



Alaska Aerospace Corporation
(A Component Unit of the State of Alaska)

**Financial Statements and Required
Supplementary Information**
Year Ended June 30, 2018

(With Independent Auditor's Report Thereon)

Alaska Aerospace Corporation
(A Component Unit of the State of Alaska)

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Alaska Aerospace Corporation

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Independent Auditor's Report

Board of Directors
Alaska Aerospace Corporation
Anchorage, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of Alaska Aerospace Corporation (AAC), a component unit of the State of Alaska, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise AAC'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alaska Aerospace Corporation as of June 30, 2018, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 12 to the financial statements, in 2018 Alaska Aerospace Corporation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

We have previously audited the AAC's 2017 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 8, the Schedules of Net Pension Liability and Pension Contributions, and the Schedules of Net OPEB Liability and OPEB Contributions on pages 36 through 39 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 on our consideration of the AAC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of AAC'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 AAC's internal control over financial reporting and compliance.

BDO USA, LLP
Anchorage, Alaska
December 7, 2018

Management's Discussion and Analysis

Alaska Aerospace Corporation

Management's Discussion and Analysis

Our discussion and analysis of Alaska Aerospace Corporation's (AAC) financial performance provides an overview of AAC's financial activities for the fiscal year ended June 30, 2018. Please read this in conjunction with AAC's audited financial statements beginning on page 9.

Using This Financial Report

This report consists of a series of financial statements. The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position on Pages 10 to page 12 provides information regarding the activities of AAC and presents an overview of AAC's finances. During this fiscal year, total net position decreased 3.5% from \$87.7 million to \$84.6 million. The accompanying analysis focuses on the net position and liabilities of AAC's activities.

Table 1
Statements of Net Position

| | Current Year | Prior Year | Change | Percent Change |
|--------------------------------------------------------|----------------------|----------------------|-------------------|----------------|
| Assets and Deferred Outflows of Resources | | | | |
| Current Assets | | | | |
| Cash and investments | \$ 1,683,324 | \$ 3,064,795 | \$ (1,381,471) | -45.1% |
| Accounts receivable | 2,563,649 | 3,868,892 | (1,305,243) | -33.7% |
| Inventory | 13,223 | - | 13,223 | N/A |
| Unbilled receivables | 3,228,997 | 127,881 | 3,101,116 | 2,425% |
| Total Current Assets | 7,489,193 | 7,061,568 | 427,625 | 6.1% |
| Noncurrent Assets | | | | |
| Net OPEB asset | 11,732 | - | 11,732 | N/A |
| Capital assets not being depreciated | 6,251,292 | 38,658,318 | (32,407,026) | -83.8% |
| Capital assets being depreciated/amortized, net | 79,829,443 | 47,105,563 | 32,723,880 | 69.5% |
| Total Noncurrent Assets | 86,092,467 | 85,763,881 | 328,586 | 0.4% |
| Total Assets | 93,581,660 | 92,825,449 | 756,211 | 0.8% |
| Deferred Outflows of Resources - | | | | |
| Related to pensions | 353,502 | 900,248 | (546,746) | -60.7% |
| Related to OPEB | 82,334 | - | 82,334 | N/A |
| Total Assets and Deferred Outflows of Resources | \$ 94,017,496 | \$ 93,725,697 | \$ 291,799 | 0.3% |

Alaska Aerospace Corporation
Management's Discussion and Analysis

| | Current Year | Prior Year | Change | Percent Change |
|--------------------------------------------------------------------------|----------------------|----------------------|--------------------|----------------|
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 3,981,390 | \$ 1,288,563 | \$ 2,692,827 | 209.0% |
| Accrued leave and compensation | 915,227 | 273,223 | 642,004 | 235.0% |
| Unearned revenue | 50,000 | 100,000 | (50,000) | -50.0% |
| Total Current Liabilities | 4,946,617 | 1,661,786 | 3,284,831 | 197.7% |
| Noncurrent Liabilities | | | | |
| Net OPEB liability | 528,588 | - | 528,588 | N/A |
| Net pension liability | 3,207,804 | 4,302,430 | (1,094,626) | -25.4% |
| Total Noncurrent Liabilities | 3,786,804 | 4,402,430 | (616,038) | -14.0% |
| Total Liabilities | 8,683,009 | 5,964,216 | 2,718,793 | 45.6% |
| Deferred Inflows of Resources - | | | | |
| Related to pension | 434,874 | 47,958 | 386,916 | 806.8% |
| Related to OPEB | 294,156 | - | 294,156 | N/A |
| Net Position | | | | |
| Net investment in capital assets | 86,092,467 | 85,763,881 | 328,586 | 0.4% |
| Unrestricted (deficit) | (1,487,010) | 1,949,642 | (3,436,652) | -176.6% |
| Total Net Position | 84,605,457 | 87,713,523 | (3,108,066) | -3.5% |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 94,017,496 | \$ 93,725,697 | \$ 339,757 | 0.4% |

During FY2018, AAC received no funding from the State of Alaska toward the operations and sustainment of the Pacific Spaceport Complex - Alaska (PSCA). Additionally, insurance proceeds (received through claim process for repairs to facilities due to launch anomaly which occurred in August 2014) received in prior years led to the completion of the rebuild of the facilities in FY2018. These are reflected in the increase to Capital Assets being depreciated and a corresponding increase in depreciation.

In FY2018, AAC adopted the provision of GASB Statement No. 75. As a result, net position at the beginning of the year was adjusted by \$771,818 (see Note 12).

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Alaska Aerospace Corporation

Management's Discussion and Analysis

Business Activities

During FY2018, AAC's operation revenues were generated through execution of multiple task orders issued under the Indefinite Delivery/Indefinite Quantity (IDIQ) contract from the Missile Defense Agency and several commercial launch support contracts. AAC anticipates an increase in operating revenue for FY2019 with additional task order awards under the five-year IDIQ contract from the Missile Defense Agency and new commercial launch support contracts.

Table 2
Changes in Net Position

| | Current Year | Prior Year | Change | Percent Change |
|----------------------------------------|---------------|---------------|----------------|----------------|
| Operating revenue | \$ 23,147,552 | \$ 13,143,492 | \$ 10,004,060 | 76.1% |
| Operating expenses | 24,940,779 | 16,380,102 | 8,560,677 | 52.3% |
| Net operating loss | (1,793,227) | (3,236,610) | 1,443,383 | -44.6% |
| Nonoperating revenues (loss) | (543,021) | 12,019,577 | (12,562,598) | -104.5% |
| Income before capital contribution | (2,336,248) | 8,782,967 | (11,119,215) | -126.6% |
| Capital contribution | - | 2,607,353 | (2,607,353) | -100.0% |
| Changes in Net Position | (2,336,248) | 11,390,320 | (13,726,568) | -120.5% |
| Net Position, beginning of year | 86,941,705 | 76,323,203 | 10,618,502 | 13.9% |
| Net Position, end of year | \$ 84,605,457 | \$ 87,713,523 | \$ (3,108,066) | -3.5% |

In FY2018 AAC did not receive any funds from the State of Alaska, and we are proceeding with the planning process of converting from a corporation owned by the State of Alaska to a public-private partnership.

Management projects the depreciation and amortization expense to remain relatively the same in the future as AAC places damaged facilities back in service upon completion of repairs, places additional capital projects into service, implements technological advances, and removes older assets as they reach the end of their useful lives.

Alaska Aerospace Corporation

Management's Discussion and Analysis

The Alaska State Legislature provided funding relief for all Public Employees Retirement System (PERS) participating employers and agencies, partially off-setting the increased PERS employer costs. The PERS relief funding is reported as nonoperating revenue for each year, respectively.

AAC's Budgetary Highlights

The legislative body of the State of Alaska is the authority that approves AAC's annual budget. Consequently, all alterations to the budget that are requested by AAC's Board of Directors and its management must go through the Governor to be approved by the legislature. Historically, the budget includes a provision that grants AAC the "receipt and expenditure authority" to receive funding from customers and expend funds as necessary to provide the necessary and appropriate services. As AAC diversifies business services, it is expected that the requirement for a high "receipt and expenditure authority" will remain to accommodate commercial revenues and federal grants/contracts.

Capital Assets

At June 30, 2018, AAC has \$86.1 million in net capital assets at its locations in Anchorage and Kodiak that support the mission to foster the aerospace industry in the State of Alaska. This amount is net of accumulated depreciation and amortization and represents an increase in net capital assets of \$0.3 million. AAC placed \$37.2 million worth of capital assets in service in FY2018 and has seen an increase of \$754 thousand in depreciation expense in the current year.

Debt Administration

AAC has no long-term debt liabilities to administer as FY2018. AAC has authority to issue bonds but has not issued any as of June 30, 2018.

AAC participates in the State of Alaska Risk Management Pool, and this participation results in a considerable savings in its risk management costs. Other obligations include accrued leave, compensated absences and personal leave. More detailed information regarding AAC's liabilities are presented in the notes to the accompanying financial statements.

Economic Factors and Next Year's Budget and Rates

AAC's Board of Directors considers numerous factors when setting the FY2019 budget. Examples include launch and maintenance schedules, new and follow-on business opportunities, the operation and sustainment of PSCA. For FY2019, it is projected that there will be no state funding provided to AAC. However, as AAC diversifies service offerings, it is projected that revenues will increase in FY2019.

Alaska Aerospace Corporation

Management's Discussion and Analysis

Contacting AAC's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of AAC's financial position and to show AAC's accountability for the moneys it receives. If you have questions regarding this report or need additional financial information, contact: Alaska Aerospace Corporation, 4300 B Street, Suite 101, Anchorage, Alaska 99503 or you may telephone: 907-561-3338.

Financial Statements

Alaska Aerospace Corporation
Statements of Net Position
June 30, 2018
(With Comparative Amounts for 2017)

| <i>June 30,</i> | 2018 | 2017 |
|--------------------------------------------------------|----------------------|----------------------|
| Assets and Deferred Outflows of Resources | | |
| Current Assets | | |
| Cash and investments | \$ 1,683,324 | \$ 3,064,795 |
| Accounts receivable | 2,563,649 | 3,868,892 |
| Inventory | 13,223 | - |
| Unbilled receivables | 3,228,997 | 127,881 |
| Total Current Assets | 7,489,193 | 7,061,568 |
| Noncurrent Assets | | |
| Net OPEB assets | 11,732 | - |
| Capital assets not being depreciated | 6,251,292 | 38,658,318 |
| Capital assets being depreciated/amortized, net | 79,829,443 | 47,105,563 |
| Total Noncurrent Assets | 86,092,467 | 85,763,881 |
| Total Assets | 93,581,660 | 92,825,449 |
| Deferred Outflows of Resources | | |
| Related to pension | 353,502 | 900,248 |
| Related to OPEB | 82,334 | - |
| Total Deferred Outflows of Resources | 435,836 | 900,248 |
| Total Assets and Deferred Outflows of Resources | \$ 94,017,496 | \$ 93,725,697 |

Alaska Aerospace Corporation
Statements of Net Position, continued
June 30, 2018
(With Comparative Amounts for 2017)

| <i>June 30,</i> | 2018 | 2017 |
|--------------------------------------------------------------------------|----------------------|----------------------|
| Liabilities, Deferred Inflows of Resources and Net Position | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | \$ 3,981,390 | \$ 1,288,563 |
| Accrued leave and compensation | 915,227 | 273,223 |
| Unearned revenue | 50,000 | 100,000 |
| Total Current Liabilities | 4,946,617 | 1,661,786 |
| Noncurrent Liabilities | | |
| Net OPEB liability | 528,588 | - |
| Net pension liability | 3,207,804 | 4,302,430 |
| Total Noncurrent Liabilities | 3,736,392 | 4,302,430 |
| Total Liabilities | 8,683,009 | 5,964,216 |
| Deferred Inflows of Resources | | |
| Related to pension | 434,874 | 47,958 |
| Related to OPEB | 294,156 | - |
| Total Deferred Inflows of Resources | 729,030 | 47,958 |
| Net Position | | |
| Net investment in capital assets | 86,080,735 | 85,763,881 |
| Unrestricted (deficit) | (1,475,278) | 1,949,642 |
| Total Net Position | 84,605,457 | 87,713,523 |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 94,017,496 | \$ 93,725,697 |

See accompanying notes to basic financial statements.

Alaska Aerospace Corporation
Statements of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2018
(With Comparative Amounts for 2017)

| <i>Years Ended June 30,</i> | 2018 | 2017 |
|-------------------------------------------------------------------|---------------|---------------|
| Operating Revenues | \$ 23,147,552 | \$ 13,143,492 |
| Operating Expenses | | |
| Personnel services | 1,367,670 | 1,442,575 |
| Travel | 141,103 | 130,452 |
| Contractual services | 16,910,590 | 9,792,170 |
| Supplies | 766,203 | 1,013,073 |
| Equipment | 1,260,879 | 261,778 |
| Depreciation and amortization | 4,494,334 | 3,740,054 |
| Total Operating Expenses | 24,940,779 | 16,380,102 |
| Net operating loss | (1,793,227) | (3,236,610) |
| Nonoperating Revenues (Expenses) | | |
| Investment income unrestricted | 28,710 | 96,616 |
| PERS relief from State of Alaska | 42,086 | 82,114 |
| Other revenue | - | 3,742,785 |
| Loss on disposal of capital assets | (613,817) | - |
| Insurance proceeds, net of loss on impairment | - | 8,098,062 |
| Total Nonoperating Revenues (Expenses) | (543,021) | 12,019,577 |
| Income (loss) before capital contributions | (2,336,248) | 8,782,967 |
| Capital Contributions - State of Alaska | - | 2,607,353 |
| Change in Net Position | (2,336,248) | 11,390,320 |
| Net Position, beginning of the year, as restated (Note 12) | 86,941,705 | 76,323,203 |
| Net Position, end of the year | \$ 84,605,457 | \$ 87,713,523 |

See accompanying notes to basic financial statements.

Alaska Aerospace Corporation
Statements of Cash Flows
Year Ended June 30, 2018
(With Comparative Amounts for 2017)

| <i>Years Ended June 30,</i> | 2018 | 2017 |
|-------------------------------------------------------------------------------|---------------------|-----------------------|
| Cash Flows from (for) Operating Activities | | |
| Receipts from contracts and State appropriations | \$ 21,301,679 | \$ 9,712,504 |
| Payments to suppliers | (16,399,171) | (10,178,295) |
| Payments to employees | (887,684) | (1,904,431) |
| Net cash from (for) operating activities | 4,014,824 | (2,370,222) |
| Cash Flows for Capital and Related Financing Activities | | |
| Capital contribution received | - | 2,607,353 |
| Purchase of capital assets | (5,425,005) | (12,716,717) |
| Decrease in unearned revenue | - | (2,710,115) |
| Insurance proceeds | - | 8,098,062 |
| Net cash for capital and related financing activities | (5,425,005) | (4,721,417) |
| Cash Flows from Investing Activities | | |
| Investment income | 28,710 | 96,616 |
| Net decrease in cash and cash equivalents | (1,381,471) | (6,995,023) |
| Cash and Cash Equivalents, beginning of year | 3,064,795 | 10,059,818 |
| Cash and Cash Equivalents, end of year | \$ 1,683,324 | \$ 3,064,795 |
| Reconciliation of operating loss to net cash from (for) operating activities: | | |
| Operating loss | \$ (1,793,227) | \$ (3,236,610) |
| Adjustments to reconcile operating loss to net cash for operating activities: | | |
| Depreciation and amortization | 4,494,334 | 3,740,054 |
| Noncash expense - PERS relief | 42,086 | 82,114 |
| Increase in inventory | (13,223) | - |
| (Increase) decrease in accounts receivable | 1,305,243 | (3,432,910) |
| (Increase) decrease in unbilled receivables | (3,101,116) | 1,922 |
| (Increase) decrease in deferred outflows of resources - pension | 546,746 | (299,393) |
| Increase in deferred outflows of resources - OPEB | 33,267 | - |
| Increase (decrease) in deferred inflows of resources - pension | 386,916 | (172,770) |
| Increase in deferred inflows of resources - OPEB | 294,156 | - |
| Increase in accounts payable | 2,692,827 | 1,019,178 |
| Increase in accrued expenses | 642,004 | 14,179 |
| Decrease in unearned revenue | (50,000) | - |
| Decrease in net OPEB liability | (370,563) | - |
| Decrease in net pension liability | (1,094,626) | (85,986) |
| Net cash from (for) operating activities | \$ 4,014,824 | \$ (2,370,222) |
| Supplemental Disclosure of Cash Flow Information | | |
| Capital assets purchased on account | \$ - | \$ (5,681,107) |

See accompanying notes to basic financial statements.

Alaska Aerospace Corporation

Notes to Financial Statements June 30, 2018

1. Organization

The accompanying financial statements include all the activities of Alaska Aerospace Corporation (AAC or the Corporation). AAC was created in 1991 by an act of the State of Alaska Legislature (Legislature), Alaska Statute 26.27.010. AAC is a public corporation of the State established to promote the general welfare of the people in the state by encouraging long-term economic growth of the state by promoting, financing, developing and operating space launch and related facilities in Alaska.

On September 24, 2003, the Federal Aviation Administration issued a commercial space transportation license to operate a launch site at Kodiak Launch Complex (KLC) located on Kodiak Island, Alaska. The license term is five years from the effective date on the license. In September 2013, the Federal Aviation Administration renewed the license term for an additional five years. The Kodiak Launch Complex (KLC) has the capabilities for launching telecommunications, remote sensing and space science payloads of up to 8,000 pounds into low earth polar orbits. Construction on the KLC was completed in 2000. The launch complex is located on Narrow Cape, about 45 miles south of Kodiak on Kodiak Island, Alaska.

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

AAC is authorized to issue its own bonds and other obligations in such principal amounts as will be necessary to provide for sufficient funds for carrying out its purpose. Obligations issued are not deemed to constitute a debt of the State of Alaska. The issuance of bonds other than refunding bonds aggregating more than \$1 million in a calendar year, or causing aggregate debt service in a calendar year on all proposed and outstanding bonds to exceed \$1 million, require prior approval by the Legislature. No bonds have been issued to date.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accounts of AAC are organized as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

In addition to the Enterprise Fund, Section 26.27.050 of the Alaska State Statutes established an AAC fund. The fund consists of appropriations made by the legislature, rents, fees or other money or assets transferred to the revolving fund by AAC. The amounts may be pledged to the payment of bonds of the Corporation or expended for the purposes of the Corporation as established by State Statute. This Section states that the Corporation shall have custody of the fund and shall be responsible for its management and invest amounts in the fund in accordance with an investment policy adopted by the Corporation per AS 37.10.071. Disbursements may be made per AS 37.25.050 and reported annually in accordance with AS 26.27.100(b)(1).

Alaska Aerospace Corporation

Notes to Financial Statements

During 2014, AAC expended monies from the fund for purposes of the Corporation. The Attorney General expressed an opinion dated March 15, 1995 that interest earned in a fund may be retained by AAC in that fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Reserve Fund

Alaska Statute Sec. 26.27.290 created a reserve fund to account primarily for bond payments for principal and interest. The fund remained unfunded as of June 30, 2018.

State Appropriations

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

Other Accounting Basis

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

Cash and Investments

For the purpose of the Statement of Cash Flows, all highly liquid debt instruments with original maturities of three months or less are considered cash and cash equivalents. According to AAC’s investment policy, funds in excess of current operating needs can be invested in quality securities to provide the maximum return on investment for an appropriate risk. These investments must have the ability to provide immediate liquid funds when needed.

Investments are reported at fair value. Securities transactions are recorded on the trade date that securities are purchased or sold. Unrealized gains and losses are reported as components of net increase or decrease in fair value of investments. Fair values are obtained from independent sources using published market prices, quotations from national security exchanges, and security pricing services. Fair values of investments that have no readily ascertainable fair value are determined by management using the fair value capital account balances nearest to the schedule of investments date, adjusted for subsequent contributions and distributions.

Alaska Aerospace Corporation

Notes to Financial Statements

Revenue Recognition

Revenue from cost-type contracts is recognized on the basis of reimbursable costs incurred during the period plus fee earned. AAC provides currently for all known or anticipated losses on contracts. Variances between provisional rates and actual rates are accrued if the variance is unfavorable to AAC. If they are favorable to AAC, they are only accrued when AAC has the ability and intent to collect the variances. Revenue from fixed price contracts is recognized using the percentage-of-completion method, based primarily on contract costs incurred to date compared with total estimated costs. Revisions in cost and profit estimates are made during the course of work and are reflected when facts, which require revision become known. Provision for losses on uncompleted contracts is made in the period in which such losses are identified.

Receivables

AAC utilizes the allowance method of accounting to estimate losses due to uncollectible accounts.

Unbilled Receivables

Unbilled amounts on cost-reimbursement contracts represent recoverable costs and accrued profits not yet billed. These amounts are billable upon receipt of contract funding, final settlement of incurred cost claim, or contract completion. As of June 30, 2018, no allowance for unrecoverable costs has been recorded due to AAC's past experience relative to collecting all receivables.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at cost or fair value as of the date received or placed in service. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs that are incurred for repairs and maintenance are expensed as incurred. Depreciation and amortization on all assets are provided on the straight-line basis over the following estimated useful lives:

| | |
|--------------------------------------------|--------------|
| Computer software and related equipment | 3 years |
| Office furniture and equipment | 5 years |
| Vehicles and other equipment | 5 years |
| Heavy equipment and machinery | 7 - 10 years |
| Kodiak launch complex buildings/structures | 39 years |
| Kodiak launch complex infrastructure | 39 years |
| Intangible - software | 7 years |
| Intangible - right of use | 20 years |

Compensated Absences

AAC's employees are compensated through the State of Alaska payroll system. Personal leave is accrued based on the accrual rates established by the State of Alaska per AS 39.20.200 and collective bargaining agreements. Accrual rates for personal leave are based on the number of years of service in leave accruing positions. AAC accrues unused leave at year end.

Alaska Aerospace Corporation

Notes to Financial Statements

Income Taxes

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

Unearned Revenue

Advances received restricted as to use and not yet expended, are shown as unearned revenue.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of the net position will sometimes report 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) until then.

In addition to liabilities, the statement of financial position will sometimes report 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.

Pensions and Other Postemployment Benefit Plans (OPEB)

For purposes of measuring the net pension liability, net OPEB liabilities, 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 Public Employees' Retirement System (PERS) and additions to/from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Operating and Non-Operating Revenue

Income related to professional services and operation of the Kodiak Launch Complex is considered operating revenue. All other income is considered non-operating revenue. Management has elected to show appropriations from the State of Alaska as operating revenue.

Use of Estimates

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

Alaska Aerospace Corporation

Notes to Financial Statements

Prior Year Financial Information

The financial statements include certain prior-year comparative information in the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2017, from which the prior year information was derived.

3. Cash and Investments

At June 30, 2018, cash and investments consisted of the following:

| | | |
|----------------------------------------|-----------|------------------|
| Cash in deposits | \$ | 525,679 |
| Petty cash | | 1,212 |
| Money market funds | | 795,126 |
| <hr/> | | |
| Net invested assets | | 1,322,017 |
| Outstanding deposits and disbursements | | (103,243) |
| <hr/> | | |
| Total Cash and Cash Equivalents | \$ | 1,218,774 |

At June 30, 2018, investments consisted of the following:

| | Fair Value | Cost |
|-----------------------------------------|-------------------|-------------------|
| <hr/> | | |
| Fixed income securities - mutual funds: | | |
| U.S. Fixed income - short | \$ 24,398 | \$ 24,986 |
| U.S. Fixed income - long | 440,152 | 457,452 |
| <hr/> | | |
| Total Investments | \$ 464,550 | \$ 482,438 |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from increasing interest rates, AAC's investment policy limits individual fixed rate securities to five years in maturity.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. AAC has not experienced any significant losses in these accounts and believes it is not exposed to any significant credit risk on the cash and investments balances.

Alaska Aerospace Corporation

Notes to Financial Statements

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank or broker failure, AAC's deposits and investments may not be returned. Cash accounts are insured by Security Investor Protection Corporation (SIPC) up to \$250,000 and by Federal Deposit Insurance Corporation (FDIC) up to \$250,000. AAC's uninsured cash balances at June 30, 2018 was \$1,070,805.

Fair Value

The Corporation categorizes its 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 the 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.

The Corporation has the following recurring fair value measurements as of June 30, 2018:

- Mutual funds of \$464,550 are valued using quoted market prices (Level 1 inputs)

The Corporation has investments in money market funds \$795,126 that are not held at fair value, but instead recorded at amortized cost, as of June 30, 2018. The Corporation's investment in money market funds is measured at net asset value, as of June 30, 2018. Management believes these values approximate fair value.

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Alaska Aerospace Corporation

Notes to Financial Statements

4. Capital Assets

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2018:

| | Balance July 1, 2017 | Increase | Decrease | Balance June 30, 2018 |
|--------------------------------------------------------------------|----------------------------|----------------------|------------------------|-----------------------------|
| Capital assets not being depreciated - construction in progress | \$ 38,658,318 | \$ 5,405,538 | \$ (37,812,564) | \$ 6,251,292 |
| Capital assets being depreciated/ amortized: | | | | |
| Office furniture and equipment | 6,132,015 | 1,041,514 | (2,310) | 7,171,219 |
| Vehicles and other equipment | 33,053,811 | 32,091 | (1,500) | 33,084,402 |
| Building and structures | 26,973,721 | 30,259,692 | - | 57,233,413 |
| Infrastructure | 12,196,927 | 5,888,727 | - | 18,085,654 |
| Intangible - software | 1,238,998 | - | - | 1,238,998 |
| Intangible - right of use | 20,602,153 | - | - | 20,602,153 |
| Total capital assets being depreciated/amortized | 100,197,625 | 37,222,024 | (3,810) | 137,415,839 |
| Less accumulated depreciation and amortization for: | | | | |
| Office furniture and equipment | 5,030,082 | 700,813 | - | 5,730,895 |
| Vehicles and other equipment | 21,824,844 | 1,747,263 | - | 23,572,107 |
| Building and structures | 11,848,499 | 909,046 | - | 12,757,545 |
| Infrastructure | 4,919,143 | 303,789 | - | 5,222,932 |
| Intangible - software | 1,228,634 | 9,336 | - | 1,237,970 |
| Intangible - right of use | 8,240,860 | 824,087 | - | 9,064,947 |
| Total accumulated depreciation | 53,092,062 | 4,494,334 | - | 57,586,396 |
| Capital assets being depreciated/ amortized, net | 47,105,563 | 32,727,690 | (3,810) | 79,829,443 |
| Total Capital Assets, net | \$ 85,763,881 | \$ 38,133,228 | \$ (37,816,374) | \$ 86,080,735 |

Construction in progress is related to design of a third launch pad, construction and repair of a damaged facility, and facility improvements. Depreciation and amortization expense totaled \$4,494,334 for the year ended June 30, 2018.

During 2007, AAC entered into an agreement with Kodiak Kenai Cable Company, LLC (KKCC) to provide fiber optic connectivity to KLC. AAC has obtained an Indefeasible Right of Use (IRU) purchase agreement for 25 years, which is included in capital assets.

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

Alaska Aerospace Corporation

Notes to Financial Statements

Intangible software represents AAC's investment into an Enterprise Resource Planning system to upgrade its information technology requirements.

5. Operating Leases

AAC leases office space and property in Anchorage, Alaska under non-cancelable terms. Minimum future lease payments as of June 30, 2018, are as follows:

Years Ending June 30,

| | |
|--------------|-------------------|
| 2019 | \$ 152,564 |
| 2020 | 154,745 |
| 2021 | 149,770 |
| Thereafter | 33,659 |
| <hr/> | |
| Total | \$ 490,738 |

Rent expense under the non-cancelable terms for the fiscal year ended June 30, 2018 was \$174,653.

6. Retirement Plans

(a) Defined Benefit (DB) Pension Plan

General Information About the Plan

The Corporation 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 post-employment health care benefits. There are three tiers of employees, based on entry date. For all tiers within the Defined Benefit (DB) plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. Police/Fire employees accrue benefits at an accelerated rate. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, 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.

Alaska Aerospace Corporation

Notes to Financial Statements

Historical Context and Special Funding Situation

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

Alaska Statute 39.35.255 requires the State of Alaska to contribute to the 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 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 of resources, and disclosures on this basis.

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

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

Employee Contribution Rates

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

Employer and Other Contribution Rates

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

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

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

Alaska Aerospace Corporation

Notes to Financial Statements

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. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures. In the enterprise fund and government-wide financial statements, the on-behalf amounts reflect 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 as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB Rate disregards all future Medicare Part D payments. For FY18, the rate uses an 8% pension discount rate and a 4.30% healthcare discount rate.

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

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

| | Employer Effective Rate | ARM Board Adopted Rate | State Contribution Rate | GASB Rate |
|---------------------------------|-------------------------------|------------------------------|-------------------------------|---------------|
| Pension | 17.12% | 21.90% | 3.01 % | 29.07% |
| Other postemployment benefits | 4.88% | 3.11% | 0.00 % | 66.85% |
| Total Contribution Rates | 22.00% | 25.01% | 3.01 % | 95.92% |

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

| | Measurement Period Corporation FY17 | Corporation FY18 |
|-----------------------------------------|----------------------------------------|-------------------|
| Employer contributions (including DBUL) | \$ 218,213 | \$ 247,373 |
| Nonemployer contributions (on-behalf) | 82,114 | 42,086 |
| Total Contributions | \$ 300,327 | \$ 289,459 |

In addition, employee contributions to the Plan totaled \$67,555 during the Corporation's fiscal year.

Alaska Aerospace Corporation

Notes to Financial Statements

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

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

| | 2018 |
|--------------------------------------------------------------------|---------------------|
| Corporation proportionate share of NPL | \$ 3,207,802 |
| State's proportionate share of NPL associated with the Corporation | 1,195,110 |
| Total Net Pension Liability | \$ 4,402,912 |

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 to calculate the net pension liability as of that date. The Corporation's proportion of the net pension liability was based on a projection of the Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At the June 30, 2017 measurement date, the Corporation's proportion was 0.00062 percent, which was a decrease of 0.00015 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Corporation recognized pension expense of \$56,371 and on-behalf revenue of \$262,957 for support provided by the State. At June 30, 2018, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ - | \$ 434,874 |
| Changes in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 86,044 | - |
| Changes in proportion and differences between Corporation contributions and proportionate share of contributions | 20,085 | - |
| Corporation contributions subsequent to the measurement date | 247,373 | - |
| Total Deferred Outflows and Deferred Inflows of Resources Related to Pensions | \$ 353,502 | \$ 434,874 |

Alaska Aerospace Corporation

Notes to Financial Statements

The \$247,373 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,

| | |
|------------|--------------|
| 2019 | \$ (408,787) |
| 2020 | 89,598 |
| 2021 | 40,222 |
| 2022 | (49,778) |
| 2023 | - |
| Thereafter | - |

Actuarial Assumptions

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

| | |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial cost method | Entry age normal; level percentage of payroll |
| Amortization method | Level dollar, closed |
| Inflation | 3.12% |
| Salary increases | Graded by service, from 9.66% to 4.92% for peace officer/firefighter Graded by age and service, from 8.55% to 4.34% for all others |
| Allocation Methodology | Amounts for FY17 were allocated to employers based on the projected present value of contributions for FY2019-FY2039. The liability is expected to go to zero at 2039. |
| Investment Return / Discount Rate | 8.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%. |
| 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. |

Alaska Aerospace Corporation

Notes to Financial Statements

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. Best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

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

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy, which 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 the Corporation's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what the Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

| | Proportional Share | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|----------------------------------------------------------------|-----------------------|------------------------|-------------------------------------|------------------------|
| Corporation's proportionate share of the net pension liability | 0.167% | \$ 2,358,323 | \$ 3,207,802 | \$ 4,213,744 |

Alaska Aerospace Corporation

Notes to Financial Statements

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/dr/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 the Corporation contribute at 22%. After deducting the DC plan contributions (and related OPEB contributions), the remaining remittance (the DBUL) is deposited into the DB plan as noted earlier.

Benefit Terms

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

Employee Contribution Rate

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

Employer Contribution Rate

For the year ended June 30, 2018, the Corporation was required to contribute 5% of covered salary into the Plan.

The Corporation and employee contributions to PERS for pensions for the year ended June 30, 2018 were \$19,043 and \$30,468, respectively. The Corporation 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, the Corporation 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 Plans are administered by the State of Alaska, Department of Administration.

Alaska Aerospace Corporation

Notes to Financial Statements

Employer Contribution Rate

The Corporation is required to contribute 4.88% of covered payroll into the OPEB plan. Employees do not contribute.

In 2018, the Corporation was credited with the following contributions to the OPEB plan:

| | Measurement Period | |
|---------------------------------------|--------------------|------------------|
| | Corporation FY17 | Corporation FY18 |
| Employer contributions | \$ 91,175 | \$ 81,872 |
| Nonemployer contributions (on-behalf) | - | - |
| Total Contributions | \$ 91,175 | \$ 81,872 |

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

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

| | 2018 |
|------------------------------------------------------------------------|-------------------|
| Corporation's proportionate share of NOL - ARHCT | \$ 524,276 |
| Corporation's proportionate share of NOL - RMP | 4,312 |
| Corporation's proportionate share of NOL - ODD | (11,733) |
| State's proportionate share of the NOL associated with the Corporation | 195,464 |
| Total Net OPEB Liabilities | \$ 712,319 |

The total OPEB liabilities for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 to calculate the net OPEB liabilities as of that date. The Corporation's proportion of the net OPEB liabilities were based on a projection of the Corporation's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating entities, actuarially determined.

| | June 30, 2016 Measurement Date Employer Proportion | June 30, 2017 Measurement Date Employer Proportion | Change |
|-------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|-----------|
| Corporation's proportionate share of the net OPEB liabilities: | | | |
| ARHCT | 0.001479% | 0.001213% | 0.000540% |
| RMP | 0.001665% | 0.001665% | 0.000000% |
| ODD | 0.001665% | 0.001665% | 0.000000% |

Alaska Aerospace Corporation

Notes to Financial Statements

As a result of its requirement to contribute to the Plan, the Corporation recognized OPEB expense of (\$43,138) and on-behalf revenue of \$0 for support provided by the State. At June 30, 2018, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB plans from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ - | \$ (28,386) |
| Changes in assumptions | - | - |
| Changes in benefits | - | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | (165,459) |
| Changes in proportion and differences between Corporation contributions and proportionate share of contributions | 461 | (100,311) |
| Corporation contributions subsequent to the measurement date | 81,872 | - |
| Total Deferred Outflows and Deferred Inflows of Resources Related to OPEB Plans | \$ 82,333 | \$ (294,156) |

The \$81,872 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,

| | |
|------------|--------------|
| 2019 | \$ (112,036) |
| 2020 | (97,985) |
| 2021 | (41,780) |
| 2022 | (41,780) |
| 2023 | (28) |
| Thereafter | (86) |

Alaska Aerospace Corporation

Notes to Financial Statements

Actuarial Assumptions

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

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

Alaska Aerospace Corporation

Notes to Financial Statements

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

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

Discount Rate

The discount rate used to measure the total OPEB 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 which meets State statutes. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Discount Rate Sensitivity

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

| | <i>Proportional Share</i> | <i>1% Decrease (7.00%)</i> | <i>Current Discount Rate (8.00%)</i> | <i>1% Increase (9.00%)</i> |
|----------------------------------------------------------------|---------------------------|----------------------------|--------------------------------------|----------------------------|
| Corporation's proportionate share of the net OPEB liabilities: | | | | |
| ARHCT | 0.001213% | \$ 1,111,414 | \$ 524,276 | \$ 21,300 |
| RMP | 0.001665% | \$ 20,201 | \$ 4,312 | \$ (8,095) |
| ODD | 0.001665% | \$ (10,592) | \$ (11,733) | \$ (12,666) |

Alaska Aerospace Corporation

Notes to Financial Statements

Healthcare Cost Trend Rates Sensitivity

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

| | Proportional Share | 1% Decrease | Current Discount Rate | 1% Increase |
|-------------------------------------------------------------------|-----------------------|-------------|--------------------------|--------------|
| Corporation's proportionate share of the net OPEB liabilities: | | | | |
| ARHCT | 0.001213% | \$ (57,608) | \$ 524,276 | \$ 1,212,941 |
| RMP | 0.001665% | \$ (10,674) | \$ 4,312 | \$ 24,390 |
| ODD | 0.001665% | \$ - | \$ (11,733) | \$ - |

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 post-employment health care benefits.

Employer Contribution Rates

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

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

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

Alaska Aerospace Corporation

Notes to Financial Statements

Annual Postemployment Healthcare Cost

In 2018, the Corporation contributed \$7,882 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

7. Risk Management

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

8. Land Assignment

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

9. Related Parties

State of Alaska

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

10. Commitment and Contingencies

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

11. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, and actual impacts have not yet been determined.

GASB 83 - Certain Asset Retirement Obligations - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses accounting and financial reporting for certain asset retirement obligations that are legally enforceable liabilities associated with the retirement of a tangible capital asset.

Alaska Aerospace Corporation

Notes to Financial Statements

GASB 84 - Fiduciary Activities - Effective for year-end June 30, 2020, with earlier application encouraged - This statement addresses criteria for identifying and reporting fiduciary activities.

GASB 87 - Leases - Effective for year-end June 30, 2021, with earlier application encouraged - This statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses note disclosures related to debt, clarifies which liabilities to include when disclosing information related to debt, and defines debt for the purpose of disclosure. It requires additional essential information related to debt be disclosed in the notes, as well as information for direct borrowings and direct placements.

GASB 89 - Accounting for Interest Cost Incurred before the End of a Construction Period - Effective for year-end June 30, 2021, with earlier application encouraged - 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.

GASB 90 - Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61 - Effective for year-end June 30, 2020, with earlier application encouraged - This statement addresses accounting and financial reporting for a majority equity interest in a legally separate organization. It provides a definition of a majority equity interest and provides guidance for further presentation as either an investment or a component unit, based on specific criteria.

12. Change in Accounting Principle

As discussed in Note 6 to the financial statements, AAC participates in a defined benefit pension plan - the Alaska Public Employees' Retirement System (PERS) plan, and its related other postemployment benefit plan (OPEB). In 2018, AAC adopted the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which, among other accounting and reporting criteria, requires AAC to recognize its proportional share of the Net OPEB Liability (and related deferred inflows of resources and deferred outflows of resources), as of the beginning of AAC's fiscal year. As a result of the implementation of this statement, AAC has recorded an opening balance adjustment to reflect opening balance OPEB liabilities and related accounts and to decrease opening net position as follows:

| Opening Net Position, as Originally Presented | Change in Accounting Principle Adjustment | Opening Net Position, as Restated |
|--------------------------------------------------------|----------------------------------------------------|-----------------------------------------|
| \$ 87,713,523 | \$ (771,818) | \$ 86,941,705 |

Required Supplementary Information

Alaska Aerospace Corporation
Public Employees Retirement System (PERS) Pension Plan
Schedule of the Corporation's Information on the Net Pension Liability

| <i>Years Ended June 30,</i> | Corporation's Proportion of the Net Pension Liability | Corporation's Proportionate Share of the Net Pension Liability | State of Alaska Proportionate Share of the Net Pension Liability | Total Net Pension Liability | Corporation's Covered Payroll | Corporation's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-----------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| 2018 | 0.001665% | \$ 3,207,802 | \$ 1,195,110 | \$ 4,402,912 | \$ 1,498,382 | 214% | 63.37% |
| 2017 | 0.001651% | \$ 4,302,430 | \$ 542,131 | \$ 4,844,561 | \$ 1,882,601 | 229% | 59.55% |
| 2016 | 0.405206% | \$ 4,388,416 | \$ 2,049,234 | \$ 6,437,650 | \$ 3,359,724 | 131% | 63.96% |
| 2015 | 0.283881% | \$ 3,433,655 | \$ 2,971,886 | \$ 6,405,541 | \$ 2,930,453 | 117% | 62.37% |
| 2014 | * | * | * | * | * | * | * |
| 2013 | * | * | * | * | * | * | * |
| 2012 | * | * | * | * | * | * | * |
| 2011 | * | * | * | * | * | * | * |
| 2010 | * | * | * | * | * | * | * |
| 2009 | * | * | * | * | * | * | * |

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

Alaska Aerospace Corporation
Public Employees Retirement System (PERS) Pension Plan
Schedule of the Corporation's Contributions

| <i>Years Ended June 30,</i> | Contractually Required Contribution | Contributions Relative to the Contractually Required Contribution | Contribution Deficiency (Excess) | Corporation's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-----------------------------|-------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------|-------------------------------------|-----------------------------------------------------------|
| 2018 | \$ 247,373 | \$ 247,373 | \$ - | \$ 1,461,414 | 16.927% |
| 2017 | \$ 218,213 | \$ 218,213 | \$ - | \$ 1,498,382 | 14.563% |
| 2016 | \$ 180,110 | \$ 180,110 | \$ - | \$ 1,882,601 | 9.567% |
| 2015 | \$ 306,748 | \$ 306,748 | \$ - | \$ 3,359,724 | 9.130% |
| 2014 | * | * | * | * | * |
| 2013 | * | * | * | * | * |
| 2012 | * | * | * | * | * |
| 2011 | * | * | * | * | * |
| 2010 | * | * | * | * | * |
| 2009 | * | * | * | * | * |

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

Alaska Aerospace Corporation
Public Employees Retirement System (PERS) OPEB Plan
Schedule of the Corporation's Information on the Proportionate Share on the Net OPEB Liability

| <i>Years Ended June 30,</i> | Corporation's Proportion of the Net OPEB Liability | Corporation's Proportionate Share of the Net OPEB Liability | State of Alaska Proportionate Share of the Net OPEB Liability | Total Net OPEB Liability | Corporation's Covered Payroll | Corporation's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|-----------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| 2018 | 37.265080 | \$ 516,855 | \$ 195,464 | \$ 712,319 | \$ 1,498,382 | 34.49% | 89.68% |
| 2017 | * | * | * | * | * | * | * |
| 2016 | * | * | * | * | * | * | * |
| 2015 | * | * | * | * | * | * | * |
| 2014 | * | * | * | * | * | * | * |
| 2013 | * | * | * | * | * | * | * |
| 2012 | * | * | * | * | * | * | * |
| 2011 | * | * | * | * | * | * | * |
| 2010 | * | * | * | * | * | * | * |
| 2009 | * | * | * | * | * | * | * |

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

Alaska Aerospace Corporation
Public Employees Retirement System (PERS) OPEB Plan
Schedule of the Corporation's Contributions

| <i>Years Ended June 30,</i> | Contractually Required Contribution | Contributions Relative to the Contractually Required Contribution | Contribution Deficiency (Excess) | Corporation's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-----------------------------|-------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------|-------------------------------------|-----------------------------------------------------------|
| 2018 | \$ 81,872 | \$ 81,872 | \$ - | \$ 1,461,414 | 5.60% |
| 2017 | * | * | * | * | * |
| 2016 | * | * | * | * | * |
| 2015 | * | * | * | * | * |
| 2014 | * | * | * | * | * |
| 2013 | * | * | * | * | * |
| 2012 | * | * | * | * | * |
| 2011 | * | * | * | * | * |
| 2010 | * | * | * | * | * |
| 2009 | * | * | * | * | * |

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

Alaska Aerospace Corporation

Notes to Required Supplementary Information

Schedule of the Corporation's Information on the Net Pension Liability

Information in this table is presented based on the Plan measurement date. For June 30, 2018, the Plan measurement date is June 30, 2017. There were no changes in benefit terms from the prior measurement period. There were no changes in assumptions from the prior measurement period. There were no changes in allocation methodology.

Schedule of the Corporation's Contributions - PERS - Pension Plan

This table is based on the Corporation's contributions for each fiscal year presented. These contributions are reported as a deferred outflow on the Statements of Net Position.

Schedule of the Corporation's Proportionate Share on the Net OPEB Liability

Information in this table is presented based on the Plan measurement date. For June 30, 2018, the Plan measurement date is June 30, 2017. There were no changes in benefit terms from the prior measurement period. There were no changes in assumptions from the prior measurement period. There were no changes in allocation methodology.

Schedule of Corporation Contributions - PERS - OPEB Plan

This table reports the Corporation's OPEB contributions to PERS for each fiscal year presented. These contributions have been reported as a deferred outflow on the Statements of Net Position.

Other Reporting Required by *Government Auditing
Standards*



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Alaska Aerospace Corporation
Anchorage, Alaska

We have audited, in accordance with the 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, the financial statements of Alaska Aerospace Corporation (AAC), a component unit of the State of Alaska, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise AAC's basic financial statements, and have issued our report thereon dated December 7, 2018 .

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered AAC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AAC's internal control. Accordingly, we do not express an opinion on the effectiveness of AAC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AAC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
December 7, 2018

Alaska Aerospace Corporation

Schedule of Findings and Responses Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes

no

(none

Significant deficiency(ies) identified?

yes

reported)

Noncompliance material to financial statements noted?

yes

no

Section II - Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

There were no findings related to the financial statements which are required to be reported in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.