State of Alaska
International Airports System
An Enterprise Fund of the State of Alaska

Financial Statements and Supplementary Information

Years Ended June 30, 2019 and 2018

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(An Enterprise Fund of the State of Alaska)

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Contents

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Independent Auditor's Report

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Alaska International Airports System (Airports System) (an Enterprise Fund of the State of Alaska) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Airports System'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 the 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 audits. We conducted our audits 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 the State of Alaska International Airports System as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 16 and the Schedules of Net Pension Liability, Pension Contributions, Net Other Postemployment Benefit Liability, and Other Postemployment Contributions on pages 57 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit for the year ended June 30, 2019 was conducted for the purpose of forming an opinion on the basic financial statements. The Combining Schedules of Revenues, Expenses and Changes in Fund Net Position and Schedules of Net Revenues in Excess of Net Revenues required for the year ended June 30, 2019 and 2018 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Schedules of Revenues, Expenses and Changes in Fund Net Position and Schedules of Net Revenues in Excess of Net Revenues required are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedules of Revenues, Expenses and Changes in Fund Net Position and Schedules of Net Revenues in Excess of Net Revenues required are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019 on our consideration of the State of Alaska International Airports System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alaska International Airport System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Alaska International Airports System's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
December 9, 2019

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Management's Discussion and Analysis

The purpose of the following management's discussion and analysis of the financial performance and activity of the State of Alaska International Airports System (Airports System or AIAS) is to help readers understand the basic financial statements of the Airports System for the years ended June 30, 2019 and 2018, with selected comparative information for the year ended June 30, 2017. The following discussion has been prepared by management and should be read in conjunction with the audited financial statements and the notes thereto, which follows this section.

Overview of the Financial Statements

The Alaska International Airports System is a major enterprise fund of the State of Alaska, created by Chapter 88 of the Session Laws of Alaska of 1961, and is comprised of the operations of the Ted Stevens Anchorage International Airport (ANC) and Fairbanks International Airport (FAI). The Airports System financial report includes three parts: Management's Discussion and Analysis (MD&A), the basic financial statements, and the notes to the financial statements. The MD&A provides an introduction and understanding of the basic financial statements of the Airports System.

The financial statements themselves include the statements of net position, the statements of revenues, expenses and changes in fund net position and the statements of cash flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. According to the Governmental Accounting Standards Board (GASB), the objective in developing new reporting standards is "to enhance the understanding and usefulness of the general purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies and investors and creditors."

Airline Industry Update

The Airports System's airline activity in fiscal years 2019 and 2018 was generally steady, with positive passenger enplanement growth of 2.5% in fiscal year 2019, following relatively stable 0.6% annual growth from fiscal year 2017 to 2018. Cargo airline activity was stable, with 1.1% growth from 2018 to 2019, measured by certified maximum gross takeoff weight (CMGTW), following 7.2% and 2.4% growth in 2018 and 2017, respectively. Activity levels as measured by combined cargo and passenger airline CMGTW increased 1.5% in fiscal year 2019, following growth of 6.0% and 2.1% in fiscal years 2018, and 2017, respectively.

The Airports System has a relatively broadly diversified customer base comprised of international and domestic airlines conducting cargo technical stops, cargo transfer processing, and passenger transport. Overall in fiscal year 2019, there was relatively greater growth in domestic passenger movements, a slight but continued decline in international passenger movements, and overall continued positive growth in air cargo activity. AIAS international air cargo activity has fluctuated in recent years, presumably a result of vacillating global economic trade conditions. As has been the case in recent years, management anticipates AIAS international cargo activity levels will continue to reflect global economic conditions.

The trans-Pacific air cargo industry has shown overall stability, with some periods of growth over the last several years despite some uncertainty regarding global economics, competitive threats from over-water cargo transport, and increasing volumes of cargo carried by newer models of wide-body passenger airline aircraft. More recent trends in global economics involving international trade, such as changes in tariffs and trade agreements, have as yet not appeared to have significantly impacted the Airports System's trans-Pacific air cargo activity.

Alaska's unique geographic position along the great circle route between Asia and North America continues to allow it to play a significant role in the global air cargo industry. The locations of Ted Stevens Anchorage (ANC) and Fairbanks International (FAI) airports (together comprising AIAS), combined with judicious inter-airline cargo trans-load legislation and international cargo marketing efforts by airport staff, has contributed to continued steady growth of the international cargo component of AIAS operations. ANC is among the leading cargo airports in the world with its position in calendar year 2018 again as the second busiest airport for cargo in North America according to Airports Council International – North America (ACI-NA) and ranked fifth busiest in world-wide ACI-NA rankings.

Management foresees continued modest growth in both cargo and passenger airline activity for the Airports System. That growth may be tempered by a slowing of or a downturn in the global economy, or conversely, improvement in global economic conditions may translate into increased air cargo activity for the Airports System. The Airports System continues to respond to global competitive pressures by working to hold rates and fees as level as possible. Additionally, the Airports System continues marketing the competitive advantages its geographic location and operating characteristics afford cargo freighter operators and passenger airlines by providing operating incentives through its operating agreement and other limited program specific offerings.

Airports System's Activity and Operating Highlights
In November 2018, ANC experienced relatively minor damage to horizontal (airfield and road) and vertical (primarily building) infrastructure from a 7.0 magnitude earthquake. Repair work continued into FY20, with the majority of remediation efforts to date funded by Federal Emergency Management Agency (FEMA) and Federal Highway Administration (FHWA) grants. Current estimated total cost of horizontal and vertical infrastructure repairs, respectively, is approximately $7.5 and $3.0 million, with AIAS portion of those costs not eligible for grant reimbursement of $0.5 and $0.7 million.

At the end of fiscal year 2019, ANC was on track for completion of a significant two-year North-South Runway 15/33 rehabilitation project. This project included pavement and structural rehabilitation along with additional Design Group VI upgrades enhancing ANC's ability to readily serve the largest current or contemplated commercial aircraft in the world.

Other ANC projects completed or nearing completion at the end of fiscal year 2019, included Taxiway R (including Design Group VI upgrades), Taxiway F, and Taxiway V (the taxiway interconnecting ANC and Lake Hood operating areas) rehabilitation and repaving projects, R12-14 Parking Spots Lead-in Lights and Joint Seal and Replacement projects, Gate N10 Tug Road Reconstruction project, and ADA Parking and Access Upgrades project.

FAI completed its Security Upgrades and Taxiway B Reconstruction & Safety Enhancements projects in fiscal year 2019 and work continued on the FAI East Side Master Plan Study projects, with planning and scoping efforts revisions undertaken on the General Aviation Taxiways and Aprons Repaving project.

Both ANC and FAI have been involved in identifying and testing water wells located on or near airport premises for Per- and polyfluoroalkyl substances, which are a large and complex class of human-made compounds often referred to collectively as PFAS. PFAS has been widely used in numerous industrial and residential applications since the 1950's, including ANC and FAI, and of special concern to airports, is their use in some aqueous film firefighting foams used in airport firefighting and rescue operations and related training.

FAI neared completion of an environmental remediation project undertaken in fiscal year 2017 involving interconnecting certain adjacent private well water users to the local water utility mains and has also undertaken review and remediation of its airport firefighting burn training pit. Both of those two projects are anticipated to be completed in fiscal year 2020. In fiscal year 2019, ANC began testing adjacent private well water it preliminarily identified as at potential risk of contamination, however no level of contamination has yet been found necessitating remediation. Both ANC and FAI are working with the State of Alaska Department of Environmental Conservation regarding potential or likely contaminated sites on airport property which may require future remediation effort.

In recent years, AIAS has twice noticed its intent to implement per-pickup/dropoff charges for Transportation Network Companies (also known as ride-share or TNC's), and in both instances received significant public comment regarding those proposals involving various issues including proposed rates, quality of service, parity between proposed TNC rates and existing Taxi and commercial vehicle permit rates. AIAS has held implementation of TNC rates in abeyance and in light of comments received in response to the public notices, undertook a landside access study project encompassing both airports to aid in evaluating and informing the airport system on the TNC rate proposals and related matters. AIAS anticipates the study to be complete sometime in the first half of fiscal year 2020.

The State of Alaska Department of Transportation and Public Facilities (DOT&PF) and most of the regularly scheduled cargo and passenger airlines operating at ANC and FAI are signatory to a ten-year residual rate-making type operating agreement (the AIAS Passenger Terminal Lease and Operating Agreement), which became effective at the beginning of fiscal year 2014. The operating agreement is a residual rate base agreement, with a term of ten years, providing for a mid-point resetting of airline leased premises wherein a signatory carrier may relinquish up to 50% of its premises without penalty. Fiscal Year 2018 was the effective year for this midpoint lease provision with only an immaterial amount of ANC terminal space relinquished and no space relinquished at FAI.

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Airline Operating Activity for Fiscal Years 2019, 2018, and 2017

In fiscal year 2019, the Airports System experienced an increase of 2.5% in passenger enplanements, following a 0.6% increase in fiscal year 2018 and a 0.7% decrease in fiscal year 2017. Cargo activity, as measured by CMGTW, increased 1.1% in fiscal year 2019 following increases of 7.2% and 2.4%, respectively in fiscal years 2018 and 2017. Generally stable airline activity, both passenger and cargo, appears to be driven by continued general improvement in overall domestic and global economic conditions.

A summarized comparison of airport traffic at June 30 is as follows:

	2019	Percentage Change	2018	Percentage Change	2017
International and Domestic Cargo Landed Weight (CMGTW):					
ANC	24,202,128	1.2%	23,908,955	7.3%	22,277,958
FAI	110,522	(16.2%)	131,841	(4.8%)	138,535
Airports System Total	24,312,650	1.1%	24,040,796	7.2%	22,416,493
Enplanements (number of passengers):					
ANC	2,824,465	3.0%	2,741,683	0.6%	2,725,897
FAI	577,961	0.3%	576,249	0.6%	572,870
Airports System Total	3,402,426	2.5%	3,317,932	0.6%	3,298,767
Landings:					
ANC	86,808	(2.3%)	88,893	0.9%	88,065
FAI	20,335	(9.9%)	22,562	(6.6%)	24,148
Airports System Total	107,143	(3.9%)	111,455	(0.7%)	112,213
Landed Weight (CMGTW):					
ANC	28,664,290	1.5%	28,251,635	6.1%	26,629,562
FAI	1,157,236	3.7%	1,115,701	4.6%	1,066,740
Airports System Total	29,821,526	1.5%	29,367,336	6.0%	27,696,302

Financial Position

The statement of net position represents the Airports System's financial position at the end of a fiscal period. It discloses the enterprise fund's assets and liabilities and the difference between those categories, net position. Net position is an indicator of fiscal health. A summarized comparison of the Airports System's assets, liabilities and net position at June 30, 2019, 2018, and 2017, is as follows:

June 30,	2019	2018	2017
Assets and Deferred Outflows			
Current assets	$ 179,524,392	$ 142,420,380	$ 149,306,575
Non-current assets:			
Capital assets, net	1,210,245,964	1,205,410,620	1,225,755,481
Other noncurrent assets	75,240,831	84,472,986	84,909,005
Deferred outflows – pension/OPEB related	9,912,837	7,359,919	15,123,248
Total Assets and Deferred Outflows	$ 1,474,924,024	$ 1,439,663,905	$1,475,094,309
Liabilities, Deferred Inflows and Net Position			
Current liabilities	$ 72,800,009	$ 56,175,419	$ 74,140,879
Non-current liabilities – Long-term debt outstanding and other liabilities	425,356,053	457,619,478	504,379,962
Total liabilities	498,156,062	513,794,897	578,520,841
Deferred inflows – pension/OPEB related	5,702,345	12,311,106	805,644
Net position:			
Net investment in capital assets	878,911,161	846,648,894	831,267,708
Restricted	43,191,784	45,965,333	42,738,590
Unrestricted	48,962,672	20,943,675	21,761,526
Total net position	971,065,617	913,557,902	895,767,824
Total Liabilities, Deferred Inflows and Net Position	$ 1,474,924,024	$ 1,439,663,905	$1,475,094,309

Current assets increased $37.1 million, or 26.1%, in fiscal year 2019 from FY18, and had decreased $6.9 million, or 4.6%, in FY18 from FY17. The increase in fiscal year 2019 current assets was primarily due to $14.7 million increase in restricted and unrestricted cash and investments and $12.3 million increase in FAA receivable related to Runway 33/15 rehabilitation project reimbursable grant expenditures outstanding.

Cash balances were also increased due to approximately $10.0 million of one-time receipt activity related to sale of ANC buildings located in the former Kulis Air National Air Guard base to current tenants and receipt of funds related to settlement of ANC claim against Transportation Security Administration (TSA) related to Post 9/11 Attack security equipment expenditures ANC has undertaken at the direction of TSA.

The increase in FAA receivables related primarily to billed, but not yet reimbursed expenditures for Runway 33/15 rehabilitation project, as activity on that that project neared peak construction activity at the end of fiscal year 2019.

The largest component of the Airports System's total assets is capital assets. Net capital assets increased $4.8 million or 0.4%, in 2019, primarily attributable to level depreciation expense along with increased capital project spending outflow for the year. Net capital assets decreased $20.3 million and $11.1 million, respectively in fiscal years 2018 and 2017, primarily resulting from lesser amounts of capital expenditures offsetting increasing annual depreciation expense.

The Airports System's capital assets have been primarily constructed using proceeds from revenue bonds over the last two decades, but more recently a greater proportion of the funding has been coming through operating revenues and capital contributions from federal grants and other sources. Passenger facility charges (PFC's) have been used primarily for debt service on ANC and FAI terminal projects over the last decade with a general intention to continue to do so through approximately 2026, although recent collections have exceeded the rate anticipated in the initial PFC applications. This may in turn result in earlier than anticipated termination of the applications, possibly by three years, especially in the case of ANC. If that trend continues, new applications would be filed anticipated to result in changed use from eligible project debt service recovery to pay-as-you-go eligible capital projects and equipment.

Correspondingly, the largest portion of total liabilities consists of long-term debt, incurred to finance and acquire Airports System's capital project assets. The outstanding balance of noncurrent long-term debt (revenue bonds payable) was $357.2 million at fiscal year 2019 year-end, a decrease of approximately $32.4 million from 2018 fiscal year-end balance of $389.6 million. The 2018 fiscal year-end balance represented a $38.9 million reduction from the $428.5 million fiscal year 2017 year-end balance.

The annual reductions over each of the three years is primarily attributable to scheduled debt service payments, no additional new debt issuances, and deleveraging efforts including optional redemptions and refunding transactions.

The Airports System's investment in capital assets is reported net of related debt as a component of net position on the statement of net position. Cash required to service the debt is provided primarily from revenue from charges to airline customers, concessions, and land rental fees for ongoing operations, along with the contributions from PFC's.

Current liabilities increased $16.6 million over fiscal year 2019, decreased $18.0 million in fiscal year 2018, and had decreased $5.1 million over fiscal year 2017. The increase in fiscal year 2019 was due to increases in accounts payable and deferred liability of approximately $8.5 million, mostly attributable to increased Runway 15/33 project construction activity, and an increase of approximately $5.1 million in amounts owed the State of Alaska general fund.

Debt service reserve in the amount of $26.4 million, $25.8 million, and $25.4 million is included in noncurrent assets along with the Capital Project Fund and other reserves at fiscal year-ends for 2019, 2018, and 2017, respectively. Currently, outstanding long-term debt is anticipated to amortize through fiscal year 2035, with scheduled annual debt service levelized at approximately $30 million per year. The debt service reserves are ultimately eligible for expenditure for capital projects or may be utilized for debt service upon satisfying all Bond Committee Resolution reserve requirements. The restricted and unrestricted remaining net positions are derived from the Airports System operations, and grant and PFC collections. Restricted net position balances for fiscal years 2019, 2018, and 2017 are $43.2 million, $46.0

million, and $42.7 million, respectively. Net position balances are subject to restrictions on how they may be used under AIAS bond resolutions and state and federal regulations. The remaining unrestricted noncapital net position of $49.0 million, $20.9 million, and $21.8 million in fiscal years 2019, 2018, and 2017, respectively, may be used to meet any of the Airports System's ongoing operations, subject to legislative approval and consent from the signatory airlines.

Operating Revenues

	2019 Revenue	Increase (Decrease)	Percentage Increase (Decrease)	2018 Revenue	Increase (Decrease)	Percentage Increase (Decrease)	2017 Revenue
Concessions	$ 16,255,762	$ 1,382,610	9.3%	$ 14,873,152	$ 417,161	2.9%	$ 14,455,991
Terminal/land rents	24,423,866	1,229,620	5.3%	23,194,246	1,788,435	8.4%	21,405,811
Landing fees	62,963,705	(11,921,030)	(15.9%)	74,884,735	4,300,343	6.1%	70,584,392
Fuel flowage fees	19,644,331	(324,180)	(1.6%)	19,968,511	997,000	5.3%	18,971,511
Aircraft parking	3,884,350	(3,311)	(0.1%)	3,887,661	260,591	7.2%	3,627,070
Vehicle parking	9,303,109	69,499	0.8%	9,233,610	151,150	1.7%)	9,082,460
Airline bad debt	-	2,339,726	(100.0%)	(2,339,726)	(2,339,726)	n/a	-
Other	4,789,297	598,727	14.3%	4,190,570	(508,014)	(10.8%)	4,698,584
Total	$ 141,264,420	(6,628,339)	(4.5%)	$ 147,892,759	$ 5,066,940	3.5%	$ 142,825,819
Passenger Facility Charge	$ 7,215,785	$ 346,495	5.0%	$ 6,869,290	$ 73,903	1.1%	$ 6,795,387

Fiscal year 2019 Airports System operating revenues decreased $6.6 million, a 4.5% decrease over 2018 operating revenues. Fiscal Year 2018 operating revenues were up approximately $5.1 million from 2017, a 3.5% increase. The fiscal year 2019 operating revenues decrease was mostly attributable to a commensurate decrease in landing fee rate, partially offset by a terminal rental rate increase. The rate adjustments reflected efforts to meet budgeted revenue requirement and also operating agreement negotiated terminal rate adjustments deemed to more equitably allocate certain costs between cargo and passenger airline customers.

The FY 2018 increase was primarily attributable to greater than budgeted cargo airline activity as well as some increases to terminal and land rental rates. The FY 2017 operating revenue increase was also largely attributable to increased airline activity, primarily cargo related. Fiscal year 2019 Concession revenue increased 9.3%, primarily due to increased passenger throughput, while much of the 2018 concession revenue increase of 2.9%, had been driven by new and upgraded concession offerings at both ANC and FAI.

Operating Expenses

	2019 Expense	Increase (Decrease)	Percentage Increase (Decrease)	2018 Expense	Increase (Decrease)	Percentage Increase (Decrease)	2017 Expense
Facilities	$ 25,228,193	$ (2,571,513)	(9.3%)	$ 27,799,706	$ (3,236,958)	(10.4%)	$ 31,036,664
Field and equipment maintenance	20,401,289	1,443,767	7.6%	18,957,522	(4,438,222)	(19.0%)	23,395,744
Safety	12,988,981	(2,287,570	(15.0%)	15,276,551	(3,694,670)	(19.5%)	18,971,221
Administration	13,504,714	913,202	7.3%	12,591,512	(2,456,209)	(16.3%)	15,047,721
Operations	4,271,218	(501,250)	(10.5%)	4,772,468	236,927	5.2%	4,535,541
Environmental	2,084,964	(379,601)	(15.4%)	2,464,565	2,044,154	486.2%	420,411
Other expenses	3,579,584	283,343	8.6%	3,296,241	(1,229,726)	(27.2%)	4,525,967
Total	$ 82,058,943	$ (3,099,622)	(3.6%)	$ 85,158,565	$ (12,774,704)	(13.0%)	$ 97,933,269

The Airports System's operating expenses, before depreciation, decreased 3.6% in FY 2019 relative to prior year. A large $14.3 million net pension liability adjustment in FY2017, which had driven most of a 37.1% increase over FY2016, was largely attributable for the relative decrease in FY2018.

As in prior years, actual operating expense variance was modest in the current year – with the majority of the variances reflecting non-cash adjustments made to pension and benefit liabilities.

Fiscal year 2018 operating expense was also generally comparable with fiscal year 2017, notwithstanding the net impact of the environmental liability accrual adjustments, which had increased slightly over prior year.

The 2018 increase in environmental expense resulted from activities involved in responding to the detection of increased levels of perflourinated compounds in adjacent residential and commercial properties' well water near FAI. The slight reduction in 2019 reflected winding-down of the FAI waterline connection activities as FAI had undertaken a program of connecting PFAS affected entities to the local water utility mains system, with the majority of expense being covered under the airports general liability insurance.

Depreciation expense was $72.1 million in fiscal year 2019, a decrease of $0.1 million or 1.1%, from the $72.9 million fiscal year 2018 expense. Fiscal year 2018 depreciation expense was $3.4 million greater than in fiscal year 2017.

Interest expense, net of construction fund interest earnings, was $13.2 million in fiscal year 2019, a decrease of $2.3 million or 15.0% from $15.6 million in fiscal year 2018. Interest expense in 2018 and 2017 was $15.6 million and $20.5 million, respectively. The decrease in FY 2019 is attributable to overall decrease in outstanding debt resulting from 2016 Series refunding transactions and $16.5 million and $24.3 million optional redemptions occurring in fiscal years 2019 and 2018, respectively. The amount of the Airports System's long-term debt that was in weekly resetting variable rate demand note mode at year end was $43.0 million at the end of fiscal year 2019, and $50.0 million at the end of both fiscal years 2018 and 2017.

Changes in Net Position

The Airports System's loss before nonoperating revenues and expenses and capital contributions and transfers was $12.9, $10.2 million, and $24.7 million in fiscal years 2019, 2018, and 2017, respectively.

Due to the Airports System using debt service and pay-as-you-go rates and fees funding requirements in developing rates and fees, rather than depreciation expense, it is anticipated that operating losses will likely occur in years for which noncash depreciation expense exceeds debt service, debt service coverage, and rates and fees funded capital project costs.

Capital contributions from the Federal Aviation Administration (FAA) Airport Improvement Program (AIP) totaled $65.5 million, $46.1 million, and $44.5 million in fiscal years 2019, 2018, and 2017, respectively.

Capital contributions from the Transportation Safety Administration (TSA) in fiscal year 2019 were up approximately $4.2 million, resulting from receipt of partial settlement of ANC claims relating to ANC Post 9/11 security project expenditures that had been required, but not funded, by TSA at the time. TSA had however made funding commitments at the time, and long-standing negotiations involving those commitments to reimburse recently resulted in commencement of annual payments that are not guaranteed, as they are subject to annual appropriation of the funds negotiated to be paid each year.

ANC and FAI PFC collections were up 5.0% in 2019 at $7.2 million compared with $6.9 million in 2018. Fiscal year 2017 PFC collections were $6.8 million. Increases in ANC PFC's reflect increases in both global domestic passenger enplanement growth.

The change in net position is an indicator of whether the overall fiscal condition of the Airports System has generally improved or worsened during the year, notwithstanding variances arising from differences in the lives of capital assets and the lives of the underlying long-term debt financing them. The adoption of GASB 68 and related impact on net position in recent years was significant; however given the residual rate model embedded in the Operating Agreements, the annual change to reported operating expense stabilized some in fiscal year 2019.

For the year ended June 30, 2019, net position increased $57.5 million. Change in net position was positive in the amounts of $30.8 million and $12.9 million for fiscal years 2018 and 2017, respectively.

The following is a summary of the Revenues, Expenses and Changes in Net Position:

Year Ended June 30,	2019	2018	2017
Operating revenues	$ 141,264,420	$ 147,892,759	$ 142,825,819
Operating expenses, excluding depreciation and amortization expense	(82,058,943)	(85,158,565)	(97,933,269)
Operating income before depreciation	59,205,477	62,734,194	44,892,550
Depreciation and amortization expenses	(72,138,949)	(72,954,608)	(69,589,971)
Nonoperating revenues	6,833,235	2,797,981	2,066,025
Nonoperating expenses	(14,577,225)	(15,653,649)	(20,690,433)
Capital contributions	78,185,177	53,899,814	56,260,252
Change in Net Position	$ 57,507,715	$ 30,823,732	$ 12,938,423

Cash and Investment Management

The Airports System's cash and investments totaled $196.0 million, $190.5 million, and $185.3 million at June 30, 2019, 2018 and 2017, respectively. Of these amounts, $75.0 million, $84.3 million, and $84.9 million were reserved and/or restricted for Operation and Maintenance reserve fund, Construction (Capital Projects) fund investments, Debt service reserve fund, Repair and replacement fund, Passenger facilities charges fund, or Revenue bond redemption fund.

The State Treasury Division of the Department of Revenue, following the appropriate Alaska Statutes, controls cash and investments and concentrates on large and very marketable issues with nonvolatile investment returns. All deposits are insured or collateralized by United States Government or agency obligations and other permitted investments.

Funds that will be used for bond requirements are invested in time or demand deposits, direct obligations of the United States and other financial instruments maturing prior to the respective interest payment and maturity dates. An annual cash flow projection for capital projects is developed for all bond and investments proceeds to maximize investment income while ensuring cash is available for capital project expenses. All investments must be made following the investment policy that is in compliance with the applicable bond resolutions and Alaska Statutes.

The Airports System finances its capital program through a combination of Airports System revenues, entitlement and discretionary grants received from the FAA, other grant sources, PFCs, and revenue bonds. Over the last two and a half decades, long-term debt had been the principal source of funding for capital improvement projects, with a transition to FAA Airport Improvement Project grant funding and pay-as-you go capital expenditures funded through airport operating revenues. The Airports System, through its Bond Resolutions, has covenanted to maintain a debt service coverage ratio of not less than 1.25. The Airports System has historically maintained a coverage ratio higher than its requirement. At June 30, 2019, 2018 and 2017, the Airports System's debt service coverage was 2.07, 2.16, and 1.64, respectively.

Capital Financing and Debt Management

The amount of outstanding Airports System revenue bonds as of June 30, 2019, 2018, and 2017 was $346.5 million, $375.5 million, and $411.2 million, respectively.

In calendar year 2016, the Airports System issued $175.9 million of 2016 Series refunding bonds to retire $201.5 million of outstanding long-term bonds for net present value savings of approximately $13.2 million. The 2016A series, consisting of $73.6 million non-AMT bonds, and the 2016C series, consisting of $11.2 million of AMT bonds were issued February 10, 2016.

Subsequently in early FY2017, the 2016B series, consisting of $82.5 million Non-AMT bonds, and the 2016D series, consisting of $8.5 million of AMT bonds were issued July 6, 2016. The Airports System realized approximately $13.2 million of net present value savings from the 2016A, B, C, and D Series refunding transactions.

In fiscal year 2019, the Airports System optionally redeemed $9.5 million of its 2006 and $7.0 million of its 2009A series revenue bonds. In fiscal year 2018, $24.3 million of its 2006 Series bonds and in fiscal year 2017, $11.0 million of its 2006 series revenue bonds in 2017 were also retired through optional redemptions.

The above described transactions were as part of ongoing Airports System deleveraging efforts.

Airports System revenue bonds had been assigned the following ratings at June 30, 2019:

Fitch	A+	Stable outlook
Moody's	A1	Stable outlook

Contacting the Airports System's Financial Management

The financial report is designed to provide the Airports System's management, investors, creditors, and customers with a general view of the Airports System's finances and to demonstrate its accountability for the funds it receives and expends. For additional information about this report please contact:

Keith Day, CPA
AIAS Controller
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Anchorage, AK 99519
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Basic Financial Statements

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Statements of Net Position

June 30,	2019	2018
Assets and Deferred Outflows of Resources		
Current Assets		
Unrestricted cash and investments (note 4):		
Cash with State Treasury	$ 71,040,390	$ 67,103,190
Investments	42,711,154	34,121,840
Total unrestricted cash and investments	113,751,544	101,225,030
Other restricted assets - Passenger Facility Charges:		
Cash with State Treasury	7,229,669	4,976,530
Total other restricted assets	7,229,669	4,976,530
Federal grants receivable (note 2e)	15,436,392	4,305,604
Federal grants receivable - Unbilled (note 2e)	24,335,415	23,144,888
Due from State of Alaska General Fund	15,419,715	1,856,494
Accounts receivable, net of allowance for doubtful accounts of $3,741,365 and $4,034,738 for 2019 and 2018, respectively	3,351,657	6,911,834
Total Current Assets	179,524,392	142,420,380
Noncurrent Assets		
Restricted cash and investments (note 5):		
Investments - operations and maintenance reserve	21,921,764	21,495,383
Repair and replacement reserve	512,482	507,657
Capital project fund (note 4)	12,620,991	17,533,997
Debt service reserve fund (note 4)	26,394,927	25,752,059
Revenue bond redemption fund (note 5):		
Bond interest	3,575,023	6,219,606
Bond principal	9,952,846	12,766,157
Total restricted or reserved cash and investments	74,978,033	84,274,859
Net other post employment benefit (OPEB) Asset	262,798	198,127
Capital assets, net of accumulated depreciation (note 7)	1,210,245,964	1,205,410,620
Total Noncurrent Assets	1,285,486,795	1,289,883,606
Total Assets	1,465,011,187	1,432,303,986
Deferred Outflows of Resources:		
Pension related	6,057,032	5,969,573
Other postemployment benefit related	3,855,805	1,390,346
Total Deferred Outflows of Resources	9,912,837	7,359,919
Total Assets and Deferred Outflows of Resources	$ 1,474,924,024	$ 1,439,663,905

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Statements of Net Position, continued

June 30,	2019	2018
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	$ 15,724,083	$ 8,444,528
Unearned revenue:		
Unearned revenue - restricted (note 2h)	24,335,415	23,144,888
Unearned revenue - unrestricted	1,072,508	913,231
Total Unearned revenue	25,407,923	24,058,119
Environmental remediation (note 6)	3,085,840	537,000
Compensated absences (note 2i)	3,777,943	4,050,261
Accrued liability - payroll	2,236,360	2,129,071
Due to State of Alaska General Fund	5,137,671	74,872
Liabilities payable from restricted assets:		
Accrued interest	4,255,189	4,426,568
Revenue bonds (note 8)	13,175,000	12,455,000
Total Current Liabilities	72,800,009	56,175,419
Noncurrent Liabilities		
Revenue bonds payable, less current portion (note 8)	357,175,721	389,592,782
Environmental remediation obligation, less current portion (note 6)	3,404,000	4,833,000
Compensated absences, less current portion (note 2i)	203,053	97,697
Other postemployment benefit (OPEB) liability	11,194,730	8,926,241
Net pension liability	53,378,549	54,169,758
Total Noncurrent Liabilities	425,356,053	457,619,478
Total Liabilities	498,156,062	513,794,897
Deferred Inflows of Resources:		
Pension related	1,339,704	7,343,702
Other postemployment benefit related	4,362,641	4,967,404
Total Deferred Inflows of Resources	5,702,345	12,311,106
Net Position		
Net investment in capital assets (note 7)	878,911,161	846,648,894
Restricted (note 5)	43,191,784	45,965,333
Unrestricted	48,962,672	20,943,675
Total Net Position	971,065,617	913,557,902
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 1,474,924,024	$ 1,439,663,905

See accompanying notes to financial statements.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Statements of Revenues, Expenses and Changes in Fund Net Position

Years Ended June 30,		2019		2018
Operating Revenues				
Airfield operations	$	90,709,080	$	102,602,537
Concession fees		16,255,762		14,873,152
Terminal rents (note 3)		17,814,996		16,494,033
Vehicle parking fees		9,303,109		9,233,610
Land rental fees		6,608,870		6,700,213
Airline bad debt		-		(2,339,726)
Other		572,603		328,940
Total Operating Revenues		141,264,420		147,892,759
Operating Expenses				
Facilities		25,228,193		27,799,706
Field and equipment maintenance		20,401,289		18,957,522
Safety		12,988,981		15,276,551
Administration		13,504,714		12,591,512
Operations		4,271,218		4,772,468
Environmental expenses		2,084,964		2,464,565
Vehicle parking and curbside services		2,299,918		2,270,412
Risk management		1,279,666		1,025,829
Depreciation		72,138,949		72,954,608
Total Operating Expenses		154,197,892		158,113,173
Operating Loss		(12,933,472)		(10,220,414)
Nonoperating Revenues (Expenses)				
Investment income		6,423,354		2,382,147
Interest expense		(13,225,747)		(15,562,889)
Grants		173,279		73,922
Gain/(loss) on disposal of capital assets		(1,114,876)		251,152
Reimbursable services income		236,602		90,760
Reimbursable services expenses		(236,602)		(90,760)
Net Nonoperating Revenues (Expenses)		(7,743,990)		(12,855,668)
Loss Before Capital Contributions and Transfers	$	(20,677,462)	$	(23,076,082)

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Statements of Revenues, Expenses and Changes in Fund Net Position, continued

Years Ended June 30,		2019		2018
Capital Contributions				
Transportation Safety Administration	$	5,323,080	$	956,709
Capital contributions - other		173,513		-
Federal Aviation Administration		65,472,799		46,073,815
Passenger Facility Charge (note 14)		7,215,785		6,869,290
Total Capital Contributions		78,185,177		53,899,814
Change in Net Position		57,507,715		30,823,732
Net Position, beginning of year		913,557,902		882,734,170
Net Position, end of year	$	971,065,617	$	913,557,902

See accompanying notes to financial statements.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Statements of Cash Flows

Years Ended June 30,	2019	2018
Operating Activities		
Receipts from customers and users	$ 146,411,003	$ 148,492,160
Payments to employees and suppliers	(81,704,893)	(89,612,379)
Net cash from operating activities	64,706,110	58,879,781
Noncapital Financing Activities		
Grants	173,279	73,922
Net cash from noncapital financing activities	173,279	73,922
Capital and Related Financing Activities		
Acquisition of capital assets	(78,089,169)	(52,358,595)
Capital grants received	58,648,077	61,398,062
Advances (payments) from (to) State of Alaska	(8,500,422)	(18,292,377)
Payments of revenue bonds	(28,990,000)	(35,675,000)
Interest paid on bonds	(16,104,187)	(18,118,384)
Passenger facility charges	7,215,785	6,869,290
Net cash for capital and related financing activities	(65,819,916)	(56,177,004)
Investing Activities		
Proceeds from sales and maturities of investment securities	184,729,391	236,039,526
Purchase of investment securities	(178,306,037)	(233,657,379)
Change in restricted assets and investments	(1,545,627)	(6,339,988)
Net cash from (for) investing activities	4,877,727	(3,957,841)
Net Increase (Decrease) in Cash and Equivalents	3,937,200	(1,181,142)
Cash and Equivalents, beginning of year	67,103,190	68,284,332
Cash and Equivalents, end of year	$ 71,040,390	$ 67,103,190

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Statements of Cash Flows, continued

Years Ended June 30,	2019	2018
Operating Activities		
Operating loss	$ (12,933,472)	$ (10,220,414)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	72,138,949	72,954,608
Changes in assets, deferred outflows, liabilities, and deferred inflows that provided (used) cash:		
Accounts receivable	3,560,177	71,528
Accrued liability - payroll	107,289	(16,046)
Deferred outflows	(2,552,918)	9,715,469
Net OPEB asset	(64,671)	(8,399)
Accounts payable	7,279,555	(2,449,668)
Unearned revenue	1,349,804	437,113
Environmental remediation - restricted (note 2h)	1,119,840	1,400,000
Compensated absences - unrestricted	(166,962)	(154,167)
OPEB Liability	2,268,489	(6,249,281)
Net pension liability	(791,209)	(18,106,423)
Deferred inflows	(6,608,761)	11,505,462
Net Cash From Operating Activities	$ 64,706,110	$ 58,879,782

See accompanying notes to financial statements.

1. Organization

The accompanying financial statements include only the accounts of the State of Alaska International Airports System (Airports System or AIAS), an enterprise fund of the State of Alaska (State) created by Chapter 88 of the Session Laws of Alaska of 1961 to equip, finance, maintain, and operate the two international airports located in Anchorage (ANC) and Fairbanks (FAI), Alaska. The airports are under the administration of the State of Alaska Department of Transportation and Public Facilities (DOT&PF). These financial statements are not intended to present complete financial activity of the State as a whole. The State's Comprehensive Annual Financial Report is available from the State's Division of Finance in the Department of Administration.

2. Summary of Significant Accounting Policies

(a) Governmental Accounting

The accounting policies used in preparation of the financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governmental entities.

(b) Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounts of the Airports System are reported using the flow of economic resources measurement focus. This measurement focus distinguishes operating activities from nonoperating items.

The Airports System uses the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) Management's Use of Estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

(d) Cash and Investments

For purposes of the statement of cash flows, the Airports System considers all highly liquid investments (excluding restricted assets) with a maturity of three months or less, when purchased, to be cash equivalents.

The Airports System accounts for marketable securities at fair value. Investments are segregated between current and noncurrent based upon maturity and intended use. Under this method, investments in debt securities and certain equity securities are carried at fair value and unrealized gains and losses are recorded in the statement of revenues, expenses, and changes in net position.

(e) Accounts Receivable and FAA Receivable (billed and unbilled)

In addition to airfield and airport facilities use-related receivables owed from airline customers and other lease tenants, the Airports System separately records and reports amounts it anticipates will be collected from the Federal Aviation Administration (FAA) for amounts expended on capital projects.

For those capital project expenditures having met all eligibility requirements for reimbursement under the FAA Airport Improvement Program, revenue is recognized in the period billed as capital contributions. For capital project expenditures for which not all grant reimbursement criteria thresholds have been substantively met, the airport system has recorded accounts receivable balances and corresponding deferred revenue liabilities.

Management has provided an allowance for accounts recorded at year-end which it estimates may be uncollectible.

(f) Capital Assets

Property and equipment is carried at cost, except property originally received from the federal government which is recorded at fair market value at the date contributed. Major additions and improvements to property and equipment are capitalized. Depreciation is provided over estimated useful lives using the straight-line method. Repair and maintenance costs are expensed as incurred.

The cost and accumulated depreciation of assets retired or sold are removed from the accounts and any gain or loss is reflected in operations in the year of disposition.

(g) Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the Airports System's principal ongoing operations. The principal operating revenues of the Airports System are charges to customers for airfield operations, concession fees, rent and user fees. Operating expenses include the facilities, field and equipment maintenance, safety, operations, environmental, vehicle parking, risk management, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(h) Capital Contributions

The Airports System incurs costs on projects that have not been approved for reimbursement by the FAA and amounts in excess of grant awards on certain approved projects. In addition to the $65.5 and $46.1 million recorded as revenue from the FAA during 2019 and 2018, respectively, approximately $24.3 million and $23.1 million of project cost had been expended, but had not yet substantively met grant permissible reimbursement threshold conditions and were recorded as deferred revenues. Management believes these amounts will be reimbursed by the FAA upon their approval of the grant award, modification, or compliance with conditional restrictions, but are treated as claims until appropriate FAA approval is received.

The Airports System also collects passenger facility charges from airlines that are restricted for use for the acquisition of capital assets or the repayment of capital related debt (note 14).

(i) Compensated Absences

Airports System employees receive time off or pay for leave hours accumulated. Routine annual leave is paid as used and the accumulated leave liability is estimated at year end. Estimated compensated absences balances recorded as current and long-term portions, respectively, at June 30 are $3,777,943 and $203,053 in 2019 and $4,050,261 and $97,697 in 2018.

(j) Bond Premiums, Discounts and Refunding Transactions

Premiums, discounts and refunding gains or losses are deferred and amortized over the life of the related debt, except in the case of refunding debt transactions where the amortization period is over the term of the refunding or refunded debt, whichever is shorter.

(k) Capitalized Interest

Interest expense, net of income earned on construction bond proceeds, is capitalized from the date of the borrowing until the assets are ready for their intended use on those capital projects paid for from the bond proceeds and is amortized over the depreciable life of the related assets on a straight-line basis.

(l) Due to/from State of Alaska General Fund

The Airports System uses the State's central treasury for payments of current obligations. The obligations are settled daily from the Airports System's cash or investment accounts with the central treasury.

(m) Leases

The Airports System leases substantially all terminal building space to airlines and concessionaires. All such leases have been treated as operating leases since ownership risks are retained by the Airports System.

(n) Income Taxes

The Airports System qualifies for exemption from federal income taxes under current provisions of the Internal Revenue Code.

(o) Passenger Facility Charges/Grants Revenue Recognition

Revenue from FAA grants is recognized as earned as eligible expenditures are incurred and PFC revenues are recognized as reported and received from airlines.

(p) *Deferred Outflows and Inflows of Resources*

In addition to assets, the statements of net position reports a separate section for deferred outflows of resources. This separate financial statement element, represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Airports System has one item for reporting in this category; Deferred outflows of resources related to our participation in the Public Employees' Retirement System (PERS). In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Airports System has one item for reporting in this category; a deferred inflow of resources related to our participation of PERS.

(q) Net Pension Liability

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.

(r) Subsequent Events

The Airports System has evaluated subsequent events December 9, 2019, the date on which the financial statements were issued, and determined that no material events requiring disclosure had occurred.

(s) New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates.

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

GASB Statement No. 87, *Leases* (Statement No. 87) was issued by GASB in June 2017. The objective of Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are required to be implemented for the reporting periods beginning after December 15, 2019. The Airports System is working to implement Statement No. 87 in fiscal year 2021.

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

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

3. Airline Operating Agreement and Terminal Building Leases

The DOT&PF, in connection with operating the Anchorage International Airport and the Fairbanks International Airport (Airports System), executed airline operating agreements and terminal building leases (Agreements) at the beginning of fiscal year 2014 with substantially all regularly scheduled airlines that utilize its facilities. The Agreements are effective July 1, 2013 and terminate June 30, 2023.

The Agreements provide for the funding of an associated Capital Improvements Program (CIP) which will run through 2023 at an initially estimated cost of $450.7 million, with approximately $351.7 million funded from the Federal Aviation Airport Improvements Program (AIP) receipts and the remaining $99 million primarily funded by annual rates and fees. The Agreements provide for periodic adjustments to the CIP, with most nonemergency substantive additions subject to airline majority-in-interest balloting.

The Agreements are instrumental in the periodic setting of rents and fees. Additionally, they are intended to set forth the rights, privileges, and obligations of the parties and to facilitate the development, promotion, and improvement of air transportation. The rents and fees calculated, according to the Agreements, are airline terminal building rental rates, landing fees, international terminal docking fees, aircraft parking fees, passenger loading bridge fees, and charges relating to federal inspection services. The Agreements also establish procedures for review and adjustment of airline rents and fees each fiscal year to ensure that revenues are sufficient to meet operations and maintenance expense, debt service requirements of the revenue bonds and other funding requirements established by the resolution authorizing issuance of the revenue bonds. The Agreements provide for the DOT&PF to adjust the aforementioned rents, fees, and charges midway through the year if the projection of annual revenues made at that time is greater than 5% more or less than the anticipated Airports System requirements for the year. The Agreements also provide for the DOT&PF to immediately adjust landing fees if, at any time during the year, the Airports System projects annual revenues will not be sufficient to cover the total Airports System revenue requirement.

The Agreements further provide for the payment of a fuel flowage fee of $0.027 per gallon for fuel purchased at the Airports by signatory airlines. For users of the Airports System who have not signed the Agreements, the fuel flowage fee is $0.04 per gallon greater, except for aircraft under 12,500 certified maximum gross takeoff weight (CMGTW). The Agreements also contain provisions which include a differential increase of 25% for landing fees charged to users who have not signed the Agreements, but also waive the 25% landing fee and $0.04 fuel flowage (within certain limitations) differential for nonsignatory aircraft landing at FAI.

The Agreements provide that revenues may be retained up to the following amounts:

An amount necessary to satisfy debt service requirements due during the fiscal year on all outstanding bonds.

Within the Supplemental Repair and Replacement Fund, an amount to maintain a repair and replacement allowance of $1.5 million (which is subordinate to the bond resolution requirement of $500,000 – Note 5). Each subsequent year, this amount is adjusted to correspond with changes in the local consumer price index.

Within the Maintenance and Operation Reserve Fund, an amount equal to one quarter of the projected annual operation and maintenance expense of the Airports System, resulting in fund deposit increases of approximately $0.4 million and $0.6 million in fiscal years 2019 and 2018, respectively, with respective year-end balances of approximately $21.9, $21.5, and $20.9 million for the years ended June 30, 2019, 2018, and 2017.

Within the Airports System Capital Project Fund, an amount equal to the amount authorized from rates and charges in the annual budget for each fiscal year for capital projects approved by signatory airlines, plus the amount authorized from rates and charges in the annual budget for that fiscal year for capital projects not requiring signatory airline approval.

Within the Excess Revenue Fund, any funds in excess of these amounts at year-end are to be deferred and recognized as revenue in the following year. If the Airports System does not receive enough funds during the year to meet the minimum revenue requirements stipulated in the bond covenants, the Airports System will recognize the minimum amount of revenue necessary to meet those requirements, as well as a receivable for the amount of the shortfall.

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4. Cash and Investments

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The funds invest in the State's internally managed General Fund and Other Non-Segregated Investments Pool (GeFONSI), Short-Term Fixed Income Pool, Broad Market Fixed Income Pool, SSgA Russell 3000 Pool, SSgA MSCI EAFE Index Pool, and the Lazard International Equity Pool. The GeFONSI consists of investments in the State's internally managed Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool and the Intermediate-term Fixed Income Pool. The complete financial activities of the funds are shown in the State of Alaska's Comprehensive Annual Financial Report (CAFR) available from the Department of Administration, Division of Finance.

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service.

The accrual basis of accounting is used for the investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-term, Short-term Liquidity, Intermediate-term Fixed Income Pool and the Broad Market Fixed Income Pool is allocated to the pool participants daily on a pro-rata basis.

SSB ACCOUNT FUND NAME FUND#	PFC 3273/3275	AY04 IARF 1027	AY05 IAR R & R 3271	AY2E 2002 RSRV 3277	AY2U 2003 RSRV 3278	AY9X 2006 B 3267	AY9Y 2006 C 3268	AY3A 2010 C 3269	AY3B 2010 D 3270	TOTAL
Cash & equivalents:										
Short Term Pool	$ 7,229,669	92,766,825	511,328	16,049,158	10,286,341	3,095,913	3,743,949	5,098,675	652,650	$ 139,434,508
Pooled investments:										
IntermediateTerm Pool	-	42,711,154	-	-	-	-	-	-	-	42,711,154
Total Cash & Investments	7,229,669	135,477,979	511,328	16,049,158	10,286,341	3,095,913	3,743,949	5,098,675	652,650	182,145,662
Accrued Interest	-	195,329	1,154	36,216	23,212	7,163	8,515	12,079	2,047	285,715
Total Assets Per SSB	$ 7,229,669	$ 135,673,308	$ 512,482	$ 16,085,374	$ 10,309,553	$ 3,103,076	$ 3,752,464	$ 5,110,754	$ 654,697	$ 182,431,377

	Unrestricted	Restricted	Total
Cash	$ 92,962,154	46,758,069	$ 139,720,223
Investment	42,711,154	-	42,711,154
	$ 135,673,308	$ 46,758,069	$ 182,431,377

For additional information on interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk see the separately issued report on the Invested Assets of the Commissioner of Revenue at: http://treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx

Cash and investments at June 30, 2019 and 2018, respectively, are summarized as follows:

	2019	2018
Cash with State Treasury	$ 65,840,390	$ 67,103,190
Investments – unrestricted	42,711,154	34,121,840
Investments – restricted	21,921,764	21,495,383
Capital project fund (Note 7)	12,620,991	17,533,997
Debt service reserve fund (Note 7)	26,394,927	25,752,059
Repair and replacement account – restricted	512,482	507,657
Passenger facilities charges – restricted	12,429,669	4,976,530
Total pooled investments	182,431,377	171,490,656
Revenue bond redemption fund – restricted	13,527,869	18,985,763
Total Cash and Investments	$ 195,959,246	$ 190,476,419

5. Restricted Net Position

The Airports System is required to maintain various restricted funds in compliance with the resolution authorizing issuance of its revenue bonds. The purpose of these funds is as follows:

- The repair and replacement account may be used (1) to eliminate deficiencies in the bond reserve accounts; or (2) for extraordinary repairs, renewals, and betterments in the event surplus revenues are not available.

- The maintenance and operating reserve fund is maintained at an amount equal to one fourth (1/4) of the projected annual maintenance and operations expense for the year.

- The Airports System is required by the FAA to keep all unliquidated passenger facility charge revenues remitted to it on deposit in an interest-bearing account. Passenger facility charges and interest earned on those charges collected by the Airports System may only be used to pay allowable costs of approved projects.

- The revenue bond redemption fund is composed of bond interest and principal retirement accounts held by the bond trustee (Trustee) and may be used only for debt service. These reserve accounts were initially established from proceeds of revenue bonds and are to be subsequently maintained by monthly transfers from the revenue fund in amounts sufficient to provide for annual debt service requirements. As dictated by the bond resolution, these funds are not managed by the Commissioner of Revenue, but by an external entity.

Under the terms of the revenue bonds, all funds held by the Trustee in the revenue bond redemption fund must be held in time or demand deposits in any bank or trust company authorized to accept deposits of public funds (including the Trustee), direct obligations of the United States of America, bonds, notes or other indebtedness, deposit accounts, commercial paper, money market funds, or obligations the principal of and interest on which are guaranteed by the United States of America, maturing prior to the respective interest payment dates, maturity dates or minimum sinking fund payment dates on which such moneys are required to be paid.

Restricted net position consists of the following at:

June 30,	2019	2018
Repair and replacement account:		
Short-term fixed income pool	$ 512,482	$ 507,657
Maintenance and operation reserve:		
Short-term fixed income pool	21,921,764	21,495,383
Passenger facility charge revenue fund:		
Cash in banks and State treasury	7,229,669	4,976,530
Revenue bond redemption fund:		
Bond interest – daily money fund	2,386,895	6,219,606
Bond principal – daily money fund	11,140,974	12,766,157
	13,527,869	18,985,763
Total Restricted Net Position	$ 43,191,784	$ 45,965,333

6. Environmental Remediation Obligation

The Airports System has accrued certain environmental pollution remediation liabilities for three ANC and eight FAI sites for which obligating events as described in GASB pronouncement 49 have been deemed to have occurred and the Airports System is in whole or part a responsible party. The liabilities were valued using the estimated mean of the future cash flows of costs and recovery associated with those sites, measured at current value. Amounts recorded as current and long-term portions of these estimated liabilities were respectively $3,085,840 and $3,404,000 in 2019 and $537,000 and $4,833,000 in 2018.

In FY17, Fairbanks International Airport (FAI) identified and took initial efforts to address concentrations of Per- and Polyfluoroalkyl Substances (PFAS) which had manifested in private well water test sampling on and around the FAI property in concentrations higher than the U.S. Environmental Protection Agency's (EPA's) health advisory levels. FAI engaged an environmental consulting firm and has coordinated with the Alaska Department of Environmental Conservation (DEC) to identify and sample private water wells west of the airport and take steps to provide municipal water hook-up installations for those wells testing in excess of the EPA health advisory levels. Most, if not all homes or businesses having affected wells are anticipated to be connected to municipal water system by the end of October 2018. The direct and other related costs the off-airport connections are covered by the Airports System self-insurance general liability program.

7. Capital Assets

Airport property was owned by the federal government prior to statehood and contributed to the State after that date. Subsequent additions to property and equipment have been funded by governmental contributions, bond proceeds, and operating revenues.

The following is a summary of capital assets:

June 30,	Life	2019 Carrying Value	2018 Carrying Value
Land		$ 31,202,636	$ 31,202,636
Infrastructure	5-40 years	1,016,865,088	990,683,562
Buildings	10-40 years	1,129,838,449	1,136,289,438
Equipment	5-10 years	132,971,562	127,329,338
Total capital assets		2,310,877,735	2,285,504,974
Accumulated depreciation and amortization:			
Infrastructure		(563,351,259)	(530,830,055)
Buildings		(505,358,338)	(475,709,010)
Equipment		(98,143,353)	(91,455,572)
Total accumulated depreciation and amortization		(1,166,852,950)	(1,097,994,637)
Construction in progress		66,221,179	17,900,283
Total Capital Assets, net		$ 1,210,245,964	$ 1,205,410,620

Capital asset activity was as follows:

Year Ended June 30, 2019	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 31,202,636	$ -	$ -	$ 31,202,636
Infrastructure	990,683,562	26,181,526	-	1,016,865,088
Buildings	1,136,289,438	3,099,011	(9,550,000)	1,129,838,449
Equipment	127,329,338	7,050,617	(1,408,393)	132,971,562
Construction in progress	17,900,283	84,652,049	(36,331,153)	66,221,179
Total capital assets	2,303,405,257	120,983,203	(47,289,546)	2,377,098,914
Accumulated depreciation:				
Infrastructure	(530,830,055)	(32,521,204)	-	(563,351,259)
Buildings	(475,709,010)	(31,534,328)	1,885,000	(505,358,338)
Equipment	(91,455,572)	(8,083,418)	1,395,637	(98,143,353)
Total accumulated depreciation and amortization	(1,097,994,637)	(72,138,950)	3,280,637	(1,166,852,950)
Total Capital Assets, net	$ 1,205,410,620	$ 48,844,253	$ (44,008,909)	$ 1,210,245,964

Year Ended June 30, 2018		Beginning Balance		Additions		Deletions		Ending Balance
Land	$	31,202,636	$	-	$	-	$	31,202,636
Infrastructure		954,299,888		36,383,674		-		990,683,562
Buildings		1,129,128,699		7,160,739		-		1,136,289,438
Equipment		116,421,643		12,524,600		(1,616,905)		127,329,338
Construction in progress		21,359,549		53,884,747		(57,344,013)		17,900,283
Total capital assets		2,252,412,415		109,953,760		(58,960,918)		2,303,405,257
Accumulated depreciation:								
Infrastructure		(497,957,420)		(32,872,635)		-		(530,830,055)
Buildings		(443,877,763)		(31,831,247)		-		(475,709,010)
Equipment		(84,821,751)		(8,250,726)		1,616,905		(91,455,572)
Total accumulated depreciation and amortization		(1,026,656,934)		(72,954,608)		1,616,905		(1,097,994,637)
Total Capital Assets, net	$	1,225,755,481	$	36,999,152	$	(57,344,013)	$	1,205,410,620

The Airports System’s net investment in capital assets includes the following:

June 30,	2019	2018
Capital assets, net of accumulated depreciation	$ 1,210,245,964	$ 1,205,410,620
Plus: Capital projects and debt service reserve (unspent proceeds and reserve contributions)	39,015,918	43,286,056
Less:		
Current bonds payable	(13,175,000)	(12,455,000)
Non-current bonds payable, net	(357,175,721)	(389,592,782)
Net Investment in Capital Assets	$ 878,911,161	$ 846,648,894

Depreciation expense for the years ended December 31, 2019 and 2018 was $72,138,949 and $72,954,608, respectively.

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8. Revenue Bonds Payable

The following is a summary of the Airports System's revenue bonds payable:

June 30,	2019	2018
Series 1999A, maturing October 1, 2024; interest payable semi-annually at 5.00%	$ 50,000	$ 50,000
Series 2006A, maturing in annual installments of generally increasing amounts from October 1, 2015 through October 1, 2022; interest payable semi-annually at 4.00% to 5.00%	2,000,000	11,535,000
Series 2009A, maturing October 1, 2030; variable interest rate calculated weekly; interest payable monthly	43,000,000	50,000,000
Series 2010A, maturing in annual installments of varying amounts through October 1, 2027; interest payable semi-annually at 5.00%	98,090,000	104,640,000
Series 2010B, maturing in annual installments of increasing amounts through October 1, 2018; interest payable semi-annually at 5.00%	-	3,355,000
Series 2010C, maturing October 1, 2033; interest payable semi-annually at 5.00%	12,565,000	12,565,000
Series 2010D, maturing October 1, 2035; interest payable semi-annually at 6.28% before Build America Bonds (BABs) direct-pay 35% interest subsidy	19,540,000	19,540,000
Series 2016A, maturing in annual installments of varying amounts from October 1, 2023 through October 1, 2035; interest payable semi-annually at 2.50% for the 2024 maturities and at 5.00% for all other maturities	73,635,000	73,635,000
Series 2016B, maturing in annual installments of varying amounts from October 1, 2023 through October 1, 2035; interest payable semi-annually at 2.50% for the 2024 maturities and at 5.00% for all other maturities	82,495,000	82,495,000
Series 2016C, maturing in annual installments of varying amounts from October 1, 2020 through October 1, 2023; interest payable semi-annually at 5.00%	11,220,000	11,220,000

June 30,	2019	2018
Series 2016D, maturing in annual installments of varying amounts from October 1, 2017 through October 1, 2020; interest payable semi-annually at 5.00%	$ 3,950,000	$ 6,500,000
Total bonds payable	346,545,000	375,535,000
Unamortized bond (premium)/discount and deferred (gain) loss	23,805,721	26,512,782
	370,350,721	402,047,782
Less amount currently payable with restricted assets	(13,175,000)	(12,455,000)
Revenue Bonds Payable, Net of Current Portion	$ 357,175,721	$ 389,592,782

The following is a summary of debt payment requirements for each of the next five years and thereafter:

Year Ending June 30,	Principal	Interest*	Less 2010D BABs 35% Subsidy	Total
2020	$ 13,175,000	$ 16,534,119	$ (429,763)	$ 29,279,356
2021	13,930,000	15,856,494	(429,763)	29,356,731
2022	14,640,000	14,853,869	(429,763)	29,064,106
2023	17,395,000	13,914,619	(429,763)	30,879,856
2024	16,180,000	13,025,244	(429,763)	28,775,481
2025-2029	96,515,000	52,431,743	(2,148,814)	146,797,929
2030-2034	118,355,000	30,049,894	(2,084,426)	146,320,468
2035-2036	56,355,000	3,032,604	(304,011)	59,083,593
	$ 346,545,000	$ 159,698,586	$ (6,686,066)	$ 499,557,520

* Interest requirements for variable-rate bonds have been computed using 2.52%, the rate effective at June 30, 2019.

The following is a summary of the revenue bonds payable:

Years Ending June 30,	Beginning Balance	New Issuances	Refunding/ Redemptions	Principal Payments	Ending Balance
2019	$ 375,535,000	$ -	$ (16,535,000)	$ (12,455,000)	$ 346,545,000
2018	$ 411,210,000	$ -	$ (24,310,000)	$ (11,365,000)	$ 375,535,000

Revenue bonds have been previously issued pursuant to bond resolutions that prescribe the use of accounts described in Note 3 as well as the use of certain other practices. Among these is a requirement that net revenues available for debt service, as defined by the bond resolution, must at least equal 1.25 times the sum of: (1) annual debt services; and (2) required deposits to the bond redemption fund. The net revenues requirement was met for the years ended June 30, 2019 and 2018.

9. Interest Arbitrage Rebate

Bonds issued after August 15, 1986 are subject to Internal Revenue Service (IRS) income tax regulations which require rebates to the U.S. Government of interest income earned on investments purchased with the proceeds from the bonds or any applicable reserves in excess of the allowable yield of the issue. The Airports System performed a final calculation for its 1999 series bonds upon closure of the related construction funds, as balances are due the earlier of within 60 days after bonds are discharged or every five years from the anniversary of the date of issuance. Total bond interest arbitrage rebate liability was $0 at June 30, 2019 and 2018, respectively. Total paid to the IRS was also $0 during the years ended June 30, 2019 and 2018, respectively.

10. Costs Allocated from the Department of Transportation and Public Facilities

The DOT&PF provides administrative and technical services benefiting all of Alaska's airports and aircraft bases. Related costs are allocated based upon budgetary estimates of the pro rata portion which should be borne by the various facilities as set forth in the annual appropriation and budget document of the State. Costs allocated to the Airports System and included in operating expenses for the years ended June 30, 2019 and 2018 amounted to $3,772,879 and $3,557,156, respectively.

Capital project management services are performed by the DOT&PF personnel and are capitalized to capital assets. The indirect costs allocated to the Airports System and capitalized in construction in progress amounted to $3,782,976 and $3,325,948, respectively, during the years ended June 30, 2019 and 2018.

11. Retirement Plans

(a) Defined Benefit (DB) Pension Plan

General Information About the Plan

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

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

Historical Context and Special Funding Situation

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

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.

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

The Airports System records 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.

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, the amount calculated for the statutory employer effective contribution rate is 22% on eligible wages. 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. 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 liability 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 2019, the rate uses an 8% pension discount rate and an 8% healthcare discount rate.

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

Contribution rates for the year ended June 30, 2019 were determined in the June 30, 2016 actuarial valuations, respectively. The Airport System's contribution rates for the 2019 fiscal year were as follows:

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	16.17%	21.21%	5.58%	32.11%
Postemployment healthcare	5.83%	4.37%	0.00%	87.90%
Total Contribution Rates	22.00%	27.58%	5.58%	120.01%

In 2019, the Airports System was credited with the following contributions into the pension plan.

Plan Measurement Period	Airports System FY19	Airports System FY18
Airports System contributions (including DBUL)	$ 3,789,090	$ 4,025,260
On-behalf contributions	1,824,437	987,910
Total Contributions	$ 5,613,527	$ 5,013,170

In addition, employee contributions to the plan totaled $962,767 and $846,233 during the Airports System fiscal years 2019 and 2018, respectively.

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

At June 30, 2019 and 2018, the Airports System reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the Airports System. The amount recognized by the Airports System for its proportional share, the related State proportion, and the total were as follows:

	2019	2018
Airports System proportionate share of NPL	$ 53,378,549	$ 54,169,758
State's proportionate share of NPL associated with the Airports System	15,459,862	-
Total Net Pension Liability	$ 68,838,411	$ 54,169,758

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018 to calculate the net pension liability as of that date. The Airports System's proportion of the net pension liability was based on a projection of the Airports System'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, 2018 measurement date, the Airports System's proportion was 2.81240 percent, which was a decrease of 0.04480 from its proportion as of June 30, 2017.

For the years ended June 30, 2019 and 2018, the Airports System recognized pension (expense) and expense decrease of $(6,882,665) and $2,414,690, respectively.

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At June 30, 2019, the Airports System's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,339,704
Changes in assumptions		
Net difference between projected and actual earnings on pension plan investments	1,178,893	-
Changes in proportion and differences between Airports System contributions and proportionate share of contributions	953,416	-
Airports System contributions subsequent to the measurement date	3,924,723	-
Total Deferred Outflows and Deferred Inflows	$ 6,057,032	$ 1,339,704

At June 30, 2018, the Airports System's 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	$ -	$ 973,923
Changes in assumptions		
Net difference between projected and actual earnings on pension plan investments	1,453,029	-
Changes in proportion and differences between Airports System contributions and proportionate share of contributions	339,170	6,369,779
Airports System contributions subsequent to the measurement date	4,177,374	-
Total Deferred Outflows and Deferred Inflows	$ 5,969,573	$ 7,343,702

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

The $3,924,723 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to measurement date will be recognized as a reduction in the bet pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2020	$ 411,037
2021	(767,442)
2022	1,087,475
2023	61,537
2024	-
Thereafter	-

Actuarial Assumptions

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, closed
Inflation	3.12% per year
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 return of 4.88%.
Salary Increases	For peace officer/firefighter – increases range from 9.66% to 4.92% based on service. All others – increases range from 8.55% to 4.34% based on service.
Allocation Methodology	Amounts for FY2018 were allocated to employers based on the ratio of the present value of projected future contributions for each employer to the total resent value of projected future contribution for the fiscal years 2019 to 2019 to the Plan. The liability is expected to go to zero in 2039.
Mortality	Pre-termination – Based upon the 2010-2013 actual mortality experience, 60% of male and 65% of female post termination rates. Deaths are assumed to be occupational 70% of the time for peace officers / firefighters, 50% of the time for others. Post-termination – 96% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection scale BB.

The actuarial assumptions used in the June 30, 2017 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013. The assumptions used in the June 30, 2017 actuarial valuation report are the same as those used in the June 30, 2016 actuarial valuation.

Long-Term Expected Rate of Return

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy, 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Airports System's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what the Airport System'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%)
Airports System's proportionate share of the net pension liability	2.76759%	$	70,686,023	$	53,378,819	$	38,737,168

Pension Plan Fiduciary Net Position

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

(b) Defined Contribution (DC) Pension Plan

Employees hired after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the Plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. This Plan is included in the comprehensive annual financial report for PERS, and at the following website, as noted above. http://doa.alaska.gov/drb/pers.

Contributions to the DC plan consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual remittances to the PERS system require that the Airports System 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 8.0% of their annual covered salary. This amount goes directly to the individual's account.

Employer Contribution Rate

For the year ended June 30, 2019 and 2018, was required to contribute 5.0% of covered salary into the Plan. In addition, during 2019, the State on-behalf contribution rate for OPEB was 0%.

The Airports System and employee contributions to PERS for pensions for the year ended June 30, 2019 were $1,309,918 and $818,699, respectively. The Airports System contribution amount was recognized as pension expense/expenditures.

The Airports System and employee contributions to PERS for pensions for the year ended June 30, 2018 were $778,434 and $664,225 respectively. The Airports System contribution amount was recognized as pension expense/expenditures.

(c) Defined Benefit OPEB Plans

As part of its participation in the PERS, the Airports System participates in the following cost-sharing multiple-employer defined benefit OPEB plans: 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.

Employer Contribution Rate

Employer contribution rates are actuarily determined and adopted by the Board. Employees do not contribute.
Employer contribution rates for the year ended June 30, 2019 were as follows:

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

In 2019, the Airports System was credited with the following contributions to the OPEB plans:

	Measurement Period July 1, 2017 to June 30, 2018	Airports System Fiscal Year July 1, 2018 to June 30, 2019
Employer contributions – ARHCT	$ 1,147,387	$ 1,366,135
Employer contributions - RMP	153,116	153,900
Employer contributions - ODD	34,999	66,428
Nonemployer contributions (on-behalf)- ARHCT	-	-
Total Contributions	$ 1,335,502	$ 1,586,463

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

At June 30, 2019 and 2018, the Airports System reported a liability for its proportionate share of the net OPEB liabilities (NOL) that reflected a reduction for State OPEB support provided to the Airports System. The amount recognized by the Airports System for its proportional share, the related State proportion, and the total were as follows:

	2019	2018
Airports System's proportionate share of NOL – ARHCT	$ 11,022,549	8,853,422
Airports System's proportionate share of NOL – RMP	172,181	72,819
Airports System's proportionate share of NOL – ODD	(262,798)	(198,127)
State's proportionate share of the NOL associated with the Airports System	-	-
Total Net OPEB Liabilities	$10,931,932	8,728,114

The total OPEB liabilities for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 to calculate the net OPEB liabilities as of that date. The Airports System's proportion of the net OPEB liabilities were based on a projection of the Airports System's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating entities, actuarially determined.

	June 30, 2017 Measurement Date Employer Proportion	June 30, 2018 Measurement Date Employer Proportion	Change
Airports System's proportionate share of the net OPEB liabilities (asset):			
ARHCT	1.04804%	2.76760%	1.71956%
RMP	1.01012%	2.76760%	1.75747%
ODD	1.39634%	2.76760%	1.37126%

As a result of its requirement to contribute to the plans, the Airports System recognized OPEB expense of $1,363,850 and on-behalf revenue of $0 for support provided by the State associated with the ARHCT plan.

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At June 30, 2019, the Airports System reported deferred outflows of resources and deferred inflows of resources related to OPEB plans from the following sources:

June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,261,395
Changes in assumptions	1,751,999	-
Changes in benefits	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	2,370,132
Changes in proportion and differences between Airports System's contributions and proportionate share of contributions and proportionate share of contributions	466,756	731,114
Airports System contributions subsequent to the measurement date	1,637,050	-
Total Deferred Outflows and Deferred Inflows of Resources Related to OPEB Plans	$ 3,855,805	$ 4,362,641

June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 716,289
Changes in assumptions	-	-
Changes in benefits	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	3,814,600
Changes in proportion and differences between Airports System's contributions and proportionate share of contributions and proportionate share of contributions	21,888	436,515
Airports System contributions subsequent to the measurement date	1,368,458	-
Total Deferred Outflows and Deferred Inflows of Resources Related to OPEB Plans	$ 1,390,346	$ 4,967,404

The $1,637,050 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 December 31, 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,	
2020	$ (937,282)
2021	(383,753)
2022	(772,868)
2023	(50,988)
2024	135
Thereafter	871
Total Amortization	$ (2,143,885)

Actuarial Assumptions

The total OPEB liability for each plan for the measurement period ended June 30, 2018 was determined by actuarial valuations as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2018:

Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level dollar, closed
Inflation	3.12%
Salary increases	Graded by service, from 9.66% to 4.92% for Peace Officer/ Firefighter. Graded by service from 8.55% to 4.34% for all others
Allocation methodology	Amounts for 2018 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: 8.0% grading down to 4.0% Post-65 medical: 5.5% grading down to 4.0% Prescription drug: 9.0% grading down to 4.0% RDS/EGWP:6.5% grading down to 4.0%
Mortality	Pre-termination – Based on the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for peace officers/firefighters, 50% of the time for all others. Post-termination – 96% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.
Participation (ARHCT)	100% system paid of members and their spouses are assumed to elect the healthcare benefits paid as soon as they are eligible. 10% of non-system paid members and their spouses are assumed to elect the healthcare benefits as soon as they are eligible.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013.The assumptions used in the June 30, 2017 actuarial valuation are the same as those used in the June 30, 2016 valuation with the following exceptions:

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

The long-term expected rate of return on OPEB plan investments for each plan 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 rates of return for each major asset class included in the plans' targeted asset allocation as of June 30, 2018 are summarized in the following table (note that the rates shown below exclude the inflation component):

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

Discount Rate

The discount rate used to measure the total OPEB liability for each plan 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 fiduciary net position or each plan 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability for each plan.

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Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

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

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Airports System's proportionate share of the net OPEB liability (asset):				
ARHCT	2.76760 %	$ 22,315,139	$ 11,022,549	$ 1,557,051
RMP	2.76760 %	$ 514,175	$ 172,181	$ (94,568)
ODD	2.76760 %	$ (246,777)	$ (262,798)	$ (275,977)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates

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

	Proportional Share	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Airports System's proportionate share of the net OPEB liability (asset):				
ARHCT	2.76760 %	$ (213,966)	$ 11,022,549	$ 24,042,551
RMP	2.76760 %	$ (146,391)	$ 172,181	$ 598,527
ODD	2.76760 %	$ n/a	$ n/a	$ n/a

OPEB Plan Fiduciary Net Position

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

(d) Defined Contribution OPEB Plans

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

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

Employer Contribution Rates

Employees do not contribute to the DC OPEB plans. Employer contribution rates for the year ended June 30, 2019 and 2018 were as follows:

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

Annual Postemployment Healthcare Cost

The Airports System's contributed $699,831 and $664,225 in DC OPEB costs during the years ended June 30, 2018 and 2019, respectively. These amounts have been recognized as expense/ expenditures.

12. Rental Income under Operating Leases

The Airports System's leasing operations consist of leasing land, buildings, and terminal space to airlines and other tenants.

The following is a schedule of minimum future rental income payments under noncancellable operating leases for each year for the next five years as of June 30, 2019:

Year Ending June 30,	
2020	$ 10,988,159
2021	10,648,123
2022	10,206,728
2023	8,751,448
2024	3,237,603

These amounts do not include contingent fees, which may be received under certain leases that involve a concession fee based upon gross receipts. Contingent fees amounted to $18.4 million in 2019 and $13.9 million in 2018 and are included in concession and vehicle parking fees. The above schedule includes minimum guaranteed rentals only to the extent of the remaining term of noncancelable leases.

13. AIAS Capital Improvement Program

The Airports System's Capital Improvement Program (CIP) is effectively a ten-year plan, approved by signatory airlines pursuant to the Operating Agreement and is effective over the term of the Operating Agreement; FY2014 through FY2023. Currently, the program total cost is estimated at approximately $532.5 million, with anticipated funding sources comprised of $406.4 million from the FAA Airport Improvement Program and $126.1 million from rates and fees and prior bond sale proceeds. The Operating Agreement provides for adjustment to the CIP, primarily through periodic majority-in-interest airline ballots. In addition to proceeds from airport revenue, bond proceeds, and AIP, funding sources also may also include other grants from sources like the Homeland Security and Transportation Security Administration. During fiscal years 2019 and 2018, the Airports System expended approximately $84.7 million and $53.9 million, respectively, on its on-going CIP.

ANC Capital Projects

At the end of fiscal year 2019, ANC had completed, or was nearing completion of several projects, the largest of which was a significant two-year North-South Runway 15/33 rehabilitation project. This project included pavement and structural rehabilitation along with additional Design Group VI upgrades enhancing ANC's ability to readily serve the largest current or contemplated commercial aircraft in the world.

Other ANC projects completed or nearing completion at the end of fiscal year 2019, included Taxiway R (including Design Group VI upgrades), Taxiway F, and Taxiway V (the taxiway interconnecting ANC and Lake Hood operating areas) rehabilitation and repaving projects, R12-14 Parking Spots Lead-in Lights and Joint Seal and Replacement projects, Gate N10 Tug Road construction project, and ADA Parking and Access Upgrades project.

FAI Capital Projects

FAI completed its Security Upgrades and Taxiway B Reconstruction & Safety Enhancements projects in fiscal year 2019 and work continued on the FAI East Side Master Plan Study projects, with planning and scoping efforts revisions undertaken on the General Aviation Taxiways and Aprons Repaving project.

14. Passenger Facility Charges

Under Part 158 of the Code of Federal Regulations, the FAA granted public agencies controlling commercial service airports the authority to impose passenger facility charges (PFC's), ranging from $1.00 to $4.50 per enplaned passenger, to be used towards eligible State of Alaska facility improvements or debt service on facility-related infrastructure. Airlines retain approximately $0.11 of each PFC collected to cover administrative costs. Expenditures of PFC revenues are limited to eligible costs of projects approved in advance by the FAA.PFC's imposed are $3.00 at ANC and $4.50 at FAI. During the years ended June 30, 2019 and 2018, respectively, the Airports System earned approximately $7.2 million and $6.9 million in PFC revenues. Effectively all ANC and FAI PFC annual collections at current levels are dedicated to future debt service at this time.

15. Contingencies

In the normal course of its activities, the Airports System is involved in the defense of various claims and litigation.

The Airports System's leases with its tenants include provisions requiring the tenant to indemnify the Airports System for any damage to property or losses to the Airports System as a result of the tenant's operations. Accordingly, in the opinion of management, any tenant environmental remediation plans and final disposition are not expected to have a material adverse effect on the financial position, results of operations or liquidity of the Airports System. In Fiscal Year 2017, the Fairbanks International Airport (FAI) was alerted to the presence of perflourinated compounds in the ground water at their Aircraft Rescue and Firefighting Training Areas in concentrations higher than U.S. Environmental Protection Agency's preliminary healthy advisory levels. In cooperation with the Alaska Department of Environmental Conservation (ADEC), FAI hired an environmental consultant to identify and sample private water wells near the airport to determine if these compounds are present and above health advisory levels outside airport property.

In FY20, ANC entered into a Compliance Order By Consent (COBC) agreement with the State of Alaska's Department of Environmental Conservation regarding discharge of storm water effluent discharge related to airport operations at ANC stormwater discharge Outfall D, located near Point Woronzof. The COBC resulted in suspended civil penalties of $1.14 million dollars, with the suspension contingent upon ANC's compliance with the terms of the COBC, including successfully developing and implementing a plan to address the foaming within five years. ANC indicated its concurrence and intent to comply by signing the COBC and has begun efforts to develop a plan to address the issue in conformance with the agreement.

The Airports System participates in the State's risk management and self-insurance program for property, casualty and workers' compensation, and specialty coverages. The Division of Risk Management (Risk Management) acts as the insurance carrier for each State agency, funding all sudden and accidental property and casualty claims. Risk Management allocates annual premiums to each State agency through a cost of the risk premium allocation system. Risk Management has purchased excess insurance coverage to maintain the self-insurance risk at an acceptable level for the State.

Given the relatively large amount of capital project activity occurring annually, the Airports System periodically receives assertions of claims from its contractors related to capital project activity related to matters such as cost over-runs, delays, and changed conditions. While the Airports System believes it has strong defenses to all such currently asserted claims, the Airports System has not concluded the likelihood of an unfavorable outcome to be either remote or probable for those claims, which in the aggregate total approximately $1.0 million.

Required Supplementary Information

1. Public Employees' Retirement System – Schedule of the Airports System's Proportionate Share of the Net Pension Liability

This table is presented based on the Plan measurement date. For June 30, 2019, the Plan measurement date is June 30, 2018.

Changes in Assumptions: Amounts reported reflect a change between 2016 and 2017 in the method of allocating the net pension liability from actual contributions to present value of projected future contributions.

There are no other changes in factors that significantly affect trends in the amounts reported in the schedule.

2. Public Employees' Retirement System - Schedule of the Airports System's Contributions – Pension Plan

This table is based on the Airports System's contributions for each fiscal year presented. These contributions have been reported as a deferred outflow of resources on the Statement of Net Position.

3. Public Employees' Retirement System – Schedule of the Airports System's Proportionate Share of the Net OPEB Liability (Asset) – ARHCT, RMP and ODD Plans

These tables are presented based on the Plan measurement date. For June 30, 2019, the Plan measurement dates were June 30, 2018.

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

There are no other changes in factors that significantly affect trends in the amounts reported in the schedule.

4. Public Employees' Retirement System - Schedule of Airports System's Contributions – ARHCT, RMP and ODD Plans

These tables are based on the Airports System's contributions for each fiscal year presented. These contributions have been reported as deferred outflow of resources on the Statement of Net Position.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Public Employees' Retirement System Pension Plan
Schedule of the Airports System's Proportionate Share of the Net Pension Liability

Years Ended June 30,	Airports Proportion of the Net Pension Liability	Airports System's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	Airports System's Covered Payroll	Airports System'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
2019	0.02767591	$ 53,378,549	$ 15,459,862	$ 68,838,411	$ 30,259,187	176.40%	65.19%
2018	0.02812401	$ 54,169,758	$ 20,181,773	$ 74,351,531	$ 29,451,708	183.93%	63.37%
2017	0.02773600	$ 72,276,181	$ 9,107,244	$ 81,383,425	$ 28,644,435	252.32%	59.55%
2016	0.01090483	$ 52,541,599	$ 13,865,223	$ 66,406,822	$ 28,560,244	183.97%	63.96%
2015	0.01411333	$ 35,285,936	$ 30,540,584	$ 65,826,520	$ 13,189,609	267.53%	62.37%
2014	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Public Employees' Retirement System Pension Plan
Schedule of Airports System's Contributions - Pension Plan

Years Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Airports System's Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$ 3,789,090	$ 3,789,090	$ -	$ 30,637,193	12.37%
2018	$ 4,768,695	$ 4,768,695	$ -	$ 30,259,187	15.76%
2017	$ 4,164,501	$ 4,164,501	$ -	$ 29,451,708	14.14%
2016	$ 3,669,966	$ 3,669,966	$ -	$ 28,644,435	12.81%
2015	$ 3,673,359	$ 3,673,359	$ -	$ 28,560,244	12.86%
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Public Employees' Retirement System OPEB Plan
Schedule of the Airports System's Proportionate Share of the Net OPEB Liability - ARHCT

Years *Ended* *June 30,*	Airports System's Proportion of the Net OPEB Liability	Airports System's Proportionate Share of the Net OPEB Liability	State of Alaska Proportionate Share of the Net OPEB Liability	Total Net OPEB Liability	Airports System's Covered Payroll	Airports System'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
2019	2.767605%	$ 11,022,549	$ 3,199,685	$ 14,222,234	$ 30,259,187	36.43%	88.12%
2018	1.048044%	$ 3,299,234	$ 1,230,042	$ 4,529,276	$ 29,451,708	11.20%	89.68%
2017	*	*	*	*	*	*	*
2016	*	*	*	*	*	*	*
2015	*	*	*	*	*	*	*
2014	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Public Employees' Retirement System OPEB Plan
Schedule of Airports System's Contributions - ARHCT

Years Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Airports System's Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$ 1,366,135	$ 1,366,135	$ -	$ 30,637,193	4.46%
2018	1,485,238	$ 1,485,238	$ -	$ 30,259,187	4.91%
2017	*	*	*	*	*
2016	*	*	*	*	*
2015	*	*	*	*	*
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Public Employees' Retirement System OPEB Plan
Schedule of the Airports System's Proportionate Share of the Net OPEB Liability - RMP

Years *Ended* *June 30,*	Airports System's Proportion of the Net OPEB Liability	Airports System's Proportionate Share of the Net OPEB Liability	State of Alaska Proportionate Share of the Net OPEB Liability	Total Net OPEB Liability	Airports System's Covered Payroll	Airports System'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
2019	2.767597%	$ 172,181	$ -	$ 172,181	$ 30,259,187	0.57%	88.71%
2018	1.010124%	$ 26,154	$ -	$ 26,154	$ 29,451,708	0.09%	93.98%
2017	*	*	*	*	*	*	*
2016	*	*	*	*	*	*	*
2015	*	*	*	*	*	*	*
2014	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Public Employees' Retirement System OPEB Plan
Schedule of Airports System's Contributions - RMP

Years Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Airports System's Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$ 153,900	$ 153,900	$ -	$ 30,637,193	0.50%
2018	$ 34,999	$ 34,999	$ -	$ 30,259,187	0.12%
2017	*	*	*	*	*
2016	*	*	*	*	*
2015	*	*	*	*	*
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Public Employees' Retirement System OPEB Plan
Schedule of the Airports System's Proportionate Share of the Net OPEB Liability (Asset) - ODD

Years Ended June 30,	Airports System's Proportion of the Net OPEB Liability (Asset)	Airports System's Proportionate Share of the Net OPEB Liability (Asset)	State of Alaska Proportionate Share of the Net OPEB Liability (Asset)	Total Net OPEB Liability (Asset)	Airports System's Covered Payroll	Airports System's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)
2019	2.767601%	$ (262,798)	$ -	$ (262,798)	$ 30,259,187	-0.87%	270.62%
2018	1.396341%	$ (98,369)	$ -	$ (98,369)	$ 29,451,708	-0.33%	212.97%
2017	*	*	*	*	*	*	*
2016	*	*	*	*	*	*	*
2015	*	*	*	*	*	*	*
2014	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Public Employees' Retirement System OPEB Plan
Schedule of Airports System's Contributions - ODD

Years Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Airports System's Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$ 66,428	$ 66,428	$ -	$ 30,637,193	0.22%
2018	$ 153,116	$ 153,116	$ -	$ 30,259,187	0.51%
2017	*	*	*	*	*
2016	*	*	*	*	*
2015	*	*	*	*	*
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

Supplementary Information

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)
Combining Schedules of Revenues, Expenses and Changes in Fund Net Position

	2019			2018		
Years Ended June 30,	Anchorage	Fairbanks	Total	Anchorage	Fairbanks	Total
Operating Revenues						
Airfield operations:						
Landing fees	$ 60,578,079	$ 2,385,626	$ 62,963,705	$ 72,107,233	$ 2,777,502	$ 74,884,735
Fuel flowage fees	19,366,336	277,995	19,644,331	19,701,972	266,539	19,968,511
Aircraft docking fees	1,505,992	345,148	1,851,140	1,257,430	235,866	1,493,296
Aircraft parking fees	3,668,835	215,515	3,884,350	3,670,643	217,018	3,887,661
Federal inspection fees	1,058,796	66,516	1,125,312	965,303	75,238	1,040,541
Aircraft ramp rent	1,034,439	205,803	1,240,242	1,125,664	202,129	1,327,793
Concession fees	13,711,496	2,544,266	16,255,762	12,277,475	2,595,677	14,873,152
Terminal rents	14,939,631	2,875,365	17,814,996	13,821,332	2,672,701	16,494,033
Vehicle parking fees	7,480,734	1,822,375	9,303,109	7,473,450	1,760,160	9,233,610
Land rental fees	5,722,851	886,019	6,608,870	5,796,647	903,566	6,700,213
Airline bad debt	-	-	-	(2,339,726)	-	(2,339,726)
Other	478,410	94,193	572,603	248,347	80,593	328,940
Total Operating Revenues	129,545,599	11,718,821	141,264,420	136,105,770	11,786,989	147,892,759
Facilities	21,044,864	4,183,329	25,228,193	23,603,830	4,195,876	27,799,706
Field and equipment maintenance	16,160,609	4,240,680	20,401,289	14,941,984	4,015,538	18,957,522
Safety	9,991,280	2,997,701	12,988,981	10,224,159	5,052,392	15,276,551
Administration	10,408,389	3,096,325	13,504,714	10,007,864	2,583,648	12,591,512
Operations	3,533,862	737,356	4,271,218	3,720,505	1,051,963	4,772,468
Environmental expenses	528,285	1,556,679	2,084,964	594,072	1,870,493	2,464,565
Vehicle parking and curbside services	2,299,918	-	2,299,918	2,270,412	-	2,270,412
Risk management	1,083,603	196,063	1,279,666	858,939	166,890	1,025,829
Depreciation and amortization	58,791,465	13,347,484	72,138,949	59,166,776	13,787,832	72,954,608
Total Operating Expenses	123,842,275	30,355,617	154,197,892	125,388,541	32,724,632	158,113,173
Operating Loss	5,703,324	(18,636,796)	(12,933,472)	10,717,229	(20,937,643)	(10,220,414)
Nonoperating Revenues (Expenses)						
Investment income	6,423,354	-	6,423,354	2,382,147	-	2,382,147
Interest expense	(13,225,747)	-	(13,225,747)	(15,562,889)	-	(15,562,889)
Grants	173,279	-	173,279	70,237	3,685	73,922
Gain/(Loss) on disposal of capital assets	(1,114,876)	-	(1,114,876)	196,735	54,417	251,152
Reimbursable services income	17,482	219,120	236,602	-	90,760	90,760
Reimbursable services expense	(17,482)	(219,120)	(236,602)	-	(90,760)	(90,760)
Net Nonoperating Revenues (Expenses)	(7,743,990)	-	(7,743,990)	(12,913,770)	58,102	(12,855,668)
Loss before Capital Contributions and Transfers	(2,040,666)	(18,636,796)	(20,677,462)	(2,196,541)	(20,879,541)	(23,076,082)
Capital Contributions						
Transportation Safety Administration	5,323,080	-	5,323,080	714,264	242,445	956,709
Capital contributions - other	173,513	-	173,513	-	-	-
Federal Aviation Administration	62,784,322	2,688,477	65,472,799	43,125,209	2,948,606	46,073,815
Passenger Facility Charges	5,455,540	1,760,245	7,215,785	5,174,021	1,695,269	6,869,290
Total Capital Contributions	73,736,455	4,448,722	78,185,177	49,013,494	4,886,320	53,899,814
Change in Net Position	$ 71,695,789	$ (14,188,074)	$ 57,507,715	$ 46,816,953	$ (15,993,221)	$ 30,823,732

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Independent Auditor's Report on the Schedule of Net Revenues in Excess of Net Revenues Required

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

Report on the Schedule of Net Revenues in Excess of Net Revenues Required

We have audited the accompanying financial statements of the State of Alaska International Airports System (Airports System) (an Enterprise Fund of the State of Alaska) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Airports System's basic financial statements as listed in the table of contents and have issued our report thereon dated December 9, 2019. We have also audited the accompanying Schedule of Net Revenues in Excess of Net Revenues required of the State of Alaska International Airports System for the years ended June 30, 2019 and 2018.

Management's Responsibility for the Schedule of Net Revenues in Excess of Net Revenues Required

Management is responsible for the preparation and fair presentation of this schedule in accordance with Section 1.01 of Resolution 99-01 of the State Bond Committee of the State of Alaska regarding net revenues required as defined in Section 4.10 of Resolution 99-01 of the State Bond Committee of the State of Alaska.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 of 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 accompanying schedule presents fairly, in all material respects, the excess of net revenues as defined in Section 1.01 of Resolution 99-01 of the State Bond Committee of the State of Alaska regarding net revenues required as defined in Section 4.10 of Resolution 99-01 of the State Bond Committee of the State of Alaska for the years ended June 30, 2019 and 2018, in accordance with the provisions of Resolution 99-01 of the State Bond Committee of the State of Alaska.

BDO USA, LLP

Anchorage, Alaska
December 9, 2019

State of Alaska
International Airports System
(An Enterprise Fund of the State of Alaska)

Schedules of Net Revenues in Excess of Net Revenues Required

Years Ended June 30,	2019	2018
Net Revenues, as defined in Section 1.01 of Resolution 99-01 of the State Bond Committee of the State of Alaska:		
Revenues:		
Operating revenues	$ 141,264,420	$ 147,892,759
Passenger facility charges applied to debt service	5,200,000	5,200,000
Investment income	6,423,354	2,382,147
Total revenues	152,887,774	155,474,906
Maintenance and operation costs	154,197,892	158,113,173
Noncash adjustments:		
Depreciation	(72,138,949)	(72,954,608)
Net pension liability re-allocation adjustment	7,749,069	3,143,172
Total adjusted maintenance and operation costs	89,808,012	88,301,737
Net Revenues	63,079,762	67,173,169
Net Revenues Required, as defined in Section 4.10 of Resolution 99-01 and Resolution 99-07 of the State Bond Committee of the State of Alaska:		
Scheduled debt service payments	30,546,269	31,129,019
Debt service on bonds during fiscal year	30,546,269	31,129,019
Minimum revenue requirement factor	1.25	1.25
Net Revenues Required	38,182,836	38,911,274
Net Revenues in Excess of Net Revenues Required	$ 24,896,926	$ 28,261,895

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Independent Auditor's Report on Compliance with Bond Covenants Based on the Audit of the Financial Statements

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

Report on Compliance with Bond Covenants Based on the Audit of the Financial Statements

We have audited the accompanying financial statements of the State of Alaska International Airports System (Airports System) (an Enterprise Fund of the State of Alaska) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Airports System's basic financial statements as listed in the table of contents and have issued our report thereon dated December 9, 2019.

Other Reporting Matters

In connection with our audit, nothing came to our attention that caused us to believe that the State of Alaska International Airports System failed to comply with the terms, covenants, provisions, or conditions of the following sections of Resolution 99.01 of the State Bond Committee of the State of Alaska, relating to the State of Alaska International Airports System Revenue Bond Series 1999A, 2006A, 2009A, 2010A, 2010B, 2010C, 2010D, 2016A, 2016B, 2016C, and 2016D:

Section	Subject Matter
4.01	Punctual Payment
4.02	Against Sale or Other Disposition of Airports
4.03	Maintenance and Operation of Airports
4.04	Payment of Claims
4.05	Insurance
4.06	Books and Accounts; Financial Statements
4.07	Protection of Security and Rights of Parity Bond Owners
4.08	Maintenance of Registrar
4.09	Eminent Domain Proceeds
4.10	Rate Covenant
4.11	Further Assistance

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

BDO USA, LLP

Anchorage, Alaska
December 9, 2019