Alaska Mental Health Trust Authority
(A Component Unit of the State of Alaska)

Basic Financial Statements and Government Auditing Standards Auditor's Report
Year Ended June 30, 2017

(With Independent Auditor's Report Thereon)

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Contents

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Independent Auditor's Report

To The Board of Trustees
Alaska Mental Health Trust Authority
Anchorage, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the Alaska Mental Health Trust Authority (the Trust), a component unit of the State of Alaska as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Trust's basic financials statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the investments managed by the Alaska Permanent Fund Corporation and the related disclosures in the notes to the financial statements, which represent 77%, 78%, and 79%, of the assets, net position, and revenues of the Trust, respectively. Those schedules were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Schedules of Investments Managed by the Alaska Permanent Fund Corporation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Mental Health Trust Authority, as of June 30, 2017, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Alaska Mental Health Trust Authority and do not purport to, and do not, present fairly the financial position of the State of Alaska nor the Alaska Permanent Fund Corporation as of June 30, 2017, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 6 through 9 and the Schedules of Net Pension Liability, and Pension Contributions on pages 52 through 53, 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.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended June 30, 2016, from which such partial information was derived.

Other Reporting Required by ***Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2018 on our consideration of the Alaska Mental Health Trust Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alaska Mental Health Trust Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alaska Mental Health Trust Authority's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
January 16, 2018

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Management's Discussion and Analysis

As management of the Alaska Mental Health Trust Authority (the Trust), we offer readers this narrative overview and analysis of the financial activities of the Alaska Mental Health Trust for the fiscal years ended June 30, 2017 and June 30, 2016.

Management's Discussion and Analysis ("MD&A") is comprised of three components: financial highlights, an overview of the financial statements and a financial analysis of the Trust's statements. Please review the MD&A in conjunction with the Trust's financial statements and the accompanying notes to the financial statements.

If you have questions about the Trust or need additional financial information, we encourage readers to visit www.mhtrust.org or contact the Trust at (907) 269-7960.

Financial Highlights

- The Trust's net position at the close of the Fiscal Year (FY) that ended June 30, 2017 increased to $639.7 million, representing an increase of $46.3 million or 7.8% from the prior fiscal year.

- During FY17, the Trust's total revenues increased $54.5 million from the prior year due to significantly improved investment returns. Returns on the Trust's investments managed by the Alaska Permanent Fund Corporation (APFC) returned 12.57% overall. The Trust's budget reserves managed by the Department of Revenue Treasury Division experienced a 10.92% return during FY17.

- Revenues generated by the Department of Natural Resources Trust Land Office was $11.1 million during the year, roughly equally split between principal and non-principal (the latter being available for the Trust to expend on programs to improve the lives of Trust beneficiaries).

Overview of the Financial Statements

The financial statements of the Trust include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board.

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<u>*Government-wide Financial Statements*</u>*:* The government-wide financial statements provide a broad overview of the Trust's finances as a whole using the economic resources measurement focus and the accrual basis of accounting. Under this focus, all of the measurable economic resources available to the Trust are presented including long-term assets that will likely never be converted to cash or readily available to pay liabilities. Under the accrual basis of reporting, revenues are recognized in the period in which they are earned and expenditures recognized in the period in which they are incurred.

The government-wide financial statements are as follows:

- The Statement of Net Position – This statement presents information regarding the Trust's assets, liabilities, and net position. When they exist, the Statement of Net Position also presents information regarding deferred outflows of resources (which have a positive effect on net position, similar to assets) and deferred inflows of resources (which have a negative effect on net position, similar to liabilities). Net position represents the total amount of assets plus deferred outflows (if any), less liabilities, less deferred inflows of resources (if any). Over multiple fiscal periods, increases or decreases in net position serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.

- The Statement of Activities – This statement presents information regarding how the Trust's net position changed during the fiscal year. Changes in net position are reported once the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, items such as personal leave earned but not yet used are reported as an expense in this statement.

<u>*Fund Financial Statements*</u>*:* The fund financial statements use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are reported when they become available and measureable. Only current assets and current liabilities are included on the balance sheet. For example, capital assets used for operations (including land, buildings and equipment that are not acquired for financial investment purposes) are not reported in the fund financial statements. Spending for capital outlays are reported as expenditures in the fund financial statements but capitalized on the government-wide financial statements. Additionally certain long-term liabilities such as compensated absences not due and payable in the current period are excluded from the fund financial statements but are reported in the government-wide financial statements.

The fund financial statements of The Trust are as follows:

- *Balance Sheet* – This statement presents information regarding the Trust's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance. Fund balance represents the total amount of assets plus deferred outflows less liabilities less deferred inflows of resources. The Balance Sheet reconciles the fund balance to the net position in the government-wide Statement of Net Position.

- *Statement of Revenues, Expenditures and Changes in Fund Balance* – This statement presents the Trust's revenues and expenditures for the year, with the difference being the net change in fund balance for the fiscal year. That change in fund balance is then reconciled to the change in net position in the government-wide Statement of Net Position.

Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the fund financial statements.

Financial Analysis

The tables below contain condensed financial information derived from the Trust's government-wide financial statements and reflects the Trust's change in net position during FY17.

June 30,	2017	2016	Net Change	Percent Change
Total assets	$ 666,778,000	$ 618,128,000	$ 48,650,000	7.87 %
Total deferred outflows	1,712,000	1,243,000	469,000	37.7 %
Total liabilities	28,624,000	25,862,000	2,762,000	10.68 %
Total deferred inflows	91,000	105,000	(14,000)	(13.3) %
Net position				
Net invested in capital assets	15,622,000	14,809,000	813,000	5.49 %
Restricted for investments	464,713,000	430,255,000	34,458,000	8.00 %
Unrestricted	159,440,000	148,340,000	11,100,000	7.48 %
Total Net Position	$ 639,775,000	$ 593,404,000	$ 46,371,000	36.08 %

The net position of the Trust increased by $46.3 million or 7.8% during the fiscal year on increased revenue relative to the prior year. Asset balances rose due to the fair value of investments increasing while liabilities increased primarily due to an increase in the balance of securities lending collateral payable and change in the net pension liability.

June 30,	2017	2016	Net Change	Percent Change
Total revenues	$ 72,312,000	$ 17,758,000	$ 54,554,000	307.21 %
Total expenses	(25,941,000)	(26,239,000)	(298,000)	1.14 %
Increase (decrease) in net position	46,371,000	(8,481,000)	54,256,000	639.74 %
Net Position - beginning of year	593,404,000	601,885,000	(8,481,000)	(1.40)%
Net Position – end of year	$ 639,775,000	$593,404,000	$ 46,371,000	7.81 %

The majority of the Trust's financially measurable assets are managed by the Alaska Permanent Fund Corporation and to a lesser degree, the Department of Revenue Treasury Division. Assets invested by APFC are invested with the same asset allocation as the Alaska Permanent Fund. Consequently, the performance of the Trust's portfolio is intrinsically tied to that of the Alaska Permanent Fund and the overall financial markets

During FY17, total revenues increased by $54.5 million over the prior year due to strong investment results at both the APFC and the State of Alaska Department of Revenue Treasury Division. Investment income, net of operating expenses, from investments managed by APFC was $56.0 million in FY17 and $3.4 million in FY16, for an increase of approximately $52.6 million between the two years. APFC calculated its total investment yield at 12.57% for the year ended June 30, 2017, compared to a yield of 1.02% for the preceding year.

Interest and investment income of $4,274,600 or 10.9% and $513,700 or 1.3% was earned in FY17 and FY16, respectively, on investments held through the State of Alaska Department of Revenue, Division of Treasury, where a portion of the Trust's budget reserves are invested.

TLO-managed resources generated approximately $11.1 million of total value. This is consistent with the prior fiscal year. The Trust has made significant efforts to advance the US Forest Service Land Exchange project and also furthered the mineral sands exploration and analysis efforts in Icy Cape. Both projects have yielded positive results and are expected to generate significant revenues in the future.

Expenses for FY17 totaled $25.4 million, an increase of approximately $177,000 or 0.69% from the previous year primarily related to a slight increase in operating expenses. The Trust continues to take reasonable measures to control costs and maximize resources available to beneficiaries.

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Basic Financial Statements

Alaska Mental Health Trust Authority
(A Component Unit of the State of Alaska)

Statement of Net Position (With Summarized Comparative Amounts for 2016)

June 30,	2017	2016
Assets and Deferred Outflows of Resources		
Cash and investments	$ 628,790,000	$ 585,572,000
Accounts receivable, net of allowance	4,541,000	3,611,000
Prepaid items	717,000	113,000
Due from State of Alaska	625,000	135,000
Securities lending collateral invested	11,025,000	8,625,000
Notes receivable, net of allowance	5,458,000	5,263,000
Capital assets, net of accumulated depreciation	15,622,000	14,809,000
Total Assets	666,778,000	618,128,000
Deferred Outflows of Resources - pension related	1,712,000	1,243,000
Total Assets and Deferred Outflows of Resources	$ 668,490,000	$ 619,371,000
Liabilities, Deferred Inflows of Resources and Net Position		
Liabilities		
Accounts payable and accrued liabilities	$ 8,000,000	$ 9,330,000
Securities lending collateral	11,025,000	8,625,000
Unearned revenue	706,000	781,000
Accrued leave	712,000	739,000
Noncurrent liabilities - net pension liability - due in more than one year	8,181,000	6,387,000
Total Liabilities	28,624,000	25,862,000
Deferred Inflows of Resources - pension related	91,000	105,000
Net Position		
Net investment in capital assets	15,622,000	14,809,000
Restricted for investments	464,713,000	430,255,000
Unrestricted	159,440,000	148,340,000
Total Net Position	639,775,000	593,404,000
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 668,490,000	$ 619,371,000

See accompanying notes to basic financial statements.

Alaska Mental Health Trust Authority
(A Component Unit of the State of Alaska)

Statement of Activities (With Summarized Comparative Amounts for 2016)

Years Ended June 30,	2017	2016
Expenses		
Personnel services	$ 3,104,000	$ 2,635,000
Travel	62,000	103,000
Services	1,819,000	1,662,000
Supplies	69,000	48,000
Equipment	65,000	-
Trust land office and land management	3,330,000	3,798,000
Grant awards	17,072,000	17,562,000
Depreciation	421,000	431,000
Total Expenses	25,942,000	26,239,000
Revenues		
Program revenues:		
Nonexpendable rents, royalties and exchanges	6,880,000	5,591,000
Rents and royalties	3,394,000	5,218,000
Nonexpendable investment income (loss)	28,774,000	(15,958,000)
Investment income	33,252,000	22,679,000
Charges for services, fines and forfeitures	154,000	213,000
PERS On-behalf revenue (expense)	139,000	(298,000)
Loss on disposal	(318,000)	-
Other revenues	38,000	313,000
Total Revenues	72,313,000	17,758,000
Change in net position	46,371,000	(8,481,000)
Net Position, beginning of year	593,404,000	601,885,000
Net Position, end of year	$ 639,775,000	$ 593,404,000

See accompanying notes to basic financial statements.

Alaska Mental Health Trust Authority

(A Component Unit of the State of Alaska)

Balance Sheet (With Summarized Comparative Amounts for 2016)

June 30,		2017		2016
Assets				
Cash and investments	$	628,790,000	$	585,572,000
Accounts receivable, net of allowance		4,541,000		3,611,000
Prepaid items		717,000		113,000
Due from State of Alaska		625,000		135,000
Securities lending collateral invested		11,025,000		8,625,000
Notes receivable, net		5,458,000		5,263,000
Total Assets	$	651,156,000	$	603,319,000
Liabilities, Deferred Inflows of Resources and Fund Balance				
Liabilities				
Accounts payable and accrued liabilities	$	8,000,000	$	9,330,000
Securities lending collateral		11,025,000		8,625,000
Unearned revenue		706,000		781,000
Total Liabilities		19,731,000		18,736,000
Deferred Inflows of Resources				
Land sales - unavailable		5,642,000		5,378,000
Total Liabilities and Deferred Inflows of Resources		25,373,000		24,114,000
Fund Balance				
Nonspendable:				
Nonexpendable corpus		459,071,000		424,877,000
Prepaid items		717,000		113,000
Assigned		165,995,000		154,215,000
Total Fund Balance		625,783,000		579,205,000
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$	651,156,000	$	603,319,000

See accompanying notes to basic financial statements.

Alaska Mental Health Trust Authority

(A Component Unit of the State of Alaska)

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Position
(With Summarized Comparative Amounts for 2016)

June 30,	2017	2016
Total fund balance	$ 625,783,000	$ 579,205,000
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	15,622,000	14,809,000
Long-term liabilities are not due and payable in the current period and therefore are not reported as fund liabilities. Long-term liabilities reported in these statements consist of:		
Accrued leave	(712,000)	(739,000)
Net pension liability	(8,181,000)	(6,387,000)
Total long-term liabilities	(8,893,000)	(7,126,000)
Certain changes in net pension liabilities are deferred rather than recognized immediately. These are amortized over time.		
Deferred outflows of resources related to pension	1,712,000	1,243,000
Deferred inflows of resources related to pension	(91,000)	(105,000)
Total deferred pension items	1,621,000	1,138,000
Land sales contract receivables are not available to pay current period expenditures, and therefore are deferred in the governmental funds.	5,642,000	5,378,000
Total Net Position	$ 639,775,000	$ 593,404,000

See accompanying notes to basic financial statements.

Alaska Mental Health Trust Authority

(A Component Unit of the State of Alaska)

Statement of Revenues, Expenditures and Changes in Fund Balance
(With Summarized Comparative Amounts for 2016)

Years Ended June 30,	2017	2016
Revenues		
Investment income	$ 33,252,000	$ 22,679,000
Nonexpendable investment income (loss)	28,774,000	(15,958,000)
Nonexpendable rents, royalties and exchanges	6,616,000	5,164,000
Rents and royalties	3,394,000	5,218,000
Charges for services	154,000	213,000
PERS on-behalf revenue	156,000	150,000
Loss on disposal	(318,000)	-
Other revenues	38,000	313,000
Total Revenues	72,066,000	17,779,000
Expenditures		
Personnel services	2,659,000	2,348,000
Travel	62,000	103,000
Services	1,819,000	1,662,000
Supplies	69,000	48,000
Equipment	65,000	-
Trust land office and land management	4,020,000	3,698,000
Grant awards	16,794,000	17,451,000
Total Expenditures	25,488,000	25,310,000
Net change in fund balance	46,578,000	(7,531,000)
Fund Balance, beginning of year	579,205,000	586,736,000
Fund Balance, end of year	$ 625,783,000	$ 579,205,000

See accompanying notes to basic financial statements.

Alaska Mental Health Trust Authority
(A Component Unit of the State of Alaska)

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities (With Summarized Comparative Amounts for 2016)

Years Ended June 30,	2017	2016
Net change in fund balance	$46,578,000	$ (7,531,000)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	1,234,000	107,000
Depreciation	(421,000)	(431,000)
Net change in capital assets	813,000	(324,000)
Some expenses do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount of change in accrued leave.	27,000	(83,000)
Changes in net pension liability and related accounts can increase or decrease net position. This is the net increase in equity due to changes in net pension liability and the related deferred outflows and inflows of resources.	(1,311,000)	(970,000)
Some revenues in the statement of activities that do not provide current financial resources are not reported in the statement of revenues, expenditures, and changes in fund balance. This is the change in unavailable land sales revenue.	264,000	427,000
Change in Net Position	$46,371,000	$ (8,481,000)

See accompanying notes to basic financial statements.

1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying financial statements include only the accounts of the Alaska Mental Health Trust Authority (the Trust), a component unit of the State of Alaska (the State) created by an act of the State of Alaska legislature as the result of the settlement of mental health land trust litigation (Weiss v. State). The act authorized the Trust to use income from the Alaska Mental Health Trust Fund to assist it in fulfilling its purpose and ensuring an integrated comprehensive mental health program for the State. The Trust is governed by a Board of Trustees appointed by the governor and confirmed by the legislature. These financial statements are not intended to present the complete financial activity of the State as a whole. The complete financial activity of the State is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the Department of Administration.

The Trust Land Office (TLO) manages Trust land to generate income, which is used by the Trust to improve the lives and circumstance of Trust beneficiaries. The 1994 settlement reconstituted the Trust, and the related legislation transferred nearly one million acres of land to the Trust. As required by the settlement and legislation, the Trust contracts with the Alaska Permanent Fund Corporation to manage the cash corpus of the Trust and with the Department of Natural Resources (DNR) to manage the land corpus of the Trust. The TLO was established within DNR for this purpose and manages about one million acres of Trust land throughout the State on behalf of the Trust.

By statute and memorandum of agreement, a portion of the assets of the Trust are to be held and invested by the Alaska Permanent Fund Corporation (APFC) under the same investment authority as the Alaska Permanent Fund (the Fund) is managed. The APFC is a component unit of the State and is administered by a Board of Trustees (the APFC Trustees). By statute, net income from the Trust is distributed to the Mental Health Trust Income Account and is not included in the computation of Fund dividends, which are distributed to eligible State residents annually. These financial statements are not intended to present the complete financial activity of the APFC as a whole.

Basis of Presentation

The accounts of the Trust are organized as a Permanent Fund. Accordingly, the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Measurement Focus and Basis of Accounting – Government-wide Statements

The Government-wide Financial Statements include the Statement of Net Position and the Statement of Activities and report information about the Trust as a whole.

The Government-wide Financial Statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred.

Measurement Focus and Basis of Accounting – Fund Statements

The Fund Financial Statements have been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. The Trust considers receivables collected within the fiscal year to be available and recognizes them as revenues of the current year. Expenditures are recorded at the time fund liabilities are incurred, as under accrual accounting. However, expenditures related to accrued leave are recorded only to the extent they have matured.

Cash and Temporary Investments

Included in the amounts shown on the Statement of Net Position as cash and investments is amounts with the State of Alaska, Department of Revenue, Treasury Division (Treasury) and the APFC. The APFC's asset allocation includes 1.2% to cash. APFC's investment policy specifies that funds dedicated to this portion of the asset allocation will be invested in money market funds or fixed income securities with weighted average maturities of no greater than 24 months.

Cash, Investments, and Related Policies

Funds in the State's internally managed Special Revenue Fund and Other Non-Segregated Investments Pool

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Fund invests in the State's internally managed Special Revenue Fund and Other Non-Segregated Investments Pool (GeFONSI). The GeFONSI consists of investments in the State's internally managed Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool and the Intermediate-term Fixed Income Pool. The Complete financial activity of the Fund is shown in the Comprehensive Annual Financial Report (CAFR) available from the Department of Administration, Division of Finance.

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

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

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

Mental Health Trust Fund

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Fund invests in the State's internally managed Short-term Fixed Income Pool, the Broad Market Fixed Income Pool, as well as the State's internally managed Domestic Equity and International Equity Pools. The Complete financial activity of the Fund is shown in the Comprehensive Annual Financial Report (CAFR) available from the Department of Administration, Division of Finance.

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Fixed income and equity securities are valued each business day. Securities expressed in terms of foreign currencies are translated into U.S dollars at the prevailing exchange rates.

The accrual basis of accounting is used for investment income. Income in the Short-term and Broad Market Fixed Income Pools is allocated to pool participants daily on a pro-rata basis.

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

APFC Managed Funds

The Trust's investments managed by the APFC have been commingled with the assets of the Fund for investment purposes. The investments have been credited with unit shares and fractions of unit shares, which represent an undivided beneficial interest in the commingled assets managed by the APFC equal to the proportion those shares bear to the total unit shares outstanding. The Trust has received unit shares and fractions of unit shares based directly upon the dollar amount per share of funds contributed; the Trust will be charged with unit shares and fractions of unit shares based directly upon the dollar amount per share of funds withdrawn.

Investment Income
Earnings are allocated from the commingled invested assets monthly as a credit to the Trust on the basis of total unit shares outstanding at the end of the month. All earnings are subject to allocation, which includes interest, dividends, and realized and unrealized gains and losses on total investments managed by the APFC.

Carrying Value of Investments
The investments managed by the APFC are reported at fair value in the statements. Investments without a readily determinable fair value are generally reported by using the net asset value per share (or its equivalent) of the investment. Securities transactions are recorded on the trade date that securities are purchased or sold. Unrealized gains and losses are reported as components of net increase or decrease in fair value of investments.

State Investment Regulations
In accordance with Alaska Statute 37.13.120(a), the APFC Trustees have adopted regulations designating the types of eligible investments for Trust assets. The regulations follow the prudent investor rule, requiring the exercise of judgment and care under the circumstances then prevailing

that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the assets over time while maximizing the expected total return from both income and the appreciation of capital.

Investment Policy - Asset Allocation
The APFC Trustees have established a long-term goal of achieving a five percent real rate of return over time on the investment portfolio. To help achieve this goal, the Trustees of the Alaska Permanent Fund allocate the investments among various risk and asset classes. At June 30, 2017, the APFC's strategic asset allocation targets were as follows:

Asset Class	Asset Class Target
Public Equities	40%
Fixed Income Plus	22%
Private Equity/Growth Opportunities	11%
Real Estate	11%
Private Credit/Infrastructure/Income Opportunities	5%
Absolute Return	5%
Asset Allocation	6%

To allow for market fluctuations and to minimize transaction costs, the Trustees have adopted ranges that permit percentage deviations from the strategic asset allocation targets in accordance with specified reporting requirements and other procedures. Generally, for each risk and asset class, the APFC's chief investment officer has discretionary authority to permit target deviations within one specified range (referred to as the "green zone" in the investment policy), the APFC's executive director can approve target deviations for up to 90 days within a broader range (the "yellow zone"), and the APFC's Board can approve operating for longer than 30 days within a third range (the "red zone"). For example, the target dollar allocation for the public equities class is 40 percent, with the green zone range set at 35-45 percent, the yellow zone range set at 30-35 and 45-55 percent, and red zone ranges set at allocations of less than 30 percent or greater than 55 percent. In a similar manner, the APFC investment policy also requires the APFC to monitor relative risk (the expected investment portfolio's risk and return relative to the risk benchmark using standard industry risk measures), active budget risk (risk due to active management decisions made by manager), and limits on private investments and future commitments.

Interest rate risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The APFC manages the Trust's exposure to interest rate risk in part through tracking error guidelines set forth in the APFC's investment policy. Duration is an indicator of a portfolio's market sensitivity to changes in interest rates. In general, the major factors affecting duration are, in order of importance, maturity, prepayment frequency, level of market interest rates, size of coupon, and frequency of coupon payments. Rising interest rates generally translate into the value of fixed income investments declining, while falling interest rates are generally associated with increasing value. Effective duration attempts to account for the price sensitivity of a bond to changes in prevailing interest rates, including the effect of embedded options. As an example, for a bond portfolio with duration of 5.0, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of 5.0 percent.

At June 30, 2017, the Trust held fixed income investments with floating, step, and variable interest rates, valued at $8,528,000 in the investments managed by APFC. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 0 to 22 percent.

Unit Shares
Unit Shares represent an undivided beneficial interest in the commingled assets managed by the APFC, and are computed on the next calendar day following the valuation date.

Valuation Data
The last calendar day of each month is designated as the valuation date.

Credit risk
Credit risk is the risk that an issuer or other counterparty to a marketable debt investment will not fulfill its obligations. The APFC requires that its investment grade fixed income managers, both internal and external, invest in domestic and non-domestic bonds that have an explicit or implied investment grade rating. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within seven months. Certain high yield investment managers are allowed to invest a specified amount of funds in bonds rated below investment grade.

Custodial credit risk
Custodial credit risk is the risk that in the event of a bank failure the Trust's deposits may not be returned. The APFC generally requires that all investment securities at custodian banks be held in the name of the Fund or the APFC (on behalf of the Trust). For the Trust's non-domestic securities held by most sub-custodians, the APFC's primary custodian provides contractual indemnities against sub-custodial credit risk. Excess cash in custodial accounts is swept daily to a money market fund. Late deposits of cash which miss the money market sweep deadline are deposited to an interest bearing account at the custodian.

Concentration of credit risk
Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The APFC manages the Trust's concentration of credit risk by following its strategic asset allocation policy, diversifying investments among managers with varying investment styles and mandates, and monitoring tracking error. Tracking error is a measure of how closely a portfolio follows the index to which it is benchmarked. The APFC's policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with APFC investment policy and investment manager contracts. There is no single-issuer exposure within the APFC portfolio that comprises 5% or more of the overall portfolio. Therefore, no concentration of credit risk is reported in the notes to the schedules.

Foreign currency risk
Foreign currency risk is the risk of loss from adverse changes in foreign currency exchange rates. Foreign currency risk is managed through foreign currency forward contracts, and by diversifying assets into various countries and currencies.

Forward exchange contracts
APFC's Fund managers enter into a variety of forward currency contracts in their trading activities and management of foreign currency exchange rate risk exposure. These contracts are typically intended to neutralize the effect of foreign currency fluctuations, and the contract amounts do not appear on the schedules of investments. Realized gains and losses are included in the net increase/decrease in the fair value of investments at the time the contract is settled and determined based on the difference between the contract rate and the market rate at the time of maturity or closing. Unrealized gains and losses are also included in the net increase/decrease in the fair value of investments, and are calculated based on the difference between the contract rate and a forward market rate determined as of the schedule of investments date.

A portion of forward exchange contracts is intended to manage, rather than neutralize, foreign currency fluctuations. Certain managers seek to control the effect of fluctuations in foreign exchange rates within their overall portfolio strategy rather than on a security by security basis. They attempt to optimize their foreign currency exposure in a market rather than accept the natural geographical exposure to the market's currency.

Futures
Certain equity and fixed income managers at APFC for the Fund are permitted to buy and sell equity and interest rate index futures. The gross fair value of futures does not appear in the balance sheets. The net unrealized gain or loss on open futures trades is included in investments on the balance sheets, based on the difference between the future's purchase price and the current value of such index futures. Realized gains and losses on futures are included in investment income at the time the futures contract expires. The net change in unrealized gains and losses is included in investment income.

Real estate
Trust assets are invested in a variety of real estate interests, including directly owned real estate, real estate investment trusts, a multi-family and industrial real estate operating companies, and other entities in which the assets consist primarily of real property. The APFC invests Trust assets in real estate directly through ownership of interests in corporations, limited liability companies, and partnerships that hold title to the real estate. Real estate is included in investments and is reported at fair value in accordance with GASB 52, *Land and Other Real Estate Held as Investments by Endowments*. Net unrealized changes in fair value are included in investments on the balance sheets. Realized gains and losses are included in investment income. The net change in unrealized gains and losses is included in investment income. The Trust's directly owned real estate investments are managed by either (1) external institutional real estate management firms (for all directly owned real estate commingled with the Fund), or (2) by the TLO (for all other directly owned real estate not under fiduciary care of APFC). The Trust periodically reviews real estate investments for other than temporary impairment.

Alternative investments
Alternative investments include the Trust's investments managed by APFC in or through real return mandates, absolute return strategies, public-private credit, private equity, and infrastructure. The APFC periodically reviews alternative investments for other than temporary impairment.

The objective for the real return mandate is to produce a five percent real return (in excess of inflation) over the longer of one business cycle or five years. Each manager's contract specifies permitted investments and liquidity guidelines. Investments are generally in commingled proprietary funds structured as limited partnerships. During FY2017, the real return mandate was discontinued and the remaining managers in this category were moved to the absolute return portfolio.

Absolute return strategies are investments in specialized funds with low market correlation. Through APFC, the Trust's absolute return strategies are managed through three limited partnerships, in which the APFC is the only limited partner ("fund-of-one"). The Trust also holds direct hedge fund investments, in which APFC is one of many limited partners. External investment management services are provided by institutional investment managers who have acknowledged their status as fiduciaries with respect to the Fund. In FY2017, it was decided to redeem the fund-of-one accounts and move towards more direct hedge fund investments. The liquidation of these accounts is expected to take time, given the illiquid nature of some of the underlying funds. Many absolute return investments by their nature have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets. Each manager provides the APFC with fair value estimates of partnership interests and undergoes an annual independent audit.

The Trust invests in public-private credit through limited partnerships that invest either directly in distressed or mezzanine debt, or commingled limited liability funds with a distressed debt or credit opportunity focus. These investments are funded over time, as opportunities arise. The limited partnerships and funds undergo annual independent audits. Public-private credit investments by their nature generally have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

Through APFC, the Trust holds private equity through investments in limited liability companies and limited partnerships that typically invest in unlisted, illiquid common and preferred stock and, to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The APFC has hired external advisors to select private equity holdings diversified by geography and strategy. Private equity is funded slowly over time as opportunities are identified by the external advisors and the underlying fund managers. The underlying private equity funds provide the APFC with fair value estimates of the investments utilizing the most current information available. In addition, the external advisors review the fair value estimates, and the underlying private equity funds undergo annual independent audits. Private equity investments by their nature generally have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets. During FY2017 it was determined that nine private equity funds were impaired and would not recover their carrying cost over the remaining estimated holding period of the asset. In order to reflect the impairment, $218,000 of unrealized losses were realized through a write-down of cost to fair value. These impairments have no impact on the carrying value of investments or on the net increase/(decrease) in the fair value of private equity investments.

Infrastructure investments involve ownership or operating agreements in essential long-term service assets with high barriers to entry. Examples of infrastructure assets include: toll roads; airports; deep water ports; communication towers; and energy generation, storage and transmission facilities. Investments in this asset class are expected to have inflation protection attributes and exhibit low correlations with other major asset classes in the APFC's investment strategy. Through APFC, the Trust holds infrastructure investments through commingled funds organized as limited partnerships whose investment managers provide periodic fair value estimates, as well as securities listed on public exchanges. The limited partnerships undergo annual independent audits. Infrastructure investments by their nature generally have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets. During FY2017, it was determined that no infrastructure funds were impaired.

Fair Value Measurement

Various inputs are used in valuing the investments held by the Trust. Accounting principles generally accepted in the United States of America (GAAP) establishes a hierarchy of inputs used to value investments emphasizing observable inputs and minimizing unobservable inputs. These inputs are summarized as follows:

Level 1 – Quoted prices for identical assets in an active market.

Level 2 – Inputs, other than quoted prices, that are observable for the asset, either directly or indirectly.

Level 3 – Unobservable inputs. Unobservable inputs should only be used to the extent that observable inputs are not available for a particular asset.

Investments measured using net asset value (NAV) per share as a practical expedient to fair value are not categorized into input levels.

Receivables

Accounts receivable have been established and offset with proper provisions for estimated uncollectible accounts where applicable. Practically all accounts receivable of the Trust are due from interest income related to resource management and investments with the State and APFC.

Notes receivable are secured through land sale contracts. Notes are generally repaid over terms ranging from two to twenty years, with annual scheduled principal and interest payments. Interest rates are fixed at the time the loan agreement is signed.

Capital Assets

Capital assets, which include land, buildings, infrastructure, and other equipment, are reported in the Statement of Net Position. Capital assets are defined by the Alaska Mental Health Trust as assets with an initial, individual cost of more than $100,000 and an estimated useful life of at least five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Corpus land is received from the State of Alaska and recorded at $1 per acre when it is conveyed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment	3-10
Buildings and infrastructure	10-40

Accrued Leave

It is the Trust's policy to permit employees to accumulate earned but unused personal leave. All personal leave pay is accrued when incurred in the Statement of Net Position. A liability for these amounts is reported on the fund statements only if they have matured (e.g. the employee has terminated employment).

Due to/from State of Alaska

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

Deferred Inflow and Deferred Outflow of Resources

Deferred inflows in the governmental fund financial statements include those items that are measurable, but not yet available for revenue recognition under the modified accrual basis of accounting rules. Specifically, this includes receivables for amounts for amounts not collected for land sales contracts that are not considered to be available to liquidate liabilities of the current period. A deferred outflow of resources represents the consumption of the government's net position or fund balance that is applicable to a future reporting period. A deferred inflow of resources represents the acquisition of net position or fund balance that is applicable to a future reporting periods.

Fund Balance

The 1994 State legislature authorized the appropriation of $200,000,000 and approximately 957,170 acres nominally valued at $1 per acre to the principal of the Trust. The corpus of the Trust is to be retained perpetually for investment and is included in nonspendable fund balance – nonexpendable corpus. Additionally, the Board of Trustees of the Trust has approved additional reservations of Trust income, as authorized by State law.

By statute, earnings of the Trust may be used to offset the effect of inflation on the value of the corpus of the Trust. Increases to the nonspendable fund balance consist of historical land rent and royalty revenues, special appropriations, and inflation - proofing transfers within the Fund, as well as recorded unrealized appreciation or depreciation of invested assets. Assigned fund balances consist of the realized earnings of the Fund, which have not yet been appropriated.

Program Revenues and Expenses

Program revenues and expenses generally result from providing services in connection with the Trust's principal ongoing programs. Revenues received from the management of Trust land is allocated between principal and income as follows: to principal, 100 percent of (a) land sale revenue, (b) royalties on coal, oil, gas, materials, and minerals, (c) revenues for perpetual easements, and (d) 85 percent of timber sales; to income, 100 percent of (a) interest from land sale contracts, (b) bonus bids, (c) rents, and (d) 15 percent of timber sales. Program expenses include operating costs, Trust land office and funding of comprehensive mental health programs for Alaskans who experience mental illness, developmental disabilities, chronic alcoholism, or Alzheimer's disease and related dementia.

Revenue generated by the TLO from Trust Land is characterized as Distributable Income (proceeds from non-disposal actions on Trust land) and Principal (proceeds from the disposal of nonrenewable Trust Land assets). Distributable Income is transmitted to the Trust and expended in accordance with Trust policies and procedures. Trust Land principal is deposited in the Principal Fund (cash corpus) of the Trust or, with the Trust's approval, used to purchase substitute Trust Lands. Trust Land principal continues to generate income in the Principal Fund, with that income making up a significant portion of annual Trust income distributions.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Prior Year Financial Information

The financial statements include certain prior-year comparative information in the Statement of Net Position, Statement of Activities, Balance Sheet, and Statement of Revenues, Expenditures and Changes in Fund Balance. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended June 30, 2016, from which the prior year information was derived. Certain reclassifications have been made to the 2016 basic financial statements to conform to the 2017 presentation.

Management's Use of Estimates

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

Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state, territory or any political subdivision thereof which is derived from the exercise of any essential governmental function or any public utility. The Trust is a political subdivision of the State of Alaska and is therefore exempt from state and federal taxes.

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2. Cash and Investments

At June 30, 2017, the fund's share of pooled investments and APFC investments was as follows:

	Alaska Mental Health Trust Reserve AY70	GeFONSI 21519	GeFONSI 21521	GeFONSI 21992	Trust Land Office	Alaska Permanent Fund Corp	Total
Investment Type							
Cash and temporary investments	$ -	$ -	$ -	$ -	$ -	$ 22,953,000	$ 22,953,000
Short-term Fixed Income Pool	3,969,000	-	-	-	-	-	3,969,000
Corporate bonds	-	-	-	-	-	35,115,000	35,115,000
Mortgage-backed securities	-	-	-	-	-	7,145,000	7,145,000
Bond-backed exchange Traded funds	-	-	-	-	-	1,685,000	1,685,000
Commercial mortgage/ asset-backed securities	-	-	-	-	-	1,854,000	1,854,000
Non-U.S. treasury and government bonds	-	-	-	-	-	9,723,000	9,723,000
Non-U.S. corporate bonds	-	-	-	-	-	8,387,000	8,387,000
Preferred and common stock	-	-	-	-	-	212,478,000	212,478,000
Real estate	-	-	-	-	45,104,000	55,778,000	100,882,000
Alternative investments:							
Absolute return	-	-	-	-	-	38,411,000	38,411,000
Public-private credit	-	-	-	-	-	9,413,000	9,413,000
Private equity	-	-	-	-	-	56,222,000	56,222,000
Infrastructure	-	-	-	-	-	20,414,000	20,414,000
U.S. Treasury bills, notes, bonds, and TIPS	-	-	-	-	-	23,376,000	23,376,000
Fixed Income Securities Broad-term Internally Managed	11,960,000	-	-	-	-	-	11,960,000
Broad Domestic Equity Ssga Russell 3000	18,648,000	-	-	-	-	-	18,648,000
Global Equity Ex-U.S. SOA International Equity Pool	8,848,000	-	-	-	-	-	8,848,000
Investment Managed by Department of Revenue	-	19,655,000	17,546,000	106,000	-	-	37,307,000
Net Cash and Investments	$43,425,000	$19,655,000	$17,546,000	$ 106,000	$45,104,000	$502,954,000	$628,790,000

Fair Value Measurement
The input levels used to measure Trust's investments and derivative instruments at June 30, 2017 are summarized as follows:

	Measured using input levels			Measured	
2017	Level 1	Level 2	Level 3	Using NAV	Total
APFC:					
Marketable debt securities	$ 24,753,000	$ 62,532,000	$ -	$ -	$ 87,285,000
Preferred and common stock	212,478,000	-	-	-	212,478,000
Real state	9,803,000	-	-	45,975,000	55,778,000
Absolute return	6,002,000	13,455,000	553,000	18,401,000	38,411,000
Public-private credit	-	-	-	9,413,000	9,413,000
Private equity	-	-	-	56,222,000	56,222,000
Infrastructure	4,629,000	-	-	15,785,000	20,414,000
Total Investments	$257,665,000	$ 75,987,000	$ 553,000	$ 145,796,000	$ 480,001,000

Marketable debt securities are preferred and common stock classified as level 1 as valued using prices quoted in active markets for those securities. Debt securities classified as level 2 are valued using matrix pricing. Pricing is sourced from various sources.

Publicly traded real estate investment trusts are valued using prices quoted in active markets and are reported as level 1. Directly owned real estate through ownership of interests in corporations, limited liability companies, and partnerships that hold title to real estate are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Directly owned real estate investments are subject to annual appraisals and audits.

Absolute return investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Absolute return investments undergo annual independent financial statement audits. The redemption notice period is one to ninety one days and the frequency of redemption is daily to quarterly.

Public-private credit investments are reported at NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Public-private credit investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is five to seven years.

Private equity investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Private equity investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is 10-12 years.

Publicly traded infrastructure investments are classified as level 1 and are valued using prices quoted in active markets for those securities. The majority of infrastructure investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Infrastructure investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is five to seven years.

Intermediate and Broad Market Fixed Income Pools

To manage its interest rate risk on marketable debt securities, the APFC monitors fair values daily and routinely reviews portfolio effective duration in comparison to established benchmarks. At June 30, 2017, the effective duration by investment type, based on fair value, is as follows:

	Percent of Bond Holdings	Duration (in years)
Domestic Bonds		
Treasury and government notes/bonds	33.79%	6.32
Mortgage-backed securities	10.33%	5.17
Corporate bonds	50.76%	8.09
Commercial mortgage and asset backed securities	2.68%	3.80
Bond-backed exchange traded funds	2.44%	-
Total Domestic Bonds	100.00%	6.88
Non-domestic Bonds		
Non-U.S. treasury and government bonds	53.69%	6.96
Non-U.S. corporate bonds	46.31%	6.43
Total Non-domestic Bonds	100.00%	6.71

Credit Risk

Marketable debt credit rating
To manage credit risk for marketable debt securities, the APFC monitors fair values of all securities daily and routinely reviews its investment holdings' credit ratings. For accounts with an investment grade mandate (approximately 82 percent of bond mandates at June 30, 2017), issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Minimum standards are a Standard & Poor's Corporation rating of BBB or better, or Moody's Investors Service, Inc. rating of Baa or better, or a comparable rating by another Nationally Recognized Statistical Rating Organizations (NRSRO) or by a recognized rating service in the jurisdiction of the issuer. Managers with high yield mandates (approximately 18 percent of bond mandates at June 30, 2017) are allowed to hold positions in assets with below investment grade ratings (high yield bonds) based on the terms of their contracts. For purposes of this note, if credit ratings differ among the NRSROs used, the rating with the highest degree of risk (the lowest rating) is reported.

At June 30, 2017, the Trust's credit ratings for its marketable debt securities are as follows:

NRSRO Quality rating	Domestic	Non-domestic	Total fair value	Percent of holdings
AAA	$ 2,289,000	$ 1,320,000	$ 3,609,000	4.13%
AA	1,920,000	1,716,000	3,636,000	4.17%
A	8,509,000	5,054,000	13,563,000	15.54%
BBB	17,126,000	5,620,000	22,746,000	26.06%
BB	2,460,000	1,638,000	4,098,000	4.69%
B	3,342,000	1,704,000	5,046,000	5.78%
CCC	890,000	278,000	1,168,000	1.34%
CC	10,000	-	10,000	0.01%
C	26,000	4,000	30,000	0.03%
D	49,000	4,000	53,000	0.06%
Total fair value of rated debt securities	36,621,000	17,338,000	53,959,000	61.81%
Commingled bond funds	2,212,000	-	2,212,000	2.54%
Not rated	192,000	772,000	964,000	1.11%
U.S. government explicitly backed by the U.S government (AA)	25,058,000	-	25,058,000	28.71%
U.S. government implicitly backed by the U.S. government (AA)	5,092,000	-	5,092,000	5.83%
Total Marketable Debt Securities	$ 69,175,000	$ 18,110,000	$ 87,285,000	100.00%

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Preferred and Common Stock

Direct investments in preferred and common stock are generally held by the APFC's custodian bank on behalf of the Fund and the Trust. The Trust also invests in commingled stock funds, which are held by the custodian bank of the fund manager on behalf of fund investors, and equity index futures, which are held at the prime broker.

Preferred and common stocks and commingled stock funds at June 30, 2017 are summarized as follows (based on currency of trade), and include the net fair value of equity index futures of $(42,000) as of June 30, 2017:

	Cost	Fair Value	Unrealized Holding Gains
Direct investments:			
Domestic	$ 73,931,000	$ 89,119,000	$ 15,188,000
Non – domestic	108,245,000	120,441,000	12,196,000
Commingled funds	2,768,000	2,918,000	150,000
Total Preferred and Common Stock	$ 184,944,000	$ 212,478,000	$ 27,534,000

Marketable Debt Securities

Marketable debt securities held by APFC on behalf of the Trust at June 30, 2017 are summarized as follows, categorized by debt instrument type and by country of registration:

	Amortized Cost	Fair Value	Unrealized Holding Gains
Treasury and government notes/bonds	$ 23,546,000	$ 23,376,000	$ (170,000)
Mortgage-backed securities	7,176,000	7,145,000	(31,000)
Corporate bonds	34,354,000	35,115,000	761,000
Commercial mortgage/asset-backed securities	1,857,000	1,854,000	(3,000)
Non-U.S. treasury and government bonds	9,862,000	9,723,000	(139,000)
Non-U.S. corporate bonds	8,214,000	8,387,000	173,000
Bond-backed exchange traded funds	1,673,000	1,685,000	12,000
Total Marketable Debt Securities	$ 86,682,000	$ 87,285,000	$ 603,000

Foreign Currency Exposure

Alaska Permanent Fund Corporation
Foreign currency risk arises when a loss could result from adverse changes in foreign currency exchange rates. Foreign currency risk is managed by the international investment managers in part through their decisions to enter into foreign currency forward contracts. Foreign currency risk is also managed through the diversification of assets into various countries and currencies.

Cash amounts in the schedule below include receivables, payables, certificates of deposits, and cash balances in each related currency. If payables exceed receivables and cash balances in a currency, then the total cash balance for that currency will appear as a negative value. The remaining Trust assets are invested in U.S. cash, equities, and debt, as well as in direct real estate properties, absolute return and similar funds, and infrastructure, all of which are denominated in U.S. dollars, and are not included in the schedule below.

At June 30, 2017, the Trust's cash holdings, foreign currency forward contracts, non-domestic public and private equity, and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at fair value and based on the currency in which the securities are held and traded):

Foreign Currency	Cash and Equivalents	Foreign Exchange Forward Contracts	Public and Private Equity	Debt	Total Foreign Currency Exposure
Argentine Peso	$ 3,000	$ -	$ -	$ 99,000	$ 102,000
Australian Dollar	(7,000)	877,000	4,129,000	133,000	5,132,000
Brazilian Real	22,000	(121,000)	1,685,000	477,000	2,063,000
British Pound Sterling	61,000	(660,000)	16,877,000	438,000	16,716,000
Canadian Dollar	44,000	80,000	5,645,000	119,000	5,888,000
Chilean Peso	-	-	77,000	16,000	93,000
Chinese Yuan Renminbi	9,000	-	-	-	9,000
Columbian Peso	5,000	(14,000)	38,000	205,000	234,000
Czech Koruna	-	-	8,000	-	8,000
Danish Krone	17,000	(103,000)	1,536,000	48,000	1,498,000
Egyptian Pound	42,000	-	2,000	-	44,000
Euro Currency	5,000	(1,107,000)	28,049,000	1,567,000	28,514,000
Ghanaian Cedi	25,000	(19,000)	-	85,000	91,000
Hong Kong Dollar	71,000	(17,000)	8,889,000	-	8,943,000
Hungarian Forint	-	-	122,000	24,000	146,000
Indian Rupee	24,000	(177,000)	3,027,000	359,000	3,233,000
Indonesian Rupiah	22,000	(1,000)	930,000	192,000	1,143,000
Israeli Shekel	2,000	35,000	492,000	-	529,000
Japanese Yen	14,000	437,000	16,307,000	1,806,000	18,564,000
Malaysian Ringgit	5,000	(101,000)	816,000	257,000	977,000
Mexican Peso	9,000	(100,000)	742,000	478,000	1,129,000
New Zealand Dollar	-	(425,000)	226,000	27,000	(172,000)
Nigerian Naira	35,000	-	-	27,000	62,000
Norwegian Krone	5,000	18,000	614,000	50,000	687,000
Peruvian Nuevo Sol	-	-	-	113,000	113,000
Philippine Peso	-	2,000	84,000	16,000	102,000

Foreign Currency	Cash and Equivalents	Foreign Exchange Forward Contracts	Public and Private Equity	Debt	Total Foreign Currency Exposure
Polish Zloty	$ 11,000	$ (53,000)	$ 176,000	$ 224,000	$ 358,000
Qatari Riyal	-	-	195,000	-	195,000
Romanian Leu	-	-	-	13,000	13,000
Russian Ruble	5,000	-	1,000	217,000	223,000
Singapore Dollar	(9,000)	(10,000)	929,000	58,000	968,000
South African Rand	(6,000)	(77,000)	1,929,000	269,000	2,115,000
South Korean Won	21,000	(113,000)	4,019,000	106,000	4,033,000
Swedish Krona	9,000	(845,000)	1,757,000	52,000	973,000
Swiss Franc	49,000	(1,363,000)	4,132,000	-	2,818,000
Taiwan Dollar	23,000	(1,000)	2,702,000	-	2,724,000
Thai Baht	(1,000)	1,000	1,115,000	61,000	1,176,000
Turkish Lira	16,000	(26,000)	586,000	214,000	790,000
UAE Dirham	-	-	222,000	-	222,000
Uruguayan Peso	-	-	-	36,000	36,000
Zambia Kwacha	1,000	-	-	28,000	29,000

Foreign Exchange Contracts, Futures, Derivative Exposure, and Off-Balance Sheet Risk

Alaska Permanent Fund Corporation
Certain APFC external investment managers enter into foreign currency forward exchange contracts (FX forward contracts) to buy and sell specified amounts of foreign currencies at specified rates and future dates for the purpose of managing or optimizing foreign currency exposure. The maturity periods for outstanding contracts at June 30, 2017 ranged between one and 120 days.

The counterparties to the FX forward contracts consisted of a diversified group of financial institutions. The Trust is exposed to credit risk to the extent of non-performance by these counterparties. The Trust's market risk as of June 30, 2017 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year. Activity and balances related to FX forward contracts are summarized as follows:

Balance at June 30, 2017	
Face value of FX forward contracts	$ 15,190,000
Net unrealized holding losses on FX forward contracts	(95,000)
Fair Value of FX Forward Contracts	$ 15,095,000

Activity for fiscal year ending June 30, 2017	
Change in unrealized holding losses	$ (292,000)
Realized gains	247,000
Net Decrease in Fair Value of FX Forward Contracts	$ (45,000)

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund's account, and the internal fixed income management team began trading U.S. Treasury index futures. Equity index futures are traded in both domestic and non-domestic markets based on an underlying stock exchange value. Equity and fixed income index futures are settled with cash for the net difference between the trade price and the settle price.

Activity and balances related to equity index futures are summarized as follows:

Balance at June 30, 2017	
Face value of equity index futures	$ 1,306,000
Net unrealized holding losses on futures	(42,000)
Fair Value of Equity Index Futures	$ 1,264,000

Activity for fiscal year ending June 30, 2017	
Change in unrealized holding losses	$ (40,000)
Realized gains	497,000
Net Increase in Fair Value of Futures	$ 457,000

Activity and balances related to equity U.S. Treasury futures are summarized as follows:

Balance at June 30, 2017	
Face value of U.S. Treasury index futures	$ (838,000)
Net unrealized holding losses on futures	(12,000)
Fair Value of U.S. Treasury Futures	$ (850,000)

Activity for fiscal year ending June 30, 2017	
Change in unrealized holding gains	$ 69,000
Realized gains	77,000
Net Increase in Fair Value of U.S. Treasury Futures	$ 146,000

The face value of FX forward contracts and futures shown in these schedules is not required to be included in the schedules of investments of the Trust. All other balance and activity amounts shown above are included in the schedules of investments and investment income of the Trust.

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Real Estate

Real estate investments at June 30, 2017 are summarized as follows:

	Cost	Fair Value	Unrealized Holding Gains
Real estate investment trusts	$ 9,372,000	$ 10,246,000	$ 874,000
American Homes 4 Rent II	1,159,000	1,361,000	202,000
Directly owned real estate:			
Retail	7,350,000	14,268,000	6,918,000
Hotel	511,000	570,000	59,000
Office	55,755,000	57,084,000	1,329,000
Industrial	1,635,000	2,151,000	516,000
Multifamily	10,306,000	15,202,000	4,896,000
Total Real Estate	$ 86,088,000	$ 100,882,000	$ 14,794,000

The directly owned real estate includes offices with fair market value of $45,104,000 managed by the Trust land office. The total holdings on these investments are approx. $92.4 million, with $47.3 million in outstanding debt. The values presented are net of liabilities.

Alternative Investments

Alternative investments at June 30, 2017 are summarized as follows:

	Cost	Fair Value	Unrealized Holding Gains
Absolute return	$ 34,018,000	$ 38,411,000	$ 4,393,000
Public-private credit	8,604,000	9,413,000	809,000
Private equity	45,045,000	56,222,000	11,177,000
Infrastructure	16,972,000	20,414,000	3,442,000
Total Alternative Investments	$ 104,639,000	$ 124,460,000	$ 19,821,000

As of June 30, 2017, the APFC, on behalf of the Trust, had outstanding future funding commitments of: $35,500,000 for private equity; $5,600,000 for public-private credit; and $10,400,000 for infrastructure investments. Many alternative investments have liquidity constrains and may not be available for cash withdrawal until a specified period of time has elapsed.

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3. Securities Lending

State regulations at 15 AAC 137.510 and the APFC investment policy authorize the APFC to enter into securities lending transactions on behalf of the Trust. Through a contract with the Bank of New York Mellon (the Bank), the Trust lends marketable debt and equity securities to borrowers who are banks and broker-dealers. The loans are collateralized with cash or marketable securities guaranteed by the U.S. government or a U.S. government agency. Under APFC's contract with the Bank, the Bank must mark the loaned securities and collateral to the market daily, and the loan agreements require the borrowers to maintain the collateral at not less than 102 percent of the fair value of the loaned securities for domestic securities (and non-domestic loaned securities denominated in U.S. dollars) and not less than 105 percent of the fair value for other non-domestic loaned securities. The APFC can sell securities that are on loan.

If a borrower fails to return the loaned securities (borrower default), the Bank can use cash collateral (and the proceeds on the sale of any non-cash collateral) to purchase replacement securities. Generally, the APFC is protected from credit risk associated with the lending transactions through indemnification by the Bank against losses resulting from counterparty failure, the reinvestment of cash collateral, default on collateral investments, or a borrower's failure to return loaned securities.

Cash collateral received for loaned securities is reported on the Trust's schedules of investments and invested by the Bank on behalf of the Fund and the Trust. As of June 30, 2017, such investments were in overnight repurchase agreements that had a weighted-average-maturity of one day. The average term of the loans was also one day.

At June 30, 2017 the value of securities on loan is as follows:

Fair Value of Securities on Loan, Secured by Cash Collateral	$ 10,755,000
Cash Collateral	$ 11,025,000
Fair Value of Securities on Loan, Secured by Non-cash Collateral	$ 41,731,000
Non-cash Collateral	$ 45,256,000

The Trust receives 80 percent of earnings derived from securities lending transactions, and the Bank retains 20 percent. During the year ended June 30, 2017, the Trust incurred no losses from securities lending transactions. The Trust received $144,000 from securities lending for the year ended June 30, 2017.

4. Accounts Receivable

Accounts receivable at June 30, 2017 are as follows:

Interest and dividends receivable	$ 4,493,000
Other receivables	139,000
Total accounts receivables	4,632,000
Allowance for uncollectible accounts	(91,000)
Total Accounts Receivable, net of allowance	$ 4,541,000

5. Notes Receivable

Notes receivable at June 30, 2017 are as follows:

Land sale notes receivable	$ 6,356,000
Allowance for uncollectible accounts	(898,000)
Total Notes Receivable, Net of Allowance	$ 5,458,000

6. Capital Assets

The Trust owns and accounts for all land and buildings. Contributed assets are recorded at fair value at date of receipt. Capital asset activity for the year ended June 30, 2017 follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Non-Depreciable Assets:				
Land:				
Corpus	$ 1,007,000	$ -	$ -	$ 1,007,000
Land and land improvements	3,586,000	1,234,000	-	4,820,000
Total non-depreciable assets	4,593,000	1,234,000	-	5,827,000
Depreciable Assets:				
Buildings and infrastructure	12,986,000	-	-	12,986,000
Equipment	312,000	-	-	312,000
Total depreciable assets	13,298,000	-	-	13,298,000
Accumulated depreciation	(3,082,000)	(421,000)	-	(3,503,000)
Total Capital Assets, Net of Accumulated Depreciation	$ 14,809,000	$ 813,000	$ -	$ 15,622,000

Depreciation expense for the year ended June 30, 2017 was $421,000.

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2017 are summarized as follows:

Accounts payable	$ 7,717,000
Accrued payroll and benefits	283,000
Total	$ 8,000,000

8. Accrued Leave Liability

The following is a summary of the accrued leave liability for the year ended June 30, 2017:

Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
$ 739,000	$ 466,000	$ (493,000)	$ 712,000	$ 712,000

9. Defined Benefit Pension Plan

General Information About the Plan

The Trust participates in the Alaska Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at http://doa.alaska.gov/drb/pers. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website.

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

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

Historical Context and Special Funding Situation

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

Alaska Statute 39.35.255 requires the State of Alaska to contribute to the Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan's past service liability contribution rate as adopted by the Alaska Retirement Management Board. As such, the Plan is considered to be in a special funding situation as defined by GASB, and management has recorded all pension related liabilities, deferred inflows/outflows, and disclosures on this basis.

The Trust recorded the related on-behalf contributions as revenue and expense or expenditures as prescribed by GAAP, pursuant to the relevant basis of accounting based on fund type.

It is important to note that the Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process.

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary.

Employer and Other Contribution Rates

There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the contractual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% of eligible wages, subject to a wage floor, and other termination events. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability or DBUL contribution.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This change results in lower ARM Board Rates than previously adopted.

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures. In the enterprise fund and government-wide financial statements, the on-behalf amounts reflect revenue and expense only during the measurement period in which the Plan recognizes the payments, resulting in a significant timing difference between the cash transfers and revenue and expense recognition.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB Rate disregards all future Medicare Part D payments. For FY17, the rate uses an 8% pension discount rate and a 4.30% healthcare discount rate.

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

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

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	14.96%	20.34%	4.14 %	24.49%
Postemployment healthcare (see Note 11)	7.04%	5.80%	0.00 %	56.64%
Total Contribution Rates	22.00%	26.14%	4.14 %	81.13%

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

	Measurement Period Trust FY16	Trust FY17
Employer contributions (including DBUL)	$ 398,000	$ 376,000
Nonemployer contributions (on-behalf)	150,000	156,000
Total Contributions	$ 548,000	$ 532,000

In addition, employee contributions to the Plan totaled $122,136 during the Trust fiscal year.

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

At June 30, 2017, the Trust reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the Trust. The amount recognized by the Trust for its proportional share, the related State proportion, and the total were as follows:

	2017
Trust proportionate share of NPL	$ 8,181,000
State's proportionate share of NPL associated with the Trust	1,030,000
Total Net Pension Liability	$ 9,211,000

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Trust's proportion of the net pension liability was based on a projection of the Trust's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At June 30, 2017, the Trust's proportion was 0.00146 percent, which was an increase of 0.00102 from its proportion measured as of the prior measurement date.

For the year ended June 30, 2017, the Trust recognized pension expense of $1,884,000 and on-behalf revenue of $139,000 for support provided by the State. At June 30, 2017, the Trust reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,000	$ -
Changes in assumptions	38,000	-
Net difference between projected and actual earnings on pension plan investments	804,000	(91,000)
Changes in proportion and differences between Trust contributions and proportionate share of contributions	493,000	-
Trust contributions subsequent to the measurement date	376,000	-
Total Deferred Outflows and Deferred Inflows Related to Pensions	$ 1,712,000	$ (91,000)

The $376,000 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2018	$ 516,000
2019	176,000
2020	370,000
2021	183,000

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Actuarial Assumptions

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

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The following presents the Trust's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the Trust's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Trust's proportionate share of the net pension liability	$ 6,194,000	$ 8,181,000	$ 10,536,000

Pension Plan Fiduciary Net Position

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

10. Defined Contribution (DC) Pension Plan

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

Contributions to the DC plan consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual remittances to the PERS system require that the Trust contribute at 22%. After deducting the DC plan contributions (and related OPEB contributions), the remaining remittance (the DBUL) is deposited into the DB plan as noted earlier.

Benefit Terms

Employees are immediately vested in their own contributions and vest 25% with two years of service, plus an additional 25% per year thereafter for full vesting at five years of service.

Employee Contribution Rate

Employees are required to contribute 8% of their annual covered salary. This amount goes directly to the individual's account.

Employer Contribution Rate

For the year ended June 30, 2017, the Trust was required to contribute 5% of covered salary into the Plan. In addition, during 2017, the State on-behalf contribution rate for OPEB was 0.00%.

The Trust and employee contributions to PERS for pensions for the year ended June 30, 2017 were $85,000 and $136,000, respectively. The Trust contribution amount was recognized as pension expense/expenditures.

11. Other Post-Employment Benefit (OPEB) Plans

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

Employer Contribution Rate

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

Annual Postemployment Healthcare Cost

Actual contributions into the Plan for the last three years were as follows. The amounts reported here include only the employer required contributions and do not include any amounts attributed to the on-behalf contributions by the State. In 2015 and 2017 there were no on-behalf contributions to the OPEB Plan; however, on-behalf contributions to the OPEB Plan in 2016 was $58,644.

Year Ended June 30,	Annual OPEB Costs	Trust Contributions	% of Costs Contributed
2017	$ 249,000	$ 249,000	100 %
2016	$ 266,000	$ 266,000	100 %
2015	$ 296,000	$ 296,000	100 %

Defined Contribution OPEB

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

Employer Contribution Rates

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

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

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

Annual Postemployment Healthcare Cost

In 2017, the Trust contributed $61,730 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

12. Rental Income under Operating Leases

The Trust's program revenues, rents and royalties include the leasing of land. The following is a schedule of minimum future rental income payments under non-cancelable operating leases for the next five years:

Year Ending June 30:	Land	Minerals, Oil & Gas	Total
2018	$ 770,000	$ 628,000	$ 1,398,000
2019	692,000	645,000	1,337,000
2020	685,000	645,000	1,330,000
2021	682,000	670,000	1,352,000
2022	673,000	670,000	1,343,000
	$ 3,502,000	$ 3,258,000	$ 6,760,000

13. Statutory Income

By Alaska law, statutory net income is computed in accordance with accounting principles generally accepted in the United States of America (GAAP), excluding any unrealized gains or losses. However, the income from investments is required by GAAP to include unrealized gains and losses and income, regardless of source. Consequently, GAAP income from investments and statutory net income differ.

The APFC periodically reviews investments for other than temporary impairment of value. Investments with fair values significantly less than costs over multiple reporting periods may be considered impaired if the cost basis will not be recovered over the investment's remaining estimated holding period. If an other-than-temporary impairment is determined to exist for an investment, a realized loss will be recorded which will replace the previously recorded unrealized loss. Carrying value will not be affected, but the reclassification of the loss from unrealized to realized will affect the statutory net income of the Trust. During FY 2017 approximately $218,000 of impairments were recorded.

Statutory net income for the year ended June 30, 2017 is calculated as follows:

Income from investments managed by APFC	$ 56,076,000
Unrealized holding losses	(28,774,000)
Statutory Net Income	$ 27,302,000

14. Nonspendable Trust Assets Managed by APFC

The legislature determines amounts to be contributed to, or distributed from, nonspendable Trust assets. The 1994 State legislature authorized the appropriation of $200,000,000 to the principal of the Trust, transferring the funds on July 3, 1995 to the APFC. Additionally, the Board of Directors of the Trust has approved additional reservations of Trust income, as authorized by State law. By statute, earnings of the Trust may be used to offset the effect of inflation on the value of the contributions to the Trust. The Trust authorized no inflation proofing during the year ended June 30, 2017. The balance of the contributions and appropriations as of June 30, 2017 was $344,182,000.

On June 16, 2009 the APFC received a State of Alaska Attorney General's Opinion clarifying the accounting treatment of unrealized gains and losses. Based on the opinion, nonspendable fund balance and assigned fund balance should be allocated proportionate values of the unrealized appreciation or depreciation on invested assets. Previously unrealized gains and losses had been allocated in full to the nonspendable fund balance.

Based on the Opinion, the recorded unrealized earnings of the Trust assets were reclassified from assigned Trust fund balance to nonspendable Trust fund balance. The Opinion had no effect on previously reported gains or losses from investments managed by the APFC. See 2003 Attorney General Opinion (June 18; 663-03-0153).

15. Spendable Trust Assets Managed by APFC

The Trust has established an account to ensure sufficient reserves are available to meet the disbursement requirements of the Trust's existing payout policy. Earnings are allocated monthly to the Trust on the basis of its total unit shares and fractional unit shares outstanding on the valuation date. The earnings of the Trust are to be used to assist the Trust in fulfilling its purpose of ensuring an integrated comprehensive mental health program for the State. As stated in note 14, the unrealized gains and losses of the Trust assets are allocated proportionately between the nonspendable Trust assets and spendable Trust assets.

16. Risk Management

With regards to workers' compensation insurance, the Trust participates in the State of Alaska Risk Management Pool. The risks are transferred to the Pool, and the premium is charged to the Trust based on payroll expenditures. The State is an authorized self-insurer under AS 23.30.090. Casualty and property insurance coverage is provided under endorsement to the State of Alaska Aviation and Airports program of insurance. For directly owned real estate holdings located outside of Alaska and managed by the TLO, commercial insurance policies are purchased from the marketplace in the state the property is located to indemnify the title holding entity and to mitigate the risk of loss that the Trust is exposed to.

17. Contingencies and Commitments

As prescribed by the Governmental Accounting Standards Board (GASB) under Statement 49, the Trust is required to estimate pollution remediation outlays and determine whether outlays should be accrued as a liability when the government is compelled to take pollution remediation action because of an eminent endangerment or when the government commences or legally obligates itself to commence pollution remediation.

There are several sites used by previous parties that require environmental review, subsequent remedial investigation and feasibility study and remediation and restoration of the sites. The Trust intends to seek reimbursement of pollution remediation costs from responsible parties and any remaining costs will be recognized by the Trust. While an obligating event, as defined by Statement 49 has occurred, no liability has been recognized by the Trust because the amounts are not material to the financial statements.

In 2009, under the authority of the Alaska Land Transfer Acceleration Act, the Alaska Department of Natural Resources ("DNR"), AMHTA, and the U.S. Department of the Interior entered into an agreement to close out Alaska's remaining Mental Health Enabling Act entitlement ("Closeout Agreement"). As part of the Closeout Agreement, and under the authority of the Alaska Mental

Health Enabling Act ("AMHEA"), the federal government conveyed to Alaska one parcel of land known as No Name Bay. Southeast Alaska Conservation Council (SEACC) sued DNR and AMHTA, claiming that the State's acceptance of the federal patent to the No Name Bay parcel under the AMHEA and the Closeout Agreement breached the settlement agreement entered into in 1994 in Weiss v. State, 939 P.2d 380 (Alaska 1997) and an alleged oral agreement with SEACC incorporating that agreement.

This is a breach of contract case in which SEACC seeks to have the Court void the State's conveyance of the No Name Bay parcel to AMHTA and have the parcel designated and managed by DNR as Wildlife Habitat. DNR and AMHTA have won summary judgment. However, SEACC appealed to the Supreme Court. In the event the Supreme Court rules in SEACC's favor, possible losses for AMHTA include losing ownership of the No Name Bay parcel and a possible award of attorney's fees to SEACC. The No Name Bay parcel consists of approximately 3621 acres located in a remote area of Southeast Alaska. The parcel has not been appraised and the actual value of property is not known; AMHTA could possibly lose the value of the property as well as any potential income that could have been derived from the property, including from timber or other uses.

18. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes that GASB Statement 75 will result in the biggest reporting change. However, actual impacts have not yet been determined.

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

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

GASB 83 – *Certain Asset Retirement Obligations* – Effective for year-end June 30, 2019, with earlier application encouraged – This statement addresses accounting and financial reporting for certain asset retirement obligations that are legally enforceable liabilities associated with the retirement of a tangible capital asset.

GASB 84 – *Fiduciary Activities* – Effective for year-end June 30, 2020, with earlier application encouraged – This statement addresses criteria for identifying and reporting fiduciary activities.

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

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

GASB 87 – *Leases* – Effective for year-end June 30, 2021, with earlier application encouraged – This statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Required Supplementary Information

Alaska Mental Health Trust Authority
(A Component Unit of the State of Alaska)

Public Employees Retirement System (PERS)
Schedule of the Trust's Information on the Net Pension Liability

Years Ended June 30,	Trust's Proportion of the Net Pension Liability	Trust's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	Trust's Covered Payroll	Trust's Proportionate Share of the Net Pension Liability as a Percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.14636%	$ 8,181,000	$ 1,031,000	$ 9,212,000	$ 3,761,000	217.52%	59.55%
2016	0.13338%	$ 6,387,000	$ 1,662,000	$ 8,049,000	$ 3,834,000	166.59%	63.96%
2015	0.08800%	$ 4,277,000	$ 3,702,000	$ 7,979,000	$ 3,664,000	116.73%	62.37%
2014	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*
2009	*	*	*	*	*	*	*
2008	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

Alaska Mental Health Trust Authority
(A Component Unit of the State of Alaska)

Public Employees Retirement System (PERS)
Schedule of the Trust's Contributions

Years Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Trust's Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$ 376,000	$ 376,000	$ -	$ 3,507,000	10.721%
2016	$ 398,000	$ 398,000	$ -	$ 3,761,000	10.582%
2015	$ 382,000	$ 382,000	$ -	$ 3,834,000	9.963%
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*
2009	*	*	*	*	*
2008	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

1. Public Employees Retirement System - Schedule of the Trust's Information on the Net Pension Liability

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

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

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

2. Public Employees Retirement System - Schedule of the Trust's Contributions

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

Both pension tables are intended to present 10 years of information. Additional years of information will be added to the schedules as it becomes available.

Government Auditing Standards Auditor's Report

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To The Board of Trustees
Alaska Mental Health Trust Authority
Anchorage, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Alaska Mental Health Trust Authority (the Trust), a component unit of the State of Alaska, as of and for the year ended June 30, 2017 , and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated January 16, 2018. Our report includes a reference to other auditors who audited the Schedules of Investments Managed by the Alaska Permanent Fund Corporation as described in our report on the Trust's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alaska Mental Health Trust Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Trust's Response to Findings

Alaska Mental Health Trust Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Alaska Mental Health Trust Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
January 16, 2018

Alaska Mental Health Trust Authority
(A Component Unit of the State of Alaska)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	X yes	___ no
Significant deficiency(ies) identified?	___ yes	X (none reported)
Noncompliance material to financial statements noted?	___ yes	X no

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

Finding 2017-001 Financial Report - Material Weakness in Internal Control

Criteria: Financial reporting should be done in accordance with the financial reporting framework of U.S. Generally Accepted Accounting Principles (GAAP) and in according with pronouncements issued by GASB, which would include reconciled and adjusting all asset and liability accounts periodically, especially at year end.

Condition: We identified a number of accounts that were not fully reconciled or presented in accordance with U.S. GAAP. Additionally, the prior period closing entries were not made in a timely manner leading to incorrect opening balances and several general ledger accounts were not reconciled until after the auditors left the field. Journal entries were identified that needed to be made to correct the accounts to be reported fairly under U.S. GAAP.

Context: Adjustments were required to several general ledger accounts: cash, prepaid expenses, due to / from state, revenue, accounts payable, accrued liabilities, expenditures, deferred revenue, capital assets, and fund balance.

Effect: Items reported in the financial statements were not reconciled and required material adjustments to correct.

Cause: Key financial positions were vacant during the year which led to accounts not being reconciled and closed in a timely manner.

Recommendation: It is recommended that the Trust monitor the year-end closing process more closely to ensure an accurate and timely close.

Views of responsible officials and planned corrective actions: Management agrees with this finding. See the corrective action plan.

Trust
Alaska Mental Health
Trust Authority

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To: Mike Abbott, Chief Executive Officer
From: Andrew Stemp, Chief Financial Officer
Date: January 17, 2018
Re: Corrective Action Plan

As discussed in the January 4, 2018 Audit & Risk Committee meeting, BDO LLP has identified a material weakness in the internal control environment associated with the lack of monitoring controls around the general ledger. The Trust operates in a complex environment-we have a single mission to serve the beneficiaries that is executed by Department of Revenue and Department of Natural Resources simultaneously. Our assets are similarly diverse, with a portion held by the Alaska Permanent Fund Corporation, the State of Alaska, and directly by the Trust.

Because of the complexity, it is critical that the Trust actively monitors account activity and overall account balances throughout the year. Should an error be made, the sooner it is detected and corrected, the less administrative burden will be placed on the Trust. To that end, I am proposing the following corrective action plan:

- Staff will implement a soft close procedure each quarter, and the results of the close will be reviewed for reasonableness with senior staff. Any adjustments needed will be researched and posted in a timely manner.

- Staff will identify, schedule, and participate in appropriate ALDER/IRIS trainings and user groups as they become available. This will improve the ability to access automated reports and speed up our review of account activity.

- I will conduct a pre-audit soft close and ensure that opening balances are tied out to the prior period closing balances before starting audit work.

- In the event of staff turnover, a qualified temporary staff member will be hired to fill the position, rather than reassigning duties to other staff.

It is my opinion that taking these steps will adequately address the control weakness and improve the Trust's financial reporting. If you have any questions or would like to discuss the proposed plan, please let me know.