ALASKA AEROSPACE
DEVELOPMENT CORPORATION

2008 Annual Report

The Next Generation

Old Harbor Dancers and Kodiak Island Drummers.
Chris Arend Photography

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Old Harbor Dancers member.
Photo by Annjannette Larson

EMIL CHRISTENSEN
President, Old Harbor
Native Corporation

"Old Harbor Native Corporation appreciates AADC's professional working relationship and support for the Kodiak-Kenai Fiber Cable project which significantly increased communications capability for the Kodiak-Kenai region. AADC's respect for and commitment to supporting Alaska's traditional culture and protecting the environment through its operations at the Kodiak Launch Complex reflects its value to the community."

2008 Highlights

Leadership
Next generation of leadership in Kodiak and Anchorage

Continuing Business
Two successful launches in 2008 and contract to provide continued missile defense launch support

New Business
Expanded customer base to include:
- US Air Force communication satellite launches
- NOAA study for use of Unmanned Aircraft Systems (UAS) to monitor ecosystems of the Arctic and Pacific Oceans and the Gulf of Mexico

Kodiak Launch Complex Projects
Design and engineering of additional launch pad and associated facilities, major corrosion control

Community Projects
Pasagshak Park, Pasagshak cell tower, Kenai to Kodiak fiber optic network

Executive Summary

The Alaska Aerospace Development Corporation (AADC) continued the development of a new leadership team in 2008. Dale K. Nash, formerly the President & Chief Operating Officer (COO), was appointed Chief Executive Officer (CEO) in February 2008. Former CEO, Pat Ladner, is serving in the capacity of President Emeritus and Senior Advisor to aide in the successful transition of the organization's leadership.

Thomas R. Case, U.S. Air Force Lt. Gen. (retired), joined the AADC leadership team during 2008 as President & COO. General Case has 33 years of experience in aerospace and held a variety of command positions during his distinguished military career including service as the senior military commander in Alaska and Vice Commander of both the Pacific Command and Central Command. Prior to joining AADC, General Case served six years as Dean for the College of Business and Public Policy at the University of Alaska, Anchorage.

During 2008, AADC successfully completed a five year contract with the U.S. Missile Defense Agency (MDA) for launch support services valued at $93 million. In the same year, MDA negotiated a new contract with AADC to provide continuing launch support services and special studies for the missile defense test program. This new contract has a potential value of $49 million.

Two launches were completed in 2008 from the Kodiak Launch Complex (KLC) in support of the MDA test program. To date, fourteen successful launches have occurred from KLC since construction of the range in 1998.

In January 2008, AADC entered into contracts to provide launch support services for two United States Air Force (USAF) orbital satellite launches currently scheduled for September and December 2009.

AADC was also awarded a contract from the National Oceanic and Atmospheric Administration (NOAA) to develop a feasible concept-of-operations for sustained Unmanned Aircraft Systems (UAS) operations to monitor climate changes and weather.

AADC, the Kodiak-Kenai Cable Company (KKCC) and the Old Harbor Native Corporation joined in partnership to construct a fiber optic cable telecommunication system connecting Kodiak Island and the western Kenai Peninsula with Anchorage. This state of the art submarine fiber optic cable was connected to Narrow Cape, AK which provides AADC customers reliable, high bandwidth, high quality communications connectivity. Kodiak, Kenai, Homer, and Seward now have improved telecommunication for economic and educational opportunities via the fiber.

AADC provided support that contributed to the completion of the Pasagshak Highway paving project by the Alaska Department of Transportation and Public Facilities. As a result public access to the Pasagshak State Recreational Park was improved.

In an effort to support new customers and expand the current business base, AADC continued the design and engineering phase of an additional launch pad, rocket motor storage facility and support facilities. This $42 million project will give AADC the capability to support multiple launch campaigns simultaneously, greatly increasing AADC's revenue generating potential. Construction is expected to begin in 2009 once funding is secured, and completion of the project is anticipated in 2011.

Rotating Service Door of Launch Services Structure during corrosion control process.

Chairman Letter

To the Governor, the State Legislature and the People of Alaska:

The ten members of the Alaska Aerospace Development Corporation Board of Directors and I look back with satisfaction on an eventful and successful 2008. It was a landmark year, with achievements both strategically and operationally.

In February, the Board completed a corporate leadership transition, setting a strategic milestone on our path in moving from construction to a fully operational and competitive aerospace organization. This new generation of leadership for AADC encompasses the addition of two highly qualified leaders, CEO Dale Nash and President/COO Lt. Gen. Thomas Case, USAF, retired, both exceptionally respected and successful in their respective aerospace and military careers.

The stakeholders, customers and staff of AADC will be forever appreciative to former CEO Pat Ladner for his influence and vision over 16 years in building an aerospace industry in Alaska, that includes the Kodiak Launch Complex and an organization of highly educated and technically trained staff.

We also have had considerable success in business operations during 2008, which is detailed elsewhere in this report. AADC Board members and senior management worked with representatives from United Space Alliance and the Cohen Group to formulate the corporation's improvement strategies. The results were long-term goals of generating a profitable growth through an expanded customer base while retaining our principal business partner, the Missile Defense Agency. The Board will do all we can to ensure that our encouraging performance continues.

In 2008, we continued activities that testify to AADC's corporate social responsibility, ranging from scholarships and internships to graduating high school seniors and continuing college students, in-kind contributions to organizations in Kodiak and Anchorage, and actively working with the University of Alaska in creating and promoting a science, technology and engineering aerospace curriculum.

Our success greatly depends on the skills and the dedication of 50 Alaska Aerospace employees, whom I would like to thank on behalf of the Board of Directors. During the year we said farewell to long-time Board members Wallace Sawyer, from Cocoa Beach, FL., an aerospace engineer and former Special Assistant to the Director of Kennedy Space Center and Kodiak businessman, John Sweeny. I thank them both for their dedication and participation during months of reorganization and change, and wish them best of luck.

Clearly, 2009 is going to be an exciting year. The Board of Directors and I look forward to expanding the understanding of Alaska's vital aerospace industry in support of our state's economy and the National Defense effort.

Sincerely,
Sharon E. Anderson

Chief Executive Officer Letter

To the Governor, the State Legislature and the People of Alaska:

This has been an important year for Alaska Aerospace Development Corporation. We negotiated a new contract for launch services with the U.S. Missile Defense Agency (MDA), secured two new customers, the U.S. Air Force (USAF) and the National Oceanic and Atmospheric Administration (NOAA), and have transitioned to a new management team that ushers in the next generation of AADC aerospace services.

The negotiation of a new contract with MDA is a major milestone. It reaffirms the long-standing relationship AADC has with MDA while reinforcing the key role the Kodiak Launch Complex plays in testing our nation's Ballistic Missile Defense System. Seven target missiles were launched out of Kodiak under the previous MDA contract and one launch has already occurred under the new contract. AADC anticipates, on average, one-and-a-half to two launches per year under the new contract. This level of MDA launch activity will generate $10 million to $20 million direct and indirect economic benefit annually to Kodiak.

AADC competed for, and won, two USAF launch contracts. The USAF launch contracts are significant for several reasons. First, they are an opportunity to demonstrate the greatly improved capabilities at KLC to the Air Force and Orbital Sciences (the launch vehicle contractor). Second, the expanded customer base will help spread overhead costs and improve AADC's ability to win additional launch contracts. And third, this begins a new round of orbital satellite missions from KLC. The last orbital launch out of KLC was the Lockheed Martin "Kodiak Star" in 2001.

The National Oceanic and Atmospheric Administration (NOAA) awarded a contract to AADC to develop a feasible concept-of-operations for sustained Unmanned Aircraft Systems (UAS) operations to monitor climate changes and weather in three test bed regions: the Arctic, the Pacific, and the Gulf of Mexico. This study and the successful implementation of UAS operations in these regions will help NOAA address some of the nation's most pressing environmental challenges. This contract and the potential follow-on work will help further expand AADC's business base and continue the development of an expanded aerospace industry in Alaska.

Another important accomplishment by the Board of Directors, lead by Chair Sharon Anderson, has been the development of a new generation of leadership at AADC. In February 2008, I replaced Pat Ladner as Chief Executive Officer (CEO). Shortly thereafter, Sharon Anderson and I had the good fortune of recruiting Thomas R. Case, USAF Lt. Gen. (Ret) to serve as President and Chief Operating Officer (COO). With my 27 years of rocket manufacturing and Space Shuttle launch experience combined with Tom's experience, AADC is well positioned for significant growth in the future. AADC has added other professional staff with strong experience in the aerospace industry and we will continue to recruit valuable employees for the future.

AADC has a professional well-rounded board, strong support from the state, world-class capabilities, excellent personnel, and a record of 14 successful launches. I am confident we will be able to retain the business we have built, take on new customers and pursue even more opportunities in the future.

Sincerely,
Dale K. Nash

President & Chief Operating Officer Letter

To the Governor, the State Legislature and the People of Alaska:

I am thankful for the opportunity to serve with the team of dedicated AADC professionals. Having had 33 years with the Air Force and joint combatant commands, and nearly six years with the University of Alaska, I was delighted to join AADC in April 2008 as President and Chief Operating Officer. I am pleased to partner with our CEO, Dale Nash, who brings over 27 years in the aerospace industry, including 14 years on the Space Shuttle Program.

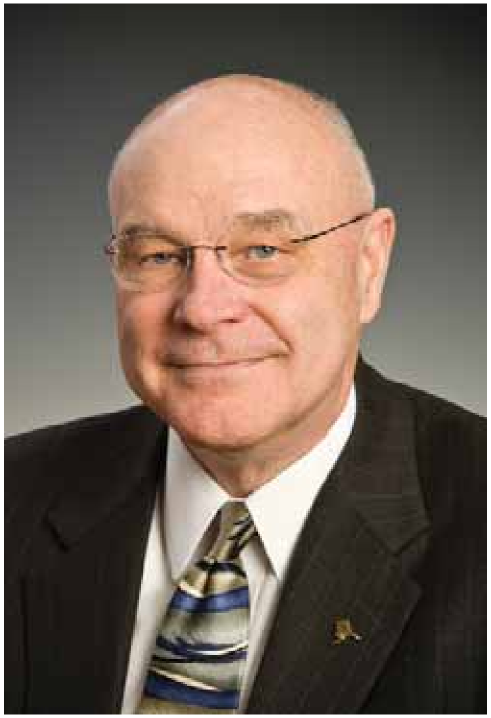
I am confident that Alaska Aerospace and the Kodiak Launch Complex are poised for significant growth as the vital role of space-based systems becomes increasingly important for our nation. I have long advocated the value of Alaska's strategic location for logistics. We have a strategic location advantage for space launch operations. Polar orbits are a natural for us with our unobstructed trajectories to the south.

Our launch facilities are among the newest and best equipped anywhere. Plans to construct an additional launch pad and rocket motor storage facility will significantly increase our ability to meet the needs of additional launch customers. Completion of this project will also position us to lead the charge in providing rapid launch capability, a mission that is growing in importance.

I am encouraged by our work this year with the National Oceanic and Atmospheric Agency (NOAA). NOAA's interest in expanding the use of unmanned aircraft systems for science missions supporting climate change research and related missions in the Arctic, Pacific and Gulf of Mexico points to another area of aerospace opportunity for Alaska.

I am optimistic that Alaska is on the path to becoming a recognized center of aerospace excellence, helping meet nationally significant mission requirements while expanding economic opportunities for Alaskans.

I look forward to the challenges and opportunities ahead in 2009.



Sincerely,
Thomas R. Case
Lt. Gen. USAF (Ret.)

GARY STEVENS
Senate President, Kodiak

"AADC's Kodiak Launch Complex has been an integral part of Kodiak's economy for some time now, providing numerous employment opportunities for residents as well as a boost for local hotels and other businesses during launches. Major repairs to the Chiniak Highway needed to ensure safe transportation of materials to the launch complex have also been a boon to all island residents.."

Year in Review

LAUNCH SERVICES

In 2008, Alaska Aerospace Development Corporation (AADC) had two successful launches, one "pathfinder" exercise (a practice drill of a launch), and the Missile Defense Agency's (MDA) Near Field Infrared Experiment (NFIRE) with more activity planned through 2011. AADC, through both the Kodiak Launch Complex (KLC) and the rocket tracking capability of the Cordova Off-Axis Site, successfully supported the launch of the FTX-03 target and FTG-05 integrated target vehicle for the MDA. To date, there have been fourteen launches from KLC, all successful.

A pathfinder for the next MDA launch took place during September and October 2008. The pathfinder used a mock-up rocket constructed to the exact size and weight of an actual rocket as a practice for a new rocket class. The exercise ensured that planned operational and safety procedures were correct.

With each successful launch, AADC's reputation in the launch industry grows. The Corporation's success rate has brought a growing number of new customers and diverse business opportunities to AADC and the KLC. AADC will provide support for future MDA target missions as well as two missions with the United State Air Force in 2009.

EXPANSION

Alaska Aerospace is set for the next stage of growth, which includes expanding opportunities for Alaska technology support companies. The Corporation has laid the ground work for an additional launch pad and a rocket motor storage facility by accomplishing the necessary environmental work, obtaining permits and completing the required engineering. Although the KLC provides excellent launch service with the current launch pads, AADC is growing in order to support an expanding launch schedule.

AADC foresees continued growth in local Alaskan hiring for the development, construction and maintenance of new facilities as well as the addition of industry professionals to the core team. The Corporation is currently in discussions with aerospace customers regarding additions to KLC launch services for Operationally Responsive Space (ORS), Unmanned Aircraft Systems (UAS) programs for NOAA, and increased USAF launches.

The RSTS served as the prime range safety system for two missions conducted at the KLC in 2008 and will be used in all future missions.

INFRASTRUCTURE

One of AADC's main responsibilities is the maintenance of the facilities and infrastructure at the KLC. During 2008 multiple large-scale maintenance projects were accomplished.

- In spring 2008, a two year corrosion control project on the Launch Services Structure (LSS) was completed. This involved a three-coat paint restoration process of zinc based under-coatings, intermediate paint coatings and sealant top-coat.
- An upgraded range-wide HVAC system was installed to increase the functionality of range facility monitoring for temperature and humidity for flight hardware.
- In the Integrated Processing Facility (IPF), a sandwich style roof was installed. This type of roofing system is designed to prevent freeze/thaw conditions that create interior condensation in metal-sheeted buildings.
- In an effort to increase energy efficiencies, AADC performed an energy survey of all KLC facilities. AADC staff began implementing range-wide energy conservation procedures and analyzing energy use and consumption cycles. Facilities were modified with motion sensor switches and alternate lighting plans were initiated to reduce energy consumption and cost.

RANGE SAFETY AND TELEMETRY SYSTEM

Alaska Aerospace owns and operates the Range Safety and Telemetry System (RSTS). The RSTS is a GPS-based, S-band telemetry receiving and UHF command destruct transmitting system. This quadruple redundant system is comprised of two Mobile Operations Centers, two extended telemetry vans, four dual-purpose 5.4 meter telemetry receiving transmitting antennas, and four omni-directional transmitting antennas. The prime purpose of this state-of-the-industry system is to provide the range safety and telemetry functions necessary to track, receive, and process critical flight data during a missile launch.

The RSTS served as the prime range safety system for two missions conducted at the KLC in 2008 and will be used in all future missions. The RSTS has now successfully completed the necessary field trials to receive certification from MDA and the Federal Aviation Administration (FAA). With this certification, the RSTS can serve as a stand-alone range safety system for future Government and commercial missile launches conducted at KLC. This improves AADC's ability to attract customers to the KLC.

The RSTS was also instrumental in an MDA sponsored missile launch from Vandenberg Air Force Base (VAFB), CA, by serving as a communications node with the Near Field Infrared Experiment (NFIRE) satellite just before it entered into line of sight with VAFB. The RSTS involvement with the NFIRE mission has led to potential follow-on work involving RSTS components deploying to French Polynesia to support other missile launches from VAFB.

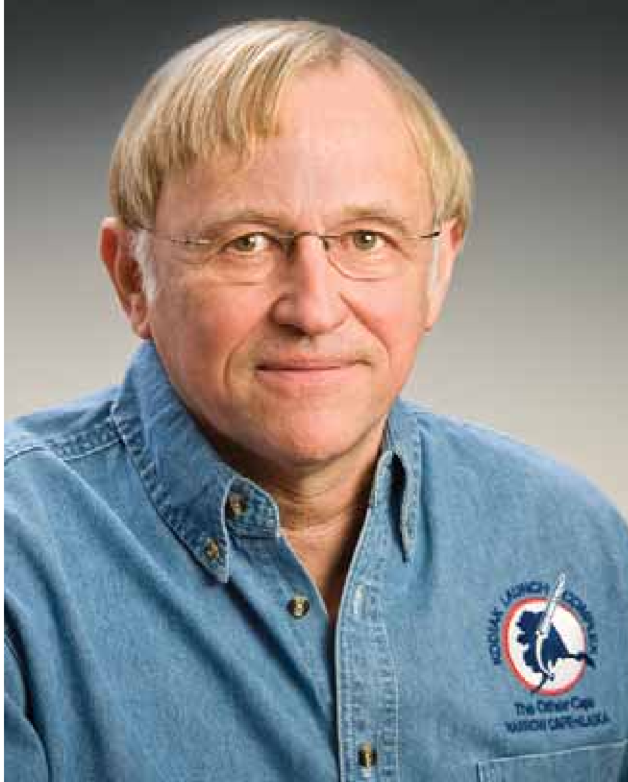
THE NEXT GENERATION

JOHN ZBITNOFF

Director of KLC Operations

John Zbitnoff, Director of Operations at the Kodiak Launch Complex, has been with the KLC in one capacity or another since dirt was first turned at Narrow Cape in 1998, when A-K Construction, a Kodiak-based construction company that John co-owned, started construction on the facility. The company was eventually sold and John retired, but came back to work with AADC as a contractor in 2003 and became an employee of the Corporation in 2007. John and his wife, Jocelyn, are long-time Kodiak residents. They have one son in the construction industry in Kodiak and two sons in Bozeman, MT.

"I've seen the KLC grow and develop from its inception, and I'm pleased to be part of this team," John says.



THE NEXT GENERATION

JEFF ROBERTS

Aerospace Engineer III

Jeff Roberts joined the Corporation in June, 2008. An Alaska resident since 2001, Jeff is a West Point graduate with a degree in aerospace engineering. At AADC he helps plan launches and during launches he operates the Command Destruct System, a vital part of the Range Safety System. This ensures safe flight of the rocket and flight termination if the rocket veers off course or there is a malfunction. Jeff spent 12 years in the U.S. Army, 8 of them in the Army's Airborne Infantry, with multiple assignments in Iraq and Afghanistan. Jeff met his wife, Janelle, in Anchorage, and they have four children.

"I like working at Alaska Aerospace because it's a small organization where what I do has a big impact. In a large aerospace company I would be just a cog in a huge machine."

The Corporation is dedicated to building relationships and enhancing the quality of life in the communities where we work and live.

COMMUNITY INVOLVEMENT

Alaska Aerospace is committed to safely operating the Kodiak Launch Complex, providing economic opportunities for Alaskans, minimizing the environmental impact of operations and being a good neighbor for nearby residents and the Kodiak community. The Corporation is dedicated to building relationships and enhancing the quality of life in the communities where we work and live.

Our employees and their families touch many lives in Alaskan communities, and it is the people at AADC who make the Corporation what it is. With support and encouragement from AADC, our employees support community organizations and projects each year by donating time and knowledge. AADC employees help meet the social needs of the community with participation in the State of Alaska SHARE program. The Corporation supports community organizations such as the Rotary, Chamber of Commerce, and Commonwealth North. In Kodiak, AADC is a member of the Partners in Kodiak's Economy (PIKE) with the Kodiak Chamber of Commerce and a sponsor of the Pasagshak State Park.

EDUCATION AND YOUTH

AADC believes that a positive way to prepare a community for the future is to provide its youth access to education to help them achieve their potential. Since 1994, AADC has continued to support the Alaska Aerospace Scholarship Fund through a gift agreement with the University of Alaska Foundation. In 2008, the University of Alaska awarded 23 scholarships, nine of which were initial awards and fourteen continuing scholarships. Since inception of the program, a total of 59 scholarships have been funded. In addition, AADC offers college internships at the KLC each summer. AADC has also expanded co-sponsorship of the Space Explorers Program, an Internet-based science curriculum and also supports the Challenger Learning Center of Alaska, a vital educational resource that inspires students to study science, math and technology through a hands-on space exploration simulation medium.

Looking Forward

Opportunities at Hand

Alaska Aerospace Development Corporation continues to prove itself as an organization that is able to provide state-of-the-industry spaceport launch services that are both cost effective and meet the highest safety and quality standards. In December 2008, AADC successfully launched the fourteenth rocket at the KLC. With the conclusion of 2008, AADC has successfully completed eighteen years of operation and the proven success of AADC's capabilities continues to provide new business opportunities.

KLC is located at Narrow Cape on Kodiak Island. The facility consists of 3,717 acres of land conveyed to AADC under terms of an Interagency Land Management Agreement with the Alaska Department of Natural Resources. The agreement requires AADC to manage the area and ensure public access except when hazardous operations are actively underway. To ensure public safety during hazardous operations, the agreement provides AADC the authority to close public access to an additional 7,000 acres of land abutting KLC.

AADC completed the Kodiak-Kenai Fiber Project in 2008, upgrading communications for the communities of Kodiak Island, the Kenai Peninsula and at KLC. Fiber provided these communities the capabilities to provide web based classes, economical television cable services, e-commerce, expanded e-medical services, and reliable communication services. Fiber optic capabilities enabled AADC to expand communication capabilities to its customers in a highly technical and dynamic environment. This is vital to help ensure KLC continues to be an integral asset to current and future customers.

The Range Safety and Telemetry System at KLC has completed the necessary steps for system certification. Planned technological upgrades to the RSTS will enable AADC to continue to provide state-of-the-industry data receiving and processing capabilities. AADC is also continuing to expand and develop internal technical expertise in operations and maintenance of the RSTS system. The ability to provide a viable and mobile system is an attractive feature that provides customers a cost effective telemetry solution.

AADC continues to pursue business opportunities across the aerospace industry. The requirement for spaceport facilities to meet rapid response launch capabilities continues to expand. The ability to meet this requirement provides AADC with an opportunity to be a key service provider to organizations upgrading and replacing key space infrastructure components. This capability requires a spaceport with the ability to quickly prepare and launch vehicles with a variety of payloads that is cost competitive and ensures the highest quality standards are met. AADC's current facilities and the planned construction of an additional launch pad and rocket motor storage facility will provide strategic opportunities for AADC in the future.

As technology continues to expand and the current on-orbit space assets are upgraded and replaced, AADC will be able to provide a variety of services to meet customer needs in the aerospace industry. The key management and technical skill set of Alaska Aerospace along with being able to provide a cost effective and quality service is an excellent combination for cultivating continued success.

THE NEXT GENERATION

SHAD COMBS

Aerospace Engineer V

Shad Combs joined the AADC team as a contractor employee at the Kodiak Launch Complex in February, 2007, where he worked with the Range Safety and Telemetry System. He later joined Alaska Aerospace as an employee in March, 2008. Shad now works in the Anchorage office and is one of AADC's principal liaisons with launch customers.

"For a young engineer this is a great opportunity. In Huntsville I worked in a building with hundreds of other engineers, all in cubicles and in that environment it was difficult for one person to stand out or make a contribution that was recognized. It's different here." Shad says.

Economic Impact of Kodiak Launch Complex in 2008

This study, completed by Northern Economics, Inc., quantifies the economic contribution of on-going operations and projects of the Kodiak Launch Complex (KLC) on the local economies of Kodiak, Anchorage and Cordova as well as the economy of the state as a whole.

For the 2008 fiscal year (July 1, 2007 to June 30, 2008), the Alaska Aerospace Development Corporation KLC operations and projects total economic contribution to the state amounted to $28.7 million in economic output. AADC continued to purchase goods and services from local businesses. AADC directly supported 260 Alaska businesses and generated 235 direct, indirect and induced jobs that paid a total of $12.5 million in wages and salaries within the state.

The economic impact of AADC's operations and projects was most significant in the Kodiak region. The total direct, indirect and induced local impact to the Kodiak economy amounted to $17.8 million, supporting over a hundred local suppliers, and generating 155 local jobs with $7.7 million in local payments for wages and salaries. The KLC attracted 420 mission related and 562 non-mission related visits to Kodiak during the 2008 fiscal year. These visits contributed approximately $365,000 in business sales for hotels, restaurants, and other retail and service sectors in Kodiak. Besides the economic impact generated in the tourism or hospitality sector, logistics activities during launches also directly benefited local contractors.

Economic Output or Business Sales

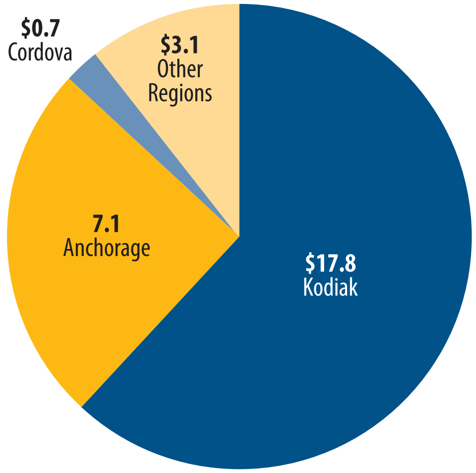
Region	Local Spending Direct	Indirect + Induced	Total
Kodiak	$13,573,583	$4,260,086	$17,833,669
Anchorage	$4,355,572	$2,789,986	$7,145,558
Cordova	$497,934	$203,915	$701,849
Rest of the state	$1,745,777	$1,305,498	$3,051,275
Total Statewide	$20,172,867	$8,559,485	$28,732,351

Jobs

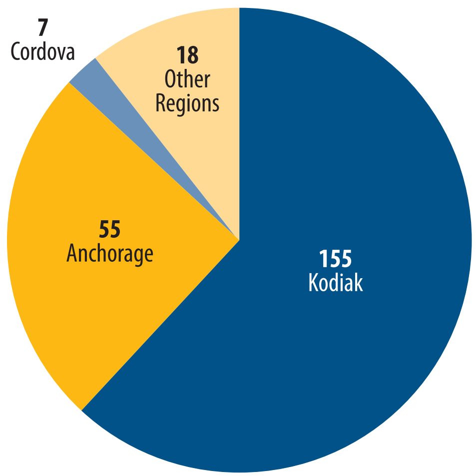
Region	AADC	Contractor	Indirect + Induced	Total
Kodiak	21	24	109	205
Anchorage	17	3	35	55
Cordova	--	3	4	7
Rest of the state	--	0	18	18
Total Statewide	38	30	166	235

Labor Income

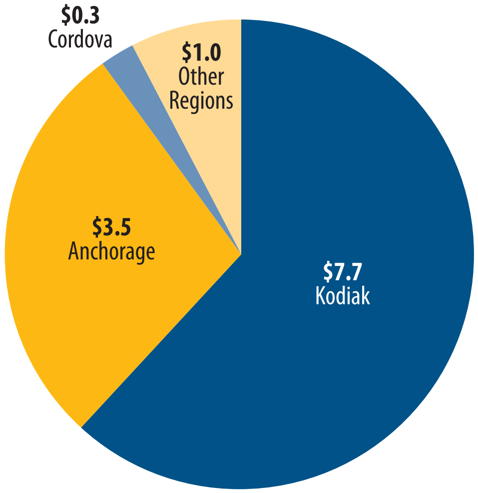
Region	AADC	Contractor	Indirect + Induced	Total
Kodiak	$1,581,131	$910,101	$5,208,981	$7,700,214
Anchorage	$1,784,585	$125,472	$1,609,940	$3,519,996
Cordova	--	$172,376	$123,634	$296,010
Rest of the state	--	--	$958,554	$958,554
Total Statewide	$3,365,716	$1,207,949	$7,901,109	$12,474,774



FY08
TOTAL ECONOMIC CONTRIBUTION
($millions)



FY08
TOTAL JOBS GENERATED



FY08
TOTAL LABOR INCOME
($millions)

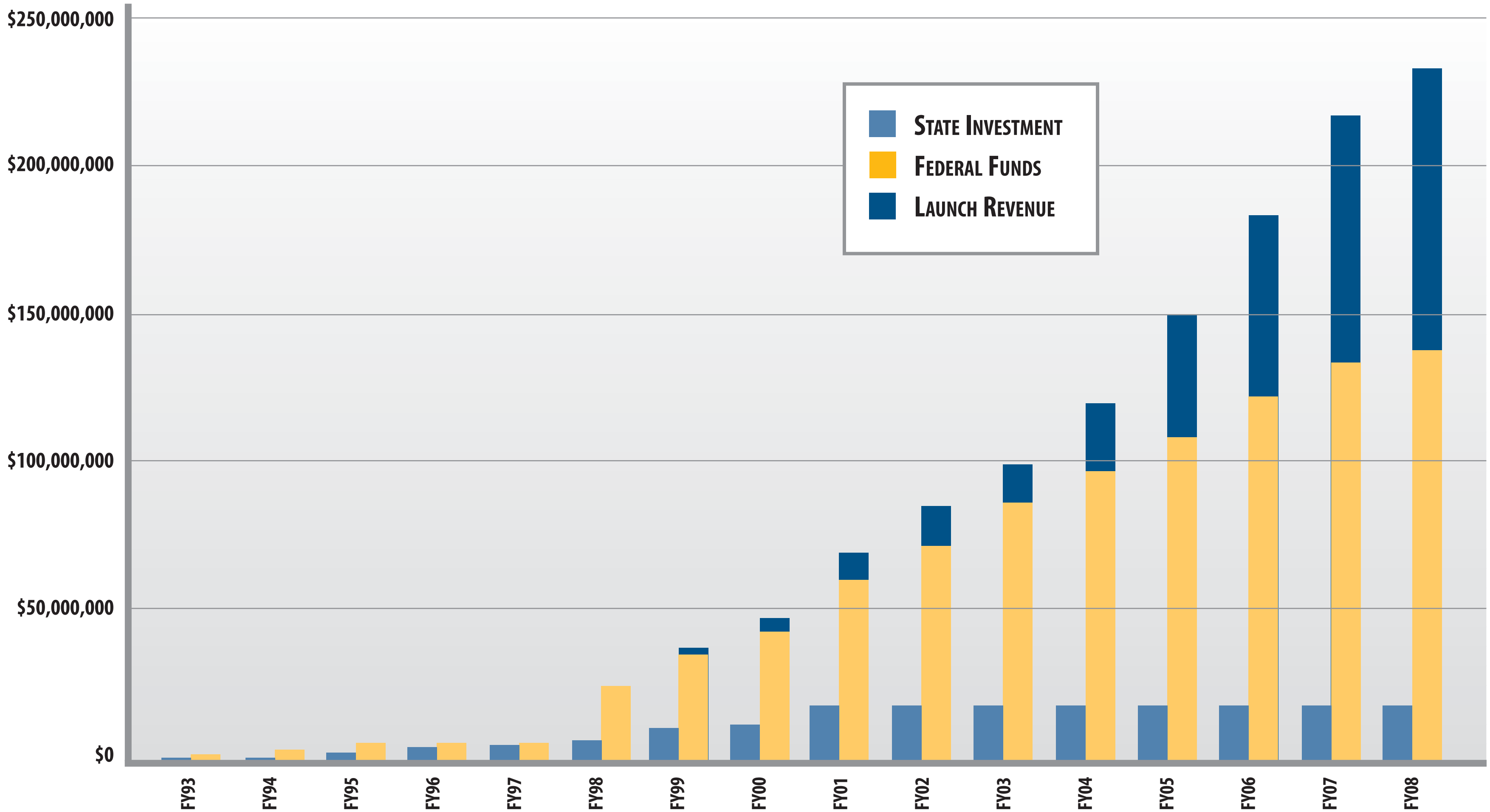
THE NEXT GENERATION

TODD LEITHEISER
Deputy Director of KLC Operations

Todd Leitheiser is Deputy Director of Operations at the KLC with primary responsibility for instrumentation, telemetry and telecommunications including the vital range safety system. A long-time resident of Kodiak, Todd is a retired U.S. Coast Guard telephone technician and manager who has been with Alaska Aerospace since 2004. He and his wife, Dawn, live in Kodiak. They have two children in college.

"Working with the KLC team is very enjoyable. I want to advance our technology systems and help the complex grow. This will help our customers by doing what our competitors do for less. We're still growing into our proper niche."

Leverage of Initial Alaska Investment



- Every Alaska dollar invested has been leveraged
- Initial financial investment of $15.6 million provided by State of Alaska
  - Alaska Science and Technology Foundation (ASTF)
  - $9 million for capital expenditures; $6.6 million for operations
- The initial State of Alaska investment has returned a total of $232.5 million
  - $93.5 million in launch revenues (MDA, Air Force, Lockheed Martin)
  - $139 million in capital investments (NASA, US Air Force and US Army)

Independent Auditor's Report

Board of Directors
Alaska Aerospace Development Corporation
Anchorage, Alaska

We have audited the accompanying basic financial statements of Alaska Aerospace Development Corporation (AADC), a component unit of the State of Alaska, as of and for the year ended June 30, 2008. These financial statements are the responsibility of AADC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 basic financial statements referred to above present fairly, in all material respects, the financial position of AADC as of June 30, 2008, and the respective changes in the financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2008 on our consideration of AADC's internal control over financial reporting and 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 14 through 16 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Mikunda, Cottrell

Anchorage, Alaska
October 21, 2008

Management's Discussion and Analysis

June 30, 2008

Our discussion and analysis of Alaska Aerospace Development Corporation's (AADC) financial performance provides an overview of AADC's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with AADC's financial statements starting on page 17.

USING THIS FINANCIAL REPORT

This report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets on pages 17 and 18, provide information about the activities of AADC and present an overview of AADC's finances. Total net assets decreased from $93.7 million to $90 million. The analysis below focuses on the net assets of AADC's business-type activities.

Table 1 Statement of Net Assets

	Current Year	Prior Year	Change	Percent Change
Assets:				
Current assets	$ 17,572,384	19,897,374	(2,324,990)	(11%)
Capital assets, net	86,112,037	88,131,307	(2,019,270)	(2%)
Total assets	103,684,421	108,028,681	(4,344,260)	(4%)
Liabilities:				
Current liabilities	1,812,697	2,065,028	(252,331)	(12%)
Noncurrent liabilities	11,905,853	12,258,129	(352,276)	(3%)
Total liabilities	13,718,550	14,323,157	(604,607)	(4%)
Net assets:				
Invested in capital assets	86,112,037	88,131,307	(2,019,270)	(2%)
Unrestricted	3,853,834	5,574,217	(1,720,383)	(31%)
Total net assets	$ 89,965,871	93,705,524	(3,739,653)	(4%)

The total net assets decrease of 4% consists primarily of increase in depreciation costs from capitalized projects at Kodiak Launch Complex (KLC), amortization costs from the fiber optic Indefeasible Right of Use (IRU) agreement which was placed in service in July 2007, and decrease in launch activity. Noncurrent liabilities include $582 thousand of net pension obligations which remained unchanged from 2007.

BUSINESS-TYPE ACTIVITIES

AADC's operating revenues are generated through launch service and support contracts with the Missile Defense Agency (MDA) and commercial contract to provide communications connectivity for the Department of Defense. Revenues are down slightly from the prior year due to decreased MDA launch activity at the Kodiak Launch Complex (KLC). Depreciation continues to be a significant operating expense along with the amortization of the fiber optic IRU agreement which was placed in service in July 2007. Table 2 below focuses on the changes in net assets of AADC's business-type activities.

Table 2 Changes in Net Assets

	Current Year	Prior Year	Change	Percent Change
Operating revenues	$ 17,678,071	20,464,554	(2,786,483)	(14%)
Operating expenses:				
Personal services	5,261,000	4,566,981	694,019	15%
Travel	365,229	293,584	71,645	24%
Contractual services	9,806,797	13,328,472	(3,521,675)	(26%)
Supplies	1,023,906	1,026,556	(2,650)	0%
Equipment	638,767	1,064,509	(425,742)	(40%)
Depreciation	5,548,843	4,247,653	1,301,190	31%
Total operating expenses	22,644,542	24,527,755	(1,883,213)	(8%)
Net operating loss	(4,966,471)	(4,063,201)	(903,270)	22%
Non-operating revenues (expenses):				
Interest income unrestricted	186,958	258,889	(71,931)	(28%)
Loss on disposal of capital assets	(36,287)	-	(36,287)	-
PERS relief from the State of Alaska	349,566	-	349,566	-
Cooperative Agreements	17,700	(27,081)	44,781	165%
Total non-operating revenues	517,937	231,808	286,129	123%
Loss before capital contributions	(4,448,534)	(3,831,393)	(617,141)	16%
Capital contributions	708,881	13,493,965	(12,785,084)	(95%)
Changes in net assets	(3,739,653)	9,662,572	(13,402,225)	(139%)
Net assets – beginning of the year	93,705,524	84,042,952	9,662,572	11%
Net assets – end of the year	$ 89,965,871	93,705,524	(3,739,653)	(4%)

- Launch support revenues decreased from prior year due to reduced MDA launch activity at KLC. During 2008, AADC supported one MDA launch and provided pre-launch services for a MDA launch completed in September 2008. During 2007, AADC supported two MDA launches and pre-launch support for a third launch. Management forecasts an increase in operating revenues due to two scheduled MDA launches during 2009 and pre-mission support for an Air Force launch scheduled for September 2009.

- Overall operating expenses during 2008 decreased due to reduced launch support activity. However, costs for expanded corrosion control and facility maintenance programs at KLC increased over prior year. As the facility continues to mature, management expects preventative maintenance, corrosion control and repair costs to continue to increase. In addition, management anticipates launch support expenses will increase in proportion to the launch operating revenues described above.

- Depreciation and amortization expense in fiscal year 2008 increased by $1.3 million from fiscal year 2007 due to KLC capital additions and the completion of the fiber optic connectivity in 2007. With the completion of the fiber optic connectivity in 2007, the IRU agreement is being amortized over 25 years. Management expects the depreciation expense to increase in future years with the completion of projected capital projects.

- During 2008, personal service expenses increased $350 thousand as a result of actuarial required funding for the Public Employees' Retirement System (PERS). The Alaska Legislature provided funding relief to all PERS participating employers and agencies, off-setting the increased PERS employer costs. The PERS relief funding is reported as non-operating revenue.

- AADC has not received any general funds from the State of Alaska since 2002. AADC operations are funded through launch services contracts.

AADC's Budgetary Highlights

The State of Alaska approves AADC's budget annually. Accordingly, neither the Board of Directors nor management has the authority to modify the budget. However, the budget has historically included provisions granting AADC "receive and expend authority". This allows AADC to contemporaneously receive funding from launch customers and expend funds as necessary to provide services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, AADC had $86 million invested in various capital assets both in Kodiak and Anchorage that support its mission to foster the aerospace industry (see Table 3 below). This amount, net of accumulated depreciation/amortization, represents a decrease in net value of $2 million, or (2%), from the prior year.

Table 3 Capital Assets at Year-end (Net of Depreciation)

	Current Year	Prior Year	Change	Percent Change
Office furniture & equipment	$ 217,630	316,543	(98,913)	(31%)
Vehicles & other equipment	26,935,039	28,195,563	(1,260,524)	(4%)
Buildings and structures	32,054,160	31,741,334	312,826	1%
Infrastructure	5,423,149	5,790,726	(367,577)	(6%)
Construction in progress	1,703,992	1,484,988	219,004	15%
Other assets	19,778,067	20,602,153	(824,086)	(4%)
Total capital assets	$ 86,112,037	88,131,307	(2,019,270)	(2%)

The overall change in capital assets includes the total additions of $3.6 million, deletions of $47 thousand, net of depreciation expense of $5.5 million. Construction in progress is related to design for a third launch pad, rocket motor storage facility design and other facility improvements.

Management's Discussion and Analysis
June 30, 2008

Debt Administration

AADC has no long-term liabilities that require debt administration. AADC has the authority to issue bonds but has not issued any to date.

AADC participates in the State of Alaska Risk Management Pool, which costs considerably less than commercial insurance. Other obligations include accrued leave, compensated absences, and personal leave. More detailed information about AADC's long-term liabilities are presented in the financial statement notes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

AADC's Board considered many factors when setting the fiscal year 2009 budget, such as construction projects, launch schedules, launch fees that will be charged for the business-type activities, and depreciation of the KLC facilities. Operating revenues are projected to be $20 million. Management intends to utilize the National Guard Cooperative Agreement for further KLC infrastructure development.

AADC is commissioning an independent "2008 Economic Impact Study". The study is anticipated to be completed in the spring of 2009 and copies will be available on the Corporation's website at www.akaerospace.com.

CONTACTING AADC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of AADC's finances and to show AADC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Alaska Aerospace Development Corporation at 4300 B Street, Suite 101, Anchorage, Alaska, 99503, (907) 561-3338.

James Van Atta, AADC

Statement of Net Assets

June 30, 2008

(With Comparative Amounts for 2007)

Assets		2008	2007
Current assets:			
Cash and cash equivalents	$	14,680,285	17,442,391
Accounts receivable		1,693,332	1,439,908
Unbilled receivables		804,009	620,318
Inventory		394,758	394,757
Total current assets		17,572,384	19,897,374
Capital assets net of accumulated depreciation and amortization:			
Office furniture and equipment		217,630	316,543
Vehicles and other equipment		26,935,039	28,195,563
Buildings and structures		32,054,160	31,741,334
Infrastrucure		5,423,149	5,790,726
Construction in progress		1,703,992	1,484,988
Other assets		19,778,067	20,602,153
Total capital assets, net		86,112,037	88,131,307
Total assets	$	103,684,421	108,028,681

Liabilities and Net Assets

Liabilities:			
Current liabilities:			
Accounts payable		961,225	1,397,703
Accrued leave and compensation		851,472	667,325
Total current liabilities		1,812,697	2,065,028
Noncurrent liabilities:			
Deferred revenue		11,323,274	11,675,550
Net pension obligation		582,579	582,579
Total noncurrent liabilities		11,905,853	12,258,129
Total liabilities		13,718,550	14,323,157
Net assets:			
Invested in capital assets		86,112,037	88,131,307
Unrestricted		3,853,834	5,574,217
Total net assets		89,965,871	93,705,524
Total liabilities and net assets	$	103,684,421	108,028,681

See accompanying notes to financial statements

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2008
(With Comparative Amounts for 2007)

	2008	2007
Operating revenues	$ 17,678,071	20,464,554
Operating expenses:		
Personnel services	5,261,000	4,566,981
Travel	365,229	293,584
Contractual services	9,806,797	13,328,472
Supplies	1,023,906	1,026,556
Equipment	638,767	1,064,509
Depreciation and amortization	5,548,843	4,247,653
Total operating expenses	22,644,542	24,527,755
Net operating loss	(4,966,471)	(4,063,201)
Nonoperating revenues (expenses):		
Interest income unrestricted	186,958	258,889
Loss on disposal of capital assets	(36,287)	-
PERS relief from State of Alaska	349,566	-
Cooperative agreement	17,700	(27,081)
Total nonoperating revenues (expenses)	517,937	231,808
Loss before capital contributions	(4,448,534)	(3,831,393)
Capital contributions	708,881	13,493,965
Change in net assets	(3,739,653)	9,662,572
Net assets - beginning of the year	93,705,524	84,042,952
Net assets - end of the year	$ 89,965,871	93,705,524

See accompanying notes to financial statements

Statement of Cash Flows
Year Ended June 30, 2008
(With Comparative Amounts for 2007)

	2008	2007
Cash flows from operating activities:		
Receipts from contracts	$ 17,240,956	21,872,490
Payments to suppliers	(12,271,178)	(15,414,827)
Payments to employees	(4,727,287)	(4,213,725)
Net cash provided by operating activities	242,491	2,243,938
Cash flows from noncapital financing activities:		
Cooperative agreement received (paid back)	17,700	(27,081)
Cash flows from capital and related financing activities:		
Capital contributions received	708,881	13,493,965
Proceeds from sale of fixed assets	1,000	-
Purchase of other assets	-	(12,589,034)
Purchase of capital assets	(3,566,860)	(914,732)
Increase in deferred revenue	(352,276)	(553,476)
Net cash used by capital and related financing activities	(3,209,255)	(563,277)
Cash flows from investing activities:		
Interest received	186,958	258,889
Net increase (decrease) in cash and cash equivalents	(2,762,106)	1,912,469
Cash and cash equivalents at beginning of year	17,442,391	15,529,922
Cash and cash equivalents at end of year	$ 14,680,285	17,442,391
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	(4,966,471)	(4,063,201)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amorization	5,548,843	4,247,653
Noncash expense - PERS relief	349,566	-
Decrease (increase) in accounts receivables	(253,424)	1,752,016
Increase in unbilled receivables	(183,691)	(228,127)
Decrease (increase) in inventory	(1)	1,201
Increase (decrease) in accounts payable	(436,478)	299,264
Increase (decrease) in due to federal government	-	(115,953)
Decrease in deferred revenue	-	(2,171)
Increase in net pension obligation	-	265,485
Increase in accrued expenses	184,147	87,771
Net cash provided by operating activities	$ 242,491	2,243,938

See accompanying notes to financial statements

Notes to Financial Statements

June 30, 2008

(1) Organization

The accompanying financial statements include all the activities of Alaska Aerospace Development Corporation (AADC or the Corporation). AADC was created in 1991 by an act of the State of Alaska Legislature (Legislature), Alaska Statute 14.40.821. AADC is a public corporation of the State established to promote the general welfare of the people in the state by encouraging long-term economic growth of the state by promoting, financing, developing and operating space launch and related facilities in Alaska.

On September 24, 2003, the Federal Aviation Administration issued a commercial space transportation license to operate a launch site at Kodiak Launch Complex (KLC) located on Kodiak Island, Alaska. The license term is five years from the effective date on the license. In September 2008, the Federal Aviation Administration renewed the license term for an additional five years. The Kodiak Launch Complex (KLC) has the capabilities for launching telecommunications, remote sensing and space science payloads of up to 8,000 pounds into low earth polar orbits. Construction on the KLC was completed in 2000. The launch complex is located on Narrow Cape, about 45 miles south of Kodiak on Kodiak Island, Alaska.

The financial activities of AADC are included in the State of Alaska's Comprehensive Annual Financial Report.

AADC is authorized to issue its own bonds and other obligations in such principal amounts as will be necessary to provide for sufficient funds for carrying out its purpose. Obligations issued are not deemed to constitute a debt of the State of Alaska unless authorized by the Legislature. No bonds have been issued to date.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accounts of AADC are organized as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Based upon the accounting and reporting standards set forth in Governmental Accounting Standards Board (GASB) Statement 20, the Corporation has opted to apply only those accounting and reporting pronouncements issued by the GASB subsequent to November 30, 1989.

In addition to the Enterprise Fund, Section 14.40.841 of the Alaska State Statutes established a revolving fund for AADC. The fund consists of appropriations made by the legislature, rents, fees or other money or assets transferred to the revolving fund by AADC. The amounts may be pledged to the payment of bonds of the Corporation or expended for the purposes of the Corporation as established by State Statute. This Section as amended states that the Corporation shall have custody of the fund and shall be responsible for its management and invest amounts in the fund in accordance with an investment policy adopted by the Corporation per AS 37.10.071. Disbursements may be made per AS 37.25.050 and reported annually in accordance with AS 14.40.866(b)(1).

During 2008, AADC expended monies from the fund for purposes of the Corporation. The Attorney General expressed an opinion dated March 15, 1995 that interest earned in a fund may be retained by AADC in that fund. The fund earned $721,358 of interest in fiscal year 2008. Of that amount, $534,400 is recorded in deferred revenue as it relates to interest on capital advances, and $186,958 is included in the current year activities.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements are reported using the "economic resources measurement focus," and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. AADC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Reserve Fund

Alaska Statute Sec. 14.40.951 created a reserve fund to account primarily for bond payments for principal and interest. The fund remained unfunded as of June 30, 2008.

State Appropriations

Appropriations may be made by the Legislature for AADC in the State revolving fund using monies from agency transfers and fees generated by AADC.

Other Accounting Basis

A proposed operating budget for the operations of the Corporation for the following fiscal year as well as a capital improvements budget for the next fiscal year are prepared annually in compliance with the Executive Budget Act (AS 37.07) and are subject to the State of Alaska's approval process. Appropriations for the operating budget lapse at the end of each fiscal year. Appropriations for capital projects, various grants and programs may carry over at year end.

Cash and Cash Equivalents

For the purpose of the statement of net assets, all highly liquid debt instruments with original maturities of three months or less are considered cash and cash equivalents. According to AADC's investment policy, funds in excess of current operating needs can be invested in quality securities to provide the maximum return on investment for an appropriate risk. These investments must have the ability to provide immediate liquid funds when needed. Quality securities include securities that are rated Aaa or higher by Moody Corporation's rating and money market accounts consisting of securities eligible for direct purchases.

Receivables

AADC utilizes the allowance method of accounting to estimate losses due to uncollectible accounts. As of June 30, 2008, no allowance for doubtful accounts has been recorded due to AADC's past experience relative to collecting all receivables.

Unbilled Receivables

Unbilled amounts on cost-reimbursement contracts represent recoverable costs and accrued profits not yet billed. These amounts are billable upon receipt of contract funding, final settlement of incurred cost claim, or contract completion. As of June 30, 2008, no allowance for unrecoverable costs has been recorded due to AADC's past experience relative to collecting all receivables.

Inventories

Inventories consist of expendable supplies and critical spare parts for the Kodiak Launch Complex, and are carried at the lower of cost (first-in, first-out) or market (net realizable value). Inventory costs are reported as expenses in the period when inventory items are used, rather than in the period purchased.

Capital Assets

During 2007, AADC increased the capitalization requirement from $1,000 to $5,000 for capital assets purchased or acquired. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Computer Software and Related Equipment	3 years
Office Furniture and Related Equipment	5 years
Vehicles and Other Equipment	5 years
Heavy Equipment and Machinery	7-10 years
Kodiak Launch Complex Buildings/Structures	20 years
Kodiak Launch Complex Infrastructure	20 years

Compensated Absences

Personal leave is accrued as follows: 2 days per month for employees with up to two years service; 2.25 days per month for employees with two to five years service; 2.5 days per month for employees with five to ten years service; and 3 days per month for employees with over ten years service. AADC's employees are compensated through the State of Alaska payroll system. AADC accrues unused leave at year end.

Investments

Alaska Statutes authorize AADC to establish trust funds for the investment and deposit of bond proceeds. No bonds have been issued to date.

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. AADC is a political subdivision of the State of Alaska and is therefore exempt from state and federal taxes.

Deferred Revenue

Amounts received from the cooperative agreement restricted as to use and not yet expended, are shown as deferred revenue.

Operating and Non-Operating Revenue

Income related to professional services and operation of the Kodiak Launch Complex is considered operating revenue. All other income is considered nonoperating revenue.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Prior Year Financial Information

The financial statements include certain prior-year comparative information in the Statement of Net Assets, Statement of Revenue, Expenses and Changes in Net Assets and Statement of Cash Flows. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2007, from which the prior year information was derived.

Notes to Financial Statements
June 30, 2008

(3) Cash and Cash Equivalents
At June 30, 2008, AADC had the following investments:

Investment Type	
Cash and Money Market	$11,296,091
Municipal Coupons	1,839,375
Preferred Securities	2,375,530
Net invested assets	15,510,996
Outstanding deposits and disbursements	(830,711)
Total cash and cash equivalents	$14,680,285

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from increasing interest rates, AADC's investment policy limits individual fixed rate securities to five years in maturity. The investments in the financial institutions at June 30, 2008 comprised of preferred securities, money market accounts and municipal coupons rated Aaa or higher by the Moody's Corporation. The maturities of all the securities were 45 days or less.

Credit Risk
Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The investments in the other financial institutions at June 30, 2008 are comprised of preferred securities, money market accounts, and municipal coupons rated AAA or higher by the Moody's Corporation.

Custodial Credit Risk
Custodial credit risk is the risk that in the event of bank or broker failure, AADC's deposits and investments may not be returned. Of the $15,510,396 balance, $4,214,905 is collateralized with securities held by AADC, $11,195,491 is collateralized with securities held in the investment broker's name, and the rest is insured by FDIC.

(4) Capital Assets
The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2008:

	Balance June 30, 2007	Increase	Decrease	Balance June 30, 2008
Capital assets not being depreciated - construction in progress	$ 1,484,988	228,166	(9,162)	1,703,992
Capital assets being depreciated:				
Office furniture and equipment	891,158	35,127	-	926,285
Vehicles and other equipment	32,861,760	845,019	(46,609)	33,660,170
Building and structures	42,505,146	2,467,709	-	44,972,855
Infrastructure	7,224,995	-	-	7,224,995
Other assets	20,602,153	-	-	20,602,153
Total capital assets being depreciated	$ 104,085,212	3,347,855	(46,609)	107,386,458
Less accumulated depreciation and amortization for:				
Office furniture and equipment	574,615	134,040	-	708,655
Vehicles and other equipment	4,666,197	2,068,257	(9,323)	6,725,131
Building and structures	10,763,812	2,154,883	-	12,918,695
Infrastructure	1,434,269	367,577	-	1,801,846
Other assets	-	824,086	-	824,086
Total accumulated depreciation	17,438,893	5,548,843	(9,323)	22,978,413
Capital assets being depreciated, net	86,646,319	(2,200,988)	(37,286)	84,408,045
Totals	$ 88,131,307	(1,972,822)	(46,448)	86,112,037

(4) Capital Assets continued

Construction in progress is related to design of a third launch pad, design of a rocket motor storage facility and facility improvements. Depreciation expense totaled $5,548,843 for the year ended June 30, 2008.

During 2007, AADC received a modification to the cooperative agreement to facilitate fiber optic connectivity for Kodiak Launch Complex (KLC). AADC entered into an agreement with Kodiak Kenai Cable Company, LLC (KKCC) to provide fiber optic connectivity to KLC. AADC has obtained an Indefeasible Right of Use (IRU) purchase agreement for 25 years, which is included in Other Assets. The IRU Capacity will include one OC-12c unit of network capacity and one pair of dark fiber, terminating at the Points of Presence (POP) drop and insert points. In addition, the IRU Capacity shall include two DS-3's of capacity on the OC-12c IRU which shall be provided in a fully redundant, route diverse manner.

If AADC does not light the pair of dark fiber within the first 12.5 years from the date of execution of this Agreement, the dark fiber IRU will revert back to KKCC.

The fiber optic connectivity to KLC was completed and was placed in service on July 1, 2007 for a total cost of $20,602,153. AADC will amortize this cost over the life of the agreement. Amortization expense for the current period was $824,086.

(5) Operating Leases

AADC maintains office space in both Anchorage and Kodiak, Alaska. Minimum future lease payments as of June 30, 2008, are as follows:

Year Ended June 30,	Office Lease	Land Lease	Equipment	Total
2009	$ 205,358	15,150	2,352	222,860
2010	211,628	15,150	-	226,778
2011	35,445	15,150	-	50,595
2012	-	15,150	-	15,150
2013	-	15,150	-	15,150
Thereafter	-	43,556	-	43,556
Total	$ 452,431	119,306	2,352	574,089

Rent expense for the fiscal year ended June 30, 2008 was $237,470.

(6) Deferred Revenue

AADC entered into a cooperative agreement with an initial award amount of $4,791,920 in fiscal year 1999 from the Army National Guard which has been subsequently increased to $87,639,383. The following schedule summarizes the activity related to these grants for the fiscal year ended June 30, 2008:

Deferred revenue at July 1, 2006	$ 11,675,550
Unrealized losses on advances	(160,095)
Interest earned on advances	534,400
	12,049,855
Expenditures made from grants	726,581
Deferred revenue at June 30, 2008	$ 11,323,274

(7) Defined Benefit Pension Plan

AADC participates in the Public Employees' Retirement System (PERS), an agent multiple employer plan which covers eligible State and local government employees. The plan was established and is administered by the State of Alaska to provide pension, postemployment healthcare, death, and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, Alaska 99811-0203

Funding Policy

Employees are required to contribute 6.75% of their annual covered salary (3.95% for pension and 2.80% for healthcare). The funding policy provides for periodic employer contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay both pension and post-employment healthcare benefits when due, subject to an increase limitation.

AADC's contribution rate for 2008 is as follows:

	Actuarial Required Rate
Pension	9.77%
Postemployment healthcare	25.77%
Total contribution rate	35.54%

(7) Defined Benefit Pension Plan continued

The employer contribution rate for the current year was actuarially calculated as a level percentage of payroll and was determined using the projected unit credit actuarial funding method. Unfunded accrued liabilities and future gains/losses are amortized over a fixed 25 year period as a level percentage of pay based on a 4.0% payroll growth assumption.

The current year required contribution was determined as part of the June 30, 2005 actuarial valuation. Effective with the June 30, 2006 valuation (which establishes the 2009 rates), the actuarial funding method has been changed to the Entry Age Actuarial Cost Method.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between AADC and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets.

Projected benefits for financial reporting purposes do not incorporate any potential effects of legal or contractual funding limitations.

The significant actuarial assumptions used in the valuation of the plan follow:

1. Investment return of 8.25% per annum, compounded annually, net of expenses;
2. Projected salary increases of 5.5% for the first ten years and 4.0% thereafter (Police and Fire 6.0% for the first five years and 4.5% thereafter).
3. Medical cost inflation of 9.5% for 2006, trending downward 0.5% per year to 5.0% in FY15 and remaining at 5.0% thereafter; and prescription cost inflation of 14% for 2006, trending downward 1.0% per year to 5.0% in FY15 and remaining at 5.0% thereafter;
4. Total inflation, as measured by the Consumer Price Index for urban and clerical workers for Anchorage, is assumed to increase 3.5% annually;
5. Mortality based on 1994 Group Annuity Mortality Basic Table, 1994 Base Year with 85% occupational for Peace Officer/Firefighter and 35% occupational for others;
6. Retirement rate based on 1997-1999 actual experience. Deferred vested members are assumed to retire at their earliest retirement date.
7. Asset valuation – recognizes 20% of the investment gain or loss in each of the current and preceding four years. Assets are valued at market value and are accounted for on an accrual basis. Valuation assets cannot be outside the range of 80% to 120% of market value of assets; and
8. Valuation of Medical Benefit based on analysis of actual claims paid for July 2001 – June 2005, averaged and annualized and adjusted for other factors plus administrative costs.

Annual Pension and Postemployment Healthcare Cost

Effective July 1, 2007, the State of Alaska adopted contribution rates for each employer at an amount no less than 14.48% and no more than 22%. The actual rate for AADC is 22%. The Legislature then approved state funding (Senate Bill 53) in the form of an on-behalf payment for those amounts between the established employer rate and the actuarially determined rate. This on-behalf payment was transferred to the Alaska Division of Retirement and Benefits at July 1, but was allocated to the individual employer accounts on a prorata basis with each payroll reporting period. AADC has recorded $349,566 in these financial statements as PERS relief or state grant revenue and related PERS expenditures/expenses. This amount is also included in employer contributions for the purpose of calculating the ending net pension/OPEB obligation as noted below.

In addition, in fiscal year 2008, the State of Alaska passed legislation (SB 123) which requires that the employer contribution be calculated on all PERS eligible wages, including wages attributable to the defined contribution plan described later in these footnotes.

(7) Defined Benefit Pension Plan continued

For the year ended June 30, 2008, AADC's annual pension and other post-employment benefit (OPEB) costs were as follows:

	Pension	OPEB	Total
Annual required contribution	$ 239,389	631,116	870,505
Interest on net pension/OPEB obligation	13,217	34,846	48,063
Adjustment to annual required contribution	(10,412)	(27,449)	(37,861)
Annual pension cost	242,194	638,513	880,707
Contributions made	(242,194)	(638,513)	(880,707)
Increase in net pension/OPEB obligation	-	-	-
Net pension/OPEB obligation, beginning of year	402,418	180,161	582,579
Net pension/OPEB obligation, end of year	$ 402,418	180,161	582,579

Three-year trend information for PERS follows:

	Year Ending June 30	Annual Pension Cost (APC)	Actual Contributions	Percentage of APC Contributed	Net Pension Obligation
Pension	2006	$ 342,684	$ 233,585	68%	$ 246,098
	2007	470,171	313,851	67%	402,418
	2008	638,513	638,513	100%	402,418

	Year Ending June 30,	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Contributed	Net OPEB Obligation
Postemployment healthcare	2006	$ 227,109	$ 156,113	68%	$ 70,996
	2007	331,621	222,456	67%	180,161
	2008	242,194	242,194	100%	180,161

The following schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
June 30, 2004:						
Pension	$ 2,517,624	$ 3,704,109	$ 1,186,485	68%	$ 738,676	161%
Postemployment healthcare	1,775,224	2,611,836	836,612	68%	738,676	113%
June 30, 2005:						
Pension	2,578,403	4,038,095	1,459,692	64%	779,386	187%
Postemployment healthcare	1,883,394	2,949,626	1,066,232	64%	779,386	137%
June 30, 2006:						
Pension	3,341,826	4,577,016	1,235,190	73%	819,372	151%
Postemployment healthcare	1,430,379	3,223,405	1,793,026	44%	819,372	219%

PERS Conversion to Cost Sharing

In April 2008 the Alaska Legislature passed Senate Bill 125 which converts the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather, all plan costs and past service liabilities will be shared among all participating employers. The cost-sharing plan will require a uniform employer contribution rate of 22% or less of active member wages, subject to a wage floor. In addition, the legislation provides for state contributions in the event that the annually calculated and board adopted rate, which includes a provision to pay down the past-service liability, exceeds 22%. Any such additional contributions would be recognized by each employer as an on-behalf payment.

(7) Defined Benefit Pension Plan continued

As a result of this change, AADC will not be obligated to pay or to continue amortizing the currently recorded Net Pension/OPEB obligation. As such, these liabilities will be written off and AADC will recognize an extraordinary gain on the legislation's effective date, July 1, 2008.

(8) Defined Contribution Pension Plan

The State of Alaska Legislature approved Senate Bill 141 to create the Public Employees' Retirement System (PERS) Tier IV for employees hired after July 1, 2006 or for employees converting from the PERS Tier I, II or III defined benefit plans. The plan is administered by the State of Alaska, Department of Administration Commissioner, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. Employees are required to contribute 8.0% of their annual covered salary and AADC is required to make the following contributions:

	PERS TIER IV
Individual account	5.00 %
Health reimbursement arrangement (HRA) *	3.00
Retiree medical plan	1.75
Occupational death and disability benefits	.30
	10.05 %

* Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute "an amount equal to three percent of the employer's average annual employee compensation." For actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period.

AADC and employee contributions to PERS including the HRA contribution for the year ended June 30, 2008 were $188,036 and $68,463 respectively.

(9) Risk Management

With regards to workers' compensation insurance, AADC participates in the State of Alaska Risk Management Pool. The risks are transferred to the Pool, and the premium is charged to AADC based on payroll expenditures. The State is an authorized self insurer under AS 23.30.090. Casualty and property insurance coverage is provided under endorsement to the State of Alaska Aviation and Airports program of insurance.

(10) Land Assignment

On 18 May 1994 the Alaska Department of Natural Resources and the Alaska Aerospace Development Corporation executed an Interagency Land Management Assignment (ILMA) for 3,077 acres of land situated at Narrow Cape, Kodiak Island, Alaska. The ILMA is identified in state records as ADL 226285. On 3 February 2003 ADL 226285 was amended to add 640 acres to the ILMA. ADL 226285 was amended a second time two years later, which added an additional 7,048 acres to the ILMA, by a record of decision dated 19 April 2005. Current lands assigned to AADC under ADL 226285 total in aggregate 10,765 acres. Stipulations to the ILMA require the lands be managed for multiple use and that access restrictions be limited to times when hazardous operations are underway.

(11) Related Parties

State of Alaska

In the normal course of business, AADC receives administrative, personnel, risk management, data processing, and other services from the State of Alaska.

(12) Contingencies

Expenses charged against amounts received or receivable from federal contracting agencies are subject to further audit and adjustment by the contracting agency. Any disallowed expenses would become a liability of AADC. Management does not believe there are any material items which may be disallowed.

(13) Subsequent Events

In September 2008, AADC implemented an indirect rate structure that is applicable to all commercial and government contracting services.

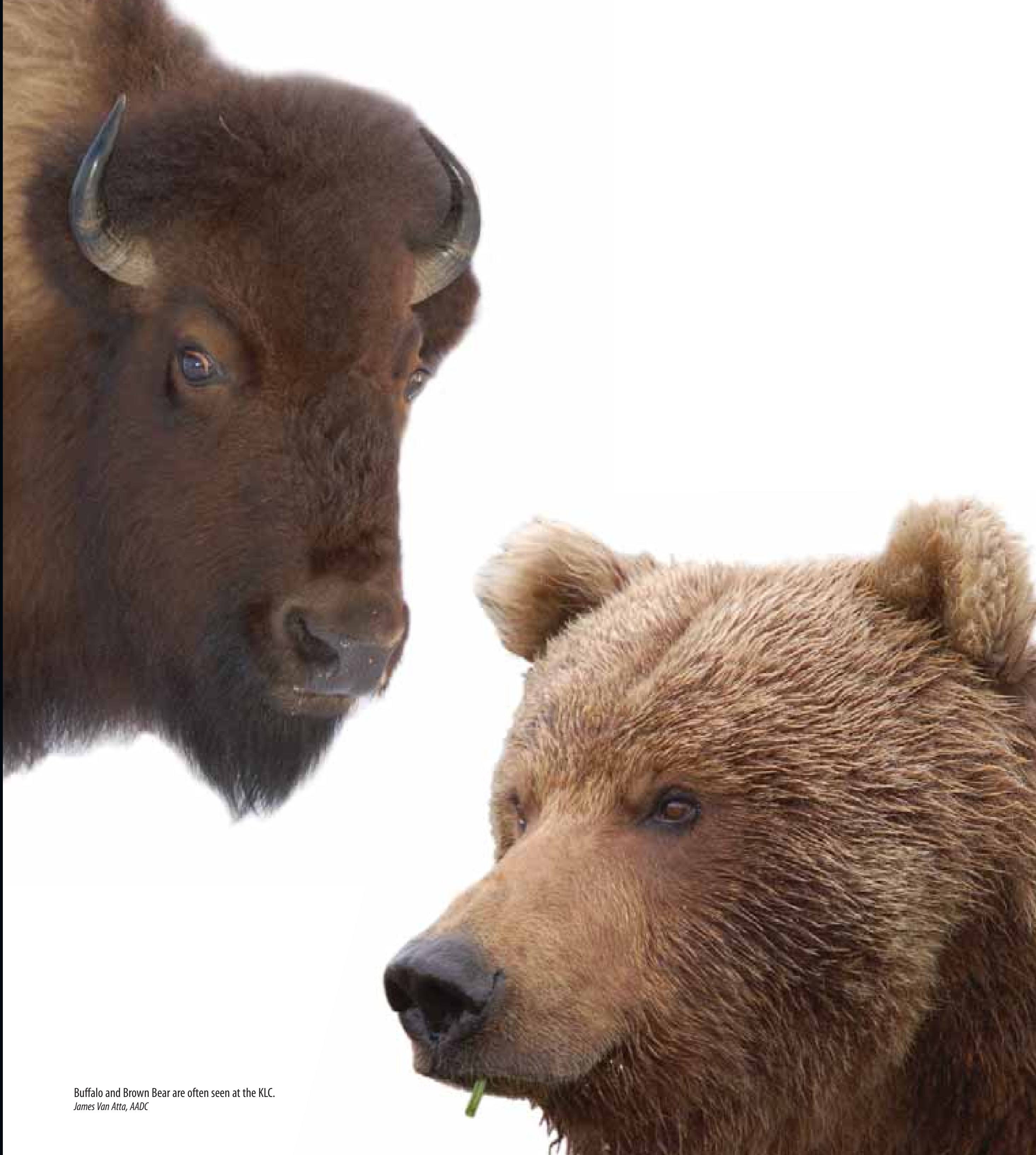
AADC staff member Clyde (Hopper) Hinson lays fiber optic cable.
AADC Archive Photo

AADC staff member, Brian Logan works in the LSS.
Jocelyn Zbitnoff, AADC

Burton Ranch cattle standing guard at the RSTS 5.4 meter antenna.
James Van Atta, AADC

Timeline

1992	• Alaska Aerospace Board named	
1993	• KLC design, site selection	
1994	• Permitting and environmental studies for KLC underway	
1995	• Legislature enacts HB-315, funding KLC	
1998	• Construction begins at KLC • U.S. Air Force launches AIT-1	
1999	• U.S. Air Force launches AIT-2 • State of Alaska DOTPF improves road access to KLC	
2001	• U.S. Air Force launches QRLV-1 • Kodiak Star Mission, the first orbital launch, puts four satellites into polar orbit • U.S. Army's Space and Missile Defense Command (SMDC) launches STARS	
2002	• U.S. Air Force launches QRLV-2 • AADC procures $15 million Range Safety and Telemetry System	
2003	• AADC signs a five year contract with U.S. Missile Defense Agency • KLC expanded by 600 acres and adds $2 million new antenna complex	
2004	• MDA's 1st target missile, IFT-13C launches • AADC sets up scholarship fund for high school seniors pursuing higher education at University of Alaska	
2005	• MDA's 2nd target missile, IFT-14 launches • Maintenance and Storage facility completed • 950 visitors attend KLC's 1st Open House	
2006	• STARS rocket FT 04-1 launches • STARS rocket FTG-02 lifts off as the tenth successful launch from KLC	
2007	• MDA target missile FTG-03 launches • MDA target missile FTG-03a launches • 1,300 visitors attend 2nd Open House • Launch revenues of $20.5 million reach record level	
2008	• MDA target missile FTX-03 launches • NFIRE satellite monitoring support • MDA target missile FTG-05 launches • MDA Trident I (C-4) Hybrid Pathfinder occurs • AADC signs three year contract with US Missile Defense Agency • AADC signs two launch contracts with US Air Force	



Buffalo and Brown Bear are often seen at the KLC.
James Van Atta, AADC

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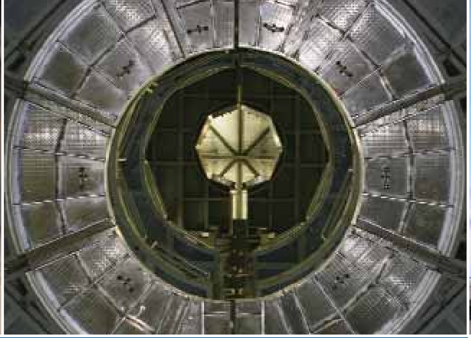
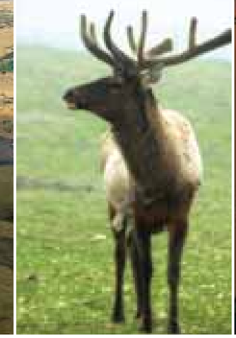
State Senator, Anchorage

"The Alaska Aerospace Development Corporation has built a world-class spaceport that is a key part of our national launch infrastructure. I have visited the Kodiak Launch Complex and I am very impressed with the personnel and the overall mission to promote space related industries in the state of Alaska."





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