ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Basic Financial Statements and Schedules

June 30, 2017

(with summarized financial information for June 30, 2016)

(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

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Alaska Industrial Development and Export Authority (a Component Unit of the State of Alaska) (Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Pentex Alaska Natural Gas Company LLC, whose statements reflect total assets and deferred outflows of resources stated in thousands of $70,198 at June 30, 2017, and total revenues of $16,559 for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such subsidiaries, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Alaska Industrial Development and Export Authority as of June 30, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 4–18 and schedule of proportionate share of the net pension liability and contributions on page 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017 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 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 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

November 27, 2017

Overview of the Financial Statements

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

The Nonmajor Funds are the Loan Funds and the Sustainable Energy Transmission and Supply Development (SETS) Fund. Our financial statements include these two components as of and for the Fiscal Year (FY) 2017, with summarized comparative totals as of and for FY16. The Arctic Infrastructure Development Fund was established effective October 2014 to promote and provide financing for arctic infrastructure development but was not capitalized. There has been no activity in the fund since its creation; therefore, it is not included in our FY17 financial statements.

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

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

The financial statements contain four sections: management's discussion and analysis, the basic financial statements and notes to basic financial statements, and required supplementary information. We have included other schedules to provide separate reporting of Pentex, 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 FY16.

Management’s Discussion and Analysis

This section contains our analysis of the financial position and results of operations at and for FY17. 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, 2017 and 2016 by $1.32 billion and $1.31 billion, respectively. Our FY17 unrestricted net position was $1.16 billion (with $1.01 billion in the Revolving Fund) and our FY16 unrestricted net position was $1.14 billion (with $1.03 billion in the Revolving Fund). These amounts were unrestricted, and thus, available for future financial needs.

Financial Analysis

Following are AIDEA's total assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2017, and 2016 (in thousands):

		FY17	FY16	Increase (decrease)
Current assets	$	290,050	276,533	13,517
Development projects – capital assets		134,317	139,023	(4,706)
Capital assets – other		24,759	26,122	(1,363)
Other noncurrent assets		1,045,175	1,058,828	(13,653)
Total assets		1,494,301	1,500,506	(6,205)
Deferred outflows of resources		9,339	9,147	192
Total assets and deferred outflows of resources	$	1,503,640	1,509,653	(6,013)
Current liabilities	$	49,777	14,381	35,396
Noncurrent liabilities		136,078	183,249	(47,171)
Total liabilities		185,855	197,630	(11,775)
Deferred inflows of resources		178	254	(76)
Net position:				
Net investment in capital assets		161,354	167,417	(6,063)
Restricted		647	950	(303)
Unrestricted		1,155,606	1,143,402	12,204
Total net position		1,317,607	1,311,769	5,838
Total liabilities, deferred inflows of resources and net position	$	1,503,640	1,509,653	(6,013)

Current assets were $13.5 million higher at June 30, 2017, compared to June 30, 2016, and are below (in thousands):

		FY17	FY16	Increase (decrease)
Unrestricted cash/cash equivalents and investments	$	184,185	221,002	(36,817)
Restricted cash/cash equivalents and investments		43,176	916	42,260
Loans – current portion		37,148	32,548	4,600
Line of credit advances receivable		2,277	—	2,277
Development projects accounted for as direct financing leases – current portion		9,551	12,612	(3,061)
Development projects accounted for as loans – current portion		3,204	—	3,204
Accrued interest receivable/other current assets		10,509	9,455	1,054
Total	$	290,050	276,533	13,517

- **Unrestricted cash/cash equivalents and investments** balances decreased $36.8 million compared to FY16. Operating activities decreased cash balances by $45 million. Record loan fundings of $109.8 million and other operating payments reduced cash flows from operations, partially offset by operating receipts. Net noncapital and related financing activities also decreased unrestricted cash balances including our $6.3 million dividend to the State. Cash balances were increased by capital and related financing activities and investing activities.
- **Restricted cash/cash equivalents and investments** increased $42.3 million compared to FY17. This increase was primarily due to the transition of a State capital appropriation we hold for the Interior Energy Project (IEP) from noncurrent to current in FY17. We intend to utilize the appropriation in FY18 for the benefit of the project and, therefore, reclassified the cash balance to current.
- **Loans - current portion** increased $4.6 million, primarily due to an overall increase in our loan portfolio funded from our Enterprise Development Account and Loan Fund. The current portion of our portfolio represents loan principal payments we expect to receive within the next year.
- **Line of credit advances receivable** represents the balance we advanced on a Line of Credit (LOC) from our SETS fund in excess of anticipated cash flow needs of the borrower under the LOC agreement. The LOC relates to work on the distribution system for the IEP and terms December 31, 2017. Advances were made on the LOC based on projected cash needs of the borrower for the project. Project activity was less than anticipated and advances were not used at the expected amount for the scope of work allowed under the LOC.

- **Development projects accounted for as direct financing leases - current portion** decreased $3.1 million in FY17 as payments were applied to the leases during the year and balances due in the future were reduced.

- **Development projects accounted for as loans - current portion** represents the principal payments due on loans we consider development projects and are funded from our Economic Development Account. The financings of these projects were originally LOCs that converted to term loans during the year. Under the financing agreements we anticipate receiving $3.2 million in loan principal payments during the next fiscal year.

- **Accrued interest receivable/other current assets** increased approximately $1.1 million primarily due to an increase of approximately $493,000 in amounts due from the Alaska Energy Authority (AEA) for services and borrowings and an increase in accrued interest receivable and Pentex other current assets.

Development projects - capital assets decreased $4.7 million in FY17. Depreciation on the Ketchikan Shipyard and the capital assets of Pentex decreased balances by $5.8 million, partially offset by capital asset additions.

Capital assets - other decreased $1.4 million in FY17. Capitalized work relating to the Ambler Mining District Industrial Access Project (AMDIAP) increased this balance by approximately $1.5 million while depreciation on our administrative building and North Slope pad and related capital costs reduced the balance.

Other noncurrent assets decreased $13.7 million. The following table breaks out other noncurrent assets (in thousands):

		FY17	**FY16**	**Increase (decrease)**
Restricted cash equivalents and investments	$	15,756	60,246	(44,490)
Restricted cash equivalents - Snettisham		10,013	10,104	(91)
Unrestricted investment securities		329,418	331,928	(2,510)
Loans (net)		367,960	320,426	47,534
Development projects		293,925	304,824	(10,899)
Line of credit		27,412	29,690	(2,278)
Other assets		691	1,610	(919)
Total	$	1,045,175	1,058,828	(13,653)

- **Restricted cash equivalents and investments** decreased $44.5 million during FY17 primarily as a result of the transition to current of a State general fund capital appropriation held for the IEP project and anticipated to be utilized in FY18.

- **Restricted cash equivalents - Snettisham** decreased slightly, the net effect of activity in FY17 related to the Snettisham project.

- **Unrestricted investment securities** decreased $2.5 million as a result of market conditions.
- **Loans (net)** increased $47.5 million from June 30, 2016 compared to June 30, 2017. Record loan participation fundings increased the balance by $109.8 million while principal payments of $56.4 million decreased the FY17 balance. We transitioned approximately $4.6 million more to current in FY17 compared to FY16. The FY17 current portion is based on projected FY18 payments. An increase to our allowance for loan losses decreased our net portfolio balance in FY17 compared to FY16. The allowance for loan losses was increased in recognition of the higher portfolio balance.
- **Development projects** decreased $10.9 million mainly for reasons discussed below. We may or may not have an ownership interest in these projects, but they have been financed under our Direct Financing Program and are considered AIDEA development projects. Depending on the terms of the financing, the projects are accounted for as a capital lease, investment in an operating company or loan.
    - $14.2 million net decrease in the balance of the noncurrent and restricted portions of direct financing leases. Balances decreased as the net result of principal payments received on the capital leases and the transition to current from long-term of payments projected to be received relating to the Red Dog and Department of Military and Veterans Affairs (DMVA) projects.
    - $4.4 million net increase in preferred interest in operating companies during FY17. The increase was primarily due to our continued investment in Mustang Operations Center 1 LLC (MOC1).
    - $1.1 million net decrease in the balance of development projects accounted for as LOCs and loans. Two LOCs under our Direct Financing Program converted to term loans during FY17. We completed funding of the LOCs during FY17, increasing this balance. The transition of $3.2 million to current and principal payments decreased the balance. The loans are financing the acquisition, delivery and installation of furniture, fixtures and equipment for a laboratory and collection facility building and the procurement of a new high-horsepower, extended reach, onshore drilling rig that will be used for the installation of numerous wells to produce oil and gas from the Cosmopolitan lease blocks in the lower Cook Inlet and for the construction of man camp facilities for workers on the project.
- **Line of credit** decreased $2.3 million. This balance represents two LOCs we are funding from our SETS fund in support of the IEP project. The decrease from FY16 was primarily due to the recognition in FY17 that advances made under one of the LOCs was in excess of anticipated project needs through the term of the LOC, December 31, 2017. This amount was reclassified to a current asset in anticipation of receiving the excess funds back from the borrower.
- **Other assets** decreased $919,000 during FY17. In FY16 we recognized accrued interest on LOCs of approximately $855,000. Consistent with the terms of the loan agreement, this amount was added to the term loan balance in FY17 when the LOC converted to a term loan and was the primary cause of the decrease in other assets compared to the FY16 balance.

Deferred outflows of resources increased $192,000 during FY17. The following table provides the details for deferred outflows of resources (in thousands):

		FY17	FY16	Increase (decrease)
Deferred outflows of resources related to employee pensions	$	3,303	2,375	928
Deferred charge on bond refunding		149	196	(47)
Gas plant acquisition adjustment-Pentex		2,276	2,397	(121)
Deferred outflows of resources-Snettisham		3,611	4,179	(568)
Total	$	9,339	9,147	192

- **Deferred outflows of resources related to employee pensions** represents our allocated portion of deferred outflows of resources relating to our participation in the Public Employee Retirement System (PERS) based on the most recent plan valuation, June 30, 2016. Deferred outflows of resources include the impact of changes in certain actuarial assumptions and experience. Our allocated portion of these amounts increased $928,000 compared to FY16. The State's proportionate share of deferred outflows of resources related to employee pensions increased in FY17, which increased the balance allocated to us. Our proportion is based on our fiscal year contributions to the defined benefit plan under PERS in relation to the State's contributions.

- **Deferred charge on bond refunding** decreased slightly due to annual amortization of this balance.

- **Gas plant acquisition adjustment - Pentex** represents the difference between our cost to purchase the ownership interest in Pentex and the net book value of the underlying assets of the company at the purchase date, amortized over the life of the associated assets. The annual amortization of this item accounted for the decrease.

- **Deferred outflows of resources - Snettisham** decreased $568,000. 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 $35.4 million. The following table breaks out current liabilities (in thousands):

		FY17	FY16	Increase (decrease)
Bonds payable - current portion	$	3,035	9,655	(6,620)
Accrued interest payable		588	707	(119)
Advances from State of Alaska - current portion		42,311	—	42,311
Accounts payable/other liabilities		3,843	4,019	(176)
Total	$	49,777	14,381	35,396

- **Bonds payable - current portion** decreased from scheduled principal payments made on our Revolving Fund bonds of approximately $9.7 million, partially offset by the transition of $3.0 million to current.
- **Accrued interest payable** on bonds decreased because of lower Revolving Fund bond balances.
- **Advances from State of Alaska - current portion** represents the amount of advances received from the State general fund for capital projects that we anticipate expending during the next fiscal year. We anticipate expending the remaining State general fund capital appropriation relating to the IEP in FY18 and have therefore classified it as current. In FY16 this balance was classified as non-current.
- **Accounts payable/other liabilities** decreased slightly during the year. A decrease in other liabilities was partially offset by a slight increase in accounts payable.

Noncurrent liabilities decreased about $47.1 million. The following table breaks out noncurrent liabilities (in thousands):

		FY17	FY16	Increase (decrease)
Bonds payable - noncurrent portion	$	42,955	45,990	(3,035)
Advances from State of Alaska - noncurrent portion		825	44,938	(44,113)
Net pension liability		15,941	12,606	3,335
Other liabilities		1,782	2,125	(343)
Liabilities payable from restricted assets - Snettisham		74,575	77,590	(3,015)
Total	$	136,078	183,249	(47,171)

- **Bonds payable - noncurrent portion** decreased approximately $3 million as a result of the transition to current liabilities of the portion of Revolving Fund bonds due in the next year.

- **Advances from State of Alaska – noncurrent portion** decreased $44.1 million as a result of expenditures on projects funded with State general fund money and reclassification of $42.3 million to current liabilities. We anticipate spending the reclassified funds for the benefit of the IEP in FY18.

- **Net pension liability** represents our allocated portion of the liability for pension benefits provided through PERS. Our FY17 liability increased approximately $3.3 million compared to FY16. The State's proportionate share of net pension liability increased in FY17, which increased the balance allocated to us.

- **Other liabilities** decreased slightly primarily due to the annual amortization of bond related balances.

- **Liabilities payable from restricted assets - Snettisham** decreased primarily due to the $2.3 million reduction in Power Revenue bonds payable, a result of principal payments.

Deferred inflows of resources decreased $76,000. This balance represents our proportionate share of deferred inflows of resources relating to PERS. The State's proportionate balance of deferred inflows of resources relating to participation in PERS decreased compared to FY16, therefore, our allocated balance also decreased. 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, 2016.

Total net position increased $5.84 million during the fiscal year due to the following:

- $9.97 million increase from operating activities.

- $4.13 million decrease from nonoperating and other activities.

Net investment in capital assets, a component of total net position, decreased approximately $6.1 million. Depreciation of capital assets reduced this balance and was partially offset by capital additions during the year.

Unrestricted net position increased $12.2 million, the net effect an increase of $5.8 million from FY17 revenues and expenses, a slight decrease in restricted net position and the $6.1 million decrease in net investment in capital assets.

Following are AIDEA's operating revenues and expenses, net nonoperating revenues (expenses), and other nonoperating activity for FY17 and FY16 (in thousands):

		FY17	FY16	Increase (decrease)
Operating revenues:				
Interest on loans	$	16,612	15,810	802
Income from development projects		32,489	27,336	5,153
Restricted income		3,099	3,320	(221)
Investment interest		10,676	10,407	269
Net (decrease) increase in fair value of investments		(11,113)	9,936	(21,049)
Income from state agencies and component units		6,377	7,567	(1,190)
Other income		1,780	3,001	(1,221)
Total operating revenues		59,920	77,377	(17,457)
Operating expenses:				
Interest		2,461	2,784	(323)
Interest on liabilities payable from restricted assets		3,099	3,320	(221)
Nonproject personnel, general and administrative		8,954	8,226	728
Net pension related adjustments		2,331	1,885	446
Costs reimbursed from state agencies and component units		6,377	7,567	(1,190)
Provision for loan losses		1,120	(176)	1,296
Depreciation		8,662	5,312	3,350
Project feasibility, due diligence and other project expenses		16,945	11,234	5,711
Total operating expenses		49,949	40,152	9,797
Operating income		9,971	37,225	(27,254)
Net nonoperating (expenses) revenues		(177)	111	(288)
Other contributions		295	—	295
Contributions from the State of Alaska		2,077	1,412	665
Dividend to the State of Alaska		(6,328)	(17,650)	11,322
Capital grant		—	133	(133)
Increase in net position	$	5,838	21,231	(15,393)

Operating revenues decreased $17.5 million during the year ended June 30, 2017, compared to 2016.

- **Interest on loans** includes interest earned on our loan portfolios funded by our Enterprise Development Account and Loan Funds**.** Interest on loans increased $802,000 as a result of a record number of loans funded in FY17.

- **Income from development projects** increased $5.2 million. The following table breaks out income from development projects (in thousands):

		FY17	FY16	Increase (decrease)
Interest income on direct financing leases	$	10,186	11,045	(859)
Operating income - Pentex		16,467	12,589	3,878
Income from operating leases		2,441	2,288	153
Income from investment in operating companies		226	266	(40)
Income from lines of credit and loans		3,169	1,148	2,021
Total	$	32,489	27,336	5,153

  - **Interest income on direct financing leases** decreased $859,000 due to decreased direct financing lease balances. As balances decrease a larger portion of payments are applied to principal rather than interest.

  - **Operating income - Pentex** added $16.4 million to income from development projects in FY17. This was $3.9 million more than FY16. We purchased Pentex in September 2015, therefore, the FY16 balance presented the income from Pentex operations for the nine-month period we owned it in FY16. An entire fiscal year's activity is included in the FY17 balance.

  - **Income from operating leases** increased slightly in FY17. User fees increased effective January 2016 for use of the Skagway Ore Terminal with FY17 being the first year full year at the higher rate resulting in increased revenue in FY17.

  - **Income from investment in operating companies** decreased slightly and represents the amortization of a premium on our investment in Mustang Road LLC.

  - **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. We financed two LOCs that converted to term loans in FY17 and recognized $2 million more in accrued interest on these financings compared to FY16. The LOCs were primarily funded during FY16 at the rate required to support project development and were mostly fully funded by the first half of FY17. Balances accruing interest in FY17 were higher than FY16, therefore, we earned more interest in FY17.

- **Restricted income** represents income related to the Snettisham Hydroelectric Project. Restricted income decreased slightly compared to FY16.
- **Investment interest** is comprised of interest earned on our investment portfolios. Investment interest was slightly higher in FY17 compared to FY16. This increase was the product of market conditions and portfolio management.
- **Net increase (decrease) in fair value of investments** represents realized and unrealized gains and losses on our investment portfolios. This item decreased $21 million in FY17 compared to FY16 because of market conditions, contributing substantially to the decrease in operating revenues. We recognized unrealized losses of $10.8 million in FY17 compared to unrealized gains of $12.1 in FY16. U.S. generally accepted accounting principles require us to mark our investment portfolio to market value at the end of each fiscal year and reflect that adjustment as a component of net income. The impact of rising interest rates on our portfolio value 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 $1.2 million in FY17. This balance is primarily comprised of revenues collected from AEA for personnel services provided by AIDEA employees. Overall staffing levels were reduced in FY17 in response to continued State direction to reduce costs combined with reduced funding available to support AEA programs and projects.
- **Other income** decreased approximately $1.2 million. The reduction in FY17 was primarily due to $1.4 million less revenue earned from loan modification fees related to our Revolving Fund loan portfolio. More borrowers requested interest rate modifications on existing loans in FY16 compared to FY17 as a result of market conditions. Revolving Fund loan commitment fees increased approximately $205,000 in FY17 as a result of record Revolving Fund loan participation fundings.

Operating expenses increased a net of $9.8 million in FY17 compared to FY16.

- **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 FY17 compared to FY16 due to lower outstanding debt balances during the year ended June 30, 2017, compared to 2016.
- **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 FY17 as a result of a lower outstanding balance of Snettisham Power Revenue bonds.

- **Non-project personnel, general and administrative including Pentex** includes costs related to our staff and general operations such as facilities costs and supplies not directly charged to project expense or capitalized. Non-project personnel, general and administrative costs increased $728,000 in FY17 compared to FY16. The increase was primarily due to a $636,000 increase in general and administrative expenses for Pentex. We purchased Pentex in September 2015, therefore, the FY16 balance presented general and administrative expenses for Pentex operations for the nine-month period we owned it during the fiscal year. An entire fiscal year's activity is included in the FY17 resulting in an increase between the two years.
- **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. This balance was $446,000 higher in FY17 compared to FY16.
- **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 FY17 compared to FY16 primarily due to a decrease in personnel costs charged to AEA for staff time spent on AEA projects and programs.
- **Provision for loan losses** represents the adjustment made to recognize potential losses in our loan portfolio. The allowance for loan losses was increased $1.1 million in FY17 compared to a reduction of $176,000 in FY16 resulting in a change of $1.3 million between the two years. The increase of the FY17 allowance for loan losses compared to the FY16 decrease was a product of a net increase in the Revolving Fund loan portfolio balance compared to the prior year. As the loan portfolio increases, the portion of the provision for loan losses calculated on the outstanding portfolio balance also increases.
- **Depreciation** expense represents the adjustment made to recognize the cost of a capital asset over its useful life. Depreciation expense increased $3.4 million in FY17 compared to FY16, primarily due to depreciation of capitalized costs incurred in the development of infrastructure on the North Slope, which we began depreciating in FY17. Additional depreciation expense in FY17 was recognized for the capital assets relating to the Ketchikan Shipyard and Pentex.
- **Project feasibility, due diligence and other project expenses** represent expenditures related to our owned projects such as Pentex, the Ketchikan Shipyard and the Skagway Ore Terminal and costs incurred to understand and evaluate potential projects. These costs increased $6.2 million in FY17 compared to FY16. This increase was mostly due to the following:
    - $5.9 million increase in project costs during 2017 compared to 2016. This increase was primarily due to a $3.8 million increase in Pentex non-administrative costs. We purchased Pentex in September 2015 and included non-administrative costs for the nine months we owned it in FY16. A full fiscal year's activity is included in FY17 results, accounting for the increase. Work on a major multi-year repair and refurbishment project for the Federal Express hangar and expenses incurred relating to our investment in Mustang Road LLC and Mustang Operations Center 1 (MOC1) increased FY17 expenditures approximately $2.4 million. Decreases in other project costs partially offset these increases.

- $177,000 net decrease in feasibility/due diligence costs during FY17 as we continued working on the IEP.

Net nonoperating revenues (expenses) decreased $288,000 during the year ended June 30, 2017, compared to 2016. Net nonoperating revenues (expenses) are comprised of net activity related to the Ketchikan Shipyard Repair and Replacement Fund, investment interest related to the Loan Funds and nonoperating revenues of Pentex.

- Net activity related to the Ketchikan Shipyard Repair and Replacement Fund represents repairs and replacement costs for the Ketchikan Shipyard paid from the Repair and Replacement investment account we administer, net of contributions received for the account by the operator of the shipyard. Net position decreased in FY17 from these nonoperating activities compared to a net increase in FY16. FY17 expenses paid from the Ketchikan Shipyard Repair and Replacement Fund exceeded contributions to the fund by $298,000 while FY16 contributions exceeded expenses paid from the fund by $37,000.
- An increase in nonoperating revenue from Pentex partially offset the increased net expense between the two years.

Other contributions represent the contribution of assets by the project operator to the Ketchikan Shipyard with a total net value of $295,000.

Contributions from the State of Alaska include revenue recognized from State General Fund capital appropriations and contributions of funding and assets from other State agencies. These revenues increased approximately $665,000 in FY17 compared to FY16. Increased spending of State contributions relating to the AMDIAP and the IEP projects contributed to the increased revenues, partially offset by decreased spending on projects at the Ketchikan Shipyard.

Capital grant revenues represent revenues recognized from the expenditure of federal capital funding at the Ketchikan Shipyard. Federally funded projects were completed in FY16 and we did not have new federal capital funding in FY17.

Dividend to State of Alaska decreased $11.3 million in FY17 compared to FY16. We paid a $6.328 million dividend to the State during FY17, compared to $17.650 million during FY16. 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 25% for the dividend paid in FY17 compared to 50% for the dividend paid in FY16.
- A decrease in audited statutory "net income" in FY15 (used to calculate the FY17 dividend) compared to FY14 (used to calculate the FY16 dividend). FY15 audited statutory "net income" was lower than FY14 mostly due to FY15 unrealized losses on our investment portfolio compared to unrealized gains in FY14. Governmental accounting standards require our investment portfolio be reported at market value. Additionally, FY14 statutory "net income" was higher than FY15 due to a gain on the FY14 sale of a development project.

As directed by statute, AIDEA makes available to the State an annual dividend. This dividend, determined by our Board, must be between 25% and 50% of audited "net income" (as defined in the statute) for the "base year." The "base year" is the fiscal year ending two years before the end of the fiscal year in which the dividend payment is to be paid; for example, the statutory net income reported for FY17 (the audit being completed within FY18) will become the base for the dividend to be paid in FY19. In no case may the dividend exceed base year unrestricted audited "net income." The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.

Outlook

Recent legislative authorizations including the addition of the Arctic Infrastructure Development Fund and bonding authorization for several potential new projects have enhanced our ability to continue to be an important financing tool for economic development in Alaska. We are actively pursuing potential new projects under the Development Finance Program. We anticipate funding over $50 million in new loans from our Loan Participation Program next year.

Requests for Information

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

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

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

Statements of Net Position

June 30, 2017
(with summarized financial information at June 30, 2016)

(In thousands)

Assets and Deferred Outflows of Resources		Revolving Fund	Aggregate Nonmajor Funds	Interfund Consolidations	Total 2017	Total 2016
Current assets:						
Unrestricted cash and cash equivalents (note 3)	$	60,864	102,836	—	163,700	148,509
Unrestricted cash and cash equivalents - Pentex (note 3)		5,357	—	—	5,357	4,046
Restricted cash and cash equivalents (note 3)		43,175	1	—	43,176	916
Unrestricted investment securities (note 3)		15,128	—	—	15,128	68,447
Loans - current portion (note 4)		36,337	811	—	37,148	32,548
Line of credit advances receivable		—	2,277	—	2,277	—
Development projects accounted for as direct financing leases (note 7)		9,551	—	—	9,551	12,612
Development projects accounted for as loans (note 7)		3,204	—	—	3,204	—
Accrued interest receivable		3,875	174	—	4,049	3,773
Other assets		4,437	—	—	4,437	3,850
Other assets - Pentex		2,023	—	—	2,023	1,832
Total current assets		183,951	106,099	—	290,050	276,533
Noncurrent assets:						
Restricted cash and cash equivalents (note 3)		15,756	—	—	15,756	60,246
Restricted cash and cash equivalents - Snettisham (note 3)		10,013	—	—	10,013	10,104
Investment securities (note 3)		329,418	—	—	329,418	331,928
Loans - noncurrent portion (note 4)		367,212	10,368	—	377,580	328,926
Less allowance for loan losses (note 6)		(8,903)	(717)	—	(9,620)	(8,500)
Net loans		358,309	9,651	—	367,960	320,426
Development projects accounted for as:						
Direct financing leases (note 7)		139,838	—	—	139,838	151,689
Loans - noncurrent portion (note 7)		33,104	—	—	33,104	—
Capital assets (note 7)		73,775	—	—	73,775	76,646
Preferred interest in operating companies (note 7)		60,032	—	—	60,032	55,621
Restricted net investment in direct financing lease - Snettisham (note 7)		60,951	—	—	60,951	63,307
Capital assets - Pentex (note 7)		60,542	—	—	60,542	62,377
Line of credit (note 7)		—	—	—	—	34,207
Line of credit (note 5)		—	27,412	—	27,412	29,690
Interfund line of credit (note 5)		—	14,806	(14,806)	—	—
Capital assets (note 8)		24,759	—	—	24,759	26,122
Other assets		533	158	—	691	1,610
Total noncurrent assets		1,167,030	52,027	(14,806)	1,204,251	1,223,973
Total assets		1,350,981	158,126	(14,806)	1,494,301	1,500,506
Deferred outflows of resources:						
Deferred outflows of resources related to employee pensions (note 10)		3,303	—	—	3,303	2,375
Deferred charge on bond refunding		149	—	—	149	196
Gas plant acquisition adjustment - Pentex (note 7)		2,276	—	—	2,276	2,397
Deferred outflow of resources - Snettisham (note 7)		3,611	—	—	3,611	4,179
Total deferred outflows of resources		9,339	—	—	9,339	9,147
Total assets and deferred outflows of resources	$	1,360,320	158,126	(14,806)	1,503,640	1,509,653
Liabilities, Deferred Inflows of Resources and Net Position						
Current liabilities:						
Bonds payable - current portion (note 9)	$	3,035	—	—	3,035	9,655
Accrued interest payable		588	—	—	588	707
Accounts payable		2,524	22	—	2,546	2,269
Advances from State of Alaska - current portion		42,311	—	—	42,311	—
Other liabilities		523	11	—	534	883
Current liabilities - Pentex		763	—	—	763	867
Total current liabilities		49,744	33	—	49,777	14,381
Noncurrent liabilities:						
Bonds payable - noncurrent portion (note 9)		42,955	—	—	42,955	45,990
Advances from State of Alaska - noncurrent portion		825	—	—	825	44,938
Net pension liability (note 10)		15,941	—	—	15,941	12,606
Other liabilities		1,213	—	—	1,213	1,525
Interfund line of credit - Pentex (note 5)		14,806	—	(14,806)	—	—
Noncurrent liabilities - Pentex		569	—	—	569	600
Liabilities payable from restricted assets - Snettisham:						
Power revenue bonds payable (note 9)		62,160	—	—	62,160	64,455
Other		12,415	—	—	12,415	13,135
Total noncurrent liabilities		150,884	—	(14,806)	136,078	183,249
Total liabilities		200,628	33	(14,806)	185,855	197,630
Deferred inflows of resources:						
Deferred inflows of resources related to employee pensions (note 10)		178	—	—	178	254
Net position:						
Net investment in development projects - capital assets (note 7)		73,775	—	—	73,775	76,646
Net investment in capital assets - Pentex (note 7)		48,014	—	14,806	62,820	64,649
Net investment in capital assets (note 8)		24,759	—	—	24,759	26,122
Restricted contributions		647	—	—	647	950
Unrestricted - Pentex		(47,954)	—	(14,806)	(62,760)	(64,134)
Unrestricted		1,060,273	158,093	—	1,218,366	1,207,536
Total net position		1,159,514	158,093	—	1,317,607	1,311,769
Commitments and contingencies (notes 1, 10, and 12)		—	—	—	—	—
Total liabilities, deferred inflows of resources and net position	$	1,360,320	158,126	(14,806)	1,503,640	1,509,653

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, 2017
(with summarized financial information at June 30, 2016)

(In thousands)

	Revolving Fund	Aggregate Nonmajor Funds	Total 2017	Total 2016
Operating revenues:				
Interest on loans (note 4)	$ 16,145	467	16,612	15,810
Income from development projects (note 7)	12,853	—	12,853	13,599
Income from development projects - lines of credit and loans (note 7)	3,169	—	3,169	1,148
Income from development project - Pentex (note 7)	16,467	—	16,467	12,589
Interest on Snettisham restricted direct financing lease (note 7)	3,099	—	3,099	3,320
Investment interest	10,143	533	10,676	10,407
Net increase (decrease) in fair value of investments	(11,113)	—	(11,113)	9,936
Income from state agencies and component units (note 11)	6,377	—	6,377	7,567
Other income	1,765	15	1,780	3,001
Total operating revenues	58,905	1,015	59,920	77,377
Operating expenses:				
Interest	2,461	—	2,461	2,784
Interest on Snettisham liabilities payable from restricted assets (note 9)	3,099	—	3,099	3,320
Nonproject personnel, general and administrative	6,524	237	6,761	6,669
Net pension related adjustments	2,331	—	2,331	1,885
General and administrative - Pentex	2,193	—	2,193	1,557
Costs reimbursed from state agencies and component units (note 11)	6,377	—	6,377	7,567
Provision for loan losses (note 6)	1,073	47	1,120	(176)
Depreciation on projects (note 7, note 8)	6,295	—	6,295	3,459
Depreciaton - Pentex (note 7)	2,367	—	2,367	1,853
Project feasibility and due diligence costs	823	143	966	1,143
Project expenses - Pentex	12,454	—	12,454	8,702
Other project expenses	3,525	—	3,525	1,389
Total operating expenses	49,522	427	49,949	40,152
Operating income	9,383	588	9,971	37,225
Nonoperating revenues (expenses) and other:				
Investment interest	—	29	29	36
Net revenue (expenses) related to Ketchikan Shipyard Repair and Replacement Fund	(298)	—	(298)	37
Other contributions	295	—	295	—
Appropriations and contributions from the State of Alaska	2,077	—	2,077	1,412
Dividend to the State of Alaska	(6,328)	—	(6,328)	(17,650)
Capital grants	—	—	—	133
Nonoperating income - Pentex	92	—	92	38
Total nonoperating revenues (expenses) and other	(4,162)	29	(4,133)	(15,994)
Increase in net position	5,221	617	5,838	21,231
Net position - beginning of year	1,154,293	157,476	1,311,769	1,290,538
Net position - end of year	$ 1,159,514	158,093	1,317,607	1,311,769

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, 2017
(with summarized financial information at June 30, 2016)

(In thousands)

	Revolving Fund	Aggregate Nonmajor Funds	Interfund Consolidations	Total 2017	Total 2016
Cash flows from operating activities:					
Interest received on loans	$ 15,237	439	—	15,676	15,474
Operating receipts - Pentex	16,187	—	—	16,187	12,880
Receipts from borrowers	4,173	—	—	4,173	5,333
Principal collected on loans	53,732	1,624	—	55,356	67,705
Other operating receipts	5,960	—	—	5,960	7,436
Other operating receipts - Snettisham	2,492	—	—	2,492	2,329
Loans originated	(108,524)	(1,226)	—	(109,750)	(54,524)
Payments to suppliers and employees for services	(16,745)	(217)	—	(16,962)	(15,435)
Operating payments - Pentex	(14,086)	—	—	(14,086)	(10,365)
Payments to primary government	(1,415)	(1)	—	(1,416)	(1,123)
Other operating payments - Snettisham	(2,587)	—	—	(2,587)	(1,569)
Net cash (used for) provided by operating activities	(45,576)	619	—	(44,957)	28,141
Cash flows from noncapital and related financing activities:					
Dividend paid to the State of Alaska	(6,328)	—	—	(6,328)	(17,650)
Short-term borrowings (paid to) from the Alaska Energy Authority for working capital, net	(58)	—	—	(58)	(369)
Principal paid on noncapital debt	(555)	—	—	(555)	(535)
Interest paid on noncapital debt	(617)	—	—	(617)	(639)
Net cash (used for) noncapital and related financing activities	(7,558)	—	—	(7,558)	(19,193)
Cash flows from capital and related financing activities:					
Direct financing lease receipts	25,098	—	—	25,098	24,435
Direct financing lease receipts - Snettisham	5,456	—	—	5,456	5,523
Federal grant receipts	—	—	—	—	159
Capital appropriation - State of Alaska	275	—	—	275	—
Restricted contributions for development projects	477	—	—	477	238
Receipts from primary government	—	—	—	—	165
Principal paid on capital debt	(9,100)	—	—	(9,100)	(8,520)
Interest paid on capital debt	(2,212)	—	—	(2,212)	(2,638)
Investment in development project - Pentex	—	—	—	—	(49,605)
Investment in development projects - capital assets	(115)	—	—	(115)	(508)
Investment in capital assets	(1,707)	—	—	(1,707)	(679)
Investment in capital assets - Pentex	(697)	—	—	(697)	(1,781)
Interest paid on capital debt - Snettisham	(3,157)	—	—	(3,157)	(3,587)
Principal paid on capital debt - Snettisham	(2,295)	—	—	(2,295)	(2,170)
Proceeds from capital debt - Pentex	—	—	—	—	344
Proceeds from interfund line of credit-Pentex	136	—	(136)	—	—
Interest paid on capital debt - Pentex	(20)	—	—	(20)	—
Payments on capital debt - Pentex	(159)	—	—	(159)	(84)
Net cash provided by (used for) capital and related financing actvities	11,980	—	(136)	11,844	(38,708)
Cash flows from investing activities:					
Proceeds from sales and maturities of investment securities	325,271	—	—	325,271	394,952
Purchases of investment securities	(280,553)	—	—	(280,553)	(376,974)
Interest collected on investments	10,224	562	—	10,786	10,592
Investment in preferred interest in operating companies	(4,186)	—	—	(4,186)	(16,140)
Receipts from preferred interest in operating companies	—	—	—	—	195
Interfund line of credit disbursements	—	(136)	136	—	—
Development projects loans and line of credit disbursements	(3,993)	—	—	(3,993)	(56,193)
Interest received on purchased loans	572	—	—	572	775
Principal collected on purchased loans	1,072	—	—	1,072	1,179
Interest received on development projects loans and line of credit	2,143	—	—	2,143	255
Principal collected on development projects loans and line of credit	3,790	—	—	3,790	300
Other investing disbursements - Pentex	(50)	—	—	(50)	(47)
Net cash provided by (used for) investing activities	54,290	426	136	54,852	(41,106)
Net increase (decrease) in cash and cash equivalents	13,136	1,045	—	14,181	(70,866)
Cash and cash equivalents at beginning of year	122,029	101,792	—	223,821	294,687
Cash and cash equivalents at end of year	$ 135,165	102,837	—	238,002	223,821

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, 2017
(with summarized financial information at June 30, 2016)

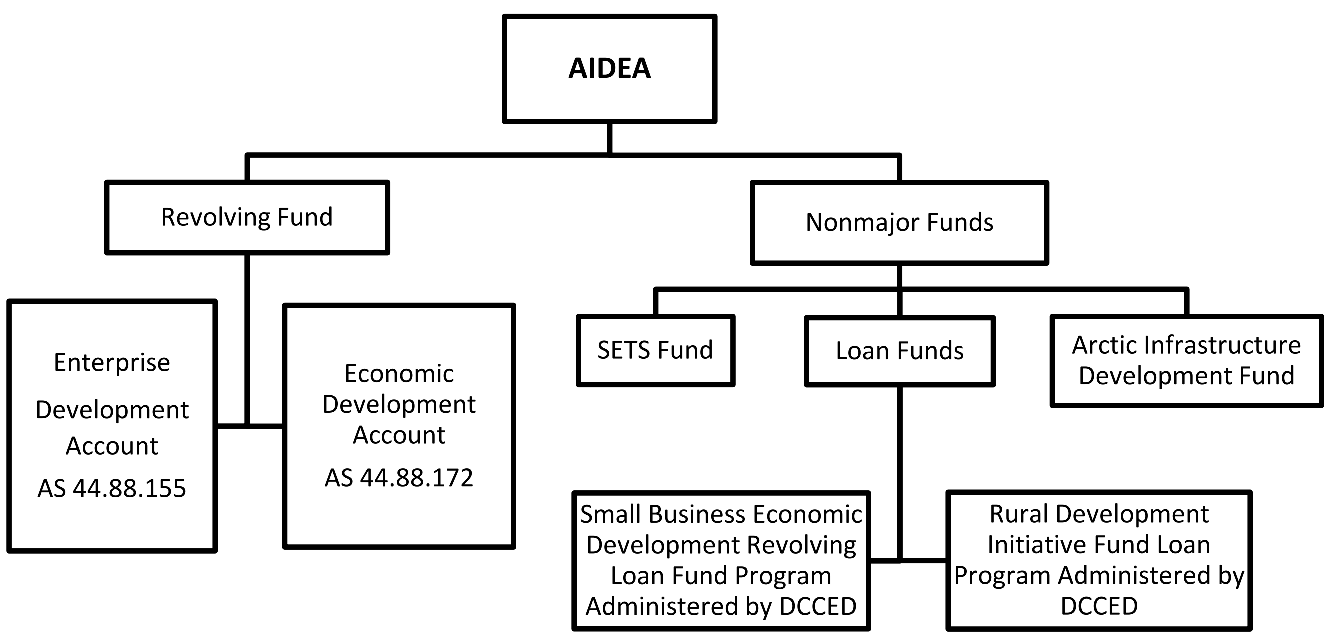
(In thousands)

		Revolving Fund	Aggregate Nonmajor Funds	Interfund Consolidations	Total 2017	Total 2016
Reconciliation to Statements of Net Position:						
Unrestricted cash and cash equivalents	$	60,864	102,836	—	163,700	148,509
Unrestricted cash and cash equivalents - Pentex		5,357	—	—	5,357	4,046
Restricted cash and cash equivalents - current		43,175	1	—	43,176	916
Restricted cash and cash equivalents - noncurrent		15,756	—	—	15,756	60,246
Restricted cash and cash equivalents - Snettisham		10,013	—	—	10,013	10,104
Cash and cash equivalents at end of year	$	135,165	102,837	—	238,002	223,821
Reconciliation of operating income to net cash (used for) provided by operating activities:						
Operating income	$	9,383	588	—	9,971	37,225
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Principal collected on loans		53,731	1,624	—	55,355	67,705
Loans originated		(108,524)	(1,226)	—	(109,750)	(54,524)
OREO charges		—	72	—	72	—
Investment interest income		(10,143)	(533)	—	(10,676)	(10,407)
Net amortization of income from operating companies		(226)	—	—	(226)	(265)
Amortization of unearned income on direct financing leases		(10,186)	—	—	(10,186)	(11,045)
Amortization of unearned income on direct financing lease - Snettisham		(3,099)	—	—	(3,099)	(3,320)
Bond interest expense		2,710	—	—	2,710	3,164
Bond interest expense – Snettisham		3,099	—	—	3,099	3,320
Provision for loan losses		1,073	47	—	1,120	(176)
Depreciation on projects		6,295	—	—	6,295	3,459
Depreciation on administrative building		182	—	—	182	182
Depreciation - Pentex		2,367	—	—	2,367	1,853
Amortization of deferred outflow - Pentex		121	—	—	121	91
Net decrease (increase) in fair value of investments		11,113	—	—	11,113	(9,936)
Interest on loans		(3,775)	—	—	(3,775)	(1,791)
Capitalized LOC/loan fees and interest		—	(5)	—	(5)	(378)
(Increase) in deferred outflows related to pensions		(928)	—	—	(928)	(1,387)
(Increase) decrease in accrued interest receivable and other assets		(520)	67	—	(453)	251
Decrease in other assets - Pentex		74	—	—	74	1,051
Increase in net pension liability		3,335	—	—	3,335	4,011
Increase (decrease) in accounts payable and other liabilities		(1,668)	(15)	—	(1,683)	754
Increase (decrease) in accounts payable and other liabilities-Pentex		86	—	—	86	(957)
(Decrease) in deferred inflows related to pensions		(76)	—	—	(76)	(739)
Net cash (used for) provided by operating activities	$	(45,576)	619	—	(44,957)	28,141
Noncash investing, capital, and financing activities:						
Bond principal paid by escrow agent - Snettisham	$	—	—	—	—	(69,050)
Proceeds from bond issuance received by escrow agent - Snettisham		—	—	—	—	65,720
Bond premium received by escrow agent - Snettisham		—	—	—	—	4,843
Net decrease (increase) in unrealized gain/loss on investments		22,897	—	—	22,897	(15,416)
Contributed assets		295	—	—	295	—
Reduction of Snettisham direct financing lease due to bond refunding		—	—	—	—	3,330
Accounts payable for capital asset additions		244	—	—	244	112
Accounts payable for capital asset additions - Pentex		42	—	—	42	(694)
Accounts payable for development project additions	$	2	—	—	2	6

See accompanying notes to basic financial statements.

(1) Organization and Operations

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



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

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

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

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

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

The following projects are included in the Enterprise Development Account:

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

(b) Economic Development Account (AS 44.88.172)

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

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

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

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 are financing the procurement of a new high-horsepower, extended reach, onshore drilling rig that will be used for the installation and development of numerous wells to produce oil from the Cosmopolitan lease blocks in the lower Cook Inlet and for the construction of man camp facilities for workers on the project.

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

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

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

(c) Conduit Revenue Bond Program

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

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

By the end of FY17, we had issued conduit revenue bonds for 318 projects (not including bonds issued to refund other bonds). At June 30, 2017, the outstanding principal amount of conduit revenue bonds issued after July 1, 1995 was $407.1 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 $1.38 billion issued through June 30, 2017 (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.

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, 2018 if we do not issue bonds before that date.

(f) Pentex Alaska Natural Gas Company LLC

AIDEA purchased all of the member interests of Pentex Alaska Natural Gas Company LLC (Pentex), a Delaware limited liability company (LLC), on September 30, 2015, under AS 44.88.172. Pentex owns the following subsidiaries:

- Fairbanks Natural Gas (FNG) - Fairbanks gas distribution utility
- Arctic Energy Transportation (AET) - LNG fueling station operator

- Polar LNG (Polar) - North Slope LNG plant developer (inactive)
- Titan Alaska (Titan) - LNG plant and trucking operator
- Cassini LNG Storage LLC - Fairbanks storage facility developer (inactive)

Pentex and its subsidiaries, under AIDEA ownership, continue to hold their existing assets and liabilities. AIDEA is the sole and managing member of Pentex. Pentex is a development project and is reported as a component unit of AIDEA.

(g) Alaska Energy Authority

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting – Enterprise Fund Accounting

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

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

(b) Fair Value Measurement and Application

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

(c) Cash and Cash Equivalents

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

(d) Investments

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

(e) Loans and Related Interest Income

Revolving Fund loans funded from our Enterprise Development Account are primarily secured by first deeds of trust on real estate located in Alaska. Loan Fund loans must be secured by collateral that is acceptable to the Division of Economic Development such as a mortgage or other security instrument in real property, equipment, or other tangible assets. Revolving Fund loans funded from our Economic Development Account are secured by assets of the project being financed. 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 loans for possible impairment if the loan is more than 90 days past due or has been restructured.
- Analyze Loan Fund loans for possible impairment if the loan is more than 90 days past due, has specialized payment arrangements or has an area of specific concern.
- Charge off Revolving Fund 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.

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.

(f) Development Projects – Direct Financing Leases

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

(g) Development Projects – Capital Assets

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

(h) Development Projects – Preferred Interest in Operating Companies

Preferred Interest in Operating Companies (as more fully described in note 7) are recorded in the accompanying financial statements as equity interests and are development projects. Income is recognized as it is earned under the project agreement. The equity interests are carried at cost, less capital distributions received, and less any necessary allowance.

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

(i) Component Unit

We follow GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* when evaluating our ownership interests in legally separate organizations. We report all assets, liabilities, net position and activities as part of our balances and activities for organizations meeting the blending criteria. Pentex is our only component unit. AIDEA is the sole member of Pentex and our board of members serves as the managing board for Pentex. AIDEA's board is responsible for all aspects of the LLC and its subsidiaries. Pentex is reported as a blended component unit of the Revolving Fund, therefore, its assets, liabilities, and activities from the date of purchase are included in the accompanying financial statements.

(j) Capital Asset Additions and Retirements

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

(k) LOCs

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

An allowance is established to recognize potential losses. Subsequent charge offs are adjusted through the allowance. Management's opinion is that no allowance for LOCs is required at June 30, 2017.

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

(l) Intangible Assets

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

- Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project.
- Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.

- Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

(m) Other Real Estate Owned

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

(n) Allowance for Loan Losses

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

(o) Allowance for Lease Receivables

Allowance for lease receivables represents management's judgment as to the amount required to absorb probable unrealizable direct financing lease receivables. Factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions, and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 2017.

(p) Net Position

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

(q) Environmental Issues

AIDEA's environmental issues policy is to record a liability when the likelihood of responsibility for pollution remediation activities such as site assessments and cleanups is probable and the costs are reasonably estimable. At the end of FY17, there were no environmental issues meeting both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability.

(r) Operating Revenue and Expense

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

- capital contributions
- certain nonexchange transactions with the State of Alaska, including the dividend paid to the State
- investment income and expenditures related to certain restricted project funds
- investment income related to the Loan Funds and Pentex
- special or extraordinary items
- gains and losses on the disposition of capital assets and other assets of Pentex
- other Pentex income related to hit line repairs

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

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

(t) Income Taxes

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

(u) Depreciation

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

(v) Non-exchange Payments

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

(w) Segment Information

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

(x) Estimates

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

(y) Deferred Outflows/Inflows of Resources

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

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

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

(z) Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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.

(aa) Prior Period Information

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with U.S. generally accepted accounting principles. Such information should be read in conjunction with the financial statements for FY16, from which the summarized information was derived. Certain reclassifications were made to prior year information to conform to current year presentation.

(bb) Recently Issued Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions* (Statement 75) was issued by GASB in June 2015. Statement 75 establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. This statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. Statement 75 is required to be implemented for the fiscal year ending June 30, 2018. We have not implemented Statement 75 and are currently evaluating the impact on future financial statements.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* (Statement 78) was issued by GASB in December 2015. The objective of this Statement is to address the scope and applicability of Statement No. 68 as it relates to pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Statement 78 is required to be implemented for the fiscal year ending June 30, 2017. The implementation had no impact on our financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (Statement 81) was issued by the GASB in March 2016. The objective of Statement 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing guidance for recognition and measurement in situations that a government is an agreement beneficiary. A split-interest agreement is a giving agreement that provides resources to two or more beneficiaries, including governments. The provisions of this Statement are required to be implemented for the periods beginning after December 15, 2016. We have not implemented Statement 81 and are currently evaluating the impact on future financial statements.

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

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

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

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

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

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

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

The provisions of this Statement are required to be implemented for the periods beginning after June 15, 2017. We have not implemented Statement 85 and are currently evaluating the impact on future financial statements.

GASB Statement No. 86, *Certain Debt Extinguishing Issues* (Statement 86) was issued by GASB in May 2017. The objective of Statement 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The provisions of this Statement are required to be implemented for the reporting periods beginning after June 15, 2017. We have not implemented Statement 86 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 December 15, 2019. We have not implemented Statement 87 and are currently evaluating the impact on future financial statements.

(3) Cash and Investment Securities

(a) Revolving Fund

Cash and Cash Equivalents

Following is a summary of the Revolving Fund's cash and cash equivalents at June 30, 2017 (in thousands):

Current - unrestricted	$	60,864
Current - unrestricted - Pentex		5,357
Current - restricted		43,175
Noncurrent - restricted		15,756
Noncurrent - restricted - Snettisham		10,013
Carrying amount	$	135,165
Bank balance	$	135,546

Cash equivalents include $43.9 million invested in the Alaska Municipal League Investment Pool (Pool). The Pool was rated a principal stability rating of AAAm by Standard & Poor's (S&P). Stand-alone financial statements can be obtained by writing to the Alaska Permanent Capital Management Co., 900 West Fifth Avenue, Suite 601, Anchorage, Alaska 99501 or visiting www.amlip.org.

Alaska Statute (AS) 37.23 provides for regulatory oversight of the Pool. The Statute provides requirements regarding authorized investments and reporting. The Pool is incorporated in Alaska as a nonprofit corporation and reports to a board of directors. AS 37.23.050 requires retention of an investment manager. The manager is required to produce monthly disclosure statements for the Pool. An investment advisor monitors the performance of the investment manager to ensure compliance with investment policies. The Pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. The fair value of the investments in the Pool are reviewed monthly by an independent pricing service. The Pool meets the standards for reporting investments at amortized cost with regard to portfolio requirements including maturity, quality, diversification, liquidity and shadow price. There are no restrictions or limitations on withdrawals from the Pool. As of June 30, 2017, the fair value of the investments in the Pool approximates the amortized cost at which they are reported. The fair value of our investments in the Pool is the same as the value of our Pool units.

Investment Securities

General – Investment Policies and Portfolio Information

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

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

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

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

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

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

Following is a summary of Revolving Fund investments at June 30, 2017 (in thousands):

Current – unrestricted	$	15,128
Noncurrent – unrestricted		329,418
	$	344,546

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, 2017 (in thousands):

U.S. Treasury	$	111,237	Level 2
U.S. Government agency discount notes		5,000	Level 2
U.S. Government agency and GSEs		14,588	Level 2
Corporate securities		130,195	Level 2
Mortgage-backed securities		75,113	Level 2
Asset-backed securities		5,199	Level 2
Municipal bonds		3,214	Level 2
	$	344,546	

Interest Rate Risk

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

1) Maturity

2) Prepayment frequency

3) Level of market interest rates

4) Size of coupon

5) Coupon payments

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

The duration of each externally managed fixed income portfolio must be within plus or minus 25% of the duration of the Barclays Capital Aggregate Bond Index for domestic fixed income portfolios and between 0.5 (½ year) and 125% of the contractual non-U.S. dollar denominated benchmark for the portfolios (or sub-portfolio component) available for investment in non-U.S. dollar denominated instruments (at June 30, 2017, there were no portfolios investing in non-U.S. dollar denominated instruments). AIDEA 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 for Revolving Fund cash equivalents and investments at June 30, 2017. The duration values in the table below take into account any put or call options embedded in the security, any expected sinking-fund pay downs, or expected principal prepayments:

	Internally managed portfolio	**Externally managed portfolios**
Money market	0.09	0.09
U.S. Treasury	—	6.83
U.S. Government agency discount notes	0.03	—
U.S. Government agency and GSEs	—	4.68
Corporate securities	—	6.98
Mortgage-backed securities	—	4.16
Asset-backed securities	—	1.67
Municipal bonds	—	3.78

Credit Risk

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

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

The weighted average quality rating of each externally managed portfolio shall be AA- or better. For purposes of determining compliance with quality guidelines, a rating will be the middle rating if ratings are provided by Moody's, Standard & Poor's (S&P), and Fitch; the lower rating if only two ratings exist; and the rating provided if only one rating exists. If a security is unrated, the investment manager shall assign an internal rating for compliance purposes. The total of unrated investments may not exceed 5% of the investment manager's portfolio value and the unrated investments of a single issuer may not exceed 2% of the investment manager's portfolio value. AIDEA 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, 2017 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.

Investment type	Rating	Percentage of total
Money market	AAA	28
U.S. Government agency and GSEs	AA	3
U.S. Government agency discount notes	AAA	1
Municipal bonds	AA	1
Corporate securities	AAA	1
Corporate securities	AA	2
Corporate securities	A	12
Corporate securities	BBB	11
Corporate securities*	AAA	1
Mortgage-backed securities (issued by GSEs)	Not rated	16
Asset-backed securities	AAA	1
No credit exposure		23
		100%

* Moody's rating

Custodial Credit Risk

Custodial credit risk of investments is the risk that, in the event of the failure of a custodian, the value of investments or collateral securities may not be recovered. In the Revolving Fund, amounts totaling approximately $128.7 million at June 30, 2017, 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, 2017, we had more than 5% of the combined portfolios invested in the following GSEs (dollar amounts in thousands):

	Revolving Fund	Percent of combined portfolio
Federal National Mortgage Association	$ 55,187	9%

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, 2017, is as follows (in thousands):

	Allowable usage	
Red Dog Project Sustaining Capital fund	Project costs	$ 15,000
Ketchikan Shipyard restricted funds	Project costs	5
Ketchikan Shipyard Repair and Replacement fund	Project costs	623
Advances from State of Alaska	Project costs	43,303
Snettisham Hydroelectric Project Funds	Various costs relating to the project	10,013
		$ 68,944

(b) Nonmajor Funds

Cash and Cash Equivalents

A summary of the Nonmajor Funds' cash and cash equivalents at June 30, 2017, is as follows (in thousands):

Unrestricted – Loan Funds	$	5,686
Unrestricted – SETS Fund		97,150
Restricted – SETS Fund		1
Carrying amount	$	102,837
Bank balance	$	102,834

All unrestricted 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 approximately $82.8 million of the unrestricted SETS cash equivalent balance in the table above for the IEP financing.

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

Loans outstanding on June 30, 2017, are classified as follows (dollar amounts in thousands). Loans funded under AS 44.88.172 are considered development projects and are excluded from the table below:

	Number		Amount
Revolving Fund - Enterprise Development Account:			
Loan participation:			
Internally funded	216	$	375,971
Bond sale	1		12,085
OREO sale financing	2		258
Purchased loans	24		15,235
Revolving Fund loans	243		403,549
Nonmajor Funds – Loan Funds	96		11,179
	339		414,728
Less current portion			(37,148)
		$	377,580

(a) Revolving Fund – Enterprise Development Account

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

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

All Enterprise Development Account Revolving Fund loans were current at June 30, 2017, and we had no Enterprise Development Account Revolving Fund loans for which we had restructured terms.

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 FY17 is $17.9 million compared to $36.3 million recorded as the current portion. The difference of $18.4 million represents 10% of the Revolving Fund current assets.

(b) Nonmajor Funds

The DCCED administers Loan Funds loans. The aging of Loan Funds loans at June 30, 2017, is as follows (dollar amounts in thousands):

	Percent		Amount
Current	94.50%	$	10,562
Past due:			
Over 90 days	5.50%		617
	100.00%	$	11,179

Loan Funds loans with restructured terms totaled $1,095,000 on June 30, 2017. Gross interest income we accrued on these loans totaled $42,000 for FY17, and we received $21,000 of interest payments.

The Loan Funds held OREO totaling $132,000 on June 30, 2017, which we have included within other assets in our statement of net position.

(5) Nonmajor Funds - LOCs

LOCs in the SETS Fund totaling approximately $42.2 million represent amounts drawn on LOCs that will convert to term loans at a later date if certain conditions are met. The per annum stated interest rate for advances under these LOCs is zero percent (0%) until December 31, 2017.

Of this balance, approximately $14.8 million represents an LOC between Pentex (included in the Revolving Fund) and the SETS Fund. FNG received a $15 million LOC from AIDEA dated May 19, 2014, used for the expansion of FNG's distribution system. Security for the LOC includes FNG's personal and fixture property of every kind, excluding inventory and accounts receivable.

All SETS Fund LOCs were current and there were no restructured LOCs at June 30, 2017. Advances made in excess of project needs totaling $2.3 million were reclassified to line of credit advances receivable at June 30, 2017.

(6) Allowance for Loan Losses

Following is an analysis of changes in the allowance for loan losses for FY17 (in thousands):

		Revolving Fund	Nonmajor Funds	Total
Balance at beginning of year	$	7,830	670	8,500
Provision for loan losses		1,073	47	1,120
Recoveries of loans charged off		—	—	—
Charge-offs		—	—	—
Balance at end of year	$	8,903	717	9,620

(7) Development Projects

(a) Direct Financing Leases

Following is the breakout of our net investment in development projects accounted for as direct financing leases by project on June 30, 2017 (in thousands):

		Minimum lease payments receivable	Unearned income		Net investment in direct financing leases
Red Dog Project	$	348,862	(213,017)		135,845
DMVA Project		29,813	(16,269)		13,544
	$	378,675	(229,286)		149,389
Less current portion					(9,551)
				$	139,838

Following are the future minimum lease payments receivable for FY18 through FY22 (dollars in thousands):

	2018	2019	2020	2021	2022
$	18,794	18,794	18,794	18,794	18,794

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

(b) Capital Assets

Our net investment in the Ketchikan Shipyard at June 30, 2017, was $73.8 million. Capital activity related to the Ketchikan Shipyard is below (in thousands):

		Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Nondepreciable components of development projects:					
Land	$	1,995	—	—	1,995
Construction work in progress		—	110	(110)	—
Total nondepreciable components of development projects		1,995	110	(110)	1,995
Depreciable components of development projects:					
Buildings		57,531	558	—	58,089
Infrastructure		34,106	—	—	34,106
Total depreciable components of development projects		91,637	558	—	92,195
Less accumulated depreciation for:					
Buildings		(8,767)	(2,138)	—	(10,905)
Infrastructure		(8,219)	(1,291)	—	(9,510)
Accumulated depreciation		(16,986)	(3,429)	—	(20,415)
Depreciable components of development projects – net		74,651	(2,871)	—	71,780
Total development projects	$	76,646	(2,761)	(110)	73,775

Depreciation expense totaled $3.276 million for development projects - capital assets for the fiscal year ending June 30, 2017 and is included in depreciation on projects in our Statement of Revenues, Expenses and Changes in Net Position. Additions to accumulated depreciation above includes $153,000 of accumulated depreciation related to an asset contributed to us during the year by the project operator.

(c) Preferred Interest in Operating Companies

Following is the breakout of our net investment in development projects accounted for as preferred interest in operating companies by project on June 30, 2017 (in thousands):

Mustang Road LLC	$	10,029
MOC 1 LLC		50,003
	$	60,032

We evaluated our preferred interest in operating companies above for impairment and determined no impairment is necessary. Standalone financial statements for MOC1 are available by calling 907-751-6807 or sending a request to cmalapit@mcac-cpa.com.

(d) Restricted Direct Financing Lease

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

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

Year ending June 30:		
2018	$	484
2019		425
2020		378
2021		339
2022		305
2023-2027		1,101
2028-2032		517
2033-2034		62
	$	3,611

Following is our net investment in the Snettisham project on June 30, 2017 (in thousands):

Minimum lease payments receivable	$	90,045
Less unearned income		(29,094)
Net investment in direct financing lease	$	60,951

(e) Blended Component Unit

On September 30, 2015 AIDEA purchased Pentex from Harrington Partners, L.P., Pentex Alaska Natural Gas Company and Daniel Britton under AS 44.88.172 for a total purchase price of $54.0 million, paid from our Revolving fund.

Included in the purchase was an intangible gas plant acquisition adjustment of approximately $2.5 million. This intangible asset is associated with the purchase of the Utility Plant and will be amortized over the life of the associated assets purchased. This amount results from the difference between the cost to purchase the ownership interest in Pentex and the net book value of the underlying assets of the company at the purchase date.

The gas plant acquisition adjustment deferred outflow will be recognized as expense as follows (in thousands):

Year ending June 30:

2018	$	121
2019		121
2020		121
2021		121
2022		121
2023-2027		608
2028-2032		608
2033-2037		400
2038-2042		15
2043-2047		15
2048-2052		15
2053-2055		10
	$	2,276

Amortization expense for the year ended June 30, 2017 was $121,000.

Following is activity for capital assets - Pentex (in thousands):

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Nondepreciable components:				
Land	$ 374	–	–	374
Gas plant held for future use	16,676	91	–	16,767
Construction work in progress	2,167	65	(115)	2,117
Total nondepreciable components	19,217	156	(115)	19,258
Depreciable components:				
Infrastructure	33,651	43	–	33,694
Buildings	813	13	–	826
Furniture and equipment	10,549	435	–	10,984
Total depreciable components	45,013	491	–	45,504
Less accumulated depreciation for:				
Infrastructure	(986)	(1,362)	–	(2,348)
Buildings	(51)	(30)	–	(81)
Furniture and equipment	(816)	(975)	–	(1,791)
Total accumulated depreciation	(1,853)	(2,367)	–	(4,220)
Total depreciable components - net	43,160	(1,876)	–	41,284
Total capital assets - Pentex	$ 62,377	(1,720)	(115)	60,542

Depreciation expense for capital assets - Pentex was $2.367 million for the fiscal year ending June 30, 2017.

The following table provides a breakdown of the component of net position reported as net investment in capital assets - Pentex at June 30, 2017, (in thousands):

Total capital assets - Pentex	$	60,542
Gas plant acquisition adjustment		2,276
Materials and supply inventory		376
Interfund line of credit		(14,806)
Equipment notes payable		(374)
Net investment in capital assets - Pentex		48,014
Add interfund LOC for consolidated Revolving Fund		14,806
Total consolidated net investment in capital assets - Pentex	$	62,820

Materials and supply inventory of $376,000 is reported in other assets and equipment, notes payable of $374,000 are reported in other liabilities in our Statement of Net Position at June 30, 2017. We anticipate materials and supply inventory will be used in construction of our capital assets and therefore include the balance in the net investment in capital assets for net position reporting.

(f) Development projects loans

Following is the breakout of our net investment in development projects accounted for as loans at June 30, 2017, (in thousands):

Blood Bank of Alaska, Inc.	$	4,410
Blue Crest*		31,898
Total development projects accounted for as loans		36,308
Less current portion		(3,204)
Total	$	33,104

*Includes BlueCrest Alaska Operating LLC (borrower) and BlueCrest Alaska Oil & Gas LLC, BlueCrest Cosmopolitan LLC and BlueCrest Energy, Inc. (co-borrowers). The development projects accounted for as loans were converted from LOCs to term loans during FY17.

(8) Capital Assets

Following is our activity for FY17 (in thousands):

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	$ 1,170	—	—	1,170
Construction work in progress	8,456	125	(8,456)	125
Total nondepreciable components of capital assets - other	9,626	125	(8,456)	1,295
Intangible assets not being depreciated:				
AMDIAP	9,361	1,536	—	10,897
Total intangible assets not being depreciated	9,361	1,536	—	10,897
Capital assets being depreciated:				
Administrative building	3,614	177	—	3,791
Infrastructure - IEP	6,003	8,456	—	14,459
Total depreciable components of capital assets - other	9,617	8,633	—	18,250
Less accumulated depreciation for:				
Administrative building	(2,282)	(182)	—	(2,464)
Infrastructure - IEP	(200)	(3,019)	—	(3,219)
Accumulated depreciation	(2,482)	(3,201)	—	(5,683)
Capital assets being depreciated - other, net	7,135	5,432	—	12,567
Total capital assets - other	$ 26,122	7,093	(8,456)	24,759

Depreciation expense of $3.019 million for Infrastructure - IEP is included in depreciation on projects and depreciation expense of $182,000 for our administrative building is included in Nonproject personnel, general and administrative expense in the Statement of Revenues, Expenses and Changes in Net Position for the fiscal year ending June 30, 2017.

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

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

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

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

(9) Bonds Payable

We have listed below the composition of bonds outstanding (in thousands) issued under our Revolving Fund Bond Resolution (Revolving Fund Bonds). Interest rate and maturity date information is as of June 30, 2017:

	Purpose of Financing	Balance at June 30, 2016	Deletions	Balance at June 30, 2017	Amounts due within one year
Series 2010A – 4.375% to 5.250% issued February 24, 2010, maturing through 2027	Red Dog Project	$ 43,665	(9,100)	34,565	2,455
Series 2010B – 4.0% to 5.5% issued December 22, 2010, maturing through 2031	Loan Participation	11,980	(555)	11,425	580
		$ 55,645	(9,655)	45,990	3,035

On June 30, 2017, Revolving Fund general assets and future revenues secured all Revolving Fund Bonds. The minimum annual payments for all Revolving Fund Bonds after June 30, 2017, are as follows (without considering earlier call provisions) (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2018	$	3,035	2,352	5,387
2019		3,235	2,206	5,441
2020		3,465	2,044	5,509
2021		3,700	1,870	5,570
2022		3,960	1,678	5,638
2023–2027		24,450	4,967	29,417
2028–2031		4,145	552	4,697
	$	45,990	15,669	61,659

The Revolving Fund Bond Resolution covenants keep us from:

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

On June 30, 2017, our unrestricted Revolving Fund surplus was $999.3 million and we estimated projected coverage for each future year exceeds 150%. The components of our unrestricted Revolving Fund surplus are as follows (in thousands):

Revolving Fund unrestricted net position	$	1,012,319
Less:		
Bond liquidity requirement		(11,498)
Loan guarantees		(1,502)
Unrestricted surplus	$	999,319

AIDEA is also required by Revolving Fund Bond Resolution covenants to maintain in the Revolving Fund Cash Equivalents (as defined in the Revolving Fund Bond Resolution) maturing within one year in an amount at least equal to the lesser of $50.0 million or 25% of the amount of general obligation indebtedness outstanding. On June 30, 2017, the bond liquidity requirement was $11,497,500.

In August 1998, AIDEA issued $100.0 million of Power Revenue Bonds to finance the purchase of Snettisham. In August 2015, we issued $65.72 million of fixed rate Power Revenue Refunding Bonds for the purpose of refunding $69.955 million of First Series Power Revenue Bonds. The refunded bonds were redeemed September 25, 2015. The refunding resulted in aggregate debt service payments over the next nineteen years in a total amount approximately $8.5 million less that the debt service payments that would have been due on the refunded bonds. There was an economic gain of approximately $5.1 million, which is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate. The refunding bonds bear interest at rates ranging from 4.0% to 5.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. Following are the minimum payments for the Power Revenue Refunding Bonds after June 30, 2017 (without considering earlier call provisions) (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2018	$	2,415	3,042	5,457
2019		2,535	2,921	5,456
2020		2,660	2,795	5,455
2021		2,800	2,662	5,462
2022		2,935	2,522	5,457
2023–2027		17,030	10,253	27,283
2028–2032		21,635	5,653	27,288
2033–2034		10,150	767	10,917
	$	62,160	30,615	92,775

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.

(10) Retirement Plan - PERS

(a) Defined Benefit (DB) Pension Plan

General Information About the Plan

AIDEA participates in the Alaska Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple employer plan that 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 post-employment health care 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, cost of living adjustments (COLA), and other post-employment benefits (OPEB). A complete benefit comparison chart is available at the website noted above.

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

Historical Context and Special Funding Situation

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

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

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

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

Employee Contribution Rates

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

Employer and Other Contribution Rates

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

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

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

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

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with 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 FY17, the rate uses an 8% pension discount rate and a 4.30% healthcare discount rate.

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

Contribution rates for the year ended June 30, 2017 were determined in the June 30, 2014 actuarial valuation.

	Employer Effective Rate	**ARM Board Adopted Rate**	**State Contribution Rate**	**GASB Rate**
Pension	14.96%	20.34%	4.14%	24.49%
Postemployment healthcare (see Note 10 (c))	7.04%	5.80%	0.00%	56.64%
Total Contribution Rates	22.00%	26.14%	4.14%	81.13%

In 2017, AIDEA was credited with the following contributions to the pension plan.

Employer contributions (including DBUL)	$ 1,282
Nonemployer contributions (on-behalf)	(1,276)
Total Contributions	$ 6

In addition, employee contributions to the Plan totaled approximately $237,000 during the fiscal year.

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

At June 30, 2017, AIDEA reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to AIDEA. The amount recognized by AIDEA for its proportional share, the related State proportion, and the total were as follows:

AIDEA proportionate share of NPL	$ 15,941
State's proportionate share of NPL associated with AIDEA	2,009
Total Net Pension Liability	$ 17,950

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. AIDEA's proportion of the net pension liability was based on AIDEA's actual contributions to the pension plan relative to the actual contributions of the State. At June 30, 2017, AIDEA's proportion was 0.29 percent, which was an increase of 0.03 from its proportion measured as of the prior measurement date.

For the year ended June 30, 2017, AIDEA recognized pension expense of approximately $3.1 million including AIDEA's portion of nonemployer contributions provided by the State. This includes approximately $776,000 paid by AIDEA during the fiscal year and approximately $2.3 million in pension related adjustments including the on-behalf portion allocated to AIDEA as a PERS employer. At June 30, 2017, AIDEA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$	1	(178)
Changes in assumptions		74	–
Net difference between projected and actual earnings on pension plan investments		1,567	–
Changes in proportion and differences between AIDEA contributions and proportionate share of contributions		885	–
AIDEA contributions subsequent to the measurement date		776	–
Total Deferred Outflows and Deferred Inflows Related to Pensions	$	3,303	(178)

The $776,000 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,

2018	$	981
2019		314
2020		640
2021		414

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Actuarial Assumptions

The total pension liability for the measurement period ended June 30, 2016 (AIDEA fiscal year 2017) was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2016. The actuarial assumptions used in the June 30, 2015 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

Actuarial Cost Method	Entry Age Normal – Level Percentage of Payroll.
Asset Valuation Method	Invested assets are reported at fair value.
Allocation Methodology	Amounts for FY14 and FY13 were allocated to employers based on actual contributions made in FY14 and FY13, respectively. Amounts for FY15 were allocated to employers based on the projected present value of contributions for FY2017-FY2039. The liability is expected to go to zero at 2039.
Investment Return / Discount Rate	8.00% per year (geometric), compounded annually, net of expenses.
Salary Scale	Inflation – 3.12% per year Productivity – 0.50% per year Peace Officer/Firefighter – graded by years of service from 9.66% to 4.92% All others – graded by age and years of service from 8.55% to 4.34%
Total Inflation	Measured by the consumer price index for urban and clerical workers for Anchorage and is assumed to increase 3.12% annually.
Mortality	Pre-termination – Based on the 2010-2013 actual mortality experience. Post-termination – 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.

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

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	5.35%
Global equity (non-US)	5.55%
Private equity	6.25%
Fixed income composite	0.80%
Real estate	3.65%
Alternative equity	4.70%

Discount Rate

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

Discount Rate Sensitivity

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
AIDEA's proportionate share of the net pension liability	$ 20,532	$ 15,941	$ 12,070

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, 2017, AIDEA was required to contribute 5% of covered salary into the DC Plan. In addition, during 2017, the State on-behalf contribution rate for OPEB was 0.00%.

AIDEA and employee contributions to PERS for pensions for the year ended June 30, 2017 were $199,000 and $307,000, respectively. AIDEA contribution amount was recognized as pension expense/expenditures.

(c) Other Post-Employment Benefit (OPEB) Plans

As part of its participation in the PERS DB Plan (Tiers I, II, III), AIDEA participates in the Alaska Retiree Healthcare Trust (ARHCT). The ARHCT is self-funded and provides major medical coverage to retirees of the System. Benefits vary by Tier level. The Plan is administered by the State of Alaska, Department of Administration. Employer contribution rates are established in concert with the Defined Benefit Pension Plan described earlier in these notes.

Employer Contribution Rate

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

Annual Postemployment Healthcare Cost

AIDEA is required to contribute 8.75% of covered payroll into the DB OPEB Plan. Employees do not contribute. Our annual DB OPEB contributions were not available for the years prior to 2017 and contributions made by us were combined for pension and OPEB and were not tracked separately. Our contributions in prior years were equal to the required contribution each year. The State made the following contributions on our behalf for DB OPEB (in thousands):

Year ending June 30:		
2015	$	—
2016		122
2017		—
	$	122

Contributions in the current fiscal year included approximately $1.282 million, which includes approximately $410,000 of contribution for OPEB.

Defined Contribution OPEB

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

Employer Contribution Rates

Employees do not contribute to the DC OPEB plans. Employer contribution rates for the year ended June 30, 2017 were as follows:

	Other Tier IV	Police/Fire Tier IV
Retiree medical plan	1.18%	1.18%
Occupational death and disability benefits	0.17%	0.49%
Total Contribution Rates	1.35%	1.67%

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, 2016, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates $2,049 per year for each full-time employee, and $1.31 per hour for part-time employees.

Annual Postemployment Healthcare Cost

In 2017, AIDEA contributed $140,000 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

(11) Related Party – Alaska Energy Authority

Based on understandings and board-approved agreements between AIDEA and AEA, we supply administrative, personnel, data processing, communications, and other services to AEA. AIDEA recognized revenue totaling $6.1 million for providing these services during FY17. As of June 30, 2017, AIDEA had $3.8 million receivable from AEA for services and short-term borrowings. In addition, AIDEA received $200,000 for administration of the Bradley Lake Hydroelectric Project.

AIDEA recorded a net pension liability of $15.9 million as of June 30, 2017. 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.

(12) 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 $12.883 million dividend to be paid from the Revolving Fund in the year ending June 30, 2018. The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.

(c) Alaska Insurance Guaranty Association

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

(d) Potential Development Projects

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

(e) Other Commitments and Contingencies

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

We also have various commitments and contingent liabilities as part of normal business, such as commitments to extend credit and guarantees, which do not appear in the accompanying financial statements. On June 30, 2017, we had extended the following commitments funded by the Revolving Fund:

- Loan participation purchase commitments of $24.5 million
- Loan guarantees of $1.5 million

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 won’t materially affect our financial position.

(f) Commitments and Contingencies - Pentex

Pentex entered into the following natural gas purchase and transportation contracts:

- Effective January 1, 2014, FNG entered into an “Interruptible LNG Transportation Agreement” with Titan to furnish interruptible LNG transportation services. The agreement expires March 31, 2018.
- Effective January 1, 2014, FNG entered into a “Firm LNG Sale and Purchase Agreement” with Titan. The agreement expires March 31, 2018.
- Effective July 1, 2013, Titan entered into a “Gas Sale and Purchase Agreement” with Hilcorp Alaska LLC to purchase natural gas. The agreement expires March 31, 2018.
- Effective September 1, 2013, Titan entered into a “Firm Transportation Service Agreement” with Enstar Natural Gas Company for transportation of natural gas from the Cook Inlet area to Point Mackenzie. The agreement expires July 31, 2018.
- In March 2015, Titan entered into an “LNG Transportation Agreement” with Sourdough Express, Incorporated for transportation of LNG. The agreement had an initial term of March 11, 2015, to September 30, 2015, and will automatically renew for additional one-year periods until terminated by either party.

- Effective March 11, 2015, Titan entered into a "Trailer Interchange Agreement" with Weaver Bros., Inc. for transportation services. The agreement will remain in effect until terminated by either party.

- In November 2015, Titan entered into an "LNG Transportation Agreement" with Big State Logistics, Inc. for transportation of LNG. The agreement had an initial term of November 1, 2015, to June 30, 2016, and will automatically renew for additional one-year periods from July to June.

(g) Commitments and Contingencies - Nonmajor Funds

AIDEA had extended commitments to fund LOCs not to exceed $10.6 million from the SETS Fund in the form of two LOCs relating to the IEP. These commitments if drawn down for qualified costs, in addition to the currently outstanding IEP related LOCs of $42.2 million, will convert to term loans in the future if certain events occur. In the event the LOCs do not convert to term loans their repayment may be limited.

Commitments to fund loans from the Loan Funds totaled $21,000 at June 30, 2017.

(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 - Pentex

IBEW Local 1547, on December 14, 2016, filed a "Labor Organization Representation Petition" with the Alaska Labor Relations Agency (ALRA) to unionize the Operations Mechanics at FNG. The National Labor Relations Board (NLRB) certified the election in March of 2016 and negotiations began. During negotiations IBEW filed unfair labor practice charges against FNG with the NLRB resulting in an investigation. During the investigation, the NLRB questioned whether FNG was subject to the NLRB's jurisdiction given AIDEA's ownership of FNG. On November 18, 2016, FNG filed a request with the NLRB to vacate the unit determination based on the NLRB's lack of jurisdiction over FNG. On November 30, 2016, FNG received notice from the NLRB that it had approved the withdrawal of the IBEW unfair labor charges. On December 14, 2016, the IBEW filed a petition with the ALRA to represent FNG natural gas operators. On January 26, 2017, FNG received a request for information from the ALRA. On February 10, 2017, FNG filed a Motion to Dismiss the IBEW's petition with the ALRA. On July 7, 2017, the ALRA issued a denial of FNG's motion to dismiss. On August 4, 2017, FNG filed a Notice of Appeal of Final Agency Decision with the Superior Court for the State of Alaska. The appeal is pending. Holland and Knight LLP, Anchorage, is representing FNG in this matter.

(j) Subsequent Events

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

The BLM decided that the allotment is not subject to the Snettisham Project Easement. The Easement was declared null and void where it crossed the Native allotment land. We appealed this decision to the IBLA. On September 27, 2017, the IBLA affirmed the BLM decision.

In June 2017, our Board authorized an additional $2.5 million investment in MOC1 as a component of bridge financing to allow MOC1 to pay outstanding obligations and fund costs for temporary infrastructure to support efforts to continue development and testing of a well in the SMU. In addition, in June 2017, AIDEA began negotiating the buyout of the common membership interest CES Services Pte. Ltd. holds in MOC1. Our Board has directed us to pursue obtaining 100% ownership interest in MOC1 LLC.

In June 2017, our Board authorized us to acquire 100% of the membership interest in MR LLC and accept the selling members' interest in the LLC in satisfaction of the selling members' obligation to pay AIDEA for its investment in the limited liability company.

In October 2017 our board approved a Purchase and Sale Agreement for the sale of Pentex to IGU. The sale is in conjunction with the IEP Financing Agreement also approved by our board. Components of the Financing Agreement include loans from our SETS Fund and the transfer of certain assets to the IGU in support of the IEP.

ALASKA INDUSTRIAL DEVELOPMENT

AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Schedule of Proportionate Share of the Net Pension Liability and Contributions

Alaska Public Employees' Retirement System

(dollars in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
AIDEA's proportion of the net pension liability	0.29%	0.26%	0.18%	0.18%	*	*	*	*	*	*
AIDEA's proportionate share of the net pension liability	$ 15,941	12,606	8,595	9,287	*	*	*	*	*	*
State's proportionate share of the net pension liability	2,009	3,563	7,439	8,542	*	*	*	*	*	*
Total	$ 17,950	16,169	16,034	17,829	*	*	*	*	*	*
AIDEA's covered-employee payroll	$ 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	212%	149%	93%	108%	*	*	*	*	*	*
Plan fiduciary net positon as a percentage of the total pension liability	60%	64%	62%	*	*	*	*	*	*	*
AIDEA's statutorily required contribution	$ 1,282	871	971	1,017	983	*	*	*	*	*
Contributions recognized by the plan in relation to the statutorily required employer contribution	1,282	871	971	1,017	983	*	*	*	*	*
Difference	$ —	—	—	—	—	*	*	*	*	*
AIDEA's statutorily required contribution as a percentage of covered-employee payroll	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, 2017, the Plan measurement date is June 30, 2016, 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 was a material change in allocation methodology from the measurement period ending June 30, 2014 and June 30, 2015. The measurement period ended June 30, 2014 allocated the net pension liability based on actual contributions for 2014. The measurement period ended June 30, 2015 allocated the net pension liability based on the present value of contributions for FY17-FY39, as determined by projections based on the June 30, 2014 actuarial valuation.

(2) The table above reports AIDEA's pension and OPEB contributions to PERS during fiscal year 2017 for comparison purposes. Contributions were not tracked separately for pension and OPEB for years prior to FY17. Amounts represent combined contributions.

Schedule 1

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

Revolving Fund – Combining Statement of Net Position

June 30, 2017

(In thousands)

Assets and Deferred Outflows of Resources		Revolving Fund Before Consolidation	Pentex	Consolidating Entries	Revolving Fund Consolidated Total
Current assets:					
Unrestricted cash and cash equivalents	$	60,864	—	—	60,864
Unrestricted cash and cash equivalents - Pentex		—	5,357	—	5,357
Restricted cash and cash equivalents		43,175	—	—	43,175
Unrestricted investment securities		15,128	—	—	15,128
Loans - current portion		36,337	—	—	36,337
Development projects accounted for as direct financing leases		9,551	—	—	9,551
Development projects accounted for as loans		3,204	—	—	3,204
Accrued interest receivable		3,875	—	—	3,875
Other assets		4,437	—	—	4,437
Other assets - Pentex		—	2,023	—	2,023
Total current assets		176,571	7,380	—	183,951
Noncurrent assets:					
Restricted cash and cash equivalents		15,756	—	—	15,756
Restricted cash and cash equivalents - Snettisham		10,013	—	—	10,013
Investment securities		329,418	—	—	329,418
Loans - noncurrent portion		367,212	—	—	367,212
Less allowance for loan losses		(8,903)	—	—	(8,903)
Net loans		358,309	—	—	358,309
Development projects accounted for as:					
Direct financing leases		139,838	—	—	139,838
Loans - noncurrent portion (note 4)		33,104	—	—	33,104
Capital assets		73,775	—	—	73,775
Preferred interest in operating companies		60,032	—	—	60,032
Restricted net investment in direct financing lease - Snettisham		60,951	—	—	60,951
Investment in component unit - Pentex		54,000	—	(54,000)	—
Capital assets-Pentex		—	60,542	—	60,542
Capital assets		24,759	—	—	24,759
Other assets		533	—	—	533
Total noncurrent assets		1,160,488	60,542	(54,000)	1,167,030
Total assets		1,337,059	67,922	(54,000)	1,350,981
Deferred outflows of resources:					
Deferred outflows of resources related to employee pensions		3,303	—	—	3,303
Deferred charge on bond refunding		149	—	—	149
Gas plant acquisition adjustment - Pentex		—	2,276	—	2,276
Deferred outflow of resources - Snettisham		3,611	—	—	3,611
Total deferred outflows of resources		7,063	2,276	—	9,339
Total assets and deferred outflows of resources	$	1,344,122	70,198	(54,000)	1,360,320
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities:	$				
Bonds payable - current portion		3,035	—	—	3,035
Accrued interest payable		588	—	—	588
Accounts payable		2,524	—	—	2,524
Advances from State of Alaska - current portion		42,311	—	—	42,311
Other liabilities		523	—	—	523
Current liabilities - Pentex		—	763	—	763
Total current liabilities		48,981	763	—	49,744
Noncurrent liabilities:					
Bonds payable - noncurrent portion		42,955	—	—	42,955
Advances from State of Alaska - noncurrent portion		825	—	—	825
Net pension liability		15,941	—	—	15,941
Other liabilities		1,213	—	—	1,213
Interfund line of credit - Pentex		—	14,806	—	14,806
Noncurrent liabilities - Pentex		—	569	—	569
Liabilities payable from restricted assets – Snettisham:					
Power revenue bonds payable		62,160	—	—	62,160
Other		12,415	—	—	12,415
Total noncurrent liabilities		135,509	15,375	—	150,884
Total liabilities		184,490	16,138	—	200,628
Deferred inflows of resources:					
Deferred inflows of resources related to employee pensions		178	—	—	178
Net position:					
Net investment in development projects – capital assets		73,775	—	—	73,775
Net investment in capital assets - Pentex		—	48,014	—	48,014
Net investment in capital assets		24,759	—	—	24,759
Restricted contributions		647	—	—	647
Unrestricted - Pentex		—	6,046	(54,000)	(47,954)
Unrestricted		1,060,273	—	—	1,060,273
Total net position		1,159,454	54,060	(54,000)	1,159,514
Commitments and contingencies		—	—	—	—
Total liabilities, deferred inflows of resources and net position	$	1,344,122	70,198	(54,000)	1,360,320

Schedule 2

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

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

Year Ended June 30, 2017

(In thousands)

	Revolving Fund Before Consolidation	Pentex	Consolidating Entries	Revolving Fund Consolidated Total
Operating revenues:				
Interest on loans	$ 16,145	—	—	16,145
Income from development projects	12,853	—	—	12,853
Income from development projects - lines of credit and loans	3,169	—	—	3,169
Income from development project - Pentex	—	16,467	—	16,467
Interest on Snettisham restricted direct financing lease	3,099	—	—	3,099
Investment interest	10,143	—	—	10,143
Net increase (decrease) in fair value of investments	(11,113)	—	—	(11,113)
Income from state agencies and component units	6,377	—	—	6,377
Other income	1,765	—	—	1,765
Total operating revenues	42,438	16,467	—	58,905
Operating expenses:				
Interest	2,461	—	—	2,461
Interest on Snettisham liabilities payable from restricted assets	3,099	—	—	3,099
Nonproject personnel, general and administrative	6,524	—	—	6,524
Net pension related adjustments	2,331	—	—	2,331
General and administrative - Pentex	—	2,193	—	2,193
Costs reimbursed from state agencies and component units	6,377	—	—	6,377
Provision for loan losses	1,073	—	—	1,073
Depreciation on projects	6,295	—	—	6,295
Depreciation - Pentex	—	2,367	—	2,367
Project feasibility and due diligence costs	823	—	—	823
Other project expenses - Pentex	—	12,454	—	12,454
Other project expenses	3,525	—	—	3,525
Total operating expenses	32,508	17,014	—	49,522
Operating income	9,930	(547)	—	9,383
Nonoperating revenues (expenses) and other:				
Net (expenses) related to Ketchikan Shipyard Repair and Replacement Fund	(298)	—	—	(298)
Other contributions	295	—	—	295
Appropriations and contributions from the State of Alaska	2,077	—	—	2,077
Dividend to the State of Alaska	(6,328)	—	—	(6,328)
Nonoperating income - Pentex	—	92	—	92
Total nonoperating revenus (expenses) and other	(4,254)	92	—	(4,162)
Increase (decrease) in net position	5,676	(455)	—	5,221
Net position - beginning of year	1,153,778	54,515	(54,000)	1,154,293
Net position - end of year	$ 1,159,454	54,060	(54,000)	1,159,514

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY
(A Component Unit of the State of Alaska)
Revolving Fund – Combining Statement of Cash Flows
Year Ended June 30, 2017
(In thousands)

		Revolving Fund Before Consolidation	Pentex	Revolving Fund Consolidated Total
Cash flows from operating activities:				
Interest received on loans	$	15,237	—	15,237
Operating receipts - Pentex		—	16,187	16,187
Receipts from borrowers		4,173	—	4,173
Principal collected on loans		53,732	—	53,732
Other operating receipts		5,960	—	5,960
Other operating receipts - Snettisham		2,492	—	2,492
Loans originated		(108,524)	—	(108,524)
Payments to suppliers and employees for services		(16,745)	—	(16,745)
Operating payments - Pentex		—	(14,086)	(14,086)
Payments to primary government		(1,415)	—	(1,415)
Other operating payments - Snettisham		(2,587)	—	(2,587)
Net cash (used for) provided by operating activities		(47,677)	2,101	(45,576)
Cash flows from noncapital and related financing activities:				
Dividend paid to the State of Alaska		(6,328)	—	(6,328)
Short-term borrowings (paid to) the Alaska Energy Authority for working capital, net		(58)	—	(58)
Principal paid on noncapital debt		(555)	—	(555)
Interest paid on noncapital debt		(617)	—	(617)
Net cash (used for) noncapital and related financing activities		(7,558)	—	(7,558)
Cash flows from capital and related financing activities:				
Direct financing lease receipts		25,098	—	25,098
Direct financing lease receipts - Snettisham		5,456	—	5,456
Capital appropriation - State of Alaska		275		275
Restricted contributions for development projects		477	—	477
Principal paid on capital debt		(9,100)	—	(9,100)
Interest paid on capital debt		(2,212)	—	(2,212)
Investment in development projects-capital assets		(115)	—	(115)
Investment in capital assets		(1,707)	—	(1,707)
Investment in capital assets - Pentex		—	(697)	(697)
Interest paid on capital debt - Snettisham		(3,157)	—	(3,157)
Principal paid on capital debt - Snettisham		(2,295)	—	(2,295)
Proceeds from interfund line of credit - Pentex		—	136	136
Interest paid on capital debt - Pentex		—	(20)	(20)
Payments on capital debt - Pentex		—	(159)	(159)
Net cash provided by (used for) capital and related financing activities		12,720	(740)	11,980
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities		325,271	—	325,271
Purchases of investment securities		(280,553)	—	(280,553)
Interest collected on investments		10,224	—	10,224
Investment in preferred interest in operating companies		(4,186)	—	(4,186)
Development projects loans and line of credit disbursements		(3,993)		(3,993)
Interest received on purchased loans		572	—	572
Principal collected on purchased loans		1,072	—	1,072
Interest received on development projects loans and line of credit		2,143	—	2,143
Principal collected on development projects loans and line of credit		3,790	—	3,790
Other investing disbursements - Pentex		—	(50)	(50)
Net cash provided by (used for) investing activities		54,340	(50)	54,290
Net increase in cash and cash equivalents		11,825	1,311	13,136
Cash and cash equivalents at beginning of year		117,983	4,046	122,029
Cash and cash equivalents at end of year	$	129,808	5,357	135,165

(Continued)

Schedule 3

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Revolving Fund – Combining Statement of Cash Flows, Continued

Year ended June 30, 2017

(In thousands)

		Revolving Fund Before Consolidation	Pentex	Revolving Fund Consolidated Total
Reconciliation of operating income to net cash (used for) provided by operating activities:				
Operating income (loss)	$	9,930	(547)	9,383
Adjustments to reconcile operating income to net cash (used for) provided by operating activities:				
Principal collected on loans		53,731	—	53,731
Loans originated		(108,524)	—	(108,524)
Investment interest income		(10,143)	—	(10,143)
Amortization of income from operating companies		(226)	—	(226)
Amortization of unearned income on direct financing leases		(10,186)	—	(10,186)
Amortization of unearned income on direct financing lease - Snettisham		(3,099)	—	(3,099)
Bond interest expense		2,710	—	2,710
Bond interest expense - Snettisham		3,099	—	3,099
Provision for loan losses		1,073	—	1,073
Depreciation on projects		6,295	—	6,295
Depreciation on administrative building		182	—	182
Depreciation - Pentex		—	2,367	2,367
Amortization of deferred outflow - Pentex		—	121	121
Net decrease in fair value of investments		11,113	—	11,113
Interest on loans		(3,775)	—	(3,775)
(Increase) in deferred outflows related to pensions		(928)	—	(928)
(Increase) in accrued interest receivable and other assets		(520)	—	(520)
Decrease in other assets - Pentex		—	74	74
Increase in net pension liability		3,335	—	3,335
(Decrease) in accounts payable and other liabilities		(1,668)	—	(1,668)
Increase in accounts payable and other liabilities - Pentex		—	86	86
(Decrease) in deferred inflows related to pensions		(76)	—	(76)
Net cash (used for) provided by operating activities	$	(47,677)	2,101	(45,576)
Noncash investing, capital, and financing activities:				
Net decrease in unrealized gain/loss on investments	$	22,897	—	22,897
Contributed assets		295	—	295
Accounts payable for capital asset additions		244	—	244
Accounts payable for capital asset additions - Pentex		—	42	42
Accounts payable for development project additions	$	2	—	2

Schedule 4

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

Nonmajor Funds – Combining Statement of Net Position

June 30, 2017

(In thousands)

Assets		SETS Fund	Loan Funds	Aggregate Nonmajor Funds
Current assets:				
Unrestricted cash and cash equivalents	$	97,150	5,686	102,836
Restricted cash and cash equivalents		1	—	1
Loans - current portion		—	811	811
Line of credit advances receivable		2,277	—	2,277
Accrued interest receivable		—	174	174
Other assets		—	—	—
Total current assets		99,428	6,671	106,099
Noncurrent assets:				
Loans - noncurrent portion		—	10,368	10,368
Less allowance for loan losses		—	(717)	(717)
Net loans		—	9,651	9,651
Line of credit		27,412	—	27,412
Interfund line of credit		14,806	—	14,806
Other assets		—	158	158
Total noncurrent assets		42,218	9,809	52,027
Total assets	$	141,646	16,480	158,126
Liabilities and Net Position				
Current liabilities:				
Accounts payable	$	8	14	22
Other liabilities		—	11	11
Total current liabilities		8	25	33
Total liabilities		8	25	33
Net position:				
Unrestricted		141,638	16,455	158,093
Total net position		141,638	16,455	158,093
Total liabilities and net position	$	141,646	16,480	158,126

Schedule 5

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

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

Year ended June 30, 2017

(In thousands)

		SETS Fund	Loan Funds	Aggregate Nonmajor Funds
Operating revenues:				
Interest on loans	$	—	467	467
Investment interest		533	—	533
Other income		—	15	15
Total operating revenues		533	482	1,015
Operating expenses:				
Nonproject personnel, general and administrative		—	237	237
Provision for loan losses		—	47	47
Project feasibility and due diligence costs		143	—	143
Total operating expenses		143	284	427
Operating income		390	198	588
Nonoperating revenues:				
Investment interest		—	29	29
Total net nonoperating revenues		—	29	29
Increase in net position		390	227	617
Net position - beginning of year		141,248	16,228	157,476
Net position - end of year	$	141,638	16,455	158,093

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

Nonmajor Funds – Combining Statement of Cash Flows

Year ended June 30, 2017

(In thousands)

		SETS Fund	Loan Funds	Aggregate Nonmajor Funds
Cash flows from operating activities:				
Interest received on loans	$	—	439	439
Principal collected on loans		—	1,624	1,624
Loans originated		—	(1,226)	(1,226)
Payments to suppliers and employees for services		(165)	(52)	(217)
Payments to (from) primary government		(12)	11	(1)
Net cash (used for) provided by operating activities		(177)	796	619
Cash flows from investing activities:				
Interest collected on investments		533	29	562
Interfund line of credit disbursements		(136)	—	(136)
Net cash provided by investing activities		397	29	426
Net increase in cash and cash equivalents		220	825	1,045
Cash and cash equivalents at beginning of year		96,931	4,861	101,792
Cash and cash equivalents at end of year	$	97,151	5,686	102,837

(Continued)

Schedule 6

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

Nonmajor Funds – Combining Statement of Cash Flows, Continued

Year ended June 30, 2017

(In thousands)

		SETS Fund	Loan Funds	Aggregate Nonmajor Funds
Reconciliation of operating income to net cash (used for) provided by operating activities:				
Operating income	$	390	198	588
Adjustments to reconcile operating income to net cash (used for) provided by operating activities:				
Principal collected on loans		—	1,624	1,624
Loans originated		—	(1,226)	(1,226)
OREO charges		—	72	72
Investment interest income		(533)	—	(533)
Provision for loan losses		—	47	47
Capitalized loan commitment fees		—	(5)	(5)
Decrease in accrued interest receivable and other assets		—	67	67
(Decrease) increase in accounts payable and other liabilities		(34)	19	(15)
Net cash (used for) provided by operating activities	$	(177)	796	619

Schedule 7

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Historical Loan Information – Revolving Fund

Year Ended June 30, 2017

(In thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10 year average
Outstanding loan balance at June 30, by loan type:											
Loan participation:											
Internally funded	$ 355,254	339,487	349,918	420,397	411,683	378,521	335,013	324,736	320,611	375,971	361,159
Bond sale	—	—	—	11,982	14,571	14,165	13,656	13,160	12,638	12,085	9,226
Bonds retired	1,685	859	815	767	717	—	—	—	—	—	484
OREO sale financing	24,644	24,491	23,844	21,234	21,167	20,942	8,864	8,146	274	258	15,386
Appropriated	179	95	48	32	17	—	—	—	—	—	37
Purchased loans	—	—	—	23,510	20,669	19,463	18,501	17,487	16,307	15,235	13,117
Other	—	3,277	3,032	2,770	—	—	—	—	—	—	908
	$ 381,762	368,209	377,657	480,692	468,824	433,091	376,034	363,529	349,830	403,549	400,317
Number of outstanding loans at June 30, by loan type:											
Loan participation:											
Internally funded	249	238	241	255	257	235	224	220	207	216	234
Bond sale	—	—	—	1	1	1	1	1	1	1	1
Bonds retired	11	1	1	1	1	—	—	—	—	—	2
OREO sale financing	8	6	6	5	5	4	4	4	2	2	5
Appropriated	14	7	2	1	1	—	—	—	—	—	3
Purchased loans	—	—	—	37	31	28	28	27	26	24	20
Other	—	1	1	1	—	—	—	—	—	—	—
	282	253	251	301	296	268	257	252	236	243	265
Aging percent of outstanding loans at June 30:											
Current	99.35%	99.04%	99.11%	99.35%	99.89%	99.49%	99.61%	99.53%	100.00%	100.00%	99.54%
Past due:											
31-60 days	0.13	—	0.17	0.59	0.05	0.05	—	—	—	—	0.10
60-90 days	—	0.88	—	—	—	—	0.31	0.47	—	—	0.16
Over 90 days	0.52	0.08	0.72	0.06	0.06	0.46	0.08	—	—	—	0.20
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Unaudited – See accompanying independent auditor's report.

Schedule 8

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Schedule of Dividend Information

Year Ended June 30, 2017

(In thousands)

History of dividends paid and declared		Revolving Fund	SETS Fund	Total
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
Total dividends to State of Alaska as of June 30, 2017		379,919	—	379,919
Declared for 2018		12,883	—	12,883
Total dividends to State of Alaska paid or declared	$	392,802	—	392,802

Computation of statutory "net income" for FY19 dividend (in thousands)		Revolving Fund	SETS Fund	Total
Increase in net position	$	5,221	390	5,611
Appropriations and contributions from the State of Alaska		(2,077)	—	(2,077)
Capital contribution		(295)	—	(295)
Dividend to State		6,328	—	6,328
Expenditures attributable to capital contributions		18	—	18
FY17 Statutory "net income"	$	9,195	390	9,585

Unaudited – See accompanying independent auditor's report.

Direct Financing Leases

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

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

  In April 2017, the Northwest Arctic Borough (NWAB) and TAK announced the successful negotiation of a new ten-year (2016-2025) payment in lieu of taxes (PILT) agreement. Under borough ordinances, this agreement supersedes the borough’s mining severance tax that would have significantly increased mine expenses. In conjunction with reaching agreement on the PILT, TAK agreed to drop its lawsuit over the borough severance tax that was filed in early 2016.

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

Capital Assets

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

  – First, reimbursement to AIDEA for administrative costs up to $18,000 annually, adjusted for inflation.

– Second, to the Repair and Replacement (R&R) Account established under the agreement, up to 125% of the amount required under the R&R project schedule defined in the agreement.

– Any remaining funds are to be distributed to AIDEA and the local Ketchikan governments.

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

- A second ship lift, financed with a grant from the U.S. Economic Development Agency and matching funds provided by the Ketchikan Gateway Borough and the State of Alaska, was constructed and placed into service in 2009.

- A new assembly hall and related projects were completed in 2014, utilizing a grant from Federal SAFETEA-LU funds and matching State of Alaska funds and other support provided by the Ketchikan governments (borough and city).

- Electrical infrastructure improvements, using funds provided by the State of Alaska were started in 2014 and are currently on-going.

Subsequent to the year-end the shipyard was awarded a federal grant to be matched with State funds. These funds will support two phases of facility improvements. The first phase involves relocating an existing electrical substation (also part of the electrical improvements described above) and constructing an asphalt surfaced, land level, open berth. The new open berth will support additional ship repair activities and the fabrication/outfitting of ship modules. The second phase includes the purchase of new equipment and related repair work for the dry dock main deck drains. According to the requirements of the funding, the project must be complete by June 30, 2019.

- *Skagway Ore Terminal project*. In July 1990, AIDEA purchased the Skagway Ore Terminal to provide ownership stability and potentially open the door to additional economic growth by marketing the ore storage shed and terminal to new users. The Skagway Ore Terminal is located on land the Municipality of Skagway owns that is subleased to AIDEA. In January 2007, we entered into a Facilities User Agreement with Capstone's 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.

- *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 are anticipated to be complete in early FY18.

Preferred Interest in Operating Companies

- *Mustang Road LLC.* AIDEA became the preferred member in Mustang Road LLC in February 2013. The purpose of Mustang Road LLC is to develop, build, own, and operate roads and a gravel pad that will facilitate the production of crude oil from the Mustang Oil Field (also known as the Southern Miluveach Unit (SMU) located on Alaska's North Slope. AIDEA is the only preferred member of Mustang Road LLC. The common members when the LLC was organized were Ramshorn Investments, Inc. and AVCG LLC. According to the LLC Operating Agreement, Mustang Road LLC engaged Brooks Range Petroleum Company (BRPC), then a subsidiary of AVCG LLC and Ramshorn Investments, Inc. to manage the construction and operation of the project. Construction of the road and pad was completed during spring 2013.

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

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

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

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

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

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

Several additional sources also secure the preferred member payments:

– A deed of trust against the LLC's 1% working interest in the oil and gas leases of the Southern Miluveach Unit (SMU) and against the working interests held by the common members and BRPC in the Southern Miluveach Unit will remain in place until the oil processing facility is completed.

– Uniform Commercial Code (UCC) security interests in the personal and fixture property of Mustang Road LLC, the common members, and BRPC.

– Deposit accounts of Mustang Road LLC and BRPC.

In June 2017 AIDEA's board authorized us to acquire 100% of the membership interest in Mustang Road LLC and accept the selling members' interest in Mustang Road LLC in satisfaction of the selling members' obligation to pay the Authority for its investment in the limited liability company. AIDEA is also in negotiations to have Mustang Road LLC obtain control of the surface infrastructure of the SMU (not including the Production Facility).

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

  The facility is being built on the Mustang Pad, owned by Mustang Road LLC. Under the agreements, the facility will be designed, built and operated by BRPC. In exchange for funding the construction of the facility, MOC 1 will receive the greater of:

  – A 20% share (carried working interest) of the oil produced from the field, this working interest may be periodically adjusted after oil revenues from the field begin, or

  – A monthly Charter Fee payment that covers MOC1's expenses and repayment of the financing for the construction of the facility, including AIDEA's investment.

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

Several additional elements of the agreements also support MOC1's finances and improve the chances of AIDEA receiving the payments it expects:

- MOC1 has been granted a deed of trust on 89% of the working interests in the Mustang Field for the pre-construction period.
- After first oil production, MOC1 will receive the proceeds of its carried working interest in the Mustang Field.
- The oil revenues from 90% of the working interests in the field will be deposited into a control account in which MOC1 holds a UCC security interest. MOC1 controls disbursements from the control account subject to contract requirements. After payment of royalties, operating expenses, production taxes and tariffs, MOC1 will be entitled to draw on the control account for the greater amount of either its working interest share or the amount due as Charter Payments. If funds from MOC1's working interest are insufficient to meet the required Charter Fee payments, MOC1 has the right to take the difference from the other working interest owners' shares on deposit in the control account. If funds in the control account are insufficient to meet the Charter Fee payments, BRPC is to make a capital call on its working interest owners to cover any shortfalls.
- MOC1 is to receive 50% of the pre-production capital expense credits paid by the State of Alaska.
- MOC1 has been granted a deed of trust on 90% of the working interests in other potential North Slope oil fields/leases that BRPC owns.

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

In October 2015, MOC1 also secured a line-of-credit note from the State of Alaska, Department of Revenue for advances on projected tax credits based on 2015 project expenditures. As of December 31, 2016, the balance of the note was $19.7 million (including accrued interest). The note has a maturity date of July 2018.

To enable MOC1 and the other project partners to seek replacement financing for the project, to secure the previously ordered equipment, and to pay outstanding invoices to MOC1 from BRPC, the MOC1 Operating Agreement and the MOC1 Charter Agreement were amended in February 2016. These amendments made changes to place the project in a “warm standby status” until December 1, 2016, and provided a budget to accomplish the objectives described above. Financing was not secured by December 2016. Under the MOC1 Charter Agreement TP North Slope, MEP Alaska, and Caracol Petroleum are required to purchase MOC1’s investment in the project for the principal amount MOC1 provided. If these parties do not purchase MOC1’s investment by April 1, 2018, then MOC1 can declare a default and enforce the purchase obligation, which could include foreclosing on the deeds of trust and enforcing the security interest against the other collateral provided.

Including disbursements made through the warm standby period, AIDEA has disbursed approximately $49.827 million and incurred approximately $176,000 in transaction costs to be reimbursed by MOC1. In June 2017 AIDEA’s board authorized an additional AIDEA investment of $2.5 million as a component of bridge financing to allow MOC1 to pay outstanding obligations and fund costs for temporary surface infrastructure supporting efforts to continue development and testing of a well in the SMU. AIDEA’s contribution is contingent on reaching a mutually acceptable agreement on how the funds will be expended and the interest AIDEA will obtain in MOC1 in return. In addition, in June 2017, AIDEA began negotiating the buyout of CES’s interest in MOC1. MOC1 and BRPC believe the completion and stimulation of a well and associated production test will assist in obtaining the additional financing necessary to enable MOC1 to move forward with Facility construction, move beyond development stage and continue as a going concern. Additional AIDEA contributions (up to the $52.5 million investment ceiling) may be possible in FY18.

Blended Component Unit

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

- Fairbanks Natural Gas (FNG) - Fairbanks gas distribution utility
- Arctic Energy Transportation (AET) - LNG fueling station operator
- Polar LNG (Polar) - North Slope LNG plant developer (inactive)

- Titan Alaska (Titan) - LNG plant and trucking operator
- Cassini LNG Storage, LLC - Fairbanks storage facility developer (inactive)

The basic terms of the purchase included:

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

Pentex and its subsidiaries, under AIDEA ownership, continue to hold their existing assets and liabilities. AIDEA's purchase of Pentex is a short-term strategic investment as part of a long-term strategy to finance the build out of an integrated distribution system in Fairbanks as a part of the IEP. The investment was made in order to promote an integrated gas distribution system in Fairbanks in furtherance of the IEP and was not made for AIDEA to be in the business of providing utility services. It is AIDEA's intent to sell Pentex and its distribution assets to a third party entity that will then own and operate the entire unified distribution system in the Fairbanks area. The goal is to complete the sale within two years at a rate of return comparable to other AIDEA financings.

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 has provided the financing for the procurement of a new high-horsepower, extended reach, onshore drilling rig that 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, compounded monthly and was added to the principal balance of the term loan. 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 was funded at the end of December 2016 in the amount of $6.063 million to cover any payment or collateral shortfall (in the event of a default).

The LOC matured on October 24, 2016 and converted to a term loan in the amount advanced under the LOC plus interest accrued on the LOC. Amendment #1 to the loan agreement provided for an extension on the LOC to December 10, 2016, while also increasing the LOC interest rate from 6.4% to 10% for the October 24, 2016 to December 10, 2016 period. Through Amendment #1, the LOC converted automatically to a term loan, with monthly interest only payments due starting January 1, 2017 through November 1, 2017. Principal and interest payments are then due starting December 1, 2017 until maturity date July 24, 2022.

- ***Blood Bank of Alaska, Inc.*** In August 2015, AIDEA entered into a Loan Agreement with Blood Bank of Alaska, Inc. An LOC not to exceed $8.5 million was included in the Loan Agreement. AIDEA is providing financing for the acquisition, delivery and installation of furniture, fixtures and equipment for a laboratory and collection facility building. Interest on the unpaid principal drawn on the LOC accrued at 5.66% per annum. Interest only payments were due monthly during the LOC period. Upon closing on the sale of the borrower's existing main office and collection facilities, AIDEA received the proceeds from the sale, less closing costs. Collateral for the financing is:

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

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

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Cross-reference for schedules contained in audited financial statements:

Schedule	Financial statements
Loan Delinquency Experience	Note 4
Outstanding Revolving Fund Bonds	Note 9
Revolving Fund	Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position
Dividends	Statement of Revenues, Expenses, and Changes in Net Position and Note 12(b)
Management’s Discussion of Financial Results	Management’s Discussion and Analysis

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

Investment Securities

AIDEA’s Revolving Fund Investment Securities at June 30, 2017, follow. No amounts related to the Snettisham Hydroelectric project* are included. Amounts include cash and cash equivalents for Pentex Alaska Natural Gas Company, LLC, a blended component unit of the Revolving Fund. As described in note 3 to the Financial Statements, a portion of the Investment Securities are subject to certain restrictions (in thousands):

Current assets:		
Cash and cash equivalents (unrestricted)	$	66,221
Cash and cash equivalents (restricted)		43,175
Investment securities (unrestricted)		15,128
Noncurrent assets:		
Cash and cash equivalents (restricted)		15,756
Investment securities (unrestricted)		329,418
Investment securities	$	469,698

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

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Restricted Cash, Cash Equipment, and Investment Securities

AIDEA's Revolving Fund Restricted Cash, Cash Equivalent, and Investment Securities at June 30, 2017, follow (in thousands):

Restricted cash, cash equivalents, and investment securities (see note 3 to the financial statements)	$	68,944
Less restricted funds related to the Snettisham Hydroelectric Project		(10,013)
Restricted investment securities	$	58,931

Largest Loans and Development Projects

The following table lists the net investment in AIDEA's seven largest loans and development projects as of June 30, 2017 (excluding the Snettisham project, dollars in thousands). The obligor listed is the entity responsible for payment under the loan or the entity responsible for the revenue producing agreement.

Largest Loans and Development Projects

Obligor or project	Net book value June 30, 2017	Minimum annual receipts	Authority program	Type of business/ collateral
Teck Alaska Incorporated	$ 135,845 [(1)]	17,670 [(2)]	Development Project	Public Port and Road
Vigor Alaska, LLC	73,775 [(3)]	N/A [(4)]	Development Project	Shipyard
Pentex Alaska Natural Gas Company, LLC	70,198 [(5)]	N/A[(6)]	Development Project	Natural Gas Company
Mustang Operations Center 1, LLC	50,003 [(7)]	N/A [(8)]	Development Project	Oil Production Facility
BlueCrest Alaska Operating LLC [(9)]	31,898 [(9)]	6,012 [(10)]	Development Project	Oil and Gas Drilling Rig
X'UNA KAAWU ANNEE Corporation	19,863	3,882	Loan	Tourist site with Cruise Ship Dock
Brooks Camp, LLC	18,415	1,772	Loan	Oil Field Support Man Camp

(1) Represents AIDEA's net investment in the DeLong Mountain Transportation System (DMTS). See AIDEA's June 30, 2017, Financial Statements, note 7 and Schedule 9.

(2) Represents projected minimum annual receipts from the DMTS; does not include future tonnage sensitive payments (released from a reserve fund) or potential price sensitive payments.

(3) Represents AIDEA's net investment in the Ketchikan Shipyard. See AIDEA's June 30, 2017, Financial Statements, note 7 and Schedule 9.

(4) Payments under the operating agreement are not currently projectable. See AIDEA's June 30, 2017, Financial Statements, Schedule 9.

(5) Represents total assets of Pentex Alaska Natural Gas Company, LLC at June 30, 2017. See AIDEA's June 30, 2017, Financial Statements, note 7 and Schedule 9.

(6) Minimum annual receipts for Pentex Alaska Natural Gas Company, LLC are not projectable. See AIDEA's June 30, 2017, Financial Statements, note 7 and Schedule 9.

(7) Represents AIDEA's investment as a preferred member in Mustang Operations Center 1 LLC, which is constructing an oil production facility on the Mustang Oil Field. See AIDEA's June 30, 2017 Financial Statements, note 7 and Schedule 9.

(8) See AIDEA's June 30, 2017, Financial Statements, Schedule 9.

(9) BlueCrest Alaska Oil & Gas LLC, BlueCrest Cosmopolitan LLC and BlueCrest Energy Inc. are co-borrowers under the loan agreement. Represents outstanding loan balance, which includes the amount drawn on Line of Credit (LOC) converted to Development project term loan during FY2017. See AIDEA's June 30, 2017, Financial Statements, note 7 and Schedule 9.

(10) Represents minimum annual receipts from term loan. BlueCrest LOC converted to a term loan in October 2016 with interest only payments through November 2017. Monthly principal and interest payments begin December 2017.

Loan Portfolio

The composition of the Revolving Fund loan portfolio at June 30, 2017, follows (dollars in thousands). Loans funded under AS 44.88.172 are considered development projects and are excluded from the table below:

	Number		Amount
Loan participation:			
Internally funded	216	$	375,971
Bond sale	1		12,085
OREO sale financing	2		258
Purchased loans	24		15,235
	243	$	403,549

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Loans Restructured from Original Terms *

All Revolving Fund loans were current at June 30, 2017, and AIDEA had no Revolving Fund loans on which the terms had been restructured from their original terms.

Description of Assets

On June 30, 2017, AIDEA's Revolving Fund had total assets of $1.289 billion available to pay or to generate revenues to pay debt service on the Revolving Fund Bonds. This amount includes $58.9 million in restricted investment securities that are restricted by the terms of agreements (see Restricted Investment Securities).

Loans, investments in development projects and other assets totaling $816 million at June 30, 2017, are not highly liquid (excludes Snettisham project assets). Development projects include:

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

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

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Historical Financial Performance

The following table summarizes AIDEA's Revolving Fund debt service coverage for the year ended June 30, 2017 (no amounts related to the Snettisham project are included. Dollars below stated in thousands).

Debt Service Coverage for Revolving Fund Bonds

Loan principal and interest payments	$	70,613
Investment earnings [(1)]		9,887
Development project receipts [(2)]		49,660
Other revenues		7,693
		137,853
Less operating and maintenance expenses [(3)]		(32,425)
Net income [(4)] available for debt service	$	105,428
Annual debt service [(5)]	$	12,484
Debt service coverage		8.45x

(1) Income collected on investments less $332,000 realized loss on investment sales and maturities, less interest earned on restricted investments related to the Ketchikan Shipyard.

(2) Includes price sensitive and tonnage sensitive (released from a reserve fund) payments of $6,304,000 relating to DMTS. Also includes Pentex operating receipts of $16,187,000 and receipts from development projects accounted for as loans.

(3) Includes Pentex operating and maintenance expenses of $14,086,000.

(4) Net income computation based on Section 713(B) of the Revolving Fund Bond Resolution.

(5) Excludes payments on bonds issued to finance the Snettisham project.