



**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, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1–2
Management's Discussion and Analysis (Unaudited)	3–9
Financial Statements:	
Statements of Plan Fiduciary Net Position	10
Statements of Changes in Plan Fiduciary Net Position	11
Notes to Financial Statements	12–18
<b>Required Supplementary Information (Unaudited)</b>	
Schedule of Changes in Employer Net Pension Liability and Related Ratios	19
Schedule of Employer Contributions	20
Schedule of Investment Returns	21
Notes to Required Supplementary Information (Unaudited)	22–24
<b>Supplemental Schedules</b>	
Schedule 1 – Schedule of Administrative and Investment Deductions	25
Schedule 2 – Schedule of Payments to Consultants Other than Investment Advisors	26



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 statements of fiduciary net position of the State of Alaska National Guard and Naval Militia Retirement System (the Plan), a component unit of the State of Alaska, as of June 30, 2015 and 2014, and the statements of changes in fiduciary net position for the years then ended, and the related notes to the 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 opinions 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 opinions.

### *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, 2015 and 2014, 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, schedule of investment returns on pages 19-24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 opinions on the financial statements that collectively comprise the Plan’s basic financial statements. The supplemental schedules on pages 25-26 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 8, 2015

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

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, 2015 and 2014. 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, 2015 and 2014. Information for fiscal year 2014 and 2013 is presented for comparative purposes.

**Financial Highlights**

The Plan's financial highlights as of June 30, 2015 were as follows:

- The Plan's fiduciary net position restricted for pension benefits as of June 30, 2015 decreased by \$587,265 during fiscal year 2015.
- The State of Alaska, Department of Military and Veterans' Affairs directly appropriated \$627,300 during fiscal year 2015.
- The Plan earned net investment income of \$589,856 during fiscal year 2015.
- Plan pension benefit expenditures totaled \$1,563,816 during fiscal year 2015.

**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 market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2015 and 2014.

*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, 2015 and 2014. 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, 2015 and 2014, and the sources and uses of those funds during fiscal years 2015 and 2014.

*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.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

*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**

Description	Plan Fiduciary Net Position				
	2015	2014	Increase (decrease)		2013
			Amount	Percentage	
<b>Assets:</b>					
Cash and cash equivalents	\$ 1,173,043	1,123,655	49,388	4.4%	\$ 2,008,913
Due from State of Alaska General Fund	23,518	—	23,518	100.0	—
Other receivables	431	15	416	2,773.3	—
Investments, at fair value	35,771,737	36,432,293	(660,556)	(1.8)	32,132,174
Total assets	36,968,729	37,555,963	(587,234)	(1.6)	34,141,087
<b>Liabilities:</b>					
Accrued expenses	52,738	68,635	(15,897)	(23.2)	88,225
Due to State of Alaska General Fund	36,151	20,223	15,928	78.8	19,710
Total liabilities	88,889	88,858	31	—	107,935
Net position	\$ 36,879,840	37,467,105	(587,265)	(1.6)%	\$ 34,033,152

Description	Changes in Plan Fiduciary Net Position				
	2015	2014	Increase (decrease)		2013
			Amount	Percentage	
Net position, beginning of year	\$ 37,467,105	34,033,152	3,433,953	10.1%	\$ 32,638,434
<b>Additions:</b>					
Contributions – DMVA	627,300	740,100	(112,800)	(15.2)	739,100
Net investment income	589,856	4,527,672	(3,937,816)	(87.0)	2,593,463
Other Addition	145	21	124	590.5	4
Total additions	1,217,301	5,267,793	(4,050,492)	(76.9)	3,332,567
<b>Deductions:</b>					
Pension benefits	1,563,816	1,610,506	(46,690)	(2.9)	1,772,198
Administrative	240,750	223,334	17,416	7.8	165,651
Total deductions	1,804,566	1,833,840	(29,274)	(1.6)	1,937,849
Increase (decrease) in net position	(587,265)	3,433,953	(4,021,218)	(117.1)	1,394,718
Net position, end of year	\$ 36,879,840	37,467,105	(587,265)	(1.6)%	\$ 34,033,152

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

**Financial Analysis of the Plan**

The statements of plan fiduciary net position as of June 30, 2015 and 2014 show net position restricted for pension benefits of \$36,879,840 and \$37,467,105, 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 \$587,265 or 1.6% in plan net position restricted for pension benefits from fiscal year 2014 and an increase of \$3,433,953 or 10.1% in plan net position restricted for pension benefits from fiscal year 2013. Over the long term, employer contributions and investment income are expected 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 2015 and 2014, the Board adopted the following asset allocations:

	<b>2015</b>	
	<b>Allocation</b>	<b>Range</b>
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	
	<b>2014</b>	
	<b>Allocation</b>	<b>Range</b>
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	5.68%	
Standard deviation	9.70	

For fiscal years 2015 and 2014, the Plan's investments generated a 1.87% and a 13.56% rate of return, respectively.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

**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:

	<b>Additions</b>					
	<b>2015</b>	<b>2014</b>	<b>Increase (decrease)</b>			<b>2013</b>
			<b>Amount</b>	<b>Percentage</b>		
Contributions – DMVA	\$ 627,300	740,100	(112,800)	(15.2)%	\$ 739,100	
Net investment income	589,856	4,527,672	(3,937,816)	(87.0)	2,593,463	
Other addition	145	21	124	590.5	4	
Total	<u>\$ 1,217,301</u>	<u>5,267,793</u>	<u>(4,050,492)</u>	<u>(76.9)%</u>	<u>\$ 3,332,567</u>	

The Plan's employer contributions decreased from \$740,100 during fiscal year 2014 to \$627,300 during fiscal year 2015, a decrease of \$112,800, or 15.2%. In fiscal year 2014, DMVA paid the normal cost plus the expense load totaling \$740,097, and did not reduce the amount by the past service cost reduction of \$265,306. There was an increase between the actuarially determined contribution amounts from fiscal year 2015 of \$627,327 and the actuarial roll-forward determined contribution amount for fiscal year 2014 of \$474,791. The increase is attributed to the decrease in the past service amortization from (\$265,306) to (\$142,594) that is added to slight increases in both the normal cost and expense load in determining the contribution amounts. A full actuarial valuation is completed for the Plan biennially with the actuarial roll-forward being completed in the interim years.

The Plan's net investment income in fiscal year 2015 decreased by \$3,937,816 or 87.0% from amounts recorded in fiscal year 2014 and net investment income in fiscal year 2014 increased by \$1,934,209 or 74.6% from amounts recorded in fiscal year 2013. Over the long term, investment income is a major component of additions to Plan assets. During fiscal year 2015, the Plan experienced investment returns of 1.87%, a little more than one-fourth of the actuarially assumed rate of return of 7.00%.

The Plan's investment rate-of-returns at June 30 are as follows:

	<b>Year ended</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
System returns	1.87%	13.56%	8.17%
Domestic equities	7.93	25.80	21.15
International equities	(3.30)	23.48	15.03
Fixed income	0.32	3.43	0.62
Actuarially determined rate of return	7.00	7.00	7.00

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

**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:

	<b>Deductions</b>				<b>2013</b>
	<b>2015</b>	<b>2014</b>	<b>Increase (decrease)</b>		
			<b>Amount</b>	<b>Percentage</b>	
Pension benefits	\$ 1,563,816	1,610,506	(46,690)	(2.9)%	\$ 1,772,198
Administrative	240,750	223,334	17,416	7.8	165,651
Total	<u>\$ 1,804,566</u>	<u>1,833,840</u>	<u>(29,274)</u>	<u>(1.6)%</u>	<u>\$ 1,937,849</u>

The increase in administrative deductions is related to the increase in both actuarial and auditing fees charged to the Plan from fiscal year 2013. The Plan's consulting actuary prepared the June 30, 2014 actuarial valuation report, which is only done bi-annually, and our Plan's auditors performed additional work on the new GASB 67 disclosures for the June 30, 2014 audit that was performed in fiscal year 2015.

**Net Pension Liability**

GASB Statement No. 67, implemented in 2014, requires the DB 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 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 (asset) at June 30, were as follows:

	<b>2015</b>	<b>2014</b>
Total pension liability	\$ 38,308,908	35,311,535
Plan fiduciary net position	<u>(36,879,840)</u>	<u>(37,467,105)</u>
Employers' net pension liability (asset)	<u>\$ 1,429,068</u>	<u>(2,155,570)</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.27%	106.10%

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

**Funding**

Retirement benefits are financed by accumulations from DMVA 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 2015, the Twenty-Ninth Alaska State Legislature enacted two laws that affect the Plan:

- House Bill 72 appropriates \$201,800 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, 2016.
- House Bill 2001 appropriates \$532,700 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, 2016.

**Economic Conditions, Future Contribution Amounts, and Funding Status**

While fiscal year 2015 was a positive investment return year, it was far less than the strong recovery fiscal year 2014 in terms of investment returns. Net investment income decreased from \$4,527,672 in fiscal year 2014 to \$589,856 in fiscal year 2015, a decrease of \$3,937,816 or 87.0%. The Plan earned 1.87% returns in fiscal year 2015, lower than the projected actuarial rate of return adopted by the Board of 7.0%, and far less than the 13.56% earned in fiscal year 2014. Challenges in investments appear on the horizon with commodity prices lower across the most classes, and impacts felt from global markets. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio. Although net investment income for fiscal year 2015 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 \$474,791 in fiscal year 2014 to \$627,327 in fiscal year 2015. The fiscal year 2016 contribution amount has been actuarially determined to be \$734,560 and was subsequently appropriated by the State.

The actuarial valuation for June 30, 2014 reports a funding ratio that decreased from 102.8% to 98.8% based on two changes: (1) changes in actuarial assumptions as a result of the 2014 experience analysis, and (2) due to census data from the guard reflecting 224 vested members not previously reported. 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.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

**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 Plan Fiduciary Net Position

June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
<b>Assets:</b>		
Cash and cash equivalents (notes 2, 3, and 4):		
Short-term fixed income pool	\$ 1,173,043	1,123,670
<b>Receivables:</b>		
Due from State of Alaska general fund	23,518	—
Accounts receivable	431	15
	23,949	15
<b>Investments (notes 3, 4, and 5) at fair value:</b>		
<b>Fixed income securities:</b>		
U.S. intermediate treasury fixed income pool	13,721,455	13,861,580
Taxable municipal bond pool	350,286	394,806
Tactical fixed income pool	188,169	—
High yield pool	1,709,358	1,732,247
International fixed income pool	1,700,799	1,739,439
Emerging market debt pool	251,084	272,439
Total fixed income securities	17,921,151	18,000,511
<b>Broad domestic equity:</b>		
Large cap pool	8,632,602	8,929,163
Small cap pool	1,867,722	1,975,995
Total broad domestic equity	10,500,324	10,905,158
<b>Global equity Ex-U.S.:</b>		
International equity pool	6,158,955	6,003,830
International equity pool small cap pool	402,740	475,067
Frontier market pool	6,747	143,678
Emerging market equity pool	781,820	904,049
Total global equity Ex-U.S.	7,350,262	7,526,624
Total investments	35,771,737	36,432,293
Total assets	36,968,729	37,555,978
<b>Liabilities:</b>		
Accrued expenses	52,738	68,635
Due to State of Alaska General Fund	36,151	20,223
Total liabilities	88,889	88,858
Fiduciary net position restricted for pension benefits	\$ 36,879,840	37,467,120

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Position

Years ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
<b>Additions:</b>		
Contributions – State of Alaska, DMVA	\$ 627,300	740,100
<b>Investment income:</b>		
Net appreciation (depreciation) in fair value	(121,724)	3,807,171
Interest	398,837	402,102
Dividends	405,680	399,220
Total investment income	682,793	4,608,493
Less investment expense	92,937	80,821
Net investment income	589,856	4,527,672
Other additions	145	21
Total additions	1,217,301	5,267,793
<b>Deductions:</b>		
Pension benefits	1,563,816	1,610,506
Administrative	240,750	223,334
Total deductions	1,804,566	1,833,840
Net increase (decrease)	(587,265)	3,433,953
<b>Fiduciary net position restricted for pension benefits:</b>		
Balance, beginning of year	37,467,105	34,033,152
Balance, end of year	\$ 36,879,840	37,467,105

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2015 and 2014

**(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:

	<b>Valuation as of</b>	
	<b>2014</b>	<b>2012</b>
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.

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

Notes to Financial Statements

June 30, 2015 and 2014

***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 2015 and 2014, the actuarially determined contribution amounts were \$627,327 and \$474,791, 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 to State of Alaska General Fund***

Amounts due to the State of Alaska General Fund represent the net difference between 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).

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

Notes to Financial Statements

June 30, 2015 and 2014

***GASB Statement No. 67***

The Plan follows the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 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 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 which 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 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, 2015 for the defined benefit pension plan is 1.63%.

**(4) Deposit and Investment Risk**

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

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

Notes to Financial Statements

June 30, 2015 and 2014

*Short-Term Fixed Income Pool*

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to 3 years to maturity or 3 years expected average life upon purchase. At June 30, 2015, the expected average life of individual fixed rate securities ranged from 10 days to 3.3 years and the expected average life of floating rate securities ranged from 10 days to 14.5 years.

*Other Plan Fixed Income Pools*

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

At June 30, 2015, the effective duration of the Board's fixed income pool was as follows (in years):

Bank loans	(0.05)
Certificate of deposit	0.14
Convertible bonds	0.07
Corporate bonds	4.32
Foreign government bonds	6.26
Mortgage backed	1.75
Municipal bonds	11.15
Other asset backed	0.69
U.S. Government agency	7.89
U.S. Treasury bills, notes bonds, and TIPS	4.65
Yankee corporate	4.13
Yankee government	6.18
Total portfolio	4.97

***Credit Risk***

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

The Plan's ownership held in the investment pools are not separately rated. See the separately issued report on the State of Alaska Retirement and Benefits Plan Invested Assets for credit ratings of investments within the pools.

***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits.

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

Notes to Financial Statements

June 30, 2015 and 2014

***Foreign Currency Risk***

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S., and private equity to the following:

<b>Fixed income</b>	<b>Global equity ex-U.S.</b>
58%	24%

***Concentration of Credit Risk***

At June 30, 2015, the Plan's invested assets did not have exposure to any one issuer greater than 5% of total invested assets.

**(5) Foreign Exchange, Derivative, and Counterparty Credit Risk**

The investment pools for which the Plan is a part are exposed to credit risk on underlying investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date. For additional information on foreign exchange, derivatives and counterparty credit risk see the separately issued report on the State of Alaska Retirement and Benefits Invested Assets.

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

Notes to Financial Statements

June 30, 2015 and 2014

**(6) Net Pension Liability**

The components of the net pension liability at June 30, 2015, were as follows:

Total pension liability	\$	38,308,908
Plan fiduciary net position		<u>(36,879,840)</u>
Employers' net pension liability	\$	<u>1,429,068</u>
Plan fiduciary net position as a percentage of the total pension liability		96.27%

***Actuarial Assumptions***

The total pension liability was determined by actuarial valuations as of July 1, 2014, which were rolled forward to June 30, 2015, 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. This is based on an average inflation rate of 3.12% and a real rate of return of 3.88%

Mortality rates were based on 96% of all rates of RP-2000 Combined Mortality, 2000 Base Year projected to 2018 with Projection Scale BB. Pre-termination mortality is based on 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 geometric real rates of

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

Notes to Financial Statements

June 30, 2015 and 2014

return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (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%

***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 contributions from the employer and State nonemployer 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 (asset)	\$ 3,399,517	1,429,068	(350,728)

**(7) Commitments**

The Board entered into an agreement through an external investment manager to provide capital funding for limited partnerships in domestic equity portfolios. At June 30, 2015, the Plan's share of the unfunded commitment totaled \$0. This commitment can be canceled annually in December with 90 days' notice.

**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

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

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

Required Supplementary Information (unaudited)

Schedule of Employer Contributions

Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	\$ 627,327	474,791	431,367	895,565	965,329	2,415,077	2,473,282	1,737,406	1,737,406	2,025,257
Contributions in relation to the actuarially determined contribution	<u>627,300</u>	<u>740,100</u>	<u>739,100</u>	<u>895,611</u>	<u>965,375</u>	<u>2,603,300</u>	<u>2,473,300</u>	<u>11,737,406</u>	<u>1,737,406</u>	<u>2,053,800</u>
Contribution deficiency (excess)	<u>\$ 27</u>	<u>(265,309)</u>	<u>(307,733)</u>	<u>(46)</u>	<u>(46)</u>	<u>(188,223)</u>	<u>(18)</u>	<u>(10,000,000)</u>	<u>—</u>	<u>(28,543)</u>
Covered-employee payroll	\$ N/A	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	N/A

See accompanying independent auditors' report

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

Required Supplementary Information (Unaudited)

Schedule of Investment Returns

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense:	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.

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

Notes to Required Supplementary Information (Unaudited)

June 30, 2015

**(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, 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.

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

Notes to Required Supplementary Information (Unaudited)

June 30, 2015

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

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
<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.

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

Notes to Required Supplementary Information (Unaudited)

June 30, 2015

***Changes in Assumptions from the Last Actuarial Valuation or Roll-Forward – June 30, 2013 to June 30, 2014***

	<b>June 30, 2013</b>	<b>June 30, 2014</b>
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**

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

Schedule of Administrative and Investment Deductions  
Year ended June 30, 2015 and 2014

	<u>Administrative</u>	<u>Investment</u>	<u>Total</u>	
			<u>2015</u>	<u>2014</u>
Personal services:				
Wages	\$ 94,891	548	95,439	82,080
Benefits	45,010	237	45,247	50,948
Total personal services	<u>139,901</u>	<u>785</u>	<u>140,686</u>	<u>133,028</u>
Travel:				
Transportation	533	254	787	851
Per diem	104	113	217	239
Total travel	<u>637</u>	<u>367</u>	<u>1,004</u>	<u>1,090</u>
Contractual services:				
Management and consulting	43,263	87,344	130,607	104,190
Accounting and auditing	13,717	2,023	15,740	7,432
Data processing	23,354	1,625	24,979	42,102
Communications	2,734	89	2,823	2,603
Advertising and printing	489	16	505	428
Rental/leases	2,658	137	2,795	6,634
Legal	8,423	225	8,648	393
Transportation	323	4	327	432
Other services	2,438	97	2,535	2,525
Total contractual services	<u>97,399</u>	<u>91,560</u>	<u>188,959</u>	<u>166,739</u>
Other:				
Equipment	945	40	985	736
Supplies	1,868	185	2,053	2,562
Total other	<u>2,813</u>	<u>225</u>	<u>3,038</u>	<u>3,298</u>
Total administrative and investment deductions	<u>\$ 240,750</u>	<u>92,937</u>	<u>333,687</u>	<u>304,155</u>

See accompanying independent auditors' report.

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

Schedule of Payments to Consultants  
Other than Investment Advisors

Year ended June 30, 2015 and 2014

<u>Firm</u>	<u>Services</u>	<u>2015</u>	<u>2014</u>
Buck Consultants, a Xerox Company	Actuarial services	\$ 36,270	20,040
KPMG LLP	Auditing services	13,597	7,309
State Street Corporation	Custodian banking services	2,209	2,017
Applied Microsystems, Inc.	Data processing consultants	9,695	21,659
Mythics Inc.	Data processing consultants	—	245
Wostmann Group LLC	Data processing consultants	1,817	4,303
		<u>\$ 63,588</u>	<u>55,573</u>

See accompanying independent auditors' report.