ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Basic Financial Statements and Schedules

June 30, 2019

(with summarized financial information for June 30, 2018)

(With Independent Auditor's Report Thereon)

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member
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ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY
(A Component Unit of the State of Alaska)

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Independent Auditor's Report

The Board
Alaska Industrial Development and Export Authority
Anchorage, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Alaska Industrial Development and Export Authority (a Component Unit of the State of Alaska) (Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4–20 and schedules of proportionate share of the net pension and net OPEB liability and contributions on pages 76-77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information in schedules 1 through 6 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in schedules 1-3 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplementary information in schedules 4-6 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019 on our consideration of the Alaska Industrial Development and Export Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alaska Industrial Development and Export Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alaska Industrial Development and Export Authority's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
October 28, 2019

Overview of the Financial Statements

The financial statements of the Alaska Industrial Development and Export Authority (AIDEA, we, us, our) report financial activity for two components; the Revolving Fund and the Nonmajor Funds. AIDEA is a public corporation of the State of Alaska (State) and a body corporate and politic constituting a political subdivision within the State Department of Commerce, Community and Economic Development (DCCED), but with separate and independent legal existence. AIDEA has its own self-balancing set of financial statements independently audited from the State. We do most of our business and operations through the Revolving Fund using two accounts, which are the Enterprise Development Account and Economic Development Account. Information on these two Accounts is in note 1 to the basic financial statements. We owned Pentex Alaska Natural Gas Company, LLC (Pentex) through June 13, 2018 when we sold our membership interest. We have included it as a blended component unit of the Revolving Fund for the period we owned Pentex during FY18.

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) 2019, with summarized comparative totals as of and for FY18. 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 FY19 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 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 FY18.

Management's Discussion and Analysis

This section contains our analysis of the financial position and results of operations at and for FY19. 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, 2019 and 2018 by $1.37 billion and $1.33 billion, respectively. Our FY19 unrestricted net position was $1.28 billion (with $1.12 billion in the Revolving Fund) and our FY18 unrestricted net position was $1.24 billion (with $1.08 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, 2019, and 2018 (in thousands):

	FY19	FY18	Increase (decrease)
Current assets	$ 237,008	230,754	6,254
Development projects – capital assets	67,827	71,108	(3,281)
Capital assets - other	18,605	20,847	(2,242)
Other noncurrent assets	1,172,979	1,136,082	36,897
Total assets	1,496,419	1,458,791	37,628
Deferred outflows of resources	4,722	4,619	103
Total assets and deferred outflows of resources	$ 1,501,141	1,463,410	37,731
Current liabilities	$ 7,486	7,367	119
Noncurrent liabilities	117,708	125,161	(7,453)
Total liabilities	125,194	132,528	(7,334)
Deferred inflows of resources	1,044	2,237	(1,193)
Net position:			
Net investment in capital assets	89,632	91,955	(2,323)
Restricted	817	375	442
Unrestricted	1,284,454	1,236,315	48,139
Total net position	1,374,903	1,328,645	46,258
Total liabilities, deferred inflows of resources and net position	$ 1,501,141	1,463,410	$ 37,731

Current assets were $6.3 million higher at June 30, 2019, compared to June 30, 2018, and are below (in thousands):

		FY19	FY18	Increase (decrease)
Unrestricted cash/cash equivalents and investments	$	138,022	119,698	18,324
Restricted cash/cash equivalents and investments		23,067	48,321	(25,254)
Loans – current portion		41,150	39,690	1,460
Line of credit and loan advances receivable		-	325	(325)
Development projects accounted for as direct financing leases – current portion		11,371	8,046	3,325
Development projects accounted for as loans – current portion		11,000	5,425	5,575
Development project assets held for sale		3,200	-	3,200
Accrued interest receivable/other current assets		9,198	9,249	(51)
Total	$	237,008	230,754	6,254

- **Unrestricted cash/cash equivalents and investments** balances increased $18.3 million compared to FY18. Operating activities decreased cash balances by $3.5 million. Loan fundings of $51.4 million and other operating payments reduced cash flows from operations, partially offset by loan payments of $35.6 million and other operating receipts. Net noncapital and related financing activities also decreased unrestricted cash balances including our $4.6 million dividend to the State. Cash balances increased about $18.6 million by capital and related financing activities while investing activities decreased unrestricted cash and investment balances.
- **Restricted cash/cash equivalents and investments** decreased $25.3 million compared to FY18. This decrease was primarily due to the approximately $26.8 million in loan disbursements made to the Interior Gas Utility (IGU) in connection with the Interior Energy Project. Restricted funds were also used to fund additional expenditures related the Ketchikan Shipyard and Ambler Mining District Industrial Access Project (AMDIAP). Drawdowns of State capital appropriations related to Ketchikan Shipyard and AMDIAP, and Ketchikan shipyard R&R account increased restricted cash balances.

- **Loans - current portion** increased $1.46 million, primarily due to an overall increase in our loan portfolios. The current portion of our portfolio represents loan principal payments we expect to receive within the next year.
- **Line of credit and loan advances receivable** represents the balance we advanced on a Line of Credit (LOC) from our SETS fund in excess of anticipated cash flow needs of the borrower under the LOC agreement. The LOC relates to work on the distribution system for the IEP and converted to a loan June 13, 2018 under the IEP Financing Agreement. Advances were made on the LOC based on projected cash needs of the borrower for the project in FY17 and have been used to fund qualified expenditures. Therefore, the FY19 balance is zero.
- **Development projects accounted for as direct financing leases - current portion** increased $3.33 million in FY19 compared to FY18. Payments made earlier than scheduled in FY18 of approximately $4.4 million decreased the current portion reported in FY18 compared to FY19. The application of more future payments to principal rather than interest partially offset this decrease.
- **Development projects accounted for as loans - current portion** represents the principal payments due within one year on loans we consider development projects and fund from our Economic Development Account. Balances increased $5.58 million in FY19 compared to FY18. The current portion of loans increased $5.0 million in FY19 compared to FY18 primarily as a result of our financing of the sale of our preferred member interests in Mustang Road LLC (MR LLC) and Mustang Operations Center 1 LLC (MOC1) May 24, 2019 (Mustang development financing). Future payments will be applied more to principal rather than interest, resulting in higher current balances over prior year.
- **Development project assets held for sale** represents our ownership of ADL #421055, a new 30-year general lease for a gravel pad located on the North Slope of Alaska. In FY19, it was determined the fair market value of the asset was $3.2 million. Prior to FY19, we held the asset as a capital asset but it was not deemed a development project until FY19. The asset was transferred from Capital assets-other at a net book value of $5.2 million, therefore we recognized an impairment of $2.0 million to reflect the established market value of the asset.
- **Accrued interest receivable/other current assets** decreased approximately $51,000. Accrued interest on loans increased $984,000, a product of a higher loan participation portfolio balance and the new loans associated with the Mustang development financing. This increase was offset by decreases in other current assets of $1.0 million including a decrease of $818,000 due from the Alaska Energy Authority (AEA) for services and borrowings and other receivables.

Development projects - capital assets decreased $3.28 million in FY19. Depreciation on the Ketchikan Shipyard decreased balances by approximately $3.3 million, partially offset by capital asset additions.

Capital assets - other decreased $2.2 million in FY19. The balance decreased $5.2 million, the net effect of the transfer of our ownership of a new 30-year general lease on a completed North Slope gravel pad (ADL #421055) to Development project assets held for sale. Depreciation on our administrative building and North Slope pad prior to its reclassification as an asset held for sale further decreased balances compared to prior year. Capitalized work relating to the AMDIAP increased this balance by approximately $2.85 million.

Other noncurrent assets increased $36.9 million. The following table breaks out other noncurrent assets (in thousands):

	FY19	FY18	Increase (decrease)
Restricted cash and cash equivalents	$ 5,020	6,932	(1,912)
Restricted cash and cash equivalents - Snettisham	10,216	11,364	(1,148)
Restricted investment securities	9,986	9,898	88
Unrestricted investment securities	390,665	371,630	19,035
Net OPEB asset	48	36	12
Loans (net)	506,016	465,541	40,475
Development projects	250,597	270,179	(19,582)
Other assets	431	502	(71)
Total	$ 1,172,979	1,136,082	36,897

- **Restricted cash and cash equivalents** decreased $1.9 million during FY19 compared to FY18. The decrease was primarily related to the reclassification to current of advances we received on State capital appropriations. The appropriations will expire within a year and we plan to spend all advances we have received prior to the expiration.
- **Restricted cash and cash equivalents - Snettisham** decreased $1.1 million, the net effect of activity in FY19 related to the Snettisham project.
- **Restricted investment securities** increased slightly compared to FY18 as a result of our continued investment of these funds.
- **Unrestricted investment securities** increased $19.0 million consistent with an increase in our overall investment portfolio. We recognized a $19.1 million increase in the fair market value of our investment portfolio due to net unrealized gains on investments, offset by approximately $1.1 million of realized losses.
- **Net OPEB asset** increased $12,000 because of a change in the proportionate share of Other Postemployment Benefits (OPEB) asset related to our participation in the Public Employee's Retirement System (PERS) Occupational Death and Disability (ODD) Plan. Net OPEB asset represents our allocated portion of the asset for OPEB ODD benefits provided through the PERS.
- **Loans (net)** increased $40.5 million from June 30, 2018 compared to June 30, 2019. Loan fundings of loan participations and Loan Fund loans increased loan balances by $51.4 million while principal payments of $36.6 million decreased the FY19 balance. Loan balances include the SETS fund loan increase of $26.9 million as a result of the FY19 financing of the Interior Energy Project and reclassification of prior year loan advances receivable of $325,000. We transitioned approximately $1.5 million more to current in FY19 compared to FY18. The FY19 current portion is based on projected FY20 payments. A slight increase to

our allowance for loan losses decreased our net portfolio balance in FY19 compared to FY18. The allowance for loan losses was increased in recognition of the higher portfolio balance.

- **Development projects** decreased $19.6 million mainly for reasons discussed below. We may or may not have an ownership interest in these projects, but they have been financed under our Direct Financing Program and are considered AIDEA development projects. Depending on the terms of the financing, the projects are accounted for as a capital lease, investment in an operating company or loan.
  - $20.8 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.
  - $62.9 million net decrease in preferred interest in operating companies during FY19. On May 24, 2019 we sold our preferred member interest in MR LLC and MOC1 for $64 million in a seller financed transaction to Caracol Petroleum LLC (Caracol). The sales price included compensation for our remaining investment in the companies as well as accrued dividends and other amounts receivable relating to our interest. The sale of our preferred member interests was part of a larger restructure of the Mustang Field development effort.
  - $64.1 million net increase in the balance of development projects accounted for as loans. The increase was substantially due to the financing of our sale of AIDEA's preferred member interest in MR LLC and MOC1 to Caracol. The Mustang Development financing included the establishment of three loans.
    - $64 million loan to Caracol representing the purchase price of our preferred membership interests in MR LLC and MOC1.
    - $6.1 million loan to Caracol representing interest capitalized on the $64 million loan above from April 1, 2018 through May 24, 2019 when the loan transitioned to a term loan.
    - $16.4 million loan to MOC1 that was acquired from the State of Alaska Department of Revenue (DOR). This loan was originally funded by DOR and is secured by State of Alaska oil and gas tax credits payable to MOC1. As part of the membership sale of MOC1 AIDEA agreed to guarantee and later acquire the lender's position on this loan.

  The increase of approximately $86.5 million resulting from the Mustang Development financing above was partially offset by principal payments of approximately $6.3 million during FY19. Additionally, we transitioned $5.6 million more to current in FY19 compared to FY18 as more payments will be applied to principal rather than interest in the future. A $10.5 million increase to our allowance for development project loan losses decreased our net portfolio balance in FY19 compared to FY18. The allowance for loan losses was increased in recognition of the change in fair value of the collateral assets securing the loans to Caracol for the Mustang Development financing.

- **Other assets** decreased $71,000 during FY19 mostly due to the amortization of bond issuance costs and a reduction in the buyback provision associated with the AEA Power Project Fund purchased loans. The agreement under which AIDEA purchased the Power Project Fund loans requires that AEA upon AIDEA's request repurchase any loan after a payment default. The buyback provision decreases as the purchased loan balances are paid down.

Deferred outflows of resources increased $103,000 during FY19. The following table provides the details for deferred outflows of resources (in thousands):

	FY19	FY18	Increase (decrease)
Deferred outflows of resources related to employee pensions	$ 1,219	1,184	35
Deferred outflows of resources related to employee OPEB	706	187	519
Deferred charge on bond refunding	94	121	(27)
Deferred outflows of resources - Snettisham	2,703	3,127	(424)
Total	$ 4,722	4,619	103

- **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, 2018. Deferred outflows of resources include the impact of changes in certain actuarial assumptions and experience. Our allocated portion of these amounts increased $35,000 compared to FY18. The State's proportionate share of deferred outflows of resources related to employee pensions increased in FY19, 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 outflows of resources related to employee OPEB** represents our allocated portion of deferred outflows of resources relating to our participation in the OPEB plan, which includes the Alaska Retiree Healthcare Trust (ARHCT), Retiree Medical Plan (RMP), and Occupational Death and Disability Plan (ODD). The balance increased $519,000 relating to our adjustment for FY19 OPEB expenses and contributions. The State's proportionate share of deferred outflows of resources related to employee OPEB increased in FY19, 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.

- **Deferred outflows of resources - Snettisham** decreased $424,000. 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 $119,000. The following table breaks out current liabilities (in thousands):

		FY19	FY18	Increase (decrease)
Bonds payable – current portion	$	3,465	3,235	230
Accrued interest payable		511	551	(40)
Advances from State of Alaska – current portion		587	1,046	(459)
Accounts payable/other liabilities		2,923	2,535	388
Total	$	7,486	7,367	119

- **Bonds payable - current portion** increased due to scheduled principal payments made on our Revolving Fund bonds of approximately $3.2 million, offset by the transition of $3.5 million to current.

- **Accrued interest payable** on bonds decreased because of lower Revolving Fund bond balances.

- **Advances from State of Alaska - current portion** decreased $459,000 compared to the FY18 balance**.** The balance represents advances from State general fund capital appropriations relating to the AMDIAP, IEP and the Ketchikan Shipyard. Expenditures of $3.3 million relating to AMDIAP, IEP, and the Ketchikan Shipyard were offset by approximately $2.8 million of advanced funds received during the year.

- **Accounts payable/other liabilities** increased $388,000 compared to FY18. Balances mainly increased due to an increase in fees paid to us for future loans. Consistent with generally accepted accounting principles we will recognize these fees as income when the loans fund. Increases in accounts payable also contributed to the increase.

Noncurrent liabilities decreased about $7.5 million. The following table breaks out noncurrent liabilities (in thousands):

		FY19	FY18	Increase (decrease)
Bonds payable – noncurrent portion	$	36,255	39,720	(3,465)
Net pension liability		9,772	9,843	(71)
Net OPEB liability		2,049	1,622	427
Other liabilities		850	1,016	(166)
Liabilities payable from restricted assets - Snettisham		68,782	72,960	(4,178)
Total	$	117,708	125,161	(7,453)

- **Bonds payable - noncurrent portion** decreased approximately $3.5 million as a result of the transition to current liabilities of the portion of Revolving Fund bonds due in the next year.

- **Net pension liability** represents our allocated portion of the liability for pension benefits provided through PERS. Our FY19 liability decreased approximately $71,000 compared to FY18. The State's proportionate share of net pension liability decreased in FY19, which decreased the balance allocated to us.

- **Net OPEB liability** represents our allocated portion of the liability for OPEB benefits in the ARHCT and RMP plans provided through the PERS. Net OPEB liability increased approximately $427,000 due to increase of the State's proportionate share of OPEB.

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

- **Liabilities payable from restricted assets - Snettisham** decreased $4.2 million primarily due to the $2.5 million reduction in Power Revenue bonds payable, a result of principal payments and reduction in other liabilities of $1.7 million.

Deferred inflows of resources decreased $1.2 million. This balance represents our proportionate share of deferred inflows of resources relating to pension and OPEB benefits provided through PERS. The State's proportionate balance of deferred inflows of resources relating to participation in pension benefit provided through PERS decreased compared to FY18, therefore, our allocated balance also decreased $1.1 million. Deferred inflows of resources related to OPEB ARHCT, RMP, and ODD plans decreased $100,000 from FY18 as a result of the overall decrease in the State's proportionate balance of OPEB plans deferred inflows. Deferred inflows of resources are comprised of amounts such as the difference between projected and actual investment earnings for PERS based on the most recent plan valuation, June 30, 2018.

Total net position increased $46.3 million during the fiscal year due to the following:

- $47.6 million increase from operating activities.

- $1.3 million decrease from nonoperating and other activities.

Net investment in capital assets, a component of total net position, decreased approximately $2.3 million. Depreciation and the impairment of capital assets reduced this balance. Capital asset additions partially offset these decreases.

Unrestricted net position increased $48.1 million, the net effect is due to an increase of $46.3 million from FY19 revenues and expenses, a slight increase in restricted net position and the $2.3 million decrease in net investment in capital assets.

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Following are AIDEA's operating revenues and expenses, net nonoperating revenues (expenses), and other nonoperating activity for FY19 and FY18 (in thousands):

	FY19	FY18	Increase (decrease)
Operating revenues:			
Interest on loans	$ 17,674	16,839	835
Income from development projects	20,731	30,324	(9,593)
Restricted income	2,858	2,982	(124)
Investment interest	14,088	11,923	2,165
Net increase (decrease) in fair value of investments	17,972	(12,039)	30,011
Income from state agencies and component units	5,699	5,366	333
Gain on sale of development project	356	6,744	(6,388)
Other Income	1,054	2,194	(1,140)
Total operating revenues	80,432	64,333	16,099
Operating expenses:			
Interest	2,034	2,160	(126)
Interest on liabilities payable from restricted assets	2,858	2,982	(124)
Nonproject personnel, general and administrative	6,625	8,764	(2,139)
Net pension related adjustments	(1,063)	(2,016)	953
Net OPEB related adjustments	(131)	164	(295)
Costs reimbursed from state agencies and component units	5,699	5,366	333
Provision for loan losses	10,552	797	9,755
Depreciation	3,524	8,448	(4,924)
Impairment loss on development projects	2,003	-	2,003
Project feasibility, due diligence and other project expenses	775	12,558	(11,783)
Total operating expenses	32,876	39,223	(6,347)
Operating income	47,556	25,110	22,446
Net nonoperating (expenses) revenues	710	(222)	932
Other contributions	-	93	(93)
Appropriations and contributions from the State of Alaska	3,297	43,854	(40,557)
Capital grant	29	527	(498)
Capital funds contribution	(542)	(40,254)	39,712
Impairment loss on capital assets	-	(2,818)	2,818
Dividend to the State of Alaska	(4,792)	(12,883)	8,091
Increase in net position	$ 46,258	13,407	33,851

Operating revenues increased $16.1 million during the year ended June 30, 2019, compared to 2018.

- **Interest on loans** includes interest earned on our loan portfolios funded by our Enterprise Development Account and Loan Funds**.** Interest on loans increased $835,000 in FY19 compared to FY18. This increase is consistent with an overall increase in our loan portfolio.
- **Income from development projects** decreased $9.6 million. The following table breaks out income from development projects (in thousands):

	FY19	FY18	Increase (decrease)
Interest income on direct financing leases	$ 8,275	9,240	(965)
Operating income - Pentex	-	14,875	(14,875)
Income from operating leases	2,452	2,441	11
Income from investment in operating companies	476	448	28
Income from lines of credit and loans	9,528	3,320	6,208
Total	$ 20,731	30,324	(9,593)

- **Interest income on direct financing leases** decreased $965,000 due to decreased direct financing lease balances. As balances decrease a larger portion of payments is applied to principal rather than interest.
- **Operating income - Pentex** added approximately $14.9 million to income from development projects in FY18. We sold Pentex in FY18, which resulted in a decrease of operating income from Pentex of $14.9 million.
- **Income from operating leases** increased $11,000 in FY19 compared to FY18. The increase is due to a new space lease at the Ketchikan shipyard. There were no changes in our other lease agreements during the year therefore revenues remained stable and recognized in accordance with the agreements.
- **Income from investment in operating companies** increased slightly in FY19 compared to FY18. The increase was mostly due to dividends accruing on priority member interests we purchased in FY18 in MOC1. We received 1,250 member interests in the LLC in FY18 with an additional $2.5 million contribution. All member interests were sold as part of the owner-financed MOC1 LLC membership interest sale.
- **Income from lines of credit and loans** represents interest earned on loans and LOCs funded under the Direct Finance Program from our Economic Development Account. Interest income from these loans increased $6.2 million in FY19 compared to FY18 substantially as a result of the $6.1 million in capitalized interest generated by the Mustang development financing.
- **Restricted income** represents income related to the Snettisham Hydroelectric Project. Restricted income decreased slightly compared to FY18.

- **Investment interest** is comprised of interest earned on our investment portfolios. Investment interest was $2.2 million higher in FY19 compared to FY18. This increase was the product of market conditions and portfolio management.
- **Net increase (decrease) in fair value of investments** represents realized and unrealized gains and losses on our investment portfolios. There was a net increase in fair value of investments totaling $18.0 million in FY19 compared to a net decrease in fair value of investments of $12.0 million in FY18. Net unrealized gains of $19.1 million in FY19 were more than the net unrealized losses of $9.7 million in FY18 resulting in a $28.8 million increase between the two years. The FY19 realized losses of $1.1 million were less than the $2.3 million realized in FY18. U.S. generally accepted accounting principles require us to mark our investment portfolio to market value at the end of each fiscal year and reflect that adjustment as a component of net income. The impact of declining interest rates on our portfolio contributed to the change between the two years.
- **Income from State agencies and component units** represents income relating to services provided to other State agencies. Income increased approximately $333,000 in FY19. This balance is primarily comprised of revenues collected from AEA for personnel services provided by AIDEA employees. Overall, the slight change is due to an increase in personnel costs charged to AEA for staff time spent on AEA projects and programs.
- **Gain on sale of development project** represents the difference between the book value of development project assets sold and their sales price. We recognized a gain of $356,000 on the owner-financed sale of our membership interest in MOC1 LLC and MR LLC in FY19 compared to a gain of $6.7 million from the sale of our membership interests in Pentex in FY18.
- **Other income** decreased $1.1 million. The decrease in FY19 was primarily due to a decrease of $829,000 in the allocation of the State "on-behalf" contribution related to pension and OPEB benefits provided through PERS. We also recognized less revenue from loan modification and commitment fees related to our Revolving Fund loan portfolio in FY19 compared to FY18. Loan fundings were less in FY19 compared to FY18 resulting in decreased revenues between the two years.

Operating expenses decreased a net of $6.3 million in FY19 compared to FY18.

- **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 FY19 compared to FY18 due to lower outstanding debt balances during the year ended June 30, 2019, compared to 2018.
- **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 FY19 resulting from a lower outstanding balance of Snettisham Power Revenue bonds.
- **Nonproject personnel, general and administrative** includes costs related to our staff and general operations such as facilities costs and supplies not directly charged to project expense or capitalized. Nonproject personnel, general and administrative costs decreased $2.1 million in FY19 compared to FY18. FY19 was $1.8 million less than FY18 as a result of our FY18 sale of Pentex. The remaining decrease in FY19 compared to FY18 reflects the continued focus on cost containment.

- **Net pension related adjustments** represent accounting adjustments resulting from our participation in PERS, as allocated to us by the State. These adjustments reflect the impact of actuarial measurements on pension expense. Net adjustments allocated to us in FY19 reduced net expenses by approximately \$1.1 million compared to a reduction of expenses in FY18 of approximately \$2.0 million.
- **Net OPEB related adjustments** represent accounting adjustments resulting from our participation in OPEB plans associated with PERS, as allocated to us by the State. These adjustments reflect the impact of actuarial measurements on OPEB expense. Net adjustments allocated to us in FY19 reduced net expenses by approximately \$131,000 compared to an increase of expenses in FY18 of approximately \$164,000.
- **Costs reimbursed from State agencies and component units** represents costs we incurred relating to other State agencies and for which we were reimbursed, such as staff time spent on projects and programs for AEA. This balance increased in FY19 compared to FY18 primarily due to a \$333,000 increase in personnel costs charged to AEA for staff time spent on AEA projects and programs.
- **Provision for loan losses** represents the adjustment made to recognize potential losses in our loan portfolios. The provision for loan losses was \$9.8 million higher in FY19 compared to the prior year. The provision for loan losses in FY19 was \$10.5 million higher than FY18 due to a \$10.5 million provision relating to our loans associated with the Mustang development financing. Our provision for loan losses for FY19 relating to the remaining loans in our portfolio was less than the provision for loan losses in FY18, partially offsetting the increase.
- **Impairment loss on development projects** represents an adjustment for a reduction in the carrying value of a development project capital asset. In FY19 we recognized a \$2.0 million impairment related to the value of our pad on the North Slope and associated general purpose lease (ADL #421055). The impairment reduces our carrying value to \$3.2 million, the amount we have agreed to sell the asset for.
- **Depreciation expense** represents the adjustment made to recognize the cost of a capital asset over its useful life. Depreciation expense decreased \$4.9 million in FY19 compared to FY18. FY19 depreciation expense was \$2.1 million less than FY18 as a result of our sale of Pentex in FY18. Reductions in depreciable assets relating to the North Slope pad also reduced depreciation expense in FY19 compared to FY18.
- **Project feasibility, due diligence and other project expenses** represent expenditures related to our owned projects such as Pentex, the Ketchikan Shipyard and the Skagway Ore Terminal and costs incurred to understand and evaluate potential projects. These costs decreased \$11.8 million in FY19 compared to FY18. This decrease was mostly due to the following:
    - \$11.2 million decrease in project expenses relating to Pentex during FY19 compared to FY18. Pentex was sold in FY18.
    - \$268,000 decrease in project costs during FY19 compared to FY18. This decrease was primarily due to a decrease in expenses related to our owned projects.
    - Feasibility/due diligence costs were \$344,000 less in FY19 compared to FY18 as we completed our work on the MOC1 LLC and MR LLC sale transaction.

Net nonoperating revenues (expenses) increased $932,000 during the year ended June 30, 2019, compared to June 30, 2018. We reported net expenses of $222,000 in FY18 compared to net revenue of $710,000 in FY19. Net nonoperating revenues (expenses) are comprised of net activity related to the Ketchikan Shipyard Repair and Replacement Fund, investment interest related to the Loan Funds and nonoperating revenues and expenses of Pentex.

- Net activity related to the Ketchikan Shipyard Repair and Replacement Fund represents repairs and replacement costs for the Ketchikan Shipyard paid from the Repair and Replacement investment account we administer, net of contributions received for the account by the operator of the shipyard. Expenses paid from the Ketchikan Shipyard Repair and Replacement Fund exceeded contributions to the fund by $127,000 for FY18 and revenues exceeded expenses by $448,000 in FY19. The net effect of the activity in FY18 and FY19 resulted in overall increase of $575,000.
- A net decrease of $167,000 in nonoperating expenses from Pentex due to the sale of Pentex in FY18.
- A net increase of $190,000 in investment income related to the Loan Funds in FY19 compared to FY18.

Other contributions in FY18 represent the contribution of assets by the project operator to the Ketchikan Shipyard. There were no contributed assets in FY19.

Appropriations and contributions from the State of Alaska include revenue recognized from State General Fund capital appropriations and contributions of funding and assets from other State agencies. These revenues decreased approximately $40.6 million in FY19 compared to FY18. A substantial decrease in these revenues was due to the use of approximately $40.3 million of a State General Fund capital appropriation to partially finance IGU's purchase of Pentex in FY18. Reduced spending on the AMDIAP and Ketchikan Shipyard also contributed to the decrease between the two years.

Capital grant revenues represent revenues recognized from the expenditure of federal capital funding at the Ketchikan Shipyard. We recognized $498,000 less capital grant revenue in FY19 compared to FY18 as a result of reduced spending on Ketchikan Shipyard grant funded capital projects. We received federal funds to continue development of the Ketchikan Shipyard and recognized revenues to the extent of federal expenditures incurred in FY19.

Capital funds contribution represents funds we contributed to IGU. We contributed $39.7 million less in FY19 compared to FY18. In FY18 we contributed $40.3 million in State capital appropriations as part of the financing of IGU's purchase of Pentex. In FY19 we provided the remaining State capital appropriation of $542,000 to complete the Board approved financing of engineering and design work on a liquefied natural gas storage tank constructed by Pentex prior to the sale to IGU. Funds contributed were appropriated to us by the legislature for the IEP.

Impairment loss on capital assets represent the amount relating to engineering and design costs we incurred to support a planned natural gas plant on the North Slope that we determined in FY18 had no future value due to a change in the project plan.

Dividend to State of Alaska decreased $8.1 million in FY19 compared to FY18. We paid $4.8 million in dividends to the State during FY19, compared to $12.9 million during FY18. 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 50% for the dividend paid in FY19 compared to 34% for the dividend paid in FY18.
- A decrease in audited statutory "net income" in FY17 (used to calculate the FY19 dividend) compared to FY16 (used to calculate the FY18 dividend). FY17 audited statutory "net income" was lower than FY16 mostly due to FY17 unrealized losses on our investment portfolio compared to unrealized gains in FY16. Governmental accounting standards require our investment portfolio be reported at market value. Unrealized gains and losses are no longer considered in the calculation of statutory net income as a result of a legislatively approved change to State statute.

As directed by statute, AIDEA makes available to the State an annual dividend from the Revolving Fund and from the SETS Fund. This dividend, determined by our Board, must be between 25% and 50% of audited "net income" (as defined in the statute) for the "base year." The "base year" is the fiscal year ending two years before the end of the fiscal year in which the dividend payment is to be paid; for example, the statutory net income reported for FY19 (the audit being completed within FY19) will become the base for the dividend to be paid in FY21. In no case may the dividend exceed base year unrestricted audited "net income." The actual transfer of the dividends requires a legislative appropriation that may be line item vetoed by the Governor.

Outlook

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

We anticipate funding over $65.8 million in loan participations during FY20. Additionally, we have about $83.1 million in loan participation pre-flights from July 1, 2019 to October 8, 2019. Loans in pre-flight status are loans that have not been underwritten or approved.

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

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, 2019
(with summarized financial information at June 30, 2018)

(In thousands)

Assets and Deferred Outflows of Resources		**Revolving Fund**	**Aggregate Nonmajor Funds**	**Total 2019**	**Total 2018**
Current assets:					
Unrestricted cash and cash equivalents (note 3)	$	33,189	27,457	60,646	94,922
Restricted cash and cash equivalents (note 3)		2,084	20,983	23,067	48,321
Unrestricted investment securities (note 3)		77,376	—	77,376	24,776
Due from the State of Alaska		—	—	—	6
Loans - current portion (note 4)		40,765	385	41,150	39,690
Line of credit and loan advances receivable		—	—	—	325
Development projects accounted for as direct financing leases (note 6)		11,371	—	11,371	8,046
Development projects accounted for as loans (note 6)		11,000	—	11,000	5,425
Accrued interest receivable		5,295	140	5,435	4,451
Development project assets held for sale (note 6)		3,200	—	3,200	—
Other assets		3,735	28	3,763	4,792
Total current assets		188,015	48,993	237,008	230,754
Noncurrent assets:					
Restricted cash and cash equivalents (note 3)		5,020	—	5,020	6,932
Restricted cash and cash equivalents - Snettisham (note 3)		10,216	—	10,216	11,364
Restricted investment securities (note 3)		9,986	—	9,986	9,898
Investment securities (note 3)		390,665	—	390,665	371,630
Net OPEB asset (note 9)		48	—	48	36
Loans - noncurrent portion (note 4)		404,178	112,306	516,484	475,958
Less allowance for loan losses (note 5)		(9,865)	(603)	(10,468)	(10,417)
Net loans		394,313	111,703	506,016	465,541
Development projects accounted for as:					
Direct financing leases (note 6)		103,849	—	103,849	122,043
Loans - noncurrent portion (note 6)		101,386	—	101,386	26,796
Less allowance for loan losses (note 6)		(10,501)	—	(10,501)	—
Net loans		90,885	—	90,885	26,796
Capital assets (note 6)		67,827	—	67,827	71,108
Preferred interest in operating companies (note 6)		—	—	—	62,871
Restricted net investment in direct financing lease - Snettisham (note 6)		55,863	—	55,863	58,469
Capital assets (note 7)		18,605	—	18,605	20,847
Other assets		431	—	431	502
Total noncurrent assets		1,147,708	111,703	1,259,411	1,228,037
Total assets		1,335,723	160,696	1,496,419	1,458,791
Deferred outflows of resources:					
Deferred outflows of resources related to employee pensions (note 9)		1,219	—	1,219	1,184
Deferred outflows of resources related to OPEB (note 9)		706	—	706	187
Deferred charge on bond refunding		94	—	94	121
Deferred outflow of resources - Snettisham (note 6)		2,703	—	2,703	3,127
Total deferred outflows of resources		4,722	—	4,722	4,619
Total assets and deferred outflows of resources	$	1,340,445	160,696	1,501,141	1,463,410

See accompanying notes to basic financial statements.

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

Statements of Net Position, Continued

June 30, 2019
(with summarized financial information at June 30, 2018)

(In thousands)

Liabilities, Deferred Inflows of Resources and Net Position		Revolving Fund	Aggregate Nonmajor Funds	Total 2019	Total 2018
Current liabilities:					
Bonds payable - current portion (note 8)	$	3,465	—	3,465	3,235
Accrued interest payable		511	—	511	551
Accounts payable		2,155	43	2,198	2,088
Due to the State of Alaska		—	4	4	—
Advances from State of Alaska - current portion		583	—	583	1,046
Other liabilities		721	4	725	447
Total current liabilities		7,435	51	7,486	7,367
Noncurrent liabilities:					
Bonds payable - noncurrent portion (note 8)		36,255	—	36,255	39,720
Net pension liability (note 9)		9,772	—	9,772	9,843
Net OPEB liability (note 9)		2,049	—	2,049	1,622
Other liabilities		850	—	850	1,016
Liabilities payable from restricted assets - Snettisham:					
Power revenue bonds payable (note 8)		57,210	—	57,210	59,745
Other		11,572	—	11,572	13,215
Total noncurrent liabilities		117,708	—	117,708	125,161
Total liabilities		125,143	51	125,194	132,528
Deferred inflows of resources:					
Deferred inflows of resources related to employee pensions (note 9)		245	—	245	1,334
Deferred inflows of resources related to OPEB (note 9)		799	—	799	903
Total deferred inflows of resources		1,044	—	1,044	2,237
Net position:					
Net investment in development projects - capital assets (note 6)		67,827	—	67,827	71,108
Net investment in capital assets (note 7)		21,805	—	21,805	20,847
Restricted contributions		817	—	817	375
Unrestricted		1,123,809	160,645	1,284,454	1,236,315
Total net position		1,214,258	160,645	1,374,903	1,328,645
Commitments and contingencies (notes 1, 9, and 11)					
Total liabilities, deferred inflows of resources and net position	$	1,340,445	160,696	1,501,141	1,463,410

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, 2019
(with summarized financial information at June 30, 2018)

(In thousands)

	Revolving Fund	Aggregate Nonmajor Funds	Total 2019	Total 2018
Operating revenues:				
Interest on loans (note 4)	$ 17,279	395	17,674	16,839
Income from development projects (note 6)	11,203	—	11,203	12,129
Income from development projects - loans (note 6)	9,528	—	9,528	3,320
Income from development project - Pentex	—	—	—	14,875
Interest on Snettisham restricted direct financing lease (note 6)	2,858	—	2,858	2,982
Investment interest	13,044	1,044	14,088	11,923
Net increase (decrease) in fair value of investments	17,972	—	17,972	(12,039)
Income from state agencies and component units (note 10)	5,699	—	5,699	5,366
State of Alaska nonemployer contributions to Public Employee retirement system (note 9)	209	—	209	1,038
Gain on sale of development project (note 6)	356	—	356	6,744
Other income	824	21	845	1,156
Total operating revenues	78,972	1,460	80,432	64,333
Operating expenses:				
Interest	2,034	—	2,034	2,160
Interest on Snettisham liabilities payable from restricted assets (note 8)	2,858	—	2,858	2,982
Nonproject personnel, general and administrative	6,349	276	6,625	6,984
Net pension related adjustments	(1,063)	—	(1,063)	(2,016)
Net OPEB related adjustments	(131)	—	(131)	164
General and administrative - Pentex	—	—	—	1,780
Costs reimbursed from state agencies and component units (note 10)	5,699	—	5,699	5,366
Provision for loan losses (recovery) (note 5)	386	(335)	51	797
Provision for development projects loan losses (note 6)	10,501	—	10,501	—
Depreciation on projects (note 6)	3,524	—	3,524	6,318
Depreciation - Pentex	—	—	—	2,130
Project feasibility and due diligence costs	294	—	294	638
Project expenses - Pentex	—	—	—	11,171
Impairment loss on development project (note 6)	2,003	—	2,003	—
Other project expenses	481	—	481	749
Total operating expenses	32,935	(59)	32,876	39,223
Operating income	46,037	1,519	47,556	25,110
Nonoperating revenues (expenses) and other:				
Investment interest	—	262	262	72
Net revenue (expenses) related to Ketchikan Shipyard Repair and Replacement Fund	448	—	448	(127)
Capital grants	29	—	29	527
Nonoperating income (expense) - Pentex	—	—	—	(167)
Other contributions	—	—	—	93
Appropriations and contributions from the State of Alaska	3,297	—	3,297	43,854
Capital funds contribution	(542)	—	(542)	(40,254)
Dividend to the State of Alaska	(4,597)	(195)	(4,792)	(12,883)
Impairment loss on capital assets	—	—	—	(2,818)
Total nonoperating revenues (expenses) and other	(1,365)	67	(1,298)	(11,703)
Increase in net position	44,672	1,586	46,258	13,407
Net position - beginning of year, as previously reported	—	—	—	1,317,607
Cumulative effect on prior years of adoption of GASB Statement 75	—	—	—	(2,369)
Net position - beginning of year, as adjusted	1,169,586	159,059	1,328,645	1,315,238
Net position - end of year	$ 1,214,258	160,645	1,374,903	1,328,645

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, 2019
(with summarized financial information at June 30, 2018)

(In thousands)

	Revolving Fund	Aggregate Nonmajor Funds	Total 2019	Total 2018
Cash flows from operating activities:				
Interest received on loans	$ 16,713	366	17,079	16,274
Operating receipts - Pentex	—	—	—	14,051
Receipts from borrowers	3,681	—	3,681	4,220
Principal collected on loans	34,254	1,318	35,572	46,958
Other operating receipts	5,719	—	5,719	5,467
Other operating receipts - Snettisham	2,773	—	2,773	2,603
Loans originated	(50,509)	(922)	(51,431)	(72,080)
Payments to suppliers and employees for services	(11,703)	(206)	(11,909)	(13,525)
Operating payments - Pentex	—	—	—	(12,290)
Payments to primary government	(1,037)	(6)	(1,043)	(1,581)
Other operating payments - Snettisham	(3,929)	—	(3,929)	(1,258)
Net cash (used for) provided by operating activities	(4,038)	550	(3,488)	(11,161)
Cash flows from noncapital and related financing activities:				
Dividend paid to the State of Alaska	(4,597)	(195)	(4,792)	(12,883)
Short-term borrowings received from (paid to) the Alaska Energy Authority for working capital, net	630	—	630	(790)
Principal paid on noncapital debt	(600)	—	(600)	(580)
Interest paid on noncapital debt	(572)	—	(572)	(595)
Net cash used for noncapital and related financing activities	(5,139)	(195)	(5,334)	(14,848)
Cash flows from capital and related financing activities:				
Direct financing lease receipts	23,143	—	23,143	28,540
Direct financing lease receipts - Snettisham	5,463	—	5,463	5,464
Capital grant receipts	133	—	133	417
Capital appropriation - State of Alaska	2,835	—	2,835	1,764
Restricted contributions for development projects	479	—	479	802
Principal paid on capital debt	(2,634)	—	(2,634)	(2,455)
Interest paid on capital debt	(1,634)	—	(1,634)	(1,757)
Investment in development projects - capital assets	(158)	—	(158)	(417)
Investment in capital assets	(403)	—	(403)	(303)
Investment in intangible capital assets	(2,599)	—	(2,599)	(1,675)
Investment in capital assets - Pentex	—	—	—	(14,584)
Contribution to Pentex from capital appropriation - State of Alaska	(542)	—	(542)	—
Interest paid on capital debt - Snettisham	(2,921)	—	(2,921)	(3,042)
Principal paid on capital debt - Snettisham	(2,535)	—	(2,535)	(2,415)
Proceeds from capital debt - Pentex	—	—	—	868
Interest paid on capital debt - Pentex	—	—	—	(41)
Payments on capital debt - Pentex	—	—	—	(199)
Cash received from sale of Pentex	—	—	—	55,611
Contribution for sale of Pentex	—	—	—	(40,254)
Net cash provided by capital and related financing activities	18,627	—	18,627	26,324
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	400,588	—	400,588	250,273
Purchases of investment securities	(454,339)	—	(454,339)	(324,073)
Interest collected on investments	12,727	1,306	14,033	11,708
Investment in preferred interest in operating companies	—	—	—	(2,522)
Loan acquisition - development project - principal	(16,367)	—	(16,367)	—
Loan acquisition - development project - interest	(143)	—	(143)	—
Loans originated	—	(26,845)	(26,845)	(21,134)
Interest received on purchased loans	534	—	534	573
Principal collected on purchased loans	1,042	—	1,042	1,051
Interest received on development projects loans and line of credit	2,781	—	2,781	3,309
Principal collected on development projects loans and line of credit	6,321	—	6,321	4,087
Other investing disbursements - Pentex	—	—	—	(50)
Net cash (used for) investing activities	(46,856)	(25,539)	(72,395)	(76,778)
Net (decrease) in cash and cash equivalents	(37,406)	(25,184)	(62,590)	(76,463)
Cash and cash equivalents at beginning of year	87,915	73,624	161,539	238,002
Cash and cash equivalents at end of year	$ 50,509	48,440	98,949	161,539

See accompanying notes to basic financial statements.

(Continued)

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

Statements of Cash Flows, Continued

Year ended June 30, 2019
(with summarized financial information at June 30, 2018)

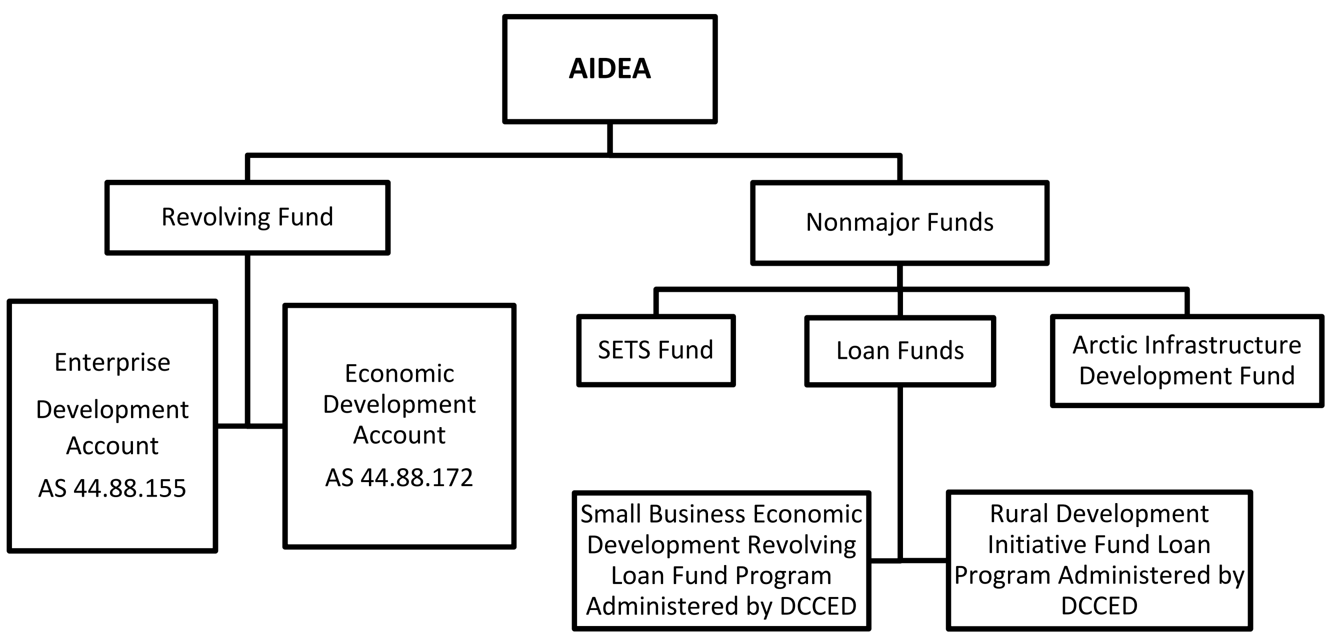
(In thousands)

		Revolving Fund	Aggregate Nonmajor Funds	Total 2019	Total 2018
Reconciliation to Statements of Net Position:					
Unrestricted cash and cash equivalents	$	33,189	27,457	60,646	94,922
Restricted cash and cash equivalents - current		2,084	20,983	23,067	48,321
Restricted cash and cash equivalents - noncurrent		5,020	—	5,020	6,932
Restricted cash and cash equivalents - Snettisham		10,216	—	10,216	11,364
Cash and cash equivalents at end of year	$	50,509	48,440	98,949	161,539
Reconciliation of operating income to net cash (used for) provided by operating activities:					
Operating income	$	46,037	1,519	47,556	25,110
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Principal collected on loans		34,254	1,318	35,572	46,958
Loans originated		(50,509)	(922)	(51,431)	(72,080)
Investment interest income		(13,044)	(1,044)	(14,088)	(11,923)
Net amortization of income from operating companies		(108)	—	(108)	(165)
Amortization of unearned income on direct financing leases		(8,275)	—	(8,275)	(9,240)
Amortization of unearned income on direct financing lease - Snettisham		(2,858)	—	(2,858)	(2,982)
Bond interest expense		2,165	—	2,165	2,315
Bond interest expense – Snettisham		2,858	—	2,858	2,982
Provision for loan losses (recovery)		10,887	(335)	10,552	797
Depreciation on projects		3,524	—	3,524	6,318
Depreciation on administrative building		203	—	203	191
Depreciation - Pentex		—	—	—	2,130
Amortization of deferred outflow - Pentex		—	—	—	116
Gain on sale of development project		(356)	—	(356)	(6,744)
Impairment loss on capital assets		2,003	—	2,003	—
Net (increase) decrease in fair value of investments		(17,972)	—	(17,972)	12,039
Interest on loans		(3,942)	—	(3,942)	(3,889)
Capitalized loan interest		(6,119)	—	(6,119)	—
(Increase) in net OPEB asset		(12)	—	(12)	(1)
(increase) decrease in deferred outflows related to pensions		(35)	—	(35)	2,119
(Increase) decrease in deferred outflows related to OPEB		(519)	—	(519)	166
(Increase) decrease in accrued interest receivable and other assets		(507)	(18)	(525)	569
(Increase) in other assets - Pentex		—	—	—	(644)
(Decrease) in net pension liability		(71)	—	(71)	(6,098)
Increase (decrease) in net OPEB liability		427	—	427	(1,135)
(Decrease) increase in accounts payable and other liabilities		(876)	32	(844)	(494)
Increase in accounts payable and other liabilities - Pentex		—	—	—	365
(Decrease) increase in deferred inflows related to pensions		(1,089)	—	(1,089)	1,156
(Decrease) increase in deferred inflows related to OPEB		(104)	—	(104)	903
Net cash (used for) provided by operating activities	$	(4,038)	550	(3,488)	(11,161)
Noncash investing, capital, and financing activities:					
Net increase/decrease in net unrealized (gain) loss on investments	$	(28,909)	—	(28,909)	1,055
Contributed assets		—	—	—	93
Impairment loss		2,003	—	2,003	3,045
Accounts payable for capital asset additions		847	—	847	377
Accounts payable for capital asset additions - Pentex		—	—	—	2,908
Accounts payable for development project additions		7	—	7	124
Gain on sale of membership interest in MOC1, MR LLC		356	—	356	—
Interest capitalized on Mustang development loan		6,119	—	6,119	—
Owner financed sale of membership interest in MOC1, MR LLC	$	64,000	—	64,000	—

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 on this fund.

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

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

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

The following project is included in the Enterprise Development Account:

- Ambler Mining District Industrial Access Project (AMDIAP) which consists of work related to a potential industrial access road to support mineral exploration and development on the south side of the Brooks Range in northwest Alaska.

(b) Economic Development Account (AS 44.88.172)

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

- **DeLong Mountain Transportation System project** (DMTS, aka Red Dog project) consists of a 52-mile gravel industrial access road and port facilities to serve regional supply needs, enable the export of raw materials and supplies for the Red Dog Mine and other potential mines, and enable the export of lead and zinc concentrates and other metal concentrates from these mines. Located in the DeLong Mountains in northwestern Alaska, the Red Dog Mine is one of the world's largest zinc producing mines. The DMTS was financed with a combination of AIDEA funds and bond issues; the current outstanding refunding bonds related to the project were issued in February 2010 and defeased subsequent to year-end on October 1, 2019.
- **Skagway Ore Terminal project** (Skagway Terminal) is an ore terminal port facility for public use in Skagway, Alaska. The terminal acquisition was originally financed with bonds; a major facility reconstruction (ore shed, tank farm and vehicle fueling facility) was financed with AIDEA funds. There are no longer bonds outstanding for this project.
- **Federal Express project**, which consists of a maintenance, repair and overhaul aircraft hangar and an associated fire suppression facility (for the hangar) at the Ted Stevens Anchorage International Airport. We partially financed this project with a June 2002 bond issue; AIDEA called all remaining outstanding bonds in April 2012.

- **Ketchikan Shipyard project** (Shipyard), located in Ketchikan, Alaska, was transferred to AIDEA in July 1997, under an agreement with the State Department of Transportation and Public Facilities (AKDOT&PF). Capital appropriations from the State legislature, local municipal/borough contributions and federal grant funds enabled the completion of a new Assembly Hall and other improvements in the facility without AIDEA financing.
- **Snettisham Hydroelectric project** (Snettisham), located in southeast Alaska near Juneau, which we acquired from the Alaska Power Administration, a federal agency, in August 1998. We issued $100.0 million of revenue bonds to buy the project and provide funds to buy and install a submarine cable system. The 1998 bonds were refunded in August 2015. We also have agreements with Alaska Electric Light and Power (AEL&P), the sole Juneau electric utility, which enable us to sell the project's entire electrical output capacity to AEL&P and requires it to operate and maintain the project, with an option to buy.
- **State of Alaska Department of Military and Veterans Affairs** (DMVA) **project** is an expansion to the existing National Guard Armory on Joint Base Elmendorf-Richardson (JBER). The construction was performed under a license between the State and the U.S. Air Force and was financed with AIDEA funds. The facility is leased by the DMVA to the U.S. Coast Guard.
- **Mustang Road LLC (**MR LLC**)** is a limited liability company (LLC) created for the purpose of constructing and operating a four-mile road and 17.4-acre pad for drilling and processing crude oil. The road and a gravel pad are located on the North Slope and are intended to support the development of the Mustang Oil Field and other nearby fields. The LLC owns a carried working interest in the Mustang Field. As of December 14, 2017, AIDEA became the sole owner of the LLC. As of May 24, 2019 AIDEA sold its membership interest in MR LLC in an owner financed transaction.
- **Mustang Operations Center 1 LLC** (MOC1 LLC) is a LLC established for the purpose of owning an oil and gas processing facility to produce pipeline quality crude oil from the Mustang Field for sale through the Trans-Alaska Pipeline Systems (TAPS). The LLC also owns a carried working interest in the Mustang Field. The facility is currently under development. As of May 24, 2019 AIDEA sold its membership interest in MOC1 LLC in an owner financed transaction.
- **Pentex Alaska Natural Gas Company, LLC (Pentex)**, in which we were the sole member, is a LLC that owns five subsidiaries related to the distribution of natural gas in Interior Alaska. AIDEA purchased Pentex in September 2015 using AIDEA funds. The purchase was in furtherance of a long-term strategy to finance the build out of an integrated natural gas distribution system serving Fairbanks as part of the IEP. The Authority sold its membership interest in Pentex effective June 13, 2018.
- **ADL #421055** was approved as a development project on June 26, 2019. The project consists of a 23 acre parcel on Alaska's North Slope with a 15.5 acre gravel pad and an easement to a pipeline tie-in. The project has received authorization from the Department of Natural Resources, Division of Mining, Land & Water on a 30 year lease for general commercial activities to support North Slope oilfield operations. Effective September 10, 2019, AIDEA entered in to a Purchase and Sale Agreement with Ahtna Petrochemical Products LLC for the assignment of ADL #421055.

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

- **Blue Crest Drill Rig** in which we financed the procurement of a new high-horsepower, extended reach, onshore drilling rig that is being used for the installation and development of numerous wells to produce oil from the Cosmopolitan lease blocks in the lower Cook Inlet and we financed the construction of man camp facilities for workers on the project.
- **Blood Bank of Alaska, Inc.** in which we financed the acquisition, delivery and installation of furniture, fixtures and equipment for a laboratory and collection facility building.
- **Mustang Development Loans (non-capitalized interest and capitalized interest)** in which we financed Caracol Petroleum LLC's (Caracol) acquisition of our preferred member interest in MOC1 and MR LLC as part of a restructure of the development of the Mustang Field on the North Slope of Alaska. Caracol is an oil and gas development company which is now owner of a consolidated 90.1% working interest in the Mustang Field with related infrastructure and equipment. Caracol is pursuing a plan of development for the operation and production of the Mustang Field.
- **MOC1 Acquired Loan** in which AIDEA acquired the lender's position in the existing loan between MOC1 and the State of Alaska Department of Revenue (DOR) as part of the financing described under Mustang Development Loans. Repayment of this loan includes payments for oil and gas tax credit certificates that MOC1 is entitled to receive from the State of Alaska.

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 FY19, we had issued conduit revenue bonds for 319 projects (not including bonds issued to refund other bonds). At June 30, 2019, the outstanding principal amount of conduit revenue bonds issued after July 1, 1995 was $533.8 million. We were unable to determine the aggregate amount outstanding for the remaining conduit revenue bonds, issued prior to July 1, 1995, but their original issue amounts totaled $616 million for a total of $1.54 billion issued through June 30, 2019 (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, 2023 if we do not issue bonds before that date.

(f) Alaska Energy Authority

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting – Enterprise Fund Accounting

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

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

(b) Fair Value Measurement and Application

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

(c) Cash and Cash Equivalents

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

(d) Investments

Marketable securities are reported at fair value in the financial statements. Fair values are obtained from independent sources. Investments are segregated between current and noncurrent based on stated maturity and intended use. Investments maturing within a year are classified as current if they are considered to be potentially needed for current operations. This classification recognizes that a portion of our investment portfolio may be for current operations. A noncurrent investment may be sold for operational cash flow needs if needed and the sale is beneficial under current market conditions. Investments include call options purchased by the Authority for investment purposes and reported at fair value in the financial statements. We follow GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* in reporting call options.

(e) Loans and Related Interest Income

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

We handle loan collections as follows:

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

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

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

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

(f) Development Projects – Direct Financing Leases

AIDEA leases various projects subject to certain agreements (as more fully described in note 6), which are recorded in the accompanying financial statements as direct financing leases. Interest income related to these leases is recognized using the effective interest method, which produces a constant periodic rate of return on the outstanding investment in the lease. We consider such activity to be part of our principal ongoing operations and classify it as operating in the statement of revenues, expenses, and changes in net position.

(g) Development Projects – Capital Assets

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

(h) Development Projects – Preferred Interest in Operating Companies

Preferred Interest in Operating Companies (as more fully described in note 6) are recorded in the accompanying financial statements as equity interests and are development projects. Income is recognized as it is earned under the project agreement. We do not accrue income if we believe it will not be paid. The equity interests are carried at cost, less capital distributions received, and less any necessary allowance.

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

(i) Capital Asset Additions and Retirements

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

(j) Intangible Assets

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

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

(k) 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.

(l) 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.

(m) 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, 2019.

(n) 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.

(o) 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 FY19, 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.

(p) Operating Revenue and Expense

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

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

(q) 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.

(r) 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.

(s) 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.

(t) Nonexchange Payments

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

(u) 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.

(v) 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.

(w) Deferred Outflows/Inflows of Resources

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

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

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

(x) Pension and Other Postemployment Benefits

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

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

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

(y) 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 FY18, from which the summarized information was derived. Certain reclassifications were made to prior year information to conform to current year presentation.

(z) Recently Implemented or Issued Accounting Pronouncements

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

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (Statement 88) was issued by GASB in April 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The implementation of Statement 88 resulted in certain debt disclosures in our financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (statement 89) was issued by GASB in June of 2018. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Per-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

We have not implemented Statement 89 and are currently evaluating the impact on future financial statements.

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

GASB Statement No. 91, *Conduit Debt Obligations* (Statement 91) was issued by GASB in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. We have not implemented Statement 91 and are currently evaluating impact on the 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, 2019 (in thousands):

Current – unrestricted	$	33,189
Current – restricted		2,084
Noncurrent – restricted		5,020
Noncurrent - restricted - Snettisham		10,216
Carrying amount	$	50,509
Bank balance	$	50,599

Cash equivalents include $2.083 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, 2019, 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, 2019 (in thousands):

Current – unrestricted	$	77,376
Noncurrent - unrestricted		390,665
Noncurrent - restricted		9,986
	$	478,027

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, 2019 (in thousands):

U.S. Treasury	$	126,643	Level 2
U.S. Government agency discount notes		79,895	Level 2
U.S. Government agency and GSEs		8,391	Level 2
Corporate securities		120,683	Level 2
Mortgage – backed securities		132,786	Level 2
Asset – backed securities		6,526	Level 2
Municipal bonds		3,103	Level 2
	$	478,027	

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, 2019, there were no portfolios investing in non-U.S. dollar denominated instruments). AIDEA believes it meets the investment policy’s requirements for maturity and duration of the externally managed fixed-income portfolios.

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

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We have shown below the weighted average effective duration in years for Revolving Fund cash equivalents and investments at June 30, 2019. 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	0.03	8.56
U.S. Government agency discount notes	0.09	-
U.S. Government agency and GSEs	-	4.58
Corporate securities	-	6.45
Mortgage – backed securities	-	2.90
Assets – backed securities	-	1.09
Municipal bonds	-	1.80

Credit Risk

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

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

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

The quality ratings of AIDEA Revolving Fund cash equivalent and investment portfolio at June 30, 2019 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	10
U.S. Government agency and GSEs	AA	2
U.S. Government agency discount notes	AA	10
Municipal bonds	AA	1
Corporate securities	AAA	1
Corporate securities*	Aaa	1
Corporate securities	AA	1
Corporate securities	A	8
Corporate securities	BBB	10
Corporate securities*	Baa	2
Mortgage – backed securities (issued by GSEs)	AA	1
Mortgage – backed securities (issued by GSEs)	Not Rated	23
Assets – backed securities	AAA	1
No credit exposure (U.S. treasuries)		29
		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 $47 million at June 30, 2019, 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, 2019, we had more than 5% of the combined portfolios invested in the following GSEs (dollar amounts in thousands):

	Revolving Fund	Percent of combined portfolio
Federal Home Loan Mortgage Corporation	$ 35,643	7%
Federal National Mortgage Association	81,678	15%

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, 2019, is as follows (in thousands):

	Allowable usage	
Red Dog Project Sustaining Capital fund	Project costs	$ 15,000
Ketchikan Shipyard restricted funds	Project costs	6
Ketchikan Shipyard Repair and Replacement fund	Project costs	816
Advances from State of Alaska	Project costs	1,268
Snettisham Hydroelectric Project Funds	Various costs relating to the project	10,216
		$ 27,306

(b) Nonmajor Funds

Cash and Cash Equivalents

A summary of the Nonmajor Funds' cash and cash equivalents at June 30, 2019, is as follows (in thousands):

Unrestricted – Loan Funds	$ 8,829
Unrestricted – SETS Fund	18,628
Restricted – SETS Fund	20,983
Carrying amount	$ 48,440
Bank balance	$ 48,440

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

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

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

The call options have a 5-year term to exercise at a certain strike price. The call options agreement includes anti-dilution provisions. At June 30, 2019, the shares related to the acquired options were trading below the strike price. As a result, the fair value of the options is reported at zero in the financial statements.

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

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

Loans outstanding on June 30, 2019, 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	257	$ 420,815
Bond sale	1	10,886
OREO sale financing	1	100
Purchased loans	23	13,142
Revolving Fund loans	282	444,943
Nonmajor Funds	84	112,691
		557,634
Less current portion		(41,150)
	366	$ 516,484

(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, 2019, and we had one Enterprise Development Account Revolving Fund loan in the amount of $1.59 million for which we had restructured terms. Gross interest income we accrued on this loan totaled $116,000 for FY19, and we received $126,000 of interest payments. Subsequent to year end, this loan and accrued interest were paid off in full.

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 FY19 is $21.8 million compared to $40.8 million recorded as the current portion. The difference of $19 million represents 10.1% of the Revolving Fund current assets.

(b) Nonmajor Funds

The aging of loans relating to the Loan Funds and SETS Fund at June 30, 2019, are as follows (dollar amounts in thousands):

	Percent	Amount
Current	99.99%	$ 112,618
Past due:		
Over 90 days	0.01%	73
	100.00%	$ 112,691

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

The SETS Fund loan is classified as noncurrent in the Statement of Net Position at June 30, 2019.

Loan Funds loans with restructured terms totaled approximately $660,000 on June 30, 2019. Gross interest income we accrued on these loans totaled $13,000 for FY19, and we received $12,000 of interest payments.

We held no OREO at June 30, 2019.

(5) Allowance for Loan Losses

Following is an analysis of changes in the allowance for loan losses for FY19 (in thousands):

	Revolving Fund	Nonmajor Funds	Total
Balance at beginning of year	$ 9,479	938	10,417
Provision for loan losses (recovery)	386	(335)	51
Balance at end of year	$ 9,865	603	10,468

(6) Development Projects

(a) Direct Financing Leases

Following is the breakout of our net investment in development projects accounted for as direct financing leases by project on June 30, 2019 (in thousands):

	Minimum lease payments receivable	Unearned income	Net investment in direct financing leases
Red Dog Project	$ 299,429	(197,374)	102,055
DMVA Project	27,563	(14,398)	13,165
	$ 326,992	(211,772)	115,220
Less current Portion			(11,371)
			$ 103,849

Following are the future minimum lease payments receivable for FY20 through FY24 (dollars in thousands):

2020	2021	2022	2023	2024
$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/Assets Held for Sale

Our net investment in the Ketchikan Shipyard at June 30, 2019, was $67.8 million and ADL #421055 was $3.2 million. Capital activity related to the Ketchikan Shipyard and ADL #421055 is noted below (in thousands):

	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019
Nondepreciable components of development projects:				
Land	$ 1,995	-	-	1,995
Construction work in progress	148	42	-	190
Total nondepreciable components of development projects	2,143	42		2,185
Depreciable components of development projects:				
Buildings	58,574	-	-	58,574
Infrastructure	34,106	-	-	34,106
Total depreciable components of development projects	92,680	-	-	92,680
Less accumulated depreciation for:				
Buildings	(12,916)	(2,034)	-	(14,950)
Infrastructure	(10,799)	(1,289)	-	(12,088)
Accumulated depreciation	(23,715)	(3,323)	-	(27,038)
Depreciable components of development projects - net	68,965	(3,323)	-	65,642
Total development projects	$ 71,108	(3,281)		67,827
Infrastructure – held for sale, net of accumulated depreciation	$ -	5,203	(2,003)	3,200

Depreciation expense totaled $3.32 million for development projects - capital assets for the fiscal year ended June 30, 2019 and is included in depreciation on projects in our Statement of Revenues, Expenses and Changes in Net Position.

In FY19, AIDEA received authorization for a new 30-year general lease on the completed North Slope pad (ADL #421055) leading to its designation as a development project and the addition of $5.2 million (cost of $6.0 million net of accumulated depreciation of $800,000) to development projects. ADL #421055 was reported as a capital asset prior to the designation as a development project. See Note 7. Subsequently, we agreed to sell ADL #421055 for $3.2 million including the reimbursement of certain costs. As a result, ADL#421055 was impaired for $2.0 million and is reported as held for sale in the table above.

(c) Preferred Interest in Operating Companies

AIDEA sold its membership interest in MR LLC and MOC1 to Caracol Petroleum, LLC (Caracol) on May 24, 2019 for $64 million, including the reimbursement of certain costs. We recognized a gain on sale of approximately $356,000 which is included in operating income. As a result of the sale we have no preferred interests in operating companies at June 30, 2019.

The sale of our membership interest was seller financed. See Note 6 (e) for additional disclosure on the transaction.

(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.

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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:		
2020	$	378
2021		339
2022		304
2023		274
2024		245
2025-2029		854
2030-2034		309
	$	2,703

Following is our net investment in the Snettisham project on June 30, 2019 (in thousands):

Minimum lease payments receivable	$	79,118
Less unearned income		(23,255)
Net investment in direct financing lease	$	55,863

(e) Development projects loans

Following is the breakout of our net investment in development projects accounted for as loans at June 30, 2019, (in thousands):

Blood Bank of Alaska, Inc.	$	3,932
BlueCrest*		22,343
Mustang Development Loan (noncapitalized interest)		63,625
Mustang Development Loan (capitalized interest)		6,119
MOC1 Acquired Loan		16,367
Total development projects accounted for as loans		112,386
Less current portion		(11,000)
Total	$	101,386

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

Following is an analysis of changes in the allowance for loan losses on development projects accounted for as loans at June 30, 2019 (in thousands):

	Revolving Fund
Balance at beginning of year	$ -
Provision for development projects loan losses	10,501
Balance at end of year	$ 10,501

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(7) Capital Assets

Following is our activity for FY19 (in thousands):

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated:				
Land	$ 1,170	-	-	1,170
Construction work in progress	1	513	-	514
Total nondepreciable components of capital assets - other	1,171	513	-	1,684
Intangible assets not being depreciated:				
AMDIAP	12,891	2,852	-	15,743
Total intangible assets not being depreciated	12,891	2,852	-	15,743
Capital assets being depreciated:				
Administrative building	4,036	-	-	4,036
Infrastructure - IEP	11,641	-	(6,003)	5,638
Total depreciable components of capital assets -other	15,677	-	(6,003)	9,674
Less accumulated depreciation for:				
Administrative building	(2,655)	(203)	-	(2,858)
Infrastructure -IEP	(6,237)	(201)	800	(5,638)
Accumulated depreciation	(8,892)	(404)	800	(8,496)
Capital assets being depreciated – other, net	6,785	(404)	(5,203)	1,178
Total capital assets - other	$ 20,847	2,961	(5,203)	18,605

Depreciation expense of $201,000 for Infrastructure - IEP is included in depreciation on projects and depreciation expense of $203,000 for our administrative building is included in Nonproject personnel, general and administrative expense in the Statement of Revenues, Expenses and Changes in Net Position for the fiscal year ended June 30, 2019.

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 (ADL #421055) and preliminary engineering and certain permitting for a future plant on the pad. The pad was placed into service in FY16.

  In FY19 the Board declared ADL#421055 a development project. The transfer of the asset to a development project is reflected as a deletion in our capital assets and an addition to development projects in note 6.

- *AMDIAP* – Effective July 1, 2013, we received an $8.5 million capital appropriation for the AMDIAP, with an additional $8.5 million capital appropriation effective July 1, 2014. Costs incurred for this project have included professional efforts related to planning, public outreach, environmental impact studies and preliminary work relating to the permitting and scoping for the project. During FY15 we were directed by the Governor to limit spending on this project. Scope was also limited to work relating to scoping and environmental impact studies. During FY 2019 both the funding and scope limitations were lifted. We have continued development.

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(8) Bonds Payable

We have listed below the composition of bonds outstanding (in thousands) issued under our Revolving Fund Bond Resolution (Revolving Fund Bonds). Interest rate and maturity date information is as of June 30, 2019:

	Purpose of Financing		Balance at June 30, 2018	Deletions	Balance at June 30, 2019	Amounts due within one year
Series 2010A – 4.375% to 5.250% issued February 24, 2010, maturing through 2027	Red Dog Project	$	32,110	(2,635)	29,475	2,830
Series 2010B – 5.0% to 5.5% issued December 22, 2010, maturing through 2031	Loan Participation		10,845	(600)	10,245	635
		$	42,955	(3.235)	39,720	3,465

On June 30, 2019, Revolving Fund general assets and future revenues secured all Revolving Fund Bonds. The minimum annual payments for all Revolving Fund Bonds after June 30, 2019, are as follows (without considering earlier call provisions) (in thousands):

Year ending June 30:		Principal	Interest	Total
2020	$	3,465	2,044	5,509
2021		3,700	1,870	5,570
2022		3,960	1,678	5,638
2023		4,245	1,469	5,714
2024		4,555	1,244	5,799
2025-2029		17,620	2,635	20,255
2030-2031		2,175	171	2,346
	$	39,720	11,111	50,831

We defeased our Series 2010A and Series 2010B bonds on October 1, 2019 (see note 11 (i)).

In August 1998, AIDEA issued $100.0 million of Power Revenue Bonds to finance the purchase of Snettisham. In August 2015, we issued $65.72 million of fixed rate Power Revenue Refunding Bonds for the purpose of refunding $69.955 million of Power Revenue Bonds, First Series (together the Snettisham Bonds). The refunded bonds were redeemed September 25, 2015. The refunding bonds bear interest at rates ranging from 4.0% to 5.0%, mature in varying amounts on January 1 of each year through 2034 and are special and limited obligations of AIDEA, payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. Following are the minimum payments for the Power Revenue Refunding Bonds after June 30, 2019 (without considering earlier call provisions) (in thousands):

Year ending June 30:		Principal	Interest	Total
2020	$	2,660	2,795	5,455
2021		2,800	2,662	5,462
2022		2,935	2,522	5,457
2023		3,085	2,375	5,460
2024		3,235	2,221	5,456
2025-2029		18,750	8,532	27,282
2030-2034		23,745	3,547	27,292
	$	57,210	24,654	81,864

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

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

(i) Late payment or non-payment of principal on the Snettisham Bonds or any parity obligation whether at maturity or upon call for redemption;

(ii) Late payment or non-payment of interest or on the unsatisfied balance of any sinking fund installment;

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

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

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

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

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

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

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

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

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

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

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

(9) Retirement Plan - PERS

(a) Defined Benefit (DB) Pension Plan

General Information About the Plan

The Authority participates in the Alaska Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple-employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at http://doa.alaska.gov/drb/pers. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website.

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

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

Historical Context and Special Funding Situation

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

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

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

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

Employee Contribution Rates

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

Employer and Other Contribution Rates

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

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

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board (ARM). This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap of 22% or the GASB accounting rate. Effective July 1, 2015, the legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25-year term that ends in 2039. This change results in lower ARM Board Adopted Rates than previously adopted.

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

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles (GAAP) as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB Rate disregards all future Medicare Part D payments. For FY19, the rate uses an 8% pension discount rate and an 8% healthcare discount rate.

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

Contribution rates for the year ended June 30, 2019 were determined in the June 30, 2016 actuarial valuation.

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	16.17%	23.21%	5.58%	32.11%
Postemployment benefits (see Note 9 (c))	5.83%	4.37%	0.00%	87.90%
Total Contribution Rates	22.00%	27.58%	5.58%	120.01%

In 2019, AIDEA was credited with the following contributions to the pension plan (in thousands):

Employer contributions (including DBUL)	$	828
Nonemployer contributions (on-behalf)		133
Total Contributions	$	961

In addition, employee contributions to the Plan totaled approximately $176,000 during the fiscal year.

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

At June 30, 2019, AIDEA reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to AIDEA. The amount recognized by AIDEA for its proportional share, the related State proportion, and the total were as follows (in thousands):

AIDEA proportionate share of NPL	$	9,772
State's proportionate share of NPL associated with AIDEA		2,830
Total Net Pension Liability	$	12,602

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018. 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, 2019, AIDEA's proportion was 0.20%, which was an increase of 0.01% from its proportion measured as of the prior measurement date, June 30, 2017.

For the year ended June 30, 2019, AIDEA recognized a net adjustment for pension expense of approximately $(235,000) including AIDEA's portion of nonemployer contributions provided by the State. This includes approximately $828,000 paid by AIDEA during the fiscal year and approximately $(1.063 million) in pension related adjustments including the on-behalf portion allocated to AIDEA as a PERS employer. At June 30, 2019, AIDEA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	(245)
Net difference between projected and actual earnings on pension plan investments	217	-
Changes in proportion and differences between AIDEA contributions and proportionate share of contributions	174	-
AIDEA contributions subsequent to the measurement date	828	-
Total Deferred Outflows and Deferred Inflows Related to Pensions	$ 1,219	(245)

The $828,000 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year Ending June 30,	
2020	$ 204
2021	118
2022	(167)
2023	(9)

Actuarial Assumptions

The total pension liability for the measurement period ended June 30, 2018 (AIDEA fiscal year 2019) was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2018.

Actuarial Cost Method	Entry Age Normal; Level Percentage of Payroll.
Amortization Method	Level dollar, closed.
Allocation Methodology	Amounts for FY18 were allocated to employers based on the ratio of the present value of projected future contributions for each employer to the total present value of projected future contributions for the fiscal year 2019 to 2039 to the Plan. The liability is expected to go to zero at 2039.
Investment Return / Discount Rate	8.00% net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
Salary Increases	For peace officer/firefighter, increases range from 9.66% to 4.92% based on service. For all others, increases range from 8.55% to 4.34% based on age and years of service.
Inflation	3.12%
Mortality	Pre-termination – Based on the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for peace officers/firefighters, 50% of the time for others. Post-termination – 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.

The actuarial assumptions used in the June 30, 2017 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. The assumptions used in the June 30, 2017 actuarial valuation report are the same as those used in the June 30, 2016 actuarial valuation.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 are summarized in the following table (note that the rates shown below exclude the inflation component):

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	24%	8.90%
Global equity (non-U.S.)	22%	7.85%
Fixed income	10%	1.25%
Opportunistic	10%	4.76%
Real estate	17%	6.20%
Absolute return	7%	4.76%
Private equity	9%	12.08%
Cash equivalents	1%	0.66%

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 one-percentage-point lower (7.00%) or one-percentage-point higher (9.00%) than the current rate (in thousands):

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
AIDEA's proportionate share of the net pension liability	$ 12,940	$ 9,772	$ 7,092

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, 2019, AIDEA was required to contribute 5% of covered salary into the DC Plan which represent pension share of the total 8% contribution of covered salary.

AIDEA and employee contributions to PERS for pensions for the year ended June 30, 2019 were $206,000 and $330,000, respectively. AIDEA contribution amount was recognized as pension expense/expenditures.

(c) Defined Benefit OPEB Plan

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

Employer Contribution Rate

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

	Other	Police/Fire
Alaska Retiree Healthcare Trust	5.83%	5.83%
Retiree Medical Plan	0.94%	0.94%
Occupational Death and Disability Benefits	0.26%	0.76%
Total Contribution Rates	7.03%	7.53%

In 2019, AIDEA was credited with the following contributions to the OPEB plan (in thousands).

	AIDEA Fiscal Year July 1, 2018 to June 30, 2019
Employer actual contributions - ARHCT	$ 299
Employer actual contributions - RMP	39
Employer actual contributions - ARHCT	11
Nonemployer contributions (on-behalf) - ARHCT	76
Total actual contributions	$ 425

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

At June 30, 2019, AIDEA reported liabilities for its proportionate share of the net OPEB liabilities (NOL) that reflected a reduction for State OPEB support provided to AIDEA. AIDEA also reported OPEB asset for its proportionate share of the net OPEB asset (NOA). The amounts recognized by AIDEA for its proportional share, the related State proportion, and the total were as follows (in thousands):

AIDEA proportionate share of NOL:		
ARHCT	$	2,018
RMP		31
State's proportionate share of the NOL associated with AIDEA		586
Total Net OPEB Liabilities	$	2,635
AIDEA proportionate share of NOA:		
ODD	$	48
State's proportionate share of the NOA associated with AIDEA		-
Total Net OPEB Asset	$	48

The total OPEB asset and total OPEB liabilities for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 to calculate the net OPEB asset and net OPEB liabilities as of that date. AIDEA's proportion of the net OPEB liabilities was based on a projection of AIDEA's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At the June 30, 2018 measurement date, AIDEA's proportion for ARHCT was 0.19%, RMP was 0.25%, and ODD was 0.25%.

As a result of its requirement to contribute to the Plan, AIDEA recognized OPEB expense of $589,000 and on-behalf revenue of $76,000 for support provided by the State. At June 30, 2019, AIDEA reported deferred outflows of resources and deferred inflows of resources from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	(231)
Changes in assumptions	320	-
Net difference between projected and actual earnings on OPEB plan investments	-	(434)
Changes in proportion and differences between AIDEA contributions and proportionate share of contributions	85	(134)
Proportion and differences between State contributions and proportionate share of contributions	(115)	-
AIDEA allocated portion of contributions subsequent to the measurement date	416	-
Total Deferred Outflows and Deferred Inflows Related to OPEB	$ 706	(799)

The $416,000 reported as deferred outflows of resources related to OPEB resulting from allocated portion of contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liabilities in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ending June 30,	
2020	$ (172)
2021	(70)
2022	(142)
2023	(125)

Actuarial Assumptions

The total OPEB asset and liabilities for the measurement period ended June 30, 2018 (AIDEA fiscal year 2019) was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2018.

Actuarial cost method	Entry age normal; level percentage of payroll.
Amortization method	Level dollar, closed.
Inflation	3.12%
Salary increases	Graded by service, from 9.66% to 4.92% for Peace Officer/Firefighter. Graded by service from 8.55% to 4.34% for all others.
Allocation methodology	Amounts for FY18 were allocated to employers based on the projected present value of contributions for FY2019-FY2039. The liability is expected to go to zero at 2039.
Investment return / discount rate	8.00%, net of postemployment healthcare plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
Healthcare cost trend rates	Pre-65 medical: 8.8% grading down to 4.4% Post-65 medical: 5.5% grading down to 4.0% Prescription drug: 9.0% grading down to 4.0% RDS/EGWP: 6.5% grading down to 4.0%
Mortality	Pre-termination – Based on the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for peace officers/firefighters, 50% of the time for all others. Post-termination – 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.
Participation	100% system paid of members and their spouses are assumed to elect the healthcare benefits paid as soon as they are eligible. 10% of nonsystem paid members and their spouses are assumed to elect the healthcare benefit as soon as they are eligible.

The actuarial assumptions used in the June 30, 2017 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. The assumptions used in the June 30, 2017 actuarial valuation are the same as those used in the June 30, 2016 valuation with the following exceptions:

1. Medical trend rate assumption was updated to reflect anticipated increases in costs based on recent survey data.
2. An obligation for the Cadillac Tax was added to the June 30, 2017 valuation because it was no longer deemed immaterial due to the updated trend rates and the change to use chained Consumer Price Index (which was part of the Tax Cut and Jobs Act passed in December 2017) to project the tax thresholds in future years.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of postretirement healthcare plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class included in the plan's targeted asset allocation as of June 30, 2018 are summarized in the following table (note that the rates shown below exclude the inflation component):

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad domestic equity	24%	8.90%
Global ex-U.S. equity	22%	7.85%
Fixed income	10%	1.25%
Opportunistic	10%	4.76%
Real estate	17%	6.20%
Absolute return	7%	4.76%
Private equity	9%	12.08%
Cash equivalents	1%	0.66%

Discount Rate

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

Discount Rate Sensitivity

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
AIDEA's proportionate share of the net OPEB liabilities:			
ARHCT	$ 4,085	2,018	285
RMP	94	31	(17)
Total	$ 4,179	2,049	268

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
AIDEA's proportionate share of the net OPEB asset - ODD	$ 45	48	51

Healthcare Cost Trend Rate Sensitivity

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

	1% Decrease (7.0% decreasing to 3.0%)	Current Discount Rate (8.0% decreasing to 4.0%)	1% Increase (9.0% decreasing to 5.0%)
AIDEA's proportionate share of the net OPEB liabilities:			
ARHCT	$ 39	2,018	4,401
RMP	(27)	31	110
Total	$ 12	2,049	4,411

OPEB Plan Fiduciary Net Position

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

(d) Defined Contribution OPEB Plans

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

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of ***all employees of all employers*** in the plan." As of July 1, 2018, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates $2,103 per year for each full-time employee, and $1.35 per hour for part-time employees.

Employer Contribution Rates

Employees do not contribute to the DC OPEB plans. Employer contribution rates for the year ended June 30, 2019 were as follows:

	Other Tier IV	Police/Fire Tier IV
Health Reimbursement Arrangement	3.00%	3.00%
Retiree Medical Plan	0.94%	0.94%
Occupational Death and Disability Benefits	0.26%	0.76%
Total Contribution Rates	4.20%	4.70%

Annual Postemployment Healthcare Cost

In 2019, AIDEA contributed $99,000 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

(10) Related Party – Alaska Energy Authority

Based on understandings and board-approved agreements between AIDEA and AEA, we supply administrative, personnel, data processing, communications, and other services to AEA. AIDEA recognized revenue totaling $5.28 million for providing these services during FY19. As of June 30, 2019, AIDEA had $3.46 million receivable from AEA for services and short-term borrowings. In addition, AEA administers the Bradley Lake Hydroelectric Project and Battle Creek Project for which it reimburses AIDEA $200,000 and $168,000, respectively, for project management and shared services cost. These amounts are recorded as part of income from state agencies and component units.

AIDEA recorded a net pension liability of $9.8 million, OPEB liability of $2.0 million, and OPEB asset of $48,000 as of June 30, 2019. AEA's annual payments to AIDEA for personnel services supporting AEA activities includes a PERS contribution component. Receipts from AEA funds over half of AIDEA's personnel services.

(11) Commitments, Contingencies, Subsequent Events and Other

(a) Investments

AIDEA held about $22.4 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 $10 million dividend to be paid from the Revolving Fund and a $285,000 dividend to be paid from the SETS Fund in the year ending June 30, 2020. The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.

(c) Alaska Insurance Guaranty Association

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

(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, 2019, we had extended the following commitments funded by the Revolving Fund:

- Loan participation purchase commitments of $7.2 million and pending applications of $2.5 million

- Loan guarantees of $1.33 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 will not materially affect our financial position.

(f) Commitments and Contingencies - Nonmajor Funds

AIDEA had extended commitments to fund a loan to IGU not to exceed $125 million from the SETS Fund for the IEP. At June 30, 2019 we have funded approximately $104 million, resulting in a remaining commitment of approximately $21 million.

(g) Commitment and Contingencies – Snettisham Project

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

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

(h) Risk Management

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

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

(i) Subsequent Events

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

AIDEA issued $126.69 million in conduit revenue bonds October 3, 2019 in support of the acquisition, expansion, renovation, furnishing, and equipping of certain healthcare facilities in Alaska.

On October 4, 2019, we executed an amendment to the loan agreement with IGU to fund an additional $10 million from the SETS Fund for the IEP.

Payment was due October 1, 2019 on the Mustang Development loan (non-capitalized interest). As of the date of this report, payment was not made. We are in discussions with the borrower.

ALASKA INDUSTRIAL DEVELOPMENT

AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

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

Alaska Public Employees' Retirement System

(dollars in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
AIDEA's proportion of the net pension liability	0.20%	0.19%	0.29%	0.26%	0.18%	0.18%	*	*	*	*
AIDEA's proportionate share of the net pension liability	$ 9,772	9,843	15,941	12,606	8,595	9,287	*	*	*	*
State's proportionate share of the net pension liability	2,830	3,667	2,009	3,563	7,439	8,542	*	*	*	*
Total	$ 12,602	13,510	17,950	16,169	16,034	17,829	*	*	*	*
AIDEA's covered-employee payroll	$ 6,804	6,697	7,525	8,468	9,213	8,595				
AIDEA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	144%	147%	212%	149%	93%	108%	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	65%	63%	60%	64%	62%	*	*	*	*	*
AIDEA's statutorily required contribution	$ 828	858	1,282	871	971	1,017	983	*	*	*
Contributions recognized by the plan in relation to the statutorily required employer contribution	828	858	1,282	871	971	1,017	983	*	*	*
Difference	$ —	—	—	—	—	—	—	*	*	*
AIDEA's statutorily required contribution as a percentage of covered-employee payroll	12%	13%	17%	10%	11%	12%	*	*	*	*

* Information for these years is not available.

(1) Information in this table is presented based on the Plan measurement date. For June 30, 2019, the Plan measurement date is June 30, 2018, except for AIDEA's statutorily required contributions and contributions recognized by the Plan in relation to the statutorily required contributions which are on a current fiscal year basis. There were no changes in benefit terms from the prior measurement period. There were no changes in assumptions from the prior measurement period. There were no changes in

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

ALASKA INDUSTRIAL DEVELOPMENT

AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

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

Alaska Public Employees' Retirement System

(dollars in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
AIDEA's proportion of the net OPEB liability	0.20%	0.19%	*	*	*	*	*	*	*	*
AIDEA's proportionate share of the net OPEB liability	$ 2,049	1,622	*	*	*	*	*	*	*	*
State's proportionate share of the net OPEB liability	586	600	*	*	*	*	*	*	*	*
Total	$ 2,635	2,222	*	*	*	*	*	*	*	*
AIDEA's covered-employee payroll	$ 6,804	6,697								
AIDEA's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	30%	24%	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	88%	90%	*	*	*	*	*	*	*	*
AIDEA's statutorily required contribution	$ 338	283	*	*	*	*	*	*	*	*
Contributions recognized by the plan in relation to the statutorily required employer contribution	338	283	*	*	*	*	*	*	*	*
Difference	$ —	—	*	*	*	*	*	*	*	*
AIDEA's statutorily required contribution as a percentage of covered-employee payroll	5%	4%	*	*	*	*	*	*	*	*

* Information for these years is not available.

(1) Information in this table is presented based on the Plan measurement date. For June 30, 2019, the Plan measurement date is June 30, 2018, except for AIDEA's statutorily required contributions and contributions recognized by the Plan in relation to the statutorily required contributions which are on a current fiscal year basis. There were no changes in benefit terms fron the prior measurement period. There were no changes in assumptions from the prior measurement period. There were no changes in allocation methodology.

(2) Information in this table represents the OPEB liability for the ARHCT and RMP OPEB Plans. It excludes the OPEB asset of the ODD Plan of approximately $48,000 and AIDEA's statutorily required contribution to the ODD Plan of approximately $11,000

Schedule 1

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Nonmajor Funds – Combining Statement of Net Position

June 30, 2019

(In thousands)

Assets		**SETS Fund**	**Loan Funds**	**Aggregate Nonmajor Funds**
Current assets:				
Unrestricted cash and cash equivalents	$	18,628	8,829	27,457
Restricted cash and cash equivalents		20,983	—	20,983
Loans - current portion		—	385	385
Accrued interest receivable		—	140	140
Other assets		—	28	28
Total current assets		39,611	9,382	48,993
Noncurrent assets:				
Loans - noncurrent portion		104,019	8,287	112,306
Less allowance for loan losses		—	(603)	(603)
Net loans		104,019	7,684	111,703
Total noncurrent assets		104,019	7,684	111,703
Total assets	$	143,630	17,066	160,696
Liabilities and Net Position				
Current liabilities:				
Accounts payable	$	—	43	43
Due to the State of Alaska		—	4	4
Other liabilities		—	4	4
Total liabilities		—	51	51
Net position:				
Unrestricted		143,630	17,015	160,645
Total net position		143,630	17,015	160,645
Total liabilities and net position	$	143,630	17,066	160,696

Schedule 2

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, 2019

(In thousands)

		SETS Fund	Loan Funds	Aggregate Nonmajor Funds
Operating revenues:				
Interest on loans	$	—	395	395
Investment interest		1,044	—	1,044
Other income		6	15	21
Total operating revenues		1,050	410	1,460
Operating expenses:				
Nonproject personnel, general and administrative		—	276	276
Provision for loan recovery		—	(335)	(335)
Total operating expenses		—	(59)	(59)
Operating income		1,050	469	1,519
Nonoperating revenues and other:				
Investment interest		—	262	262
Dividend to the State of Alaska		(195)	—	(195)
Total net nonoperating revenues and other		(195)	262	67
Increase in net position		855	731	1,586
Net position - beginning of year		142,775	16,284	159,059
Net position - end of year	$	143,630	17,015	160,645

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, 2019

(In thousands)

	SETS Fund	Loan Funds	Aggregate Nonmajor Funds
Cash flows from operating activities:			
Interest received on loans	$ —	366	366
Principal collected on loans	—	1,318	1,318
Loans originated	—	(922)	(922)
Payments to suppliers and employees for services	(75)	(131)	(206)
Payments to primary government	—	(6)	(6)
Net cash (used for) provided by operating activities	(75)	625	550
Cash flows from noncapital and related financing activities:			
Dividend paid to the State of Alaska	(195)	—	(195)
Net cash used for noncapital and related financing activities	(195)	—	(195)
Cash flows from investing activities:			
Interest collected on investments	1,044	262	1,306
Loans originated	(26,845)	—	(26,845)
Net cash (used for) provided by investing activities	(25,801)	262	(25,539)
Net (decrease) increase in cash and cash equivalents	(26,071)	887	(25,184)
Cash and cash equivalents at beginning of year	65,682	7,942	73,624
Cash and cash equivalents at end of year	$ 39,611	8,829	48,440

(Continued)

Schedule 3

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, 2019

(In thousands)

		SETS Fund	Loan Funds	Aggregate Nonmajor Funds
Reconciliation of operating income to net cash (used for) provided by operating activities:				
Operating income	$	1,050	469	1,519
Adjustments to reconcile operating income to net cash (used for) provided by operating activities:				
Principal collected on loans		—	1,318	1,318
Loans originated		—	(922)	(922)
Investment interest income		(1,044)	—	(1,044)
Provision for loan recovery		—	(335)	(335)
(Increase) decrease in accrued interest receivable and other assets		(81)	63	(18)
Increase in accounts payable and other liabilities		—	32	32
Net cash (used for) provided by operating activities	$	(75)	625	550

Schedule 4

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Historical Loan Information – Revolving Fund

Year ended June 30, 2019

(In thousands)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 year average
Outstanding loan balance at June 30, by loan type:											
Loan participation:											
Internally funded	$ 349,918	420,397	411,683	378,521	335,013	324,736	320,611	375,971	403,945	420,815	374,161
Bond sale	—	11,982	14,571	14,165	13,656	13,160	12,638	12,085	11,502	10,886	11,465
Bonds retired	815	767	717	—	—	—	—	—	—	—	230
OREO sale financing	23,844	21,234	21,167	20,942	8,864	8,146	274	258	100	100	10,493
Appropriated	48	32	17	—	—	—	—	—	—	—	10
Purchased loans	—	23,510	20,669	19,463	18,501	17,487	16,307	15,235	14,184	13,142	15,850
Other	3,032	2,770	—	—	—	—	—	—	—	—	580
	$ 377,657	480,692	468,824	433,091	376,034	363,529	349,830	403,549	429,731	444,943	412,789
Number of outstanding loans at June 30, by loan type:											
Loan participation:											
Internally funded	241	255	257	235	224	220	207	216	242	257	235
Bond sale	—	1	1	1	1	1	1	1	1	1	1
Bonds retired	1	1	1	—	—	—	—	—	—	—	—
OREO sale financing	6	5	5	4	4	4	2	2	1	1	3
Appropriated	2	1	1	—	—	—	—	—	—	—	—
Purchased loans	—	37	31	28	28	27	26	24	24	23	25
Other	1	1	—	—	—	—	—	—	—	—	—
	251	301	296	268	257	252	236	243	268	282	264
Aging percent of outstanding loans at June 30:											
Current	99.11%	99.35%	99.89%	99.49%	99.61%	99.53%	100.00%	100.00%	100.00%	100.00%	99.70%
Past due:											
31-60 days	0.17	0.59	0.05	0.05	—	—	—	—	—	—	0.09
60-90 days	—	—	—	—	0.31	0.47	—	—	—	—	0.07
Over 90 days	0.72	0.06	0.06	0.46	0.08	—	—	—	—	—	0.14
	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.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

(A Component Unit of the State of Alaska)

Schedule of Dividend Information

Year ended June 30, 2019

(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
2018	12,883	—	12,883
2019	4,597	195	4,792
Total dividends to State of Alaska as of June 30, 2019	397,399	195	397,594
Declared for 2020	10,000	285	10,285
Total dividends to State of Alaska paid or declared	$ 407,399	480	407,879

Computation of statutory "net income" for FY21 dividend (in thousands)	Revolving Fund	SETS Fund	Total
Increase in net position	$ 44,672	855	45,527
Appropriations and contributions from the State of Alaska	(3,297)	—	(3,297)
Capital grant	(29)	—	(29)
Dividend to State	4,597	195	4,792
Impairment loss on a project financed with capital appropriation	2,003	—	2,003
Mark-to-market fair value adjustment	(19,183)	—	(19,183)
State of Alaska nonemployer contributions to Public Employee retirement system	(209)	—	(209)
Net pension related adjustments	(1,063)	—	(1,063)
Net OPEB related adjustments	(131)	—	(131)
Capital funds contribution	542	—	542
FY19 Statutory "net income"	$ 27,902	1,050	28,952

Unaudited – See accompanying independent auditor's report.

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

Schedule of Development Project Information

June 30, 2019

Direct Financing Leases

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

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

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

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

Capital Assets

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

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

- 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, with construction scheduled for completion by June 2020.

Recent improvements funded by state and federal money involve relocating an existing electrical substation (also part of the electrical improvements described above).

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

- *Skagway Ore Terminal project*. In July 1990, AIDEA purchased the Skagway Ore Terminal to provide ownership stability and potentially open the door to additional economic growth by marketing the ore storage shed and terminal to new users. The Skagway Ore Terminal is located on land the Municipality of Skagway owns that is subleased to AIDEA through agreements with the Pacific and Arctic Railway and Navigation Company. In January 2007, we entered into a Facilities User Agreement with Capstone Mining Corporation, a Canadian mining company for its use of the facility. To support their operations, we made improvements to the facility, including the construction of a new ore storage shed. Capstone now uses a portion of the terminal for storage and shipment of bulk mine products (copper ore concentrates). During FY11, Capstone paid off the direct financing lease associated with the 2007 agreement. In FY14, the Capstone-AIDEA agreement was extended to March 2023, concurrent with the end of our land sublease and a new user fee was negotiated. Effective June 3, 2019, Capstone entered into a definitive share purchase agreement with Pembridge Resources for the ownership of the Minto Mine. As part of this agreement, AIDEA entered into a joinder and assignment agreement with Capstone and Pembridge allowing Pembridge as owner of the Minto Mine the use of the terminal facilities through March 2023.

- *Federal Express project*. The Federal Express project consists primarily of a hangar capable of accommodating one wide-body aircraft for maintenance, repair and operations activities. The hangar facility also includes the associated ramp, taxiway, access road, building utilities and landscaping. To enable facility construction, a ground lease at the Ted Stevens Anchorage International Airport was conveyed to AIDEA in 1993. AIDEA financed the construction of the facility which was completed in 1995 through the issuance of bonds based on the 20-year lease agreement signed in 1992 with Federal Express for the aircraft maintenance facility and its adjacent/supporting fire suppression facility. During FY15 the user paid off the direct financing lease related to the facility, negotiated a new user fee, and signed a new lease expiring in July 2023. Several maintenance and refurbishment projects are included in the new lease; these projects began in FY16 and were completed in early FY18.

- *North Slope Pad.* 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. The pad was placed into service in FY16. In FY19, AIDEA received authorization for a new 30-year general purpose lease on the completed pad (ADL #412055) leading to its designation as a development project. Subsequently, we agreed to sell ADL #421055 for $3.2 million including reimbursement of certain costs. As a result, the pad was reclassified to a development project, identified as an asset held for sale. An impairment of $2.0 million was recognized to write-down the value of the asset to its fair market value.

Preferred Interest in Operating Companies

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

  Until December 14, 2017, AIDEA was the only preferred member of Mustang Road LLC. The common members when the LLC was organized were Ramshorn Investments, Inc. and AVCG, LLC. According to the LLC Operating Agreement, Mustang Road LLC engaged Brooks Range Petroleum Company (BRPC), then a subsidiary of AVCG, LLC 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 provided for a 10% annual Guaranteed Payment amount on the unredeemed amount of AIDEA’s outstanding investment. The Guaranteed Payments were to be made quarterly, beginning 90 days after oil production or by December 31, 2015. The revised agreement also provides for a $2.0 million increase in the outstanding balance of AIDEA’s investment to capitalize the forgone Guaranteed Payments. Lastly, the revised agreement also provided for a change in the annual Redemption Payment schedule for AIDEA as Preferred Member, requiring redemption over 7 years in equivalent installments with the first Redemption Payment due by December 31, 2016.

The July 2014 amendment also replaced AVCG, LLC and Ramshorn Investments, Inc. with TP North Slope Development, LLC, MEP Alaska, LLC and Caracol Petroleum, LLC, which then had ownership interests in BRPC.

In September 2018, a Purchase and Sale Agreement between AIDEA and Caracol was signed for Caracol's acquisition of AIDEA's preferred membership interest in MOC1 and MR LLC in a single transaction for $64 million including the reimbursement of certain costs. The terms of the sale included AIDEA’s financing of a $64 million loan to Caracol for these acquisitions. BRPC is to remain the operator, provided it meets performance requirements. The transaction closed May 24, 2019. See Mustang Development Loan for details of financing.

- *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 Southern Miluveach unit (SMU), which is also known as the Mustang Oil Field. The facility is being built through a limited liability company whose original members were 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 MOC1 facility is being built on the Mustang Pad. Under the original agreements, the facility was to be designed, built and operated by Brooks Range Petroleum Corporation (BRPC). In exchange for funding the construction of the facility, MOC1 was to receive the greater of:

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

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

  AIDEA was the sole preferred member of MOC1, with 25,000 Class B (preferred) shares in the LLC for a $50 million contribution. We made this contribution to MOC1 over an extended period of time. 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 Operating Agreement AIDEA was to receive a 10% annual dividend on the outstanding redemption value of AIDEA’s preferred shares, to be paid on a quarterly basis, with payments expected to start 90 days after first oil production, or by December 1, 2016. Redemption of AIDEA’s Class B shares was expected to occur over 7 years in equal installments, with redemption payments expected to occur before the end of each calendar year. The redemption price for AIDEA's Class B shares was set at $2,200 per share to compensate for capitalized interest during the construction period and investment risk.

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

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

- MOC1 was granted a deed of trust on 89% of the working interests in the Mustang Field for the preconstruction period.
- After first oil production, MOC1 would receive the proceeds of its carried working interest in the Mustang Field.
- The oil revenues from 90% of the working interests in the field were to be deposited into a control account in which MOC1 held a UCC security interest. MOC1 controlled disbursements from the control account subject to contract requirements. After payment of royalties, operating expenses, production taxes and tariffs, MOC1 was 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 were insufficient to meet the required Charter Fee payments, MOC1 had 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 were insufficient to meet the Charter Fee payments, BRPC was to make a capital call on its working interest owners to cover any shortfalls.
- MOC1 was to receive 50% of the preproduction capital expense credits paid by the State of Alaska.
- MOC1 was granted a deed of trust on the working interests in other potential North Slope oil leases that BRPC or its owners held.

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 (DOR) for advances on projected tax credits based on 2015 project expenditures. When tax credits payments were not received as expected, the maturity date of the line of credit note was extended several times.

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, and under the MOC1 Charter Agreement, TP North Slope Development, MEP Alaska, and Caracol Petroleum (working interest owners) were required to purchase MOC1's investment in the project for the principal amount MOC1 provided.

In addition, in late 2017, a test was conducted on well North Tarn 1A that resulted in the well being certified as capable of producing commercial quantities of crude oil. This certification prevented the unit designation for the SMU from being cancelled and kept the oil and gas leases of the SMU in effect.

In May 2018, AIDEA's board authorized the sale of its membership interest in MOC1 to Caracol Petroleum, LLC as a part of an overall restructuring of the Mustang Oil Field project. Concurrently, AIDEA's MOC1 partner, CES, agreed to sell its interest in MOC1 to Caracol.

Caracol closed on its purchase of CES's membership interest in MOC1 in April 2019. On May 24, 2019, AIDEA and Caracol closed on the seller financed sale of AIDEA's membership interest in MRLLC and MOC1 to Caracol. See Mustang Development loan for details on loans. As a part of the MOC1 and MR LLC purchase and sale transaction we agreed to guarantee a line of credit the State of Alaska Department of Revenue (DOR) had extended to MOC1. Thereafter, we purchased the DOR's position as the lender on the MOC1 loan. See MOC1 Acquired Loan for details of acquired loan.

Interior Energy Project Financing Agreement

On December 13, 2017 the Authority entered into a Financing Agreement with the IGU. The ultimate intention of the Financing Agreement was to provide financing for IGU to purchase AIDEA's ownership interest in Pentex, refinance loans to IGU and FNG and further the establishment of an integrated utility to provide natural gas to the Fairbanks North Star Borough.

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

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

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

At June 30, 2019 the Authority has reflected $21 million as restricted in the SETS fund to complete the funding of the IEP SETS loan. IEP SETS loan terms included the following:

- No interest accrued or payments due for 15 years from the closing date
- Interest accrual of .25% for the next 35 years

- Payments may be deferred further if demand for natural gas does not meet projections
- $21 million of SETS funds restricted to reflect remaining loan commitment

Lines of Credit or Term Loans

- *BlueCrest Drill Rig.* In July 2015, AIDEA entered into a Loan Agreement with BlueCrest Alaska Operating, LLC (Borrower) and BlueCrest Alaska Oil & Gas, LLC, BlueCrest Cosmopolitan, LLC and BlueCrest Energy Inc. (Co-Borrowers). A fixed Line of Credit Note (LOC) not to exceed $30.0 million was signed concurrent with the Loan Agreement. AIDEA provided the financing for the procurement of a new high-horsepower, extended reach, onshore drilling rig which is being used for the installation of numerous wells to produce oil from the Cosmopolitan lease blocks in the lower Cook Inlet. AIDEA also financed the construction of man camp facilities for workers on the project. Interest on the outstanding LOC principal balance accrued at 6.4% per annum when it was converted to a term loan, compounded monthly and was added to the principal balance of the term loan when it was converted.

  An original LOC was converted to a term loan, with monthly interest only payments from January 1, 2017 through November 1, 2017. Principal and interest payments began on December 1, 2017 and will continue through the maturity date of July 24, 2022. As of June 30, 2019, all payments have been received on time.

  The loan is secured by the following:

  - All materials, transportation, tools, equipment, initial drill piping, services, permits, utilities, design and other items necessary or incidental to the construction, fabrication, assembly, testing, certification and other preparation of the drill rig and the installation of the rig, its design, and all associated fixtures, including contract rights and manufacturer warranties as specified in the Loan Agreement.
  - All materials, transportation, tools, equipment, fixtures, and furnishings associated with the rig camp, including contract rights and manufacturer warranties of the rig camp as specified in the Loan Agreement.
  - A Reserve Account, which was funded at the end of January 2017 in the amount of approximately $6.062 million to cover any payment or collateral shortfall (in the event of a default). The reserve may be reduced under certain conditions outlined in the loan agreement. Per Loan amendment executed on July 1, 2019, the reserve account was released and applied to the outstanding loan balance decreasing it by $6.06 million. The new loan balance was reamortized.

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

  Collateral for the financing is:

  - A deed of trust against the property financed.

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

The LOC converted to a term note on February 14, 2017. Monthly payments are due on the term loan until the maturity date of February 14, 2052. The loan was current at June 30, 2019.

- *Mustang Development Loan (noncapitalized interest).* We financed the May 24, 2019 sale of our membership interests in MOC1 and MR LLC with a $64 million direct financing loan (Mustang Development Loan-noncapitalized interest). See Note 6 (c) for discussion of sales transaction. The loan will accrue interest at 8% and matures April 1, 2026. Payments are scheduled to begin October 1, 2019 and are due quarterly thereafter.

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

- *MOC1 Acquired Loan.* As a part of the MOC1 and MR LLC purchase and sale transaction we agreed to guarantee a line of credit DOR had extended to MOC1. Soon thereafter we acquired the lender's position on the loan from DOR for a total of $16.4 million plus accrued interest. The loan is secured by oil and gas tax credits due to MOC1 by the DOR and matures no later than December 31, 2020. The loan may mature earlier if certain conditions are met relating to oil and gas tax credit payments. The loan accrues interest at 3.0% per annum. Any balance remaining at maturity, not to exceed $10 million may be added to the Mustang Development Loan (noncapitalized) interest.