STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

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KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska National Guard and Naval Militia Retirement System:

We have audited the accompanying financial statements of the State of Alaska National Guard and Naval Militia Retirement System (the Plan), a component unit of the State of Alaska, as of and for the years ended June 30, 2016 and 2015, and the related notes to financial statements, which collectively comprise the Plan'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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska National Guard and Naval Militia Retirement System as of June 30, 2016 and 2015, and the changes in fiduciary net position for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–9, and the schedule of changes in employer net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns on pages 17–22 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.

Supplemental Schedules

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The supplemental schedules on pages 23–24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules 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 supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

December 20, 2016

This section presents management's discussion and analysis (MD&A) of the State of Alaska National Guard and Naval Militia Retirement System's (the Plan) financial position and performance for the years ended June 30, 2016 and 2015. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information, notes to required supplementary information, and supplemental schedules to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2016 and 2015. Information for fiscal year 2015 and 2014 is presented for comparative purposes.

Financial Highlights

The Plan's financial highlights as of June 30, 2016 were as follows:

- The Plan's fiduciary net position restricted for pension benefits as of June 30, 2016 decreased by $1,053,686 during fiscal year 2016.
- The State of Alaska, Department of Military and Veterans' Affairs directly appropriated $734,500 during fiscal year 2016.
- The Plan earned net investment income of $181,711 during fiscal year 2016.
- Plan pension benefit expenditures totaled $1,728,729 during fiscal year 2016.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Plan's financial statements. The Plan's financial statements are composed of three components: (1) statement of fiduciary net position, (2) statement of changes in fiduciary net position, and (3) notes to financial statements. This report also contains required supplementary information and other supplemental schedules.

Statement of Fiduciary Net Position – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for pension benefits. This statement reflects the Plan's investments at fair value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2016 and 2015.

Statement of Changes in Fiduciary Net Position – This statement presents how the Plan's net position restricted for pension benefits changed during the fiscal years ended June 30, 2016 and 2015. This statement presents contributions and investment income during the period. Deductions for pension benefits and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2016 and 2015, and the sources and uses of those funds during fiscal years 2016 and 2015.

Notes to Financial Statements – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that are essential to a full understanding of the Plan's financial statements.

Required Supplementary Information and Related Notes – The required supplementary information consists of three schedules and related notes concerning the funded status of the Plan, as well as actuarial assumptions and methods used in the actuarial valuation.

Supplemental Schedules – Supplemental schedules include detailed information on administrative and investment deductions incurred by the Plan and payments to consultants (other than investment advisors) for professional services.

Condensed Financial Information

Fiduciary net position

Description	2016	2015	Increase (decrease) Amount	Increase (decrease) Percentage	2014
Assets:					
Cash and cash equivalents	$ 867,684	1,173,043	(305,359)	(26.0)%	$ 1,123,655
Due from State of Alaska General Fund	—	23,518	(23,518)	(100.0)	—
Other receivables	431	431	—	—	15
Investments, at fair value	34,998,897	35,771,737	(772,840)	(2.2)	36,432,293
Total assets	35,867,012	36,968,729	(1,101,717)	(3.0)	37,555,963
Liabilities:					
Accrued expenses	29,304	52,738	(23,434)	(44.4)	68,635
Due to State of Alaska General Fund	11,554	36,151	(24,597)	(68.0)	20,223
Total liabilities	40,858	88,889	(48,031)	(54.0)	88,858
Net position	$ 35,826,154	36,879,840	(1,053,686)	(2.9)%	$ 37,467,105

Changes in fiduciary net position

Description	2016	2015	Increase (decrease) Amount	Increase (decrease) Percentage	2014
Net position, beginning of year	$ 36,879,840	37,467,105	(587,265)	(1.6)%	$ 34,033,152
Additions:					
Contributions – DMVA	734,500	627,300	107,200	17.1	740,100
Net investment income	181,711	589,856	(408,145)	(69.2)	4,527,672
Other	582	145	437	301.4	21
Total additions	916,793	1,217,301	(300,508)	(24.7)	5,267,793
Deductions:					
Pension benefits	1,728,729	1,563,816	164,913	10.5	1,610,506
Administrative	241,750	240,750	1,000	0.4	223,334
Total deductions	1,970,479	1,804,566	165,913	9.2	1,833,840
Increase (decrease) in net position	(1,053,686)	(587,265)	(466,421)	79.4	3,433,953
Net position, end of year	$ 35,826,154	36,879,840	(1,053,686)	(2.9)%	$ 37,467,105

Financial Analysis of the Plan

The statements of fiduciary net position as of June 30, 2016 and 2015 show net position restricted for pension benefits of $35,826,154 and $36,879,840, respectively. The entire amount is available to cover the Plan's obligations to pay benefits to its members and their beneficiaries, as well as administrative costs. These amounts represent a decrease of $1,053,686 or 2.9% in plan net position restricted for pension benefits from fiscal year 2015 and a decrease of $587,265 or 1.6% in plan net position restricted for pension benefits from fiscal year 2014. Over the long term, employer contributions and investment income are projected to sufficiently fund the pension costs of the Plan.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska Retirement Management Board (Board) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plan's constraints and objectives.

During fiscal years 2016 and 2015, the Board adopted the following asset allocations:

	2016	
	Allocation	Range
Broad domestic equity	29.0%	± 6%
Global equity ex-U.S.	20.0	± 4
Fixed composite	48.0	± 10
Cash equivalents	3.0	± 3
Total	100.0%	
Expected five-year median return	5.80%	
Standard deviation	9.60	

	2015	
	Allocation	Range
Broad domestic equity	29.0%	± 6%
Global equity ex-U.S.	20.0	± 4
Fixed composite	48.0	± 10
Short-term fixed income	3.0	-3/+1
Total	100.0%	
Expected five-year median return	5.87%	
Standard deviation	9.72	

For fiscal years 2016 and 2015, the Plan's investments generated a 0.76% and a 1.87% rate of return, respectively.

Contributions and Investment Income

The additions required to fund retirement benefits are accumulated through a combination of employer contributions, investment income, and other additions are as follows:

	Additions				
			Increase (decrease)		
	2016	2015	Amount	Percentage	2014
Contributions – DMVA	$ 734,500	627,300	107,200	17.1%	$ 740,100
Net investment income	181,711	589,856	(408,145)	(69.2)	4,527,672
Other	582	145	437	301.4	21
Total	$ 916,793	1,217,301	(300,508)	(24.7)%	$ 5,267,793

The Plan's employer contributions increased from $627,300 during fiscal year 2015 to $734,500 during fiscal year 2016, an increase of $107,200, or 17.1%. There was an increase between the actuarially determined contribution amounts from fiscal year 2015 of $627,327 and the actuarial rollforward determined contribution amount for fiscal year 2016 of $734,560. A full actuarial valuation is completed for the Plan biennially with the actuarial rollforward being completed in the interim years.

The Plan's net investment income in fiscal year 2016 decreased by $408,145 or 69.2% from amounts recorded in fiscal year 2015 and net investment income in fiscal year 2015 decreased by $3,937,816 or 87.0% from amounts recorded in fiscal year 2014. Over the long term, investment income is a major component of additions to Plan assets. During fiscal year 2016, the Plan experienced investment returns of 0.76%, well below the actuarially assumed rate of return of 7.00%. The resulting impact will be higher contribution amounts to the Plan.

The Plan's investment rates of return at June 30 are as follows:

	Year ended		
	2016	2015	2014
System returns	0.76%	1.87%	13.56%
Domestic equities	0.60	7.93	25.80
International equities	(8.85)	(3.30)	23.48
Fixed income	4.23	0.32	3.43
Actuarially assumed rate of return	7.00	7.00	7.00

(Continued)

Benefits and Other Deductions

The primary deduction of the Plan is the payment of pension benefits. These benefit payments and the costs of administering the Plan comprise the costs of operations as follows:

	Deductions				
			Increase (decrease)		
	2016	2015	Amount	Percentage	2014
Pension benefits	$ 1,728,729	1,563,816	164,913	10.5%	$ 1,610,506
Administrative	241,750	240,750	1,000	0.4	223,334
Total	$ 1,970,479	1,804,566	165,913	9.2%	$ 1,833,840

The increase in pension benefits is due to the increase in retirees, and an increase in the lump-sum payouts from the Plan. The slight increase in administrative deductions is related to the increase in data processing consultant fees charged to the Plan.

Net Pension Liability

Governmental Accounting Standards Board Statement (GASB) No. 67, requires the Plan to report the Total Pension Liability (TPL), Fiduciary Net Position (FNP), and Net Pension Liability (NPL). The TPL determines the total obligation for the Defined Benefit Pension (DB) Plan's pension benefits related to costs incurred as a result of years of service, changes in benefit terms, changes in actuarial assumptions, and any differences between the actuarial assumptions and actual experience. The Plan's FNP determines the assets available to pay the Plan's future payment stream. The assets are derived from contributions received from participating employers, plan members, and nonemployer contributions, as well as investment earnings, less benefit payments during the year and the related costs to administer the Plan. The difference between the TPL and FNP is the NPL, or the unfunded portion of the TPL.

The components of the net pension liability at June 30 were as follows:

	2016	2015
Total pension liability	$ 39,847,896	38,308,908
Plan fiduciary net position	(35,826,154)	(36,879,840)
Employers' net pension liability	$ 4,021,742	1,429,068
Plan fiduciary net position as a percentage of the total pension liability	89.91%	96.27%

(Continued)

Funding

Retirement benefits are financed by accumulations from Department of Military and Veterans Affairs annual contributions, periodic State of Alaska appropriations, and investment income earned on plan investments.

- The actuarially determined employer contribution amounts are determined by the Plan's consulting actuary and approved by the Board. Contributions are determined on an annual basis.
- The Board works with an external consultant to determine the proper asset allocation strategy.

Legislation

During fiscal year 2016, the Twenty-Ninth Alaska State Legislature enacted one law that affects the Plan:

- House Bill 256, sections 28 (c) and (d) appropriate $866,905 from the general fund to the DMVA for deposit in the Plan's defined benefit pension fund for the purpose of retirement funding for fiscal year ending June 30, 2017.

Economic Conditions, Future Contribution Amounts, and Funding Status

While fiscal year 2016 was a positive investment return year, it was far less than the strong recovery fiscal year 2014 in terms of investment returns, as the Plan has experienced less than 2% returns the last two fiscal years. Net investment income decreased from $589,856 in fiscal year 2015 to $181,711 in fiscal year 2016, a decrease of $408,145 or 69.2%. The Plan earned 0.76% returns in fiscal year 2016, lower than the projected actuarial rate of return adopted by the Board of 7.00%, and less than the 1.87% earned in fiscal year 2015. Challenges in investments continue to appear on the horizon with commodity prices lower across the most classes, and impacts felt from global markets. The Board continues to monitor the portfolio of the Plan to maintain an optimal risk/return ratio. Although net investment income for fiscal year 2016 was positive, actual investment returns greater than the assumed investment return remain the objective. Maintaining this objective would have a positive impact on both the annual actuarially determined contribution amount and the Plan's funded level.

The consulting actuary recommended an increase from the Plan's actuarially determined contribution amount of $627,327 in fiscal year 2015 to $734,560 in fiscal year 2016. The fiscal year 2017 contribution amount has been actuarially determined to be $866,900 and was subsequently appropriated by the State of Alaska.

The actuarial rollforward for fiscal year 2015 reports a funding ratio that of 98.8%, which is the same as the actuarial valuation as of June 30, 2014. The actuarial valuation reports for the Plan are conducted biennially, and the June 30, 2014 report was completed and presented to the Board in the spring of 2015. The actuarial valuation report as of June 30, 2014 is available and posted to the Plan's web page along with the June 30, 2015 actuarial rollforward. The June 30, 2016 actuarial valuation work has begun and will be completed in June 2017.

(Continued)

Requests for Information

This financial report is designed to provide a general overview of the Plan's financial condition for those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

State of Alaska National Guard and Naval Militia Retirement System
Division of Retirement and Benefits, Finance Section
P.O. Box 110203
Juneau, Alaska 99811-0203

Questions concerning any of the investment information provided in this report or requests for additional investment information should be addressed to:

State of Alaska
Department of Revenue, Treasury Division
P.O. Box 110405
Juneau, Alaska 99811-0405

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Fiduciary Net Position

June 30, 2016 and 2015

		2016	2015
Assets:			
Cash and cash equivalents (note 3):			
Short-term fixed income pool	$	867,684	1,173,043
Receivables:			
Due from State of Alaska General Fund		—	23,518
Accounts receivable		431	431
		431	23,949
Investments (note 3) at fair value:			
Fixed income securities:			
U.S. intermediate treasury fixed income pool		13,262,076	13,721,455
Taxable municipal bond pool		404,941	350,286
High-yield pool		1,654,193	1,709,358
International fixed income pool		1,687,770	1,700,799
Tactical fixed income pool		493,131	188,169
Emerging market debt pool		243,939	251,084
Total fixed income securities		17,746,050	17,921,151
Broad domestic equity:			
Large cap pool		8,576,985	8,632,602
Small cap pool		1,824,519	1,867,722
Total broad domestic equity		10,401,504	10,500,324
Global equity Ex-U.S.:			
International equity pool		5,654,674	6,158,955
International equity pool small cap pool		384,034	402,740
Frontier market pool		—	6,747
Emerging market equity pool		812,635	781,820
Total global equity Ex-U.S.		6,851,343	7,350,262
Total investments		34,998,897	35,771,737
Total assets		35,867,012	36,968,729
Liabilities:			
Accrued expenses		29,304	52,738
Due to State of Alaska General Fund		11,554	36,151
Total liabilities		40,858	88,889
Fiduciary net position restricted for pension benefits	$	35,826,154	36,879,840

See accompanying notes to financial statements.

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM
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Statements of Changes in Fiduciary Net Position

Years ended June 30, 2016 and 2015

		2016	2015
Additions:			
Contributions – State of Alaska, DMVA	$	734,500	627,300
Investment income:			
Net depreciation in fair value		(551,031)	(121,724)
Interest		397,753	398,837
Dividends		402,121	405,680
Total investment income		248,843	682,793
Less investment expense		67,132	92,937
Net investment income		181,711	589,856
Other additions		582	145
Total additions		916,793	1,217,301
Deductions:			
Pension benefits		1,728,729	1,563,816
Administrative		241,750	240,750
Total deductions		1,970,479	1,804,566
Net decrease		(1,053,686)	(587,265)
Fiduciary net position restricted for pension benefits:			
Balance, beginning of year		36,879,840	37,467,105
Balance, end of year	$	35,826,154	36,879,840

See accompanying notes to financial statements.

(1) Description

The State of Alaska National Guard and Naval Militia Retirement System (the Plan) is a component unit of the State of Alaska (the State). The Plan is a defined benefit, single-employer retirement system established and administered by the State to provide pension benefits for eligible members of the Alaska National Guard and Alaska Naval Militia (Alaska Guard). The Plan is governed by the Alaska Retirement Management Board, which consists of nine trustees as follows: two members, consisting of the commissioner of administration and the commissioner of revenue; two trustees, who are members of the general public; one trustee, who is employed as a finance officer for a political subdivision participating in either the Public Employees' Retirement System (PERS) or Teachers' Retirement System (TRS); two trustees, who are members of PERS; and two trustees, who are members of TRS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Plan membership as of valuation year ended June 30 is as follows:

	Valuation as of	
	2014	**2012**
Retirees and beneficiaries currently receiving benefits	639	608
Terminated plan members entitled to future benefits	1,756	1,308
Total current and future benefits	2,395	1,916
Active plan members:		
Alaska Air National Guard	2,164	2,446
Alaska Army National Guard	1,911	1,899
Alaska Naval Militia	64	52
Total active plan members	4,139	4,397
Total members	6,534	6,313

Pension Benefits

Members who voluntarily retire from the Alaska National Guard or Alaska Naval Militia after at least five years of Alaska Guard service and a total of at least 20 years of U.S. military service or members who involuntarily leave the Alaska Guard service due to federal standards imposed on the Alaska Guard, regardless of length of service, are eligible for a retirement pension. The retirement pension is $100 per month for each month of Alaska Guard service and may be paid to the member monthly or in a one-time lump sum.

Death Benefits

Upon the death of an eligible member, as previously described, the member's designated beneficiary is entitled to a lump-sum benefit equal to the original pension amount less any payments already paid to the member.

Contributions

The Plan's funding policy provides for annual employer contributions by the State of Alaska, Department of Military and Veterans' Affairs (Department) at actuarially determined contribution amounts that are sufficient to accumulate assets to pay benefits when due. For fiscal years 2016 and 2015, the actuarially determined contribution amounts were $734,560 and $627,327, respectively. Some officials of the Department may be members of the Plan. Plan members make no contributions to the Plan.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period they are due. Benefits are recognized when due and payable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Investments

The Plan owns shares in various investment pools that are administered by the State of Alaska, Department of Revenue, Division of Treasury (Treasury). The Plan's investment in the pools, except for the Short-term Fixed Income Pool, is reported at fair value based on the net asset value reported by the Treasury. The Short-term Fixed Income Pool maintains a share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals.

Administrative Costs

Administrative costs are paid from investment earnings.

Due from (to) State of Alaska General Fund

Amounts due from (to) the State of Alaska General Fund represent the amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

GASB Statement No. 67

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. Requires the disclosures of the total pension liability, fiduciary net position, and net pension liability for single-employer and cost-sharing multiple-employer defined benefit pension plans. GASB Statement No. 67 also requires certain additional note disclosures for defined benefit pension plans, including the annual money-weighted rate of return on plan investments. GASB Statement No. 67 revised the reporting requirements for required supplementary information to include schedules that provide trend information related to (1) changes in the net pension liability, (2) the actuarially and contractually determined contributions of employer contributing entities, and (3) the annual money-weighted rate of return on plan investments.

(3) Investments

The Alaska Retirement Management Board (Board) is the investment oversight authority of the Plan's investments. As the fiduciary, the Board has the statutory authority to invest the assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's invested assets is pursuant to Alaska Statutes 37.10.210–390.

Alaska Statute 37.10.071 provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investment portfolios.

Treasury provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, Treasury manages the U.S. Treasury Fixed Income Pool and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments. All other investments are managed by external management companies.

The Short-term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of the Board as well as other State funds.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2016 for the defined benefit pension plan is (0.16)%.

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 State of Alaska Retirement and Benefits Plans at http://treasury.dor.alaska.gov/armb/Reports-and-Policies/Annual-Audited-Financial-Schedules.aspx.

(4) Net Pension Liability

The components of the net pension liability at June 30, 2016, were as follows:

Total pension liability	$	39,847,896
Plan fiduciary net position		(35,826,154)
Employers’ net pension liability	$	4,021,742
Plan fiduciary net position as a percentage of the total pension liability		89.91%

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of June 30, 2014, which were rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods in the measurement.

Inflation	3.12%
Salary increases	N/A
Investment rate of return	7.00%, net of pension plan investment expenses. T based on an average inflation rate of 3.12% and a rate of return of 3.88%

Post-termination mortality rates were based on 96% of the rates of the RP-2000 Combined Mortality, 2000 Base Year projected to 2018 with Projection Scale BB. The rates for pre-termination mortality were 60% of the male and 65% of female rates of the post-termination mortality rates.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect future experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset class	**Expected real rate of return**
Domestic Equity	5.35%
Global Equity (non-U.S.)	5.55%
Fixed Income Composite	0.80%
Cash equivalents	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the 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 net pension liability of the Plan calculated using the discount rate of 7%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6%) or one percentage point higher (8%) than the current rate:

		1% decrease (6%)	**Current discount rate (7%)**	**1% increase (8%)**
Net pension liability	$	6,074,866	4,021,736	2,167,084

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM

(A Component Unit of the State of Alaska)

Required Supplementary Information (Unaudited)

Schedule of Changes in Employer Net Pension Liability and Related Ratios

		2016	2015	2014	2013	2012
Total pension liability:						
Service cost	$	603,495	603,495	654,797	631,921	605,097
Interest		2,659,657	2,553,940	2,359,276	2,277,228	2,235,069
Changes of benefit terms		—	—	—	—	—
Differences between expected and actual experience		4,565	1,258,332	—	—	(13,687)
Changes of assumptions		—	145,422	—	—	—
Benefit payments		(1,728,729)	(1,563,816)	(1,610,506)	(1,772,198)	(1,379,919)
Net change in total pension liability		1,538,988	2,997,373	1,403,567	1,136,951	1,446,560
Total pension liability – beginning		38,308,908	35,311,535	33,907,968	32,771,017	31,324,457
Total pension liability – ending (a)		39,847,896	38,308,908	35,311,535	33,907,968	32,771,017
Plan fiduciary net position:						
Contributions – employer		734,500	627,300	740,100	739,100	895,611
Total net investment income		181,711	589,856	4,527,672	2,593,463	287,726
Other miscellaneous income		582	145	21	4	25
Benefit payments		(1,728,729)	(1,563,816)	(1,610,506)	(1,772,198)	(1,334,018)
Administrative expenses		(241,750)	(240,750)	(223,334)	(165,651)	(123,725)
Net change in plan fiduciary net position		(1,053,686)	(587,265)	3,433,953	1,394,718	(274,381)
Plan fiduciary net position – beginning		36,879,840	37,467,105	34,033,152	32,638,434	32,912,815
Plan fiduciary net position – ending (b)		35,826,154	36,879,840	37,467,105	34,033,152	32,638,434
Plan's net pension liability (a) - (b)	$	4,021,742	1,429,068	(2,155,570)	(125,184)	132,583
Plan fiduciary net position as a percentage of the total pension liability		89.91%	96.27%	106.10%	100.37%	99.60%
Covered-employee payroll	$	N/A	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered-employee payroll		N/A	N/A	N/A	N/A	N/A

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

STATE OF ALASKA
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Required Supplementary Information (unaudited)

Schedule of Employer Contributions

Last 10 Fiscal Years

		2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	$	734,560	627,327	474,791	431,367	895,565	965,329	2,415,077	2,473,282	1,737,406
Contributions in relation to the actuarially determined contribution		734,500	627,300	740,100	739,100	895,611	965,375	2,603,300	2,473,300	11,737,406
Contribution deficiency (excess)	$	60	27	(265,309)	(307,733)	(46)	(46)	(188,223)	(18)	(10,000,000)
Covered-employee payroll	$	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

See accompanying independent auditors' report.

STATE OF ALASKA
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Required Supplementary Information (Unaudited)

Schedule of Investment Returns

	2016	**2015**	**2014**
Annual money-weighted rate of return, net of investment expense	(0.16)%	1.63%	13.53%

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

(1) Description of Schedule of Funding Progress

Each time a new benefit is added, which applies to service already rendered, an unfunded actuarial accrued liability (UAAL) is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the UAAL.

(2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the valuation as of June 30, 2014 are as follows:

a. Actuarial cost method – Entry Age Normal Actuarial Cost Method, any funding surpluses or UAAL amortized over 20 years less the average total military service of active members.

b. Interest – 7.00% per year, compounded annually, net of investment expenses.

c. Administrative expenses – The expense load is equal to the average of the prior two years actual administrative expenses rounding to the nearest $1,000.

d. Mortality – Pre-termination: 60% of the male and 65% of the female rates of the post-termination healthy mortality. Post-termination: 96% of all rates of RP-2000, 2000 Base Year projected to 2018 with Projection Scale BB. Disability: RP-2000 Disabled Retiree Mortality Table projected to 2018 with Projection Scale BB. The mortality assumption includes an allowance for future mortality improvement.

e. Turnover – Assumed at 20.00% in the first year, and at 10.00% in the second through fifth year. The ultimate rate of turnover assumption after the first five years of employment is 7.40% at age 30, 6.06% at age 40, and 3.26% at age 50.

f. Disability rate – Assumed incidence rates based upon 2009–2013 actual experience of the State of Alaska Public Employees’ Retirement System Peace Officer/Firefighter Plan.

g. Retirement age – Active members are assumed to retire beginning at the earliest eligible retirement age according to the following rates:

Age	**Rate**	**Age**	**Rate**
<51	10%	58	35%
51	10	59	40
52	10	60	45
53	12	61	50
54	15	62	50
55	20	63	50
56	25	64	50
57	30	65+	100

Vested terminated members are assumed to retire at current age or age 50, whichever is later.

h. Assets – Effective June 30, 2006, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method is initialized as of June 30, 2006, at market value and will be phased in over the next five years. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

(Continued)

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Notes to Required Supplementary Information (Unaudited)

June 30, 2016

Changes in Actuarial Methods from the Last Actuarial Valuation – June 30, 2012 to June 30, 2014

There have been no changes in methods since the prior valuation.

Changes in Actuarial Assumptions from the Last Actuarial Valuation – June 30, 2012 to June 30, 2014

	June 30, 2012	June 30, 2014
Pre-termination mortality	80% of the male rates and 60% of the female rates of the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 with Projection Scale AA.	60% of the male rates and 65% of the female rates of the post-termination mortality rates.
Post-termination mortality	1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 with Projection Scale AA for males and with a one-year set-forward for females.	96% of all rates of RP-2000 Combined Mortality, 2000 Base Year projected to 2018 with Projection Scale BB.
Retirement	5% if vested and age is less than 51 and increasing linearly until 100% at age 65.	Retirement rates based on 2010-2013 experience. Terminated vested members are expected to commence benefits at age 50.
Disability mortality	RP-2000 Disabled Retiree Mortality Table.	RP-2000 Disabled Retiree Mortality Table, 2000 Base Year projected to 2018 with Projection Scale BB.

SUPPLEMENTAL SCHEDULES

Schedule 1

STATE OF ALASKA
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Schedule of Administrative and Investment Deductions

Years ended June 30, 2016 and 2015

	Administrative	Investment	Total 2016	Total 2015
Personal services:				
Wages	$ 92,139	389	92,528	95,439
Benefits	53,487	151	53,638	45,247
Total personal services	145,626	540	146,166	140,686
Travel:				
Transportation	246	32	278	787
Per diem	122	170	292	217
Total travel	368	202	570	1,004
Contractual services:				
Management and consulting	47,814	64,161	111,975	130,607
Accounting and auditing	13,545	51	13,596	15,740
Data processing	12,852	1,527	14,379	24,979
Communications	3,837	90	3,927	2,823
Advertising and printing	247	12	259	505
Rental/leases	7,479	151	7,630	2,795
Legal	5,377	140	5,517	8,648
Transportation	391	5	396	327
Other services	3,253	121	3,374	2,535
Total contractual services	94,795	66,258	161,053	188,959
Other:				
Equipment	—	—	—	985
Supplies	961	132	1,093	2,053
Total other	961	132	1,093	3,038
Total administrative and investment deductions	$ 241,750	67,132	308,882	333,687

See accompanying independent auditors’ report.

Schedule 2

STATE OF ALASKA
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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2016 and 2015

Firm	Services	2016	2015
Buck Consultants	Actuarial services	$ 22,550	36,270
KPMG LLP	Auditing services	13,376	13,597
State Street Corporation	Custodian banking services	1,921	2,209
Applied Microsystems, Inc.	Data processing consultants	8,830	9,695
Wostmann Group LLC	Data processing consultants	7,011	1,817
		$ 53,688	63,588

This schedule presents payments to contractors receiving greater than $1,000.

See accompanying independent auditors’ report.