



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

**Financial Statements and Required
Supplementary Information**
Year Ended June 30, 2017

(With Independent Auditor's Report Thereon)

Alaska Aerospace Corporation
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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, 2017, 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, 2017, 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.

Other Matters

Prior Year Comparative Information

We have previously audited the AAC's 2016 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated December 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 8, and the Schedules of Net Pension Liability and Pension Contributions on pages 32 through 34 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 November 17, 2017 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 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
November 17, 2017

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, 2017. 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 Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Assets on Page 10 to page 11 provide information regarding the activities of AAC and presents an overview of AAC's finances. During this fiscal year, total net position increased 14.9% from \$76.3 million to \$87.7 million. The accompanying analysis focuses on the net position and liabilities of AAC's activities.

Table 1
Statement of Net Position

	Current Year	Prior Year	Change	Percent Change
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and investments	\$ 3,064,795	\$ 10,059,818	\$ (6,995,023)	-69.5%
Accounts receivable	3,868,892	435,982	3,432,910	787.4%
Unbilled receivables	127,881	129,803	(1,922)	-1.5%
Total Current Assets	7,061,568	10,625,603	(3,564,035)	-33.5%
Noncurrent Assets				
Capital assets not being depreciated	38,658,318	32,399,864	6,258,454	19.3%
Capital assets being depreciated/amortized, net	47,105,563	50,068,461	(2,962,898)	-5.9%
Total Noncurrent Assets	85,763,881	82,468,325	3,295,556	4.0%
Total Assets	92,825,449	93,093,928	(268,479)	-0.3%
Deferred Outflows of Resources - related to pensions				
	900,248	600,855	299,393	49.8%
Total Assets and Deferred Outflows of Resources	\$ 93,725,697	\$ 93,694,783	\$ 30,914	0.0%

Alaska Aerospace Corporation
Management's Discussion and Analysis

	Current Year	Prior Year	Change	Percent Change
Liabilities				
Current Liabilities				
Accounts payable	\$ 1,288,563	\$ 5,950,492	\$ (4,661,929)	-78.3%
Accrued leave and compensation	273,223	259,044	14,179	5.5%
Total Current Liabilities	1,561,786	6,209,536	(4,647,750)	-74.8%
Noncurrent Liabilities				
Unearned revenue	100,000	6,552,900	(6,452,900)	-98.5%
Net pension liability	4,302,430	4,388,416	(85,986)	-2.0%
Total Noncurrent Liabilities	4,402,430	10,941,316	(6,538,886)	-59.8%
Total Liabilities	5,964,216	17,150,852	(11,186,636)	-65.2%
Deferred Inflows of Resources - related to pension	47,958	220,728	(172,770)	-78.3%
Net Position				
Net investment in capital assets	85,763,881	82,468,325	3,295,556	4.09%
Unrestricted (deficit)	1,949,642	(6,145,122)	8,094,764	-131.7%
Total Net Position	87,713,523	76,323,203	11,390,320	14.9%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 93,725,697	\$ 93,694,783	\$ 30,914	0.0%

During FY2017, AAC received no funding from the State of Alaska toward the operations and sustainment of the Pacific Spaceport Complex - Alaska (PSCA). Insurance proceeds (received through claim process for repairs to facilities due to launch anomaly which occurred in August 2014) are reflected in the increase to Current Assets.

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Alaska Aerospace Corporation

Management's Discussion and Analysis

Business Activities

During FY2017, 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. The most significant annual expenditure for AAC in FY2017 was completion of the reconstruction work for launch facilities damaged in the 2015 launch explosion and construction of additional customer support areas. AAC anticipates an increase in operating revenue for FY2018 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	\$ 13,143,492	\$ 2,124,105	\$ 11,019,387	518.8%
Operating expenses	16,380,102	11,678,884	4,701,218	40.3%
Net operating loss	(3,236,610)	(9,554,779)	6,318,169	-66.1%
Non-operating revenues	12,019,577	13,737,373	(1,717,796)	-12.5%
Income before capital contribution	8,782,967	4,182,594	4,600,373	110.0%
Capital contribution	2,607,353	748,770	1,858,583	248.2%
Changes in Net Position	11,390,320	4,931,364	6,458,956	131.0%
Net Position, beginning of year	76,323,203	71,391,839	4,931,364	6.9%
Net Position, end of year	\$ 87,713,523	\$ 76,323,203	\$ 11,390,320	14.9%

In FY2017 AAC did not receive any general 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 non-operating 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, 2017, AAC has \$ 85.8 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 \$3.3 million, or a 4% increase from FY2016. The overall net increase of capital assets is the result of \$6.3 million in construction in progress related to reconstruction efforts for damaged facilities and continued development of PSCA facilities less the annual depreciation amount.

Debt Administration

AAC has no long-term debt liabilities to administer as FY2017. AAC has authority to issue bonds, but has not issued any as of June 30, 2017.

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 FY2018 budget, for example launch and maintenance schedules, new and follow-on business opportunities, the operation and sustainment of PSCA. For FY2018, 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 FY2018, off-setting some of the downturn in launch operations revenues.

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, 2017
(With Comparative Amounts for 2016)

<i>June 30,</i>	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments	\$ 3,064,795	\$ 10,059,818
Accounts receivable	3,868,892	435,982
Unbilled receivables	127,881	129,803
Total Current Assets	7,061,568	10,625,603
Noncurrent Assets		
Capital assets not being depreciated	38,658,318	32,399,864
Capital assets being depreciated/amortized, net	47,105,563	50,068,461
Total Noncurrent Assets	85,763,881	82,468,325
Total Assets	92,825,449	93,093,928
Deferred Outflows of Resources - related to pensions	900,248	600,855
Total Assets and Deferred Outflows of Resources	\$ 93,725,697	\$ 93,694,783
Liabilities, Deferred Inflows of Resources and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	\$ 1,288,563	\$ 5,950,492
Accrued leave and compensation	273,223	259,044
Total Current Liabilities	1,561,786	6,209,536
Noncurrent Liabilities		
Unearned revenue	100,000	6,552,900
Net pension liability	4,302,430	4,388,416
Total Noncurrent Liabilities	4,402,430	10,941,316
Total Liabilities	5,964,216	17,150,852
Deferred Inflows of Resources - related to pensions	47,958	220,728
Net Position		
Net investment in capital assets	85,763,881	82,468,325
Unrestricted (deficit)	1,949,642	(6,145,122)
Total Net Position	87,713,523	76,323,203
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 93,725,697	\$ 93,694,783

See accompanying notes to basic financial statements.

Alaska Aerospace Corporation
Statements of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2017
(With Comparative Amounts for 2016)

<i>Years Ended June 30,</i>	2017	2016
Operating Revenues	\$ 13,143,492	\$ 2,124,105
Operating Expenses		
Personnel services	1,442,575	3,342,926
Travel	130,452	148,309
Contractual services	9,792,170	3,351,277
Supplies	1,013,073	315,719
Equipment	261,778	801,296
Depreciation and amortization	3,740,054	3,719,357
Total Operating Expenses	16,380,102	11,678,884
Net operating loss	(3,236,610)	(9,554,779)
Nonoperating Revenues (Expenses)		
Investment income (loss) unrestricted	96,616	(439,056)
PERS relief from State of Alaska	82,114	70,808
Other revenue	3,742,785	-
Insurance proceeds, net of loss on impairment	8,098,062	14,105,621
Total Nonoperating Revenues (Expenses)	12,019,577	13,737,373
Income before capital contributions	8,782,967	4,182,594
Capital Contributions - State of Alaska	2,607,353	748,770
Change in Net Position	11,390,320	4,931,364
Net Position, beginning of the year	76,323,203	71,391,839
Net Position, end of the year	\$ 87,713,523	\$ 76,323,203

See accompanying notes to basic financial statements.

Alaska Aerospace Corporation
Statements of Cash Flows
Year Ended June 30, 2017
(With Comparative Amounts for 2016)

<i>Years Ended June 30,</i>	2017	2016
Cash Flows for Operating Activities		
Receipts from contracts and State appropriations	\$ 9,712,504	\$ 2,243,867
Payments to suppliers	(10,178,295)	(4,727,633)
Payments to employees	(1,904,431)	(2,730,068)
Net cash for operating activities	(2,370,222)	(5,213,834)
Cash Flows for Capital and Related Financing Activities		
Capital contribution received	2,607,353	748,770
Purchase of capital assets	(12,716,717)	(20,721,829)
Decrease in unearned revenue	(2,710,115)	(1,808,276)
Insurance proceeds	8,098,062	14,105,621
Net cash for capital and related financing activities	(4,721,417)	(7,675,714)
Cash Flows from (for) Investing Activities		
Investment income (loss)	96,616	(439,056)
Net decrease in cash and cash equivalents	(6,995,023)	(13,328,604)
Cash and Cash Equivalents, beginning of year	10,059,818	23,388,422
Cash and Cash Equivalents, end of year	\$ 3,064,795	\$ 10,059,818
Reconciliation of operating loss to net cash for operating activities:		
Operating loss	\$ (3,236,610)	\$ (9,554,779)
Adjustments to reconcile operating loss to net cash for operating activities:		
Depreciation and amortization	3,740,054	3,719,357
Noncash expense - PERS relief	82,114	70,808
Decrease (increase) in accounts receivable	(3,432,910)	31,793
Decrease in unbilled receivables	1,922	87,969
Increase in deferred outflows of resources - related to pensions	(299,393)	(206,001)
Decrease in deferred inflows of resources - related to pensions	(172,770)	(175,976)
Decrease in accounts payable	1,019,178	(111,032)
Increase (decrease) in accrued expenses	14,179	(30,734)
Increase (decrease) in net pension liability	(85,986)	954,761
Net cash for operating activities	\$ (2,370,222)	\$ (5,213,834)
Supplemental Disclosure of Cash Flow Information		
Capital assets purchased on account	\$ (5,681,107)	\$ 5,681,107

See accompanying notes to basic financial statements.

Alaska Aerospace Corporation

Notes to Financial Statements June 30, 2017

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 14.40.821. 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.

Alaska Aerospace Corporation

Notes to Financial Statements

In addition to the Enterprise Fund, Section 14.40.841 of the Alaska State Statutes established a revolving fund for AAC. 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 as amended 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 14.40.866(b)(1).

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. 14.40.951 created a reserve fund to account primarily for bond payments for principal and interest. The fund remained unfunded as of June 30, 2017.

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.

Alaska Aerospace Corporation

Notes to Financial Statements

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.

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, 2017, no allowance for unrecoverable costs has been recorded due to AAC's past experience relative to collecting all receivables.

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Alaska Aerospace Corporation

Notes to Financial Statements

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.

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

Amounts received from the cooperative agreement, capital contribution from the State of Alaska, and other Corporation advances 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.

Alaska Aerospace Corporation

Notes to Financial Statements

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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.

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, 2016, from which the prior year information was derived.

3. Cash and Investments

At June 30, 2017, cash and investments consisted of the following:

Cash in deposits	\$ 655,686
Petty cash	400
Cash in State of Alaska account	100,469
Money market funds	2,210,083
<hr/>	
Net invested assets	2,966,638
Outstanding deposits and disbursements	(191,441)
<hr/>	
Total Cash and Cash Equivalents	\$ 2,775,197

Alaska Aerospace Corporation

Notes to Financial Statements

At June 30, investments consisted of the following:

	Fair Value	Cost
Fixed income securities - mutual funds:		
U.S. Fixed income - short	\$ 25,057	\$ 25,000
U.S. Fixed income - long	273,541	281,043
Total Investments	\$ 289,598	\$ 306,043

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.

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, 2017 was \$1,394,629.

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, 2017:

- Mutual funds of \$289,598 are valued using quoted market prices (Level 1 inputs)

The Corporation has investments in money market funds \$2,210,083 that are not held at fair value, but instead recorded at amortized cost, as of June 30, 2017. The Corporation's investment in money market funds is measured at net asset value, as of June 30, 2017. Management believes these values approximate fair value.

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, 2017:

	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017
Capital assets not being depreciated - construction in progress	\$ 32,399,864	\$ 6,258,454	\$ -	\$ 38,658,318
Capital assets being depreciated/ amortized:				
Office furniture and equipment	5,987,814	144,201	-	6,132,015
Vehicles and other equipment	32,772,603	281,208	-	33,053,811
Building and structures	26,621,974	351,747	-	26,973,721
Infrastructure	12,196,927	-	-	12,196,927
Intangible - software	1,238,998	-	-	1,238,998
Intangible - right of use	20,602,153	-	-	20,602,153
Total capital assets being depreciated/amortized	99,420,469	777,156	-	100,197,625
Less accumulated depreciation and amortization for:				
Office furniture and equipment	4,597,806	432,276	-	5,030,082
Vehicles and other equipment	20,115,250	1,709,594	-	21,824,844
Building and structures	11,394,828	453,671	-	11,848,499
Infrastructure	4,622,902	296,241	-	4,919,143
Intangible - software	1,204,448	24,186	-	1,228,634
Intangible - right of use	7,416,774	824,086	-	8,240,860
Total accumulated depreciation	49,352,008	3,740,054	-	53,092,062
Capital assets being depreciated/ amortized, net	50,068,461	(2,962,898)	-	47,105,563
Total Capital Assets, net	\$ 82,468,325	\$ 3,295,556	\$ -	\$ 85,763,881

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 \$3,740,054 for the year ended June 30, 2017.

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.

On August 25, 2014, a failure occurred on the launch vehicle within seconds of launch at AAC's rocket launch facility on Kodiak Island, causing extensive damages to the facility. As a result AAC incurred a loss on impairment of capital assets of \$10,839,182. The Corporation recognized insurance proceeds related to the loss of \$8,098,062 for the year ended June 30, 2017.

5. Operating Leases

AAC leases office space and property in Anchorage, Alaska under non-cancelable terms. Minimum future lease payments as of June 30, 2017, are as follows:

Years ending June 30,

2018	\$ 152,226
2019	32,316
2020	5,411
Total	\$ 189,953

Rent expense under the non-cancelable terms for the fiscal year ended June 30, 2017 was \$190,020.

6. Unearned Revenue

Unearned revenue represents funds received in advance for capital improvements from the State of Alaska and interest accumulated on grants received in advance from Army National Guard that is restricted for use.

The following schedule summarizes the activity related to these grants for the fiscal year ended June 30, 2017:

	State of Alaska	Army National Guard	Total
Unearned Revenue, July 1, 2016	\$ 2,932,569	\$ 3,620,331	\$ 6,552,900
Expenditures during the year	(2,932,569)	(3,620,331)	(6,552,900)
Unearned Revenue, June 30, 2017	\$ -	\$ -	\$ -

In 2017, the Corporation received \$100,000 from a commercial customer in advance to hold a launch date.

Alaska Aerospace Corporation

Notes to Financial Statements

7. Defined Benefit 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. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and other OPEB benefits. A complete benefit comparison chart is available at the website noted above.

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

Historical Context and Special Funding Situation

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

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

Alaska Aerospace Corporation

Notes to Financial Statements

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.

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.

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 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 FY17, the rate uses an 8% pension discount rate and a 4.30% healthcare discount rate.

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

Alaska Aerospace Corporation

Notes to Financial Statements

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

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	14.96%	20.34%	4.14 %	24.49%
Postemployment healthcare (see Note 9)	7.04%	5.80%	0.00 %	56.64%
Total Contribution Rates	22.00%	26.14%	4.14 %	81.13%

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

	Measurement Period	
	Corporation FY16	Corporation FY17
Employer contributions (including DBUL)	\$ 180,110	\$ 218,213
Nonemployer contributions (on-behalf)	67,915	82,114
Total Contributions	\$ 248,025	\$ 300,327

In addition, employee contributions to the Plan totaled \$64,413 during the Corporation fiscal year.

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

At June 30, 2017, 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:

	2017
Corporation proportionate share of NPL	\$ 4,302,430
State's proportionate share of NPL associated with the Corporation	542,130
Total Net Pension Liability	\$ 4,844,560

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 June 30, 2017, the Corporation's proportion was .00077 percent, which was an increase of .00017 from its proportion measured as of the prior measurement date.

Alaska Aerospace Corporation

Notes to Financial Statements

For the year ended June 30, 2017, the Corporation recognized net pension expense of \$646,157. At June 30, 2017, 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	\$ 396	\$ 47,958
Changes in assumptions	19,844	-
Net difference between projected and actual earnings on pension plan investments	422,908	-
Changes in proportion and differences between Corporation contributions and proportionate share of contributions	238,887	-
Corporation contributions subsequent to the measurement date	218,213	-
Total Deferred Outflows and Deferred Inflows Related to Pensions	\$ 900,248	\$ 47,958

The \$218,213 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,

2018	\$ 111,220
2019	101,117
2020	256,262
2021	165,478

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Alaska Aerospace Corporation

Notes to Financial Statements

Actuarial Assumptions

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy 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%, 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%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Corporation's proportionate share of the net pension liability	\$ 5,541,311	\$ 4,302,430	\$ 3,257,489

Pension Plan Fiduciary Net Position

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

Alaska Aerospace Corporation

Notes to Financial Statements

8. 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 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, 2017, the Corporation was required to contribute 5% of covered salary into the Plan. In addition, during 2017, the State on-behalf contribution rate for OPEB was 0.00%.

The Corporation and employee contributions to PERS for pensions for the year ended June 30, 2017 were \$27,069 and \$43,310, respectively. The Corporation contribution amount was recognized as pension expense.

9. Other Post-Employment Benefit (OPEB) Plans

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

Employer Contribution Rate

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

Alaska Aerospace Corporation

Notes to Financial Statements

Annual Postemployment Healthcare Cost

Actual contributions into the Plan for the last three years were as follows. The amounts reported here include only the employer required contributions and do not include any amounts attributed to the on-behalf contributions by the State. In 2015 and 2017 there were no on-behalf contributions to the OPEB Plan; however, on-behalf contributions to the OPEB Plan in 2016 was \$29,083.

<i>Year Ended June 30,</i>	Annual OPEB Costs	Corporation Contributions	% of Costs Contributed
2017	\$ 23,994	\$ 23,994	100 %
2016	\$ 38,520	\$ 38,520	100 %
2015	\$ 82,667	\$ 82,667	100 %

Defined Contribution OPEB

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

Employer Contribution Rates

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

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

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of *all employees of all employers* in the plan". As of July 1, 2016, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates \$2,049 per year for each full-time employee, and \$1.31 per hour for part-time employees.

Annual Postemployment Healthcare Cost

In 2017, the Corporation contributed \$17,053 in DC OPEB costs. These amounts have been recognized as expense.

Alaska Aerospace Corporation

Notes to Financial Statements

10. 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.

11. 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.

12. 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. For the year ended June 30, 2017, AAC recognized \$2,932,569 in revenues for deferred maintenance from the State of Alaska.

13. 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.

14. 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, but believes that GASB Statement 75 will result in the biggest reporting change. However, actual impacts have not yet been determined.

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions - Effective for year-end June 30, 2018, with earlier application encouraged - This statement contains accounting and financial reporting guidelines for OPEB related activities at the participating employer level and generally brings the OPEB reporting rules into alignment with the new GASB 68 Pension rules.

GASB 81 - Irrevocable Split-Interest Agreements - Effective for year-end June 30, 2018, with earlier application encouraged - This statement establishes recording and recognition criteria for governments who receive resources pursuant to an irrevocable split-interest agreement.

Alaska Aerospace Corporation

Notes to Financial Statements

GASB 83 - Asset Retirement Obligation - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses accounting and financial reporting for certain asset retirement obligations. This statement requires that a government with legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on guidance in this statement.

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 85 - Omnibus - Effective for year-end June 30, 2018, with earlier application encouraged - This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. Issues covered include blending of component units, goodwill, fair value measurement and application, and postemployment benefits.

GASB 86 - Certain Debt Extinguishment Issues - Effective for year-end June 30, 2018, with earlier application encouraged - This statement addresses accounting and financial reporting for in-substance defeasance of debt when only existing resources are used, as well as accounting and financial reporting for prepaid insurance on extinguished debt.

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.

Required Supplementary Information

Alaska Aerospace Corporation
Public Employees Retirement System (PERS)
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 Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.283881%	\$ 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	*	*	*	*	*	*	*
2008	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

Alaska Aerospace Corporation
Public Employees Retirement System (PERS)
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
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	*	*	*	*	*
2008	*	*	*	*	*

*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

This table is presented based on the Plan measurement date. For June 30, 2017, the Plan measurement date is June 30, 2016.

There were no changes in benefit terms from the prior measurement period.

There were no changes in assumptions from the prior measurement period.

Schedule of the Corporation's Contributions - Public Employees Retirement System

This table is based on the Corporation's contributions during fiscal year 2017. These contributions are reported as a deferred outflow on the June 30, 2017 basic financial statements.

There were no changes in benefit terms from the prior measurement period.

There were no changes in assumptions from the prior measurement period.

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, 2017, and the related notes to the financial statements, which collectively comprise AAC's basic financial statements, and have issued our report thereon dated November 17, 2017 .

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
November 17, 2017

Alaska Aerospace Corporation

Schedule of Findings and Responses Year Ended June 30, 2017

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*.

Alaska Aerospace Corporation
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

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

Finding 2016-001 Timely Close and Reconciliation of General Ledger - Significant
Deficiency

Current year status: This finding was resolved.