



**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Basic Financial Statements and Schedules

June 30, 2018

(with summarized financial information for June 30, 2017)

(With Independent Auditor's Report Thereon)

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

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Independent Auditor's Report

The Board
Alaska Industrial Development and Export Authority
Anchorage, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Alaska Industrial Development and Export Authority (a Component Unit of the State of Alaska) (Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Pentex Alaska Natural Gas Company, LLC, which represents 0 percent and 24 percent, respectively, of the assets and operating revenues of the Authority. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Pentex Alaska Natural Gas Company, LLC, is based solely on the reports of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Alaska Industrial Development and Export Authority as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2018 Alaska Industrial Development and Export Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

We have previously audited the Authority's 2017 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-19 and schedule of proportionate share of the net pension and net OPEB liability and contributions on pages 75-76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information in schedules 1 through 10 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in schedules 1-6 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplementary information in schedules 7-10 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018 on our consideration of the Alaska Industrial Development and Export 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 solely 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 effectiveness of the Alaska Industrial Development and Export Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alaska Industrial Development and Export Authority's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
November 21, 2018

**ALASKA INDUSTRIAL DEVELOPMENT
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Management's Discussion and Analysis

June 30, 2018

Overview of the Financial Statements

The financial statements of the Alaska Industrial Development and Export Authority (AIDEA, we, us, our) report financial activity for two components; the Revolving Fund and the Nonmajor Funds. AIDEA is a public corporation of the State of Alaska (State) and a body corporate and politic constituting a political subdivision within the State Department of Commerce, Community and Economic Development (DCCED), but with separate and independent legal existence. AIDEA has its own self-balancing set of financial statements independently audited from the State. We do most of our business and operations through the Revolving Fund using two accounts, which are the Enterprise Development Account and Economic Development Account. Information on these two Accounts is in note 1 to the basic financial statements. We owned Pentex Alaska Natural Gas Company, LLC (Pentex) through June 13, 2018 when we sold our membership interest. We have included it as a blended component unit of the Revolving Fund for the period we owned Pentex. Standalone financial statements for Pentex can be obtained by mailing a request to Pentex Alaska Natural Gas Company, LLC, 3408 International Street, Fairbanks, AK 99701 or calling (907) 452-7111.

The Nonmajor Funds are the Loan Funds and the Sustainable Energy Transmission and Supply Development (SETS) Fund. Our financial statements include these two components as of and for the Fiscal Year (FY) 2018, with summarized comparative totals as of and for FY17. The Arctic Infrastructure Development Fund was established effective October 2014 to promote and provide financing for arctic infrastructure development but was not capitalized. There has been no activity in the fund since its creation; therefore, it is not included in our FY18 financial statements.

The first Nonmajor Fund is the Loan Funds wherein AIDEA accounts for two statutory loan programs, the Small Business Economic Development Revolving Loan Fund Program and the Rural Development Initiative Fund Loan Program (collectively, the Loan Funds). The Loan Funds are administered by the DCCED.

Our second Nonmajor Fund, the SETS Fund, was established and initially funded by the Alaska legislature in September 2012 to promote and finance qualified energy developments in Alaska. The Nonmajor Funds are not part of the Revolving Fund, so we have presented them separately in the accompanying financial statements.

The financial statements contain four sections: management's discussion and analysis, the basic financial statements and notes to basic financial statements, and required supplementary information. We have included other schedules to provide separate reporting of Pentex for the period it was owned by AIDEA, the Nonmajor Funds and provide additional information about AIDEA. Our operations are business type activities and follow enterprise fund accounting. We are a component unit of the State and are discretely presented in its financial statements.

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June 30, 2018

Basic Financial Statements

Statements of Net Position reports our assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at year-end. Net position is reported as: net investment in development projects - capital assets; net investment in capital assets; restricted contributions; and unrestricted. Restricted net position is subject to external limits such as bond resolutions, legal agreements, or statutes.

Statements of Revenues, Expenses, and Changes in Net Position reports our income, expenses, and resulting change in net position during the FY.

Both of these statements use the full accrual basis of accounting and economic resources measurement focus.

Statements of Cash Flows reports our sources and uses of cash and change in cash and cash equivalents resulting from our activities during the FY.

Notes to Basic Financial Statements provide more information to better understand the amounts reported in the basic financial statements.

To compare current year financial position, results of operations and cash flows, we have also included summarized financial information for FY17.

Management's Discussion and Analysis

This section contains our analysis of the financial position and results of operations at and for FY18. The section helps the reader focus on significant financial matters and provides additional information regarding our activities. For best understanding, read this information with the Independent Auditors' Report, the audited financial statements and the accompanying notes.

Financial Highlights

AIDEA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2018 and 2017 by \$1.33 billion and \$1.32 billion, respectively. Our FY18 unrestricted net position was \$1.24 billion (with 1.08 billion in the Revolving Fund) and our FY17 unrestricted net position was \$1.16 billion (with \$1.01 billion in the Revolving Fund). These amounts were unrestricted, and thus, available for future financial needs.

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June 30, 2018

Financial Analysis

Following are AIDEA's total assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2018, and 2017 (in thousands):

	<u>FY18</u>	<u>FY17</u>	<u>Increase (decrease)</u>
Current assets	\$ 230,754	290,050	(59,296)
Development projects – capital assets	71,108	134,317	(63,209)
Capital assets - other	20,847	24,759	(3,912)
Other noncurrent assets	<u>1,136,082</u>	<u>1,045,175</u>	<u>90,907</u>
Total assets	1,458,791	1,494,301	(35,510)
Deferred outflows of resources	<u>4,619</u>	<u>9,339</u>	<u>(4,720)</u>
Total assets and deferred outflows of resources	<u>\$ 1,463,410</u>	<u>1,503,640</u>	<u>(40,230)</u>
Current liabilities	\$ 7,367	49,777	(42,410)
Noncurrent liabilities	<u>125,161</u>	<u>136,078</u>	<u>(10,917)</u>
Total liabilities	132,528	185,855	(53,327)
Deferred inflows of resources	<u>2,237</u>	<u>178</u>	<u>2,059</u>
Net position:			
Net investment in capital assets	91,955	161,354	(69,399)
Restricted	375	647	(272)
Unrestricted	<u>1,236,315</u>	<u>1,155,606</u>	<u>80,709</u>
Total net position	<u>1,328,645</u>	<u>1,317,607</u>	<u>11,038</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,463,410</u>	<u>1,503,640</u>	<u>\$ (40,230)</u>

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June 30, 2018

Current assets were \$59.3 million lower at June 30, 2018, compared to June 30, 2017, and are below (in thousands):

	<u>FY18</u>	<u>FY17</u>	<u>Increase (decrease)</u>
Unrestricted cash/cash equivalents and investments	\$ 119,698	184,185	(64,487)
Restricted cash/cash equivalents and investments	48,321	43,176	5,145
Loans – current portion	39,690	37,148	2,542
Line of credit and loan advances receivable	325	2,277	(1,952)
Development projects accounted for as direct financing leases – current portion	8,046	9,551	(1,505)
Development projects accounted for as loans – current portion	5,425	3,204	2,221
Accrued interest receivable/other current assets	9,249	10,509	(1,260)
Total	<u>\$ 230,754</u>	<u>290,050</u>	<u>(59,296)</u>

- **Unrestricted cash/cash equivalents and investments** balances decreased \$64.5 million compared to FY17. Approximately \$47.9 million of SETS cash equivalents were reclassified from unrestricted to restricted in accordance with the terms of the Financing Agreement between AIDEA and the Interior Gas Utility (IGU) relating to the Interior Energy Project (IEP Financing Agreement) which we closed on June 13, 2018. The IEP Financing Agreement provides financing to IGU for the development, construction, and installation of, and the startup costs of operation and maintenance for a liquefied natural gas production plant and system and affiliated infrastructure that will provide natural gas to Interior Alaska as the primary market and natural gas delivery and distribution systems and affiliated infrastructure that will provide natural gas to Interior Alaska. Terms of the IEP Financing Agreement include financing for the restructure of AIDEA Lines of Credit (LOC) associated with the IEP, IGU's purchase of Pentex and additional funding, all in the form of a loan not to exceed \$125 million.

Operating activities decreased cash balances by \$11.1 million. Loan fundings of \$72.1 million and other operating payments reduced cash flows from operations, partially offset by operating receipts. Net noncapital and related financing activities also decreased unrestricted cash balances including our \$12.883 million dividend to the State. Cash balances were increased by capital and related financing activities while investing activities decreased unrestricted cash and investment balances.

- **Restricted cash/cash equivalents and investments** increased \$5.1 million compared to FY17. This increase was primarily due to the net effect of transactions relating to the IEP Financing Agreement. As required by the Financing Agreement \$40.2 million of restricted cash was provided to IGU as partial funding of IGU's purchase of Pentex. Offsetting this decrease was an increase of \$47.9 million of funds transitioned from unrestricted to restricted as required under the terms of the IEP Financing Agreement. Restricted funds were also used to fund additional expenditures related the IEP, Ketchikan Shipyard and Ambler Mining District Industrial Access Project (AMDIAP).

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- **Loans - current portion** increased \$2.5 million, primarily due to an overall increase in our loan portfolios. The current portion of our portfolio represents loan principal payments we expect to receive within the next year.
- **Line of credit and loan advances receivable** represents the balance we advanced on a Line of Credit (LOC) from our SETS fund in excess of anticipated cash flow needs of the borrower under the LOC agreement. The LOC relates to work on the distribution system for the IEP and converted to a loan June 13, 2018 under the IEP Financing Agreement. Advances were made on the LOC based on projected cash needs of the borrower for the project in FY17 and have been used to fund qualified expenditures during FY18.
- **Development projects accounted for as direct financing leases - current portion** decreased \$1.5 million in FY18 compared to FY17. Payments made earlier than scheduled of approximately \$4.4 million decreased amounts due in FY19. The application of more future payments to principal rather than interest partially offset this decrease.
- **Development projects accounted for as loans - current portion** represents the principal payments due within one year on loans we consider development projects and fund from our Economic Development Account. Balances increased \$2.2 million in FY18 compared to FY17. Future payments will be applied more to principal rather than interest.
- **Accrued interest receivable/other current assets** decreased approximately \$1.3 million. Our FY18 sale of Pentex reduced this balance by approximately \$2 million coupled with slightly lower operating receivable balances in FY18 compared to FY17. This reduction was partially offset by increases in other current assets including amounts due from the Alaska Energy Authority (AEA) for services and borrowings and accrued interest receivable related to our loan and investment portfolios.

Development projects - capital assets decreased \$63.2 million in FY18. Capital asset balances decreased \$60.5 million from FY17 due to the FY18 sale of Pentex. Depreciation on the Ketchikan Shipyard decreased balances an additional \$3.3 million, partially offset by capital asset additions.

Capital assets - other decreased \$3.9 million in FY18. Due to a change in the scope of the IEP we determined there was no future value in engineering and design costs we incurred relating to a planned natural gas plant on the North Slope, therefore we wrote off the remaining value of \$2.8 million in FY18 resulting in a decrease in our capital assets compared to FY17. Depreciation on our administrative building and North Slope pad and related capital costs also reduced the balance while capitalized work relating to the AMDIAP increased this balance by approximately \$2.0 million.

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June 30, 2018

Other noncurrent assets increased \$90.9 million. The following table breaks out other noncurrent assets (in thousands):

	<u>FY18</u>	<u>FY17</u>	<u>Increase (decrease)</u>
Restricted cash equivalents and investments	\$ 6,932	15,756	(8,824)
Restricted cash equivalents - Snettisham	11,364	10,013	1,351
Restricted investment securities	9,898	-	9,898
Unrestricted investment securities	371,630	329,418	42,212
Net OPEB asset	36	-	36
Loans (net)	465,541	367,960	97,581
Development projects	270,179	293,925	(23,746)
Line of credit	-	27,412	(27,412)
Other assets	<u>502</u>	<u>691</u>	<u>(189)</u>
Total	<u>\$ 1,136,082</u>	<u>1,045,175</u>	<u>90,907</u>

- **Restricted cash equivalents and investments** decreased \$8.8 million during FY18 primarily as a result of the investment of approximately \$9.9 million that was held as a restricted cash equivalent in FY17 and reclassification of that amount into restricted investment securities in FY18.
- **Restricted cash equivalents - Snettisham** increased slightly, the net effect of activity in FY18 related to the Snettisham project.
- **Restricted investment securities** had a balance of \$9.9 million on June 30, 2018 due to the investment of restricted cash that was held as a cash equivalent in FY17.
- **Unrestricted investment securities** increased \$42.2 million consistent with an increase in our overall investment portfolio due to activity during the year including the Revolving Fund receipt of approximately \$61.4 million from the sale of Pentex.
- **Net OPEB asset** increased \$36,000 as a result of our FY18 implementation of Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions* (Statement 75). We recorded an Other Postemployment Benefits asset related to our participation in the Public Employee's Retirement System (PERS) Occupational Death and Disability (ODD) Plan of \$36,000. Net OPEB asset represents our allocated portion of the asset for OPEB ODD benefits provided through the PERS.
- **Loans (net)** increased \$97.6 million from June 30, 2017 compared to June 30, 2018. Loan fundings of loan participations and Loan Fund loans increased loan balances by \$72.1 million while principal payments of \$48.0 million decreased the FY18 balance. Loan balances in the SETS fund increased \$76.8 million as a result of the FY18 financing of the Interior Energy Project. We transitioned approximately \$2.5 million more to current in FY18 compared to FY17. The FY18 current portion is based on projected FY19 payments. An increase to our allowance for loan losses decreased our net portfolio balance in FY18

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compared to FY17. The allowance for loan losses was increased in recognition of the higher portfolio balance.

- **Development projects** decreased \$23.7 million mainly for reasons discussed below. We may or may not have an ownership interest in these projects, but they have been financed under our Direct Financing Program and are considered AIDEA development projects. Depending on the terms of the financing, the projects are accounted for as a capital lease, investment in an operating company or loan.
 - \$20.2 million net decrease in the balance of the noncurrent and restricted portions of direct financing leases. Balances decreased as the net result of principal payments received on the capital leases and the transition to current from long-term of payments projected to be received relating to the Red Dog and Department of Military and Veterans Affairs (DMVA) projects.
 - \$2.8 million net increase in preferred interest in operating companies during FY18. The increase was primarily due to our continued investment in Mustang Operations Center 1 LLC (MOC1 LLC).
 - \$6.3 million net decrease in the balance of development projects accounted for as LOCs and loans. Two LOCs under our Direct Financing Program converted to term loans during FY18. Principal payments of approximately \$4.1 million decreased balances during FY18. Additionally, we transitioned \$2.2 million more to current in FY18 compared to FY17 as more payments will be applied to principal rather than interest in the future. The loans financed the acquisition, delivery and installation of furniture, fixtures and equipment for a laboratory and collection facility building and the procurement of a high-horsepower, extended reach, onshore drilling rig that is being used for the installation of numerous wells to produce oil and gas from the Cosmopolitan lease blocks in the lower Cook Inlet and for the construction of man camp facilities for workers on the project.
- **Line of credit** decreased \$27.4 million in FY18. This balance represented two LOCs funded from our SETS fund in support of the IEP. The balances were converted to a loan effective June 13, 2018 when we closed on the IEP Financing Agreement.
- **Other assets** decreased \$189,000 during FY18 mostly due to the sale of Other Real Estate Owned by the Loan Funds.

Deferred outflows of resources decreased \$4.7 million during FY18. The following table provides the details for deferred outflows of resources (in thousands):

	<u>FY18</u>	<u>FY17</u>	<u>Increase (decrease)</u>
Deferred outflows of resources related to employee pensions	\$ 1,184	3,303	(2,119)
Deferred outflows of resources related to employee OPEB	187	-	187
Deferred charge on bond refunding	121	149	(28)
Gas plan acquisition adjustment - Pentex	-	2,276	(2,276)
Deferred outflows of resources - Snettisham	3,127	3,611	(484)
Total	<u>\$ 4,619</u>	<u>9,339</u>	<u>(4,720)</u>

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June 30, 2018

- **Deferred outflows of resources related to employee pensions** represents our allocated portion of deferred outflows of resources relating to our participation in the Public Employee Retirement System (PERS) based on the most recent plan valuation, June 30, 2017. Deferred outflows of resources include the impact of changes in certain actuarial assumptions and experience. Our allocated portion of these amounts decreased \$2.1 million compared to FY17. The State's proportionate share of deferred outflows of resources related to employee pensions decreased in FY18, which decreased the balance allocated to us. Our proportion is based on our fiscal year contributions to the defined benefit plan under PERS in relation to the State's contributions.
- **Deferred outflows of resources related to employee OPEB** represents our allocated portion of deferred outflows of resources relating to our participation in the OPEB plan, which includes the Alaska Retiree Healthcare Trust (ARHCT), Retiree Medical Plan (RMP), and Occupational Death and Disability Plan (ODD). The balance increased \$187,000 relating to our implementation of Statement 75 in FY18.
- **Deferred charge on bond refunding** decreased slightly due to annual amortization of this balance.
- **Gas plant acquisition adjustment - Pentex** represents the difference between our cost to purchase the ownership interest in Pentex and the net book value of the underlying assets of the company at the purchase date, amortized over the life of the associated assets. Pentex was sold effective June 13, 2018 and all Pentex balances were transferred to the new owners on that date.
- **Deferred outflows of resources - Snettisham** decreased \$484,000. This amount recognizes the impact of the FY16 Snettisham Power Revenue bond refunding on the Snettisham direct financing lease obligation. The Snettisham direct financing lease pays for the debt service of the Snettisham Power Revenue bonds. Annual amortization of this item accounted for the decrease.

Current liabilities decreased approximately \$42.4 million. The following table breaks out current liabilities (in thousands):

	<u>FY18</u>	<u>FY17</u>	<u>Increase (decrease)</u>
Bonds payable – current portion	\$ 3,235	3,035	200
Accrued interest payable	551	588	(37)
Advances from State of Alaska – current portion	1,046	42,311	(41,265)
Accounts payable/other liabilities	<u>2,535</u>	<u>3,843</u>	<u>(1,308)</u>
Total	<u>\$ 7,367</u>	<u>49,777</u>	<u>(42,410)</u>

- **Bonds payable - current portion** decreased due to scheduled principal payments made on our Revolving Fund bonds of approximately \$3.0 million, offset by the transition of \$3.2 million to current.
- **Accrued interest payable** on bonds decreased because of lower Revolving Fund bond balances.
- **Advances from State of Alaska - current portion** represents the amount of advances received from the State general fund for capital projects that we anticipate expending during the next fiscal year. The FY17

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balance was substantially comprised of an advance from a State general fund capital appropriation relating to the IEP. The decrease in this balance was substantially due to the use of approximately \$40.3 million of the IEP appropriation by the IGU as part of the financing of their purchase of Pentex. Additional advanced funds were expended during the year on the IEP, AMDIAP and the Ketchikan Shipyard.

- **Accounts payable/other liabilities** decreased \$1.3 million compared to FY17. Balances decreased due to our sale of Pentex and the transition of liability balances to the new owners. A net reduction of accounts payable in our Revolving Fund also contributed to the lower balance.

Noncurrent liabilities decreased about \$10.9 million. The following table breaks out noncurrent liabilities (in thousands):

	<u>FY18</u>	<u>FY17</u>	<u>Increase (decrease)</u>
Bonds payable – noncurrent portion	\$ 39,720	42,955	(3,235)
Advances from State of Alaska –noncurrent portion	-	825	(825)
Net pension liability	9,843	15,941	(6,098)
Net OPEB liability	1,622	-	1,622
Other liabilities	1,016	1,782	(766)
Liabilities payable from restricted assets - Snettisham	<u>72,960</u>	<u>74,575</u>	<u>(1,615)</u>
Total	<u>\$ 125,161</u>	<u>136,078</u>	<u>(10,917)</u>

- **Bonds payable - noncurrent portion** decreased approximately \$3.2 million as a result of the transition to current liabilities of the portion of Revolving Fund bonds due in the next year.
- **Advances from State of Alaska – noncurrent portion** decreased \$825,000 as a result of expenditures on projects funded with State general fund money and reclassification of the unspent amount to current liabilities. The reclassified funds are expected to be spent by June 30, 2019.
- **Net pension liability** represents our allocated portion of the liability for pension benefits provided through PERS. Our FY18 liability decreased approximately \$6.1 million compared to FY17. The State's proportionate share of net pension liability decreased in FY18, which decreased the balance allocated to us.
- **Net OPEB liability** of \$1.6 million was added in FY18 when we implemented Statement 75. Net OPEB liability represents our allocated portion of the liability for OPEB benefits in the ARHCT and RMP plans provided through the PERS.
- **Other liabilities** decreased slightly primarily due to the annual amortization of bond related balances.
- **Liabilities payable from restricted assets - Snettisham** decreased primarily due to the \$2.4 million reduction in Power Revenue bonds payable, a result of principal payments.

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Management's Discussion and Analysis, Continued

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Deferred inflows of resources increased \$2.1 million. This balance represents our proportionate share of deferred inflows of resources relating to pension and OPEB benefits provided through PERS. The State's proportionate balance of deferred inflows of resources relating to participation in pension benefit provided through PERS increased compared to FY17, therefore, our allocated balance also increased \$1.2 million. Deferred inflows of resources related to OPEB ARHCT, RMP, and ODD plans of \$903,000 were added in FY18 as a result of our implementation of Statement 75. Deferred inflows of resources are comprised of amounts such as the difference between projected and actual investment earnings for PERS based on the most recent plan valuation, June 30, 2017.

Total net position increased \$11.0 million during the fiscal year due to the following:

- \$25.1 million increase from operating activities.
- \$11.7 million decrease from nonoperating and other activities.
- \$2.4 million decrease as a result of the cumulative effect in change in accounting principal related to our implementation of Statement 75. A net OPEB ODD asset of \$36,000, net OPEB ARHCT and RMP liability of \$2.8 million, and deferred outflows relating to OPEB ARHCT, RMP, and ODD plan of \$355,000 were the offsetting components to this decrease in net position.

Net investment in capital assets, a component of total net position, decreased approximately \$69.4 million. Our sale of Pentex reduced this balance by \$62.8 million. Depreciation and the impairment of capital assets also reduced this balance. Capital asset additions partially offset these decreases.

Unrestricted net position increased \$80.7 million, the net effect is due to an increase of \$13.4 million from FY18 revenues and expenses and a decrease of \$2.4 million due to implementation of Statement 75, a slight decrease in restricted net position and the \$69.4 million decrease in net investment in capital assets.

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

Management's Discussion and Analysis, Continued

June 30, 2018

Following are AIDEA's operating revenues and expenses, net nonoperating revenues (expenses), and other nonoperating activity for FY18 and FY17 (in thousands):

	FY18	FY17	Increase (decrease)
Operating revenues:			
Interest on loans	\$ 16,839	16,612	227
Income from development projects	30,324	32,489	(2,165)
Restricted income	2,982	3,099	(117)
Investment interest	11,923	10,676	1,247
Net (decrease) increase in fair value of investments	(12,039)	(11,113)	(926)
Income from state agencies and component units	5,366	6,377	(1,011)
Gain on sale of development project Pentex	6,744	-	6,744
Other Income	2,194	1,780	414
Total operating revenues	64,333	59,920	4,413
Operating expenses:			
Interest	2,160	2,461	(301)
Interest on liabilities payable from restricted assets	2,982	3,099	(117)
Nonproject personnel, general and administrative	8,764	8,954	(190)
Net pension related adjustments	(2,016)	2,331	(4,347)
Net OPEB related adjustments	164	-	164
Costs reimbursed from state agencies and component units	5,366	6,377	(1,011)
Provision for loan losses	797	1,120	(323)
Depreciation	8,448	8,662	(214)
Project feasibility, due diligence and other project expenses	12,558	16,945	(4,387)
Total operating expenses	39,223	49,949	(10,726)
Operating income	25,110	9,971	15,139
Net nonoperating (expenses) revenues	(222)	(177)	(45)
Other contributions	93	295	(202)
Appropriations and contributions from the State of Alaska	43,854	2,077	41,777
Capital grant	527	-	527
Capital funds contribution	(40,254)	-	(40,254)
Dividend to the State of Alaska	(12,883)	(6,328)	(6,555)
Impairment loss on capital assets	(2,818)	-	(2,818)
Increase in net position	\$ 13,407	5,838	7,569

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Management's Discussion and Analysis, Continued

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Operating revenues increased \$4.4 million during the year ended June 30, 2018, compared to 2017.

- **Interest on loans** includes interest earned on our loan portfolios funded by our Enterprise Development Account and Loan Funds. Interest on loans increased \$227,000 in FY18 compared to FY17.
- **Income from development projects** decreased \$2.2 million. The following table breaks out income from development projects (in thousands):

	<u>FY18</u>	<u>FY17</u>	<u>Increase (decrease)</u>
Interest income on direct financing leases	\$ 9,240	10,186	(946)
Operating income - Pentex	14,875	16,467	(1,592)
Income from operating leases	2,441	2,441	-
Income from investment in operating companies	448	226	222
Income from lines of credit and loans	<u>3,320</u>	<u>3,169</u>	<u>151</u>
Total	<u>\$ 30,324</u>	<u>32,489</u>	<u>(2,165)</u>

- **Interest income on direct financing leases** decreased \$946,000 due to decreased direct financing lease balances. As balances decrease a larger portion of payments are applied to principal rather than interest.
- **Operating income - Pentex** added approximately \$14.9 million to income from development projects in FY18. This was approximately \$1.6 million less than FY17 largely due to a milder heating season.
- **Income from operating leases** were unchanged in FY18 compared to FY17. There were no changes in our lease agreements during the year therefore revenues remained stable.
- **Income from investment in operating companies** increased slightly in FY18 compared to FY17. The increase was mostly due to dividends accruing on priority shares we purchased in FY18 in Mustang Operations Center 1 LLC. We received 1,250 priority shares in the LLC in FY18 with an additional \$2.5 million contribution.
- **Income from lines of credit and loans** represents interest earned on loans and LOCs funded under the Direct Finance Program from our Economic Development Account. Interest income from these loans increased slightly in FY18 compared to FY17 as a result of the terms of the LOCs which converted to term loans in FY17.
- **Restricted income** represents income related to the Snettisham Hydroelectric Project. Restricted income decreased slightly compared to FY17.
- **Investment interest** is comprised of interest earned on our investment portfolios. Investment interest was \$1.2 million higher in FY18 compared to FY17. This increase was the product of market conditions and portfolio management.
- **Net increase (decrease) in fair value of investments** represents realized and unrealized gains and losses on our investment portfolios. There was a net decrease in fair value of investment totaling \$12.0 million and \$11.1 million in FY18 and FY17 respectively. Net unrealized losses of \$9.7 million in FY18 were

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less than the \$10.8 million in FY17 while realized losses of \$2.3 million were greater than the 332,000 recognized in FY17. U.S. generally accepted accounting principles require us to mark our investment portfolio to market value at the end of each fiscal year and reflect that adjustment as a component of net income. The impact of rising interest rates on our portfolio contributed to the change between the two years.

- **Income from State agencies and component units** represents income relating to services provided to other State agencies. Income decreased approximately \$1 million in FY18. This balance is primarily comprised of revenues collected from AEA for personnel services provided by AIDEA employees. Overall staffing levels were reduced in FY18 in response to continued State direction to reduce costs.
- **Gain on sale of development project** represents the net amount we received from the sale of our membership interest in Pentex in excess of our investment. We purchased our Pentex membership interest for \$54 million and sold it on June 13, 2018 for \$61.4 million, net accumulated earnings during the period we owned them.
- **Other income** increased \$414,000. The increase in FY18 was primarily due to a FY18 allocation of \$807,000 from the State as an "on-behalf" contribution related to pension benefit and \$231,000 related to OPEB benefit provided through PERS, partially offset by less revenue earned from loan modification and commitment fees related to our Revolving Fund loan portfolio. We funded a record amount of loan participations in FY17 resulting in more commitment fee revenue than FY18.

Statement 75 resulted in a change in accounting principle relating to payments made by one entity on behalf of another to the OPEB plans. The implementation of this change did not require a restatement of previous periods but resulted in recognition of revenue for on-behalf payments based on allocated OPEB expense calculated on covered payroll and actuarial assumptions rather than contributions made to the plan.

Operating expenses decreased a net of \$10.7 million in FY18 compared to FY17.

- **Interest expense** represents the cost of interest on our bond debt other than the Snettisham Hydroelectric Project Power Revenue Bonds. Interest expense was lower in FY18 compared to FY17 due to lower outstanding debt balances during the year ended June 30, 2018, compared to 2017.
- **Interest on liabilities payable from restricted assets** represents the cost of interest related to the Snettisham Hydroelectric Project Power Revenue Bonds. This line item decreased slightly in FY18 resulting from a lower outstanding balance of Snettisham Power Revenue bonds.
- **Nonproject personnel, general and administrative** includes costs related to our staff and general operations such as facilities costs and supplies not directly charged to project expense or capitalized. Administrative costs of Pentex are also included in this balance. Nonproject personnel, general and administrative costs decreased \$190,000 in FY18 compared to FY17 reflecting the continued focus on cost containment.
- **Net pension related adjustments** represent accounting adjustments resulting from our participation in PERS, as allocated to us by the State. These adjustments reflect the impact of actuarial measurements on

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pension expense. Net adjustments allocated to us in FY18 reduced net expenses by approximately \$2.0 million compared to an increase of expense in FY17 of approximately \$2.3 million.

- **Net OPEB related adjustments** represent accounting adjustments resulting from our participation in OPEB plans associated with PERS, as allocated to us by the State. Net adjustments allocated to us in FY18 as a result of our implementation of Statement 75 increased net expenses by approximately \$164,000.
- **Costs reimbursed from State agencies and component units** represents costs we incurred relating to other State agencies and for which we were reimbursed, such as staff time spent on projects and programs for AEA. This balance decreased in FY18 compared to FY17 primarily due to a decrease in personnel costs charged to AEA for staff time spent on AEA projects and programs.
- **Provision for loan losses** represents the adjustment made to recognize potential losses in our loan portfolio. The provision for loan losses was slightly lower in FY17 compared to FY18 and is a product of the balance of our loan portfolio and our estimate of future potential losses.
- **Depreciation** expense represents the adjustment made to recognize the cost of a capital asset over its useful life. Depreciation expense decreased slightly in FY18 compared to FY17.
- **Project feasibility, due diligence and other project expenses** represent expenditures related to our owned projects such as Pentex, the Ketchikan Shipyard and the Skagway Ore Terminal and costs incurred to understand and evaluate potential projects. These costs decreased \$4.4 million in FY18 compared to FY17. This decrease was mostly due to the following:
 - \$ 2.8 million decrease in project costs during FY18 compared to FY17. This decrease was primarily due to a decrease in expenses related to our owned projects. Work on a major multi-year repair and refurbishment project for the Federal Express hangar was substantially completed in FY17 resulting in a substantial reduction of expenses in FY18.
 - \$1.3 million decrease in project expenses relating to Pentex during FY18 compared to FY17. A mild heating season contributed substantially to the net decrease.
 - Feasibility/due diligence costs were slightly less in FY18 compared to FY17 as we completed our work on the IEP Financing.

Net nonoperating revenues (expenses) increased \$45,000 during the year ended June 30, 2018, compared to 2017. Net nonoperating revenues (expenses) are comprised of net activity related to the Ketchikan Shipyard Repair and Replacement Fund, investment interest related to the Loan Funds and nonoperating revenues and expenses of Pentex.

- Net activity related to the Ketchikan Shipyard Repair and Replacement Fund represents repairs and replacement costs for the Ketchikan Shipyard paid from the Repair and Replacement investment account we administer, net of contributions received for the account by the operator of the shipyard. Expenses paid from the Ketchikan Shipyard Repair and Replacement Fund exceeded contributions to the fund by \$127,000 and \$298,000 for FY18 and FY17 respectively.

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Management's Discussion and Analysis, Continued

June 30, 2018

- A net decrease in nonoperating activities from Pentex and investment income from the Loan Funds, compared to a net increase in FY17.

Other contributions represent the contribution of assets by the project operator to the Ketchikan Shipyard. The value of contributed assets was slightly higher in FY17 compared to FY18.

Appropriations and contributions from the State of Alaska include revenue recognized from State General Fund capital appropriations and contributions of funding and assets from other State agencies. These revenues increased approximately \$41.8 million in FY18 compared to FY17. A substantial increase in these revenues was due to the use of approximately \$40.3 million of a State General Fund capital appropriation to partially finance IGU's purchase of Pentex. We also spent more State contributions on the AMDIAP and Ketchikan Shipyard in FY18 compared to FY17.

Capital grant revenues represent revenues recognized from the expenditure of federal capital funding at the Ketchikan Shipyard. We received federal funds in FY18 to continue development of the Ketchikan Shipyard and recognized revenues to the extent of federal expenditures incurred in FY18.

Capital funds contribution represents funds we contributed in FY18 to IGU to finance their purchase of Pentex. Funds contributed were appropriated to us by the legislature for the IEP.

Dividend to State of Alaska increased \$6.6 million in FY18 compared to FY17. We paid a \$12.9 million dividend to the State during FY18, compared to \$6.3 million during FY17. The change was mostly due to two factors:

- Percentage to be applied to audited statutory "net income" in the dividend calculation was approved by the Board at 34% for the dividend paid in FY18 compared to 25% for the dividend paid in FY17.
- An increase in audited statutory "net income" in FY16 (used to calculate the FY18 dividend) compared to FY15 (used to calculate the FY17 dividend). FY15 audited statutory "net income" was lower than FY16 mostly due to FY15 unrealized losses on our investment portfolio compared to unrealized gains in FY16. Governmental accounting standards require our investment portfolio be reported at market value.

As directed by statute, AIDEA makes available to the State an annual dividend. This dividend, determined by our Board, must be between 25% and 50% of audited "net income" (as defined in the statute) for the "base year." The "base year" is the fiscal year ending two years before the end of the fiscal year in which the dividend payment is to be paid; for example, the statutory net income reported for FY18 (the audit being completed within FY19) will become the base for the dividend to be paid in FY20. In no case may the dividend exceed base year unrestricted audited "net income." The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.

Impairment loss on capital assets represents the amount relating to engineering and design costs we incurred to support a planned natural gas plant on the North Slope that we determined had no future value due to a change in the project plan.

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Management's Discussion and Analysis, Continued

June 30, 2018

Outlook

We are actively pursuing potential new projects under the Development Finance Program and anticipate funding over \$50 million in new loans from our Loan Participation Program next year.

Requests for Information

This financial report is designed to provide a general overview of AIDEA's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Alaska Industrial Development and Export Authority
813 West Northern Lights Blvd.
Anchorage, Alaska 99503

**ALASKA INDUSTRIAL DEVELOPMENT
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Statements of Net Position

June 30, 2018

(with summarized financial information at June 30, 2017)

(In thousands)

Assets and Deferred Outflows of Resources	Revolving	Aggregate	Total	
	Fund	Nonmajor Funds	2018	2017
Current assets:				
Unrestricted cash and cash equivalents (note 3)	\$ 69,241	25,681	94,922	163,700
Unrestricted cash and cash equivalents - Pentex (note 3)	—	—	—	5,357
Restricted cash and cash equivalents (note 3)	378	47,943	48,321	43,176
Unrestricted investment securities (note 3)	24,776	—	24,776	15,128
Due from the State of Alaska	—	6	6	—
Loans - current portion (note 4)	39,255	435	39,690	37,148
Line of credit and loan advances receivable (note 5)	—	325	325	2,277
Development projects accounted for as direct financing leases (note 7)	8,046	—	8,046	9,551
Development projects accounted for as loans (note 7)	5,425	—	5,425	3,204
Accrued interest receivable	4,315	136	4,451	4,049
Other assets	4,737	55	4,792	4,437
Other assets - Pentex	—	—	—	2,023
Total current assets	156,173	74,581	230,754	290,050
Noncurrent assets:				
Restricted cash and cash equivalents (note 3)	6,932	—	6,932	15,756
Restricted cash and cash equivalents - Snettisham (note 3)	11,364	—	11,364	10,013
Restricted investment securities	9,898	—	9,898	—
Investment securities (note 3)	371,630	—	371,630	329,418
Net OPEB asset (note 10)	36	—	36	—
Loans - noncurrent portion (note 4)	390,476	85,482	475,958	377,580
Less allowance for loan losses (note 6)	(9,479)	(938)	(10,417)	(9,620)
Net loans	380,997	84,544	465,541	367,960
Development projects accounted for as:				
Direct financing leases (note 7)	122,043	—	122,043	139,838
Loans - noncurrent portion (note 7)	26,796	—	26,796	33,104
Capital assets (note 7)	71,108	—	71,108	73,775
Preferred interest in operating companies (note 7)	62,871	—	62,871	60,032
Restricted net investment in direct financing lease - Snettisham (note 7)	58,469	—	58,469	60,951
Capital assets - Pentex (note 7)	—	—	—	60,542
Line of credit (note 5)	—	—	—	27,412
Capital assets (note 8)	20,847	—	20,847	24,759
Other assets	472	30	502	691
Total noncurrent assets	1,143,463	84,574	1,228,037	1,204,251
Total assets	1,299,636	159,155	1,458,791	1,494,301
Deferred outflows of resources:				
Deferred outflows of resources related to employee pensions (note 10)	1,184	—	1,184	3,303
Deferred outflows of resources related to OPEB (note 10)	187	—	187	—
Deferred charge on bond refunding	121	—	121	149
Gas plant acquisition adjustment - Pentex (note 7)	—	—	—	2,276
Deferred outflow of resources - Snettisham (note 7)	3,127	—	3,127	3,611
Total deferred outflows of resources	4,619	—	4,619	9,339
Total assets and deferred outflows of resources	\$ 1,304,255	159,155	1,463,410	1,503,640

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(A Component Unit of the State of Alaska)

Statements of Net Position, Continued

June 30, 2018

(with summarized financial information at June 30, 2017)

(In thousands)

Liabilities, Deferred Inflows of Resources and Net Position	Revolving	Aggregate	Total	
	Fund	Nonmajor	2018	2017
Current liabilities:				
Bonds payable - current portion (note 9)	\$ 3,235	—	3,235	3,035
Accrued interest payable	551	—	551	588
Accounts payable	1,992	96	2,088	2,546
Advances from State of Alaska - current portion	1,046	—	1,046	42,311
Other liabilities	447	—	447	534
Current liabilities - Pentex	—	—	—	763
Total current liabilities	7,271	96	7,367	49,777
Noncurrent liabilities:				
Bonds payable - noncurrent portion (note 9)	39,720	—	39,720	42,955
Advances from State of Alaska - noncurrent portion	—	—	—	825
Net pension liability (note 10)	9,843	—	9,843	15,941
Net OPEB liability (note 10)	1,622	—	1,622	—
Other liabilities	1,016	—	1,016	1,213
Noncurrent liabilities - Pentex	—	—	—	569
Liabilities payable from restricted assets - Snettisham:				
Power revenue bonds payable (note 9)	59,745	—	59,745	62,160
Other	13,215	—	13,215	12,415
Total noncurrent liabilities	125,161	—	125,161	136,078
Total liabilities	132,432	96	132,528	185,855
Deferred inflows of resources:				
Deferred inflows of resources related to employee pensions (note 10)	1,334	—	1,334	178
Deferred inflows of resources related to OPEB (note 10)	903	—	903	—
Total deferred inflows of resources	2,237	—	2,237	178
Net position:				
Net investment in development projects - capital assets (note 7)	71,108	—	71,108	73,775
Net investment in capital assets - Pentex	—	—	—	62,820
Net investment in capital assets (note 8)	20,847	—	20,847	24,759
Restricted contributions	375	—	375	647
Unrestricted - Pentex	—	—	—	(62,760)
Unrestricted	1,077,256	159,059	1,236,315	1,218,366
Total net position	1,169,586	159,059	1,328,645	1,317,607
Commitments and contingencies (notes 1, 10, and 12)	—	—	—	—
Total liabilities, deferred inflows of resources and net position	\$ 1,304,255	159,155	1,463,410	1,503,640

See accompanying notes to basic financial statements.

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AND EXPORT AUTHORITY**

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Statements of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

(with summarized financial information at June 30, 2017)

(In thousands)

	Revolving Fund	Aggregate Nonmajor Funds	Total	
			2018	2017
Operating revenues:				
Interest on loans (note 4)	\$ 16,412	427	16,839	16,612
Income from development projects (note 7)	12,129	—	12,129	12,853
Income from development projects - loans (note 7)	3,320	—	3,320	3,169
Income from development project - Pentex (note 7)	14,875	—	14,875	16,467
Interest on Snettisham restricted direct financing lease (note 7)	2,982	—	2,982	3,099
Investment interest	10,726	1,197	11,923	10,676
Net decrease in fair value of investments	(12,039)	—	(12,039)	(11,113)
Income from state agencies and component units (note 11)	5,366	—	5,366	6,377
State of Alaska nonemployer contributions to Public Employee retirement system (note 10)	1,038	—	1,038	—
Gain on sale of development project (note 7)	6,744	—	6,744	—
Other income	1,085	71	1,156	1,780
Total operating revenues	62,638	1,695	64,333	59,920
Operating expenses:				
Interest	2,160	—	2,160	2,461
Interest on Snettisham liabilities payable from restricted assets (note 9)	2,982	—	2,982	3,099
Nonproject personnel, general and administrative	6,464	520	6,984	6,761
Net pension related adjustments	(2,016)	—	(2,016)	2,331
Net OPEB related adjustments	164	—	164	—
General and administrative - Pentex	1,780	—	1,780	2,193
Costs reimbursed from state agencies and component units (note 11)	5,366	—	5,366	6,377
Provision for loan losses (note 6)	576	221	797	1,120
Depreciation on projects (note 7, note 8)	6,318	—	6,318	6,295
Depreciation - Pentex (note 7)	2,130	—	2,130	2,367
Project feasibility and due diligence costs	578	60	638	966
Project expenses - Pentex	11,171	—	11,171	12,454
Other project expenses	749	—	749	3,525
Total operating expenses	38,422	801	39,223	49,949
Operating income	24,216	894	25,110	9,971
Nonoperating revenues (expenses) and other:				
Investment interest	—	72	72	29
Net (expenses) related to Ketchikan Shipyard Repair and Replacement Fund	(127)	—	(127)	(298)
Capital grants	527	—	527	—
Nonoperating income (expense) - Pentex	(167)	—	(167)	92
Other contributions	93	—	93	295
Appropriations and contributions from the State of Alaska	43,854	—	43,854	2,077
Capital funds contribution	(40,254)	—	(40,254)	—
Dividend to the State of Alaska	(12,883)	—	(12,883)	(6,328)
Impairment loss on capital assets (note 8)	(2,818)	—	(2,818)	—
Total nonoperating revenues (expenses) and other	(11,775)	72	(11,703)	(4,133)
Increase in net position	12,441	966	13,407	5,838
Net position - beginning of year, as previously reported	1,159,514	158,093	1,317,607	1,311,769
Cumulative effective on prior years of adoption of GASB Statement 75	(2,369)	—	(2,369)	—
Net position - beginning of year, as adjusted	1,157,145	158,093	1,315,238	1,311,769
Net position - end of year	\$ 1,169,586	159,059	1,328,645	1,317,607

See accompanying notes to basic financial statements.

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(A Component Unit of the State of Alaska)

Statements of Cash Flows

Year ended June 30, 2018

(with summarized financial information at June 30, 2017)

(In thousands)

	Revolving Fund	Aggregate Nonmajor Funds	Interfund Consoli- dations	Total	
				2018	2017
Cash flows from operating activities:					
Interest received on loans	\$ 15,767	507	—	16,274	15,676
Operating receipts - Pentex	14,051	—	—	14,051	16,187
Receipts from borrowers	3,871	349	—	4,220	4,173
Principal collected on loans	44,421	2,537	—	46,958	55,356
Other operating receipts	5,467	—	—	5,467	5,960
Other operating receipts - Snettisham	2,603	—	—	2,603	2,492
Loans originated	(71,654)	(426)	—	(72,080)	(109,750)
Payments to suppliers and employees for services	(13,025)	(500)	—	(13,525)	(16,962)
Operating payments - Pentex	(12,290)	—	—	(12,290)	(14,086)
Payments to primary government	(1,577)	(4)	—	(1,581)	(1,416)
Other operating payments - Snettisham	(1,258)	—	—	(1,258)	(2,587)
Net cash (used for) provided by operating activities	(13,624)	2,463	—	(11,161)	(44,957)
Cash flows from noncapital and related financing activities:					
Dividend paid to the State of Alaska	(12,883)	—	—	(12,883)	(6,328)
Short-term borrowings paid to the Alaska Energy Authority for working capital, net	(790)	—	—	(790)	(58)
Principal paid on noncapital debt	(580)	—	—	(580)	(555)
Interest paid on noncapital debt	(595)	—	—	(595)	(617)
Net cash used for noncapital and related financing activities	(14,848)	—	—	(14,848)	(7,558)
Cash flows from capital and related financing activities:					
Direct financing lease receipts	28,540	—	—	28,540	25,098
Direct financing lease receipts - Snettisham	5,464	—	—	5,464	5,456
Capital grant receipts	417	—	—	417	—
Capital appropriation - State of Alaska	1,764	—	—	1,764	275
Restricted contributions for development projects	802	—	—	802	477
Principal paid on capital debt	(2,455)	—	—	(2,455)	(9,100)
Interest paid on capital debt	(1,757)	—	—	(1,757)	(2,212)
Investment in development projects - capital assets	(2,092)	—	—	(2,092)	(115)
Investment in capital assets	(303)	—	—	(303)	(1,707)
Investment in capital assets - Pentex	(14,584)	—	—	(14,584)	(697)
Interest paid on capital debt - Snettisham	(3,042)	—	—	(3,042)	(3,157)
Principal paid on capital debt - Snettisham	(2,415)	—	—	(2,415)	(2,295)
Proceeds from capital debt - Pentex	868	—	—	868	—
Proceeds from interfund line of credit - Pentex	11,811	—	(11,811)	—	—
Interest paid on capital debt - Pentex	(41)	—	—	(41)	(20)
Payments on capital debt - Pentex	(199)	—	—	(199)	(159)
Cash received from sale of Pentex	55,611	—	—	55,611	—
Contribution for sale of Pentex	(40,254)	—	—	(40,254)	—
Net cash provided by (used for) capital and related financing activities	38,135	—	(11,811)	26,324	11,844
Cash flows from investing activities:					
Proceeds from sales and maturities of investment securities	250,273	—	—	250,273	325,271
Purchases of investment securities	(324,073)	—	—	(324,073)	(280,553)
Interest collected on investments	10,439	1,269	—	11,708	10,786
Investment in preferred interest in operating companies	(2,522)	—	—	(2,522)	(4,186)
Line of credit disbursements	—	(11,811)	11,811	—	—
Development projects loans and line of credit disbursements	—	—	—	—	(3,993)
Other loans originated	—	(21,134)	—	(21,134)	—
Interest received on purchased loans	573	—	—	573	572
Principal collected on purchased loans	1,051	—	—	1,051	1,072
Interest received on development projects loans and line of credit	3,309	—	—	3,309	2,143
Principal collected on development projects loans and line of credit	4,087	—	—	4,087	3,790
Other investing disbursements - Pentex	(50)	—	—	(50)	(50)
Net cash provided by (used for) investing activities	(56,913)	(31,676)	11,811	(76,778)	54,852
Net increase (decrease) in cash and cash equivalents	(47,250)	(29,213)	—	(76,463)	14,181
Cash and cash equivalents at beginning of year	135,165	102,837	—	238,002	223,821
Cash and cash equivalents at end of year	\$ 87,915	73,624	—	161,539	238,002

See accompanying notes to basic financial statements.

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

Statements of Cash Flows, Continued

Year ended June 30, 2018

(with summarized financial information at June 30, 2017)

(In thousands)

	Revolving Fund	Aggregate Nonmajor Funds	Interfund Consoli- dations	Total	
				2018	2017
Reconciliation to Statements of Net Position:					
Unrestricted cash and cash equivalents	\$ 69,241	25,681	—	94,922	163,700
Unrestricted cash and cash equivalents - Pentex	—	—	—	—	5,357
Restricted cash and cash equivalents - current	378	47,943	—	48,321	43,176
Restricted cash and cash equivalents - noncurrent	6,932	—	—	6,932	15,756
Restricted cash and cash equivalents - Snettisham	11,364	—	—	11,364	10,013
Cash and cash equivalents at end of year	\$ <u>87,915</u>	<u>73,624</u>	<u>—</u>	<u>161,539</u>	<u>238,002</u>
Reconciliation of operating income to net cash (used for) provided by operating activities:					
Operating income	\$ 24,216	894	—	25,110	9,971
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Principal collected on loans	44,421	2,537	—	46,958	55,355
Loans originated	(71,654)	(426)	—	(72,080)	(109,750)
OREO charges	—	—	—	—	72
Investment interest income	(10,726)	(1,197)	—	(11,923)	(10,676)
Net amortization of income from operating companies	(165)	—	—	(165)	(226)
Amortization of unearned income on direct financing leases	(9,240)	—	—	(9,240)	(10,186)
Amortization of unearned income on direct financing lease - Snettisham	(2,982)	—	—	(2,982)	(3,099)
Bond interest expense	2,315	—	—	2,315	2,710
Bond interest expense - Snettisham	2,982	—	—	2,982	3,099
Provision for loan losses	576	221	—	797	1,120
Depreciation on projects	6,318	—	—	6,318	6,295
Depreciation on administrative building	191	—	—	191	182
Depreciation - Pentex	2,130	—	—	2,130	2,367
Amortization of deferred outflow - Pentex	116	—	—	116	121
Gain on sale of development project	(6,744)	—	—	(6,744)	—
Net decrease in fair value of investments	12,039	—	—	12,039	11,113
Interest on loans	(3,889)	—	—	(3,889)	(3,775)
Capitalized LOC/loan fees and interest	—	—	—	—	(5)
(Increase) in net OPEB asset	(1)	—	—	(1)	—
Decrease (increase) in deferred outflows related to pensions	2,119	—	—	2,119	(928)
Decrease in deferred outflows related to OPEB	166	—	—	166	—
(Increase) decrease in accrued interest receivable and other assets	125	444	—	569	(453)
(Increase) decrease in other assets - Pentex	(644)	—	—	(644)	74
Increase (decrease) in net pension liability	(6,098)	—	—	(6,098)	3,335
Decrease in net OPEB liability	(1,135)	—	—	(1,135)	—
Decrease in accounts payable and other liabilities	(484)	(10)	—	(494)	(1,683)
Increase in accounts payable and other liabilities - Pentex	365	—	—	365	86
Increase (decrease) in deferred inflows related to pensions	1,156	—	—	1,156	(76)
Increase in deferred inflows related to OPEB	903	—	—	903	—
Net cash (used for) provided by operating activities	\$ <u>(13,624)</u>	<u>2,463</u>	<u>—</u>	<u>(11,161)</u>	<u>(44,957)</u>
Noncash investing, capital, and financing activities:					
Net decrease in net unrealized loss on investments	\$ 1,055	—	—	1,055	22,897
Contributed assets	93	—	—	93	295
Impairment loss	3,045	—	—	3,045	—
Accounts payable for capital asset additions	377	—	—	377	244
Accounts payable for capital asset additions - Pentex	2,908	—	—	2,908	42
Accounts payable for development project additions	\$ 124	—	—	124	2

See accompanying notes to basic financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

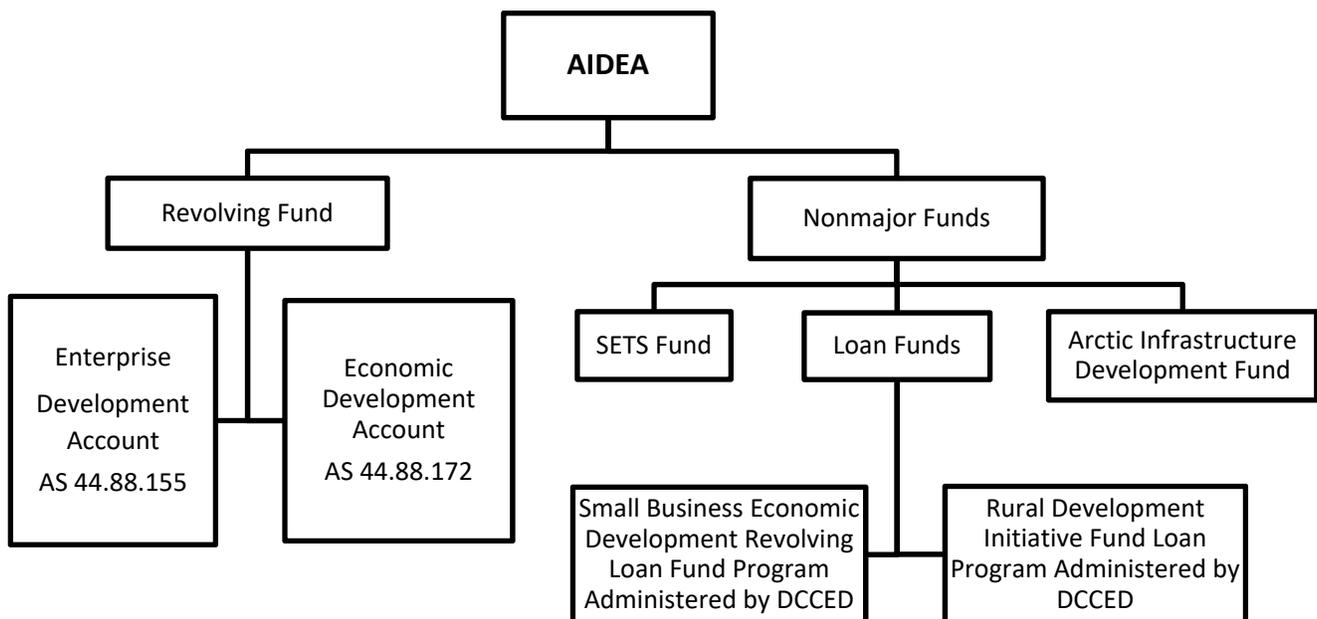
(A Component Unit of the State of Alaska)

Notes to Basic Financial Statements

June 30, 2018

(1) Organization and Operations

The Alaska Industrial Development and Export Authority (AIDEA, we, us, our) is the main development financing agency of the State of Alaska (State), financing economic development projects using existing assets, general obligation bonds, or debt secured by project revenues, as deemed appropriate by AIDEA. We are a public corporation of the State and a body corporate and politic constituting a political subdivision within the State Department of Commerce, Community and Economic Development (DCCED), but with separate and independent legal existence. AIDEA has its own self-balancing set of financial statements independently audited from the State. Our mission is to promote, develop, and advance economic growth and diversification in Alaska by providing various means of financing and investment. We have various State authorized powers supporting our economic development mission, including, but not limited to, the ability to adopt regulations, acquire ownership interests in projects, lease projects, issue bonds, and acquire and manage projects. Our financial statements are organized and rollup into two columns as follows:



We perform the majority of our business through our Revolving Fund, established through legislation, and we consider this our major fund.

The Arctic Infrastructure Development Fund was established by legislation effective October 2014 but has not been funded and therefore there is nothing to report on this fund.

**ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Basic Financial Statements, Continued

June 30, 2018

(a) Enterprise Development Account (Alaska Statute (AS) 44.88.155)

Following is a summary of programs available under the Enterprise Development Account:

- Loan Participation Program, we purchase portions of loans (participations) made by financial institutions to their customers. Participations generally must be limited to the lesser of 90% of the permanent financing total for qualifying facilities, or \$25.0 million.
- Business and Export Assistance Program, we guarantee up to 80% of the principal balance and a guarantee of interest to the financial institution making a qualifying loan. The maximum guarantee amount of any loan is \$1.0 million.

The following projects are included in the Enterprise Development Account:

- Interior Energy Project (IEP) which consists of work related to supplying natural gas and natural gas distribution systems and affiliated infrastructure in Interior Alaska.
- Ambler Mining District Industrial Access Project (AMDIAP) which consists of work related to a potential industrial access road to support mineral exploration and development on the south side of the Brooks Range in northwest Alaska.

(b) Economic Development Account (AS 44.88.172)

With this account AIDEA by statute, can own and operate facilities to accomplish its development finance mission (Development Finance Program). The Economic Development Account may be used to finance development projects regardless of our intent to wholly own and operate the project. Economic Development Account projects in which we have at least partial ownership and with activity reflected in the accompanying financial statements are:

- **DeLong Mountain Transportation System project** (DMTS, aka Red Dog project) consists of a 52-mile gravel industrial access road and port facilities to serve regional supply needs, enable the export of raw materials and supplies for the Red Dog Mine and other potential mines, and enable the export of lead and zinc concentrates and other metal concentrates from these mines. Located in the DeLong Mountains in northwestern Alaska, the Red Dog Mine is one of the world's largest zinc producing mines. The DMTS was financed with a combination of AIDEA funds and bond issues; the current outstanding refunding bonds related to the project were issued in February 2010.
- **Skagway Ore Terminal project** (Skagway Terminal) is an ore terminal port facility for public use in Skagway, Alaska. The terminal acquisition was originally financed with bonds; a major facility reconstruction (ore shed, tank farm and vehicle fueling facility) was financed with AIDEA funds. There are no longer bonds outstanding for this project.
- **Federal Express project**, which consists of a maintenance, repair and overhaul aircraft hangar and an associated fire suppression facility (for the hangar) at the Ted Stevens Anchorage International Airport. We partially financed this project with a June 2002 bond issue; AIDEA called all remaining outstanding bonds in April 2012.

**ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Basic Financial Statements, Continued

June 30, 2018

- **Ketchikan Shipyard project** (Shipyard), located in Ketchikan, Alaska, was transferred to AIDEA in July 1997, under an agreement with the State Department of Transportation and Public Facilities (AKDOT&PF). Capital appropriations from the State legislature, local municipal/borough contributions and federal grant funds enabled the completion of a new Assembly Hall and other improvements in the facility without AIDEA financing.
- **Snettisham Hydroelectric project** (Snettisham), located in southeast Alaska near Juneau, which we acquired from the Alaska Power Administration, a federal agency, in August 1998. We issued \$100.0 million of revenue bonds to buy the project and provide funds to buy and install a submarine cable system. The 1998 bonds were refunded in August 2015. We also have agreements with Alaska Electric Light and Power (AEL&P), the sole Juneau electric utility, which enable us to sell the project's entire electrical output capacity to AEL&P and requires it to operate and maintain the project, with an option to buy.
- **State of Alaska Department of Military and Veterans Affairs (DMVA) project** is an expansion to the existing National Guard Armory on Joint Base Elmendorf-Richardson (JBER). The construction was performed under a license between the State and the U.S. Air Force and was financed with AIDEA funds. The facility is leased by the DMVA to the U.S. Coast Guard.
- **Mustang Road LLC (MR LLC)** is a limited liability company (LLC) created for the purpose of owning and operating a four-mile road and 17.4-acre pad for drilling and processing crude oil. The road and a gravel pad are located on the North Slope and are intended to support the development of the Mustang Oil Field and other nearby fields. The LLC owns a carried working interest in the Mustang Field. As of December 14, 2017, AIDEA is the sole owner of the LLC.
- **Mustang Operations Center 1 LLC (MOC1 LLC)**, in which we own a preferred interest, is a LLC established for the purpose of owning an oil and gas processing facility to produce pipeline quality crude oil from the Mustang Field for sale through the Trans-Alaska Pipeline Systems (TAPS). The LLC also owns a carried working interest in the Mustang Field. The facility is currently under development.
- **Pentex Alaska Natural Gas Company, LLC (Pentex)**, in which we were the sole member, is a LLC that owns five subsidiaries related to the distribution of natural gas in Interior Alaska. AIDEA purchased Pentex in September 2015 using AIDEA funds. The purchase was in furtherance of a long-term strategy to finance the build out of an integrated natural gas distribution system serving Fairbanks as part of the IEP. The Authority sold its membership interest in Pentex effective June 13, 2018.

We may also use the Economic Development Account to provide direct financing for qualifying projects under our Direct Financing Program. Under this program, AIDEA can provide direct financing for projects in which we have no ownership interest. The following projects were provided financing in the form of letters of credit (LOCs) and loans and have activity in the accompanying financial statements:

- **Blue Crest Drill Rig** in which we financed the procurement of a new high-horsepower, extended reach, onshore drilling rig that is being used for the installation and development of numerous wells to produce oil from the Cosmopolitan lease blocks in the lower Cook Inlet and we financed the construction of man camp facilities for workers on the project.

**ALASKA INDUSTRIAL DEVELOPMENT
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Notes to Basic Financial Statements, Continued

June 30, 2018

- **Blood Bank of Alaska, Inc.** in which we financed the acquisition, delivery and installation of furniture, fixtures and equipment for a laboratory and collection facility building.

The legislature has authorized issuing bonds for the proposed Economic Development Account projects below:

- **Skagway Ore Terminal:** \$65.0 million to finance the expansion, modification, improvement, and upgrading of the terminal.
- **Bokan-Dotson Ridge Rare Earth Element project:** Up to \$145.0 million to finance the infrastructure and construction costs of the Bokan-Dotson Ridge rare earth element project. The Bokan-Dotson Ridge rare earth element project's surface complex shall be owned and operated by AIDEA or financed under AS 44.88.172.
- **Niblack project:** Up to \$125.0 million to finance the infrastructure and construction costs of the Niblack project. The Niblack project includes a mineral processing mill, associated dock, and loading and related infrastructure facilities at the Gravina Island Industrial Complex, as well as infrastructure at the project site on Prince of Wales Island to be owned by AIDEA or financed under AS 44.88.172.

(c) Conduit Revenue Bond Program

AIDEA has a stand-alone revenue bond program wherein we act as a conduit to facilitate a market financing transaction for facilities owned by and paid for by third parties. Such stand-alone revenue bonds we issue are not general obligations of AIDEA. They are payable only out of revenues derived from the projects or the private businesses for which the projects are financed. We are specifically authorized to issue revenue bonds for the following:

- Up to \$185.0 million (collective amount) to finance building power transmission interties that electric utilities will own. We have not issued any bonds under this authorization.
- Up to \$120.0 million to finance the infrastructure and construction costs of the Sweetheart Lake hydroelectric project. We do not anticipate owning the hydroelectric project. This authorization is repealed June 30, 2020.

By the end of FY18, we had issued conduit revenue bonds for 319 projects (not including bonds issued to refund other bonds). At June 30, 2018, the outstanding principal amount of conduit revenue bonds issued after July 1, 1995 was \$543.3 million. We were unable to determine the aggregate amount outstanding for the remaining conduit revenue bonds, issued prior to July 1, 1995, but their original issue amounts totaled \$616 million for a total of \$1.54 billion issued through June 30, 2018 (not including bonds issued to refund other bonds).

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

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

**ALASKA INDUSTRIAL DEVELOPMENT
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June 30, 2018

The Rural Development Initiative Fund Loan Program creates job opportunities in rural Alaska by providing small businesses with needed capital that may not be available in conventional markets. Businesses must be Alaskan owned and located in a community of 2,000 or fewer people on the road or rail system or 5,000 or fewer people if off-road or rail.

Though part of our financials, these programs are administered by the Division of Economic Development within the State Department of Commerce, Community and Economic Development (DCCED).

(e) Sustainable Energy Transmission and Supply Development (SETS) Program

The 2012 State legislature passed Senate Bill 25 establishing the SETS Program and the SETS Fund. This program was created so AIDEA could promote and finance qualified energy developments in Alaska to reduce unemployment and contribute to economic diversity and development in the State. The SETS Fund is not an account in the Revolving Fund so it must be accounted for separately. Subject to statute, we may use money in the SETS Fund to help construct, improve, rehabilitate, and expand qualified energy developments which are defined in the statute establishing the program. The SETS Program may also finance qualified energy developments through loan or bond guarantees and direct loans.

In September 2012, a State General Fund capital appropriation provided \$125.0 million to fund this program. Effective June 30, 2013, the legislature reappropriated \$57.5 million of this initial funding for the IEP leaving \$67.5 million in capitalization of the SETS Fund. The SETS Fund received an additional \$125.0 million in capitalization from the State General Fund in FY14 in accordance with legislation passed by the 2013 legislature. Effective June 30, 2014, the legislature reappropriated an additional \$50.0 million of the initial funding for the University of Alaska, leaving \$142.5 million in capitalization of the SETS Fund.

The legislature has authorized issuing SETS bonds for the IEP. The \$150.0 million bond authorization through the SETS Fund is for the development, construction, and installation of, and the startup costs of operation and maintenance for a liquefied natural gas production plant and system and affiliated infrastructure on the North Slope and a natural gas distribution system and affiliated infrastructure in Interior Alaska. Effective as of July 1, 2015, the bonding authorization was amended to allow the liquefied natural gas production plant and system to be located anywhere in the state to provide natural gas to Interior Alaska as a primary market. This bonding authorization expires June 30, 2023 if we do not issue bonds before that date.

(f) Pentex Alaska Natural Gas Company, LLC

AIDEA purchased all of the member interests of Pentex Alaska Natural Gas Company, LLC (Pentex), a Delaware limited liability company (LLC), on September 30, 2015, under AS 44.88.172. AIDEA sold its membership interest June 13, 2018 to the Interior Gas Utility (IGU). During the period AIDEA owned and was the sole and managing member of the company, Pentex owned the following subsidiaries:

- Fairbanks Natural Gas (FNG) - Fairbanks gas distribution utility

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Notes to Basic Financial Statements, Continued

June 30, 2018

- Arctic Energy Transportation (AET) - LNG fueling station operator
- Polar LNG (Polar) - North Slope LNG plant developer (inactive)
- Titan Alaska (Titan) - LNG plant and trucking operator
- Cassini LNG Storage, LLC - Fairbanks storage facility developer (inactive)

Pentex and its subsidiaries, under AIDEA ownership through the date of sale, continued to hold their existing assets and liabilities prior to the sale. Pentex is a development project and was reported as a component unit of AIDEA through the date of sale.

(g) *Alaska Energy Authority*

Legislation in 1993 directed AIDEA's board members to serve as the board of directors of the Alaska Energy Authority (AEA). We provide personnel services for AEA because under statute AEA has no employees. We also have a board approved borrowing agreement to supply AEA short-term working capital with a limit of \$7.5 million. AIDEA and AEA have separate executive directors and both are employees of AIDEA. The two authorities do not comingle funds, assets, or liabilities or have any responsibility for the debts or obligations of the other. So, we do not include the accounts or activities of AEA in the accompanying financial statements.

(2) Summary of Significant Accounting Policies

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

As a public corporation and component unit of the State and for the purpose of preparing financial statements in accordance with U.S. generally accepted accounting principles, AIDEA is subject to the accounting requirements as set forth by the Governmental Accounting Standards Board (GASB).

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

(b) *Fair Value Measurement and Application*

Securities or other assets are reported and measured at fair value if (a) we hold it primarily for the purpose of income or profit and (b) it has a present service capacity based solely on its ability to generate cash or be sold to generate cash.

(c) *Cash and Cash Equivalents*

For purposes of the basic financial statements, our cash and cash equivalents consist of cash, short-term commercial paper, money market funds, positions in the Alaska Municipal League Investment Pool (Pool), and equity of the Loan Funds in the State's investment pools, whether unrestricted or restricted as to their use. Cash and cash equivalents available, if potentially operationally needed, and amounts intended for current operations, are classified as current in our Statement of Net Position.

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June 30, 2018

(d) Investments

Marketable securities are reported at fair value in the financial statements. Fair values are obtained from independent sources. Investments are segregated between current and noncurrent based on stated maturity and intended use. Investments maturing within a year are classified as current if they are considered to be potentially needed for current operations. This classification recognizes that a portion of our investment portfolio may be for current operations. A noncurrent investment may be sold for operational cash flow needs if needed and the sale is beneficial under current market conditions.

(e) Loans and Related Interest Income

Revolving Fund loans funded from our Enterprise Development Account are primarily secured by first deeds of trust on real estate located in Alaska. Loan Fund loans must be secured by collateral that is acceptable to the Division of Economic Development such as a mortgage or other security instrument in real property, equipment, or other tangible assets. Revolving Fund loans funded from our Economic Development Account are secured by assets of the project being financed. SETS Fund loans are secured by the assets being financed. Loans are generally carried at amounts advanced less principal payments collected. Loan commitment fees are recognized as revenue when loans are funded. Interest income is accrued as earned. Interest accrual on Revolving Fund loans is discontinued whenever the payment of interest or principal is more than 90 days past due or when loan terms are restructured. Accrual of interest on Loan Fund loans is discontinued when payment of interest or principal is more than 90 days past due. The collection of accrued interest on Loan Fund loans is pursued until it is deemed uncollectible. Interest accrual is resumed when a loan is no longer more than 90 days past due.

We handle loan collections as follows:

- Monitor loan delinquencies on a monthly basis and discuss results with the originator for Revolving Fund loan participations or borrower for loans we funded directly and Loan Fund loans as needed.
- Analyze Revolving Fund and SETS Fund loans for possible impairment if the loan is more than 90 days past due or have been restructured.
- Analyze Loan Fund loans for possible impairment if the loan is more than 90 days past due, has specialized payment arrangements or has an area of specific concern.
- Charge off Revolving Fund and SETS Fund loans when foreclosure or deed in lieu of foreclosure is completed or we have determined no economic benefit will result from pursuing legal remedies.
- Charge off Loan Fund loans when we have determined no economic benefit will result from pursuing legal remedies.

An allowance is established to recognize potential losses in our loan portfolios. Subsequent charge offs are adjusted through the allowance.

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Notes to Basic Financial Statements, Continued

June 30, 2018

AIDEA considers lending activities to be part of its principal ongoing operations and classifies them as operating in the statement of revenues, expenses, and changes in net position. Loans funded by our Enterprise Development Account except the Power Project Fund loan portfolio held by the Revolving Fund are considered program loans (and therefore, cash flows from operating activities) for the purposes of cash flow presentation.

The current portion of Revolving Fund loans is based on a projection of principal we expect to collect within the next fiscal year, including estimated prepayments. The current portion of other loans is the legal amount due within the next year.

(f) *Development Projects – Direct Financing Leases*

AIDEA leases various projects subject to certain agreements (as more fully described in note 7), which are recorded in the accompanying financial statements as direct financing leases. Interest income related to these leases is recognized using the effective interest method, which produces a constant periodic rate of return on the outstanding investment in the lease. We consider such activity to be part of our principal ongoing operations and classify it as operating in the statement of revenues, expenses, and changes in net position.

(g) *Development Projects – Capital Assets*

Our development projects accounted for as capital assets are carried at cost, net of depreciation, adjusted for impairments of value that are not temporary. Depreciation begins on these development projects when they are available for use. In addition, these development projects are considered investments for purposes of impairments, so impairment losses are recognized whenever the fair value of the asset has declined below the carrying value and the decline is determined to be not temporary in nature. AIDEA considers development project activity, except for expenses payable from certain restricted assets, including impairments, if any, to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses, and changes in net position.

(h) *Development Projects – Preferred Interest in Operating Companies*

Preferred Interest in Operating Companies (as more fully described in note 7) are recorded in the accompanying financial statements as equity interests and are development projects. Income is recognized as it is earned under the project agreement. We do not accrue income if we believe it will not be paid. The equity interests are carried at cost, less capital distributions received, and less any necessary allowance.

The equity interest will be reduced by an allowance if the sum of the accrued dividends and AIDEA's outstanding equity interest is greater than our share of the company equity or anticipated cash flows to be paid from the company to AIDEA. We recognize an impairment loss if the fair value of the asset has declined below the carrying value and the decline is determined not to be temporary in nature. Activity associated with these equity interests, including impairments, if any, is part of principal ongoing operations and classified as operating in the statement of revenues, expenses, and changes in net position.

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Notes to Basic Financial Statements, Continued

June 30, 2018

(i) Component Unit

We follow GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* when evaluating our ownership interests in legally separate organizations. We report all assets, liabilities, net position and activities as part of our balances and activities for organizations meeting the blending criteria. Pentex is our only component unit and was sold effective June 13, 2018. Prior to AIDEA's sale of its membership interest on June 13, 2018, AIDEA was the sole member of Pentex and our board of members served as the managing board for Pentex. AIDEA's board is responsible for all aspects of the LLC and its subsidiaries. Pentex for the period owned by AIDEA is reported as a blended component unit of the Revolving Fund; therefore, its activities through the date of AIDEA's sale are included in the accompanying financial statements.

(j) Capital Asset Additions and Retirements

Additions of capital assets are at original cost. Cost consists of contracted services, materials and other direct costs. When capital assets are disposed of or otherwise retired, the original cost of retirement, less salvage value is charged against the net book value of the asset. Any gain or loss is recognized as income or expense in the year of disposition or retirement. Maintenance, repairs and renewals are charged to expense when incurred. Renewals extending the useful life of the property are capitalized.

(k) Lines of Credit

Lines of credit (LOCs) are generally carried at amounts advanced for qualified costs per applicable agreements less principal payments collected. LOC commitment fees are recognized as revenue when the LOCs are funded. Interest income is accrued as earned.

An allowance is established to recognize potential losses. Subsequent charge offs are adjusted through the allowance. Management's opinion is that no allowance for LOCs is required at June 30, 2018.

AIDEA considers lending activities to be part of its principal ongoing operations and classifies them as operating in the statement of revenues, expenses, and changes in net position. LOCs are considered an investment activity for purposes of cash flow presentation.

(l) Intangible Assets

Intangible assets are assets that are nonfinancial in nature, lack physical substance, are identifiable and have a useful life extending beyond a single reporting period. Costs associated with the generation of internally generated intangible assets are capitalized when incurred after the following milestones have been met:

- Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project.
- Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.
- Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multi-year project, continue development of the intangible asset.

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Notes to Basic Financial Statements, Continued

June 30, 2018

(m) Other Real Estate Owned

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

(n) Allowance for Loan Losses

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

(o) Allowance for Lease Receivables

Allowance for lease receivables represents management's judgment as to the amount required to absorb probable unrealizable direct financing lease receivables. Factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions, and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 2018.

(p) Net Position

Our spending policy is to evaluate, on a case-by-case basis, whether restricted or unrestricted net position should be spent. This evaluation is performed by management as part of the overall spending plan.

(q) Environmental Issues

AIDEA's environmental issues policy is to record a liability when the likelihood of responsibility for pollution remediation activities such as site assessments and cleanups is probable and the costs are reasonably estimable. At the end of FY18, there were no environmental issues meeting both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability.

(r) Operating Revenue and Expense

AIDEA considers all revenues and expenses except the following to be part of its ongoing operations and classifies them as operating in the statement of revenues, expenses and changes in net position:

- capital contributions
- certain nonexchange transactions with the State of Alaska, including the dividend paid to the State

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- investment income and expenditures related to certain restricted project funds
- investment income related to the Loan Funds and Pentex
- special or extraordinary items
- gains and losses on the disposition or impairment of certain capital assets
- other Pentex income related to hit line repairs

(s) Contributions, State Appropriations, Grants and State Advances

AIDEA recognizes grant revenue, and revenue related to contributions, and State appropriations when all applicable eligibility requirements, including time requirements, are met. Advances from the State that are not expended, are repaid to the State and are, therefore, reflected as a liability in our financial statements.

(t) Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. AIDEA is a political subdivision of the State performing an essential governmental function and is exempt from Federal and State income taxes.

(u) Depreciation

Depreciation for capital assets is charged to operations by use of the straight-line method at an annual rate ranging from 2 - 28%, depending on type of asset, for Pentex capital assets and over the estimated useful lives of all other depreciable assets, ranging from 10 to 30 years.

(v) Nonexchange Payments

Nonexchange payments to other governmental entities, including the dividend to the State, are recorded when the liability has been incurred and the amount is reasonably estimable.

(w) Segment Information

AIDEA's Snettisham bond resolution requires certain financial statement disclosures. Activity related to Snettisham is reported as a separate segment within the financial statements to meet these disclosure requirements. All assets and liabilities related to Snettisham are considered noncurrent in the statement of net position.

(x) Estimates

In preparing the financial statements, management of AIDEA is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows and to make disclosures of contingent assets and liabilities as of the date of the basic financial statements. Actual results could differ from the estimates.

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(y) ***Deferred Outflows/Inflows of Resources***

In addition to assets, the statements of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. AIDEA has four items that qualify for reporting in this category:

- Deferred outflows of resources related to our participation in the Public Employees' Retirement System (PERS) including pension and other postemployment benefits (OPEB).
- Deferred charge on debt refunding.
- Gas plant acquisition adjustment relating to our purchase of Pentex.
- Deferred outflows of resources related to the Snettisham restricted direct financing lease.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. AIDEA has one item that qualifies for reporting in this category. It is a deferred inflow of resources related to our participation in PERS.

(z) ***Pension and Other Postemployment Benefits***

For purposes of measuring the net pension liability and other postemployment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made. Investments are reported at fair value.

We follow the special funding situation guidance in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (Statement 68). We recognize the employer portion of net pension liability, deferred outflows of resources and deferred inflows of resources related to PERS. A revenue and expense is recognized for the nonemployer (State) portion of pension expense for the reporting period.

We follow the guidance in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement 75). We recognize the employer portion of net OPEB liability, deferred outflows of resources and deferred inflows of resources related to PERS. A revenue and expense is recognized for the nonemployer (State) portion of OPEB expense for the reporting period.

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(aa) *Prior Period Information*

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with U.S. generally accepted accounting principles. Such information should be read in conjunction with the financial statements for FY17, from which the summarized information was derived. Certain reclassifications were made to prior year information to conform to current year presentation.

(bb) *Change in Accounting Principle*

In June 2016, the GASB issued Statement 75. Statement 75 required that an employer recognize its obligation for OPEB net of the amount of the OPEB plans' fiduciary net position that is available to satisfy that obligation as well as disclose additional information regarding the obligation. AIDEA adopted the provisions of this statement in FY18. The adoption of Statement 75 resulted in the recognition of a net OPEB asset, net OPEB liability and associated deferred outflows as an adjustment to beginning net position as noted in our statements of revenues, expenses, and changes in net position. Also, AIDEA recognized a beginning deferred outflows of resources for its OPEB contributions made subsequent to the measurement date of the beginning net OPEB asset and net OPEB liability.

(cc) *Recently Issued Accounting Pronouncements*

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions* (Statement 75) was issued by GASB in June 2015. Statement 75 establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. This statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. Statement 75 is required to be implemented for the fiscal year ending June 30, 2018. AIDEA adopted the provisions of this statement for FY18. The adoption of Statement 75 resulted in the recognition of a net OPEB liability and associated deferred outflows and inflows as an adjustment to beginning net position as noted in our statements of revenue, expenses and changes in net position.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (Statement 81) was issued by the GASB in March 2016. The objective of Statement 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing guidance for recognition and measurement in situations that a government is an agreement beneficiary. A split-interest agreement is a giving agreement that provides resources to two or more beneficiaries, including governments. The provisions of this Statement are required to be implemented for the periods beginning after December 15, 2016. The implementation had no impact on our financial statements.

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GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73* (Statement 82) was issued by GASB in March 2016. This Statement addresses certain issues raised with respect to GASB Statement No. 67, *Financial Reporting for Pension Plans*, Statement 68 and Statement 73. Specifically, Statement 82 addresses:

- presentation of payroll-related measures in required supplementary information,
- selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and
- classification of payments made by employers to satisfy employee (plan member) contributions.

The provisions of this Statement are required to be implemented for the fiscal year ending June 30, 2017, except for the requirements for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that case, the requirements for selection of assumptions are effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The implementation had no impact on our financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations* (Statement 83) was issued by GASB in November 2016. Statement 83 addresses accounting and financial reporting for certain assets retirement obligations. Statement 83 generally requires a government that has legal obligations to perform future assets retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this Statement. Asset retirement obligation is defined as a legally enforceable liability associated with the retirement of a tangible capital asset. The Statement establishes criteria for determining the time and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Statement requires that recognition occurs when the liability is both incurred and reasonably estimable. Statement 83 is required to be implemented for financial reporting periods beginning after June 15, 2018. We have not implemented Statement 83 and are currently evaluating the impact on future financial statements.

GASB Statement No. 84, *Fiduciary activities* (Statement 84) was issued by GASB in January 2017. The objective of Statement 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be recorded. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions of this Statement are required to be implemented for the reporting periods beginning after December 15, 2018. We have not implemented Statement 84 and are currently evaluating the impact on future financial statements.

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GASB Statement No. 85, *Omnibus 2017* (Statement 85) was issued by GASB in March 2017. The objective of Statement 85 is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and “negative” goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The provisions of this Statement are required to be implemented for the periods beginning after June 15, 2017. AIDEA adopted Statement 85 in FY18, concurrent with the adoption of Statement 75.

GASB Statement No. 86, *Certain Debt Extinguishing Issues* (Statement 86) was issued by GASB in May 2017. The objective of Statement 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The provisions of this Statement are required to be implemented for the reporting periods beginning after June 15, 2017. The implementation had no impact on our financial statements.

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GASB Statement No. 87, *Leases* (Statement 87) was issued by GASB in June 2017. The objective of Statement 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are required to be implemented for the reporting periods beginning after December 15, 2019. We have not implemented Statement 87 and are currently evaluating the impact on future financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (Statement 88) was issued by GASB in April 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. We have not implemented Statement 88 and are currently evaluating the impact on future financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (statement 89) was issued by GASB in June of 2018. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Per-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included the historical cost of a capital asset reported in a business-type activity or enterprise fund.

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This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. We have not implemented Statement 89 and are currently evaluating the impact on future financial statements.

GASB Statement No. 90, *Majority Equity Interests* (Statement 90) was issued by GASB in August 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. We have not implemented Statement 90 and are currently evaluating the impact on future financial statements.

(3) Cash and Investment Securities

(a) *Revolving Fund*

Cash and Cash Equivalents

Following is a summary of the Revolving Fund's cash and cash equivalents at June 30, 2018 (in thousands):

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Current – unrestricted	\$ 69,241
Current – restricted	378
Noncurrent – restricted	6,932
Noncurrent - restricted - Snettisham	<u>11,364</u>
Carrying amount	\$ <u>87,915</u>
Bank balance	\$ <u>87,697</u>

Cash equivalents include \$2.2 million invested in the Alaska Municipal League Investment Pool (Pool). The Pool was rated a principal stability rating of AAAM by Standard & Poor's (S&P). Stand-alone financial statements can be obtained by writing to the Alaska Permanent Capital Management Co., 900 West Fifth Avenue, Suite 601, Anchorage, Alaska 99501 or visiting www.amlip.org.

Alaska Statute (AS) 37.23 provides for regulatory oversight of the Pool. The Statute provides requirements regarding authorized investments and reporting. The Pool is incorporated in Alaska as a nonprofit corporation and reports to a board of directors. AS 37.23.050 requires retention of an investment manager. The manager is required to produce monthly disclosure statements for the Pool. An investment advisor monitors the performance of the investment manager to ensure compliance with investment policies. The Pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. The fair value of the investments in the Pool are reviewed monthly by an independent pricing service. The Pool meets the standards for reporting investments at amortized cost with regard to portfolio requirements including maturity, quality, diversification, liquidity and shadow price. There are no restrictions or limitations on withdrawals from the Pool. As of June 30, 2018, the fair value of the investments in the Pool approximates the amortized cost at which they are reported. The fair value of our investments in the Pool is the same as the value of our Pool units.

Investment Securities

General – Investment Policies and Portfolio Information

Revolving Fund investments are governed by statute and AIDEA's Resolution No. G01-14D, *Amended and Restated Resolution of the Alaska Industrial Development and Export Authority Relating to Fixed-Income Investment Policies* (Resolution), or bond resolutions. The bond resolutions specify allowable investments. AIDEA has an internally managed portfolio and also uses two external money managers for a portion of its portfolio.

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

- Debt instruments issued or guaranteed by the U.S. government, its agencies and instrumentalities, and Government-Sponsored Enterprises (GSEs);

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

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

- Debt instruments issued or guaranteed by the U.S. government, its agencies and instrumentalities, and GSEs;
- Money market funds and repurchase agreements collateralized by U.S. Treasury and agency securities;
- Units in the investment pool or any series of investment pool of the Alaska Municipal League Investment Pool, Inc., or any successor to that entity, or any other investment pool for public entities of the State of Alaska that is established under the Alaska Investment Pool Act (AS 37.23.010-37.23.900); and
- Other investments specifically approved by the board.

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

Following is a summary of Revolving Fund investments at June 30, 2018 (in thousands):

Current – unrestricted	\$ 24,776
Noncurrent - unrestricted	371,630
Noncurrent - restricted	<u>9,898</u>
	<u>\$ 406,304</u>

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Fair Value Measurement

We categorize our fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Following is a summary of the Revolving Fund portfolio, organized by major investment type and the recurring fair value measurement at June 30, 2018 (in thousands):

U.S. Treasury	\$ 153,019	Level 2
U.S. Government agency discount notes	19,884	Level 2
U.S. Government agency and GSEs	16,401	Level 2
Corporate securities	126,306	Level 2
Mortgage – backed securities	78,475	Level 2
Asset – backed securities	9,117	Level 2
Municipal bonds	<u>3,102</u>	Level 2
	<u>\$ 406,304</u>	

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will negatively affect the fair value of an investment. The Resolution addresses interest rate risk. Duration is an indicator of a portfolio's market sensitivity to changes in interest rates. In general, major factors affecting duration are (in order of importance):

- 1) Maturity
- 2) Prepayment frequency
- 3) Level of market interest rates
- 4) Size of coupon
- 5) Coupon payments

Rising interest rates generally translate into the fair market value of fixed income investments declining, while falling interest rates are generally associated with increasing market values. Effective duration attempts to account for the price sensitivity of a bond to changes in prevailing interest rates, including the effect of embedded options. For example, for a bond portfolio with a duration of 5.0, a one-percentage-point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of 5.0%.

The duration of each externally managed fixed income portfolio must be within plus or minus 25% of the duration of the Barclays Capital Aggregate Bond Index for domestic fixed income portfolios and between 0.5 (½ year) and 125% of the contractual non-U.S. dollar denominated benchmark for the portfolios (or sub-portfolio component) available for investment in non-U.S. dollar denominated

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instruments (at June 30, 2018, there were no portfolios investing in non-U.S. dollar denominated instruments). AIDEA believes it meets the investment policy's requirements for maturity and duration of the externally managed fixed-income portfolios.

For the internally managed portfolio, the duration for longer-term investments is two years or less. The maximum maturity of any issue is three years from the date of purchase. We meet the investment policy's requirements for maturity and duration of the internally managed fixed-income portfolio.

We have shown below the weighted average effective duration in years for Revolving Fund cash equivalents and investments at June 30, 2018. The duration values in the table below take into account any put or call options embedded in the security, any expected sinking-fund pay downs, or expected principal prepayments:

	Internally managed portfolio	Externally managed portfolios
Money market	0.06	0.06
U.S. Treasury	-	6.41
U.S. Government agency discount notes	0.39	-
U.S. Government agency and GSEs	-	3.78
Corporate securities	-	6.60
Mortgage – backed securities	-	4.77
Assets – backed securities	-	1.28
Municipal bonds	-	2.83

Credit Risk

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

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

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

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guaranteed by Federal agencies or GSE are permitted, as are asset backed securities, including collateralized mortgage backed securities and collateralized mortgage obligations. AIDEA believes it is in compliance with the requirement of the investment policy regarding the credit quality of the portfolio.

The quality ratings of AIDEA Revolving Fund cash equivalent and investment portfolio at June 30, 2018 are stated in the table below as a percentage of the total portfolio. U.S. Treasury securities and securities of agencies and corporations explicitly guaranteed by the U.S. government are not considered to have credit risk and are reported as such in the table. On September 6, 2008, the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation were placed into conservatorship by the Federal Housing Finance Agency. Prior to this, both corporations were considered GSEs with an implicit backing of the U.S. government. Ratings used are S&P's rating scale unless not rated by S&P or rated lower by Moody's, in which case Moody's is used. Rate modifiers are not disclosed.

<u>Investment Type</u>	<u>Rating</u>	<u>Percentage of total</u>
Money market	AAA	1
U.S. Government agency and GSEs	AA	3
U.S. Government agency discount notes	AA	4
U.S. Government agency discount notes*	AAA	31
Municipal bonds	AAA	1
Corporate securities	AAA	1
Corporate securities*	Aaa	1
Corporate securities	AA	2
Corporate securities	A	11
Corporate securities	BBB	10
Mortgage – backed securities (issued by GSEs)	Not Rated	16
Assets – backed securities	AAA	1
Assets – backed securities*	AAA	1
No credit exposure		17
		<u>100%</u>

*Moody's rating

Custodial Credit Risk

Custodial credit risk of investments is the risk that, in the event of the failure of a custodian, the value of investments or collateral securities may not be recovered. In the Revolving Fund, amounts totaling approximately \$82.2 million at June 30, 2018, are held in the Pool or other money market funds. Funds held in the Pool are registered in the name of the trust department of a commercial bank and are held by a third party custodian. Money market funds are held by the trust department of a custodial bank and are registered in the bank's name. The investments in the Pool are owned by the Pool. All other investment securities in the Revolving Fund are registered in our name and are held by our custodian, the trust department of a commercial bank; therefore, no custodial credit risk exists for these securities.

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Concentration of Credit Risk

This is the risk of loss based on the amount of our investment. We manage our exposure in our Revolving Fund through the Resolution and bond resolutions. The Resolution limits how much we invest in any one issuer, other than securities issued or guaranteed by the U.S. government, its agencies or GSEs, or collateralized by securities issued or guaranteed by the U.S. government, its agencies or GSEs to 5% of the market value of the portfolio at the time of purchase. Other than securities issued or guaranteed by the U.S. government, its agencies or GSEs, AIDEA had no holdings in a single issuer that exceeded 5% of the market value of the portfolios.

On June 30, 2018, we had more than 5% of the combined portfolios invested in the following GSEs (dollar amounts in thousands):

	Revolving Fund	Percent of combined portfolio
Federal Home Loan Mortgage Corporation	\$ 36,595	9%
Federal National Mortgage Association	55,505	14%

Restricted Cash, Cash Equivalents, and Investment Securities

Certain investment securities, money market funds, and cash are restricted by the terms of bond resolutions or other agreements. A summary of restricted amounts at June 30, 2018, is as follows (in thousands):

	Allowable usage		
Red Dog Project Sustaining Capital fund	Project costs	\$	15,000
Ketchikan Shipyard restricted funds	Project costs		4
Ketchikan shipyard Repair and Replacement fund	Project costs		374
Advances from State of Alaska	Project costs		1,830
Snettisham Hydroelectric Project Funds	Various costs relating to the project		11,364
			11,364
		\$	28,572

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(b) Nonmajor Funds

Cash and Cash Equivalents

A summary of the Nonmajor Funds' cash and cash equivalents at June 30, 2018, is as follows (in thousands):

Unrestricted – Loan Funds	\$ 7,942
Unrestricted – SETS Fund	17,739
Restricted – SETS Fund	47,943
Carrying amount	<u>\$ 73,624</u>
 Bank balance	 <u>\$ 73,624</u>

All unrestricted and restricted cash and cash equivalents in the SETS Fund are invested in the Pool. Pursuant to legislative authorization to provide financing for the IEP up to a principal amount of \$275 million (including \$150 million in bonds) from the SETS Fund, management intends to utilize the restricted SETS cash equivalent balance in the table above for the IEP financing as provided for in the Financing Agreement with IGU.

(4) Loans (Enterprise Development Account and Nonmajor Funds)

Loans outstanding on June 30, 2018, are classified as follows (dollar amounts in thousands). Loans funded under AS 44.88.172 are considered development projects and are excluded from the table below:

	Number	Amount
Revolving Fund – Enterprise Development Account:		
Loan participation:		
Internally funded	242	\$ 403,945
Bond sale	1	11,502
OREO sale financing	1	100
Purchased loans	24	14,184
Revolving Fund loans	268	429,731
 Nonmajor Funds	 89	 85,917
		515,648
Less current portion		(39,690)
	 357	 \$ 475,958

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(a) Revolving Fund – Enterprise Development Account

Under our Loan Participation Program, we buy participations in loans secured by real property or tangible personal property made by commercial banks or other financial institutions. Nearly all of them relate to real property. Although we diversify our Revolving Fund loan portfolio by property type and region within the State, our ability to collect on loans depends on the State’s economic conditions.

On September 30, 2010, pursuant to legislation and an agreement, we bought 37 loans from AEA. Under the agreement, at our request, AEA must repurchase any loan upon a payment default.

All Enterprise Development Account Revolving Fund loans were current at June 30, 2018, and we had one Enterprise Development Account Revolving Fund loan in the amount of \$1.66 million for which we had restructured terms. Gross interest income we accrued on this loan totaled \$116,000 for FY18, and we received \$89,000 of interest payments.

The current portion of Enterprise Development Account loans for the Revolving Fund includes projections for prepayments anticipated in the next fiscal year. Based on portfolio payment history Revolving Fund loan participations payoff earlier than the original loan term. The amount of Enterprise Development Account Revolving Fund loans contractually due in FY18 is \$20.5 million compared to \$39.2 million recorded as the current portion. The difference of \$18.7 million represents 12% of the Revolving Fund current assets.

(b) Nonmajor Funds

The aging of loans relating to the Loan Funds and SETS Fund at June 30, 2018, are as follows (dollar amounts in thousands):

	Percent	Amount
Current	99.9%	\$ 85,860
Past due:		
Over 90 days	0.1%	57
	100.00%	\$ 85,917

Nonmajor Funds loans include a loan from our SETS fund which was a product of our financing of the IEP in FY18. Lines of credit totaling approximately \$55.9 million were converted to a loan at the close of the IEP financing. The per annum stated interest rate for the new loan is zero percent (0%) during the deferral period unless the default rate of interest of three percent (3%) has been imposed as provided by the Financing Agreement. Upon expiration of the deferral period and continuing until the maturity date, the interest rate for the term note is one quarter of one percent (0.25%). The deferral period is fifteen years after the closing date of June 13, 2018. The loan maturity date is fifty (50) years after the closing date.

The SETS Fund loan is classified as noncurrent in the Statement of Net Position at June 30, 2018. Advances made in excess of project needs totaling approximately \$325,000 were classified as advances receivable in the Statement of Net Position at June 30, 2018.

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Loan Funds loans with restructured terms totaled approximately \$712,000 on June 30, 2018. Gross interest income we accrued on these loans totaled \$27,000 for FY18, and we received \$33,000 of interest payments.

The Loan Funds held OREO and sold it during FY18; therefore, the OREO balance was zero (\$0) on June 30, 2018.

(5) Nonmajor Funds – LOCs

During FY18 LOCs in the SETS Fund totaling approximately \$55.9 million represented amounts drawn on existing LOCs that were converted to term loans on June 13, 2018 when we closed on the IEP Financing.

(6) Allowance for Loan Losses

Following is an analysis of changes in the allowance for loan losses for FY18 (in thousands):

	<u>Revolving Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Balance at beginning of year	\$ 8,903	717	9,620
Provision for loan losses	<u>576</u>	<u>221</u>	<u>797</u>
Balance at end of year	<u>\$ 9,479</u>	<u>938</u>	<u>10,417</u>

(7) Development Projects

(a) Direct Financing Leases

Following is the breakout of our net investment in development projects accounted for as direct financing leases by project on June 30, 2018 (in thousands):

	<u>Minimum lease payments receivable</u>	<u>Unearned income</u>	<u>Net investment in direct financing leases</u>
Red Dog Project	\$ 321,446	(204,719)	116,727
DMVA Project	<u>28,688</u>	<u>(15,326)</u>	<u>13,362</u>
	<u>\$ 350,134</u>	<u>(220,045)</u>	<u>130,089</u>
Less current Portion			<u>(8,046)</u>
			<u>\$ 122,043</u>

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Following are the future minimum lease payments receivable for FY19 through FY23 (dollars in thousands):

<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
\$ <u>14,377</u>	<u>18,794</u>	<u>18,794</u>	<u>18,794</u>	<u>18,794</u>

Estimates do not include future tonnage-sensitive (released from a reserve fund) or potential price-sensitive payments for the Red Dog project.

(b) Capital Assets

Our net investment in the Ketchikan Shipyard at June 30, 2018, was \$71.1 million. Capital activity related to the Ketchikan Shipyard is below (in thousands):

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2018</u>
Nondepreciable components of development projects:				
Land	\$ 1,995	-	-	1,995
Construction work in progress	-	633	(485)	148
Total nondepreciable components of development projects	<u>1,995</u>	<u>633</u>	<u>(485)</u>	<u>2,143</u>
Depreciable components of development projects:				
Buildings	58,089	485	-	58,574
Infrastructure	34,106	-	-	34,106
Total depreciable components of development projects	<u>92,195</u>	<u>485</u>	<u>-</u>	<u>92,680</u>
Less accumulated depreciation for:				
Buildings	(10,905)	(2,011)	-	(12,916)
Infrastructure	(9,510)	(1,289)	-	(10,799)
Accumulated depreciation	<u>(20,415)</u>	<u>(3,300)</u>	<u>-</u>	<u>(23,715)</u>
Depreciable components of development projects - net	<u>71,780</u>	<u>(2,815)</u>	<u>-</u>	<u>68,965</u>
Total development projects	<u>\$ 73,775</u>	<u>(2,182)</u>	<u>(485)</u>	<u>71,108</u>

Depreciation expense totaled \$3.3 million for development projects - capital assets for the fiscal year ending June 30, 2018 and is included in depreciation on projects in our Statement of Revenues, Expenses and Changes in Net Position.

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(c) Preferred Interest in Operating Companies

Following is the breakout of our net investment in development projects accounted for as preferred interest in operating companies by project on June 30, 2018 (in thousands):

Mustang Road LLC	\$ 10,194
MOC1 LLC	<u>52,677</u>
	<u>\$ 62,871</u>

MOC1 LLC preferred interest includes approximately \$177,000 of transaction costs. We evaluated our preferred interest in operating companies above for impairment and determined no impairment is necessary. Standalone financial statements for MOC1 LLC are available by calling 907-751-6807 or sending a request to cmalapit@mcac-cpa.com. (See note 12 and Schedule 9).

(d) Restricted Direct Financing Lease

In August 1998, AIDEA bought the Snettisham Hydroelectric project from the federal government. Under the terms of various agreements, AEL&P operates the project and buys all power. In July 2014 Alaska Energy and Resources Company, AEL&P's parent company, became a subsidiary of Avista Corporation, a Washington based utility. The change in ownership did not change the agreements in place with AIDEA. The project supplies most of the Juneau-Douglas area electrical energy. AEL&P is the sole electric utility for the area.

In August 2015, we refunded the bonds associated with the project, resulting in a deferred outflow of resources relating to the restricted direct financing lease that will be amortized over the remaining life of the lease. The deferred outflow of resources relating to the Snettisham restricted direct financing lease will be recognized in interest expense as follows (in thousands):

Year Ending June 30:	
2019	\$ 425
2020	378
2021	339
2022	304
2023	274
2024-2028	974
2029-2033	411
2034	<u>22</u>
	<u>\$ 3,127</u>

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Following is our net investment in the Snettisham project on June 30, 2018 (in thousands):

Minimum lease payments receivable	\$ 84,581
Less unearned income	<u>(26,112)</u>
Net investment in direct financing lease	<u>\$ 58,469</u>

(e) Development projects loans

Following is the breakout of our net investment in development projects accounted for as loans at June 30, 2018, (in thousands):

Blood Bank of Alaska, Inc.	\$ 3,972
BlueCrest*	<u>28,249</u>
Total development projects accounted for as loans	32,221
Less current portion	<u>(5,425)</u>
Total	<u>\$ 26,796</u>

*Includes BlueCrest Alaska Operating, LLC (borrower) and BlueCrest Alaska Oil & Gas, LLC, BlueCrest Cosmopolitan, LLC and BlueCrest Energy, Inc. (co-borrowers).

(f) Blended component unit

AIDEA and the Interior Gas Utility (IGU) entered into a LLC Membership Purchase and Sale Agreement (Purchase Agreement) where the Authority agreed to sell, and IGU agreed to purchase, the Authority's membership interest in Pentex. The transaction closed June 13, 2018 and was part of a financing package supporting the IEP as discussed in Schedule 9.

Under the terms of the Purchase Agreement, IGU purchased the Authority's ownership interest in Pentex for approximately \$61.4 million. The accompanying financial statements include a net gain of approximately \$6.7 million on the membership interest sale. The Authority financed IGU's acquisition of the membership interest in Pentex with a \$21.1 million draw on the SETS IEP loan and \$40.3 million of funds appropriated by the legislature for the purpose of the IEP from the State general fund.

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The following is a summary of the FY18 revenues and expenses of Pentex through the date of sale June 13, 2018, (in thousands):

Total operating revenues	\$	14,875
Total operating expenses		<u>15,081</u>
Net operating (loss)		(206)
Net nonoperating income		<u>791</u>
Change in net position	\$	<u>585</u>

FY18 depreciation expense totaled \$2.1 million for Pentex capital assets through the date of sale.

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(8) Capital Assets

Following is our activity for FY18 (in thousands):

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
Capital assets not being depreciated:				
Land	\$ 1,170	-	-	1,170
Construction work in progress	<u>125</u>	<u>88</u>	<u>(212)</u>	<u>1</u>
Total nondepreciable components of capital assets - other	<u>1,295</u>	<u>88</u>	<u>(212)</u>	<u>1,171</u>
Intangible assets not being depreciated:				
AMDIAF	<u>10,897</u>	<u>1,994</u>	<u>-</u>	<u>12,891</u>
Total intangible assets not being depreciated	<u>10,897</u>	<u>1,994</u>	<u>-</u>	<u>12,891</u>
Capital assets being depreciated:				
Administrative building	3,791	245	-	4,036
Infrastructure - IEP	<u>14,459</u>	<u>-</u>	<u>(2,818)</u>	<u>11,641</u>
Total depreciable components of capital assets -other	<u>18,250</u>	<u>245</u>	<u>(2,818)</u>	<u>15,677</u>
Less accumulated depreciation for:				
Administrative building	(2,464)	(191)	-	(2,655)
Infrastructure -IEP	<u>(3,219)</u>	<u>(3,018)</u>	<u>-</u>	<u>(6,237)</u>
Accumulated depreciation	<u>(5,683)</u>	<u>(3,209)</u>	<u>-</u>	<u>(8,892)</u>
Capital assets being depreciated – other, net	<u>12,567</u>	<u>(2,964)</u>	<u>(2,818)</u>	<u>6,785</u>
Total capital assets - other	<u>\$ 24,759</u>	<u>(882)</u>	<u>(3,030)</u>	<u>20,847</u>

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Depreciation expense of \$3.0 million for Infrastructure - IEP is included in depreciation on projects and depreciation expense of \$191,000 for our administrative building is included in Nonproject personnel, general and administrative expense in the Statement of Revenues, Expenses and Changes in Net Position for the fiscal year ending June 30, 2018.

Capital assets include capitalized costs for the IEP and the AMDIAP. AIDEA became the project sponsor for these infrastructure projects in FY13.

- *IEP* – We received a \$57.5 million capital appropriation effective June 30, 2013, and an authorization to finance up to a principal amount of \$275.0 million (which may include up to \$150 million in bonds and the remainder from the SETS Fund) for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production system and affiliated infrastructure on the North Slope and a natural gas distribution system and affiliated infrastructure in Interior Alaska from a direct State appropriation and bond authorization. During FY15 the scope of this project was expanded to allow for the source of natural gas to be from locations in the state other than the North Slope.

Capitalized costs include a fully completed pad on the North Slope and preliminary engineering and certain permitting for a future plant on the pad. The pad was placed into service in FY16.

In FY18, IEP preliminary engineering and permitting costs incurred for a planned Liquefied Natural Gas Plant to be built on the North Slope were impaired for \$2.8 million when it was determined that the work no longer had value due to a change in the planned location for the Plant. The impairment is expressed above as a deletion and represents the portion of the IEP's previously stated value that was associated solely with the expenses for facility design and engineering work.

- *AMDIAP* – Effective July 1, 2013, we received an \$8.5 million capital appropriation for the AMDIAP, with an additional \$8.5 million available July 1, 2014. Costs incurred for this project have included professional efforts related to planning, public outreach, environmental impact studies and preliminary work relating to the permitting and scoping for the project. During FY15 we were directed by the Governor to limit spending on this project. Scope was also limited to work relating to scoping and environmental impact studies. We have continued development within this limited scope.

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(9) Bonds Payable

We have listed below the composition of bonds outstanding (in thousands) issued under our Revolving Fund Bond Resolution (Revolving Fund Bonds). Interest rate and maturity date information is as of June 30, 2018:

	<u>Purpose of Financing</u>	<u>Balance at June 30, 2017</u>	<u>Deletions</u>	<u>Balance at June 30, 2018</u>	<u>Amounts due within one year</u>
Series 2010A – 4.375% to 5.250% issued February 24, 2010, maturing through 2027	Red Dog Project	\$ 34,565	(2,455)	32,110	2,635
Series 2010B – 4.0% to 5.5% issued December 22, 2010, maturing through 2031	Loan Participation	11,425	(580)	10,845	600
		<u>\$ 45,990</u>	<u>(3,035)</u>	<u>42,955</u>	<u>3,235</u>

On June 30, 2018, Revolving Fund general assets and future revenues secured all Revolving Fund Bonds. The minimum annual payments for all Revolving Fund Bonds after June 30, 2018, are as follows (without considering earlier call provisions) (in thousands):

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,235	2,206	5,441
2020	3,465	2,044	5,509
2021	3,700	1,870	5,570
2022	3,960	1,678	5,638
2023	4,245	1,469	5,714
2024-2028	21,165	3,713	24,878
2029-2031	3,185	337	3,522
	<u>\$ 42,955</u>	<u>13,317</u>	<u>56,272</u>

The Revolving Fund Bond Resolution covenants keep us from:

- Incurring any general obligation indebtedness unless future estimated net income (as defined in the Revolving Fund Bond Resolution) equals not less than 150% of the general obligation annual debt service requirement in each year.
- Causing our unrestricted surplus (as defined in the Revolving Fund Bond Resolution) to be below the lesser of \$200.0 million or the amount of general obligation indebtedness outstanding, and in no event less than \$100.0 million.

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On June 30, 2018, our unrestricted Revolving Fund surplus was \$1.07 billion and we estimated projected coverage for each future year exceeds 150%. The components of our unrestricted Revolving Fund surplus are as follows (in thousands):

Revolving Fund unrestricted net position	\$ 1,077,256
Less:	
Bond liquidity requirement	(10,739)
Loan guarantees	<u>(1,420)</u>
Unrestricted surplus	<u>\$ 1,065,097</u>

AIDEA is also required by Revolving Fund Bond Resolution covenants to maintain in the Revolving Fund Cash Equivalents (as defined in the Revolving Fund Bond Resolution) maturing within one year in an amount at least equal to the lesser of \$50.0 million or 25% of the amount of general obligation indebtedness outstanding. On June 30, 2018, the bond liquidity requirement was \$10,738,750.

In August 1998, AIDEA issued \$100.0 million of Power Revenue Bonds to finance the purchase of Snettisham. In August 2015, we issued \$65.72 million of fixed rate Power Revenue Refunding Bonds for the purpose of refunding \$69.955 million of First Series Power Revenue Bonds. The refunded bonds were redeemed September 25, 2015. The refunding bonds bear interest at rates ranging from 4.0% to 5.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. Following are the minimum payments for the Power Revenue Refunding Bonds after June 30, 2018 (without considering earlier call provisions) (in thousands):

Year ending June 30:	Principal	Interest	Total
2019	\$ 2,535	2,921	5,456
2020	2,660	2,795	5,455
2021	2,800	2,662	5,462
2022	2,935	2,522	5,457
2023	3,085	2,375	5,460
2024-2028	17,880	9,401	27,281
2029-2033	22,650	4,637	27,287
2034	<u>5,200</u>	<u>260</u>	<u>5,460</u>
	<u>\$ 59,745</u>	<u>27,573</u>	<u>87,318</u>

Under the Snettisham Power Revenue Bond Resolution, we must maintain a Debt Service Reserve Fund at least equal to 63% of the Maximum Aggregate Debt Service on the bonds. This fund is part of restricted cash and cash equivalents in the financial statements.

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(10) Retirement Plan - PERS

(a) *Defined Benefit (DB) Pension Plan*

General Information About the Plan

The Authority participates in the Alaska Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple-employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. 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. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website.

The Plan provides for retirement, death and disability, and postemployment healthcare benefits. There are three tiers of employees, based on entry date. For all tiers within the Defined Benefit (DB) plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. Police/Fire employees accrue benefits at an accelerated rate. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and other OPEB benefits. A complete benefit comparison chart is available at the website noted above.

The PERS DB Plan was closed to new entrants effective June 30, 2006. New employees hired after that date participate in the PERS Defined Contribution (DC) Plan described later in these notes.

Historical Context and Special Funding Situation

In April 2008, the Alaska legislature passed legislation converting the previously existing PERS plan from an agent-multiple-employer plan to a cost-sharing plan with an effective date of July 1, 2008. In connection with this conversion, the State of Alaska passed additional legislation which statutorily capped the employer contribution rate, established a state funded "on-behalf" contribution (subject to funding availability), and required that employer contributions be calculated against *all* PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan described later in these notes.

Alaska Statute 39.35.255 requires the State of Alaska to contribute to the DB Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan's past service liability contribution rate as adopted by the Alaska Retirement Management Board. As such, the DB Plan is considered to be in a special funding situation as defined by GASB, and management has recorded all pension related liabilities, deferred inflows/outflows, and disclosures on this basis.

AIDEA recorded the related on-behalf contributions as revenue and expense or expenditures as prescribed by GAAP, pursuant to the relevant basis of accounting based on fund type.

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It is important to note that the Alaska legislature has the power and authority to change the aforementioned statute through the legislative process.

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary. Police and firefighters are required to contribute 7.50% of their annual covered salary.

Employer and Other Contribution Rates

There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the contractual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% of eligible wages, subject to a wage floor, and other termination events. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability or DBUL contribution.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Effective July 1, 2015, the legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25-year term that ends in 2039. This change results in lower ARM Board Rates than previously adopted.

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. On-behalf amounts are reflected as revenue and expense only during the measurement period in which the Plan recognizes the payments, resulting in a significant timing difference between the cash transfers and revenue and expense recognition.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles (GAAP) as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB Rate disregards all future Medicare Part D payments. For FY18, the rate uses an 8% pension discount rate and a 4.30% healthcare discount rate.

The GASB Rate and the ARM Board Adopted Rate differ significantly as a direct result of variances in the actuarial methods and assumptions used.

Contribution rates for the year ended June 30, 2018 were determined in the June 30, 2015 actuarial valuation.

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	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	17.12%	21.90%	3.01%	29.07%
Postemployment benefits (see Note 10 (c))	4.88%	3.11%	0.00%	66.85%
Total Contribution Rates	22.00%	25.01%	3.01%	95.92%

In 2018, AIDEA was credited with the following contributions to the pension plan.

Employer contributions (including DBUL)	\$ 858
Nonemployer contributions (on-behalf)	807
Total Contributions	\$ 1,665

In addition, employee contributions to the Plan totaled approximately \$186,000 during the fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, AIDEA reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to AIDEA. The amount recognized by AIDEA for its proportional share, the related State proportion, and the total were as follows:

AIDEA proportionate share of NPL	\$ 9,843
State's proportionate share of NPL associated with AIDEA	3,667
Total Net Pension Liability	\$ 13,510

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. AIDEA's proportion of the net pension liability was based on AIDEA's actual contributions to the pension plan relative to the actual contributions of the State. At June 30, 2018, AIDEA's proportion was 0.19%, which was a decrease of 0.1% from its proportion measured as of the prior measurement date.

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For the year ended June 30, 2018, AIDEA recognized a net adjustment for pension expense of approximately \$(1.2 million) including AIDEA's portion of nonemployer contributions provided by the State. This includes approximately \$858,000 paid by AIDEA during the fiscal year and approximately \$(2.0 million) in pension related adjustments including the on-behalf portion allocated to AIDEA as a PERS employer. At June 30, 2018, AIDEA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	(177)
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	264	-
Changes in proportion and differences between AIDEA contributions and proportionate share of contributions	62	(1,157)
AIDEA contributions subsequent to the measurement date	858	-
Total Deferred Outflows and Deferred Inflows Related to Pensions	\$ 1,184	(1,334)

The \$858,000 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,			
2019	\$		(1,254)
2020			275
2021			124
2022			(153)

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June 30, 2018

Actuarial Assumptions

The total pension liability for the measurement period ended June 30, 2017 (AIDEA fiscal year 2018) was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2017. The actuarial assumptions used in the June 30, 2016 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

Actuarial Cost Method	Entry Age Normal – Level Percentage of Payroll.
Asset Valuation Method	Invested assets are reported at fair value.
Allocation Methodology	Amounts for FY14 and FY13 were allocated to employers based on actual contributions made in FY14 and FY13, respectively. Amounts for FY15 were allocated to employers based on the projected present value of contributions for FY2018-FY2039. The liability is expected to go to zero at 2039.
Investment Return / Discount Rate	8.00% per year (geometric), compounded annually, net of expenses.
Salary Scale	Inflation – 3.12% per year Productivity – 0.50% per year Peace Officer/Firefighter – graded by years of service from 9.66% to 4.92% All others – graded by age and years of service from 8.55% to 4.34%
Total Inflation	Measured by the consumer price index for urban and clerical workers for Anchorage and is assumed to increase 3.12% annually.
Mortality	Pre-termination – Based on the 2010-2013 actual mortality experience. Post-termination – 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	26%	8.83%
Global equity (non-U.S.)	22%	7.79%
Intermediate Treasuries	13%	1.29%
Opportunistic	5%	4.76%
Real estate	17%	4.94%
Absolute return	7%	4.76%
Private equity	9%	12.02%
Cash equivalents	1%	0.63%

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy that meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Discount Rate Sensitivity

The following presents AIDEA's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what AIDEA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
AIDEA's proportionate share of the net pension liability	\$ <u>12,929</u>	\$ <u>9,843</u>	\$ <u>7,236</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

(b) Defined Contribution (DC) Pension Plan

Employees hired after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. This Plan is administered by the State of Alaska, Department of Administration, in conjunction with the defined benefit plan noted above. 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. This Plan is included in the comprehensive annual financial report for PERS, and at the following website, as noted above. <http://doa.alaska.gov/drb/pers>.

Contributions to the DC plan consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual remittances to the PERS system require that AIDEA contribute at 22%. After deducting the DC plan contributions (and related OPEB contributions), the remaining remittance (the DBUL) is deposited into the DB plan as noted earlier.

Benefit Terms

Employees are immediately vested in their own contributions and vest 25% with two years of service, plus an additional 25% per year thereafter for full vesting at five years of service.

Employee Contribution Rate

Employees are required to contribute 8% of their annual covered salary. This amount goes directly to the individual's account.

Employer Contribution Rate

For the year ended June 30, 2018, AIDEA was required to contribute 5% of covered salary into the DC Plan which represent pension share of the total 8% contribution of covered salary.

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AIDEA and employee contributions to PERS for pensions for the year ended June 30, 2018 were \$192,000 and \$298,000, respectively. AIDEA contribution amount was recognized as pension expense/expenditures.

(c) Defined Benefit OPEB Plan

As part of its participation in the PERS DB Plan (Tiers I, II, III), which is a cost-sharing multiple-employer plan, AIDEA participates in the Alaska Retiree Healthcare Trust (ARHCT), Retiree Medical Plan (RMP) and Occupational Death and Disability Plan (ODD). The ARHCT is self-funded and provides major medical coverage to retirees of the System. Benefits vary by Tier level. The RMP provides major medical coverage to retirees of the PERS DC Plan (Tier IV). The ODD provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within PERS. The Plan is administered by the State of Alaska, Department of Administration.

Employer Contribution Rate

AIDEA is required to contribute 8.75% of covered payroll into the OPEB plan. Employees do not contribute.

In 2018, AIDEA was credited with the following contributions to the OPEB plan.

Employer contributions (including DBUL)	\$	289
Nonemployer contributions (on-behalf)		231
Total Contributions	\$	520

OPEB Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, AIDEA reported liabilities for its proportionate share of the net OPEB liabilities (NOL) that reflected a reduction for State OPEB support provided to AIDEA. AIDEA also reported OPEB asset for its proportionate share of the net OPEB asset (NOA). The amounts recognized by AIDEA for its proportional share, the related State proportion, and the total were as follows:

AIDEA proportionate share of NOL:		
ARHCT	\$	1,609
RMP		13
State's proportionate share of the NOL associated with AIDEA		600

Total Net OPEB Liabilities	\$	2,222
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AIDEA proportionate share of NOA:		
ODD	\$	36
State's proportionate share of the NOA associated with AIDEA		-

Total Net OPEB Asset	\$	36
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The total OPEB asset and total OPEB liabilities for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 to calculate the net OPEB asset and net OPEB liabilities as of that date. AIDEA's proportion of the net OPEB liabilities was based on a projection of AIDEA's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At the June 30, 2017 measurement date, AIDEA's proportion for ARHCT was 0.19%, RMP was 0.25%, and ODD was 0.25%.

As a result of its requirement to contribute to the Plan, AIDEA recognized expense of \$164,000 and on-behalf revenue of \$231,000 for support provided by the State. At June 30, 2018, AIDEA reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	(88)
Changes in assumptions	-	-
Changes in benefits	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(513)
Changes in proportion and differences between AIDEA contributions and proportionate share of contributions	1	(302)
Proportion and differences between State contributions and proportionate share of contributions	(103)	-
AIDEA contributions subsequent to the measurement date	289	-
Total Deferred Outflows and Deferred Inflows Related to OPEB	\$ 187	(903)

The \$289,000 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liabilities in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,

2019	\$ 370
2020	327
2021	154
2022	154

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Actuarial Assumptions

The total OPEB asset and liabilities for the measurement period ended June 30, 2017 (AIDEA fiscal year 2018) was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2017. The actuarial assumptions used in the June 30, 2016 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level dollar, closed
Inflation	3.12%
Salary increases	Graded by service from 8.55% to 4.34% for all others
Allocation methodology	Amounts for FY17 were allocated to employers based on the projected present value of contributions for FY2019-FY2039. The liability is expected to go to zero at 2039.
Investment return / discount rate	8.00%, net of postemployment healthcare plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
Healthcare cost trend rates	Pre-65 medical; 8.8% grading down to 4.4% Post-65 medical; 5.8% grading down to 4.0% Prescription drug; 5.4% grading down to 4.0%
Mortality	Pre-termination – Based on the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for peace officers/firefighters, 50% of the time for all others. Post-termination – 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.

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The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of postretirement healthcare plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	26%	8.83%
Global ex-U.S. equity	22%	7.79%
Intermediate treasuries	13%	1.29%
Opportunistic	5%	4.76%
Real estate	17%	4.94%
Absolute return	7%	4.76%
Private equity	9%	12.02%
Cash equivalents	1%	0.63%

Discount Rate

The discount rate used to measure the total OPEB liabilities was 8.00%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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Discount Rate Sensitivity

The following presents AIDEA's proportionate share of the net OPEB liabilities and net OPEB assets calculated using the discount rate of 8.00%, as well as what AIDEA's proportionate share of the net OPEB liability and net OPEB assets would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
AIDEA's proportionate share of the net OPEB liabilities:			
ARHCT	\$ 3,443	1,609	65
RMP	62	13	(25)
Total	\$ 3,505	1,622	40
	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
AIDEA's proportionate share of the net OPEB asset - ODD			
	\$ 32	36	39

Healthcare Cost Trend Rates

The following presents AIDEA's proportionate share of the net OPEB liabilities calculated using the healthcare cost trend rate, as well as what AIDEA's proportionate share of the net OPEB liabilities would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (7.8% decreasing to 3.0%)	Current Discount Rate (8.8% decreasing to 4.0%)	1% Increase (9.8% decreasing to 5.0%)
AIDEA's proportionate share of the net OPEB liabilities:			
ARHCT	\$ (178)	1,609	3,757
RMP	(33)	13	75
Total	\$ (211)	1,622	3,832

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OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued PERS financial report.

(d) Defined Contribution OPEB

Defined Contribution Pension Plan participants (PERS Tier IV) participate in the Occupational Death and Disability Plan (ODD), and the Retiree Medical Plan. Information on these plans is included in the comprehensive annual financial report for the PERS Plan noted above. These plans provide for death, disability, and postemployment healthcare benefits.

Employer Contribution Rates

Employees do not contribute to the DC OPEB plans. Employer contribution rates for the year ended June 30, 2018 were as follows:

	<u>Other Tier IV</u>	<u>Police/Fire Tier IV</u>
Retiree medical plan	1.03%	1.03%
Occupational death and disability benefits	<u>0.16%</u>	<u>0.43%</u>
Total Contribution Rates	<u>1.19%</u>	<u>1.46%</u>

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of *all employees of all employers* in the plan." As of July 1, 2017, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates \$2,084 per year for each full-time employee, and \$1.34 per hour for part-time employees.

Annual Postemployment Healthcare Cost

In 2018, AIDEA contributed \$94,000 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

(11) Related Party – Alaska Energy Authority

Based on understandings and board-approved agreements between AIDEA and AEA, we supply administrative, personnel, data processing, communications, and other services to AEA. AIDEA recognized revenue totaling \$5.05 million for providing these services during FY18. As of June 30, 2018, AIDEA had \$4.28 million receivable from AEA for services and short-term borrowings. In addition, AIDEA received \$200,000 for administration of the Bradley Lake Hydroelectric Project and \$22,000 for administration of the Battle Creek Project. These amounts are recorded as part of income from state agencies and component units.

AIDEA recorded a net pension liability of \$9.8 million, OPEB liability of \$1.6 million, and OPEB asset of \$36,000 as of June 30, 2018. AEA's annual payments to AIDEA for personnel services supporting AEA activities includes a PERS contribution component. Receipts from AEA funds over half of AIDEA's personnel services.

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(12) Commitments, Contingencies, Subsequent Events and Other

(a) Investments

AIDEA held about \$25.0 million of investments in trust or as custodian for others under various agreements. The accompanying financial statements do not reflect these moneys and related liability.

(b) Dividend

Under Alaska statutes, our Board must annually determine the amount of a dividend to make available for appropriation by the legislature. This dividend must be at least 25% and not more than 50% of our audited "net income," as defined in statute, for the fiscal year two years before the fiscal year in which the dividend is to be made. The dividend may never exceed unrestricted "net income." Our Board authorized a \$4.597 million dividend to be paid from the Revolving Fund and a \$195,000 dividend to be paid from the SETS Fund in the year ending June 30, 2019. The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.

(c) Alaska Insurance Guaranty Association

AIDEA has legislative authorization to guarantee loans made to the Alaska Insurance Guaranty Association (Association). The Association pays, from assessments to member insurers, the claims of insurance companies regulators put into liquidation. We can guarantee only loans the Association needs to meet cash flow needs up to a maximum of \$30.0 million in outstanding principal balance at any time. No guarantees have been made pursuant to this authorization.

(d) Potential Development Projects

AIDEA reviews potential development finance projects sponsors bring to us in order to determine whether they meet our ongoing economic development mission and should be considered under the Development Finance Program. Only a few of the projects we consider go to our Board for approval to have due diligence work completed.

(e) Other Commitments and Contingencies

AIDEA from time to time may be a defendant in legal proceedings and contract disputes over how we conduct our business. The Internal Revenue Service also may do compliance or other audits concerning our tax-exempt bonds.

We also have various commitments and contingent liabilities as part of normal business, such as commitments to extend credit and guarantees, which do not appear in the accompanying financial statements. On June 30, 2018, we had extended the following commitments funded by the Revolving Fund:

- Loan participation purchase commitments of \$31.2 million
- Loan guarantees of \$1.4 million

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Additionally, we have been identified as part of a class of parties who may be potentially responsible parties regarding contamination at the port in Skagway Alaska. We disagree with this determination and do not think we are legally obligated to contribute to the cleanup.

In management's opinion, the final outcome of present legal proceedings or other contingent liabilities and commitments will not materially affect our financial position.

(f) *Commitments and Contingencies - Nonmajor Funds*

AIDEA had extended commitments to fund a loan to IGU not to exceed \$125 million from the SETS Fund for the IEP. At June 30, 2018 we have funded approximately \$77 million, resulting in a remaining commitment of approximately \$48 million.

(g) *Commitment and Contingencies – Snettisham Project*

On September 27, 2017, the U.S. Department of the Interior, Interior Board of Land Appeals (IBLA) issued a decision related to an appeal of an original decision of the U.S. Bureau of Land Management (BLM) that was issued on December 11, 2014. The BLM decision related to a high voltage transmission line to Juneau for the Snettisham Project. The U.S. Army Corps of Engineers relocated the line in the 1970's across lands claimed as a Native allotment land totaling 160 acres.

The BLM decided that the allotment is not subject to the Snettisham Project Easement. The Easement was declared null and void where it crossed the Native allotment land. We appealed this decision to the IBLA. On September 27, 2017, the IBLA affirmed the BLM decision. No significant development has occurred at this time. Any adverse impact to AIDEA is unknown.

(h) *Risk Management*

AIDEA is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. AIDEA covers that risk through the purchase of commercial insurance and participation in the State's Risk-Management Pool. The Risk Management Pool administers a self-insurance program for each State agency, which covers all sudden and accidental property and casualty claims. Annual assessments allocated by Risk Management are the maximum each agency is called upon to pay, forestalling the need for supplemental appropriation or distribution of vital State services after a major property loss, adverse civil jury award, or significant worker compensation claim. In consultation with the State's Division of Risk Management, we insure our Development Projects using commercial insurance. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

AIDEA is the policyholder under the terms of an Owner Controlled Insurance Program related to the Healy Clean Coal Project. AIDEA sold the project in FY14 but continues to be responsible for claims filed under the policy. Premiums under this policy are based on actual loss experience during the period of coverage. AIDEA is not aware of any outstanding premium adjustments under this policy.

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(i) ***Subsequent Events***

In September 2018, AIDEA and Caracol Petroleum, LLC (Caracol) executed a Purchase and Sale Agreement. Caracol is a wholly owned subsidiary of Alpha Energy Holdings Limited (Alpha), a Singapore company, publicly traded on the Singapore stock exchange.

Under the terms of the agreement, AIDEA will sell its membership interests in MR LLC and MOC1 LLC to Caracol for \$64 million as part of a larger restructure of Mustang field ownership. AIDEA will finance the sales price with a loan to Caracol. Closing is subject to conditions precedent including but not limited to the extension of a line of credit MOC1 LLC has with the Alaska Department of Revenue and approvals by various parties involved. Provided all conditions precedent are satisfied, we anticipate closing to occur by the end of 2018.

Concurrent with the execution of the Purchase and Sale Agreement, AIDEA executed an Option Agreement with a five-year exercise period, providing AIDEA with the opportunity to purchase stock in Alpha. We cannot exercise the option to purchase Alpha stock until after the closing on the Purchase and Sale Agreement occurs and other conditions are satisfied.

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Schedule of Proportionate Share of the Net Pension Liability and Employer Contributions

Alaska Public Employees' Retirement System

(dollars in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
AIDEA's proportion of the net pension liability	0.19%	0.29%	0.26%	0.18%	0.18%	*	*	*	*	*
AIDEA's proportionate share of the net pension liability	\$ 9,843	15,941	12,606	8,595	9,287	*	*	*	*	*
State's proportionate share of the net pension liability	<u>3,667</u>	<u>2,009</u>	<u>3,563</u>	<u>7,439</u>	<u>8,542</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Total	<u>\$ 13,510</u>	<u>17,950</u>	<u>16,169</u>	<u>16,034</u>	<u>17,829</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
AIDEA's covered-employee payroll	\$ 6,697	7,525	8,468	9,213	8,595					
AIDEA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	147%	212%	149%	93%	108%	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	63%	60%	64%	62%	*	*	*	*	*	*
AIDEA's statutorily required contribution	\$ 858	1,282	871	971	1,017	983	*	*	*	*
Contributions recognized by the plan in relation to the statutorily required employer contribution	<u>858</u>	<u>1,282</u>	<u>871</u>	<u>971</u>	<u>1,017</u>	<u>983</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Difference	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
AIDEA's statutorily required contribution as a percentage of covered-employee payroll	13%	17%	10%	11%	12%	*	*	*	*	*

* Information for these years is not available.

(1) Information in this table is presented based on the Plan measurement date. For June 30, 2018, the Plan measurement date is June 30, 2017, except for AIDEA's statutorily required contributions and contributions recognized by the Plan in relation to the statutorily required contributions which are on a current fiscal year basis. There were no changes in benefit terms from the prior measurement period. There were no changes in assumptions from the prior measurement period. There were no changes in allocation methodology.

(2) The table above reports AIDEA's pension and OPEB contributions to PERS during fiscal year 2018 for comparison purposes. Contributions were not tracked separately for pension and OPEB for years prior to FY17. Amounts represent combined contributions.

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Schedule of Proportionate Share of the Net OPEB Liability and Employer Contributions

Alaska Public Employees' Retirement System

(dollars in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
AIDEA's proportion of the net OPEB liability	0.19%	*	*	*	*	*	*	*	*	*
AIDEA's proportionate share of the net OPEB liability	\$ 1,622	*	*	*	*	*	*	*	*	*
State's proportionate share of the net OPEB liability	600	*	*	*	*	*	*	*	*	*
Total	<u>\$ 2,222</u>	<u>*</u>								
AIDEA's covered-employee payroll	\$ 6,697									
AIDEA's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	24%	*	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	10%	*	*	*	*	*	*	*	*	*
AIDEA's statutorily required contribution	\$ 283	*	*	*	*	*	*	*	*	*
Contributions recognized by the plan in relation to the statutorily required employer contribution	283	*	*	*	*	*	*	*	*	*
Difference	<u>\$ —</u>	<u>*</u>								
AIDEA's statutorily required contribution as a percentage of covered-employee payroll	4%	*	*	*	*	*	*	*	*	*

* Information for these years is not available.

(1) Information in this table is presented based on the Plan measurement date. For June 30, 2018, the Plan measurement date is June 30, 2017, except for AIDEA's statutorily required contributions and contributions recognized by the Plan in relation to the statutorily required contributions which are on a current fiscal year basis. There were no changes in benefit terms from the prior measurement period. There were no changes in assumptions from the prior measurement period. There were no changes in allocation methodology.

(2) Information in this table represents the OPEB liability for the ARHCT and RMP OPEB Plans. It excludes the OPEB asset of the ODD Plan of approximately \$36,000 and AIDEA's statutorily required contribution to the ODD Plan of approximately \$6,000.

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Revolving Fund – Statement of Net Position

June 30, 2018

(In thousands)

	Revolving Fund
Assets and Deferred Outflows of Resources	
Current assets:	
Unrestricted cash and cash equivalents	\$ 69,241
Restricted cash and cash equivalents	378
Unrestricted investment securities	24,776
Loans - current portion	39,255
Development projects accounted for as direct financing leases	8,046
Development projects accounted for as loans	5,425
Accrued interest receivable	4,315
Other assets	4,737
Total current assets	<u>156,173</u>
Noncurrent assets:	
Restricted cash and cash equivalents	6,932
Restricted cash and cash equivalents - Snettisham	11,364
Restricted investment securities	9,898
Investment securities	371,630
Net OPEB asset	36
Loans - noncurrent portion	390,476
Less allowance for loan losses	(9,479)
Net loans	<u>380,997</u>
Development projects accounted for as:	
Direct financing leases	122,043
Loans - noncurrent portion	26,796
Capital assets	71,108
Preferred interest in operating companies	62,871
Restricted net investment in direct financing lease - Snettisham	58,469
Capital assets	20,847
Other assets	472
Total noncurrent assets	<u>1,143,463</u>
Total assets	<u>1,299,636</u>
Deferred outflows of resources:	
Deferred outflows of resources related to employee pensions	1,184
Deferred outflows of resources related to OPEB	187
Deferred charge on bond refunding	121
Deferred outflow of resources - Snettisham	3,127
Total deferred outflows of resources	<u>4,619</u>
Total assets and deferred outflows of resources	<u>\$ 1,304,255</u>
Liabilities, Deferred Inflows of Resources and Net Position	
Current liabilities:	\$
Bonds payable - current portion	3,235
Accrued interest payable	551
Accounts payable	1,992
Advances from State of Alaska - current portion	1,046
Other liabilities	447
Total current liabilities	<u>7,271</u>
Noncurrent liabilities:	
Bonds payable - noncurrent portion	39,720
Net pension liability	9,843
Net OPEB liability	1,622
Other liabilities	1,016
Liabilities payable from restricted assets – Snettisham:	
Power revenue bonds payable	59,745
Other	13,215
Total noncurrent liabilities	<u>125,161</u>
Total liabilities	<u>132,432</u>
Deferred inflows of resources:	
Deferred inflows of resources related to employee pensions	1,334
Deferred inflows of resources related to OPEB	903
Total deferred inflows of resources	<u>2,237</u>
Net position:	
Net investment in development projects – capital assets	71,108
Net investment in capital assets	20,847
Restricted contributions	375
Unrestricted	1,077,256
Total net position	<u>1,169,586</u>
Commitments and contingencies	<u>—</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,304,255</u>

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

Revolving Fund – Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

(In thousands)

	Revolving Fund Before Consolidation	Pentex	Consolidating Entries	Revolving Fund Consolidated Total
Operating revenues:				
Interest on loans	\$ 16,412	—	—	16,412
Income from development projects	12,129	—	—	12,129
Income from development projects - loans	3,320	—	—	3,320
Income from development project - Pentex	—	14,875	—	14,875
Interest on Snettisham restricted direct financing lease	2,982	—	—	2,982
Investment interest	10,726	—	—	10,726
Net decrease in fair value of investments	(12,039)	—	—	(12,039)
Income from state agencies and component units	5,366	—	—	5,366
State of Alaska nonemployer contributions to Public Employee retirement system	1,038	—	—	1,038
Gain on sale of development project	7,389	—	(645)	6,744
Other income	1,085	—	—	1,085
Total operating revenues	<u>48,408</u>	<u>14,875</u>	<u>(645)</u>	<u>62,638</u>
Operating expenses:				
Interest	2,160	—	—	2,160
Interest on Snettisham liabilities payable from restricted assets	2,982	—	—	2,982
Nonproject personnel, general and administrative	6,464	—	—	6,464
Net pension related adjustments	(2,016)	—	—	(2,016)
Net OPEB related adjustments	164	—	—	164
General and administrative - Pentex	—	1,780	—	1,780
Costs reimbursed from state agencies and component units	5,366	—	—	5,366
Provision for loan losses	576	—	—	576
Depreciation on projects	6,318	—	—	6,318
Depreciation - Pentex	—	2,130	—	2,130
Project feasibility and due diligence costs	578	—	—	578
Other project expenses - Pentex	—	11,171	—	11,171
Other project expenses	749	—	—	749
Total operating expenses	<u>23,341</u>	<u>15,081</u>	<u>—</u>	<u>38,422</u>
Operating income (loss)	<u>25,067</u>	<u>(206)</u>	<u>(645)</u>	<u>24,216</u>
Nonoperating revenues (expenses) and other:				
Net (expenses) related to Ketchikan Shipyard Repair and Replacement Fund	(127)	—	—	(127)
Capital grants	527	—	—	527
Nonoperating income (loss) - Pentex	—	791	(958)	(167)
Other contributions	93	—	—	93
Appropriations and contributions from the State of Alaska	43,854	—	—	43,854
Capital funds contribution	(41,212)	—	958	(40,254)
Dividend to the State of Alaska	(12,883)	—	—	(12,883)
Impairment loss on capital assets	(2,818)	—	—	(2,818)
Total nonoperating revenues (expenses) and other	<u>(12,566)</u>	<u>791</u>	<u>—</u>	<u>(11,775)</u>
Increase (decrease) in net position	<u>12,501</u>	<u>585</u>	<u>(645)</u>	<u>12,441</u>
Net position - beginning of year, as previously reported	1,159,454	54,060	(54,000)	1,159,514
Cumulative effective on prior years of adoption of				
GASB Statement 75	(2,369)	—	—	(2,369)
Net position - beginning of year, as adjusted	<u>1,157,085</u>	<u>54,060</u>	<u>(54,000)</u>	<u>1,157,145</u>
Adjustment for sale of Pentex net position	—	(54,645)	54,645	—
Net position - end of year	<u>\$ 1,169,586</u>	<u>—</u>	<u>—</u>	<u>1,169,586</u>

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**
(A Component Unit of the State of Alaska)
Revolving Fund – Combining Statement of Cash Flows
Year ended June 30, 2018
(In thousands)

	Revolving Fund Before Consolidation	Pentex	Consolidating Entries	Revolving Fund Consolidated Total
Cash flows from operating activities:				
Interest received on loans	\$ 15,767	—	—	15,767
Operating receipts - Pentex	—	14,051	—	14,051
Receipts from borrowers	3,871	—	—	3,871
Principal collected on loans	44,421	—	—	44,421
Other operating receipts	5,467	—	—	5,467
Other operating receipts - Snettisham	2,603	—	—	2,603
Loans originated	(71,654)	—	—	(71,654)
Payments to suppliers and employees for services	(13,025)	—	—	(13,025)
Operating payments - Pentex	—	(12,290)	—	(12,290)
Payments to primary government	(1,577)	—	—	(1,577)
Other operating payments - Snettisham	(1,258)	—	—	(1,258)
Net cash (used for) provided by operating activities	(15,385)	1,761	—	(13,624)
Cash flows from noncapital and related financing activities:				
Dividend paid to the State of Alaska	(12,883)	—	—	(12,883)
Short-term borrowings paid to the Alaska Energy Authority for working capital, net	(790)	—	—	(790)
Principal paid on noncapital debt	(580)	—	—	(580)
Interest paid on noncapital debt	(595)	—	—	(595)
Net cash used for noncapital and related financing activities	(14,848)	—	—	(14,848)
Cash flows from capital and related financing activities:				
Direct financing lease receipts	28,540	—	—	28,540
Direct financing lease receipts - Snettisham	5,464	—	—	5,464
Capital grant receipts	417	—	—	417
Capital appropriation - State of Alaska	1,764	—	—	1,764
Restricted contributions for development projects	802	—	—	802
Principal paid on capital debt	(2,455)	—	—	(2,455)
Interest paid on capital debt	(1,757)	—	—	(1,757)
Investment in development projects-capital assets	(2,092)	—	—	(2,092)
Investment in capital assets	(303)	—	—	(303)
Investment in capital assets - Pentex	—	(13,729)	(855)	(14,584)
Interest paid on capital debt - Snettisham	(3,042)	—	—	(3,042)
Principal paid on capital debt - Snettisham	(2,415)	—	—	(2,415)
Proceeds from capital debt - Pentex	—	868	—	868
Proceeds from interfund line of credit - Pentex	—	11,811	—	11,811
Interest paid on capital debt - Pentex	—	(41)	—	(41)
Payments on capital debt - Pentex	—	(199)	—	(199)
Contributed to component unit	(855)	—	855	—
Cash received from sale of Pentex	61,389	—	(5,778)	55,611
Contribution for sale of Pentex	(40,254)	—	—	(40,254)
Net cash provided by (used for) capital and related financing activities	45,203	(1,290)	(5,778)	38,135
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	250,273	—	—	250,273
Purchases of investment securities	(324,073)	—	—	(324,073)
Interest collected on investments	10,439	—	—	10,439
Investment in preferred interest in operating companies	(2,522)	—	—	(2,522)
Interest received on purchased loans	573	—	—	573
Principal collected on purchased loans	1,051	—	—	1,051
Interest received on development projects loans	3,309	—	—	3,309
Principal collected on development projects loans	4,087	—	—	4,087
Other investing disbursements - Pentex	—	(50)	—	(50)
Net cash (used for) investing activities	(56,863)	(50)	—	(56,913)
Net (decrease) increase in cash and cash equivalents	(41,893)	421	(5,778)	(47,250)
Cash and cash equivalents at beginning of year	129,808	5,357	—	135,165
Cash and cash equivalents at end of year	\$ 87,915	5,778	(5,778)	87,915

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Revolving Fund – Combining Statement of Cash Flows, Continued

Year ended June 30, 2018

(In thousands)

	Revolving Fund Before Consolidation	Pentex	Consolidating Entries	Revolving Fund Consolidated Total
Reconciliation of operating income (loss) to net cash (used for) provided by operating activities:				
Operating income (loss)	\$ 25,067	(206)	(645)	24,216
Adjustments to reconcile operating income to net cash (used for) provided by operating activities:				
Principal collected on loans	44,421	—	—	44,421
Loans originated	(71,654)	—	—	(71,654)
Investment interest income	(10,726)	—	—	(10,726)
Amortization of income from operating companies	(165)	—	—	(165)
Amortization of unearned income on direct financing leases	(9,240)	—	—	(9,240)
Amortization of unearned income on direct financing lease - Snettisham	(2,982)	—	—	(2,982)
Bond interest expense	2,315	—	—	2,315
Bond interest expense - Snettisham	2,982	—	—	2,982
Provision for loan losses	576	—	—	576
Depreciation on projects	6,318	—	—	6,318
Depreciation on administrative building	191	—	—	191
Depreciation - Pentex	—	2,130	—	2,130
Amortization of deferred outflow - Pentex	—	116	—	116
Gain on sale of the development project	(7,389)	—	645	(6,744)
Net decrease in fair value of investments	12,039	—	—	12,039
Interest on loans	(3,889)	—	—	(3,889)
Increase in net OPEB asset	(1)	—	—	(1)
Decrease in deferred outflows related to pensions	2,119	—	—	2,119
Decrease in deferred outflows related to OPEB	166	—	—	166
Decrease in accrued interest receivable and other assets	125	—	—	125
Increase in other assets - Pentex	—	(644)	—	(644)
Decrease in net pension liability	(6,098)	—	—	(6,098)
Decrease in net OPEB liability	(1,135)	—	—	(1,135)
Decrease in accounts payable and other liabilities	(484)	—	—	(484)
Increase in accounts payable and other liabilities - Pentex	—	365	—	365
Increase in deferred inflows related to pensions	1,156	—	—	1,156
Increase in deferred inflows related to OPEB	903	—	—	903
Net cash (used for) provided by operating activities	<u>\$ (15,385)</u>	<u>1,761</u>	<u>—</u>	<u>(13,624)</u>
Noncash investing, capital, and financing activities:				
Net decrease in net unrealized loss on investments	\$ 1,055	—	—	1,055
Contributed assets	93	—	—	93
Impairment loss	2,818	227	—	3,045
Accounts payable for capital asset additions	377	—	—	377
Accounts payable for capital asset additions - Pentex	—	2,908	—	2,908
Accounts payable for development project additions	\$ 124	—	—	124

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Nonmajor Funds – Combining Statement of Net Position

June 30, 2018

(In thousands)

Assets	<u>SETS Fund</u>	<u>Loan Funds</u>	<u>Aggregate Nonmajor Funds</u>
Current assets:			
Unrestricted cash and cash equivalents	\$ 17,739	7,942	25,681
Restricted cash and cash equivalents	47,943	—	47,943
Due from the State of Alaska	—	6	6
Loans - current portion	—	435	435
Line of credit and loan advances receivable	325	—	325
Accrued interest receivable	—	136	136
Other assets	—	55	55
Total current assets	<u>66,007</u>	<u>8,574</u>	<u>74,581</u>
Noncurrent assets:			
Loans - noncurrent portion	76,849	8,633	85,482
Less allowance for loan losses	—	(938)	(938)
Net loans	<u>76,849</u>	<u>7,695</u>	<u>84,544</u>
Other assets	—	30	30
Total noncurrent assets	<u>76,849</u>	<u>7,725</u>	<u>84,574</u>
Total assets	<u>\$ 142,856</u>	<u>16,299</u>	<u>159,155</u>
Liabilities and Net Position			
Current liabilities:			
Accounts payable	\$ 81	15	96
Total liabilities	<u>81</u>	<u>15</u>	<u>96</u>
Net position:			
Unrestricted	<u>142,775</u>	<u>16,284</u>	<u>159,059</u>
Total net position	<u>142,775</u>	<u>16,284</u>	<u>159,059</u>
Total liabilities and net position	<u>\$ 142,856</u>	<u>16,299</u>	<u>159,155</u>

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Nonmajor Funds – Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

(In thousands)

	<u>SETS Fund</u>	<u>Loan Funds</u>	<u>Aggregate Nonmajor Funds</u>
Operating revenues:			
Interest on loans	\$ —	427	427
Investment interest	1,197	—	1,197
Other income	—	71	71
Total operating revenues	<u>1,197</u>	<u>498</u>	<u>1,695</u>
Operating expenses:			
Nonproject personnel, general and administrative	—	520	520
Provision for loan losses	—	221	221
Project feasibility and due diligence costs	60	—	60
Total operating expenses	<u>60</u>	<u>741</u>	<u>801</u>
Operating income (loss)	<u>1,137</u>	<u>(243)</u>	<u>894</u>
Nonoperating revenues:			
Investment interest	—	72	72
Total net nonoperating revenues	<u>—</u>	<u>72</u>	<u>72</u>
Increase (decrease) in net position	1,137	(171)	966
Net position - beginning of year	<u>141,638</u>	<u>16,455</u>	<u>158,093</u>
Net position - end of year	<u>\$ 142,775</u>	<u>16,284</u>	<u>159,059</u>

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Nonmajor Funds – Combining Statement of Cash Flows

Year ended June 30, 2018

(In thousands)

	<u>SETS Fund</u>	<u>Loan Funds</u>	<u>Aggregate Nonmajor Funds</u>
Cash flows from operating activities:			
Interest received on loans	\$ —	507	507
Receipts from borrowers	342	7	349
Principal collected on loans	—	2,537	2,537
Loans originated	—	(426)	(426)
Payments to suppliers and employees for services	(59)	(441)	(500)
Payments to primary government	(4)	—	(4)
Net cash provided by operating activities	<u>279</u>	<u>2,184</u>	<u>2,463</u>
Cash flows from investing activities:			
Interest collected on investments	1,197	72	1,269
Loans originated	(21,134)	—	(21,134)
Line of credit disbursements	(11,811)	—	(11,811)
Net cash (used for) provided by investing activities	<u>(31,748)</u>	<u>72</u>	<u>(31,676)</u>
Net (decrease) increase in cash and cash equivalents	(31,469)	2,256	(29,213)
Cash and cash equivalents at beginning of year	<u>97,151</u>	<u>5,686</u>	<u>102,837</u>
Cash and cash equivalents at end of year	<u>\$ 65,682</u>	<u>7,942</u>	<u>73,624</u>

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Nonmajor Funds – Combining Statement of Cash Flows, Continued

Year ended June 30, 2018

(In thousands)

	<u>SETS Fund</u>	<u>Loan Funds</u>	<u>Aggregate Nonmajor Funds</u>
Reconciliation of operating income (loss) to net cash (used for) provided by operating activities:			
Operating income (loss)	\$ 1,137	(243)	894
Adjustments to reconcile operating income to net cash (used for) provided by operating activities:			
Principal collected on loans	—	2,537	2,537
Loans originated	—	(426)	(426)
OREO charges	—	—	—
Investment interest income	(1,197)	—	(1,197)
Provision for loan losses	—	221	221
Decrease in accrued interest receivable and other assets	342	102	444
Decrease in accounts payable and other liabilities	(3)	(7)	(10)
Net cash provided by operating activities	<u>\$ 279</u>	<u>2,184</u>	<u>2,463</u>

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Historical Loan Information – Revolving Fund

Year ended June 30, 2018

(In thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	10 year average
Outstanding loan balance at June 30, by loan type:											
Loan participation:											
Internally funded	\$ 339,487	349,918	420,397	411,683	378,521	335,013	324,736	320,611	375,971	403,945	366,028
Bond sale	—	—	11,982	14,571	14,165	13,656	13,160	12,638	12,085	11,502	10,376
Bonds retired	859	815	767	717	—	—	—	—	—	—	316
OREO sale financing	24,491	23,844	21,234	21,167	20,942	8,864	8,146	274	258	100	12,932
Appropriated	95	48	32	17	—	—	—	—	—	—	19
Purchased loans	—	—	23,510	20,669	19,463	18,501	17,487	16,307	15,235	14,184	14,536
Other	3,277	3,032	2,770	—	—	—	—	—	—	—	908
	<u>\$ 368,209</u>	<u>377,657</u>	<u>480,692</u>	<u>468,824</u>	<u>433,091</u>	<u>376,034</u>	<u>363,529</u>	<u>349,830</u>	<u>403,549</u>	<u>429,731</u>	<u>405,115</u>
Number of outstanding loans at June 30, by loan type:											
Loan participation:											
Internally funded	238	241	255	257	235	224	220	207	216	242	234
Bond sale	—	—	1	1	1	1	1	1	1	1	1
Bonds retired	1	1	1	1	—	—	—	—	—	—	—
OREO sale financing	6	6	5	5	4	4	4	2	2	1	4
Appropriated	7	2	1	1	—	—	—	—	—	—	1
Purchased loans	—	—	37	31	28	28	27	26	24	24	23
Other	1	1	1	—	—	—	—	—	—	—	—
	<u>253</u>	<u>251</u>	<u>301</u>	<u>296</u>	<u>268</u>	<u>257</u>	<u>252</u>	<u>236</u>	<u>243</u>	<u>268</u>	<u>263</u>
Aging percent of outstanding loans at June 30:											
Current	99.04%	99.11%	99.35%	99.89%	99.49%	99.61%	99.53%	100.00%	100.00%	100.00%	99.60%
Past due:											
31-60 days	—	0.17	0.59	0.05	0.05	—	—	—	—	—	0.09%
60-90 days	0.88	—	—	—	—	0.31	0.47	—	—	—	0.16%
Over 90 days	0.08	0.72	0.06	0.06	0.46	0.08	—	—	—	—	0.15%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Unaudited – See accompanying independent auditor's report.

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

Schedule of Dividend Information

Year ended June 30, 2018

(In thousands)

<u>History of dividends paid and declared</u>	<u>Revolving Fund</u>	<u>SETS Fund</u>	<u>Total</u>
Fiscal Year Payable			
1997	\$ 15,000	—	15,000
1998	16,000	—	16,000
1999	16,000	—	16,000
2000	26,000	—	26,000
2001	18,500	—	18,500
2002	17,500	—	17,500
2003	20,150	—	20,150
2004	18,176	—	18,176
2005	22,000	—	22,000
2006	8,812	—	8,812
2007	16,650	—	16,650
2008	10,000	—	10,000
2009	23,800	—	23,800
2010	22,720	—	22,720
2011	23,423	—	23,423
2012	29,400	—	29,400
2013	20,400	—	20,400
2014	20,745	—	20,745
2015	10,665	—	10,665
2016	17,650	—	17,650
2017	6,328	—	6,328
2018	12,883	—	12,883
	<u>392,802</u>	<u>—</u>	<u>392,802</u>
Total dividends to State of Alaska as of June 30, 2018			
Declared for 2019	4,597	195	4,792
	<u>397,399</u>	<u>195</u>	<u>397,594</u>
Total dividends to State of Alaska paid or declared			
	<u>\$ 397,399</u>	<u>195</u>	<u>397,594</u>
Computation of statutory "net income" for FY20 dividend (in thousands)			
Increase in net position	\$ 12,441	1,137	13,578
Appropriations and contributions from the State of Alaska	(43,854)	—	(43,854)
Capital contribution	(93)	—	(93)
Capital grant	(527)	—	(527)
Dividend to State	12,883	—	12,883
Impairment loss on a project financed with capital appropriation	2,818	—	2,818
Mark-to-market fair value adjustment	9,726	—	9,726
State of Alaska nonemployer contributions to Public Employee retirement system	(1,038)	—	(1,038)
Net pension related adjustments	(2,016)	—	(2,016)
Net OPEB related adjustments	164	—	164
Capital funds contribution	40,254	—	40,254
Expenditures attributable to capital contributions	1,594	—	1,594
FY18 Statutory "net income"	<u>\$ 32,352</u>	<u>1,137</u>	<u>33,489</u>

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Direct Financing Leases

- *DeLong Mountain Transportation System project (DMTS, aka Red Dog project).* AIDEA receives minimum annual toll fees for the use of the DeLong Mountain Transportation System (DMTS) by Teck Alaska, Inc. (TAK) in support of the Red Dog zinc and lead mine. The DMTS went into service in 1990 and was expanded in 1997. The agreement between AIDEA and TAK provides for capital cost repayment, through a toll fee structure based on an interest rate of 6.5% on the net investment base. Toll fees for the DMTS will remain in effect through the end of the term of the agreement (2040). However, a minimum annual assessment is due regardless of toll fees and mine operations.

TAK mined the “Main” or “Red Dog” deposit since start-up (1989). This deposit was depleted in 2012 and mining was shifted to the nearby Aqqaluk deposit. Mining of the smaller Qanaiyaq deposit also started in 2016. TAK estimates that the Aqqaluk and Qanaiyaq deposits will extend the mine’s life to 2031 based on current mine rates and known reserves. Ongoing exploration for both of these deposits and other nearby prospects may enable further mine life extensions.

In April 2018, the Northwest Arctic Borough (NWAB) and TAK announced the successful negotiation of a new ten-year (2016-2025) payment in lieu of taxes (PILT) agreement. Under borough ordinances, this agreement supersedes the borough’s mining severance tax that would have significantly increased mine expenses. In conjunction with reaching agreement on the PILT, TAK agreed to drop its lawsuit over the borough severance tax that was filed in early 2016.

- *Department of Military and Veteran Affairs (DMVA) project.* Under a license between the State of Alaska and the U.S. Air Force, AIDEA constructed an expansion to the National Guard Armory on Joint Base Elmendorf – Richardson (JBER). The DMVA operates the facility for us under a 30-year agreement. The payments due under this agreement will return the cost of the DMVA project plus a rate of return of 7%. Construction was completed in December 2013. The U.S. Coast Guard began occupying the building in January 2014.

Capital Assets

- *Ketchikan Shipyard project.* On October 17, 2005, we entered into an amended and restated operating agreement for the shipyard with Alaska Ship & Drydock, Inc. The ten-year term began December 1, 2005, with two ten-year extensions possible. The first ten-year extension began in December 2015. During 2012, Alaska Ship & Drydock, Inc. converted into a LLC, Alaska Ship & Drydock, LLC, and transferred ownership of the LLC to Vigor Industrial, LLC, a large Pacific Northwest-based shipbuilder and maritime services company. In the fall of 2013, Alaska Ship & Drydock, LLC changed its name to Vigor Alaska, LLC. Through these changes, AIDEA has maintained ownership of the shipyard. Annual payments from Vigor Alaska, LLC for the use of the shipyard are based on a percentage of revenue, which are applied in three ways:
 - First, reimbursement to AIDEA for administrative costs up to \$18,000 annually, adjusted for inflation

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- Second, to the Repair and Replacement (R&R) Account established under the agreement, up to 125% of the amount required under the R&R project schedule defined in the agreement.
- Any remaining funds are to be distributed to AIDEA and the local Ketchikan governments.

The shipyard has seen significant facility improvements since 2009, these include:

- A second ship lift, financed with a grant from the U.S. Economic Development Agency and matching funds provided by the Ketchikan Gateway Borough and the State of Alaska, was constructed and placed into service in 2009.
- A new assembly hall and related projects were completed in 2014, utilizing a grant from Federal SAFETEA-LU funds and matching State of Alaska funds and other support provided by the Ketchikan governments (borough and city).
- Electrical infrastructure improvements, using funds provided by the State of Alaska were started in 2014 and are currently on-going.

Recent improvements funded by state and federal money involve relocating an existing electrical substation (also part of the electrical improvements described above) and constructing an asphalt surfaced, land level, open berth. The new open berth will support additional ship repair activities and the fabrication/outfitting of ship modules. According to the requirements of the funding, the project must be complete by June 30, 2019.

- *Skagway Ore Terminal project.* In July 1990, AIDEA purchased the Skagway Ore Terminal to provide ownership stability and potentially open the door to additional economic growth by marketing the ore storage shed and terminal to new users. The Skagway Ore Terminal is located on land the Municipality of Skagway owns that is subleased to AIDEA. In January 2007, we entered into a Facilities User Agreement with Capstone Mining Corporation, a Canadian mining company for its use of the facility. To support their operations, we made improvements to the facility, including the construction of a new ore storage shed. Capstone now uses a portion of the terminal for storage and shipment of bulk mine products (copper ore concentrates). During FY11, Capstone paid off the direct financing lease associated with the 2007 agreement. In FY14, the Capstone-AIDEA agreement was extended to March 2023, concurrent with the end of our land sublease and a new user fee was negotiated. Due to current ore market conditions future use of the terminal may change. Subsequent to year-end, Capstone announced that it will be shutting down the Minto Mine and put the mine on temporary care and maintenance. Under the current lease agreement Capstone is required to continue lease payments regardless of terminal use.
- *Federal Express project.* The Federal Express project consists primarily of a hangar capable of accommodating one wide-body aircraft for maintenance, repair and operations activities. The hangar facility also includes the associated ramp, taxiway, access road, building utilities and landscaping. To enable facility construction, a ground lease at the Ted Stevens Anchorage International Airport was conveyed to AIDEA in 1993. AIDEA financed the construction of the facility which was completed in 1995 through the issuance of bonds based on the 20-year lease agreement signed in 1992 with Federal Express for the aircraft maintenance

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facility and its adjacent/supporting fire suppression facility. During FY15 the user paid off the direct financing lease related to the facility, negotiated a new user fee, and signed a new lease expiring in July 2023. Several maintenance and refurbishment projects are included in the new lease; these projects began in FY16 and were completed in early FY18.

Preferred Interest in Operating Companies

- *Mustang Road LLC.* AIDEA became the preferred member in Mustang Road LLC (MR LLC) in February 2013. The purpose of Mustang Road LLC was to develop, build, own, and operate a road and a gravel pad which will enable the production of crude oil from the Mustang Oil Field (also known as the Southern Miluveach Unit (SMU) located on Alaska's North Slope, and facilitate other development in the area. MR LLC owns a one percent (1%) carried working interest in the Mustang field.

Until December 14, 2017, AIDEA was the only preferred member of Mustang Road LLC. The common members when the LLC was organized were Ramshorn Investments, Inc. and AVCG, LLC. According to the LLC Operating Agreement, Mustang Road LLC engaged Brooks Range Petroleum Company (BRPC), then a subsidiary of AVCG, LLC and Ramshorn Investments, Inc. to manage the construction and operation of the project. Construction of the road and pad was completed during spring 2013.

AIDEA contributed \$20.0 million to Mustang Road LLC during fiscal year 2013, fulfilling our funding obligation under the LLC Operating Agreement.

Under the original terms of the LLC Operating Agreement, AIDEA was to be repaid for our initial capital contribution through an annual payment (Redemption Payment) commencing December 31, 2014 and ending December 31, 2028. As required under the agreement, early redemption payments of approximately \$11.5 million were made during FY14 and FY15 using proceeds from State of Alaska tax credits. Once fully redeemed, AIDEA's membership interest and voting interest in the LLC will be zero.

Additionally, as part of the original terms of the LLC Operating Agreement, AIDEA was to receive a Preferred Member Guaranteed Payment equal to 8% of the outstanding principal balance on the Preferred Member's Redemption Amount as of January 31 of the calendar year in which the payment of a Preferred Member Guaranteed Payment is due. The LLC Operating Agreement was amended in July 2014 to match the terms of the Mustang Operations Center 1 LLC agreement, and provides for a 10% annual Guaranteed Payment amount on the unredeemed amount of AIDEA's outstanding investment. The Guaranteed Payments were to be made quarterly, beginning 90 days after oil production or by December 31, 2015. The revised agreement also provides for a \$2.0 million increase in the outstanding balance of AIDEA's investment to capitalize the forgone Guaranteed Payments. Lastly, the revised agreement also provided for a change in the annual Redemption Payment schedule for AIDEA as Preferred Member, requiring redemption over 7 years in equivalent installments with the first Redemption Payment due by December 31, 2016.

The July 2014 amendment also replaced AVCG, LLC and Ramshorn Investments, Inc. with TP North Slope Development, LLC, MEP Alaska, LLC and Caracol Petroleum, LLC, which are now the owners of BRPC.

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The Guaranteed Payments were not paid and the LLC Operating Agreement was further amended in February 2016 to delay the start of the Guaranteed Payments until 3 months after the start of first oil from the Mustang field or April 1, 2018, whichever is sooner. The first Redemption Payments were also amended to the same timing.

If insufficient funds existed for payment of the annual Redemption Payment or the Preferred Member Guaranteed Payment, the common members were obligated to provide additional funds to the LLC so the payments could be made timely. The common members and BRPC have guaranteed the LLC's obligations due AIDEA as the Preferred Member.

When AIDEA became the sole member of Mustang Road LLC in December 2017, the common members and BRPC were released from any liability for the LLC's obligation to AIDEA. A new nonexclusive Road and Pad Use Agreement was created which required quarterly use charges of \$50,000, and BRPC maintenance of the facilities. This Agreement is to become effective when State of Alaska Department of Natural Resources (DNR) approves the transfer of the easement for the Mustang road and pad to Mustang Road LLC. DNR did not approved the transfer prior to June 30, 2018; management does not expect that DNR will ever approve the transfer of the easement to Mustang Road LLC.

Several additional sources also originally secured the preferred member payments:

- A deed of trust against the LLC's 1% working interest in the oil and gas leases of the Southern Miluveach Unit (SMU) and against the working interests held by the common members and BRPC in the Southern Miluveach Unit will remain in place until the oil processing facility is completed.
- Uniform Commercial Code (UCC) security interests in the personal and fixture property of Mustang Road LLC, the common members, and BRPC.
- Deposit accounts of Mustang Road LLC and BRPC.

These security interests were to be terminated with AIDEA's acquisition of all the membership interests in Mustang Road LLC.

In June 2017 AIDEA's board authorized us to acquire 100% of the membership interest in Mustang Road LLC and accept the selling members' interest in Mustang Road LLC in satisfaction of the selling members' obligation to pay the Authority for its investment in the limited liability company.

AIDEA became the sole owner of Mustang Road LLC in December 2017 by purchasing the entity for consideration of \$10,500,000 representing the value of the selling members' obligation to pay the Authority of its investment in the LLC. As part of the agreement, Brooks Range Petroleum (BRPC) assigned the DNR easement for the property's rights to Mustang Road LLC. However, DNR did not approve the transfer of the easement to Mustang Road LLC prior to June 30, 2018, and management does not now expect that DNR will ever approve the transfer of the easement to Mustang Road LLC.

In May 2018, our board authorized AIDEA to sell its membership interest in Mustang Road LLC to Caracol Petroleum, LLC as a part of an overall restructuring of the Mustang Oil Field project. In September 2018, a

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Purchase and Sale agreement between AIDEA and Caracol was signed. Closing is subject to conditions precedent including but not limited to restructure of the DOR line of credit and approvals of all the parties.

Under the terms of the Purchase and Sale agreement AIDEA will finance the \$10.5 million sales price with a loan to Caracol.

- *Mustang Operations Center 1 LLC (MOC1 LLC)*. In April 2014, the AIDEA board approved a development project for the construction of an oil production facility on the Mustang Oil Field. The facility is being built through a limited liability company whose members are AIDEA and CES Oil Services Pte. Ltd., a subsidiary of Charisma Energy Services Ltd. (CES), a publicly traded Singapore corporation. The limited liability company is Mustang Operations Center 1 LLC (MOC1 LLC).

The facility is being built on the Mustang Pad. Under the original agreements, the facility was to be designed, built and operated by BRPC. In exchange for funding the construction of the facility, MOC 1 received the greater of:

- A 20% share (carried working interest) of the oil produced from the field, this working interest may be periodically adjusted after oil revenues from the field begin, or
- A monthly Charter Fee payment that covers MOC1 LLC's expenses and repayment of the financing for the construction of the facility, including AIDEA's investment.

AIDEA is the sole preferred member of MOC1 LLC, receiving 25,000 Class B (preferred) shares in the LLC for its anticipated \$50 million contribution. We have made this contribution. CES Oil Services Pte, Ltd. has 1,000 Class A (common) shares in the LLC for its \$1 million contribution (made in November 2014). CES was also responsible for arranging for a loan with Strategic Equipment, Inc. (SEI) to MOC1 LLC in the amount of \$150 million, with provisions for an additional \$25 million as necessary for construction cost overruns. Under the MOC1 LLC Operating Agreement AIDEA was to receive a 10% annual dividend on the outstanding redemption value of AIDEA's preferred shares, to be paid on a quarterly basis, with payments expected to start 90 days after first oil production, or by December 1, 2016. Redemption of AIDEA's Class B shares was expected to occur over 7 years in equal installments, with redemption payments expected to occur before the end of each calendar year. The redemption price for AIDEA's Class B shares was set at \$2,200 per share to compensate for capitalized interest during the construction period and investment risk.

In December 2017 AIDEA received 1,250 Priority Preferred Class B Shares for its contribution of \$2.5 million to MOC1 LLC. AIDEA contributed the full amount by June 30, 2018.

Several additional elements of the agreements also supported MOC1 LLC's finances and improved the chances of AIDEA receiving the payments it expects:

- MOC1 LLC was granted a deed of trust on 89% of the working interests in the Mustang Field for the pre-construction period.
- After first oil production, MOC1 LLC would receive the proceeds of its carried working interest in the Mustang Field.

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- The oil revenues from 90% of the working interests in the field were to be deposited into a control account in which MOC1 LLC holds a UCC security interest. MOC1 LLC controls disbursements from the control account subject to contract requirements. After payment of royalties, operating expenses, production taxes and tariffs, MOC1 LLC would be entitled to draw on the control account for the greater amount of either its working interest share or the amount due as Charter Payments. If funds from MOC1 LLC's working interest are insufficient to meet the required Charter Fee payments, MOC1 LLC has the right to take the difference from the other working interest owners' shares on deposit in the control account. If funds in the control account are insufficient to meet the Charter Fee payments, BRPC is to make a capital call on its working interest owners to cover any shortfalls.
- MOC1 LLC was to receive 50% of the pre-production capital expense credits paid by the State of Alaska.
- MOC1 LLC was granted a deed of trust on 90% of the working interests in other potential North Slope oil fields/leases that BRPC owns.

As a result of an extreme drop in oil prices in late 2014, the loan financing from SEI to MOC1 LLC never materialized; rather financing from CES was provided from early 2015 to the summer of 2015, until this financing stopped. A promissory note between MOC1 LLC and CES was formally executed for the funds (approximately \$7.8 million) in January 2016.

In October 2015, MOC1 LLC also secured a line-of-credit note from the State of Alaska, Department of Revenue (DOR) for advances on projected tax credits based on 2015 project expenditures. As of December 31, 2017, the balance of the note was approximately \$21.0 million (including accrued interest). The note has a maturity date of July 2018, but MOC1 LLC has been negotiating with DOR for an extension of the maturity date.

To enable MOC1 LLC and the other project partners to seek replacement financing for the project, to secure the previously ordered equipment, and to pay outstanding invoices to MOC1 LLC from BRPC, the MOC1 LLC Operating Agreement and the MOC1 LLC Charter Agreement were amended in February 2016. These amendments made changes to place the project in a "warm standby status" until December 1, 2016, and provided a budget to accomplish the objectives described above. Financing was not secured by December 2016. Under the MOC1 LLC Charter Agreement TP North Slope, MEP Alaska, and Caracol Petroleum (working interest owners) are required to purchase MOC1 LLC's investment in the project for the principal amount MOC1 LLC provided. If these parties do not purchase MOC1 LLC's investment by April 1, 2018, then MOC1 LLC can declare a default and enforce the purchase obligation, which could include foreclosing on the deeds of trust and enforcing the security interest against the other collateral provided. The parties did not purchase the MOC1 LLC investment by April 1, 2018. Negotiations have been ongoing between AIDEA, CES and the working interest owners to sell AIDEA and CES's membership interest to Caracol. In May 2018, the AIDEA board authorized AIDEA to sell its membership interest in MOC1 LLC to Caracol Petroleum, LLC as a part of an overall restructuring of the Mustang Oil Field project.

In addition, in late 2017, A Test Program on the provided Certification of the primary well with the expectation this will assist with obtaining the additional financing for the MOC1 LLC Facility construction. Concurrently,

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AIDEA began negotiating the buyout of AIDEA's interest in MOC1 LLC. In September 2018, a Purchase and Sale agreement between AIDEA and Caracol was signed. Closing is subject to conditions precedent including but not limited to restructure of the DOR line of credit and approvals of all the parties. Under the terms of the Purchase and Sale agreement AIDEA will finance the \$53.5 million sales price with a loan to Caracol.

Blended Component Unit

Pentex Alaska Natural Gas Company, LLC (Pentex). AIDEA entered into a LLC Membership Purchase and Sale Agreement between AIDEA as buyer and Harrington Partners, L.P., Pentex Alaska Natural Gas Company and Daniel Britton as sellers (Agreement) in June 2015 with intent to purchase Pentex Alaska Natural Gas Company, LLC (Pentex), a Delaware limited liability company (LLC) under AS 44.88.172. The purchase closed September 30, 2015. Pentex owns the following subsidiaries:

- Fairbanks Natural Gas (FNG) - Fairbanks gas distribution utility
- Arctic Energy Transportation (AET) - LNG fueling station operator
- Polar LNG (Polar) - North Slope LNG plant developer (inactive)
- Titan Alaska (Titan) - LNG plant and trucking operator
- Cassini LNG Storage, LLC - Fairbanks storage facility developer (inactive)

The basic terms of the purchase included:

- AIDEA purchased 100% of the membership interests in Pentex from the prior members under the terms of the Agreement. The transaction was structured as a "stock purchase," not an "asset purchase".
- AIDEA paid a deposit of \$2.675 million when the Agreement was signed in June 2015 and completed the purchase in September 2015 for a total of \$54.0 million.
- The deposit converted into a Holdback Amount at Closing. AIDEA could make claims against the Holdback Amount for one year after Closing. At the one-year anniversary, which was September 30, 2016, the remaining Holdback Amount was available to disburse to the sellers. AIDEA made no claims against the Holdback Amount and it was disbursed to the sellers.

Pentex and its subsidiaries, under AIDEA ownership, held their existing assets and liabilities. AIDEA's purchase of Pentex was a short-term strategic investment as part of a long-term strategy to finance the build out of an integrated distribution system in Fairbanks as a part of the IEP. The investment was made in order to promote an integrated gas distribution system in Fairbanks in furtherance of the IEP and was not made for AIDEA to be in the business of providing utility services. Consistent with its intent, the Authority sold its membership interest in Pentex to the Interior Gas Utility (IGU) on June 13, 2018 as a part of the larger financing agreement.

Interior Energy Project Financing Agreement

On December 13, 2017 the Authority entered into a Financing Agreement with the IGU. The ultimate intention of the Financing Agreement was to provide financing for IGU to purchase AIDEA's ownership interest in Pentex,

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refinance loans to IGU and FNG and further the establishment of an integrated utility to provide natural gas to the Fairbanks North Star Borough.

The financing was authorized by the 2013 legislature in Senate Bill 23. The financing was consistent with the legislative intent that the tools provided to the Authority by the legislature be used for the development, construction and installation of, and the start-up costs and operation and maintenance for, a liquefied natural gas production plant and system and affiliated infrastructure which will provide natural gas to interior Alaska as a primary market and natural gas delivery and distribution systems and affiliated infrastructure that will provide natural gas to interior Alaska. The Financing Agreement closed on June 13, 2018.

The financing package included a loan commitment of up to \$125 million from the SETS fund. Loan proceeds were disbursed at closing for the following:

- Approximately \$55.9 million to refinance the existing IGU and FNG LOCs into a single loan with IGU as the borrower.
- Approximately \$21.1 million to partially finance IGU's purchase of the membership interest of Pentex.

At June 30, 2018 the Authority has reflected \$47.9 million as restricted in the SETS fund to complete the funding of the IEP SETS loan. IEP SETS loan terms included the following:

- No interest accrued or payments due for 15 years from the closing date
- Interest accrual of .25% for the next 35 years
- Payments may be deferred further if demand for natural gas does not meet projections
- \$47.9 million of SETS funds restricted to reflect remaining loan commitment

Pentex Sale

Contemporaneous to the Financing Agreement, AIDEA and IGU entered into a LLC Membership Purchase and Sale Agreement (Purchase Agreement) in which the Authority agreed to sell, and IGU agreed to purchase, the Authority's membership interest in Pentex. The transaction also closed June 13, 2018.

Under the terms of the Purchase Agreement, IGU purchased Pentex from the Authority for \$61.3 million. The purchase price was comprised of a base price of \$54.0 million and a negotiated rate of return of 5.06%. The accompanying financial statements include a net gain of approximately \$6.7 million on the membership interest sale. The Authority financed IGU's acquisition of the membership interest in Pentex with a draw on the IEP SETS loan and funds appropriated by the legislature for the purpose of the Interior Energy Project from the State general fund.

Lines of Credit or Term Loans

- *BlueCrest Drill Rig.* In July 2015, AIDEA entered into a Loan Agreement with BlueCrest Alaska Operating, LLC (Borrower) and BlueCrest Alaska Oil & Gas, LLC, BlueCrest Cosmopolitan, LLC and BlueCrest Energy Inc. (Co-Borrowers). A fixed Line of Credit Note (LOC) not to exceed \$30.0 million was signed concurrent with the Loan Agreement. AIDEA provided the financing for the procurement of a new high-horsepower, extended reach, onshore drilling rig which is being used for the installation of numerous wells to produce oil

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from the Cosmopolitan lease blocks in the lower Cook Inlet. AIDEA also financed the construction of man camp facilities for workers on the project. Interest on the outstanding LOC principal balance accrued at 6.4% per annum when it was converted to a term loan, compounded monthly and was added to the principal balance of the term loan when it was converted.

An original LOC was converted to a term loan, with monthly interest only payments from January 1, 2017 through November 1, 2017. Principal and interest payments began on December 1, 2017 and will continue through the maturity date of July 24, 2022. As of June 30, 2018, all payments have been received on time.

The loan is secured by the following:

- All materials, transportation, tools, equipment, initial drill piping, services, permits, utilities, design and other items necessary or incidental to the construction, fabrication, assembly, testing, certification and other preparation of the drill rig and the installation of the rig, its design, and all associated fixtures, including contract rights and manufacturer warranties as specified in the Loan Agreement.
 - All materials, transportation, tools, equipment, fixtures, and furnishings associated with the rig camp, including contract rights and manufacturer warranties of the rig camp as specified in the Loan Agreement.
 - A Reserve Account, which was funded at the end of January in the amount of approximately \$6.062 million to cover any payment or collateral shortfall (in the event of a default). The reserve may be reduced under certain conditions outlined in the loan agreement.
- *Blood Bank of Alaska, Inc.* In August 2015, AIDEA entered into a Loan Agreement with Blood Bank of Alaska, Inc. A LOC not to exceed \$8.5 million was included in the Loan Agreement. AIDEA is providing financing for the acquisition, delivery and installation of furniture, fixtures and equipment for a laboratory and collection facility building. Interest on the unpaid principal drawn on the LOC accrued at 5.66% per annum. Interest only payments were due monthly during the LOC period. Upon closing on the sale of the borrower's existing main office and collection facilities, AIDEA received the proceeds from the sale, less closing costs.

Collateral for the financing is:

- A deed of trust against the property financed.
- A deed of trust against the existing main office and collection facilities.
- A UCC security interest against all of the furniture, fixtures and equipment as defined in the Loan Agreement.

The LOC converted to a term note on February 14, 2017. Monthly payments are due on the term loan until the maturity date of February 14, 2052. The loan was current at June 30, 2018.

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Municipal Secondary Market Disclosure - Operating Data - Revolving Fund

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Cross-reference for schedules contained in audited financial statements:

<u>Schedule</u>	<u>Financial Statements</u>
Loan Delinquency Experience	Note 4
Outstanding Revolving Fund Bonds Revolving Fund	Note 9 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position
Dividends	Statement of Revenue, Expenses, and changes in Net Position and Note 12(b)
Management's Discussion of Financial Results	Management's Discussion and Analysis

Schedules not contained in audited financial statements (all dollars in the schedules below are in thousands):

Investment Securities

AIDEA's Revolving Fund Investment Securities at June 30, 2018, follow. No amounts related to the Snettisham Hydroelectric project* are included. As described in note 3 to the Financial Statements, a portion of the Investment Securities are subject to certain restrictions (in thousands):

Current assets:

Cash and cash equivalents (unrestricted)	\$ 69,241
Cash and cash equivalents (restricted)	378
Investment securities (unrestricted)	24,776

Noncurrent assets:

Cash and cash equivalents (restricted)	6,932
Investment securities (restricted)	9,898
Investment securities (unrestricted)	371,630

Investment securities	\$ <u>482,855</u>
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* AIDEA financed the Snettisham Hydroelectric project (Snettisham project) as part of AIDEA's Revolving Fund but under a bond resolution separate from the Revolving Fund Bond Resolution. Accordingly, while the Snettisham project is a part of the Revolving Fund, the assets and revenues of the Snettisham project are not pledged under the Revolving Fund Bond Resolution and are not included in the coverage calculations required by Section 713 of the Revolving Fund Bond Resolution. For this reason, the investment securities related to the Snettisham project are excluded or deducted to arrive at AIDEA's Revolving Fund Investment Securities and Restricted Investment Securities.

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Municipal Secondary Market Disclosure - Operating Data - Revolving Fund, Continued

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Restricted Cash, Cash Equivalents, and Investment Securities

AIDEA's Revolving Fund Restricted Cash, Cash Equivalents, and Investment Securities at June 30, 2018, follow (in thousands):

Restricted cash, cash equivalents, and investments securities (see note 3 to the financial statements)	\$ 28,572
Less restricted funds related to the Snettisham Hydroelectric Project	<u>(11,364)</u>
Restricted investment securities	<u>\$ 17,208</u>

Largest Loans and Development Projects

The following table lists the net investment in AIDEA's seven largest loans and development projects as of June 30, 2018 (excluding the Snettisham project, dollars in thousands). The obligor listed is the entity responsible for payment under the loan or the entity responsible for the revenue producing agreement.

Largest Loans and Development Projects

Obligor or project	Net Book Value June 30, 2018	Minimum annual receipts	Authority program	Type of business/ collateral
Teck Alaska Incorporated	\$ 116,727 ⁽¹⁾	17,670 ⁽²⁾	Development Project	Public Port and Road
Vigor Alaska, LLC	71,108 ⁽³⁾	N/A ⁽⁴⁾	Development Project	Shipyard
Mustang Operations Center 1 LLC	52,677 ⁽⁵⁾	N/A ⁽⁶⁾	Development Project	Oil Production Facility
BlueCrest Alaska Operating, LLC	28,249 ⁽⁷⁾	8,463 ⁽⁸⁾	Development Project	Oil and Gas Drilling Rig
X'UNA KAAWU ANNEE, corporation	19,369	3,882	Loan	Tourist site with Cruise Ship Dock
Brooks Camp, LLC	17,357	1,772	Loan	Oil Field Support Man Camp
3000 C Street, LLC	15,842	1,243	Loan	Office

Unaudited – See accompanying independent auditor's report.

**ALASKA INDUSTRIAL DEVELOPMENT
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Municipal Secondary Market Disclosure - Operating Data - Revolving Fund, Continued

June 30, 2018

- (1) Represents AIDEA's net investment in the DeLong Mountain Transportation System (DMTS). See AIDEA's June 30, 2018, Financial Statements, note 7 and Schedule 9.
- (2) Represents projected minimum annual receipts from the DMTS; does not include future tonnage sensitive payments (released from a reserve fund) or potential price sensitive payments.
- (3) Represents AIDEA's net investment in the Ketchikan Shipyard. See AIDEA's June 30, 2018, Financial Statements, note 7 and Schedule 9.
- (4) Payments under the operating agreement are not currently projectable. See AIDEA's June 30, 2018, Financial Statements, Schedule 9.
- (5) Represents AIDEA's investment as a preferred member in Mustang Operations Center 1 LLC, which is constructing an oil production facility on the Mustang Oil Field. See AIDEA's June 30, 2018 Financial Statements, note 7 and Schedule 9.
- (6) See AIDEA's June 30, 2018, Financial Statements, Schedule 9.
- (7) BlueCrest Alaska Oil & Gas, LLC, BlueCrest Cosmopolitan, LLC and BlueCrest Energy Inc. are co-borrowers under the loan agreement. Represents outstanding loan balance. See AIDEA's June 30, 2018, Financial Statements, note 7 and Schedule 9.
- (8) Represents minimum annual receipts from term loan. BlueCrest LOC converted to a term loan in October 2016 with interest only payments through November 2017. Monthly principal and interest payments began December 2017.

Loan Portfolio

The composition of the Revolving Fund loan portfolio at June 30, 2018, follows (dollars in thousands). Loans funded under AS 44.88.172 are considered development projects and are excluded from the table below:

	<u>Number</u>	<u>Amount</u>
Loan participation:		
Internally funded	242	\$ 403,945
Bond sale	1	11,502
OREO sale financing	1	100
Purchased loans	<u>24</u>	<u>14,184</u>
	<u>268</u>	<u>\$ 429,731</u>

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June 30, 2018

Loans Restructured from Original Terms *

All Enterprise Development Account Revolving Fund loans were current at June 30, 2018, and we had one Enterprise Development Account Revolving Fund loan in the amount of \$1.66 million for which we had restructured terms. Gross interest income we accrued on this loan totaled \$116,000 for FY18, and we received \$89,000 of interest payments.

Description of Assets

On June 30, 2018, AIDEA's Revolving Fund had total assets of \$1.234 billion available to pay or to generate revenues to pay debt service on the Revolving Fund Bonds. This amount includes \$17.2 million in restricted cash, cash equivalents, and investment securities that are restricted by the terms of agreements (see Restricted Cash, Cash Equivalents, and Investment Securities).

Loans, investments in development projects and other assets totaling \$744 million at June 30, 2018, are not highly liquid (excludes Snettisham project assets). Development projects include:

- One development project accounted for as a blended component unit (sold June 13, 2018)
- Four development projects accounted for as direct financing leases (two of which have been paid in full)
- Two development projects accounted for as loans
- Two development projects accounted for as preferred interests in operating companies
- One development project accounted for as capital assets

Historical Financial Performance

The following table summarizes AIDEA's Revolving Fund debt service coverage for the year ended June 30, 2018 (no amounts related to the Snettisham project are included. Dollars below stated in thousands).

Debt Service Coverage for Revolving Fund Bonds

Loan principal and interest payments	\$	61,813
Investment earnings (1)		8,121
Development project receipts(2)		103,623
Other revenues		6,903
		180,460
Less operating and maintenance expenses(3)		(27,132)
Net income(4) available for debt service	\$	153,328
Annual debt service(5)	\$	5,387
Debt service coverage		28.46x

* Excludes loans funded under AS 44.88.172 which are considered development projects.

Unaudited – See accompanying independent auditor's report.

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Municipal Secondary Market Disclosure - Operating Data - Revolving Fund, Continued

June 30, 2018

- (1) Income collected on investments less \$2,313,000 realized loss on investment sales and maturities, less interest earned on restricted investments related to the Ketchikan Shipyard.
- (2) Includes price sensitive and tonnage sensitive (released from a reserve fund) payments of \$5,329,000 relating to DMTS. Also includes Pentex operating receipts of \$14,051,000 and receipts from development projects accounted for as loans. Excludes \$4,417,000 received June 30, 2018, which was due July 1, 2018 relating to DMTS. Also includes \$55,611,000 in net receipts from the sale of Pentex.
- (3) Includes Pentex operating and maintenance expenses of \$12,290,000.
- (4) Net income computation based on Section 713(B) of the Revolving Fund Bond Resolution.
- (5) Excludes payments on bonds issued to finance the Snettisham project.