



**STATE OF ALASKA  
DEFERRED COMPENSATION PLAN**

(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

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KPMG LLP  
Suite 600  
701 West Eighth Avenue  
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## Independent Auditors' Report

The Division of Retirement and Benefits and  
Members of the Alaska Retirement Management Board  
State of Alaska Deferred Compensation Plan:

We have audited the accompanying financial statements of the State of Alaska Deferred Compensation Plan (the Plan), a component unit of the State of Alaska, as of and for the years ended June 30, 2017 and 2016, 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 audit. We conducted our audit 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 Deferred Compensation Plan as of June 30, 2017 and 2016, 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 3–7, 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 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**

November 22, 2017

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Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

This section presents management's discussion and analysis (MD&A) of the State of Alaska Deferred Compensation Plan's (the Plan) financial position and performance for the fiscal year ended June 30, 2017. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2017 and 2016. Information for fiscal year 2015 is presented for comparative purposes.

**Financial Highlights**

The Plan's financial highlights as of June 30, 2017 were as follows:

- The Plan's fiduciary net position as of June 30, 2017 increased by \$69.4 million during fiscal year 2017.
- The Plan's participant contributions and transfers of \$43.2 million decreased by \$661,000 during fiscal year 2017.
- The Plan's net investment income increased by \$81.4 million to \$86.8 million during fiscal year 2017.
- Benefits paid to participants and purchases of annuity contracts increased by \$10.5 million in fiscal year 2017.

**Overview of the Financial Statements**

This 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) statements of fiduciary net position, (2) statements of changes in fiduciary net position, and (3) notes to financial statements.

*Statements of Fiduciary Net Position* – This statement presents information regarding the Plan's assets, liabilities, and resulting net position. This statement reflects the Plan's investments at fair value and receivables less liabilities at June 30, 2017 and 2016.

*Statements of Changes in Fiduciary Net Position* – This statement presents how the Plan's net position changed during the year ended June 30, 2017 and 2016. This statement presents contributions by participants along with net investment income during the period from individual participant-directed investing activities. Deductions for benefits paid, purchases of annuity contracts, and administrative expenses are also presented.

The above statements represent resources available for investment and payment of benefits and expenses as of June 30, 2017 and 2016, and the sources and uses of those funds during the year ended June 30, 2017 and 2016.

*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.

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**Condensed Financial Information** (In thousands)

<b>Fiduciary net position</b>					
<b>Description</b>	<b>2017</b>	<b>2016</b>	<b>Increase (decrease)</b>		<b>2015</b>
			<b>Amount</b>	<b>Percentage</b>	
<b>Assets:</b>					
Cash and cash equivalents	\$ 2,500	2,153	347	16.1%	\$ 464
Participant contributions receivable	1,796	1,840	(44)	(2.4)	2,002
Due from State of Alaska General Fund	—	—	—	—	90
Other receivables	42	42	—	—	42
Investments	880,359	811,139	69,220	8.5	813,583
Total assets	<u>884,697</u>	<u>815,174</u>	<u>69,523</u>	<u>8.5</u>	<u>816,181</u>
<b>Liabilities</b>					
Due from State of Alaska General Fund	110	29	81	279.3	182
Accrued expenses	224	208	16	7.7	220
Total liabilities	<u>334</u>	<u>237</u>	<u>97</u>	<u>40.9</u>	<u>402</u>
Fiduciary net position	<u>\$ 884,363</u>	<u>814,937</u>	<u>69,426</u>	<u>8.5%</u>	<u>\$ 815,779</u>

<b>Changes in fiduciary net position</b>					
<b>Description</b>	<b>2017</b>	<b>2016</b>	<b>Increase (decrease)</b>		<b>2015</b>
			<b>Amount</b>	<b>Percentage</b>	
Net position, beginning of year	\$ 814,937	815,779	(842)	(0.1)%	\$ 796,592
<b>Additions:</b>					
Contributions and transfers in	43,249	43,910	(661)	(1.5)	45,580
Net investment income	86,771	5,405	81,366	1,505.4	25,245
Other	1	—	1	100.0	1
Total additions	<u>130,021</u>	<u>49,315</u>	<u>80,706</u>	<u>163.7</u>	<u>70,826</u>
<b>Deductions:</b>					
Benefits paid to participants and purchases of annuity contracts	59,626	49,121	10,505	21.4	50,600
Administrative	969	1,036	(67)	(6.5)	1,039
Total deductions	<u>60,595</u>	<u>50,157</u>	<u>10,438</u>	<u>20.8</u>	<u>51,639</u>
Net increase (decrease) in net position	<u>69,426</u>	<u>(842)</u>	<u>70,268</u>	<u>8,345.4</u>	<u>19,187</u>
Net position, end of year	<u>\$ 884,363</u>	<u>814,937</u>	<u>69,426</u>	<u>8.5%</u>	<u>\$ 815,779</u>

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(Unaudited)

**Financial Analysis of the Plan**

The statement of fiduciary net position as of June 30, 2017 shows net position of \$884,363,000. The entire amount is available to pay benefits to participants and their beneficiaries, as well as administrative costs.

This amount represents an increase in plan net position of \$69,426,000 or 8.5% from fiscal year 2016 to fiscal year 2017, and a decrease of \$842,000 or 0.1% from fiscal year 2015 to fiscal year 2016.

**Contributions and Investment Income**

Additions to the Plan are accumulated through a combination of plan participant contributions and investment income as follows (in thousands):

	2017	2016	Additions		2015
			Amount	Percentage	
Participant contributions	\$ 43,065	43,879	(814)	(1.9)%	\$ 45,552
Transfers-in	184	31	153	493.5	28
Net investment income	86,771	5,405	81,366	1,505.4	25,245
Other	1	—	1	100.0	1
Total	\$ 130,021	49,315	80,706	163.7%	\$ 70,826

The Plan's participant contributions decreased from \$43,879,000 in fiscal year 2016 to \$43,065,000 in fiscal year 2017, a decrease of \$814,000 or 1.9%. The Plan's participant contributions decreased from \$45,552,000 in fiscal 2015 to \$43,879,000 in fiscal year 2016, a decrease of \$1,673,000 or 3.7%.

The Plan's net investment income increased from \$5,405,000 in fiscal year 2016 to \$86,771,000 in fiscal year 2017, an increase of \$81,366,000 or 1,505.4%. The increase relates to the increase in investment performance in fiscal year 2017. Net investment income decreased in fiscal year 2016 by \$19,840,000 or 78.6% when compared to amounts recorded fiscal year 2015. This decrease relates to significant declines in rates of returns in fiscal year 2016 compared to similar investments in fiscal year 2015.

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The Plan's investment rates of return at June 30, 2017 and 2016, are as follows:

	<b>2017 trailing 12- month actual</b>	<b>2016 trailing 12- month actual</b>
Alaska Balanced Trust	6.36%	2.49%
Alaska Long-Term Balanced Trust	11.13	0.95
Alaska Target Date Retirement 2010 Trust	8.20	1.36
Alaska Target Date Retirement 2015 Trust	9.83	1.08
Alaska Target Date Retirement 2020 Trust	11.71	0.78
Alaska Target Date Retirement 2025 Trust	13.29	0.39
Alaska Target Date Retirement 2030 Trust	14.70	—
Alaska Target Date Retirement 2035 Trust	15.90	(0.25)
Alaska Target Date Retirement 2040 Trust	16.97	(0.60)
Alaska Target Date Retirement 2045 Trust	17.23	(0.59)
Alaska Target Date Retirement 2050 Trust	17.22	(0.59)
Alaska Target Date Retirement 2055 Trust	17.22	(0.59)
Alaska Target Date Retirement 2060 Trust	17.05	—
Allianz/RCM Socially Responsible Investment Fund	15.67	1.26
Brandes International Equity Fund	16.90	(16.51)
Government/Credit Bond Index Fund	(0.43)	3.80
Interest Income Fund	2.50	2.64
Intermediate Bond Fund	(1.27)	6.65
Long U.S. Treasury Bond Index Fund	(7.27)	19.45
Russell 3000 Index Fund	18.48	2.21
S&P 500 Index Fund	17.88	3.98
SSgA Global Balanced Fund	10.43	1.49
State Street Money Market Fund	0.39	0.08
T. Rowe Price U.S. Small Cap Trust	21.31	(2.20)
U.S. Real Estate Investment Trust Index Fund	(2.61)	22.49
U.S. TIPS Index Fund	(0.73)	4.23
World Equity Ex-U.S. Index Fund	19.81	(9.56)
World Government Bond Ex-U.S. Index Fund	(5.03)	13.83

The MassMutual Equity Fund and MassMutual Bond Fund have both been closed to participant use since 1986. Because of the closed nature of the funds, a rate of return on a fully comparable basis is not provided. However, both funds closely mirror funds generally of the same asset composition that are actively available.

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**Benefits and Other Deductions**

The primary deductions to the Plan are the payment of benefits and purchases of annuity contracts. Benefit payments and administrative expenses were as follows (in thousands):

	2017	2016	Deductions		2015
			Amount	Percentage	
Benefits paid to participants and purchases of annuity contracts	\$ 59,626	49,121	10,505	21.4%	\$ 50,600
Administrative	969	1,036	(67)	(6.5)	1,039
Total	<u>\$ 60,595</u>	<u>50,157</u>	<u>10,438</u>	<u>20.8%</u>	<u>\$ 51,639</u>

The Plan's benefits paid to participants and purchases of annuity contracts in fiscal year 2017 increased by \$10,505,000 or by 21.4% from fiscal year 2016. The Plan's benefits paid to participants and purchases of annuity contracts in fiscal year 2016 decreased by \$1,479,000 or 2.9% from the 12-month fiscal period ended June 30, 2015.

The Plan had administrative expenses of \$969,000 in fiscal year 2017 compared to \$1,036,000 in fiscal year 2016, a decrease of \$67,000 or 6.5%. The Plan had administrative expenses of \$1,036,000 in fiscal year 2016 compared to \$1,039,000 in fiscal year 2015, a decrease of \$3,000 or 0.3%. The Plan's fiscal year 2017 personal service costs were reduced due to the annual review of the Division's cost allocation plan.

**Fiduciary Responsibilities**

The Alaska Retirement Management Board and the Commissioner of Administration are cofiduciaries of the Plan.

The Plan's assets can only be used for the exclusive benefit of the Plan's participants, beneficiaries, and alternate payees.

**Request for Information**

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

State of Alaska Deferred Compensation Plan  
Division of Retirement and Benefits, Finance Section  
P.O. Box 110203  
Juneau, Alaska 99811-0203

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Statements of Fiduciary Net Position

June 30, 2017 and 2016

(In thousands)

	<b>2017</b>	<b>2016</b>
<b>Assets:</b>		
Cash and cash equivalents:		
Investment in State of Alaska General Fund and Other Nonsegregated Investments Pool	\$ 1,941	2,002
Money market fund – nonparticipant directed	559	151
Total cash and cash equivalents	2,500	2,153
Receivables:		
Participant contributions receivable	1,796	1,840
Other receivables	42	42
Total receivables	1,838	1,882
Investments, participant directed, at fair value:		
Collective investment funds	540,730	493,955
Pooled investment funds	157,156	134,558
Investments, participant directed, at contract value:		
Synthetic investment contracts	182,473	182,626
Total investments	880,359	811,139
Total assets	884,697	815,174
<b>Liabilities:</b>		
Due to State of Alaska General Fund	110	29
Accrued expenses	224	208
Total liabilities	334	237
Fiduciary net position	\$ 884,363	814,937

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position

Years ended June 30, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Additions:		
Participant contributions	\$ 43,065	43,879
Transfers-in	184	31
Total contributions	<u>43,249</u>	<u>43,910</u>
Investment income:		
Net appreciation in fair value of investments	87,091	8,001
Less investment expense	320	2,596
Net investment income	<u>86,771</u>	<u>5,405</u>
Other income	1	—
Total additions	<u>130,021</u>	<u>49,315</u>
Deductions:		
Benefits paid to participants and purchases of annuity contracts	59,626	49,121
Administrative	969	1,036
Total deductions	<u>60,595</u>	<u>50,157</u>
Net increase (decrease) in net position	69,426	(842)
Net position, beginning of year	<u>814,937</u>	<u>815,779</u>
Net position, end of year	<u>\$ 884,363</u>	<u>814,937</u>

See accompanying notes to financial statements.

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**(1) Description**

The following description of the State of Alaska Deferred Compensation Plan (the Plan), a defined contribution plan, is provided for general information purposes only. Participants should refer to the plan document for more complete information.

***General***

The Plan was created by State of Alaska (the State) statutes issued May 31, 1974, and was most recently amended effective January 1, 2011. It is a deferred compensation plan under Section 457 of the Internal Revenue Code and is available to all permanent and long-term nonpermanent employees and elected officials of the State and, with the March 1, 2006 amendment, members of State boards and commissions. Participants in the Plan authorize the State to reduce their current salary or compensation so that they can receive the amount deferred at a later date. The deferred compensation is not available to participants until termination, retirement, death, or an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. There were 11,100 participants in the Plan as of June 30, 2017.

As a result of the passage of the Small Business Job Protection Act of 1996 (SBJPA), all amounts deferred, including amounts deferred before the effective date of the new law under an eligible 457 plan, must be held in a trust for the exclusive benefit of employees and beneficiaries. This law repealed the requirement that a Section 457 plan sponsored by a government be solely the property of the employer, subject only to the claims of the employer's general creditors. The trust requirement generally applies to assets and income held by a plan on and after the date of enactment of the SBJPA. For any plan in existence on the date of enactment of the SBJPA, a trust need not be established before January 1, 2000.

As to the Plan, the plan document was amended effective January 1, 1997 to recognize and establish the trust requirement for the Plan. The formal trust documents were completed by December 31, 1998.

The plan document was completely restated effective January 1, 2002 for compliance with the Economic Growth and Tax Relief Reconciliation Act of 2001 and most recently amended January 1, 2011.

The Division of Retirement and Benefits (the Division) is responsible for plan administration and record-keeping. The Alaska Retirement Management Board (the Board) is responsible for the specific investment of monies in the Plan.

***Contributions***

During the fiscal year ended June 30, 2017, plan participants are required to contribute a minimum of \$50 per month (\$600 per year). At June 30, 2017, the maximum amount that could be deferred in a calendar year was \$18,000 for participants under age 50 and \$24,000 for participants who are age 50 and greater. However, for each of the participant's last three calendar years ending prior to normal retirement age, a "catch-up limitation" may apply, which allows larger contributions (up to \$36,000 in calendar year 2017). Participants vest automatically in all of their contributions and earnings on those contributions.

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***Participant Accounts***

Participant accounts are self-directed with respect to investment options. Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

A record-keeping/administrative fee is deducted monthly from each participant's account, applied pro rata to all the funds in which the member participates. This fee is for all costs incurred by the record-keeper and by the State. The investment management fees are netted out of the funds' performance.

At June 30, 2017, participants had the following investment options:

**Collective Investment Funds**

*Allianz/RCM Socially Responsible Investment Fund* – This fund is actively managed and only invests in companies contained within the MSCI USA environmental, social, and governance (ESG) Index (LMSI). The LMSI holds approximately 600 companies with the highest ESG rankings in each sector of the 1,000 largest U.S. stocks.

*Government/Credit Bond Index Fund* – This fund invests in a highly diversified portfolio of high-quality U.S. fixed income securities. The fund buys and holds portfolios of the securities included in the Barclays Capital Government/Credit Bond Index. The fund seeks to closely match the Index's total rate of return.

*Intermediate Bond Fund* – This fund buys and holds representative securities included in the Barclays Capital Intermediate Bond Index. The fund seeks to closely match the Index's total rate of return.

*International Equity Fund* – Inception date for this fund was March 2015 and it is invested primarily in the equity securities of non-U.S. issuers. The fund is a multimanager fund comprised of two investment managers of differing investment strategies, style, and long-term market correlation.

*Long U.S. Treasury Bond Index Fund* – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the return of the Barclays Capital Long Treasury Bond Index while providing for daily liquidity for plan participants. The fund seeks to match the return of Barclays Capital Long Treasury Bond Index by investing in a well-diversified portfolio of Treasury securities with maturities longer than ten years.

*MassMutual Bond Fund* – This fund invests in investment-grade corporate and government bonds and other debt securities. This investment option is only available to participants whose contributions were originally invested with the MassMutual Life Insurance Company and have since remained with MassMutual.

*MassMutual Equity Fund* – This fund invests in diversified common stocks of high-quality growth companies for long-term capital growth with income a secondary consideration. This investment option is only available to participants whose contributions were originally invested with the MassMutual Life Insurance Company and have since remained with MassMutual Life Insurance Company.

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*Russell 3000 Index Fund* – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the returns and characteristics of the Russell 3000 Index. The fund measures the performance of the largest 3,000 U.S. companies representing approximately 98.0% of the investable U.S. equity market.

*Standard & Poor's (S&P) 500 Stock Index Fund* – This fund offers diversified investment in the U.S. equity market and replicates the returns and characteristics of the Standard & Poor's 500 Composite Stock Price Index. The S&P 500 Index is the world's most widely followed stock index representing about 81% of the entire U.S. equity market.

*SSgA Global Balanced Fund* – This fund has a target asset allocation of 60% equities and 40% fixed income and is invested in a mix of passively managed index commingled funds, which, in combination, are designed to replicate the returns and characteristics of the fund benchmark.

*State Street Institutional Treasury Money Market Fund* – This money market fund seeks to achieve its investment objective by investing substantially all of its investable assets in the State Street Money Market Portfolio of State Street Master Funds, which has the same investment objective as, and investment policies that are substantially similar to, those of the fund. The fund attempts to achieve its investment objective by investing exclusively in direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes, and bonds. The fund may also invest in other mutual funds, subject to regulatory limitations, that invest exclusively in such obligations.

*U.S. Real Estate Investment Trust Index Fund* – This fund seeks to replicate the returns and characteristics of the Dow Jones U.S. Select REIT Index by purchasing each security in the same capitalization weight as it appears in the Index.

*U.S. Small Cap Trust* – This fund invests primarily in common stocks of small companies that appear undervalued or offer the potential for superior earnings growth. The trust's benchmark is the Russell 2000 Index, a broad representation of the small-cap U.S. equity market.

*U.S. Treasury Inflation Protected Securities (TIPS) Index Fund* – This fund invests in the Barclays Capital U.S. TIPS Index and is intended to replicate the return of the index while providing for daily liquidity for the plan participants. The fund seeks to match the returns of the index by investing in a portfolio of U.S. Treasury inflation protected securities.

*World Equity Ex-U.S. Index Fund* – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the returns and characteristics of the MSCI ACWI Ex-U.S. Index and provide a broad-based, low-cost exposure to both the developed and emerging markets. The index consists of approximately 2,000 securities across 47 markets.

*World Government Bond Ex-U.S. Index Fund* – This fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the Citigroup World Government Ex-U.S. Index over the long term. The fund is managed using a passive or indexing investment approach, by which SSgA attempts to replicate, before expenses, the performance of the index.

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**Interest Income Fund**

*Interest Income Fund* – The purpose of this fund is to maximize current income while maintaining principal stability by investing in a diversified portfolio of primarily synthetic investment contracts (SICs) issued by banks and insurance companies that meet specified credit standards. Supporting securities for SICs typically include U.S. Treasury/agency obligations, mortgage- and asset-backed securities, as well as investment-grade corporate bonds.

**Pooled Investment Funds**

The Board contracts with an external investment manager who is given authority to invest in a wholly owned pooled environment to accommodate 13 participant-directed funds.

*Alaska Balanced Trust* – The purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities for investors with a higher tolerance for risk and a medium investment horizon. The trust invests in up to four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities.

*Alaska Long-Term Balanced Trust* – The purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities for investors with a higher tolerance for risk and a medium to long investment horizon. The trust invests in up to four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities.

*Alaska Target Date Retirement 2010–2060 Trusts* – The purpose of these funds is to provide a diverse mix of stocks, bonds, and money market securities for long-term investors with a higher tolerance for risk. The trusts are designed to gradually invest more conservatively as the target retirement date approaches. The trusts invest in four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities. Over time, the allocations become more conservative, systematically decreasing exposure to stocks and increasing exposure to bonds and money market securities on a quarterly basis. At the target date, the trusts maintain a substantial exposure to stocks (approximately 55%). The most conservative allocation to stocks (approximately 20%) occurs 30 years after the target date is reached.

**Payment of Benefits**

Participants are eligible to withdraw their account balance upon termination in the form of a lump sum, one of various annuities, or a periodic payment option, unless the participant elects to defer commencement of benefits. Account balances of \$1,000 or less are automatically paid in the form of a lump-sum distribution. The deferred benefit commencement date can be no later than April 1 of the year after the participant would have turned age 70½. Payment of benefits to a participant commences 60 days after termination or the deferred benefit commencement date, as applicable.

Participants may request a hardship withdrawal for an unforeseeable emergency, within the definition allowed by the Internal Revenue Code. Hardship withdrawals are received as lump-sum distributions and must be approved by the plan administrator.

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June 30, 2017 and 2016

The Plan purchases annuity contracts from an insurance company. The annuity contracts are excluded from the plan assets.

***Income Taxes***

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

***Termination, Partial Termination, or Complete Discontinuance of Contributions***

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may, in its sole and absolute discretion, terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan shall be terminated, the participants in the Plan will be deemed to have withdrawn from the Plan as of the date of such termination. Deferred compensation shall thereupon cease. Upon plan termination, each participant or beneficiary shall be given the opportunity to elect a benefit commencement date and form of payment.

**(2) Summary of Significant Accounting Policies**

***Basis of Accounting***

The Plan utilizes the economic resources measurement focus and the accrual method of accounting. In preparing the financial statements, the plan administrator is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and additions and deductions for the reporting period. Actual results could differ from those estimates.

***Valuation of Collective Investment Funds***

The Plan's investments in collective investment funds held in trust are stated at fair value based on the net asset value as reported by the trustees multiplied by the number of units held by the Plan. The net asset value is determined by the trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

***Valuation of Synthetic Investment Contracts***

The Plan's investments in fully benefit-responsive SICs are stated at contract value.

***Valuation of Ownership of Pooled Investment Funds***

The Plan's ownership of pooled investment funds held in trust are stated at fair value based on the unit values as reported by the trustees multiplied by the number of units held by the Plan. The unit value is determined by the trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

***Cash and Cash Equivalents***

Cash and cash equivalents at June 30, 2017 are composed of interest-bearing deposits. The money market fund consists of nonparticipant directed funds used to pay administrative costs of the Plan.

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***Contributions Receivable***

Contributions applicable to wages earned through June 30 are accrued. These contributions are considered fully collectible, and accordingly, no allowance for doubtful accounts is considered necessary.

***Due to State of Alaska General Fund***

Amounts due to State of Alaska General Fund represent the amounts paid by the General Fund on behalf of the Plan.

***Investments***

The Plan is participant directed, which means that the Plan's participants decide in which options to invest. Of total plan net position of \$884,363,000 at June 30, 2017, 99.5% or \$880,359,000 are specifically allocated to individual participant accounts.

Each participant designates how their contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions, adjusted for the appreciation or depreciation in unit value for the investment funds, and reduced for administrative fees.

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The market values of participant-directed investments at June 30, 2017 and 2016 are as follows (in thousands):

	<u>2017</u>	<u>2016</u>
S&P 500 Stock Index Fund	\$ 200,699	180,264
Interest Income Fund	182,473	182,626
U.S. Small Cap Trust	100,184	88,312
Alaska Long-Term Balanced Trust	50,387	48,011
SSgA Global Balanced Fund	38,758	36,814
Russell 3000 Index Fund	36,732	28,475
International Equity Fund	35,765	34,822
Government/Credit Bond Index Fund	26,081	27,305
Alaska Balanced Trust	24,498	22,344
Alaska Target Date Retirement 2020 Trust	23,169	18,424
Intermediate Bond Fund	22,358	20,081
Allianz/RCM Socially Responsible Investment Fund	18,488	16,567
World Equity Ex-U.S. Index Fund	15,009	8,487
Alaska Target Date Retirement 2025 Trust	13,724	9,733
U.S. Real Estate Investment Trust Index Fund	13,501	16,312
State Street Institutional Treasury Money Market Fund	12,838	11,576
U.S. TIPS Index Fund	10,081	9,605
Alaska Target Date Retirement 2015 Trust	9,513	9,501
Alaska Target Date Retirement 2030 Trust	9,314	6,600
Alaska Target Date Retirement 2040 Trust	5,947	4,394
Alaska Target Date Retirement 2035 Trust	5,817	3,927
Long U.S. Treasury Bond Index Fund	5,251	9,031
Alaska Target Date Retirement 2045 Trust	4,172	2,975
Alaska Target Date Retirement 2010 Trust	4,062	3,435
Alaska Target Date Retirement 2055 Trust	3,410	3,202
Alaska Target Date Retirement 2050 Trust	3,034	1,934
World Government Bond Ex-U.S. Index Fund	2,597	3,960
MassMutual Equity Fund	2,326	2,281
Alaska Target Date Retirement 2060 Trust	109	78
MassMutual Bond Fund	62	63
Total	<u>\$ 880,359</u>	<u>811,139</u>

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June 30, 2017 and 2016

The Plan's investments at June 30, 2017 and 2016 include the following collective investment funds (in thousands):

	<u>2017</u>	<u>2016</u>
Equity funds:		
S&P 500 Stock Index Fund	\$ 200,699	180,264
U.S. Small Cap Trust	100,184	88,312
International Equity Fund	35,765	34,822
Russell 3000 Index Fund	36,732	28,475
Allianz/RCM Socially Responsible Investment Fund	18,488	16,567
U.S. Real Estate Investment Trust Index Fund	13,501	16,312
World Equity Ex-U.S. Index Fund	15,009	8,487
MassMutual Equity Fund	2,326	2,281
	<u>422,704</u>	<u>375,520</u>
Bond and debt securities funds:		
Government/Credit Bond Index Fund	26,081	27,305
Intermediate Bond Fund	22,358	20,081
U.S. TIPS Index Fund	10,081	9,605
Long U.S. Treasury Bond Index Fund	5,251	9,031
World Government Bond Ex-U.S. Index Fund	2,597	3,960
MassMutual Bond Fund	62	63
	<u>66,430</u>	<u>70,045</u>
Bond and equity fund:		
SSgA Global Balanced Fund	38,758	36,814
Money market funds:		
Participant directed – State Street Institutional Treasury Money Market Fund	12,838	11,576
Total collective investment funds	\$ <u>540,730</u>	<u>493,955</u>

For additional information on synthetic investment contracts, 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>.

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June 30, 2017 and 2016

**(3) Risk and Uncertainty**

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of fiduciary net assets.

The Plan may invest in pooled separate accounts that include securities with contractual cash flows, which may include asset-backed securities, collateralized mortgage obligations, and commercial mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

## **SUPPLEMENTAL SCHEDULES**

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Schedule of Administrative and Investment Deductions

Years ended June 30, 2017 and 2016

(In thousands)

	<u>Administrative</u>	<u>Investment</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
Personal services:				
Wages	\$ 122	9	131	164
Benefits	60	4	64	109
Total personal services	<u>182</u>	<u>13</u>	<u>195</u>	<u>273</u>
Travel:				
Transportation	1	2	3	3
Per diem	1	2	3	3
Total travel	<u>2</u>	<u>4</u>	<u>6</u>	<u>6</u>
Contractual services:				
Management and consulting	695	254	949	3,213
Accounting and auditing	21	3	24	24
Data processing	48	33	81	77
Communications	7	2	9	11
Rentals/leases	10	4	14	17
Legal	—	3	3	4
Repairs and maintenance	—	1	1	—
Other professional services	2	1	3	4
Total contractual services	<u>783</u>	<u>301</u>	<u>1,084</u>	<u>3,350</u>
Other:				
Supplies	1	2	3	3
Equipment	1	—	1	—
Total other	<u>2</u>	<u>2</u>	<u>4</u>	<u>3</u>
Total administrative and investment deductions	\$ <u>969</u>	<u>320</u>	<u>1,289</u>	<u>3,632</u>

See accompanying independent auditors' report.

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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2017 and 2016

(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2017</u>	<u>2016</u>
KPMG LLP	Auditing services	\$ 21	22
State Street Bank and Trust	Custodian banking services	67	41
Alaska IT Group	Data processing services	17	12
Applied Microsystems Incorporated	Data processing services	10	15
Interactive Intelligence Group	Data processing services	3	—
SHI International Corporation	Data processing services	11	—
State of Alaska, Department of Law	Legal services	2	1
		<u>\$ 131</u>	<u>91</u>

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

See accompanying independent auditors' report.