

Report on the

**Alabama Trust Fund  
State of Alabama  
Montgomery, Alabama**

**October 1, 2016 through September 30, 2017**

Filed: February 22, 2019



**Department of  
Examiners of Public Accounts**

**401 Adams Avenue, Suite 280  
Montgomery, Alabama 36104-4338  
P.O. Box 302251  
Montgomery, Alabama 36130-2251  
Website: [www.examiners.alabama.gov](http://www.examiners.alabama.gov)**

*Rachel Laurie Riddle, Chief Examiner*





Rachel Laurie Riddle  
Chief Examiner

State of Alabama  
Department of  
**Examiners of Public Accounts**

P.O. Box 302251, Montgomery, AL 36130-2251  
401 Adams Avenue, Suite 280  
Montgomery, Alabama 36104-4338  
Telephone (334) 242-9200  
FAX (334) 242-1775

Honorable Rachel Laurie Riddle  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, I submit this report on the results of the audit of the financial statements of the Alabama Trust Fund for the period October 1, 2016 through September 30, 2017.

Sworn to and subscribed before me this  
the 6<sup>th</sup> day of February, 2019.

Kelly D. Matthews  
Notary Public

Respectfully submitted,

Cindy McIntyre  
Examiner of Public Accounts

rb



---

---

## *Table of Contents*

---

---

	<i>Page</i>
<b>Summary</b>	A
Contains items pertaining to state legal compliance.	
<b>Comments</b>	B
Contains information pertaining to Fund operations and other matters.	
<b>Independent Auditor's Report</b>	O
Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).	
<b>Management's Discussion and Analysis</b>	S
Provides information required by the Governmental Accounting Standards Board (GASB) that is prepared by management of the Fund introducing the basic financial statements and providing an analytical overview of the Fund's financial activities for the year. This information has not been audited, and no opinion is provided about the information.	
<b><u>Basic Financial Statements</u></b>	1
Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the Fund's financial position and results of operations in accordance with GAAP.	
Exhibit #1	2
Governmental Funds Balance Sheet/Statement of Net Position	
Exhibit #2	3
Statement of Governmental Revenues, Expenditures and Changes in Fund Balances/Statement of Activities	
<b>Notes to the Financial Statements</b>	4



---

---

## *Table of Contents*

---

---

	<i>Page</i>
<b><u>Additional Information</u></b>	26
Provides basic information related to the Fund, including reports required by generally accepted government auditing standards.	
Exhibit #3 <b>Board Members – Alabama Trust Fund</b> – a listing of Board members of the Alabama Trust Fund.	27
Exhibit #4 <b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b> – a report on internal controls related to the financial statements and on whether the Fund complied with laws and regulations which could have a direct and material effect on the Fund’s financial statements.	28

---





Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Alabama Trust Fund  
October 1, 2016 through September 30, 2017**

The Alabama Trust Fund (ATF) was established and operates under the authority of the *Alabama Constitution of 1901*, Amendment 450. The ATF was established as a permanent trust fund for the continuing benefit of the State of Alabama and its citizens. The ATF is under the management and control of a legally established Board of Trustees, and all powers necessary or appropriate for the management and control of the ATF shall be vested solely in the Board.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether management of the ATF complied with applicable laws and regulations. The audit was conducted 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 as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12, as added by Act Number 2018-129.

An unmodified opinion was issued on the basic financial statements, which means that the ATF's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2017.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

Mr. John McMillan, State Treasurer, was invited to an exit conference held on January 24, 2019. Individuals in attendance were: Mr. John McMillan; Ms. Daria Story, Assistant State Treasurer; Mr. Daniel Autrey, Deputy State Treasurer; and Mr. Cory Rambo, State Treasurer's Office, along with Brad Grier, Cindy McIntyre, and Anna-Kate Padgett from the Department of Examiners of Public Accounts.



Department of  
**Examiners of Public Accounts**

**COMMENTS**

**Alabama Trust Fund  
October 1, 2016 through September 30, 2017**

**Establishment of the Alabama Trust Fund by Amendment 450**

The Alabama Trust Fund (ATF) was established in 1985 by *Amendment 450* of the *Alabama Constitution of 1901* as an irrevocable permanent trust fund for the continuing benefit of the State of Alabama and its citizens. All amendments to the *Alabama Constitution of 1901* are required to be ratified by a majority of the voters who choose to vote in the elections where the amendments are on the ballot. The votes must be certified by the Secretary of State before any amendment is ratified and becomes law.

*Amendment 450* also provided for the dissolution of the previously established Alabama Heritage Trust Fund in 2001 and required the transfer of the Alabama Heritage Trust Fund capital to the ATF. The Alabama Heritage Trust Fund was previously established in 1982 by *Amendment 394*.

The initial trust capital of the ATF consisted of oil and gas capital payments received as the result of sealed bids awarded on August 14, 1984. *Amendment 450* defined “oil and gas capital payments” as follows: “Any payment (including any royalty payment) received after August 1, 1984, by the state or any agency or instrumentality thereof as all or part of the consideration for the sale, leasing or other disposition by the state or any agency or instrumentality thereof of any right to explore and drill for or to produce oil, gas or other hydrocarbon minerals in any area on the water side of the high water mark of Mobile Bay or in any other offshore area and shall include any revenue by the state from federal oil and gas leases off the coast of Alabama. Any royalty or other payment, with the exception of any taxes...levied, that is based upon or determined with respect to, the production of oil, gas or other hydrocarbon minerals and that is paid to the state or any agency or instrumentality thereof regardless of the time of such payment shall be considered an oil and gas capital payment.”

*Amendment 450* provided for the ATF to receive 99% of all oil and gas capital payments received after August 14, 1984, and for the Lands Division of the Department of Conservation and Natural Resources to receive 1% of the oil and gas capital payments.

*Amendment 450* defined “trust capital” as “all assets of the trust fund other than trust income.” *Amendment 450* defined “trust income” as “the net income received by the state...from the investment and reinvestment of all assets of the trust fund, determined in accordance with the provisions of this amendment.” *Amendment 450* required that the ATF capital be held in perpetual trust and not appropriated or expended or disbursed for any purpose other than to acquire eligible investments. All eligible investments acquired with ATF capital were required to remain part of the ATF capital. *Amendment 450* required any income derived from investments be paid directly to the state General Fund and subject to appropriation by the legislature; however, *Amendment 450* also provided that, beginning in the 1989-1990 fiscal year, 1% of the income from the ATF be reinvested in the ATF, 2% of the income received in the 1990-1991 year be reinvested in the ATF, and that an additional 1% income each subsequent year was to be reinvested in the ATF until a total of 10% of the income each fiscal year was reinvested in the ATF to become trust capital.

The ATF is under the management and control of a Board of Trustees established by *Amendment 450*, and all powers necessary or appropriate for the management and control of the ATF are vested solely in the Board. These provisions in the law have not changed since *Amendment 450* was ratified. The nine member Board of Trustees consists of the Governor, the State Treasurer, the Director of Finance, three Board members appointed by the Governor, two Board members appointed by the Lieutenant Governor, and one Board member appointed by the Speaker of the House of Representatives. Each Board member may be reimbursed for actual expenses incurred in the performance of his or her duties related to the ATF. The Governor, State Treasurer, and the Director of Finance serve as ex-officio Board members, and the terms of the ex-officio Board members run concurrently with the terms in their respective offices. The term of office for each appointed Board member is six years. The Governor is the chairman and presiding officer of the Board. The Director of Finance is the vice-chairman, and the State Treasurer is the secretary. A majority of the Board members constitutes a quorum for the transaction of business by the Board, and decisions are made on the basis of a majority of the quorum present and voting, with each Board member having a single vote. The Board may appoint such other officers to perform such duties as the Board deems necessary or appropriate.

All proceedings of the Board, except executive sessions, must be recorded in writing and maintained in the permanent records of the Board, a copy of which must be filed in the office of the Board and open for public inspection there during regular business hours. The office of the Board is the office of the Director of Finance, located in the State Capitol building in Montgomery.

To the extent appropriate, the Board utilizes the Office of the State Treasurer in the administration of the ATF, including the keeping of the accounting and investment records, the management of bank accounts, the transfer of funds, and the safekeeping of securities evidencing investments. Also, the Board uses two financial custodians, State Street Bank and Trust Company and Bank of New York Mellon, to safekeep the ATF investments managed by investment professionals. The custodians maintain the investment records for the ATF.

To the extent practicable, the Board must keep all moneys invested in eligible investments to produce the greatest trust income while preserving the ATF capital. The Board has complete discretion in making decisions as to how and when investments are made. The only restriction on the Board pertaining to the investment of ATF moneys is that investments must be made with the same judgment and care that an institutional investor of the highest standard of prudence, intelligence and financial expertise would exercise under the circumstances prevailing at the time, not for the purpose of speculative profit, but for the generation of optimum income while preserving the safety and permanence of the trust.

#### **Changes Made to the Alabama Trust Fund by Subsequent Amendments**

*Amendment 450* states that “the legislature shall have the right and power to enact laws supplemental to this amendment and in furtherance of the purposes and objectives thereof, provided that such laws are not inconsistent with the express provisions of this amendment.” Beginning in 1988, several laws proposing constitutional amendments that changed several of the provisions of *Amendment 450* were passed by the Legislature and sent to the voters of the State of Alabama for ratification. The amendments that were ratified are summarized below.

#### **Amendment 488**

In 1988, *Amendment 488* was ratified to clarify the types of investments that could be made by both the Alabama Trust Fund and the Alabama Heritage Trust Fund. *Amendment 488* also contained the first mention of “capital gains” with the provision that “any capital gains realized from the sale of any investments forming a part of...the Alabama Trust Fund shall become a part of the trust capital of the fund...and shall be subject to all restrictions applicable to the preservation of such trust capital.”

### *Amendment 666*

*Amendment 666* was ratified in 2000. This Amendment made several significant changes to the ATF. First, it redistributed the portion of the oil and gas capital payments (which previously were retained in the ATF as trust capital) so that 35% of the payments would be paid to the County and Municipal Government Capital Improvement Trust Fund and the Alabama Capital Improvement Trust Fund (instead of to the ATF trust capital). Second, it authorized the State of Alabama to issue \$350 million of general obligation bonds, and also appropriated repayment of the bonds from the Alabama Capital Improvement Trust Fund. The amount of general obligation bonds authorized by *Amendment 666* was later increased to \$750 million by *Amendment 796* and an additional \$50 million by *Amendment 887* (see below). Third, *Amendment 666* significantly changed the distribution of the ATF income allocated to the state General Fund (which was previously 90% of total ATF income). Fourth, it provided a legal definition of the terms “realized capital gains” and “unrealized capital gains” and authorized the ATF Board to approve separate distributions of realized capital gains and unrealized capital gains. Details of these significant changes are discussed in the paragraphs below.

As stated above, *Amendment 666* resulted in a major change to the Alabama Trust Fund by redistributing a portion of the oil and gas capital payments received by the ATF (which previously comprised 99% of the total oil and gas capital payments received by the State of Alabama). *Amendment 666* established the County and Municipal Government Capital Improvement Trust Fund and the Alabama Capital Improvement Trust Fund. Beginning on October 1, 2001, 35% of all oil and gas capital payments paid into the ATF in any fiscal year are required to be transferred by the State Treasurer to the special trust funds created by *Amendment 666* in the following manner: (a) an amount equal to 7% of all oil and gas capital payments received by the ATF during the preceding fiscal year must be paid into the County and Municipal Government Capital Improvement Trust Fund; and (b) an amount equal to 28% of all oil and gas capital payments received by the ATF during the preceding fiscal year must be paid into the Alabama Capital Improvement Trust Fund.

Funds in the Alabama Capital Improvement Trust Fund may be appropriated directly for capital improvements. *Amendment 666* further authorized the State of Alabama to become indebted and to sell and issue interest-bearing general obligation bonds, in addition to all other bonds of the State, in an aggregate principal amount not exceeding \$350 million (which was subsequently increased to \$750 million by *Amendment 796* and an additional \$50 million by *Amendment 887*). Money in the Alabama Capital Improvement Trust Fund is also appropriated by *Amendment 666* to pay the bonds authorized above plus any bonds authorized by *Amendments 618, 619, and 620*.

*Amendment 666* significantly changed the distribution of the ATF income allocated to the state General Fund (which was previously 90% of total ATF income) being distributed pursuant to *Amendment 450* and *Code of Alabama 1975*, Sections 11-29-4 and 11-66-4. When ATF income for any fiscal year exceeds \$60 million, distributions of the ATF income from the portion transferred to the state General Fund were required as follows: 10% to the County Government Capital Improvement Fund and 10% to the Municipal Government Capital Improvement Fund. The amendment provided the Director of Finance should certify such amounts to the State Comptroller, who shall make the required distributions from the state General Fund not later than April 15 of the following fiscal year. *Amendment 666* also required that for the fiscal year following the first fiscal year that the Forever Wild Land Trust received \$15 million from ATF income, one-fourth of one percent of the ATF income be allocated to the Alabama Senior Services Trust Fund. This allocation was to increase each fiscal year by one-fourth of one percent of the ATF income; provided, however, that in no event would ATF income paid to the Alabama Senior Services Trust Fund exceed \$5 million in any one fiscal year.

*Amendment 666* also authorized the distribution of capital gains. The ATF Board was authorized to distribute up to 75% of the realized capital gains. According to *Amendment 666*, “realized capital gains” is defined as “gains from the sale or exchange of assets of the Alabama Trust Fund, other than fixed income assets, to the extent they exceed losses from the sale of such assets”. The amount of gain or loss on the sale of an asset shall be determined by subtracting its fair market value as of the end of the immediately preceding fiscal year from the proceeds of selling the asset. The amount distributed, if any, was determined by the ATF Board. *Amendment 666* required that the amount approved be distributed as follows: 10% to the County Government Capital Improvement Fund (established by the *Code of Alabama 1975*, Section 11-29-4); 10% to the Municipal Government Capital Improvement Fund (established by the *Code of Alabama 1975*, Section 11-66-4); and the remainder of such realized capital gains was to be paid into the state General Fund, except that a portion of such realized capital gains was to be distributed in the same manner as and deemed to be a part of ATF income for purposes of the distributions required under Sections 7 and 13 of *Amendment 543*.

In addition, *Amendment 666* authorized the distribution of up to 75% of the unrealized capital gains earned by the ATF. According to *Amendment 666*, “unrealized capital gains” is defined as “the excess of the fair market value of the ATF on the last day of the fiscal year over the fair market value of the Trust Fund on the last day of the immediately preceding fiscal year. The fair market value of the Trust Fund on the last day of a fiscal year shall be determined without including the trust income for the fiscal year, realized capital gains for the fiscal year, or the fair market value of fixed income assets”. The amount distributed, if any, was to be determined by the ATF Board. *Amendment 666* required that any unrealized capital gains distributed should be divided as follows: 10% to the County Government Capital Improvement Fund, and 10% to the Municipal Government Capital Improvement Fund, and the remainder of such unrealized capital gains should be paid to the General Fund except that a portion of such should be distributed in the same manner as trust income as mentioned in the above paragraph.

The portions of *Amendment 666* relating to the distribution of trust income, realized capital gains, and unrealized capital gains were repealed by *Amendment 856* (see below).

**Amendment 668**

*Amendment 668* was also ratified in 2000. *Amendment 668* appropriated the distributions authorized by *Amendment 666*. In addition, *Amendment 668* provided the State Comptroller with specific allocation guidelines for the annual distributions to the counties and cities from the County Government Capital Improvement Fund and the Municipal Government Capital Improvement Fund. The portions of *Amendment 668* relating to the distribution of trust income were repealed by *Amendment 856* (see below).

**Amendment 709**

In 2002, *Amendment 709* established the Education Trust Fund Rainy Day Account within the Alabama Trust Fund. The Account was authorized to be funded from oil and gas capital payments up to an amount equal to 6% of the Education Trust Fund appropriations for the 2001-2002 fiscal year. The funds in the Account were authorized to be withdrawn only to prevent proration of the appropriations from the Education Trust Fund. The Legislature was required to provide for the replenishment of the account within 5 years. The allocations of oil and gas capital payments to the Alabama Capital Improvement Trust Fund and the County and Municipal Government Capital Improvement Trust Fund were required to be made from the total amount received by the ATF before any allocation was made to the Education Trust Fund Rainy Day Account. *Amendment 709* was completely repealed by *Amendment 803* (see below).

**Amendment 796**

As discussed above in the section concerning *Amendment 666*, *Amendment 796* increased the amount of bonds authorized in *Amendment 666* from \$350 million to \$750 million. *Amendment 796* also added a competitive bidding requirement for the sale of the bonds and a requirement that contracts for the bond issuance expenses be awarded to businesses and individuals which reflect the racial and ethnic diversity of the State.

### Amendment 803

In 2008, *Amendment 803* repealed and replaced *Amendment 709*. *Amendment 803* created within the Alabama Trust Fund the Education Trust Fund Rainy Day Account and the General Fund Rainy Day Account. In any year in which the Governor certifies to the State Comptroller and notifies the Legislature that proration would occur in appropriations from the Education Trust Fund or the State General Fund, the Education Trust Fund Rainy Day Account or the General Fund Rainy Day Account shall be credited with oil and gas capital payments previously transferred into the Alabama Trust Fund in the amount required to fund withdrawals from the accounts of the amounts authorized. The amount withdrawn from the Education Trust Fund Rainy Day Account (ETFRDA) in a fiscal year may not exceed 6.5% of the previous fiscal year's Education Trust Fund appropriations less the total amount of any prior years' withdrawals from the ETFRDA which have not been repaid to the ETFRDA. The amount withdrawn from the General Fund Rainy Day Account (GFRDA) in a fiscal year may not exceed ten percent of the previous fiscal year's General Fund appropriations less the total amount of any prior years' withdrawals from the GFRDA which have not been repaid to the GFRDA. Beginning in the 2008-2009 fiscal year, withdrawals from the ETFRDA and the GFRDA shall be limited to an amount necessary to reach the average of the estimated available revenue for each Fund which is to be certified by the Finance Director and the Legislative Fiscal Officer prior to the third legislative day of each Regular Session. Funds from the ETFRDA or the GFRDA may be withdrawn only to prevent proration of the appropriations from the Education Trust Fund or the General Fund. In the event funds are withdrawn from the ETFRDA or the GFRDA, an additional amount equal to twenty-five percent of the Education Trust Fund or the General Fund transfer amount shall be transferred from the Alabama Trust Fund to the County and Municipal Government Capital Improvement Trust Fund. The Legislature must replenish the accounts within six years after withdrawal of any funds from the ETFRDA and within ten years after withdrawal of any funds from the GFRDA; however, the amounts transferred to the County and Municipal Government Capital Improvement Trust Fund are not required to be replenished.

The allocations of oil and gas capital payments authorized by *Amendment 666* to the Alabama Capital Improvement Trust Fund and the County and Municipal Government Capital Improvement Trust Fund are in addition to the transfers authorized by *Amendment 803* and are required to be made from the total amount received by the ATF before any allocation is made to the ETFRDA or the GFRDA.

*Amendment 856* repealed the portions of *Amendment 803* relating to additional transfers to the County and Municipal Government Capital Improvement Trust Fund (see below).

### **Amendment 856**

*Amendment 856* was ratified in 2012. *Amendment 856* mandates a new procedure for distributions made from the Alabama Trust Fund beginning with the 2012-2013 fiscal year. According to *Amendment 856* the following distributions shall be made annually from the Alabama Trust Fund in lieu of any other distributions of trust income, realized capital gains, or unrealized capital gains provided by law: An amount equal to 33% of the oil and gas capital payments paid into the Alabama Trust Fund for the fiscal year ending one year prior to the beginning of the fiscal year for which the distribution is being made plus 5% of the average market value of invested assets of the Alabama Trust Fund as of the end of the three fiscal years ending one, two, and three years prior to the beginning of the fiscal year for which the distribution is being made shall be distributed as follows: a) 10% of the amount distributed shall be paid to the County Government Capital Improvement Fund; b) 10% of the amount distributed shall be paid to the Municipal Government Capital Improvement Fund; c) 10% of the amount distributed, but not more than \$15 million in any one fiscal year, shall be paid to the Forever Wild Land Trust through the fiscal year ending September 30, 2032; d) 1% of the amount distributed, but not more than \$5 million in any one fiscal year, shall be paid to the Alabama Senior Services Trust Fund; e) The remainder of the amount distributed shall be paid to the State General Fund. The ATF Board of Trustees may elect to distribute a smaller percentage of the oil and gas capital payments, a smaller percentage of the average amount of invested assets, or both. In addition, *Amendment 856* provides that beginning with the 2012-2013 fiscal year, whenever funds are withdrawn from the ETRDA or the GFRDA, there shall not be any additional transfer of funds into the County and Municipal Government Capital Improvement Trust Fund, and investment income earned on amounts repaid to the ETRDA and the GFRDA shall not be distributed to the State General Fund.

*Amendment 856* also requires beginning with the 2012-2013 fiscal year and continuing through the 2014-2015 fiscal year, \$145,796,943 to annually be transferred from the ATF to the State General Fund. Act Number 2013-6, Acts of Alabama, which was effective February 2013, requires the Legislature to provide for the repayment of these transfers, totaling \$437,390,829, by not later than September 30, 2026.

*Amendment 856* repealed all laws or parts of laws in conflict with this amendment, including, but not limited to: those portions of *Amendments 450, 543, and 666* to the ***Constitution of Alabama of 1901***, relating to the distribution of trust income, realized capital gains, and unrealized capital gains; *Amendment 668* to the ***Constitution of Alabama of 1901***, relating to the distribution of trust income; those portions of *Amendment 803* to the ***Constitution of Alabama of 1901***, relating to additional transfers to the County and Municipal Government Capital Improvement Fund and the distribution of investment income on repayments to the ETRDA and GFRDA; and Sections 11-66-5 and 11-29-5 of the ***Code of Alabama 1975***, as amended, relating to appropriations of trust income to the County and Municipal Government Capital Improvement Trust Funds.

### **Amendment 887**

*Amendment 887* was ratified in 2014. As discussed above in the section concerning *Amendment 666*, *Amendment 887* increased the amount of bonds authorized in *Amendment 666* by an additional amount of \$50 million. *Amendment 887* also included a competitive bidding requirement for the sale of the bonds and a requirement that contracts for the bond issuance expenses be awarded to businesses and individuals which reflect the racial and ethnic diversity of the State. Bonds issued pursuant to this amendment shall be issued for a maturity of 20 years or less. All of the proceeds from the bonds shall be distributed to the Armory Commission of Alabama for plans, construction, and maintenance of Alabama National Guard armories. In addition to any Oil and Gas Capital Payments received by the Alabama Trust Fund paid into the Alabama Capital Improvement Trust Fund pursuant to *Amendment 666*, so much as shall be necessary of all Oil and Gas Capital Payments received by the Alabama Trust Fund during any fiscal year shall be paid into the Alabama Capital Improvement Trust Fund to pay the principal and interest on the bonds authorized by this amendment.

### **Changes Made to the Alabama Trust Fund by Official Opinions of the Attorney General**

The Alabama Constitution specifically calls upon the Attorney General to issue official opinions about state law. Public officials may, upon written request, ask the Attorney General to give his legal interpretation of the law. According to the official website of the Office of the Attorney General, “opinions of the Attorney General are advisory in nature and not binding. They are, however, entitled to great weight and may constitute persuasive authority. The written opinion of the Attorney General secured by any officer, board, local governing body, or agency protects the officer and members of the board or agency from liability to either the state, county, or other municipal subdivisions of the state because of any official act or acts performed as directed or advised in such opinion.” The Attorney General has issued several official opinions concerning the ATF since the ratification of *Amendment 450* in 1985. These opinions are summarized below in chronological order. The two most recent opinions, *Opinion Number 2010-098* and *Opinion Number 2011-025*, discussed below, resulted in a significant financial impact on the ATF.

*Opinion Number 86-239* issued on May 1, 1986 addressed the topic of realized capital gains from ATF assets and whether such gains should be distributed to the state General Fund or be retained in the trust corpus. The Attorney General opined that realized capital gains were not trust income as defined by *Amendment 450* and such gains should remain in the trust corpus.

*Opinion Number 2000-006* issued on October 7, 1999 permitted the ATF Board to allow investment managers to deduct their fees from the income earned on such investments before the net income is paid to the ATF.

**Opinion Number 2004-042** issued on December 18, 2003 and **Opinion Number 2004-081** issued on February 26, 2004 interpreted the phrase “within 30 days following the end of each fiscal year,” as used in Section III(b) of *Amendment 666*. The Attorney General opined that the phrase is directory and not mandatory. Thus, the ATF Board may transfer funds under Section III(b) after 30 days following the end of each fiscal year provided that the ATF Board does not delay action to the extent that it presents a potential waiver of its authority to do so.

**Opinion Number 2005-027** issued on December 6, 2004 interpreted Sections III(b) and (c) of *Amendment 666*, stating that the ATF Board may transfer **any percentage up to 75 percent** of the capital gains of the ATF for the fiscal year. This opinion also stated that auditors hired by the ATF Board to perform audits of companies extracting oil and gas from state-owned property must be paid from funds appropriated by the Legislature, not by ATF income.

**Opinion Number 2006-152** issued on September 26, 2006 addressed issues concerning the income and distribution of funds from the ATF as required by *Amendment 666*. First, this opinion states that realized and unrealized gains are included in the definition of trust income to determine the maximum amount of the \$15 million transferable to the Alabama Forever Wild Land Trust. Second, this opinion states that if the 10% allocated to the Alabama Forever Wild Land Trust exceeds the \$15 million transfer amount, the excess should be reinvested in the ATF. Third, this opinion states that the annual allocation to the Alabama Senior Services Trust Fund is not contingent upon the Alabama Forever Wild Land Trust receiving \$15 million each year. Fourth, this opinion states that “trust income” is defined in the amendments and statutes as excluding income that becomes part of the trust capital of the ATF. As such, trust income required to be reinvested in the ATF corpus will not be considered as part of trust income for distribution to the various entities. Fifth, this opinion states that upon cessation of distributions to the Alabama Forever Wild Land Trust, the portion of unrealized and realized capital gains that were distributed to it should be reinvested in ATF as trust capital.

**Opinion Number 2008-046** issued on January 31, 2008 and **Opinion Number 2010-060** issued on April 19, 2010 both address whether certain monies received by the State of Alabama constituted oil and gas capital payments due to the ATF. **Opinion Number 2008-046** stated that interest penalties and post-judgment interest imposed upon Exxon Mobil Corporation pursuant to the litigation were not oil and gas capital payments due to the ATF. **Opinion Number 2010-060** stated that payments under a natural gas storage lease negotiated by the Department of Conservation and Natural Resources were not oil and gas capital payments due to the ATF.

***Opinion Number 2010-098*** issued on August 24, 2010 addressed several questions for the State Treasurer. At issue was the accounting method used by the Office of the State Treasurer to calculate realized capital gains. It was determined by the Attorney General that the Office of the State Treasurer had not performed the calculation to comply with *Amendment 666*. As a result, the amounts reported by the State Treasurer to the ATF Board as being available for several distributions were incorrect. The Attorney General opined that the ATF Board should transfer the amount of the difference, up to the maximum, that should have been transferred in previous years as soon as reasonably possible. The Office of the State Treasurer immediately began preparing a recalculation of the realized capital gains in compliance with *Amendment 666*.

***Opinion Number 2011-025*** issued on January 5, 2011 addressed questions from the State Treasurer again concerning the subject of capital gains. At issue in this opinion were the previous calculations performed by the Office of the State Treasurer and provided to the ATF Board; these calculations did not include the oil and gas capital payments in the calculation of “unrealized capital gains”. According to the Attorney General, *Amendment 666* “altered the distribution of income and capital incomes earned” by the ATF. ***Opinion Number 2011-025*** states that *Amendment 666* defines “unrealized capital gains” as follows: “The excess of the fair market value of the Alabama Trust Fund on the last day of the fiscal year over the fair market value of the Trust Fund on the last day of the immediately preceding fiscal year. The ***fair market value*** of the Trust Fund on the last day of a fiscal year ***shall be determined without including the Trust Income*** for the fiscal year; ***realized capital gains*** for the fiscal year; or the fair market value of ***fixed income assets***.” ***Opinion Number 2011-025*** states that ***oil and gas capital payments are not included among the three exclusions emphasized above***. ***Opinion Number 2011-025*** recommended that appropriate recalculation and payment of the difference be performed in the same manner as that recommended in ***Opinion Number 2010-098***. The result of ***Opinion Number 2011-025*** is that oil and gas capital payments could be subject to distribution as any other income of the ATF. The Office of the State Treasurer immediately began preparing a recalculation of the unrealized capital gains in compliance with *Amendment 666* to include the oil and gas capital payments.

### **ATF Financial Statements**

The State Treasurer maintains the accounting records for the Alabama Trust Fund. The financial statements included in this report are presented in compliance with Generally Accepted Accounting Principles (GAAP) applicable to the fund classification required by the Governmental Accounting Standards Board, and those statements were audited to determine whether those principles have been followed. The ATF was presented in the audited financial statements as a permanent trust fund until 2003; however, the legal requirements and language included in *Amendment 666* and subsequent opinions of the Attorney General resulted in transactions that do not conform to GAAP for permanent trust funds.

The calculations described in the previous section of this report are prepared only for the purpose of authorizing distributions of capital gains in compliance with *Amendment 666* and the related Opinions of the Attorney General. The amounts calculated for constitutional purposes do not, and are not intended to agree with the amounts reported for investment income (which includes all capital gains, net of losses, and other income from all investments) in the financial statements prepared in compliance with GAAP.

The significant changes in *Amendment 666* and resulting subsequent distributions of unrealized capital gains on certain investments resulted in distributions of part of the trust corpus, or trust capital. This situation required the State of Alabama to reclassify the fund type for the ATF financial statements in order to comply with Generally Accepted Accounting Principles (GAAP). The ATF is no longer reported as a permanent trust fund in the financial statements of the State of Alabama prepared in compliance with GAAP. The ATF is currently reported in the financial statements of the State of Alabama as a special revenue fund instead of a permanent trust fund.

**Transfers Made from the Alabama Trust Fund**

The ATF made the following distributions in accordance with *Amendment 856*:

Fiscal Year	Counties and Cities (*)	Senior Services Trust Fund	General Fund	Forever Wild Land Trust	Total Transferred
2016-2017	\$28,417,416	\$1,420,871	\$98,040,084	\$14,208,708	\$142,087,079
2015-2016	\$29,944,941	\$1,497,247	\$103,310,045	\$14,972,470	\$149,724,703
2014-2015	\$29,256,081	\$1,462,804	\$246,730,425 (**)	\$14,628,041	\$292,077,351
2013-2014	\$30,083,184	\$1,504,159	\$249,625,519 (**)	\$15,000,000	\$296,212,862

(\*) “Counties and Cities” refers to the County Government Capital Improvement Fund and the Municipal Government Capital Improvement Fund.

(\*\*) This amount includes \$145,796,943 that is transferred annually to the General Fund beginning with the 2012-2013 fiscal year and continuing through the 2014-2015 fiscal year.

The ATF’s transfers of oil and gas capital payments to the Alabama Capital Improvement Trust Fund and the County and Municipal Government Capital Improvement Trust Fund in accordance with *Amendment 666* for the past five fiscal years were as follows:

Fiscal Year	Alabama Capital Improvement Trust Fund	County and Municipal Capital Improvement Trust Fund	Total Transferred
2016-2017	\$13,223,936	\$3,305,984	\$16,529,920
2015-2016	\$17,010,690	\$4,252,673	\$21,263,363
2014-2015	\$24,408,785	\$6,102,196	\$30,510,981
2013-2014	\$23,015,682	\$5,753,920	\$28,769,602
2012-2013	\$23,833,286	\$5,958,321	\$29,791,607

## **OTHER COMMENTS**

### **Funds Used to Account for the Trust**

The ATF operates from two funds maintained in the State Treasury. Fund 0464 is used to account for the ATF. Fund 0747 is used to account for the AFWLT Stewardship Account.

### **Offshore Production Forecasts**

The State Oil and Gas Board of Alabama/Geological Survey of Alabama provided the ATF Board with an offshore natural gas production report, which includes the current status and future outlook of offshore production. This report states that natural gas production is in a natural state of decline, which is characteristic of maturing fields. Its analysis indicates that under an optimal development scenario, production will extend through fiscal year 2032. Subsequent to that report, the State Oil and Gas Board of Alabama updated its assessment of economic conditions and production volumes and has indicated that the State's offshore natural gas reservoir is unlikely to reach this estimate of optimal potential. The economic limit of gas production is projected to year 2025.

---

*Independent Auditor's Report*

## **Independent Auditor's Report**

Alabama Trust Fund Board of Trustees  
Montgomery, Alabama 36130

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities of the Alabama Trust Fund, as of and for the year ended September 30, 2017, and related notes to the financial statements, which comprise the basic financial statements of the Alabama Trust Fund as listed in the table of contents as Exhibits 1 and 2.

### **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 of 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 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 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Alabama Trust Fund, as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed more extensively in Note 1, the financial statements present only the Alabama Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Alabama, as of September 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

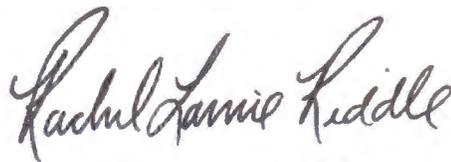
**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) 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 assurances on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2019, on our consideration of the Alabama Trust Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Alabama Trust Fund's internal control over financial reporting and compliance.



Rachel Laurie Riddle  
Chief Examiner  
Department of Examiners of Public Accounts

Montgomery, Alabama

January 24, 2019

---

*Management's Discussion and Analysis*  
*(Required Supplementary Information)*

## **Management's Discussion and Analysis For the Year Ended September 30, 2017**

This section of the Alabama Trust Fund's (ATF) annual financial report presents a discussion and analysis of its financial activities during the fiscal year that ended on September 30, 2017. The financial statements include the Alabama Forever Wild Land Trust Stewardship Account (AFWLT Stewardship), which is managed and administered by the Department of Conservation and Natural Resources. This information should be considered in conjunction with the financial statements, related notes and supplementary information.

The ATF is part of the primary government of the State of Alabama and classified as a governmental fund. As a special revenue fund, the ATF's resources are legally restricted to expenditure for specified purposes. The AFWLT Stewardship is also classified as a special revenue fund and is used for the acquisition, maintenance and protection of unique lands and water areas.

### **Financial Statements and Required Supplementary Information**

The financial statements include the *Balance Sheet/Statement of Net Position* and the *Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities*. The Notes to the Financial Statements are considered an integral part of the financial statements. The fund financial statements are prepared using the modified accrual basis of accounting while the government-wide statements are prepared using the accrual basis of accounting. Revenues are recognized in the period they become available and measurable, and expenditures are recognized in the period in which the liability is incurred.

The *Balance Sheet/Statement of Net Position* includes all assets and liabilities of the ATF and AFWLT Stewardship and the fund balances as of the end of the fiscal year. Assets less liabilities and deferred inflows equal fund balances. Assets include cash and cash equivalents, accounts receivable, investments, due from other funds, investment sales receivable, interest receivable, and securities lending collateral. Liabilities are primarily payables related to the purchase of investments and amounts due to other state funds, along with the securities lending obligations.

The *Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities* provides all revenues, expenditures and transfers of the ATF and AFWLT Stewardship for the fiscal year. Revenues include investment income, federal grants, net royalties, and changes in fair value of investments. Expenditures are made up of operating expenses. Transfers to and from other state funds are also included.

The Notes to the Financial Statements include a summary of significant accounting policies, description of investment securities including credit risk, and land allocations.

Comparative Summary Statements

**Alabama Trust Fund**  
**Summary Comparative Balance Sheet**  
**As of September 30, 2017 and 2016**  
**(Amounts in Thousands)**

	2017	2016	Variance	% Increase (Decrease)
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 54,105	\$ 12,393	\$ 41,712	336.58%
Investment Sales Receivable	60,414	31,325	29,089	92.86%
Investments	3,171,264	2,583,794	587,470	22.74%
Due from Other Funds	12,470	161,566	(149,096)	(92.28%)
Accounts Receivable	7,923	7,129	794	11.14%
Interest Receivable	8,159	6,979	1,180	16.91%
Securities Lending Collateral	212,997	249,780	(36,783)	(14.73%)
<b>TOTAL ASSETS</b>	<b><u>3,527,332</u></b>	<b><u>3,052,966</u></b>	<b><u>474,366</u></b>	<b>15.54%</b>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities				
Warrants Payable	1	-	1	100.00%
Investment Purchases Payable	118,602	60,538	58,064	95.91%
Accounts Payable	102	31	71	229.03%
Securities Lending Obligation	212,997	249,780	(36,783)	(14.73%)
Total Liabilities	<u>331,702</u>	<u>310,349</u>	<u>21,353</u>	6.88%
<b>Deferred Inflows of Resources</b>	1,979	2,165	(186)	(8.59%)
<b>Fund Balance</b>				
Restricted for:				
Natural Resources and Recreation	33,692	30,181	3,511	11.63%
Restricted for Trust Capital	3,159,959	2,710,271	449,688	16.59%
Total Fund Balance	<u>3,193,651</u>	<u>2,740,452</u>	<u>453,199</u>	16.54%
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b><u>\$ 3,527,332</u></b>	<b><u>\$ 3,052,966</u></b>	<b><u>\$ 474,366</u></b>	<b>15.54%</b>

**Comparative Summary Statements – Continued**

**Alabama Trust Fund  
Summary Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Fiscal Years Ended September 30, 2017 and 2016  
(Amounts in Thousands)**

	2017	2016	Variance	% Increase (Decrease)
<b>REVENUES</b>				
Fines, Forfeits, and Court Settlements	\$ 31	\$ -	\$ 31	100.00%
Investment Income	333,066	252,551	80,515	31.88%
Other Revenues	47,856	42,655	5,201	12.19%
Total Revenues	<u>380,953</u>	<u>295,206</u>	<u>85,747</u>	29.05%
<b>EXPENDITURES</b>				
Natural Resources and Recreation	1,091	451	640	141.91%
General Government	11,159	10,840	319	2.94%
Total Expenditures	<u>12,250</u>	<u>11,291</u>	<u>959</u>	8.49%
Excess (Deficiency) of Revenues Over (Under) Expenditures	368,703	283,915	84,788	29.86%
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	243,014	733	242,281	33053.34%
Operating Transfers Out	(158,519)	(170,989)	12,470	(7.29%)
Total Other Financing Sources (Uses)	<u>84,495</u>	<u>(170,256)</u>	<u>254,751</u>	(149.63%)
<b>NET CHANGE IN FUND BALANCE</b>	453,198	113,659	339,539	298.73%
<b>FUND BALANCE, OCTOBER 1 as Restated</b>	<u>2,740,452</u>	<u>2,626,793</u>	<u>113,659</u>	4.33%
<b>FUND BALANCE, SEPTEMBER 30</b>	<u>\$ 3,193,650</u>	<u>\$ 2,740,452</u>	<u>\$ 453,198</u>	16.54%

**Financial Analysis for the Alabama Trust Fund**

- Cash and Cash Equivalents increased by \$41.7 million. This difference is reflective of an increase in cash and short-term investments held by the ATF and the AFWLT Stewardship Fund. The most significant reason for the increase were the cash requirements to fund a new investment at the beginning of the next fiscal year.
- Investment Sales Receivable is the amount due to be paid to the ATF on the sale of investments and fluctuates based on active investment management of the portfolios. At fiscal year end, the receivable for fiscal year 2017 was \$60 million as compared to \$31 million in fiscal year 2016.

- Investments of the ATF include fixed income securities, real estate, equity securities, STIF accounts, TBAs, and derivatives. Investments increased by \$587.5 million from fiscal year 2016 to fiscal year 2017. Investment fluctuations are due to several variables, which include, interest and dividend income received, oil and gas capital payments, realized gains and losses, unrealized gains and losses, trading activity, repayments received for rainy day accounts, and distributions from the ATF. The most significant reason for the increase was the repayment of \$161,565,874 to the General Fund Rainy Day account, a partial repayment of \$238,434,126 to the ATF from the Alabama Settlement Authority and realized gains on the sale of investments.
- Due from Other Funds is the amount due primarily from withdrawals made from the Rainy Day accounts, and any amounts due to the AFWLT Stewardship. Amendment 803 directs that the Legislature must replenish the General Fund Rainy Day account within ten years (fiscal year 2020) after withdrawal of any funds. The decrease was due to the General Fund Rainy Day account being repaid in full during the fiscal year.
- Interest Receivable includes interest and dividend income received during the first 60 days after the fiscal year. Interest receivable at the end of fiscal year 2017 increased from the amount due for the same period in fiscal year 2016.
- Both Securities Lending Collateral and Securities Lending Obligation represent the balances as of September 30<sup>th</sup> of each year. The collateral asset and obligation liability decreased by \$36 million due to the value of securities loaned as of fiscal year-end.
- Investment Purchases Payable represents the liability for the purchase of investments which were recorded as of fiscal year end, but for which payment has not been made. In fiscal year 2016, this liability was \$60.5 million. In fiscal year 2017, this obligation increased to \$119 million.
- Accounts Payable are the amounts owed as of September 30<sup>th</sup>. This balance represents amounts owed by the AFWLT Stewardship.
- Deferred Inflows of Resources is accrued revenue expected to be received December through March each year. Interest generated by fixed income investments accounts for the deferred inflows, since dividends are not generally declared more than two months in advance. Interest deferred at the end of fiscal year 2017 decreased from the amount due for the same period in fiscal year 2016.
- Investment Income consists of interest and dividends generated by the ATF, change in fair value of the investments from the prior period and realized gains and losses. The increase in investment income was attributed to a decrease in the change of fair value of \$9.7 million, an increase in realized gains of \$82 million, and an increase in other investment income from \$58.7 million in fiscal year 2016 to \$67 million in fiscal year 2017.

- Other Revenues represent the oil and gas capital payments received by the ATF from the production of natural gas in Alabama's offshore waters. Oil and gas payments fluctuate from year to year based on production and price. Payments increased by \$5.2 million in fiscal year 2017 as compared to fiscal year 2016.
- Natural Resources and Recreation expenditures include amounts expended by the AFWLT Stewardship.
- General Government expenditures include securities lending rebate expenses, other professional fees, and investment management fees. Management fees increased from \$10.6 million in fiscal year 2016 to \$10.9 million in fiscal year 2017. These fees are based on the market value of the portfolios.
- Operating Transfers In are transfers into the AFWLT Stewardship from the AFWLT and transfers to the ATF from the Alabama Settlement Authority. When AFWLT makes a land acquisition, 15% of the appraised value of the land is required to be transferred to the AFWLT Stewardship. \$238.4 million was transferred from the Alabama Settlement Authority of the unpaid amount owed to the ATF from transfers to the State General Fund in fiscal years 2013, 2014, and 2015 pursuant to Amendment 856 to the Constitution of Alabama of 1901.
- Operating Transfers Out are annual distributions from ATF. During fiscal year 2017, \$98 million was transferred to the General Fund, \$14 million each was transferred to the County Government Capital Improvement Fund, the Municipal Government Capital Improvement Fund, and the AFWLT. \$1.4 million was transferred to the Alabama Department of Senior Services. The transfer of oil and gas capital payments in fiscal year 2017 decreased by \$4.8 million compared to fiscal year 2016.

---

# *Basic Financial Statements*

---

*This Page Intentionally Blank*

---

***Governmental Funds Balance Sheet/Statement of Net Position***  
***Alabama Trust Fund***  
***September 30, 2017***

	Alabama Trust Fund	Reconciling Items (Note 3)	Statement of Net Position
<b><u>Assets</u></b>			
Cash and Cash Equivalents	\$ 54,104,585	\$	\$ 54,104,585
Investments	3,171,263,693		3,171,263,693
Due From Other Funds	12,470,000		12,470,000
Investment Sales Receivable	60,414,098		60,414,098
Accounts Receivable	16,082,107		16,082,107
Securities Lending Collateral	212,997,280		212,997,280
Capital Assets, Net of Accumulated Depreciation		5,341,433	5,341,433
Capital Assets Not Depreciated		222,042,497	222,042,497
Total Assets	<u>3,527,331,762</u>	<u>227,383,930</u>	<u>3,754,715,693</u>
<b><u>Liabilities, Deferred Inflows of Resources and Fund Balances</u></b>			
<b><u>Liabilities</u></b>			
Warrants Payable	869		869
Investment Purchases Payable	118,602,221		118,602,221
Accounts Payable	102,381		102,381
Securities Lending Obligation	212,997,280		212,997,280
Total Liabilities	<u>331,702,751</u>		<u>331,702,751</u>
<b><u>Deferred Inflows of Resources</u></b>	<u>1,978,807</u>	<u>(1,978,807)</u>	
<b><u>Fund Balances</u></b>			
Restricted for Natural Resources and Recreation	33,691,741	(33,691,741)	
Restricted for Alabama Trust Fund Capital	3,159,958,463	(3,159,958,463)	
Total Fund Balances	<u>3,193,650,204</u>	<u>(3,193,650,204)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,527,331,762</u>		
<b><u>Net Position</u></b>			
Net Investment in Capital Assets		227,383,930	227,383,930
Restricted for Natural Resources and Recreation		33,691,741	33,691,741
Restricted for Alabama Trust Fund Capital		3,161,937,270	3,161,937,270
Total Net Position		<u>\$ 3,423,012,941</u>	<u>\$ 3,423,012,941</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

***Statement of Governmental Revenues, Expenditures and  
Changes in Fund Balances/Statement of Activities  
Alabama Trust Fund  
September 30, 2017***

	Alabama Trust Fund	Reconciling Items (Note 3)	Statement of Activities
<b><u>Revenues</u></b>			
Fines, Forfeits, and Court Settlements	\$ 30,719	\$	\$ 30,719
Investment Income	333,066,334	(185,611)	332,880,723
Other Revenues	47,856,266		47,856,266
Capital Contributions		28,303,967	28,303,967
Total Revenues	<u>380,953,320</u>	<u>28,118,355</u>	<u>409,071,675</u>
<b><u>Expenditures</u></b>			
Current:			
Natural Resources and Recreation	1,090,910	63,827	1,154,737
General Government	11,159,221		11,159,221
Total Expenditures	<u>12,250,132</u>	<u>63,827</u>	<u>12,313,959</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>368,703,188</u>	<u>28,054,529</u>	<u>396,757,717</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In	243,014,215		243,014,215
Transfers Out	(158,519,375)		(158,519,375)
Total Other Financing Sources (Uses)	<u>84,494,840</u>		<u>84,494,840</u>
Net Change in Fund Balances/Net Position	453,198,028	28,054,529	481,252,556
Fund Balances/Net Position - October 1, 2016, as Restated	<u>2,740,452,177</u>	<u>201,308,208</u>	<u>2,941,760,385</u>
Fund Balances/Net Position - September 30, 2017	<u>\$ 3,193,650,204</u>	<u>\$ 229,362,737</u>	<u>\$ 3,423,012,941</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

#### Note 1 – Summary of Significant Accounting Policies

The financial statements of the Alabama Trust Fund (ATF) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

#### A. Reporting Entity

The State of Alabama Legislature passed Amendment 450 to the *Alabama Constitution of 1901* that created the Alabama Trust Fund (ATF) as an irrevocable permanent trust fund. The citizens of the State of Alabama ratified the amendment June 4, 1985. The ATF was created for the purpose of investing the proceeds of oil and gas bids awarded on August 14, 1984, for continuing benefit of the State of Alabama and the citizens thereof. The ATF is under the management and control of the Alabama Trust Fund Board, and all powers necessary or appropriate for the management and control of the trust fund are vested solely in the Board. The Board utilizes the facilities of the State Treasurer in the administration of the ATF.

The ATF is part of the primary government of the State of Alabama. It is reported in the Comprehensive Annual Financial Report as a major governmental fund.

The State of Alabama General Fund transferred into the ATF, as the initial trust capital, moneys in an amount equal to the sum of all proceeds of any oil and gas capital payments received by the State pursuant to the sealed bids awarded on August 14, 1984. The State Lands Division of the Department of Conservation and Natural Resources received four percent of the proceeds of these awards which had been received by the State pursuant to the sealed bids awarded on August 14, 1984, which sum was carried in the State treasury to the credit of the State Lands Fund.

In addition to the transfer by the General Fund into the ATF, the Alabama Heritage Trust Fund transferred its trust capital to the ATF as required by Amendment 450. The Alabama Heritage Trust Fund, created by Amendment 394, was a separate large trust fund consisting primarily of oil and gas royalties. The Alabama Heritage Trust Fund's trust capital was transferred to the Alabama Trust Fund during the fiscal year ended September 30, 2002, as stipulated in Amendment 450. The amortized cost of the investments on the date the transfer occurred was \$467,002,693 and the fair value of the investments was \$456,434,138.

---

---

*Notes to the Financial Statements*  
*For the Year Ended September 30, 2017*

---

---

The ATF trust capital is augmented by (1) such other moneys or assets as the Legislature may by law appropriate and transfer to the trust fund as a permanent part thereof; (2) such other moneys or assets as may be contributed to the trust fund from any source; and (3) all proceeds of any oil and gas capital payments as defined in Amendment 450 subsequent to August 14, 1984. The State Lands Division of the Department of Conservation and Natural Resources receives one percent of all proceeds of any oil and gas capital payments as defined in Amendment 450 subsequent to August 14, 1984, which sum is carried in the State treasury to the credit of the State Lands Fund.

The trust capital is to be held in perpetual trust and not appropriated by the Legislature or expended or disbursed for any purpose other than to acquire eligible investments in accordance with the provisions of Amendment 450.

Amendment 488 was ratified by the citizens of Alabama on November 23, 1988. This amendment authorizes the ATF to invest in such kinds of investments as authorized by law for the investment of any of the trust funds of either the Teachers' Retirement System of Alabama or the Employees' Retirement System of Alabama. The Teachers' Retirement System of Alabama and the Employees' Retirement System of Alabama may invest in any types of investments that the Board of Control of each individual system approves. All eligible investments acquired, in whole or in part, constitute part of the trust capital, but any trust income derived there from is to be paid directly into the general fund as it is received by the Board, subject to appropriation and withdrawal by the Legislature.

Amendment 543 required, beginning with state fiscal year 1992-1993, the percentage of trust income earned from the ATF that would have been reinvested in the ATF under Amendment 450 be allocated and paid into the Alabama Forever Wild Land Trust (AFWLT). Beginning with state fiscal year 1992-1993, the amount to be allocated was four percent with one additional percent each subsequent year until a total of ten percent is allocated and paid into the AFWLT. Thereafter, ten percent of the trust income earned from the ATF is allocated and paid into the AFWLT; provided, however, that in no event shall such trust income paid to the AFWLT exceed \$15 million in any one fiscal year.

Amendment 543 established a separate account within the ATF known as the Alabama Forever Wild Land Trust Stewardship Account (Stewardship Account). When the Alabama Forever Wild Land Trust acquires property or an interest in property, the AFWLT Board transfers an amount from the AFWLT equal to fifteen percent of the appraised value of the land acquired to the Stewardship Account. The ATF Board provides for the investment of the Stewardship Account. The AFWLT Board may authorize the expenditure of any interest income generated from the investment of funds within the Stewardship Account by the ATF. The AFWLT Board may authorize by a three-fifths vote that funds within the corpus of the Forever Wild Land Trust Stewardship Account be expended by the Department for management purposes for the next fiscal year, provided that funds from the Stewardship Account may not be expended to purchase additional property or interests therein.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

The State of Alabama Legislature passed Act Number 2000-491 that proposed an amendment to the *Alabama Constitution of 1901*. The proposed amendment was submitted to the citizens of the State of Alabama at the November 7, 2000 election and proclaimed ratified December 13, 2000. Amendment 666 to the *Alabama Constitution of 1901* redistributed a portion of the oil and gas capital payments now being paid into the ATF pursuant to Amendment 450.

Amendment 666 established the County and Municipal Government Capital Improvement Trust Fund and the Alabama Capital Improvement Trust Fund. Beginning on October 1, 2001, 35% of all oil and gas capital payments paid into the ATF in any fiscal year shall be transferred by the State Treasurer to the special trust funds created by Amendment 666 in the following manner: (a) an amount equal to 7% of all oil and gas capital payments received by the ATF during the preceding fiscal year shall be paid into the County and Municipal Government Capital Improvement Trust Fund; and (b) an amount equal to 28% of all oil and gas capital payments received by the ATF during the preceding fiscal year shall be paid into the Alabama Capital Improvement Trust Fund. Funds in the Alabama Capital Improvement Trust Fund may be appropriated for capital improvements only upon the certification by the Governor, based upon the recommendation of the Director of Finance.

Amendment 666 changed the distribution of the trust income and capital gains earned by the ATF distributed pursuant to Amendment 450 and *Code of Alabama 1975*, Sections 11-29-4 and 11-66-4. In fiscal years in which the trust income exceeds \$60,000,000, 10% of the trust income shall be distributed to the Municipal Government Capital Improvement Fund and 10% to the County Government Capital Improvement Fund. Additionally, the fiscal year following the first fiscal year that the Forever Wild Land Trust receives \$15,000,000 from the trust income of the ATF, one-fourth (1/4) of one percent of the trust income earned from the ATF shall be allocated to the Alabama Senior Services Trust Fund (ASSTF). This allocation shall increase each fiscal year by one-fourth (1/4) of one percent of the trust income earned from the ATF; provided, however, that in no event shall such trust income paid to the ASSTF exceed \$5,000,000 in any one fiscal year.

Amendment 666 provides that the ATF may also transfer up to 75% of the realized capital gains. "Realized Capital Gains" means gains from the sale or exchange of assets of the Alabama Trust Fund, other than fixed income assets; to the extent they exceed losses from the sale of such assets. The amount of the gain or loss on the sale of an asset shall be determined by subtracting from the proceeds of selling the asset its fair market value as of the end of the immediately preceding fiscal year. The amount distributed, if any, is determined by the Board. The amount distributed shall be divided as follows: 10% to the County Government Capital Improvement Fund and 10% to the Municipal Government Capital Improvement Fund and the remainder of such realized capital gains shall be paid into the General Fund, except that a portion of such realized gains shall be distributed in the same manner as and deemed to be a part of trust income for purposes of the distributions required under Sections 7 and 13 of Amendment 543 to the *Alabama Constitution of 1901*.

---

---

*Notes to the Financial Statements*  
*For the Year Ended September 30, 2017*

---

---

Also, Amendment 666 provides the guidelines for distribution of up to 75% of the unrealized capital gains earned by the ATF. According to Amendment 666, unrealized capital gains means the excess of the fair market value of the ATF investments on the last day of the fiscal year over the fair market value of the investments on the last day of the immediately preceding fiscal year. The fair market value of the investments on the last day of a fiscal year shall be determined without including the trust income for the fiscal year, realized capital gains for the fiscal year, or the fair market value of fixed income assets. The amount distributed, if any, is determined by the Board. Any unrealized capital gains distributed shall be divided as follows: 10% to the County Government Capital Improvement Fund, and 10% to the Municipal Government Capital Improvement Fund, and the remainder of such unrealized capital gains shall be paid to the General Fund except that a portion of such shall be distributed in the same manner as trust income as mentioned in the above paragraph. The first distribution of capital gains in fiscal year 2003 resulted in a reduction of the trust principal, which also resulted in a reclassification of the ATF's fund type for financial reporting purposes. GASB Statement Number 34, Paragraph 65 states that permanent trust funds report resources that "are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs." The fund classification for reporting purposes is a special revenue fund.

Amendment 666 also authorized the State of Alabama to become indebted and to sell and issue its interest-bearing General Obligation Bonds, in addition to all other bonds of the State, in an aggregate principal amount not exceeding \$350 million. Amendment 796 increased the \$350 million to an aggregate principal amount not exceeding \$750 million and Amendment 887 allowed an additional \$50 million.

Amendment 668 was ratified on December 13, 2000. This amendment provides the State Comptroller with allocation guidelines for the annual distributions to the counties and cities from the County Government Capital Improvement Fund and the Municipal Government Capital Improvement Fund.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

The State of Alabama Legislature passed Amendment 709 to the *Alabama Constitution of 1901* which created the Education Trust Fund Rainy Day Account (Rainy Day Account) within the Alabama Trust Fund. This Amendment was submitted at the June 4, 2002 election and proclaimed ratified on August 8, 2002. Upon creation the Rainy Day Account was credited with \$248,000,000 of oil and gas capital payments. Once established, no further amounts from the Alabama Trust Fund could be credited to the Rainy Day Account. Funds from the Rainy Day Account could be withdrawn only to prevent proration of the appropriations for the public schools, public colleges and universities, public schools for the deaf and blind, including all appropriations to the Alabama Institute for the Deaf and Blind, public schools for the mentally ill and retarded, and other entities established by general statute for public school students from the Education Trust Fund. In the event funds were withdrawn from the Rainy Day Account an additional amount equal to 25% of the Education Trust Fund transfer amount was to be transferred from the Alabama Trust Fund to the County and Municipal Government Capital Improvement Fund. The Legislature was required to provide for the replenishment of the account within five years after withdrawal of any funds from the Education Trust Fund Rainy Day Account.

The *Alabama Constitution of 1901*, Amendment 803 was ratified December 1, 2008 which repealed and replaced Amendment 709 to the *Alabama Constitution of 1901*. Amendment 803 created within the Alabama Trust Fund the Education Trust Fund Rainy Day Account (ETFRDA) and the General Fund Rainy Day Account (GFRDA). In any year in which the Governor certifies to the state comptroller and notifies the Legislature that proration would occur in appropriations from the Education Trust Fund or the State General Fund, the ETFRDA or the GFRDA shall be credited with oil and gas capital payments previously transferred into the Alabama Trust Fund in the amount required to fund withdrawals from the Account of the amounts authorized by this section. However, the amount withdrawn from the ETFRDA in a fiscal year may not exceed 6.5% of the previous fiscal year's Education Trust Fund appropriations less the total amount of any prior years' withdrawals from the Account which have not been repaid to the Account. The amount withdrawn from the GFRDA in a fiscal year may not exceed 10% of the previous fiscal year's General Fund appropriations less the total amount of any prior years' withdrawals from the Account which have not been repaid to the Account. Beginning in the fiscal year beginning October 1, 2009, withdrawals from the ETFRDA and the GFRDA shall be limited to an amount necessary to reach the average of the estimated available revenue for each Fund which is to be certified by the Finance Director and the Legislative Fiscal Officer prior to the third legislative day of each Regular Session. Funds from the ETFRDA or the GFRDA may be withdrawn only to prevent proration of the appropriations from the Education Trust Fund or the General Fund. In the event funds are withdrawn from the ETFRDA or the GFRDA, an additional amount equal to 25% of the Education Trust Fund or the General Fund transfer amount shall be transferred from the Alabama Trust Fund to the County and Municipal Government Capital Improvement Fund. The Legislature must replenish the accounts within six years after withdrawal of any funds from the ETFRDA and within ten years after withdrawal of any funds from the GFRDA.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

Amendment 856 to the *Constitution of Alabama of 1901* was ratified in 2012. Amendment 856 mandates a new procedure for distributions made from the ATF beginning with the 2012-2013 fiscal year. According to Amendment 856 the following distributions shall be made annually from the Alabama Trust Fund in lieu of any other distributions of trust income, realized capital gains, or unrealized capital gains provided by law: An amount equal to 33% of the oil and gas capital payments paid into the Alabama Trust Fund for the fiscal year ending one year prior to the beginning of the fiscal year for which the distribution is being made plus 5% of the average market value of invested assets of the Alabama Trust Fund as of the end of the three fiscal years ending one, two, and three years prior to the beginning of the fiscal year for which the distribution is being made shall be distributed as follows:

a) 10% of the amount distributed shall be paid to the County Government Capital Improvement Fund; b) 10% of the amount distributed shall be paid to the Municipal Government Capital Improvement Fund; c) 10% of the amount distributed, but not more than \$15 million in any one fiscal year, shall be paid to the Forever Wild Land Trust through the fiscal year ending September 30, 2032; d) 1% of the amount distributed, but not more than \$5 million in any one fiscal year, shall be paid to the Alabama Senior Services Trust Fund; e) The remainder of the amount distributed shall be paid to the State General Fund. The ATF Board of Trustees may elect to distribute a smaller percentage of the oil and gas capital payments, a smaller percentage of the average amount of invested assets, or both. In addition, Amendment 856 provides that beginning with the 2012-2013 fiscal year, whenever funds are withdrawn from the ETFRDA or the GFRDA, there shall not be any additional transfer of funds into the County and Municipal Government Capital Improvement Trust Fund, and investment income earned on amounts repaid to the ETFRDA and the GFRDA shall not be distributed to the State General Fund.

Amendment 856 also requires beginning with the 2012-2013 fiscal year and continuing through the 2014-2015 fiscal year, \$145,796,943 to annually be transferred from the ATF to the State General Fund. Act Number 2013-6, Acts of Alabama, which was effective February 2013, requires the Legislature to provide for the repayment of these transfers, totaling \$437,390,829, by not later than September 30, 2026.

Amendment 856 repealed all laws or parts of laws in conflict with this amendment, including, but not limited to: those portions of Amendments 450, 543, and 666 to the *Constitution of Alabama of 1901*, relating to the distribution of trust income, realized capital gains, and unrealized capital gains; Amendment 668 to the *Constitution of Alabama of 1901*, relating to the distribution of trust income; those portions of Amendment 803 to the *Constitution of Alabama of 1901*, relating to additional transfers to the County and Municipal Government Capital Improvement Fund and the distribution of investment income on repayments to the ETFRDA and GFRDA; and Sections 11-66-5 and 11-29-5 of the *Code of Alabama 1975*, as amended, relating to appropriations of trust income to the County and Municipal Government Capital Improvement Trust Funds.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

Amendment 887 was ratified in 2014. As discussed above concerning Amendment 666, Amendment 887 increased the amount of bonds authorized in Amendment 666 by an additional amount of \$50 million. Amendment 887 also included a competitive bidding requirement for the sale of the bonds and a requirement that contracts for the bond issuance expenses be awarded to businesses and individuals which reflect the racial and ethnic diversity of the State. Bonds issued pursuant to this amendment shall be issued for a maturity of 20 years or less. All of the proceeds from the bonds shall be distributed to the Armory Commission of Alabama for plans, construction, and maintenance of Alabama National Guard armories. In addition to any Oil and Gas Capital Payments received by the Alabama Trust Fund paid into the Alabama Capital Improvement Trust Fund pursuant to Amendment 666, so much as shall be necessary of all Oil and Gas Capital Payments received by the Alabama Trust Fund during any fiscal year shall be paid into the Alabama Capital Improvement Trust Fund to pay the principal and interest on the bonds authorized by this amendment.

#### **B. Government-Wide and Fund Financial Statements**

The government-wide and fund financial statements have been combined and linked together by a reconciliation column. The Statement of Activities is combined with the Statement of Revenues, Expenditures and Changes in Fund Balances. The Statement of Net Position is combined with the Balance Sheet. Using a combination approach requires the reformatting of the Statement of Activities or the Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Net Position or the Balance Sheet.

#### **Government-Wide Financial Statements**

Government-wide financial statements include two basic financial statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position presents the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Net Position is reported in three categories: 1) Invested in capital assets, net of accumulated depreciation, plus capital-related deferred outflows of resources, less capital-related deferred inflows of resources, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets; 2) Restricted net position results when constraints placed on net position are either externally imposed by creditors, grantors, contributors and the like or imposed by law through constitutional provisions or enabling legislation; and 3) Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider it available for general operations.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

#### **Fund Financial Statements**

The fund financial statements include the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances.

The Balance Sheet reports information about the current financial resources (assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances).

The Statement of Revenues, Expenditures and Changes in Fund Balances reports information about the inflows, outflows, and balances of current financial resources.

The State of Alabama uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The ATF is a fund within the State of Alabama.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate “fund types.” The ATF is a special revenue fund. Special revenue funds are used to account for specific revenue sources that are legally restricted to finance particular functions and activities. Special revenue funds are in the governmental fund category. Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources.

#### **C. Measurement Focus and Basis of Accounting**

The financial statements are reported in conformity with generally accepted accounting principles (GAAP).

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide statements, under GAAP, are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized and recorded when earned and expenses are recorded when a liability is incurred.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus, only current assets and current liabilities generally are included on the balance sheet. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period as when the obligations are recognized. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

---



---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

---



---

**D. Cash, Cash Equivalents and Investments**

Cash includes bank demand deposits held in the State treasury. Investments as reported on the combined balance sheets include long-term investments. As required by GASB Statement Number 72, "Fair Value Measurement and Application," investments are stated at fair value.

**E. Capital Assets**

Capital assets include land and intangibles and are reported on the Statement of Net Position. Capitalized assets are recorded at historical cost. Costs include the acquisition of the asset along with ancillary charges. Land and intangibles must have an initial cost of at least \$250,000 and \$1,000,000, respectively. Inexhaustible capital assets such as land and land improvements are not depreciated. Intangibles are depreciated using the straight-line method over their estimated useful lives.

As of September 30, 2017, the capital assets are presented in the following table:

(Amounts in Thousands)	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets (Land), Not Being Depreciated	\$193,738	\$28,304	\$	\$222,042
Capital Assets (Intangibles) Being Depreciated	5,823			5,823
Less Accumulated Depreciation	417	64		481
Total Capital Assets Being Depreciated, Net	5,406	(64)		5,342
Total Capital Assets, Net	\$199,144	\$28,240	\$	\$227,384

Depreciation expense for the current year is \$64, charged to Natural Resources and Recreation.

**F. Net Position and Fund Balances**

Restricted net position and fund balances have constraints placed on the use of the resources that are either 1) externally imposed by creditors, grantors, contributors, or laws of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

**G. Interfund Transactions**

Interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Payments from the ATF to the General Fund and the AFWLT are distributions of ATF funds and recorded as transfers out and transfers in for the fund receiving the payments.

---

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

---

---

Pursuant to the provisions of Amendment 803, in any year in which the Governor certifies to the state comptroller and notifies the Legislature that proration would occur in appropriations from the Education Trust Fund or the State General Fund, the Education Trust Fund Rainy Day Account or the General Fund Rainy Day Account shall be credited with Oil and Gas Capital Payments previously transferred into the Alabama Trust Fund in the amount required to fund withdrawals from the Account of the amounts authorized by this section. In fiscal year 2010, the Alabama Trust Fund credited the General Fund Rainy Day Account with \$161,565,874 which was subsequently loaned to the General Fund. This loan was reported in the financial statements as Due From Other Funds because the General Fund was required to repay this amount within ten years. In fiscal year 2017, the General Fund Rainy Day Account was fully repaid.

**H. Receivables**

In the government-wide and the fund financial statements, the receivables reported represent interest due from trust investments and royalties due from oil companies, due and payable, on or before the 15<sup>th</sup> day of the second month following the month of production as certified by an affidavit from the lessee. Additionally, investment sales receivable consists of pending sales of investments in which the trade date occurred prior to September 30 for which the settlement date occurred after September 30.

**I. Deferred Outflows and Deferred Inflows**

Deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources in the current period. Deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until then. The deferred inflows of resources reported in the Balance Sheet are unavailable revenues that are not recognized as revenue under the modified accrual basis of accounting in the Statement of Revenues, Expenditures and Changes in Fund Balances.

**J. Budgets**

The financial activities of the ATF are not subject to the normal budgetary process. Their financial activities are governed by the various aforementioned constitutional amendments; therefore, budget and actual statements are not presented.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

#### Note 2 – Deposits and Investments

##### A. Deposits

Cash includes bank demand deposits held in the state treasury and are fully insured or collateralized by the Security for Alabama Funds Enhancement (SAFE) program operated by the State Treasurer's Office as authorized by the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14 as amended.

##### B. Investments

Amendment 450 to the *Alabama Constitution of 1901* states that the trust capital shall be held in perpetual trust and that the trust capital may not be appropriated by the Legislature, or expended or disbursed for any purpose other than to acquire eligible investments in accordance with the provisions of Amendment 450. To the extent practicable, the Board must keep all moneys invested in eligible investments to produce the greatest trust income while preserving the trust capital. The Board has complete discretion in making decisions as to how and when investments are made. The only restriction on the Board pertaining to the investment of ATF moneys is that investments must be made with the same judgment and care that an institutional investor of the highest standard of prudence, intelligence and financial expertise would exercise under the circumstances prevailing at the time, not for the purpose of speculative profit, but for the generation of optimum income while preserving the safety and permanence of the trust.

Amendment 488 to the *Alabama Constitution of 1901* authorizes the ATF to invest in such kinds of investments and in accordance with such conditions as shall from time to time be authorized by law for the investment of any of the trust funds of either the Teachers' Retirement System of Alabama or the Employees' Retirement System of Alabama. If any restrictive conditions at any time made applicable by law to either the Teachers' Retirement System of Alabama or the Employees' Retirement System of Alabama should prohibit investments that would otherwise be permitted for the ATF by Amendment 450 to the *Alabama Constitution of 1901*, then, notwithstanding the restrictive conditions applicable to said retirement systems, the investments permitted by Amendment 450 shall be permitted for trust capital and trust income held in the ATF.

Investments are subject to certain types of risks; credit risk (including custodial credit risk and concentration of credit risk), interest rate risk, and foreign currency risk. The following describes those risks.

*Credit Risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

The following table provides information as of September 30, 2017, concerning credit risk for the ATF (amounts in thousands).

Ratings of Fixed Maturities		
Moody's Ratings § (Unless Noted)	Fair Value	Percentage of Total Fixed Maturity Fair Value
Aaa	\$ 183,789	17.77%
Aa1	3,708	0.36%
Aa2	10,975	1.06%
Aa3	29,538	2.86%
A1	24,570	2.38%
A2	10,008	0.97%
A3	28,793	2.78%
Baa1	34,546	3.34%
Baa2	43,713	4.23%
Baa3	45,975	4.45%
Ba1	14,075	1.36%
Ba2	18,225	1.76%
Ba3	9,345	0.90%
B1	9,912	0.96%
B2	3,664	0.35%
B3	3,934	0.38%
C	182	0.02%
Ca	1,552	0.15%
Caa1	3,319	0.32%
Caa2	607	0.06%
Caa3	794	0.08%
M1G1	718	0.07%
WR	6,955	0.67%
AAA(SP)	10,390	1.00%
AA(SP)	1,172	0.11%
AA-(SP)	2,588	0.25%
AA+(SP)	788	0.08%
A(SP)	6,933	0.67%
A-(SP)	7,570	0.73%
A+(SP)	6,717	0.65%
B(SP)	2,766	0.27%
B-(SP)	391	0.04%
B+(SP)	43,317	4.19%
BB(SP)	20,250	1.96%
BB-(SP)	33,535	3.24%
BB+(SP)	3,710	0.36%
BBB(SP)	11,683	1.13%
BBB-(SP)	23,342	2.26%
BBB+(SP)	22,524	2.18%
CC(SP)	0	0.00%
CCC(SP)	0	0.00%
CCC+(SP)	0	0.00%
D(SP)	0	0.00%
(P)A- (SP)	63	0.01%
(P)AA (SP)	339	0.03%
(P)BB (SP)	438	0.04%
Guaranteed by U. S. Gov't	312,859	30.25%
Not Rated	33,991	3.29%
Total	<u>\$1,034,264</u>	<u>100.00%</u>

§ - The Moody's ratings are used when available. The Standard and Poor's rating is used when it is available and the Moody's rating is not available. Standard and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category," and consist of certain mortgage backed securities and corporate bonds.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails.

The Retirement Systems of Alabama’s custodian, State Street Bank and Trust Company, manages a portion of the program for the ATF. The RSA’s custodial credit risk policy requires the custodial agent to hold or direct its agents or sub-custodians to hold, for the account of the RSA, all securities and other non-cash property other than securities in the Federal Reserve book entry system, in a clearing agency which acts as a securities depository, or in another book entry system. The RSA’s safekeeping agent holds all investments of the RSA in the RSA’s name, with the exception of securities purchased with securities lending cash collateral.

The Alabama Trust Fund’s custodian, Bank of New York Mellon (BNYM), provides a portion of the custodial services for the ATF. The ATF’s custodial credit risk policy authorizes BNYM to hold securities in registered form in the name of its nominee. The policy requires BNYM to establish and maintain one or more securities accounts (book entry system) in which BNYM will hold the securities. These accounts are in the name of the ATF.

*Concentration of Credit Risk* – Concentration of credit risk is the risk of loss attributable to the magnitude of a government’s investments with a single issuer. For equity investments, the aggregate investment in equity securities of any one issuing corporation shall not exceed one percent of the outstanding capital of such corporation. For fixed income investments, the portfolio is to be diversified so that no more than fifteen percent is invested in one industry (does not apply to U. S. government and agency securities), and no more than five percent of the total fixed income portfolio may be invested in securities of any one corporation.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of those investments. The ATF investment policy states that the fixed income portfolio’s average duration is not to exceed 1.5 times that of the benchmark index.

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

As of September 30, 2017, the ATF had the following investments and maturities (amounts in thousands).

Investment Type	Fair Value	Investment Maturities			
		Less Than 1 Year	1 - 5 Years	6 -10 Years	More Than 10 Years
<u>Fixed Maturities:</u>					
U. S. Treasury Securities	\$ 256,391	\$15,928	\$ 81,258	\$ 54,035	\$105,169
U. S. Agency Securities	71,805	0	13,662	1,955	56,188
State and Local Government Securities	3,208	352	1,032	373	1,452
Mortgage Backed Securities	228,062	2	10,325	6,656	211,079
Corporate Bonds	474,798	5,062	114,119	202,245	153,372
Sub-Total Fixed Maturities	1,034,264	\$21,344	\$220,396	\$265,264	\$527,260
<u>Equities, Mutual Funds, Real Estate, and Other:</u>					
Domestic Common and Preferred Stock	1,186,913				
International Stocks	599,367				
Mutual Funds and Money Market Funds	115,880				
Real Estate	234,841				
Total	<u>\$3,171,265</u>				

*Foreign Currency Risk* – This is the risk that changes in exchange rates will adversely affect the fair value of an investment. The investment policy of the ATF states that the aggregate market value of international equities is limited to 29 percent of the aggregate market value of the total portfolio. The exposure to emerging market securities shall be limited to 20% of the market value of the international portfolio. Not more than five percent of the total stock portfolio may be invested in the common stock of any one corporation at the time of purchase and no more than seven percent in any one corporation at market. Not more than five percent of the outstanding shares of any one company may be held by the portfolio. In addition, no more than the lesser of (2 times the sector weight in the index and 40%) valued at market may be held in any one economic sector as defined by the MSCI EAFE (Morgan Stanley Capital International Europe, Australasia, and the Far East) index classifications for developed market portfolios and by MSCI Emerging Markets index classifications for emerging markets portfolios.

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

---

As of September 30, 2017, the ATF was exposed to foreign currency risk as demonstrated in the table below (amounts in thousands of U. S. dollars).

Deposits and Investments Exposed to Foreign Currency Risk			
Currency	Cash	International Equities	International Bonds
Australian Dollar		\$ 5,788	\$ 0
Argentinian Peso			936
Brazilian Real		1,736	4,385
British Pound Sterling		94,986	0
Canadian Dollar		22,968	0
Chinese Yuan Renminbi		0	1,449
Danish Krone		11,428	0
Euro Currency		98,108	0
Hong Kong Dollar		19,916	0
Indonesian Rupiah		1,389	0
Japanese Yen		33,566	0
Mexican New Peso		67	7,358
New Turkish Lira		1,762	0
Russian Rubble (New)		0	3,527
Singapore Dollar		4,832	0
South African Rand		1,243	0
South Korean Won		1,467	0
Swedish Krona		9,604	0
Swiss Franc		18,088	0
Thailand Baht		1,618	0
Total		\$328,566	\$17,655

**C. Securities Lending**

The Alabama Trust Fund (ATF) investment managers are authorized by the Board of Trustees to engage in securities lending under guidelines established by the ATF Board of Trustees.

The Retirement Systems of Alabama's custodian, State Street Bank and Trust Company, administers a portion of the program for the ATF. Certain securities from ATF are loaned to borrowers approved by the Retirement Systems of Alabama (RSA). Approved borrowers of securities provide acceptable collateral in the form of cash (U. S. and foreign currency), securities issued or guaranteed by the United States government or its agencies or instrumentalities, Canadian Provincial debt, all other Sovereign debt, convertible bonds, U. S. and non U. S. equities, covered bonds, preferred securities, certificates of deposit, money market instruments, asset-backed securities, asset-backed commercial paper, commercial paper, collateralized mortgage obligations, mortgage-backed securities, supranationals, irrevocable bank letters of credit issued by a person other than the borrower or an affiliate of the borrower, assets permissible under Rule 15c3-3 under the Exchange Act of 1934, and such other collateral as the parties may agree to in writing from time to time.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

State Street Global Securities Lending Trust (GSLT) invests qualified cash collateral from loans of securities. As of September 30, 2017, the average term of the loans secured by the GSLT was approximately 1 day. Cash collateral investments in the GSLT are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral. GSLT consists of a liquidating account known as the duration pool and a liquidity pool.

The GSLT duration pool was established effective December 10, 2010. As of that date, all GSLT asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater were allocated to the duration pool. Each GSLT investor as of December 10, 2010 owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The GSLT duration pool will not make additional investments.

As of December 3, 2010, GSLT's Investment Policy Guidelines applicable to the liquidity pool provide that the Investment Manager (State Street Bank) shall maintain the dollar-weighted average maturity of GSLT in a manner that the Investment Manager believes is appropriate to the objective of GSLT; provided, that (i) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (ii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the GSLT not to exceed 75 calendar days and (iii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of GSLT not to exceed 180 calendar days.

At the time of purchase, (i) all eligible securities with maturities of 13 months or less shall (a) be rated at least A1, P1 or F1 by at least two of the following nationally recognized statistical rating organizations: Standard & Poor's Corp. ("S&P"), Moody's Investor Services, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), or (b) be determined by the Investment Manager to be of comparable quality and (ii) all eligible securities with maturities in excess of 13 months shall (a) be rated at least A-, A3 or A- by at least any two of S&P, Moody's or Fitch, or (b) be determined by the Investment Manager to be of comparable quality.

GSLT may invest up to 10% of its assets at time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

The Alabama Trust Fund's custodian, Bank of New York Mellon (BNYM), administers a portion of the program for the ATF. Certain securities from ATF are loaned to borrowers approved by the ATF Board of Trustees. Approved borrowers of securities provide acceptable cash collateral in the form of Federal funds or New York Clearing House funds as applicable for a particular loan. All security loans are open loans and can be terminated on demand by the ATF, BNYM, or the borrower. The initial collateral received shall have (i) in the case of loaned securities denominated in United States Dollars, cash collateral in the amount of 102% of the market value of the loaned securities or (ii) in the case of loaned securities which are not denominated in United States Dollars, cash collateral in the amount of 105% of the market value of the loaned securities. Pursuant to the terms of the applicable securities loan agreement, BNYM shall, in accordance with BNYM's reasonable and customary practices, mark loaned securities to their market value each business day based upon the market value of the loaned securities as of the close of business the preceding business day, employing the most recently available pricing information, and receive and deliver collateral in order to maintain the amount of cash collateral at no less than the collateral requirement. The ATF cannot pledge or sell collateral securities received unless the borrower defaults. As of September 30, 2017, the average term of the loans was approximately 82 days. Cash collateral investments are matured as needed to fulfill loan obligations.

All approved investments shall be for the account and risk of ATF. To the extent any loss arising out of approved investments results in a deficiency in the amount of collateral available for return to a borrower, ATF agrees to pay BNYM on demand cash in an amount equal to such deficiency.

The following describes the manner in which BNYM is authorized to invest and reinvest cash collateral.

1. Securities issued or fully guaranteed by the United States Government and any agency, instrumentality, or establishment of the United States Government ("Government Securities").
2. High-grade commercial paper, notes, bonds, and other debt obligations including promissory notes, funding agreements, and guaranteed investment contracts, whether or not registered under the Securities Act of 1933, as amended. Such obligations may have fixed, floating, or variable rate interest payment provisions.
3. Asset-backed securities which carry the highest credit rating by S&P or Moody's.
4. Certificates of deposit, time deposits and other bank obligations of U. S. banks, their branches and subsidiaries.
5. Repurchase and reverse repurchase agreements collateralized by approved investments.

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

6. Securities, units, shares and other participations in money market funds, unregistered short-term investment funds, pools or trusts.
7. Government securities have no maturity limit. Fixed rate instruments shall have a maturity of no greater than 13 months. Floating rate instruments rated “A” or “AA” shall have maturities no greater than three years with resets no less frequent than three months.

Floating rate instruments rated “AAA” shall have maturities no greater than five years with resets no less frequent than three months.

The fair values of securities on loan and the fair value of the collateral pledged by the borrowers are presented below. Since the amount owed by the ATF exceeded the amounts the borrowers owed to the ATF, there was no credit risk exposure as of September 30, 2017. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Securities Lending - Investments Lent and Collateral Received at Fair Value (In Thousands)			
	RSA	BNYM	Total
<u>Type of Investment Lent:</u>			
For Cash Collateral			
Corporate Bonds	\$ 0	\$ 16,666	\$ 16,666
U. S. Government	0	29,380	29,380
Domestic Equity	7,801	146,140	153,941
International Equity	0	8,267	8,267
Total Lent for Cash Collateral	7,801	200,453	208,254
For Non-Cash Collateral			
Corporate Bonds	0	0	0
U. S. Government	0	0	0
Domestic Equity	31,418	0	31,418
International Equity	0	0	0
Total Lent for Non-Cash Collateral	31,418	0	31,418
Total Securities Lent	39,219	200,453	239,672
<u>Type of Collateral Received:</u>			
Cash Collateral			
Cash Collateral – Invested in State Street			
Global Securities Lending Trust	7,937	0	7,937
BNYM Investments	0	205,060	205,060
Total Cash Collateral	7,937	205,060	212,997
Non-Cash Collateral			
For Lent Domestic Equity			
Securities Collateral – U. S. Dollars	33,840	0	33,840
For Lent U. S. Government			
Securities Collateral – U. S. Dollars	0	0	0
Total Non-Cash Collateral	33,840	0	33,840
Total Collateral Received	\$41,777	\$205,060	\$246,837

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

---

#### **D. Mortgage-Backed Securities**

Investments allowed by the ATF are defined as those authorized by law for the investment of any of the trust funds of either the Teachers' Retirement System of Alabama or the Employees' Retirement System of Alabama. These allowable investments include mortgage-backed securities, which were held by the ATF as of September 30, 2017. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.

The ATF invests in TBA ("to be announced") purchase commitments, pursuant to which it agrees to purchase mortgage-backed securities. The TBA market developed in response to the demands of market participants for more liquidity in trading mortgage-backed securities. The TBA market is essentially a forward or delayed delivery market. The lender, or other market participant, will enter into a forward contract to sell mortgage-backed securities in the TBA market, promising to deliver mortgage-backed securities on the settlement date sometime in the future. At September 30, 2017, the Alabama Trust Fund had investments in TBA mortgage-backed securities in the amount of \$63,997,090. Included in investment purchases payable on the Statement of Net Position is a liability related to the cost of acquiring these securities. Generally, these securities are closed with a gain or loss prior to settlement. However, the ATF would be obligated for those amounts should the securities be delivered.

#### **E. Fair Value Hierarchy**

GASB 72 provides a framework for measuring fair value that creates a fair value hierarchy. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value of investments. The hierarchy gives the highest priority to quoted prices in an active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

**Level 1:** Quoted (unadjusted) prices in an active market for identical assets or liabilities.

**Level 2:** Other inputs which are observable either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or other market-corroborated inputs.

**Level 3:** Valuations derived from valuation techniques using significant unobservable inputs for assets or liabilities.

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

GASB 72 allows for the use of net asset value (“NAV”) as a practical expedient for valuation purposes. The categorization of investments within the hierarchy is based upon pricing transparency of the instrument and should not be perceived as the particular investment’s risk. Investments in securities classified as Level 1 are valued using quoted prices in an active market for those securities. Investments in securities classified as Level 2 are valued using non-proprietary information that is readily available to market participants from multiple independent sources, which are known to be actively involved in the market. Pricing inputs may include market quotation, yields, maturities, call features, and rating. Investments in private equity, debt, and direct investments in Real Estate are classified as Level 3 due to lack of observable pricing inputs and are valued using annual appraisals based on a combination of market data and projected cash flows.

As of September 30, 2017 the ATF had the following fair market value hierarchies (amounts in thousands):

Investment Type	Fair Value	Fair Value Hierarchy			NAV
		Level 1	Level 2	Level 3	
<b>Fixed Maturities:</b>					
U. S. Treasury Securities	\$ 256,391	\$ 256,391	\$ 0	\$ 0	\$0
U. S. Agency Securities	71,805	11,487	60,318	0	0
State and Local Government Securities	3,208	0	3,208	0	0
Mortgage Backed Securities	228,062	951	227,111	0	0
Corporate Bonds	474,798	(403)	361,143	114,058	0
Sub-Total Fixed Maturities	1,034,264	268,426	651,780	114,058	0
<b>Equities, Mutual Funds, Real Estate, and Other:</b>					
Domestic Common and Preferred Stock	1,186,913	968,864	580	217,468	0
International Stocks	599,367	547,666	0	51,701	0
Mutual Funds and Money Market Funds	115,880	5,045	110,835	0	0
Real Estate	234,841	0	0	234,841	0
Total	\$3,171,264	\$1,790,001	\$763,195	\$618,068	\$0

#### **F. Derivatives**

Derivatives can be used by the ATF's investment managers to manage cash positions, gain broad stock or bond market exposure and to manage risks with certain investment positions. The ATF Investment Policy allows derivative instruments to be used provided that the collateral is held in highly liquid securities and that they do not create the effect of leverage in the portfolio.

GASB Statement Number 53 requires that the fair value of the financial arrangements called “derivatives” or “derivative instruments” be reported in the financial statements of state and local governments. The statement further requires that derivatives be categorized as either an investment derivative or a hedge derivative. All of the ATF’s derivative exposures as of September 30, 2017 are categorized as investment derivatives and, therefore, the hedge accounting provisions of GASB Statement Number 53 and Number 64 are not applicable.

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

---

All derivatives instruments are presented in the financial statements and are reported at fair value. ATF's custodian, Bank of New York Mellon (BNYM), uses market prices when available. BNYM used two vendors to value derivatives when market values are not available. The two vendors used by BNYM are *Markit* and *SuperDerivatives*. Both vendors consider their valuation process to be proprietary and not available for disclosure. Investment risks related to investment derivatives have been considered and included in the Investment Note 2(B) except for additional disclosures for interest rate risk and credit risk, which have been included in this section.

The following table presents the derivative instruments outstanding as of September 30, 2017.

INVESTMENT DERIVATIVES INSTRUMENTS					
	Classification	Changes in Fair Value		Fair Value as of September 30, 2017	
		Amount	Amount	Amount	Notional
Swaps	Investment Income	\$ 258,928		\$1,028,767	\$ (52,040,077)
Total Swaps		<u>258,928</u>		<u>1,028,767</u>	<u>(52,040,077)</u>
Futures	Investment Income	(368,068)		(403,039)	(49,358,344)
Total Futures		<u>(368,068)</u>		<u>(403,039)</u>	<u>(49,358,344)</u>
Total Derivatives	Investment Income	<u>\$(109,140)</u>		<u>\$ 625,728</u>	<u>\$(101,398,421)</u>

GASB Statement Number 53 requires the disclosure of the maximum amount of loss due to credit risk, based on the fair value of the instrument at the end of the fiscal year. The maximum amount of loss associated with all derivatives held by the ATF is \$3,081,303.73.

### **Note 3 – Reconciliation Items on the Combined Financial Statements**

1. Governmental Funds Balance Sheet/Statement of Net Position:

- a. The adjustment to Deferred Inflows of Resources (shown as \$1,978,807) is the long-term interest receivable earned for the current period that will be collected after year-end, but will not be available soon enough to pay for the current period's expenditures, and therefore is reported as deferred.
- b. The adjustment to Capital Assets (shown as \$227,042,497) is the addition of capital assets to the Statement of Net Position, as capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds on the Balance Sheet. This adjustment includes Capital Assets Not Depreciated of \$222,042,497 and Capital Assets, Net of Accumulated Depreciation of \$5,341,433.
- c. Fund Balances are being deleted and Net Position added to reformat the combined financial statements as mentioned in Note 1(B).

---

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

---

---

2. Statement of Governmental Revenues, Expenditures and Changes in Fund Balances/  
Statement of Activities:
- a. The adjustment to Capital Contributions (shown as \$28,303,967) includes all of the land acquisitions of the ATF for the current fiscal year, the majority of which was transferred from the Alabama Forever Wild Land Trust.
  - b. The adjustment to Investment Income (shown as \$185,612) is comprised of the reversal of the long-term portion of interest receivable from the prior fiscal year (shown as \$2,164,419) and the removal of the current year long-term portion of interest receivable (shown as \$1,978,807) since the interest earned is not available to pay the current period's expenditures.
  - c. The adjustment to Natural Resources and Recreation (shown as \$63,827) is the amount of depreciation expense in the current period.
  - d. The Statement of Revenues, Expenditures and Changes in Fund Balances was reformatted to present the Statement of Activities as mentioned in Note 1(B).

---

## *Additional Information*

---

---

***Board Members***  
***Alabama Trust Fund***  
***October 1, 2016 through September 30, 2017***

---

---

<b>Board Members</b>		<b>Term Expires</b>
Hon. Robert Bentley (1)	Chairman	2017
Hon. Kay Ivey (1)	Chairman	2019
Hon. Clinton Carter (1)	Vice-Chairman	Indefinite
Hon. Young Boozer	Ex-Officio	2019
Hon. Richard Bielen	Member	2017
Hon. Edgar Pruitt	Member	2022
Hon. Daniel Hughes, Jr.	Member	2020
Hon. Sandra Sims-deGraffenreid, Ph.D.	Member	2021
Hon. Guice Slawson, Jr.	Member	2019
Hon. Sam Upchurch	Member	2018
(1) Ex-Officio		

---

---

***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***

---

---

**Independent Auditor's Report**

Alabama Trust Fund Board of Trustees  
Montgomery, Alabama 36130

We have audited 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, the financial statements of the governmental activities of the Alabama Trust Fund as of and for the year ended September 30, 2017, and the related notes to the financial statements, which comprise the Alabama Trust Fund's basic financial statements and have issued our report thereon dated January 24, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Alabama Trust Fund'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 Alabama Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alabama Trust Fund'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses, or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

---

---

***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***

---

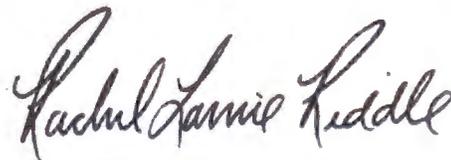
---

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Alabama Trust Fund's financial statements are free of 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***.

**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 results 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.



Rachel Laurie Riddle  
Chief Examiner  
Department of Examiners of Public Accounts

Montgomery, Alabama

January 24, 2019