, treasury, personnel, data processing, communications, and other services to AEA. During 2010 and 2009, AEA expensed $5,238,000 and $4,344,000, respectively, for such services. During 2010 and 2009, AEA capitalized $7,000 and $64,000, respectively, for such services. AEA has a borrowing arrangement with AIDEA to provide working capital funds. At June 30, 2010 and 2009, AEA had $1,770,000 and $1,852,000, respectively, payable to AIDEA for services and borrowings.

(b) Alaska Intertie Operating Committee

Effective May 1, 1986, AEA entered into an agreement with utilities using the Alaska Intertie for wheeling of electrical power. Pursuant to the agreement, the Intertie Operating Committee (IOC) was established to manage the system. The IOC is comprised of a representative from AEA and each of the utilities. AEA is reimbursed for operation and maintenance costs on a monthly basis with an annual settlement to adjust the payments to actual costs. AEA management on October 16, 2006, issued contractually required notice that the agreement will terminate in 48 months. Amendments to extend the term of the Agreement to January 28, 2011, were executed in early October 2010. AEA management anticipates that amendments to extend the term of the Agreement will be implemented on or before the existing agreement terminates January 28, 2011.

(c) Bradley Lake Project Management Committee

Effective December 7, 1987, AEA entered into a power sales agreement with entities purchasing electric power produced by the Bradley Lake Hydroelectric Project. Pursuant to the agreement, a Project Management Committee (PMC) was formed. The PMC is comprised of a representative from AEA and each of the power purchasers. The participating power purchasers make monthly payments directly to the bond trustee based on their respective percentage share of the estimated annual project costs, including debt service and annual administrative fee to AEA.

(9) Commitments and Contingencies

AEA from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. The State Department of Law manages all pending litigation of AEA, and any liability arising from the settlement of pending claims is a liability for which the Department of Law or AEA requests an appropriation from the Legislature to satisfy judgment in the event that the judgment exceeds available funds or the proceeds from applicable insurance policies. In the opinion of management, the financial position of AEA will not be affected materially by the final outcome of any present legal proceedings or other contingent liabilities and commitments.

In the normal course of business, AEA also has various commitments, such as commitments for the extension of credit and award of grants. At June 30, 2010 and 2009, AEA had open loan commitments of $12,947,000 and $12,253,000, respectively. At June 30, 2010 and 2009, AEA had committed to grant awards to be funded by State appropriations and federal awards; the amounts committed were $117,918,000 and $146,201,000, respectively.

At June 30, 2010 and 2009, AEA held approximately $5,798,000 and $5,795,000 at fair value, respectively, of investments in escrow under an agreement. In October 2010, the funds were disbursed under the terms of the agreement.

(10) Subsequent Event

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

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Schedule of Bradley Lake Hydroelectric Project Trust Account Activities

Year ended June 30, 2010

(Stated in thousands)

	Debt service account	Capital reserve account	Renewal and contingency account	Excess earnings account	Revenue account	Operating account	Operating reserve account	Total
Balance at June 30, 2009	$ 9,150	12,834	2,331	309	1,966	445	740	27,775
Interest received	335	819	217	10	323	31	56	1,791
Bond principal paid	(6,030)	—	—	—	—	—	—	(6,030)
Bond interest paid	(6,127)	—	—	—	—	—	—	(6,127)
Arbitrage paid	—	—	—	(357)	—	—	—	(357)
Operating budget surplus paid	—	—	—	—	(660)	—	—	(660)
Construction expenditures	—	—	(871)	—	(357)	—	—	(1,228)
Operating revenue received	—	—	—	—	17,645	—	—	17,645
Operating expenses paid	—	—	—	—	—	(3,497)	—	(3,497)
Transfers between funds	12,066	(819)	1,301	216	(16,767)	3,994	9	—
Balance at June 30, 2010	$ 9,394	12,834	2,978	178	2,150	973	805	29,312

See accompanying independent auditors’ report.

Schedule 2

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Schedule of Projects – Balance Sheet

June 30, 2010

(Stated in thousands)

Assets		**Bradley Lake Hydroelectric Project**	**Alaska Intertie Project**	**Rural Energy Projects**	**Administration and Power Development Fund**	**Rural Energy and Energy Development Programs**	**Combined balance**
Current assets:							
Grants receivable	$	—	—	(1)	(2)	1,775	1,772
Loans receivable		—	—	—	—	2,265	2,265
Operating revenue receivable		109	739	—	—	404	1,252
Due from State of Alaska		—	—	—	—	25,415	25,415
Accrued interest receivable		995	—	—	—	393	1,388
Total current assets		1,104	739	(1)	(2)	30,252	32,092
Noncurrent assets:							
Restricted cash and investments		22,407	—	—	—	—	22,407
Cash and investments designated for specific purposes		6,905	1,458	—	9,591	439,033	456,987
Loans receivable, net of allowance		—	—	—	—	24,711	24,711
Capital assets, net of accumulated depreciation		191,550	41,792	3,130	—	—	236,472
Total noncurrent assets		220,862	43,250	3,130	9,591	463,744	740,577
Total assets	$	221,966	43,989	3,129	9,589	493,996	772,669
Liabilities and Net Assets							
Current liabilities:							
Due to State of Alaska	$	—	(21)	—	6,629	(6,288)	320
Accounts payable		1,929	2,201	252	788	12,934	18,104
Bonds payable – current portion		6,255	—	—	—	—	6,255
Arbitrage interest payable – current portion		122	—	—	—	—	122
Accrued interest payable		3,008	—	—	—	—	3,008
Total current liabilities		11,314	2,180	252	7,417	6,646	27,809
Noncurrent liabilities:							
Bonds payable – noncurrent portion, net		101,424	—	—	—	—	101,424
Arbitrage interest payable – noncurrent portion		285	—	—	—	—	285
Other liabilities		103	—	—	—	—	103
Total noncurrent liabilities		101,812	—	—	—	—	101,812
Total liabilities		113,126	2,180	252	7,417	6,646	129,621
Net assets:							
Investment in capital assets net of related debt		83,870	41,792	3,130	—	—	128,792
Restricted for debt service		19,399	—	—	—	—	19,399
Restricted by agreements with external parties		5,571	17	—	—	15,492	21,080
Unrestricted net assets		—	—	(253)	2,172	471,858	473,777
Total net assets		108,840	41,809	2,877	2,172	487,350	643,048
Total liabilities and net assets	$	221,966	43,989	3,129	9,589	493,996	772,669

See accompanying independent auditors' report.

Schedule 3

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Schedule of Projects – Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

(Stated in thousands)

		Bradley Lake Hydroelectric Project	Alaska Intertie Project	Rural Energy Projects	Administration and Power Development Fund	Rural Energy and Energy Development Programs	Combined balance
Operating revenues:							
Federal grants	$	—	—	29	—	14,155	14,184
Revenue from operating plants		16,989	1,708	12	—	—	18,709
State of Alaska appropriations		—	23	—	—	21,269	21,292
Revenue from state agencies		—	—	—	—	581	581
Interest on loans		—	—	—	—	1,147	1,147
Other revenue		—	—	—	—	121	121
Total operating revenues		16,989	1,731	41	—	37,273	56,034
Operating expenses:							
Grants and projects		—	—	—	—	52,791	52,791
Power cost equalization grants		—	—	—	—	31,210	31,210
Depreciation		6,917	3,360	—	—	—	10,277
Interest expense		6,393	—	—	—	—	6,393
Plant operating		3,486	1,691	24	—	—	5,201
General and administrative		262	17	—	—	1,508	1,787
Provision for loan loss		—	—	—	—	(3)	(3)
Total operating expenses		17,058	5,068	24	—	85,506	107,656
Operating (loss) income		(69)	(3,337)	17	—	(48,233)	(51,622)
Nonoperating:							
State of Alaska fund transfers		—	—	—	—	25,199	25,199
Investment income, net		1,628	—	—	—	41,121	42,749
Increase (decrease) in net assets		1,559	(3,337)	17	—	18,087	16,326
Net assets – beginning		107,281	45,146	2,860	2,172	469,263	626,722
Net assets – ending	$	108,840	41,809	2,877	2,172	487,350	643,048

See accompanying independent auditors' report.