



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

Basic Financial Statements and Schedules

June 30, 2020

(with summarized financial information for June 30, 2019)

(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 funds 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, 2020, 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 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 qualified audit opinions.

### ***Basis for Qualified Opinion on the Revolving Fund***

Alaska Industrial Development and Export Authority has an investment in a development project accounted as loans receivable (“Mustang Development loan” and “MOC1 Acquired Loan”). The investment in Mustang Development loan and MOC1 Acquired loan (“the loans”) are carried on Alaska Industrial Development and Export Authority’s statement of net position as of June 30, 2020 at \$78,451,000, net of allowance for loan loss of \$10,312,000, representing approximately 5.3% of total assets of the Revolving fund. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the loans receivable balance, net of allowance for loan loss as of June 30, 2020 and the provision for loan losses expense for the year then ended.

### ***Qualified Opinion***

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion on the Revolving Fund paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Revolving Fund of the Alaska Industrial Development and Export Authority as of June 30, 2020, 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.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Emergency Programs and the aggregate remaining fund information of the Alaska Industrial Development and Export Authority as of June 30, 2020, 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.

### ***Other Matters***

#### ***Prior Year Comparative Information***

We have previously audited the Authority’s 2019 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated October 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 4–20 and schedules of proportionate share of the net pension and net OPEB liability and contributions on pages 77-78 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 6 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in schedules 1-3 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 4-6 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 18, 2020 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 18, 2020

**ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2020

**Overview of the Financial Statements**

Overview of the Financial Statements

The financial statements of the Alaska Industrial Development and Export Authority (AIDEA, we, us, our) report financial activity for three components: the Revolving Fund, Emergency Programs 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.

The Nonmajor Funds are the Loan Funds and the Sustainable Energy Transmission and Supply Development (SETS) Fund and the Arctic Infrastructure Development Fund. Our financial statements include these three components as of and for the Fiscal Year (FY) 2020, with summarized comparative totals as of and for FY20.

In late January 2020 the World Health Organization (“WHO”) announced a global health emergency regarding a new strain of virus called coronavirus (COVID-19). This virus originated from within China, and spread globally, including Alaska. Further, in March 2020, the WHO classified the coronavirus as a pandemic. On March 12, 2020, the mayor of Anchorage declared a state of emergency to protect and preserve public health and safety, and subsequently closed all civic, cultural and recreational facilities in the Municipality. The governor of Alaska declared a public health disaster as did the President of the United States. The governor instituted a number of public health measures that affected intrastate and interstate travel and the movement of goods and services. In response to the pandemic and resulting economic slowdown AIDEA created several emergency programs. Emergency Regulations were adopted by the Board for a new emergency loan and guaranty program with the intent to provide debt funding that would complement the federal emergency loan programs, dedicating \$25 million for this purpose. On March 27, 2020 Congress passed the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to provide funding to States in response to and mitigation of the public health crisis. The State allocated \$289.3 million of the Coronavirus Relief Funds (CRF) to DCCED for a small business economic relief grant program arranged by AIDEA and DCCED (AKCARES funding program). The emergency loan and guaranty program and AKCARES funding program (Emergency Programs) were created outside of the Revolving Fund and activity for the Emergency Programs are presented as a separate column in the accompanying 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.

Our third Nonmajor Fund, the Arctic Infrastructure Development Fund was established effective October 2014 to promote and provide financing for arctic infrastructure development but was not capitalized until FY20. There was no activity in the fund prior to FY20. The Nonmajor Funds are not part of the Revolving Fund, so we have presented them separately in the accompanying financial statements.

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Management's Discussion and Analysis, Continued

June 30, 2020

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 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.

**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 FY19.

**Management's Discussion and Analysis**

This section contains our analysis of the financial position and results of operations at and for FY20. 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, 2020 and 2019 by \$1.42 billion and \$1.37 billion, respectively. Our FY20 unrestricted net position was \$1.32 billion (with \$1.10 billion in the Revolving Fund) and our FY19 unrestricted net position was \$1.27 billion (with \$1.11 billion in the Revolving Fund). These amounts were unrestricted, and thus, available for future financial needs.

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Management's Discussion and Analysis, Continued

June 30, 2020

**Financial Analysis**

Following are AIDEA's total assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2020, and 2019 (in thousands):

	<u>FY20</u>	<u>FY19</u>	<u>Increase (decrease)</u>
Current assets	\$ 413,405	237,008	176,397
Development projects – capital assets	66,938	67,827	(889)
Capital assets - other	21,449	18,605	2,844
Other noncurrent assets	<u>1,140,664</u>	<u>1,172,979</u>	<u>(32,315)</u>
Total assets	1,642,456	1,496,419	146,037
Deferred outflows of resources	<u>3,667</u>	<u>4,722</u>	<u>(1,055)</u>
Total assets and deferred outflows of resources	<u>\$ 1,646,123</u>	<u>1,501,141</u>	<u>144,982</u>
Current liabilities	\$ 150,180	10,146	140,034
Noncurrent liabilities	<u>75,605</u>	<u>115,048</u>	<u>(39,443)</u>
Total liabilities	225,785	125,194	100,591
Deferred inflows of resources	<u>865</u>	<u>1,044</u>	<u>(179)</u>
Net position:			
Net investment in capital assets	88,387	89,632	(1,245)
Restricted	15,000	15,817	(817)
Unrestricted	<u>1,316,086</u>	<u>1,269,454</u>	<u>46,632</u>
Total net position	<u>1,419,473</u>	<u>1,374,903</u>	<u>44,570</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,646,123</u>	<u>1,501,141</u>	<u>144,982</u>

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Management's Discussion and Analysis, Continued

June 30, 2020

**Current assets** were \$176 million higher at June 30, 2020, compared to June 30, 2019, and are below (in thousands):

	<u>FY20</u>	<u>FY19</u>	<u>Increase (decrease)</u>
Unrestricted cash/cash equivalents and investments	\$ 129,790	138,022	(8,232)
Restricted cash/cash equivalents and investments	158,449	23,067	135,382
Loans – current portion	29,768	41,150	(11,382)
Development projects accounted for as direct financing leases – current portion	13,040	11,371	1,669
Development projects accounted for as loans – current portion, net of allowance for loan losses	69,443	11,000	58,443
Development project assets held for sale	-	3,200	(3,200)
Due from component unit	3,392	3,457	(65)
Accrued interest receivable/other current assets	9,523	5,741	3,782
Total	<u>\$ 413,415</u>	<u>237,008</u>	<u>176,397</u>

- **Unrestricted cash/cash equivalents and investments balances** decreased \$8.2 million compared to FY19. Loan participation fundings of \$54.9 million and the transfer of \$25 million to the Emergency Loan and Guaranty Program initiated during FY20 contributed to this decrease while principal collections on loan participations totaling \$47.3 million and \$28.7 million received from our direct financing leases increased balances.
- **Restricted cash/cash equivalents and investments** increased \$135.4 million compared to FY19. This increase was primarily due to the approximately \$143.7 million balance of funds restricted for the AKCARES funding program created and funded in FY20 in response to the COVID-19 global pandemic. Decreases in other restricted funds such as those related to the Ketchikan Shipyard and Ambler Mining District Industrial Access Project (AMDIAP) partially offset this increase.
- **Loans - current portion** decreased \$11.4 million. Based on portfolio payment history Revolving Fund loan participations payoff earlier than the original loan term. Due to the general economic slowdown we anticipate receiving fewer prepayments within the next fiscal year and reduced our projected current portion of loans accordingly. The current portion of our portfolio represents loan principal payments we expect to receive within the next year.
- **Development projects accounted for as direct financing leases - current portion** increased \$1.7 million in FY20 compared to FY19. The application of more future payments to principal rather than interest contributed to this increase.

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Management's Discussion and Analysis, Continued

June 30, 2020

- **Development projects accounted for as loans - current portion, net of allowance for loan losses** represents the principal payments due within one year on loans we consider development projects and fund from our Economic Development Account. Balances increased \$58.4 million in FY20 compared to FY19. Scheduled payments were not made in FY20 on the Mustang Development Loan. As a result, the debt was accelerated with a balance of \$68.2 million considered currently due as of June 30, 2020. Our loan to Mustang Operations Center 1 LLC for \$16.4 million was also considered currently due in FY20 with a maturity date of no later than December 31, 2020. The balances due are partially offset by an allowance for loan loss of approximately \$19.1 million.
- **Development project assets held for sale** represents our ownership of ADL #421055, a 30-year general lease for a gravel pad located on the North Slope of Alaska. We assigned the lease to a third party in FY20 and therefore reduced Development project assets held for sale to zero.
- **Due from component unit** represents amounts due from other component units. This balance primarily consists of amounts due from the Alaska Energy Authority (AEA) for services and borrowings and decreased slightly in FY20 compared to FY19.
- **Accrued interest receivable/other current assets** increased approximately \$3.8 million. The increase was primarily due to an increase in accrued interest on loans in FY20 compared to FY19. We approved a significant number of payment deferrals in FY20 in response to the COVID-19 pandemic, increasing interest accrued and not paid on loans compared to FY19.

**Development projects - capital assets** decreased \$889,000 in FY20. Depreciation on the Ketchikan Shipyard decreased balances by approximately \$3.3 million, partially offset by capital asset additions.

**Capital assets - other** increased \$2.8 million in FY20. Capitalized work relating to the AMDIAP and our administrative building increased the balance compared to FY19, partially offset by depreciation on our administrative buildings.

**Other noncurrent assets** increased \$32.3 million. The following table breaks out other noncurrent assets (in thousands):

	<u>FY20</u>	<u>FY19</u>	<u>Increase (decrease)</u>
Restricted cash and cash equivalents	\$ 5,082	5,020	62
Restricted cash and cash equivalents - Snettisham	10,972	10,216	756
Restricted investment securities	9,998	9,986	12
Unrestricted investment securities	403,717	390,665	13,052
Net OPEB asset	69	48	21
Loans, net of allowance for loan losses	545,942	506,016	39,926
Development projects	164,884	250,597	(85,713)
Other assets	-	431	(431)
Total	<u>\$ 1,140,664</u>	<u>1,172,979</u>	<u>(32,315)</u>

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Management's Discussion and Analysis, Continued

June 30, 2020

- **Restricted cash and cash equivalents** increased slightly in FY20 compared to FY19. The non-current portion of restricted cash and cash equivalents represents cash equivalents we do not anticipate spending within the next year.
- **Restricted cash and cash equivalents - Snettisham** increased \$756,000, the net effect of activity in FY20 related to the Snettisham project.
- **Restricted investment securities** increased slightly compared to FY19 as a result of our continued investment of these funds.
- **Unrestricted investment securities** increased \$13.1 million consistent with an increase in our overall investment portfolio. We recognized a \$15.9 million increase in the fair market value of our investment portfolio due to net unrealized gains on investments, and approximately \$10.9 million of realized gains.
- **Net OPEB asset** increased slightly because of a change in the proportionate share of Other Postemployment Benefits (OPEB) asset related to our participation in the Public Employees' Retirement System (PERS) Occupational Death and Disability (ODD) Plan. Net OPEB asset represents our allocated portion of the asset for OPEB ODD benefits provided through the PERS.
- **Loans, net of allowance for loan losses** increased \$39.9 million from June 30, 2019 compared to June 30, 2020. Loan fundings of loan participations and Loan Fund loans increased loan balances by \$58.2 million while principal payments of \$48.5 million decreased the FY20 balance. Loan balances include the SETS fund loan increase of \$21.9 million as a result of our FY19 financing of the Interior Energy Project. We transitioned approximately \$11.4 million less to current portion in FY20 compared to FY19. The FY20 current portion is based on projected FY21 payments. An increase of \$1.6 million to our allowance for loan losses decreased our net portfolio balance in FY20 compared to FY19. The allowance for loan losses was increased in recognition of the higher portfolio balance and a slightly higher general provision in recognition of the current economic slowdown. Although we did not see a substantial increase in delinquencies at June 30, 2020 we do recognize there is a general economic slowdown due to the COVID-19 pandemic and increased our provision for potential loan losses accordingly.
- **Development projects** decreased \$85.7 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 a loan.
  - \$26 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.

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Management's Discussion and Analysis, Continued

June 30, 2020

- \$59.7 million net decrease in the balance of development projects accounted for as loans. \$68.1 million in loans (net an allowance for loan losses of \$16.4 million) relating to the Mustang Development transitioned to current in FY20, causing a decrease in the non-current balances compared to FY19. Overall, we transitioned \$67.0 million (net) more to current in FY20 compared to FY19, decreasing the non-current balance. This decrease was partially offset by an overall increase in development projects accounted for as loans, a product of new loan fundings net principal payments made.
- **Other assets** decreased during FY20 mostly due to the reduction of unamortized bond issuance costs resulting from the defeasance of our Revolving Fund General Obligation bonds in FY20 and a reduction in the buyback provision associated with the AEA Power Project Fund purchased loans. The agreement under which AIDEA purchased the Power Project Fund loans requires that AEA upon AIDEA's request repurchase any loan after a payment default. The buyback provision decreases as the purchased loan balances are paid down.

**Deferred outflows of resources** decreased \$1.05 million during FY20. The following table provides the details for deferred outflows of resources (in thousands):

	<u>FY20</u>	<u>FY19</u>	<u>Increase (decrease)</u>
Deferred outflows of resources related to employee pensions	\$ 505	1,219	(714)
Deferred outflows of resources related to employee OPEB	838	706	132
Deferred charge on bond refunding	-	94	(94)
Deferred outflows of resources - Snettisham	<u>2,324</u>	<u>2,703</u>	<u>(379)</u>
Total	<u>\$ 3,667</u>	<u>4,722</u>	<u>(1,055)</u>

- **Deferred outflows of resources related to employee pensions** represents our allocated portion of deferred outflows of resources relating to our participation in the Public Employees' Retirement System (PERS) based on the most recent plan valuation, June 30, 2019. Deferred outflows of resources include the impact of changes in certain actuarial assumptions and experience. Our allocated portion of these amounts decreased \$714,000 compared to FY19. 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 slightly relating to our adjustment for FY20 OPEB expenses and contributions. Our proportion is based on our fiscal year contributions to the defined benefit plan under PERS in relation to the State's contributions.

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Management’s Discussion and Analysis, Continued

June 30, 2020

- **Deferred charge on bond refunding** decreased to zero in FY20 as a result of the FY20 defeasance of the bonds associated with this balance.
- **Deferred outflows of resources - Snettisham** decreased \$379,000. 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** increased approximately \$140 million. The following table breaks out current liabilities (in thousands):

	<u>FY20</u>	<u>FY19</u>	<u>Increase (decrease)</u>
Bonds payable – current portion	\$ -	3,465	(3,465)
Power revenue bonds payable-current portion - Snettisham	2,800	2,660	140
Accrued interest payable	-	511	(511)
Due to State of Alaska	1,109	587	522
Unspent CARES funds	142,994	-	142,994
Accounts payable/other liabilities	<u>3,277</u>	<u>2,923</u>	<u>354</u>
Total	<u>\$ 150,180</u>	<u>10,146</u>	<u>140,034</u>

- **Bonds payable - current portion** decreased due to the FY20 defeasance of our outstanding Revolving Fund General Obligation bonds. In October 2019 we defeased all of our outstanding Revolving Fund General Obligation bonds, resulting in no outstanding General Obligation Revolving Fund bonds at June 30, 2020.
- **Power revenue bonds payable-current portion-Snettisham** increased slightly as we transitioned more to current portion in FY20 compared to FY19.
- **Accrued interest payable** was reduced to zero in FY20 due to the defeasance of our Revolving Fund General Obligation bonds.
- **Due to State of Alaska** increased in FY20 compared to the FY19 balance. The balance represents advances from State general fund capital appropriations relating to the AMDIAP, IEP and the Ketchikan Shipyard and other amounts due to the State for services provided.

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June 30, 2020

- **Unspent CARES funds** increased \$143 million in FY20 compared to FY19. We received \$150 million in federal CARES Act funding as a subrecipient from DCCED in FY20 to capitalize the AKCARES funding program developed to provide grants to small businesses impacted by COVID-19 and the related economic crisis. The balance in this account represents CARES Act funds which were advanced but not spent. The AKCARES funding program was a new FY20 program.
- **Accounts payable/other liabilities** increased slightly compared to FY19. Balances mainly increased due to an increase in balances due to vendors at the end of the fiscal year compared to the prior year. This increase was partially offset by decreases in other liabilities such as loan commitment fees paid by borrowers relating to loans not yet funded and unspent advances from State capital appropriations.

**Noncurrent liabilities** decreased about \$39.4 million. The following table breaks out noncurrent liabilities (in thousands):

	<u>FY20</u>	<u>FY19</u>	<u>Increase (decrease)</u>
Bonds payable – noncurrent portion	\$ -	36,255	(36,255)
Net pension liability	11,244	9,772	1,472
Net OPEB liability	371	2,049	(1,678)
Other liabilities	350	850	(500)
Liabilities payable from restricted assets - Snettisham	<u>63,640</u>	<u>66,122</u>	<u>(2,482)</u>
Total	<u>\$ 75,605</u>	<u>115,048</u>	<u>(39,443)</u>

- **Bonds payable - noncurrent portion** decreased approximately \$36.3 million resulting from the defeasance of all of our Revolving Fund General Obligation bonds in FY20. We placed funds with an escrow agent in October 2019 in a sufficient amount to provide for the payment of debt service on the bonds until they could be paid-off. As a result, the bonds are no longer considered our liability.
- **Net pension liability** represents our allocated portion of the liability for pension benefits provided through PERS. Our FY20 liability increased approximately \$1.5 million compared to FY19. The State's proportionate share of net pension liability increased in FY20, which increased the balance allocated to us.
- **Net OPEB liability** represents our allocated portion of the liability for OPEB benefits in the ARHCT and RMP plans provided through the PERS. Net OPEB liability decreased approximately \$1.7 million due to a decrease of the State's proportionate share of OPEB.
- **Other liabilities** decreased slightly in FY20 compared to FY19. The reversal of bond related balances resulting from the FY20 defeasance of our Revolving Fund General Obligation bonds partially offset by an increase in other liabilities.
- **Liabilities payable from restricted assets - Snettisham** decreased \$2.5 million primarily due to the reduction in other liabilities of \$2.5 million.

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Management's Discussion and Analysis, Continued

June 30, 2020

**Deferred inflows of resources** decreased \$179,000 compared to FY19. 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 FY19; therefore, our allocated balance also increased. Deferred inflows of resources related to OPEB ARHCT, RMP, and ODD plans decreased from FY19 as a result of the overall decrease in the State's proportionate balance of OPEB plans deferred inflows. 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, 2019.

**Total net position** increased \$44.6 million during the fiscal year due to the following:

- \$50.4 million net increase from operating activities.
- \$5.8 million net decrease from nonoperating and other activities.

Net investment in capital assets, a component of total net position, decreased approximately \$1.2 million. Depreciation and the sale of our ownership in ADL #421055 reduced this balance. Capital asset additions partially offset these decreases.

Unrestricted net position increased \$46.6 million, the net effect is due to an increase of \$44.6 million from FY20 revenues and expenses, a slight decrease in restricted net position and the \$1.2 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, 2020

Following are AIDEA's operating revenues and expenses, net nonoperating revenues (expenses), and other nonoperating activity for FY20 and FY19 (in thousands):

	<b>FY20</b>	<b>FY19</b>	<b>Increase (decrease)</b>
Operating revenues:			
Interest on loans	\$ 17,458	17,674	(216)
Income from development projects	13,490	20,731	(7,241)
Restricted income	2,728	2,858	(130)
Investment interest	12,884	14,088	(1,204)
Net increase in fair value of investments	26,770	17,972	8,798
Income from state agencies and component units	5,504	5,699	(195)
Gain on sale of development project	-	356	(356)
Pass through grant revenues – CARES act	7,223	-	7,223
Other Income	2,968	1,054	1,914
Total operating revenues	89,025	80,432	8,593
Operating expenses:			
Interest	1,113	2,034	(921)
Interest on liabilities payable from restricted assets	2,728	2,858	(130)
Nonproject personnel, general and administrative	6,798	6,625	173
Net pension related adjustments	2,999	(1,063)	4,062
Net OPEB related adjustments	(2,217)	(131)	(2,086)
CARES act small business grant program	7,006	-	7,006
Costs reimbursed from state agencies and component units	5,504	5,699	(195)
Provision for loan losses	10,150	10,552	(402)
Depreciation	3,324	3,524	(200)
Impairment loss on development projects	-	2,003	(2,003)
Project feasibility, due diligence and other project expenses	1,192	775	417
Total operating expenses	38,597	32,876	5,721
Operating income	50,428	47,556	2,872
Net non-operating revenue	157	710	(553)
Appropriations and contributions from the State of Alaska	2,730	3,297	(567)
Capital grant	1,540	29	1,511
Capital funds contribution	-	(542)	542
Dividend to the State of Alaska	(10,285)	(4,792)	(5,493)
Increase in net position	\$ 44,570	46,258	(1,688)

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Management's Discussion and Analysis, Continued

June 30, 2020

**Operating revenues** increased \$8.6 million during the year ended June 30, 2020, compared to 2019.

- **Interest on loans** includes interest earned on our loan portfolios funded by our Enterprise Development Account and Loan Funds. Interest on loans decreased slightly in FY20 compared to FY19. An increase in interest rate modifications relating to our loan participation portfolio contributed to this decrease.
- **Income from development projects** decreased \$7.2 million. The following table breaks out income from development projects (in thousands):

	<b>FY20</b>	<b>FY19</b>	<b>Increase (decrease)</b>
Interest income on direct financing leases	\$ 7,107	8,275	(1,168)
Income from operating leases	2,452	2,452	-
Income from investment in operating companies	-	476	(476)
Income from lines of credit and loans	3,931	9,528	(5,597)
Total	\$ 13,490	20,731	(7,241)

- **Interest income on direct financing leases** decreased \$1.2 million due to decreased direct financing lease balances. As balances decrease a larger portion of payments is applied to principal rather than interest.
- **Income from operating leases** remained stable. There were no changes in our lease agreements during the year; therefore, revenues remained stable and recognized in accordance with the agreements.
- **Income from investment in operating companies** decreased in FY20 compared to FY19. All member interests were sold as part of the owner-financed MOC1 LLC membership interest sale in FY19 therefore there were no revenues in FY20.
- **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 decreased \$5.6 million in FY20 compared to FY19. In FY19 we recognized \$6.1 million in capitalized interest generated by the Mustang development financing, resulting in a decrease in interest earnings compared to FY20. This decrease was partially offset by increases in interest earnings from other loans in this program.
- **Restricted income** represents income related to the Snettisham Hydroelectric Project. Restricted income decreased slightly compared to FY19.
- **Investment interest** is comprised of interest earned on our investment portfolios. Investment interest was \$1.2 million lower in FY20 compared to FY19. This decrease was the product of market conditions and portfolio management.

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Management's Discussion and Analysis, Continued

June 30, 2020

- **Net increase in fair value of investments** represents realized and unrealized gains and losses on our investment portfolios. There was a net increase in fair value of investments totaling \$26.8 million in FY20 compared to a net increase in fair value of investments of \$18.0 million in FY19. Net unrealized gains of \$15.9 million in FY20 were less than the net unrealized gains of \$19.2 million in FY19 resulting in a \$3.2 million decrease between the two years. The FY20 realized gains of \$10.9 million were more than the \$1.2 million realized losses in FY19, resulting in a \$12.1 million increase between the two years. 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 declining 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 slightly in FY20. This balance is primarily comprised of revenues collected from AEA for personnel services provided by AIDEA employees. Overall, the slight change is due to a decrease in personnel costs charged to AEA for staff time spent on AEA projects and programs.
- **Gain on sale of development project** represents the difference between the book value of development project assets sold and their sales price. We recognized a gain of \$356,000 on the owner-financed sale of our membership interest in MOC1 LLC and MR LLC in FY19. We assigned our interest in ADL #421055, a 30-year general lease for a gravel pad located on the North Slope of Alaska to a third party in FY20 but no gain or loss was recognized as the book value of the asset was adjusted to the sales price in FY19.
- **Pass through grant revenues - CARES Act** represents revenues recognized to the extent of expenditures relating to the AKCARES funding program. The program was new in FY20 therefore there were no revenues recognized in FY19.
- **Other income** increased \$1.9 million in FY20 compared to FY19. An increase in revenue from loan modification, application and commitment fees related to our Revolving Fund loan portfolios contributed to the increase. An increase in fees earned from our conduit revenue bond program also contributed to the overall increase between the two years.

**Operating expenses** decreased a net of \$2.9 million in FY20 compared to FY19.

- **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 FY20 compared to FY19 due to the FY20 defeasance of the Revolving Fund General Obligation bonds. Interest expense ceased to accrue on the bonds after the October 2019 defeasance.
- **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 FY20 resulting from a lower outstanding balance of Snettisham Power Revenue bonds.

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Management's Discussion and Analysis, Continued

June 30, 2020

- **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. Nonproject personnel, general and administrative costs increased slightly in FY20 compared to FY19. Increases in administrative costs such as the cost of our FY20 accounting system upgrade were partially offset by decreased costs in areas such as payroll.
- **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 pension expense. Net adjustments allocated to us in FY20 increased net expenses by approximately \$3 million compared to a reduction of expenses in FY19 of approximately \$1.1 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. These adjustments reflect the impact of actuarial measurements on OPEB expense. Net adjustments allocated to us in FY20 reduced net expenses by approximately \$2.2 million compared to a decrease of expenses in FY19 of approximately \$131,000.
- **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 FY20 compared to FY19 primarily due to a \$101,000 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 portfolios. The provision for loan losses was \$402 thousand lower in FY20 compared to the prior year. The FY19 provision for loan losses in FY19 included a \$10.5 million provision relating to our loans associated with the Mustang development financing. There was an additional provision for these loans in FY20 in the amount of \$8.6 million. Our provision for loan losses for FY20 relating to the remaining loans in our portfolio was greater than the provision for loan losses in FY19.
- **Impairment loss on development projects** represents an adjustment for a reduction in the carrying value of a development project capital asset. In FY19 we recognized a \$2.0 million impairment related to the value of our pad on the North Slope and associated general purpose lease (ADL #421055). We sold the asset in FY20 with no additional impairment necessary.
- **Depreciation expense** represents the adjustment made to recognize the cost of a capital asset over its useful life. Depreciation expense decreased slightly in FY20 compared to FY19. Reductions in depreciable assets relating to the North Slope pad reduced depreciation expense in FY20 compared to FY19.

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Management's Discussion and Analysis, Continued

June 30, 2020

- **Project feasibility, due diligence and other project expenses** represent expenditures related to our owned projects such as the Ketchikan Shipyard and the Skagway Ore Terminal and costs incurred to understand and evaluate potential projects. These costs increased \$417,000 in FY20 compared to FY19. This increase was mostly due to the following:
  - \$507,000 increase in project costs during FY20 compared to FY19. This increase was primarily due to an increase in expenses related to our owned projects, including a \$531,750 gravel fee paid for the North Slope pad. Decreases in costs relating to other projects partially offset this increase.
  - Feasibility/due diligence costs were \$90,000 less in FY20 compared to FY19.

**Net nonoperating revenues (expenses)** decreased \$553,000 million during the year ended June 30, 2020, compared to June 30, 2019. We reported net revenues of \$710,000 in FY19 compared to net revenues of \$157,000 in FY20. Net nonoperating revenues (expenses) are comprised of net activity related to the following:

- 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 \$41,000 for FY20 and revenues exceeded expenses by \$448,000 in FY20.
- A net decrease of \$64,000 in investment income related to the Loan Funds in FY20 compared to FY19.

**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 decreased approximately \$567,000 in FY20 compared to FY19. Reduced spending on the AMDIAP and Ketchikan Shipyard from this funding contributed to the decrease between the two years.

**Capital grant** revenues represent revenues recognized from the expenditure of federal capital funding at the Ketchikan Shipyard. We recognized \$1.5 million more in capital grant revenue in FY20 compared to FY19 as a result of increased spending on Ketchikan Shipyard grant funded capital projects. We received federal funds to continue development of the Ketchikan Shipyard and recognized revenues to the extent of federal expenditures incurred in FY20.

**Capital funds contribution** represents funds we contributed to IGU. In FY19 we provided the remaining State capital appropriation of \$542,000 to complete the Board approved financing of engineering and design work on a liquefied natural gas storage tank constructed by Pentex prior to the sale to IGU. All funds were expended in FY19 therefore there were no revenues recognized in FY20. Funds contributed were appropriated to us by the legislature for the IEP.

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Management's Discussion and Analysis, Continued

June 30, 2020

**Dividend to State of Alaska** increased \$5.5 million in FY20 compared to FY19. We paid \$10.3 million in dividends to the State during FY20, compared to \$4.8 million during FY19. 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 31% for the dividend paid in FY20 compared to 50% for the dividend paid in FY19.
- An increase in audited statutory “net income” in FY18 (used to calculate the FY20 dividend) compared to FY17 (used to calculate the FY19 dividend).

As directed by statute, AIDEA makes available to the State an annual dividend from the Revolving Fund and from the SETS Fund. 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 FY20 (the audit being completed within FY20) will become the base for the dividend to be paid in FY22. In no case may the dividend exceed base year unrestricted audited “net income.” The actual transfer of the dividends requires a legislative appropriation that may be line item vetoed by the Governor.

### **Outlook**

We are actively pursuing potential new projects under the Development Finance Program and anticipate funding of new loans from our Loan Participation Program next year.

We anticipate funding over \$35 million in loan participations during FY21. Additionally, we have about \$14.9 million in loan participation pre-flights from July 1, 2020 to October 22, 2020. Loans in pre-flight status are loans that have not been underwritten or approved.

We continue to explore opportunities to advance economic development in the State through the development of industrial infrastructure. There are a number of potential industrial infrastructure projects in our project pipeline with a potential estimated future investment by AIDEA of over \$600 million in projects supporting oil production, development of new mines, and tourism infrastructure.

Management is actively monitoring the global situation relating to the COVID-19 pandemic and assessing its effect on the Authority's financial condition, liquidity, operations, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Authority is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or cash flows for FY21, however, the Authority expects a short-term reduction in cash flows relating to our investments in loan participations and projects during the economic slowdown that appears to be resulting from the health emergency. The Authority's investment in oil and gas projects such as the Mustang Project may also be negatively impacted by lower oil prices, the economic slowdown and workforce challenges caused by the COVID-19 outbreak. Additionally, the Authority's earnings and cash flows from our investment portfolio may also be negatively impacted by the effects of the economic slowdown on financial markets.

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Management's Discussion and Analysis, Continued

June 30, 2020

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

Statements of Net Position

June 30, 2020

(with summarized financial information at June 30, 2019)

(In thousands)

Assets and Deferred Outflows of Resources	Major Funds		Aggregate Nonmajor Funds	Total	
	Revolving Fund	Emergency Programs		2020	2019
Current assets:					
Unrestricted cash and cash equivalents (note 3)	\$ 62,835	25,002	19,275	107,112	60,646
Restricted cash and cash equivalents (note 3)	1,629	143,690	13,130	158,449	23,067
Unrestricted investment securities (note 3)	22,678	—	—	22,678	77,376
Loans - current portion (note 4)	29,435	—	333	29,768	41,150
Development projects accounted for as direct financing leases (note 6)	13,040	—	—	13,040	11,371
Development projects accounted for as loans (note 6) net of allowance for loan losses	69,443	—	—	69,443	11,000
Accrued interest receivable	8,159	—	122	8,281	5,435
Development project assets held for sale (note 6)	—	—	—	—	3,200
Internal balances	(27,500)	—	27,500	—	—
Due from component unit	3,392	—	—	3,392	3,457
Other assets	401	218	623	1,242	306
Total current assets	183,512	168,910	60,983	413,405	237,008
Noncurrent assets:					
Restricted cash and cash equivalents (note 3)	5,082	—	—	5,082	5,020
Restricted cash and cash equivalents - Snettisham (note 3)	10,972	—	—	10,972	10,216
Restricted investment securities (note 3)	9,998	—	—	9,998	9,986
Investment securities (note 3)	403,717	—	—	403,717	390,665
Net OPEB asset (note 9)	69	—	—	69	48
Loans - noncurrent portion (note 4), net of allowance for loan losses (note 5) Less allowance for loan losses (note 5)	410,836	—	135,106	545,942	506,016
Development projects accounted for as:					
Direct financing leases (note 6)	80,566	—	—	80,566	103,849
Loans - noncurrent portion (note 6)	31,174	—	—	31,174	90,885
Capital assets (note 6)	66,938	—	—	66,938	67,827
Restricted net investment in direct financing lease - Snettisham (note 6)	53,144	—	—	53,144	55,863
Capital assets (note 7)	21,449	—	—	21,449	18,605
Other assets	—	—	—	—	431
Total noncurrent assets	1,093,945	—	135,106	1,229,051	1,259,411
Total assets	1,277,457	168,910	196,089	1,642,456	1,496,419
Deferred outflows of resources:					
Deferred outflows of resources related to employee pensions (note 9)	505	—	—	505	1,219
Deferred outflows of resources related to OPEB (note 9)	838	—	—	838	706
Deferred charge on bond refunding	—	—	—	—	94
Deferred outflow of resources - Snettisham (note 6)	2,324	—	—	2,324	2,703
Total deferred outflows of resources	3,667	—	—	3,667	4,722
Total assets and deferred outflows of resources	\$ 1,281,124	168,910	196,089	1,646,123	1,501,141

See accompanying notes to basic financial statements.

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

Statements of Net Position, Continued

June 30, 2020

(with summarized financial information at June 30, 2019)

(In thousands)

<b>Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>Major Funds</b>		<b>Aggregate Nonmajor Funds</b>	<b>Total</b>	
	<b>Revolving Fund</b>	<b>Emergency Programs</b>		<b>2020</b>	<b>2019</b>
<b>Current liabilities:</b>					
Bonds payable - current portion (note 8)	\$ —	—	—	—	3,465
Power revenue bonds payable - current portion -Snettisham (Note 8)	2,800	—	—	2,800	2,660
Accrued interest payable	—	—	—	—	511
Accounts payable	1,860	705	27	2,592	2,198
Due to the State of Alaska	1,109	—	—	1,109	587
Unspent CARES funds	—	142,994	—	142,994	—
Other liabilities	436	249	—	685	725
Total current liabilities	<u>6,205</u>	<u>143,948</u>	<u>27</u>	<u>150,180</u>	<u>10,146</u>
<b>Noncurrent liabilities:</b>					
Bonds payable - noncurrent portion (note 8)	—	—	—	—	36,255
Net pension liability (note 9)	11,244	—	—	11,244	9,772
Net OPEB liability (note 9)	371	—	—	371	2,049
Other liabilities	350	—	—	350	850
<b>Liabilities payable from restricted assets - Snettisham:</b>					
Power revenue bonds payable (note 8)	51,750	—	—	51,750	54,550
Other	11,890	—	—	11,890	11,572
Total noncurrent liabilities	<u>75,605</u>	<u>—</u>	<u>—</u>	<u>75,605</u>	<u>115,048</u>
Total liabilities	<u>81,810</u>	<u>143,948</u>	<u>27</u>	<u>225,785</u>	<u>125,194</u>
<b>Deferred inflows of resources:</b>					
Deferred inflows of resources related to employee pensions (note 9)	452	—	—	452	245
Deferred inflows of resources related to OPEB (note 9)	413	—	—	413	799
Total deferred inflows of resources	<u>865</u>	<u>—</u>	<u>—</u>	<u>865</u>	<u>1,044</u>
<b>Net position:</b>					
Net investment in development projects - capital assets (note 6)	66,938	—	—	66,938	67,827
Net investment in capital assets (note 7)	21,449	—	—	21,449	21,805
Restricted contributions	—	—	—	—	817
Restricted by agreement with third parties	15,000	—	—	15,000	15,000
Unrestricted	1,095,062	24,962	196,062	1,316,086	1,269,454
Total net position	<u>1,198,449</u>	<u>24,962</u>	<u>196,062</u>	<u>1,419,473</u>	<u>1,374,903</u>
<b>Commitments and contingencies (notes 1, 9, and 11)</b>					
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,281,124</u>	<u>168,910</u>	<u>196,089</u>	<u>1,646,123</u>	<u>1,501,141</u>

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2020

(with summarized financial information at June 30, 2019)

(In thousands)

	<b>Major Funds</b>		<b>Aggregate Nonmajor Funds</b>	<b>Total</b>	
	<b>Revolving Fund</b>	<b>Emergency Programs</b>		<b>2020</b>	<b>2019</b>
Operating revenues:					
Interest on loans (note 4)	\$ 17,098	—	360	17,458	17,674
Income from development projects (note 6)	9,559	—	—	9,559	11,203
Income from development projects - loans (note 6)	3,931	—	—	3,931	9,528
Interest on Snettisham restricted direct financing lease (note 6)	2,728	—	—	2,728	2,858
Investment interest	12,451	18	415	12,884	14,088
Net increase in fair value of investments	26,770	—	—	26,770	17,972
Income from state agencies and component units (note 10)	5,504	—	—	5,504	5,699
State of Alaska nonemployer contributions to Public Employees' Retirement System (note 9)	607	—	—	607	209
Gain on sale of development project (note 6)	—	—	—	—	356
Pass through grant revenues - CARES act	—	7,223	—	7,223	—
Other income	2,339	—	22	2,361	845
Total operating revenues	<u>80,987</u>	<u>7,241</u>	<u>797</u>	<u>89,025</u>	<u>80,432</u>
Operating expenses:					
Interest	1,113	—	—	1,113	2,034
Interest on Snettisham liabilities payable from restricted assets (note 8)	2,728	—	—	2,728	2,858
Nonproject personnel, general and administrative	6,339	273	186	6,798	6,625
Net pension related adjustments	2,999	—	—	2,999	(1,063)
Net OPEB related adjustments	(2,217)	—	—	(2,217)	(131)
CARES act small business grant program	—	7,006	—	7,006	—
Costs reimbursed from state agencies and component units (note 10)	5,504	—	—	5,504	5,699
Provision for loan losses (note 5)	1,444	—	107	1,551	51
Provision for development projects loan losses (note 6)	8,599	—	—	8,599	10,501
Depreciation on projects (note 6)	3,324	—	—	3,324	3,524
Project feasibility and due diligence costs	204	—	—	204	294
Impairment loss on development project	—	—	—	—	2,003
Other project expenses	988	—	—	988	481
Total operating expenses	<u>31,025</u>	<u>7,279</u>	<u>293</u>	<u>38,597</u>	<u>32,876</u>
Operating income (loss)	<u>49,962</u>	<u>(38)</u>	<u>504</u>	<u>50,428</u>	<u>47,556</u>
Nonoperating revenues (expenses) and other:					
Investment interest	—	—	198	198	262
Net revenue (expenses) related to Ketchikan Shipyard Repair and Replacement Fund	(41)	—	—	(41)	448
Capital grants	1,540	—	—	1,540	29
Appropriations and contributions from the State of Alaska	2,730	—	—	2,730	3,297
Capital funds contribution	—	—	—	—	(542)
Dividend to the State of Alaska	(10,000)	—	(285)	(10,285)	(4,792)
Operating funds transfer	(25,000)	25,000	—	—	—
Capital funds transfer	(35,000)	—	35,000	—	—
Total nonoperating revenues (expenses) and other	<u>(65,771)</u>	<u>25,000</u>	<u>34,913</u>	<u>(5,858)</u>	<u>(1,298)</u>
Increase (decrease) in net position	<u>(15,809)</u>	<u>24,962</u>	<u>35,417</u>	<u>44,570</u>	<u>46,258</u>
Net position - beginning of year	1,214,258	—	160,645	1,374,903	1,328,645
Net position - end of year	<u>\$ 1,198,449</u>	<u>24,962</u>	<u>196,062</u>	<u>1,419,473</u>	<u>1,374,903</u>

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Year ended June 30, 2020  
(with summarized financial information at June 30, 2019)

(In thousands)

	Major Funds		Aggregate Nonmajor Funds	Total	
	Revolving Fund	Emergency Programs		2020	2019
Cash flows from operating activities:					
Interest received on loans	\$ 15,593	—	378	15,971	17,079
Receipts from borrowers	4,512	—	—	4,512	3,681
Principal collected on loans	47,261	—	1,195	48,456	35,572
Other operating receipts	7,674	—	—	7,674	5,719
Other operating receipts - Snettisham	2,765	—	—	2,765	2,773
Loans originated	(54,949)	—	(3,293)	(58,242)	(51,431)
Pass through federal grant receipts	—	150,000	—	150,000	—
Payments to CARES act grant recipients	—	(6,385)	—	(6,385)	—
Payments to suppliers and employees for services	(10,661)	—	(277)	(10,938)	(11,909)
Payments to primary government	(2,037)	—	(5)	(2,042)	(1,043)
Other operating payments - Snettisham	(2,003)	—	—	(2,003)	(3,929)
Net cash (used for) provided by operating activities	8,155	143,615	(2,002)	149,768	(3,488)
Cash flows from noncapital and related financing activities:					
Dividend paid to the State of Alaska	(10,000)	—	(285)	(10,285)	(4,792)
Short-term borrowings received from (paid to) the Alaska Energy Authority for working capital, net	(1,534)	—	—	(1,534)	630
Principal paid on noncapital debt	—	—	—	—	(600)
Cash disbursed for bond defeasance	(10,751)	—	—	(10,751)	—
Cash received from (paid to) other funds	(25,000)	25,000	—	—	—
Interest paid on noncapital debt	(271)	—	—	(271)	(572)
Net cash provided by (used for) noncapital and related financing activities	(47,556)	25,000	(285)	(22,841)	(5,334)
Cash flows from capital and related financing activities:					
Direct financing lease receipts	28,722	—	—	28,722	23,143
Direct financing lease receipts - Snettisham	5,447	—	—	5,447	5,463
Capital grant receipts	1,454	—	—	1,454	133
Capital appropriation - State of Alaska	2,385	—	—	2,385	2,835
Restricted contributions for development projects	—	—	—	—	479
Principal paid on capital debt	—	—	—	—	(2,634)
Cash disbursed for bond defeasance	(29,939)	—	—	(29,939)	—
Interest paid on capital debt	(751)	—	—	(751)	(1,634)
Cash received from (paid to) other funds	(7,500)	—	7,500	—	—
Investment in development projects - capital assets	(1,611)	—	—	(1,611)	(158)
Investment in capital assets	(281)	—	—	(281)	(403)
Investment in intangible capital assets	(3,425)	—	—	(3,425)	(2,599)
Proceeds from sale of a development project	3,200	—	—	3,200	—
Interest paid on capital debt - Snettisham	(2,795)	—	—	(2,795)	(2,921)
Principal paid on capital debt - Snettisham	(2,660)	—	—	(2,660)	(2,535)
Net cash provided by (used for) capital and related financing activities	(7,754)	—	7,500	(254)	18,627
Cash flows from investing activities:					
Proceeds from sales and maturities of investment securities	530,183	—	—	530,183	400,588
Purchases of investment securities	(461,780)	—	—	(461,780)	(454,339)
Interest collected on investments	12,786	77	613	13,476	14,033
Loan acquisition - development project - principal	—	—	—	—	(16,367)
Loan acquisition - development project - interest	—	—	—	—	(143)
Loans originated	(20,983)	—	(21,861)	(42,844)	(26,845)
Interest received on purchased loans	490	—	—	490	534
Principal collected on purchased loans	1,051	—	—	1,051	1,042
Interest received on development projects loans and line of credit	1,751	—	—	1,751	2,781
Principal collected on development projects loans and line of credit	13,666	—	—	13,666	6,321
Net cash from (used for) investing activities	77,164	77	(21,248)	55,993	(72,395)
Net increase (decrease) in cash and cash equivalents	30,009	168,692	(16,035)	182,666	(62,590)
Cash and cash equivalents at beginning of year	50,509	—	48,440	98,949	161,539
Cash and cash equivalents at end of year	\$ 80,518	168,692	32,405	281,615	98,949

See accompanying notes to basic financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY**

(A Component Unit of the State of Alaska)

Statements of Cash Flows, Continued

Year ended June 30, 2020

(with summarized financial information at June 30, 2019)

(In thousands)

	Major Funds		Aggregate Nonmajor Funds	Total	
	Revolving Fund	Emergency Programs		2020	2019
Reconciliation to Statements of Net Position:					
Unrestricted cash and cash equivalents	\$ 62,835	25,002	19,275	107,112	60,646
Restricted cash and cash equivalents - current	1,629	143,690	13,130	158,449	23,067
Restricted cash and cash equivalents - noncurrent	5,082	—	—	5,082	5,020
Restricted cash and cash equivalents - Snettisham	10,972	—	—	10,972	10,216
Cash and cash equivalents at end of year	<u>\$ 80,518</u>	<u>168,692</u>	<u>32,405</u>	<u>281,615</u>	<u>98,949</u>
Reconciliation of operating income to net cash (used for)					
provided by operating activities:					
Operating income (loss)	\$ 49,962	(38)	504	50,428	47,556
Adjustments to reconcile operating income to net cash					
provided by (used for) operating activities:					
Principal collected on loans	47,261	—	1,195	48,456	35,572
Loans originated	(54,949)	—	(3,293)	(58,242)	(51,431)
Investment interest income	(12,451)	—	(505)	(12,956)	(14,088)
Net amortization of income from operating companies	—	—	—	—	(108)
Amortization of unearned income on direct financing leases	(7,106)	—	—	(7,106)	(8,275)
Amortization of unearned income on direct financing lease - Snettisham	2,728	—	—	2,728	(2,858)
Bond interest expense	1,140	—	—	1,140	2,165
Bond interest expense – Snettisham	(2,728)	—	—	(2,728)	2,858
Provision for loan losses	10,043	—	107	10,150	10,552
Depreciation on projects	3,324	—	—	3,324	3,524
Depreciation on administrative building	203	—	—	203	203
Gain on sale of development project	—	—	—	—	(356)
Impairment loss on capital assets	—	—	—	—	2,003
Net increase in fair value of investments	(26,770)	—	—	(26,770)	(17,972)
Interest on loans	(4,426)	—	—	(4,426)	(3,942)
Capitalized loan interest	—	—	—	—	(6,119)
Decrease in other assets	2,141	—	—	2,141	—
Decrease in other liabilities	(393)	—	—	(393)	—
(Increase) in net OPEB asset	(21)	—	—	(21)	(12)
(Increase) decrease in deferred outflows related to pensions	714	—	—	714	(35)
(Increase) decrease in deferred outflows related to OPEB	(132)	—	—	(132)	(519)
(Increase) decrease in accrued interest receivable and other assets	—	(218)	18	(200)	(525)
(Decrease) increase in net pension liability	1,472	—	—	1,472	(71)
Increase (decrease) in net OPEB liability	(1,678)	—	—	(1,678)	427
(Decrease) increase in accounts payable and other liabilities	—	877	(28)	849	(844)
Increase in unspent CARES funds	—	142,994	—	142,994	—
(Decrease) increase in deferred inflows related to pensions	207	—	—	207	(1,089)
Decrease in deferred inflows related to OPEB	(386)	—	—	(386)	(104)
Net cash (used for) provided by operating activities	<u>\$ 8,155</u>	<u>143,615</u>	<u>(2,002)</u>	<u>149,768</u>	<u>(3,488)</u>
Noncash investing, capital, and financing activities:					
Net unrealized gain on investments	\$ (15,902)	—	—	(15,902)	(19,183)
Impairment loss	—	—	—	—	2,003
Accounts payable for capital asset additions	—	—	—	—	847
Accounts payable for development project additions	832	—	—	832	7
Gain on sale of membership interest in MOC1, MR LLC	—	—	—	—	356
Interest capitalized on Mustang development loan	—	—	—	—	6,119
Owner financed sale of membership interest in MOC1, MR LLC	\$ —	—	—	—	64,000

See accompanying notes to basic financial statements.

**ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY**

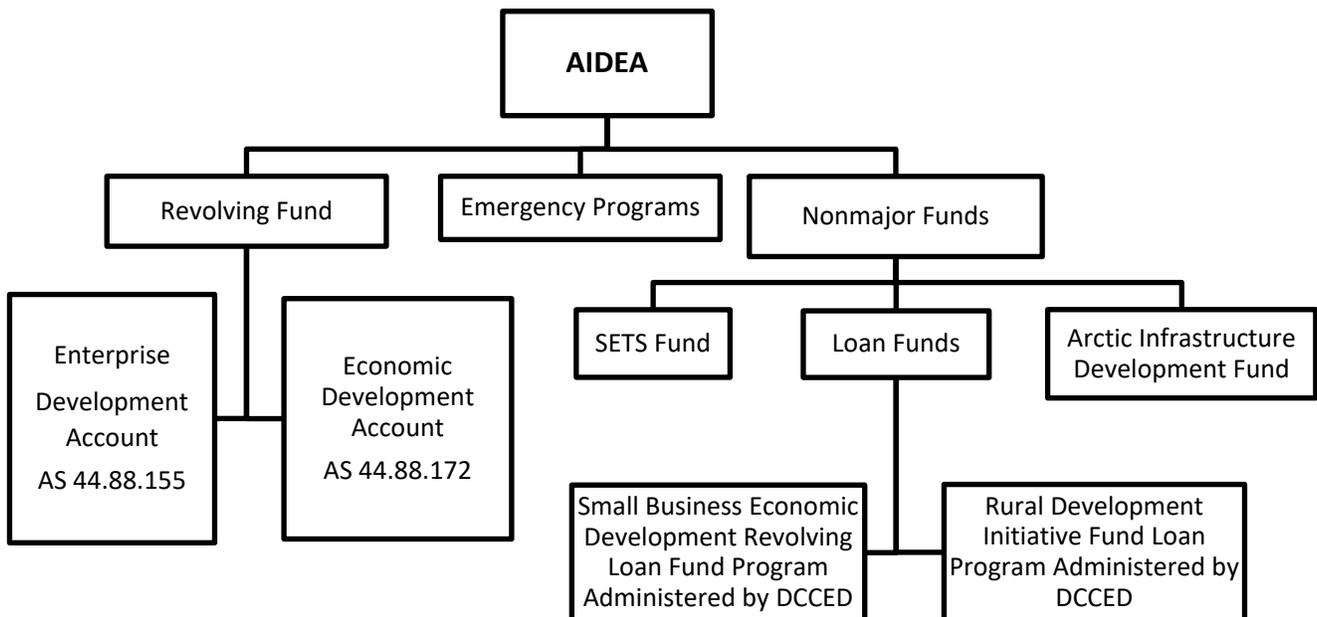
(A Component Unit of the State of Alaska)

Notes to Basic Financial Statements

June 30, 2020

**(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 three columns as follows:



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

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

June 30, 2020

**(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 project is included in the Enterprise Development Account:

- 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 and defeased subsequent to year-end on October 1, 2019.
- **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, 2020

- **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.
- **ADL #421055** was approved as a development project on June 26, 2019. The project consists of a 23-acre parcel on Alaska's North Slope with a 15.5 acre gravel pad and an easement to a pipeline tie-in. The project has received authorization from the Department of Natural Resources, Division of Mining, Land & Water on a 30-year lease for general commercial activities to support North Slope oilfield operations. Effective September 10, 2019, AIDEA entered into a Purchase and Sale Agreement with Ahtna Petrochemical Products LLC for the assignment of ADL #421055 and sold our interest in the project.

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.
- **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.
- **Mustang Development Loans (noncapitalized interest and capitalized interest)** in which we financed Caracol Petroleum LLC's (Caracol) acquisition of our preferred member interest in MOC1 and MR LLC as part of a restructure of the development of the Mustang Field on the North Slope of Alaska. Caracol is an oil and gas development company which is now owner of a consolidated 90.1% working interest in the Mustang Field with related infrastructure and equipment. Caracol is pursuing a plan of development for the operation and production of the Mustang Field.

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

June 30, 2020

- **MOC1 Acquired Loan** in which AIDEA acquired the lender's position in the existing loan between MOC1 and the State of Alaska Department of Revenue (DOR) as part of the financing described under Mustang Development Loans. Repayment of this loan includes payments for oil and gas tax credit certificates that MOC1 is entitled to receive from the State of Alaska.
- **AK SHIP Program** in which we provide financing in the form of direct loans supporting Alaska's shipyards.
- **HEX LLC** in which we financed the acquisition of the Kitchen Lights unit offshore Cook Inlet Alaska.

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.

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

June 30, 2020

By the end of FY20, we had issued conduit revenue bonds for 320 projects (not including bonds issued to refund other bonds). At June 30, 2020, the outstanding principal amount of conduit revenue bonds issued after July 1, 1995 was \$644.6 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 \$1.66 billion issued through June 30, 2020 (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.

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.

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

June 30, 2020

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) *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.

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

June 30, 2020

**(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. Investments include call options purchased by the Authority for investment purposes and reported at fair value in the financial statements. We follow GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in reporting call options.

**(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, have been restructured, or have an area of specific concern.
- 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, 2020

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 6), 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) *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.

**(i) *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.

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Notes to Basic Financial Statements, Continued

June 30, 2020

- 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.

***(j) 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.

***(k) 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.

***(l) 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, 2020.

***(m) 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.

***(n) 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 FY20, 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.

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**(o) *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
- investment income and expenditures related to certain restricted project funds
- investment income related to the Loan Funds
- special or extraordinary items
- gains and losses on the disposition or impairment of certain capital assets

**(p) *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.

**(q) *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.

**(r) *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.

**(s) *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.

**(t) *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 related to Snettisham are considered noncurrent in the statement of net position.

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**(u) 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.

**(v) 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 three 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.
- 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, including pension and OPEB.

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

For purposes of measuring the net pension liability and 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.

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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.

**(x) *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 FY19, from which the summarized information was derived. Certain reclassifications were made to prior year information to conform to current year presentation.

**(y) *Recently Implemented or Issued Accounting Pronouncements***

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, 2019. We have not implemented Statement 84 and are currently evaluating the impact on future financial statements.

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 June 15, 2021. We have not implemented Statement 87 and are currently evaluating the impact on future financial statements.

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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. 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, 2020. 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, 2019. 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

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applied on a prospective basis. We have not implemented Statement 90 and are currently evaluating the impact on future financial statements.

GASB Statement No. 91, *Conduit Debt Obligations* (Statement 91) was issued by GASB in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. We have not implemented Statement 91 and are currently evaluating impact on the financial statements.

GASB Statement No. 92, *Omnibus 2020* (Statement 92) was issued by GASB in January 2020. This statement addresses a variety of topics with an objective to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. We have not implemented Statement 92 and are currently evaluating impact on the financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* (Statement 93). The provisions of this Statement, except for paragraph 11b, are required to be implemented for year-end June 30, 2022. The requirements in paragraph 11b are required to be implemented for year-end June 30, 2023. This Statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). We have not implemented Statement 93 and will evaluate the impact on future financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (Statement 94) was issued by GASB in March 2020. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. We have not implemented Statement 94 and are currently evaluating impact on the financial statements.

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In light of the COVID-19 Pandemic, on May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance, to provide relief to governments* (Statement 95). This Statement, which was effective upon issuance, postpones the effective dates of certain provisions in the above noted pronouncements for one year, except for Statement No. 87 and provisions related to leases in Statement No. 92 which are postponed for eighteen months. Certain other provisions of Statement No. 92 are excluded from Statement No. 95. Additionally, Statement No. 95 excludes provisions in Statement No. 93 related to lease modifications and excludes Statement No. 94 since the GASB considered the pandemic in determining effective dates. Earlier application of the standards is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, Statement 96. Effective for year-end June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement, among other things, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA. The Authority has not implemented Statement 96 and will evaluate the impact on future financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, (Statement 97). Effective for year-end June 30, 2022, except the portion of the pronouncement related to component unit criteria, which is effective for year-end June 30, 2020. This statement modifies certain guidance contained in Statement No. 84 and enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. We determined that the portion of Statement 97 that is related to component unit criteria has no impact on the presentation of the financial statements for the year ended June 30, 2020. We have not implemented the remaining pronouncements of Statement 97 and will evaluate the impact on future financial statements.

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**(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, 2020 (in thousands):

Current – unrestricted	\$ 62,835
Current – restricted	1,629
Noncurrent – restricted	5,082
Noncurrent - restricted - Snettisham	<u>10,972</u>
Carrying amount	\$ <u>80,518</u>
Bank balance	\$ <u>80,555</u>

Cash equivalents include \$1.484 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](http://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, 2020, 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.

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**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);
- 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.

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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, 2020 (in thousands):

Current – unrestricted	\$	22,678
Noncurrent - unrestricted		403,717
Noncurrent - restricted		<u>9,998</u>
	\$	<u>436,393</u>

*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, 2020 (in thousands):

U.S. Treasury	\$	99,972	Level 2
U.S. Government agency discount notes		29,996	Level 2
U.S. Government agency and GSEs		7,569	Level 2
Corporate securities		162,600	Level 2
Mortgage – backed securities		121,684	Level 2
Asset – backed securities		11,513	Level 2
Municipal bonds		<u>3,059</u>	Level 2
	\$	<u>436,393</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

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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 instruments (at June 30, 2020, 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, 2020. 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:

	<b>Internally managed portfolio</b>	<b>Externally managed portfolios</b>
Money market	0.15	0.16
U.S. Treasury	0.06	9.44
U.S. Government agency discount notes	0.14	-
U.S. Government agency and GSEs	-	5.24
Corporate securities	-	7.32
Foreign securities	-	6.67
Mortgage – backed securities	-	5.89
Commercial mortgage – backed securities	-	0.73
Assets – backed securities	-	1.56
Municipal bonds	-	0.86

*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.

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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 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, 2020 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*	16
U.S. Government agency and GSEs	AA	1
U.S. Government agency discount notes	Not Rated	2
Corporate securities	AA	1
Corporate securities*	Aaa	2
Corporate securities*	A	1
Corporate securities	A	12
Corporate securities	BBB	15
Mortgage – backed securities (issued by GSEs)	AA	2
Mortgage – backed securities (issued by GSEs)	Not Rated	22
Assets – backed securities	AAA	2
Assets – backed securities*	Aaa	1
No credit exposure (U.S. treasuries)		23
		100%

\*Moody's rating

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*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 \$67 million at June 30, 2020, 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.

*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, 2020, we had more than 5% of the combined portfolios invested in the following GSEs (dollar amounts in thousands):

	<u>Revolving Fund</u>	<u>Percent of combined portfolio</u>
Federal Home Loan Mortgage Corporation	\$ 34,640	7%
Federal National Mortgage Association	77,965	15%

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**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, 2020, is as follows (in thousands):

	<b>Allowable usage</b>	
Red Dog Project Sustaining Capital fund	Project costs	\$ 15,000
West Susitna Access Road project	Project costs	145
AK SAFE program	Payment of guarantees	80
Ketchikan Shipyard restricted funds	Project costs	2
Ketchikan Shipyard Repair and Replacement fund	Project costs	706
Advances from State of Alaska	Project costs	776
Snettisham Hydroelectric Project fund	Various costs relating to the project	<u>10,972</u>
		<u>\$ 27,681</u>

**(b) Nonmajor Funds**

**Cash and Cash Equivalents**

A summary of the Nonmajor Funds' cash and cash equivalents at June 30, 2020, is as follows (in thousands):

Unrestricted – Loan Funds	\$ 7,024
Unrestricted – SETS Fund	4,750
Unrestricted – Arctic Infrastructure Development Fund	7,501
Restricted – SETS Fund	<u>13,130</u>
Carrying amount	<u>\$ 32,405</u>
Bank balance	<u>\$ 32,405</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.

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June 30, 2020

**(c) Emergency Programs**

**Cash and Cash Equivalents**

A summary of the Emergency Program cash and cash equivalents at June 30, 2020, is as follows (in thousands):

Unrestricted cash and cash equivalents	\$ 25,002
Restricted cash and cash equivalents	<u>143,690</u>
Carrying amount	<u>\$ 168,692</u>
 Bank balance	 <u>\$ 168,692</u>

Cash equivalents include approximately \$25 million invested in the Alaska Municipal League Investment Pool (Pool).

**(d) Call options, off-balance sheet risk and derivatives exposure**

On May 24, 2019 we purchased 40,651,900 call options of Alpha Energy Holdings Limited (Alpha), a Singapore company, publicly traded on the Singapore stock exchange. The options purchase was part of the MOC1 and MR LLC membership interest purchase and sale transaction where we seller financed the sale of our membership interests in MR LLC and MOC1 to Caracol, a wholly-owned subsidiary of Alpha. We paid Singapore \$1 for the call options.

The call options have a 5-year term to exercise at a certain strike price. The call options agreement includes anti-dilution provisions. At June 30, 2020, the shares related to the acquired options were trading below the strike price. As a result, the fair value of the options is reported at zero in the financial statements.

AIDEA is exposed to credit risk on investment derivative instruments that are in asset positions. We manage our exposure in our Revolving Fund through the Resolution. Due to the nominal payment to acquire the Alpha options, the market risk regarding entering into the call options agreement is limited since we will not make any payments to exercise the Alpha Options unless it is profitable to do so.

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June 30, 2020

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

Loans outstanding on June 30, 2020, 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:

	<b>Number</b>	<b>Amount</b>
Revolving Fund – Enterprise Development Account:		
Loan participation:		
Internally funded	274	\$ 429,151
Bond sale	1	10,238
OREO sale financing	1	100
Purchased loans	19	12,091
Revolving Fund loans	295	451,580
Nonmajor Funds	85	136,149
Less allowance for loan loss		(12,019)
Less current portion		(29,768)
	380	\$ 545,942

**(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.

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 FY20 is \$18.6 million compared to \$29.4 million recorded as the current portion. The difference of \$10.8 million represents 5.62% of the Revolving Fund current assets.

The COVID 19 pandemic had a significant impact on the portfolio. AIDEA granted principal deferral for up to 6 months on 46 loans, representing \$91 million, or approximately 20% of total loans, and also granted principal and interest deferral for up to 3 months on 42 loans, representing \$121 million, or approximately 27% of total loans.

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**(b) Nonmajor Funds**

The aging of loans relating to the Loan Funds and SETS Fund at June 30, 2020, are as follows (dollar amounts in thousands):

	<b>Percent</b>	<b>Amount</b>
Current	100%	\$ 136,149
Past due:		
Over 90 days	-	-
	100%	\$ 136,149

Nonmajor Funds loans include a loan from our SETS fund which was a product of our financing of the IEP in FY18. The per annum stated interest rate for the 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, 2020.

We held no OREO at June 30, 2020.

**(5) Allowance for Loan Losses**

Following is an analysis of changes in the allowance for loan losses for FY20 (in thousands):

	<b>Revolving Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
Balance at beginning of year	\$ 9,865	603	10,468
Provision for loan losses (recovery)	1,444	107	1,551
Balance at end of year	\$ 11,309	710	12,019

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**(6) 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, 2020 (in thousands):

	<b>Minimum lease payments receivable</b>	<b>Unearned income</b>	<b>Net investment in direct financing leases</b>
Red Dog Project	\$ 271,832	(191,181)	80,651
DMVA Project	26,438	(13,483)	12,955
	\$ 298,270	(204,664)	93,606
Less current Portion			(13,040)
			\$ 80,566

Following are the future minimum lease payments receivable for FY21 through FY25 (dollars in thousands):

<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
<u>\$18,794</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.

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**(b) Capital Assets/Assets Held for Sale**

Our net investment in the Ketchikan Shipyard at June 30, 2020, was \$66.9 million. Capital activity related to the Ketchikan Shipyard is noted below (in thousands):

	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2020</u>
Nondepreciable components of development projects:				
Land	\$ 1,995	-	-	1,995
Construction work in progress	190	2,435	-	2,625
Total nondepreciable components of development projects	<u>2,185</u>	<u>2,435</u>	<u>-</u>	<u>4,620</u>
Depreciable components of development projects:				
Buildings	58,574	-	-	58,574
Infrastructure	34,106	-	-	34,106
Total depreciable components of development projects	<u>92,680</u>	<u>-</u>	<u>-</u>	<u>92,680</u>
Less accumulated depreciation for:				
Buildings	(14,950)	(2,035)	-	(16,985)
Infrastructure	(12,088)	(1,289)	-	(13,377)
Accumulated depreciation	<u>(27,038)</u>	<u>(3,324)</u>	<u>-</u>	<u>(30,362)</u>
Depreciable components of development projects - net	<u>65,642</u>	<u>(3,324)</u>	<u>-</u>	<u>62,318</u>
Total development projects	<u>\$ 67,827</u>	<u>(889)</u>	<u>-</u>	<u>66,938</u>
Infrastructure – held for sale, net of accumulated depreciation	<u>\$ 3,200</u>	<u>-</u>	<u>(3,200)</u>	<u>-</u>

Depreciation expense totaled \$3.32 million for development projects - capital assets for the fiscal year ended June 30, 2020 and is included in depreciation on projects in our Statement of Revenues, Expenses and Changes in Net Position.

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**(c) 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:

2021	\$	339
2022		304
2023		274
2024		245
2025		219
2026-2020		739
2031-2035		<u>204</u>
	\$	<u>2,324</u>

Following is our net investment in the Snettisham project on June 30, 2020 (in thousands):

Minimum lease payments receivable	\$	73,671
Less unearned income		<u>(20,527)</u>
Net investment in direct financing lease	\$	<u>53,144</u>

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**(d) Development projects loans**

Following is the breakout of our net investment in development projects accounted for as loans at June 30, 2020, (in thousands):

Blood Bank of Alaska, Inc.	\$ 3,896
BlueCrest*	13,198
Mustang Development Loan (noncapitalized interest)**	62,084
Mustang Development Loan (capitalized interest)	6,119
MOC1 Acquired Loan**	16,367
Duck Point	8,511
Wilderness Adventure	542
Drake Investments	1,500
Hex Cook Inlet	<u>7,500</u>
Total development projects accounted for as loans	119,717
Less current portion	<u>(88,543)</u>
 Total	 <u>\$ 31,174</u>

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

Following is an analysis of changes in the allowance for loan losses on development projects accounted for as loans at June 30, 2020 (in thousands):

	<u>Revolving Fund</u>
Balance at beginning of year	\$ 10,501
Provision for development projects loan losses**	<u>8,599</u>
 Balance at end of year	 <u>\$ 19,100</u>

\*\*Balances are unaudited. Please see *Basis for Qualified Opinion on Revolving Fund* paragraph on page 2.

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**(7) Capital Assets**

Following is our activity for FY20 (in thousands):

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>
Capital assets not being depreciated:				
Land	\$ 1,170	-	-	1,170
Construction work in progress	<u>514</u>	<u>168</u>	<u>-</u>	<u>682</u>
Total nondepreciable components of capital assets - other	<u>1,684</u>	<u>168</u>	<u>-</u>	<u>1,852</u>
Intangible assets not being depreciated:				
AMDIAP	<u>15,743</u>	<u>2,879</u>	<u>-</u>	<u>18,622</u>
Total intangible assets not being depreciated	<u>15,743</u>	<u>2,879</u>	<u>-</u>	<u>18,622</u>
Capital assets being depreciated:				
Administrative building	4,036	-	-	4,036
Infrastructure - IEP	<u>5,638</u>	<u>-</u>	<u>-</u>	<u>5,638</u>
Total depreciable components of capital assets -other	<u>9,674</u>	<u>-</u>	<u>-</u>	<u>9,674</u>
Less accumulated depreciation for:				
Administrative building	(2,858)	(203)	-	(3,061)
Infrastructure -IEP	<u>(5,638)</u>	<u>-</u>	<u>-</u>	<u>(5,638)</u>
Accumulated depreciation Capital assets being depreciated – other, net	<u>(8,496)</u>	<u>(203)</u>	<u>-</u>	<u>(8,699)</u>
Capital assets being depreciated – other, net	<u>1,178</u>	<u>(203)</u>	<u>-</u>	<u>975</u>
Total capital assets - other	<u>\$ 18,605</u>	<u>2,844</u>	<u>-</u>	<u>21,449</u>

Depreciation expense of \$203,000 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 ended June 30, 2020.

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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.
- *AMDIAP* – Effective July 1, 2013, we received an \$8.5 million capital appropriation for the AMDIAP, with an additional \$8.5 million capital appropriation effective 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. During FY 19 both the funding and scope limitations were lifted. We have continued development.

**(8) 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, 2020:

	<u>Purpose of Financing</u>	<u>Balance at June 30, 2019</u>	<u>Deletions</u>	<u>Balance at June 30, 2020</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	\$ 29,475	29,475	-	-
Series 2010B – 5.0% to 5.5% issued December 22, 2010, maturing through 2031	Loan Participation	10,245	10,245	-	-
		<u>\$ 39,720</u>	<u>39,720</u>	<u>-</u>	<u>-</u>

Pursuant to Board approval on September 18, 2019, we defeased the outstanding balances of our Revolving Fund Refunding bonds, Series 2010A and Revolving Fund bonds, Series 2010B on October 1, 2019 by placing sufficient funds irrevocably with an escrow agent to pay debt service payments until the call date of the bonds. The Series 2010A bonds were called on April 1, 2020 and the Series 2010B bonds are callable April 1, 2021. At June 30, 2020, \$9.61 million of bonds outstanding are considered defeased.

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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 Power Revenue Bonds, First Series (together the Snettisham Bonds). The refunded bonds were redeemed September 25, 2015. The refunding bonds bear interest at rates ranging from 4.0% to 5.0%, mature in varying amounts on January 1 of each year through 2034 and are special and limited obligations of AIDEA, 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, 2020 (without considering earlier call provisions) (in thousands):

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 2,800	2,662	5,462
2022	2,935	2,522	5,457
2023	3,085	2,375	5,460
2024	3,235	2,221	5,456
2025	3,400	2,058	5,458
2026-2030	15,350	7,619	22,969
2031-2034	<u>23,745</u>	<u>2,401</u>	<u>26,146</u>
	<u>\$ 54,550</u>	<u>21,858</u>	<u>76,408</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.

The following are Events of Default under the Snettisham Power Revenue Bond Resolution:

- (i) Late payment or non-payment of principal on the Snettisham Bonds or any parity obligation whether at maturity or upon call for redemption;
- (ii) Late payment or non-payment of interest or on the unsatisfied balance of any sinking fund installment;
- (iii) Non-performance or non-observance by AIDEA of any of the other covenants, agreements or conditions of the Snettisham Power Revenue Bond Resolution, the Bonds, the Power Sales Agreement, the Operations and Maintenance Agreement or the Project Sale Agreement, and such default continues for 60 days after written notice to AIDEA by the Trustee or to AIDEA and the Trustee by the Holders of not less than 25% in principal amount of the bonds and parity obligations outstanding (or if cure cannot be completed within the 60-day period we may have 180 days to cure if we have commenced work on the cure within the 60 day period and it is reasonable to anticipate a cure within the 180 days);

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(iv) Dissolution or liquidation of AIDEA, or filing by or against AIDEA of a petition in bankruptcy, or the commission by AIDEA of any act of bankruptcy, or adjudication of AIDEA as bankrupt, or assignment by AIDEA for the benefit of its creditors, or the entry by AIDEA into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to AIDEA in any proceedings for its reorganization instituted under the provisions of the federal bankruptcy act, as amended, or under any similar act in any jurisdiction effective now or in the future;

(v) Late payment or non-payment of project costs payable under the Power Sales Agreement and/or installment payments payable under the Project Sale Agreement;

(vi) Non-performance or non-observance by the Purchaser or Project Purchaser (Purchasers), as defined in the Snettisham Power Revenue Bond Resolution, of any other of the covenants, agreements or conditions on its part contained in the Power Sales Agreement, the Operations and Maintenance Agreement or the Project Sale Agreement other than payments described in clause (v) above, and such default continues for 60 days after written notice to AIDEA by the Trustee or to AIDEA and to the Trustee by the Holders of not less than 25% in principal amount of the bonds and parity obligations outstanding (or if cure cannot be completed within the 60-day period the Purchasers may have 180 days to cure if we have commenced work on the cure within the 60 day period and it is reasonable to anticipate a cure within the 180 days);

(vii) Dissolution or liquidation of the Purchasers, or filing by or against the Purchasers of a petition in bankruptcy, or the commission by the Purchasers of any act of bankruptcy, or adjudication of the Purchasers as bankrupt, or assignment by the Purchasers for the benefit of its creditors, or the entry by the Purchasers into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Purchasers in any proceedings for its reorganization instituted under the provisions of the federal bankruptcy act, as amended, or under any similar act in any jurisdiction effective now or in the future;

(viii) If an order or decree is entered with the consent or acquiescence of AIDEA or the Purchasers, appointing a receiver(s) of the Snettisham Project, in all or part, or of the Snettisham Project rents, fees, charges or other Revenues (as defined in the Snettisham Bond Resolution), or the order or decree is entered without the consent or acquiescence of AIDEA or the Purchasers, and is not vacated or discharged or stayed within 90 days after the entry;

(ix) If a judgement for the payment of money shall be rendered against AIDEA or the Purchasers resulting from the construction, improvement, ownership, control or operation of the Snettisham Project, and the judgement is not discharged within 90 days, or an appeal or decree to set aside or stay the execution or levy of the judgement is not filed.

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If an Event of Default is not remedied, upon the demand of the Trustee, AIDEA shall pay over or cause to be paid over to the Trustee (i) all moneys, securities and funds then held by AIDEA in any Fund or Account under the Snettisham Bond Resolution, and (ii) all Revenues (as defined in the Snettisham Bond Resolution) as promptly as practicable after receipt.

The Snettisham Power Revenue Bond Resolution provides that during the continuance of an Event of Default, the trustee shall apply all moneys, securities, funds and revenues received by the Trustee in the following order:

- Expenses of fiduciaries
- Operating expenses
- Principal or redemption price and interest

Under the occurrence of any Event of Default, other than clause (iii) or clause (vi) described above, the Trustee may declare the principal on all Bonds and Parity Obligations outstanding plus accrued interest due and payable immediately. Acceleration of the debt is subject to conditions further defined in the Snettisham Power Revenue Bond Resolution.

**(9) 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.

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**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. The Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process.

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.

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 (ARM). This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap of 22% 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 Adopted Rates than previously adopted.

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*State 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 FY20, the rate uses an 8% pension discount rate and an 8% 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, 2020 were determined in the June 30, 2017 actuarial valuation.

	<b>Employer Effective Rate</b>	<b>ARM Board Adopted Rate</b>	<b>State Contribution Rate</b>	<b>GASB Rate</b>
Pension	15.72%	23.73%	6.62%	32.11%
Postemployment benefits (see Note 9 (c))	6.28%	4.89%	0.00%	87.90%
Total Contribution Rates	22.00%	28.62%	6.62%	120.01%

In 2020, AIDEA was credited with the following contributions to the pension plan (in thousands):

Employer contributions (including DBUL)	\$ 770
Nonemployer contributions (on-behalf)	606
Total Contributions	\$ 1,376

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

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June 30, 2020

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

At June 30, 2020, 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 (in thousands):

AIDEA proportionate share of NPL	\$	11,244
State's proportionate share of NPL associated with AIDEA		4,465
Total Net Pension Liability	\$	15,709

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019. 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, 2020, AIDEA's proportion was 0.571%, which was an increase of 0.064% from its proportion measured as of the prior measurement date, June 30, 2018.

For the year ended June 30, 2020, AIDEA recognized a net adjustment for pension expense of approximately \$2,904,000 including AIDEA's portion of nonemployer contributions provided by the State. This includes approximately \$770,000 paid by AIDEA during the fiscal year and approximately \$607,000 in pension related adjustments including the on-behalf portion allocated to AIDEA as a PERS employer. At June 30, 2020, AIDEA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	(166)
Change in assumptions	344	-
Net difference between projected and actual earnings on pension plan investments	161	-
Changes in proportion and differences between AIDEA contributions and proportionate share of contributions	-	(286)
Total Deferred Outflows and Deferred Inflows Related to Pensions	\$ 505	(452)

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year Ending June 30,

2021	\$	71
2022		(120)
2023		46
2024		56

**Actuarial Assumptions**

The total pension liability for the measurement period ended June 30, 2019 (AIDEA fiscal year 2020) was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2019.

Actuarial Cost Method	Entry Age Normal; Level Percentage of Payroll.
Amortization Method	Level dollar, closed.
Investment Return / Discount Rate	7.38%, net of pension plan investment expenses. This is based on an average inflation rate of 2.50% and a real rate of return of 4.88%.
Salary Increases	For peace officer/firefighter, increases range from 7.75% to 2.75% based on service. For all others, increases range from 6.75% to 2.75% based on age and years of service.
Inflation	2.50%
Mortality	Pre-termination and post-termination mortality rates were based upon the 2013-2017 actual mortality experience. Pre-termination mortality rates were based on 100% of the RP-2014 table with MP-2017 generational improvement. Post-termination mortality rates were based on 91% of male and 96% of female rates of the RP-2014 table with MP-2017 generational improvement. Deaths are assumed to be occupational 75% of the time for peace officer/firefighters, 40% of the time for all others.

The actuarial assumptions used in the June 30, 2018 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the ARM Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation to better reflect expected future experience.

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**Long-Term Expected Rate of Return**

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 included in the pension plan's target asset allocation as of June 30, 2019 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	24%	8.16%
Global equity (non-U.S.)	22%	7.51%
Fixed income	10%	1.58%
Opportunistic	10%	3.96%
Real estate	17%	4.76%
Absolute return	7%	4.76%
Private equity	9%	11.39%
Cash equivalents	1%	0.83%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.38%. This is a reduction in the discount rate used since the prior measurement date, which 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 7.38%, 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 one-percentage-point lower or one-percentage-point higher than the current rate (in thousands):

	<b>1% Decrease (6.38%)</b>	<b>Current Discount Rate (7.38%)</b>	<b>1% Increase (8.38%)</b>
AIDEA's proportionate share of the net pension liability	\$ <u>14,840</u>	\$ <u>11,244</u>	\$ <u>8,232</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, 2020, 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 employees contributions to PERS for pensions for the year ended June 30, 2020 were \$182,000 and \$290,000, 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 DB Plan. 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 contribution rates are actuarially determined and adopted by and may be amended by the Board. Employees do not contribute.

	<b>Other</b>	<b>Police/Fire</b>
Alaska Retiree Healthcare Trust	6.28%	6.28%
Retiree Medical Plan	1.32%	1.32%
Occupational Death and Disability Benefits	0.26%	0.72%
Total Contribution Rates	7.86%	8.32%

In 2020, AIDEA was credited with the following contributions to the OPEB plan (in thousands).

	<b>AIDEA Fiscal Year July 1, 2019 to June 30, 2020</b>
Employer actual contributions - ARHCT	\$ 332
Employer actual contributions - RMP	48
Employer actual contributions - ODD	9
Nonemployer contributions (on-behalf) - ARHCT	-
Total actual contributions	\$ 389

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**OPEB Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plans**

At June 30, 2020, 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 (in thousands):

AIDEA proportionate share of NOL:	
ARHCT	\$ 304
RMP	67
State's proportionate share of the NOL associated with AIDEA	<u>121</u>
Total Net OPEB Liabilities	\$ <u>492</u>
AIDEA proportionate share of NOA:	
ODD	\$ 69
State's proportionate share of the NOA associated with AIDEA	<u>-</u>
Total Net OPEB Asset	\$ <u>69</u>

The total OPEB asset and total OPEB liabilities for the June 30, 2019 measurement date was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 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, 2019 measurement date, AIDEA's proportion for ARHCT was 0.21%, RMP was 0.28%, and ODD was 0.28%.

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As a result of its requirement to contribute to the Plan and changes in assumptions and estimates, AIDEA recognized OPEB adjustment of (\$2,106,000) and on-behalf revenue of \$0 for support provided by the State. At June 30, 2020, AIDEA reported deferred outflows of resources and deferred inflows of resources from the following sources (in thousands):

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ -	(231)
Changes in assumptions	416	(1)
Net difference between projected and actual earnings on OPEB plan investments	-	(135)
Changes in proportion and differences between AIDEA contributions and proportionate share of contributions	33	(46)
AIDEA allocated portion of contributions subsequent to the measurement date	389	-
<b>Total Deferred Outflows and Deferred Inflows Related to OPEB</b>	<b>\$ 838</b>	<b>(413)</b>

The \$389,000 reported as deferred outflows of resources related to OPEB resulting from allocated portion of contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liabilities in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ending June 30,

2021	\$	62
2022		(105)
2023		34
2024		43
2025		1
Thereafter		1

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**Actuarial Assumptions**

The total OPEB asset and liabilities for the measurement period ended June 30, 2019 (AIDEA fiscal year 2020) was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2019.

Actuarial cost method	Entry age normal; level percentage of payroll.
Amortization method	Level dollar, closed.
Inflation	2.50%
Salary increases	Graded by service, from 7.75% to 2.75% for Peace Officer/Firefighter. Graded by service from 6.75% to 2.75% for all others.
Investment return / discount rate	7.38%, net of postemployment healthcare plan investment expenses. This is based on an average inflation rate of 2.50% and a real rate of return of 4.88%.
Healthcare cost trend rates	Pre-65 medical: 7.5% grading down to 4.5% Post-65 medical: 5.5% grading down to 4.5% Prescription drug: 8.5% grading down to 4.5% EGWP: 8.5% grading down to 4.5%
Mortality	Pre-termination and post-termination mortality rates were based upon the 2013-2017 actual mortality experience. Post-termination mortality rates were based on 91% of the male rates and 96% of the female rates of the RP-2014 healthy annuitant table project with MP-2017 generational improvement. The rates for pre-termination mortality were 100% of the RP-2014 employee table with MP-2017 generation improvement.
Participation	100% system paid of members and their spouses are assumed to elect the healthcare benefits paid as soon as they are eligible. 10% of nonsystem paid members and their spouses are assumed to elect the healthcare benefit as soon as they are eligible.

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The actuarial assumptions used in the June 30, 2018 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the ARM Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation to better reflect expected future experience.

In addition to the changes in assumptions resulting from the experience study, the following assumption changes have been made since the prior valuation:

1. An Employer Group Waiver Plan (EGWP) was implemented effective January 1, 2019. This arrangement replaced the Retiree Drug Subsidy (RDS) under Medicare Part D and resulted in larger projected subsidies to offset the cost of prescription drug coverage.
2. Based on recent experience, the healthcare cost trend assumptions were updated
3. Per capita claims costs were updated to reflect recent experience.
4. Healthcare cost trends were updated to reflect a Cadillac Tax load.

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 included in the plan's targeted asset allocation as of June 30, 2019 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>
Broad domestic equity	24%	8.16%
Global ex-U.S. equity	22%	7.51%
Fixed income	10%	1.58%
Opportunistic	10%	3.96%
Real estate	17%	4.76%
Absolute return	7%	4.76%
Private equity	9%	11.39%
Cash equivalents	1%	0.83%

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**Discount Rate**

The discount rate used to measure the total OPEB liabilities was 7.38%. This is a reduction in the discount rate used since the prior measurement date, which 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, each of the OPEB plans' 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 of each plan.

**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 7.38%, as well as what AIDEA's proportionate share of the respective plan's net OPEB liability and net OPEB assets would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate (in thousands):

	<u>1% Decrease (6.38%)</u>	<u>Current Discount Rate (7.38%)</u>	<u>1% Increase (8.38%)</u>
AIDEA's proportionate share of the net OPEB liabilities:			
ARHCT	\$ 2,451	304	(1,461)
RMP	<u>168</u>	<u>67</u>	<u>(9)</u>
<b>Total</b>	<u>\$ 2,619</u>	<u>371</u>	<u>(1,470)</u>
	<u>1% Decrease (6.38%)</u>	<u>Current Discount Rate (7.38%)</u>	<u>1% Increase (8.38%)</u>
AIDEA's proportionate share of the net OPEB asset - ODD			
	<u>\$ (65)</u>	<u>(69)</u>	<u>(72)</u>

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**Healthcare Cost Trend Rate Sensitivity**

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 respective plan’s net OPEB liabilities would be if it were calculated using healthcare cost trend rates that are one-percentage point lower or one-percentage-point higher than the current healthcare cost trend rates (in thousands):

	<b>1% Decrease (7.0% decreasing to 3.0%)</b>	<b>Current Discount Rate (8.0% decreasing to 4.0%)</b>	<b>1% Increase (9.0% decreasing to 5.0%)</b>
AIDEA’s proportionate share of the net OPEB liabilities:			
ARHCT	\$ (1,667)	304	2,712
RMP	(21)	67	186
<b>Total</b>	<b>\$ (1,688)</b>	<b>371</b>	<b>2,898</b>

**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 Plans**

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.

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, 2018, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates \$2,121 per year for each full-time employee, and \$1.36 per hour for part-time employees.

**Annual Postemployment Healthcare Cost**

In 2020, AIDEA contributed \$90,000 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

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**(10) 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 \$5.2 million for providing these services during FY20. As of June 30, 2020, AIDEA had \$3.4 million receivable from AEA for services and short-term borrowings. In addition, AEA administers the Bradley Lake Hydroelectric Project and Battle Creek Project for which it reimburses AIDEA \$200,000 and \$105,000 respectively, for project management and shared services cost. These amounts are recorded as part of income from state agencies and component units.

AIDEA recorded a net pension liability of \$11.24 million, OPEB liability of \$371 thousand, and OPEB asset of \$69 thousand as of June 30, 2020. 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.

**(11) Commitments, Contingencies, Subsequent Events and Other**

**(a) Investments**

AIDEA held about \$23.5 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 \$13.95 million dividend to be paid from the Revolving Fund and a \$525,000 dividend to be paid from the SETS Fund in the year ending June 30, 2020. 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 and we have not reserved cash balances for 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.

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**(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, 2020, we had extended the following commitments funded by the Revolving Fund:

- Loan participation purchase commitments of \$2.2 million and pending applications of \$4.2 million
- Loan guarantees of \$1.2 million

AIDEA has also entered into funding agreements with Ambler Metals, LLC. to support Ambler Access Project, developing an industrial road to the Ambler Mining District. The agreements entail Interim Funding Agreement and Full Funding Agreement and through each agreement, AIDEA will provide funds up to \$1 million and \$35 million, respectively.

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 \$139 million from the SETS Fund for the IEP. At June 30, 2020 we have funded approximately \$125.3 million, resulting in a remaining commitment of approximately \$13.7 million.

As a result of legislation, AIDEA has a commitment to fund a \$2 million appropriation from the SETS fund as a grant from the Department of Commerce, Community and Economic Development to the Northwest Arctic Borough for costs of school construction and major maintenance. The grant amount is based on project expenses incurred up to \$2 million. AIDEA will fund the appropriation based on grant draws requested. No draws were made on the grant as of June 30, 2020.

**(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 1970s across lands claimed as a Native allotment land totaling 160 acres.

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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.

**(i) Subsequent Events**

On September 15, 2020 reflecting several months of discussions, the AIDEA Board passed a resolution authorizing the AIDEA executive director to enter into a Debt Settlement and Restructuring Agreement with other creditors and working interest owners of the Mustang project to settle various outstanding debts and restructure the Mustang project into a viable enterprise.

On September 23, 2020, a newly organized AIDEA subsidiary, Mustang Holding LLC, acquired by offset bid all of the rights, title and interests of Caracol Petroleum LLC, TP North Slope Development, Brooks Range Petroleum Corporation, Mustang Operations Center 1 LLC and Mustang Road LLC in the leases comprising the Mustang Project, along with all associated personal property and MRLLC's interest in the Mustang Road and Pad (collectively, the "Mustang Assets"). In addition, Mustang Holding LLC acquired working interests in certain additional leases and acquired an overriding royalty interest in certain additional leases.

AIDEA issued \$11.79 million in conduit revenue bonds September 24, 2020 in support of the design and construction of natural gas infrastructure in interior Alaska.

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**(12) Risks and Uncertainties**

In late January 2020 the World Health Organization (“WHO”) announced a global health emergency regarding a new strain of virus called coronavirus (COVID-19). This virus originated from within China, and spread globally, including Alaska. Further, in March 2020, the WHO classified the coronavirus as a pandemic. On March 12, 2020, the mayor of Anchorage declared a state of emergency to protect and preserve public health and safety, and subsequently closed all civic, cultural and recreational facilities in the Municipality. The governor of Alaska declared a public health disaster as did the President of the United States. The governor instituted a number of public health measures that affected intrastate and interstate travel and the movement of goods and services.

Management is actively monitoring the global situation and assessing its effect on the Authority’s financial condition, liquidity, operations, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Authority is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or cash flows for FY21, however, the Authority expects a short-term reduction in cash flows relating to our investments in loan participations and projects during the economic slowdown that appears to be resulting from the health emergency. The Authority’s investment in oil and gas projects such as the Mustang Project may also be negatively impacted by lower oil prices, the economic slowdown and workforce challenges caused by the COVID-19 outbreak. Additionally, the Authority’s earnings and cash flows from our investment portfolio may also be negatively impacted by the effects of the economic slowdown on financial markets.

On March 27, 2020 President Trump signed into law the “Coronavirus Aid, Relief and Economic Security (CARES) Act.” The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to States and certain local governments. The Authority will continue to examine the impact that the Cares Act may have. Currently, the Authority has received \$150 million, passed through State of Alaska Department of Commerce, Community, and Economic Development to be used to make grants to eligible Alaska small businesses under AK CARES program.

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

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

Alaska Public Employees' Retirement System  
(dollars in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
AIDEA's proportion of the net pension liability	0.21%	0.20%	0.19%	0.29%	0.26%	0.18%	0.18%	*	*	*
AIDEA's proportionate share of the net pension liability	\$ 11,244	9,772	9,843	15,941	12,606	8,595	9,287	*	*	*
State's proportionate share of the net pension liability	4,465	2,830	3,667	2,009	3,563	7,439	8,542	*	*	*
Total	<u>\$ 15,709</u>	<u>12,602</u>	<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>
AIDEA's covered-employee payroll	\$ 6,746	6,804	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	167%	144%	147%	212%	149%	93%	108%	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	63%	65%	63%	60%	64%	62%	*	*	*	*
AIDEA's statutorily required contribution	\$ 770	828	858	1,282	871	971	1,017	983	*	*
Contributions recognized by the plan in relation to the statutorily required employer contribution	770	828	858	1,282	871	971	1,017	983	*	*
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	11%	12%	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, 2020, the Plan measurement date is June 30, 2019, 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 allocation methodology.

(2) The table above reports AIDEA's pension and OPEB contributions to PERS during fiscal year 2019 for comparison purposes. Contributions were not tracked separately for pension and OPEB for years prior to FY17. Amounts represent combined contributions.

(3) Change in Assumptions: In 2020, the discount rate was lowered from 8% to 7.38%. The actuarial assumptions used in the June 30, 2018 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the ARM Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation to better reflect expected future experience. Amounts reported reflect a change in assumptions between 2016 and 2017 in the method of allocating the net pension liability from actual contributions to present value of projected future contributions.

**ALASKA INDUSTRIAL DEVELOPMENT  
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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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
AIDEA's proportion of the net OPEB liability	0.21%	0.20%	0.19%	*	*	*	*	*	*	*
AIDEA's proportionate share of the net OPEB liability	\$ 371	2,049	1,622	*	*	*	*	*	*	*
State's proportionate share of the net OPEB liability	121	586	600	*	*	*	*	*	*	*
Total	\$ <u>492</u>	<u>2,635</u>	<u>2,222</u>	<u>*</u>						
AIDEA's covered-employee payroll	\$ 6,746	6,804	6,697							
AIDEA's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	5%	30%	24%	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	98%	88%	90%	*	*	*	*	*	*	*
AIDEA's statutorily required contribution	\$ 380	338	283	*	*	*	*	*	*	*
Contributions recognized by the plan in relation to the statutorily required employer contribution	<u>380</u>	<u>338</u>	<u>283</u>	<u>*</u>						
Difference	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>*</u>						
AIDEA's statutorily required contribution as a percentage of covered-employee payroll	6%	5%	4%	*	*	*	*	*	*	*

\* Information for these years is not available.

- (1) Information in this table is presented based on the Plan measurement date. For June 30, 2020, the Plan measurement date is June 30, 2019, 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.
- (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 \$69,000 and AIDEA's statutorily required contribution to the ODD Plan of approximately \$9,000.
- (3) Change in Assumptions:
1. An Employer Group Waiver Plan (EGWP) was implemented effective January 1, 2019. This arrangement replaced the Retiree Drug Subsidy (RDS) under Medicare Part D and resulted in larger projected subsidies to offset the cost of prescription drug coverage.
  2. Based on recent experience, the healthcare cost trend assumptions were updated
  3. Per capita claims costs were updated to reflect recent experience
  4. Healthcare cost trends were updated to reflect a Cadillac Tax load.
  5. The discount rate was lowered from 8% to 7.38%. The actuarial assumptions used in the June 30, 2018 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the ARM Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation to better reflect expected future experience.
- (4) Changes in Methods: As part of the experience study, the actuarial cost method for the retiree healthcare plan was changed from the Entry Age Level Dollar method to the Entry Age Level Percent of Pay method.

**ALASKA INDUSTRIAL DEVELOPMENT  
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Nonmajor Funds – Combining Statement of Net Position

June 30, 2020

(In thousands)

Assets	<u>SETS Fund</u>	<u>Loan Funds</u>	<u>Arctic Infrastructure Development Fund</u>	<u>Aggregate Nonmajor Funds</u>
Current assets:				
Unrestricted cash and cash equivalents	\$ 4,750	7,024	7,501	19,275
Restricted cash and cash equivalents	13,130	-	-	13,130
Loans - current portion	-	333	-	333
Accrued interest receivable	-	122	-	122
Due from other funds	-	-	27,500	27,500
Other assets	593	30	-	623
Total current assets	<u>18,473</u>	<u>7,509</u>	<u>35,001</u>	<u>60,983</u>
Noncurrent assets:				
Loans - noncurrent portion net of allowance for loan losses	125,287	9,819	-	135,106
Total assets	<u>143,760</u>	<u>17,328</u>	<u>35,001</u>	<u>196,089</u>
<b>Liabilities and Net Position</b>				
Current liabilities:				
Accounts payable	\$ -	27	-	27
Due to the State of Alaska	-	-	-	-
Other liabilities	-	-	-	-
Total liabilities	<u>-</u>	<u>27</u>	<u>-</u>	<u>27</u>
Net position:				
Unrestricted	143,760	17,301	35,001	196,062
Total net position	<u>143,760</u>	<u>17,301</u>	<u>35,001</u>	<u>196,062</u>
Total liabilities and net position	<u>\$ 143,760</u>	<u>17,328</u>	<u>35,001</u>	<u>196,089</u>

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

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

Year ended June 30, 2020

(In thousands)

	<u>SETS Fund</u>	<u>Loan Funds</u>	<u>Arctic Infrastructure Development Fund</u>	<u>Aggregate Nonmajor Funds</u>
Operating revenues:				
Interest on loans	\$ —	360	-	360
Investment interest	415	-	-	415
Other income	—	22	-	22
Total operating revenues	<u>415</u>	<u>382</u>	<u>-</u>	<u>797</u>
Operating expenses:				
Nonproject personnel, general and administrative	—	186	-	186
Provision for loan recovery	—	107	-	107
Total operating expenses	<u>—</u>	<u>293</u>	<u>-</u>	<u>293</u>
Operating income	<u>415</u>	<u>89</u>	<u>-</u>	<u>504</u>
Nonoperating revenues and other:				
Investment interest	-	197	1	198
Capital fund transfer	-	-	35,000	35,000
Dividend to the State of Alaska	(285)	-	-	(285)
Total net nonoperating revenues and other	<u>(285)</u>	<u>197</u>	<u>35,001</u>	<u>34,913</u>
Increase in net position	130	286	35,001	35,417
Net position - beginning of year	<u>143,630</u>	<u>17,015</u>	<u>-</u>	<u>160,645</u>
Net position - end of year	<u>\$ 143,760</u>	<u>17,301</u>	<u>35,001</u>	<u>196,062</u>

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

Nonmajor Funds – Combining Statement of Cash Flows

Year ended June 30, 2020

(In thousands)

	<u>SETS Fund</u>	<u>Loan Funds</u>	<u>Arctic Infrastructure Development Fund</u>	<u>Aggregate Nonmajor Funds</u>
Cash flows from operating activities:				
Interest received on loans	\$ —	378	—	378
Principal collected on loans	—	1,195	—	1,195
Loans originated	—	(3,293)	—	(3,293)
Payments to suppliers and employees for services	—	(277)	—	(277)
Payments to primary government	—	(5)	—	(5)
Net cash used for operating activities	<u>—</u>	<u>(2,002)</u>	<u>—</u>	<u>(2,002)</u>
Cash flows from noncapital and related financing activities:				
Cash received from other funds	—	—	7,500	7,500
Dividend paid to the State of Alaska	(285)	—	—	(285)
Net cash (used for) provided by noncapital and related financing activities	<u>(285)</u>	<u>—</u>	<u>7,500</u>	<u>7,215</u>
Cash flows from investing activities:				
Interest collected on investments	415	197	1	613
Loans originated	(21,861)	—	—	(21,861)
Net cash (used for) provided by investing activities	<u>(21,446)</u>	<u>197</u>	<u>1</u>	<u>(21,248)</u>
Net (decrease) increase in cash and cash equivalents	(21,731)	(1,805)	7,501	(16,035)
Cash and cash equivalents at beginning of year	39,611	8,829	—	48,440
Cash and cash equivalents at end of year	<u>\$ 17,880</u>	<u>7,024</u>	<u>7,501</u>	<u>32,405</u>

**ALASKA INDUSTRIAL DEVELOPMENT  
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Nonmajor Funds – Combining Statement of Cash Flows, Continued

Year ended June 30, 2020

(In thousands)

	<u>SETS Fund</u>	<u>Loan Funds</u>	<u>Arctic Infrastructure Development Fund</u>	<u>Aggregate Nonmajor Funds</u>
Reconciliation of operating income to net cash (used for) provided by operating activities:				
Operating income	\$ 415	89	—	504
Adjustments to reconcile operating income to net cash (used for) provided by operating activities:				
Principal collected on loans	—	1,195	—	1,195
Loans originated	—	(3,293)	—	(3,293)
Investment interest income	(415)	(90)	—	(505)
Provision for loan loss	—	107	—	107
Decrease in accrued interest receivable and other assets	—	18	—	18
Decrease in accounts payable and other liabilities	—	(28)	—	(28)
	<u>—</u>	<u>(2,002)</u>	<u>—</u>	<u>(2,002)</u>
Net cash used for operating activities	\$ <u>—</u>	<u>(2,002)</u>	<u>—</u>	<u>(2,002)</u>

**ALASKA INDUSTRIAL DEVELOPMENT  
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Schedule of Dividend Information

Year ended June 30, 2020

(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
2019	4,597	195	4,792
2020	10,000	285	10,285
	<u>407,399</u>	<u>480</u>	<u>407,879</u>
Total dividends to State of Alaska as of June 30, 2020			
Declared for 2021	<u>13,950</u>	<u>525</u>	<u>14,475</u>
Total dividends to State of Alaska paid or declared	<u>\$ 421,349</u>	<u>1,005</u>	<u>422,354</u>

Unaudited – See accompanying independent auditor's report.

**ALASKA INDUSTRIAL DEVELOPMENT  
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Schedule of Development Project Information

June 30, 2019

**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 annual rate of return 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 under a 30-year agreement. The payments due under this agreement will return the costs to construct 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 (i) a minimum maintenance requirement and (ii) payment of a percentage of revenue, which is applied in three ways:

- Reimbursement to AIDEA for administrative costs up to \$18,000 annually, adjusted for inflation.

Unaudited - See accompanying independent auditor’s report.

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Schedule of Development Project Information, Continued

June 30, 2019

- 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 the project achieved final completion in October 2020.
- Dry Dock #2 was coated with an industrial strength marine-grade coating to extend the working life of the dry dock. This project was completed September 2020 using funds provided by the State of Alaska and Federal SAFETEA-LU funds.

Recent improvements funded by state and federal money involve relocating an existing electrical substation (also part of the electrical improvements described above) to allow for expanded yard utilization in the future and application of marine grade coating to extend the useable life of Dry Dock #2.

On October 14, 2019, two private equity firms, the Carlyle Group and Stellex Capital Management, completed their acquisition of Vigor Industrial LLC, the parent company of the operator of the Ketchikan shipyard. From this acquisition no changes in operator personnel or operations at the shipyard are currently anticipated.

- *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 through agreements with the Pacific and Arctic Railway and Navigation Company (PARN). 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. Effective June 3, 2019, Capstone entered into a definitive share purchase agreement with Pembridge Resources for the ownership of the Minto Mine. As part of this agreement, AIDEA entered into a joinder and assignment agreement with Capstone and Pembridge allowing Pembridge as owner of the Minto Mine the use of the terminal facilities through March 2023. AIDEA is currently evaluating options with regard to the future of the Ore Terminal in Skagway. AIDEA's lease with PARN expires in March 2023 - at the same time that PARN's lease expires with the Municipality of Skagway.

Unaudited – See accompanying independent auditor's report.

**ALASKA INDUSTRIAL DEVELOPMENT  
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## Schedule of Development Project Information, Continued

June 30, 2019

- *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 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.
- *West Susitna Access Project.* Board resolution G20-20 authorized the Authority to expend up to \$162,500 from the Revolving Fund Economic Development Account to proceed with the second phase of the West Susitna Access project for pre-development and pre-engineering work. AIDEA, in cooperation with the Matanuska-Susitna Borough and private industry partners, have contracted with a firm to develop preliminary cost estimates for road development and construction, verify wetlands mapping, acquire digital data, develop a communications plan to engage project stakeholders, and advance preliminary engineering in preparation of potential EIS filing with the federal government. The consultant's work is scheduled to be completed in December 2020.

**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 Alaska Natural Gas Company, LLC, 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.

Unaudited – See accompanying independent auditor's report.

**ALASKA INDUSTRIAL DEVELOPMENT  
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Schedule of Development Project Information, Continued

June 30, 2019

At June 30, 2020 the Authority has reflected \$13.1 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
- \$13.1 million of SETS funds restricted to reflect remaining loan commitment

**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 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 were to continue through the maturity date of July 24, 2022. In March 2020 AIDEA's board passed Resolution G20-09 authorizing a modification to the loan permitting interest-only payments through March 2021. As of June 30, 2020, 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 2017 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. Per Loan amendment executed on July 1, 2019, the reserve account was released and applied to the outstanding loan balance decreasing it by \$6.06 million. The new loan balance was reamortized.

Unaudited – See accompanying independent auditor's report.

**ALASKA INDUSTRIAL DEVELOPMENT  
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## Schedule of Development Project Information, Continued

June 30, 2019

- *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 were due on the term loan until the original maturity date in February 2052. In March 2020 AIDEA's board passed Resolution G20-12 recognizing the borrower was experiencing reduced cash flow resulting from the COVID-19 pandemic and Governor's Health Mandate 005 which temporarily postponed elective or non-urgent medical procedures to preserve personal protective equipment. The Resolution authorized AIDEA to amend the loan to defer principal and interest payments through September 2020. The loan was current at June 30, 2020.

- *Mustang Development Loan (noncapitalized interest) and Mustang Development Loan (capitalized interest).* Under the terms of a Purchase and Sale Agreement, AIDEA agreed to sell its membership interests in Mustang Operations Center 1 LLC (MOC1) and Mustang Road LLC (MR LLC) to Caracol Petroleum. The purchase was financed on May 24, 2019 with a \$64 million direct financing loan (Mustang Development Loan-noncapitalized interest). As part of an overall restructuring of the Mustang Oil Field Project, AIDEA's MOC1 partner, Charisma Energy Services Ltd. (CES), agreed to sell its interest in MOC1 to Caracol; Brooks Range Petroleum was to remain the operator. The loan was to accrue interest at 8% and mature April 1, 2026. Quarterly payments were scheduled to begin October 1, 2019.

As a part of the MOC1 and MR LLC purchase and sale transaction, under a separate loan AIDEA financed capitalized interest on the loan totaling \$6,119,000 (Mustang Development Loan-capitalized interest). The loan accrues interest at a rate of 8% and is due in a single balloon payment on April 1, 2026.

On October 1, 2019 Caracol failed to make a loan payment in the amount of \$3,099,000 within the time specified in the Loan Agreement and the Promissory Note (NonCapitalized Interest) dated May 24, 2019 (the "Note").

One week later AIDEA issued a Notice of Events of Default and Demand for Cure.

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While the Loan(s) were in default, the Southern Miluveach unit (SMU) also known as the Mustang Oil Field or the Mustang Project (the Project), operating company, Brooks Range Petroleum, commenced to produce oil on Oct. 31 for a period of 23 days. During that time a total of 10,999 barrels of oil were produced. Oil production ceased due to the expiration of a temporary natural gas flaring permit and the Field was placed into a ‘warm shutdown’ status. Sustained production from the SMU may only occur if produced natural gas is captured, compressed and re-injected into the reservoir under State of Alaska regulations.

On November 5, 2019 AIDEA exercised its right to accelerate repayment of all BRPC indebtedness pursuant to the Non-Capitalized note, and the Capitalized note, as a result of its Borrower, Caracol Petroleum, failing to cure the events of default.

Throughout the latter portion of 2019 AIDEA continued discussions with Caracol parent Alpha Energy Holdings LLC in an effort to restructure the loans and determine a feasible and realistic path advance development of the Field. On January 15, 2020 the AIDEA Board approved a modification to the loans in an effort to spur the development of the Mustang Project. The amended agreement and term sheet required Alpha Energy Holdings to commit and provide evidence of \$60 million in new funding for the Project by April 15, 2020. This funding requirement was not met.

As result of the failure to secure and provide evidence of funding AIDEA, issued notices of default and sale on May 1, 2020, providing notification that AIDEA elected to sell the Mustang Assets to satisfy AIDEA’s indebtedness to the highest bidder at public auction. The public auction was to be held July 31, 2020. The assets subject to the Notices consisted of the Gravel Pad, the Mustang Road, as well as all leases held by Caracol Petroleum LLC (“Caracol”), TP North Slope Development (“TPNS”), Brooks Range Petroleum Corporation (“BRPC”), Mustang Operations Center 1 (“MOC1”) and Mustang Road LLC (“MRLLC”) in relation to the Mustang Project (the “Mustang Assets”).

During May 2020, AIDEA worked with Project vendors and secured lien holders to transition the Project into a “cold storage” status with AIDEA and Thyssen Petroleum participating in cold storage costs under the terms of a Standstill Agreement.

On Sep. 15, 2020 reflecting serval months of discussions, the AIDEA Board passed a resolution authorizing the AIDEA executive director to enter into a Debt Settlement and Restructuring Agreement (“DSRA”) with other Project creditors and working interest owners to settle various outstanding debts and restructure the Project into a viable enterprise.

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The foreclosure scheduled to occur July 31, 2020 was postponed to September 23, 2020. On that date a newly organized AIDEA subsidiary, Mustang Holding LLC acquired, by offset bid, as beneficiary pursuant to assignment of the beneficial interests under the deeds of trust referenced in the Trustee's Deed and Assignment documents, and related Loan Documents, all of the rights, title and interests of Caracol Petroleum LLC, TP North Slope Development, Brooks Range Petroleum Corporation, Mustang Operations Center 1 LLC and Mustang Road LLC in the leases comprising the Mustang Project, along with all associated personal property and MRLLC's interest in the Mustang Road and Pad (collectively, the "Mustang Assets"). In addition, Mustang Holding LLC acquired working interests in certain additional leases and acquired an overriding royalty interest in certain additional leases.

- *MOC1 Acquired Loan.* As a part of the MOC1 and MR LLC purchase and sale transaction, AIDEA agreed to guarantee a line of credit DOR had extended to MOC1. Soon thereafter AIDEA acquired the lender's position on the loan from DOR for a total of \$16.4 million plus accrued interest. The loan is secured by oil and gas tax credits due to MOC1 by the DOR and matures no later than December 31, 2020. The loan may mature earlier if certain conditions are met relating to oil and gas tax credit payments. The loan accrues interest at 3.0% per annum. Any balance remaining at maturity, not to exceed \$10 million may be added to the Mustang Development Loan (noncapitalized) interest.
- *Duck Point Development, ISP Uplands II Project.* Resolution G19-14 authorized the Authority to extend financing of up to \$15 million to Duck Point Development II LLC (DPDII), a subsidiary of Huna Totem Corporation (HTC), for development of a second cruise ship dock and associated uplands improvements at Icy Strait Point near Hoonah, Alaska. The original loan of \$15 million comprised of a \$9 million construction/term loan and a \$6 million expansion capital fund available for up to 3 years post-closing. The uplands construction was substantially completed July 2020.

The construction loan was set to convert to term loan at completion of construction. Due to the COVID-19 pandemic and cancellation of the 2020 cruise ship season, HTC requested modifications to the loan. Resolution G20-27 provided the Authority with authorization to increase the construction loan to approximately \$9.2 million; allow use of the expansion loan up to \$6 million for current drawdowns, bridge expenses, and defer payment of principal until July 2021.

During the modification period starting October 1, 2020 and ending on July 1, 2021, the term loan shall be paid in quarterly installments of interest only. Quarterly installments of principal and interest will resume beginning October 1, 2021. The requirements for accessing expansion loan funds will require the borrower to submit to the authority a detailed Use of Funds, subject to approval by AIDEA. Monthly advances are not to exceed \$1,000,000 during the modification period. Post modification period, the expansion loan funds may be requested once per quarter.

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The loan is secured by the following:

- First priority lien on all revenues and assets, including the new dock
  - First priority lien on all assets of the Guarantors used in Phase II of the project (with the exclusion of ANSCA property);
  - Assignment of all HTC's interests in DPDII; and
  - Negative pledge by DPDII over all assets.
- *HEX Cook Inlet, LLC*. In June 2020, AIDEA entered into a \$7.5 million direct financing loan agreement with HEX, LLC. The funding will be used for acquiring and developing the Beluga and Sterling Formations within the Kitchen Lights Unit, along with existing infrastructure including a 15-mile subsea pipeline, an on-shore production facility, and off-shore production platform.

The loan is secured by the following:

- all Pledged Securities and all dividends (cash, stock or otherwise), all interest, profits and other income, cash, instruments, rights to subscribe, purchase or sell and all other rights and personal property
- a first priority Lien of record on all the real property
- membership pledge from HEX, LLC
- a Reserve Account, which was funded at closing in the amount of approximately \$1.6 million to cover any payment or collateral shortfall.