FINANCIAL SECTION

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KPMG LLP
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Independent Auditors' Report

Alaska Retirement Management Board and
Division of Retirement and Benefits
State of Alaska Teachers Retirement System
Defined Benefit Retirement Pension and Post Employment Healthcare Plans
Defined Contribution Retirement Pension Trust Fund

We have audited the accompanying statements of net assets of the State of Alaska Teachers' Retirement System's Defined Benefit Retirement Pension and Post Employment Healthcare Plan and Defined Contribution Retirement Pension Trust Fund, as of June 30, 2007 and 2006, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Defined Benefit Retirement Pension and Post Employment Healthcare Plan and the Defined Contribution Retirement Pension Trust Fund and do not purport and do not present the net assets of the Teachers' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2007 and 2006, and the changes in net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the State of Alaska Teachers' Retirement System's Defined Benefit Retirement Pension and Post Employment Healthcare Plan and Defined Contribution Retirement Pension Trust Fund, as of June 30, 2007 and 2006, and the changes in net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

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The accompanying required supplementary information of management's discussion and analysis on pages 13 to 21 and schedules of funding progress and employer contributions on pages 61 to 68 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 69 and 70 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section on pages 1 through 10 and investment, actuarial and statistical data on pages 71-123 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjeect to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

KPMG LLP

November 30, 2007

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Defined Benefit Retirement Pension and
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Defined Contribution Retirement Pension Trust Fund
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2007 and 2006

This section presents management's discussion and analysis (MD&A) of the Teachers' Defined Benefit Retirement Plan (DB) and the Defined Contribution Retirement Pension Trust Fund (DCR) financial position and performance for the years ended June 30, 2007 and 2006. The DCR Pension Trust Fund was established July 1, 2006. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary and additional information to better understand the financial condition and performance of the Plans during the fiscal years ended June 30, 2007 and 2006. Information for fiscal year 2005 is presented for comparative purposes.

Financial Highlights

The DB Plan's total assets exceeded its total liabilities by $4,893,114,000 and $4,299,971,000 at the close of fiscal years 2007 and 2006, respectively. The DCR Pension Trust Fund's total assets exceeded its total liabilities by $5,507,000 at the close of fiscal year 2007.

The DB Plan's "Net assets held in trust for pension and post employment healthcare benefits" as of June 30, 2007 and 2006 increased by $593,143,000 or 13.8% and $272,976,000 or 6.8% in fiscal years 2006 and 2005, respectively. The DCR Pension Trust Fund's "Net assets held in trust for pension and post employment healthcare benefits" as of June 30, 2007 totaled $5,507,000.

The DB Plan's contributions received totaled $209,307,000 and $185,769,000 during fiscal years 2007 and 2006; an increase of $23,538,000 and $36,263,000 or 12.7% and 24.2% from fiscal years 2006 and 2005, respectively. The DCR Pension Trust Fund's contributions received totaled $5,292,000 during fiscal year 2007.

The DB Plan's net investment income increased from $451,689,000 in 2006 to $780,512,000 in 2007 and from $327,426,000 in 2005 to $451,689,000 in 2006; reflecting an increase of 72.8% and 38.0% from fiscal years 2006 and 2005, respectively. The DCR Pension Trust Fund's net investment income for fiscal year 2007 reflected as $251,000.

The DB Plan's pension benefit and post employment healthcare payments totaled $389,768,000 and $373,667,000 during fiscal years 2007 and 2006; reflecting an increase of $16,101,000 and $18,583,000 or 4.3% and 5.2% from fiscal years 2006 and 2005, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the DB Plan and DCR Pension Trust Fund's basic financial statements. The DB Plan and DCR Pension Trust Fund's basic financial statements are comprised of three components: (1) statement of net assets, (2) statement of changes in net assets, and (3) notes to financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Statement of Net Assets – This statement presents information regarding the assets, liabilities, and net assets. Net assets represent the total amount of assets less the total amount of liabilities.

Statement of Changes in Net Assets – This statement presents how the net assets changed during the fiscal year as a result of contributions, investment income, operating deductions, and transfers.

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The above statements represent resources available for investment and payment of benefits as of the fiscal year–end and the sources and uses of those funds during the fiscal year.

Notes to Financial Statements – The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the financial statements.

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

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment deductions incurred by the DB Plan and payments to consultants for professional services.

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Condensed Financial Information

NET ASSETS
(Dollars in thousands)

	Defined Benefit Plan					Defined Contribution Pension Trust Fund
			Increase/(Decrease)			
Description	**2007**	**2006**	**Amount**	**Percentage**	**2005**	**2007**
Assets:						
Cash, cash equivalents and receivables	$ 25,527	9,955	15,572	156.4%	4,695	$ 518
Securities lending collateral	531,810	423,385	108,425	25.6	308,847	-
Investments, at fair value	4,870,603	4,293,000	577,603	13.5	4,025,669	5,124
Other assets	27	33	(6)	18.2	48	-
Total assets	5,427,967	4,726,373	701,594	14.8	4,339,259	5,642
Liabilities:						
Accrued expenses	3,043	3,017	26	0.9	2,870	135
Securities lending collateral payable	531,810	423,385	108,425	25.6	308,847	-
Other liabilities	-	-	-	-	547	-
Total liabilities	534,853	426,402	108,451	25.4	312,264	135
Net Assets	**$ 4,893,114**	**4,299,971**	**593,143**	**13.8%**	**4,026,995**	**$ 5,507**

CHANGES IN NET ASSETS
(Dollars in thousands)

Net assets, beginning of year	$ 4,299,971	4,026,995	272,976	6.8	3,911,515	$ -
Additions:						
Contributions	209,307	185,769	23,538	12.7	149,533	5,292
Net investment income	780,512	451,689	328,823	72.8	327,426	251
Other additions	21	15	6	40.0	10	-
Transfer from Retiree Health Fund	-	15,175	(15,175)	100.0	-	-
Total additions	989,840	652,648	337,192	51.7	476,969	5,543
Deductions:						
Benefits	389,768	373,667	16,101	4.3	355,084	-
Refunds	4,535	3,832	703	18.3	4,376	20
Administrative	2,394	2,173	221	10.2	2,029	16
Total deductions	396,697	379,672	17,025	4.5	361,489	36
Increase in net Assets	593,143	272,976	320,167	117.3	115,480	5,507
Net assets, end of year	**$ 4,893,114**	**4,299,971**	**593,143**	**13.8%**	**4,026,995**	**$ 5,507**

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Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2007 and 2006 showed total DB Plan's assets exceeding total liabilities by $4,893,114,000 and $4,299,971,000. The Statement of Plan Net Assets as of June 30, 2007 showed total DCR Pension Trust Fund assets exceeding total liabilities by $5,507,000. These amounts represent the "Net assets held in trust for pension and post employment healthcare benefits". The entire amount is available to cover the DB Plan's and DCR Pension Trust Fund's obligations to pay pension and post employment healthcare benefits to its members and their beneficiaries.

These amounts represent an increase in the DB Plan's "Net assets held in trust for pension and post employment healthcare benefits" of $593,143,000 or 13.8% and $272,976,000 or 6.8% from fiscal years 2006 and 2005, respectively. The DCR Pension Trust Fund's "Net Assets held in trust for pension and post employment healthcare benefits" for fiscal year 2007 totaled $5,507,000. Over the long term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and post employment healthcare costs of the DB Plan and DCR Pension Trust Fund.

The investment of pension funds is a long–term undertaking. On an annual basis, the Alaska Retirement Management Board (ARMB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plans constraints and objectives. During fiscal year 2007, the ARMB adopted an asset allocation for the DB Plan that includes 36% in domestic equities, 14% in international equities, 20% in domestic fixed income, 2% in international fixed income, 10% in real estate, 7% in private equity, 2% in high yield, 2% in emerging market equity, 4% in absolute return, and 3% in other investments. This asset allocation is expected to provide a five year median return of 7.83%. The ARMB adopted an asset allocation for the DCR Pension Trust Fund that includes 100% cash as the plan was in a startup year with minimal expense activity. This asset allocation is expected to provide a five year median return of 4.00%.

For fiscal years 2007 and 2006, the DB Plan's investments generated an 18.92% and an 11.78% rate of return, respectively. The DB Plan's annualized rate of return was 13.16% over the last three years and 11.57% over the last five years. For fiscal year 2007, the DCR Pension Trust Fund was maintained on a cash basis from July 1st through October 2006. The fiscal year 2007, rate of return for the DCR Pension Trust Fund was not calculated by the Division of Treasury.

Actuarial Valuations and Funding Progress – DB Plan

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in fiscal year 2006 and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the Actuary and adopted by the ARMB. Employer contribution levels are recommended by the Actuary and adopted by the ARMB annually. Increasing healthcare costs and contribution shortfalls continue to impact the DB Plan's funding ratio. The ratio of assets to liabilities was 57.3%, at June 30, 2006 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving the funding objectives of the DB Plan.

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A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the DB Plan.

For fiscal year 2008, the employer normal cost rate decreased from 13.76% to 12.56%, the past service rate increased from 28.02% to 29.70%, thus producing a total fiscal year 2008 annual contribution rate of 42.26%. The ARMB adopted a DB Plan employer contribution rate of 54.03% for fiscal year 2008.

	Valuation Year (Dollars in thousands)	
	2006	**2005**
Valuation Assets	$ 4,141,700	3,958,939
Actuarial Liabilities (total benefits)	7,229,851	6,498,556
Funding ratio	57.3%	60.9%

Contributions, Investment Income and Transfer

The additions required to fund retirement benefits are accumulated through a combination of employer and plan member contributions, investment income and a transfer.

Additions (in thousands)

	Defined Benefit Plan					Defined Contribution Pension Trust Fund
			Increase/(Decrease)			
	2007	**2006**	**Amount**	**Percentage**	**2005**	**2007**
Plan member contributions	$ 55,689	57,802	(2,113)	(3.7)%	55,993	$ 2,827
Employer contributions	153,618	127,967	25,651	20.0	93,540	2,465
Net investment income	780,512	451,689	328,823	72.8	327,426	251
Other additions	21	15	6	40.0	10	-
Transfer from Retiree Health Fund	-	15,175	(15,175)	(100.0)	-	-
Total	**$ 989,840**	**652,648**	**337,192**	**51.7%**	**476,969**	**$ 5,543**

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DB Plan

The DB Plan's employer contributions increased from $127,967,000 in fiscal year 2006 to $153,618,000 in fiscal year 2007, an increase of $25,651,000 or 20.0%. Employer contributions increased from $93,540,000 in fiscal year 2005 to $127,967,000 in fiscal year 2006, an increase of $34,427,000 or 36.8%. The DB Plan's employer contribution rate increased from 21.00% in fiscal year 2006 to 26.00% in fiscal year 2007. Increases experienced in fiscal year 2007 are largely due to the contribution shortfalls related to contributions made in fiscal years 2005 and 2006. Increases experienced in fiscal year 2007 are largely due to changes in actuarial assumptions and methods implemented in the valuation for the period ending June 30, 2004 (the valuation used to set fiscal year 2007 employer contributions rates).

The DB Plan's net investment income in fiscal year 2007 increased by $328,823,000 or 72.8% from amounts recorded in fiscal year 2006. Net investment income in fiscal year 2006 increased by $124,263,000 or 38.0% from amounts recorded in fiscal year 2005. Changes in both years are due to the performance of the equity markets. The domestic equity pool realized a return of 20.1% in 2007 compared to 9.2% in 2006. The international equity pool realized a return of 27.9% in 2007 compared to 28.7% in 2006. The real estate pool realized a return of 20.8% in 2007 compared to 18.6% in 2006. The private equity pool realized a return of 28.7% in 2007 compared to 25.8% in 2006. The emerging markets equity pool realized a return of 48.0% in 2007 compared to 34.5 in 2006. The high yield pool realized a return of 10.9% in 2007 compared to 5.6% in 2006. The other investments pool realized a return of 11.3% in 2007 compared to 8.6% in 2006. More than seventy-six percent of invested assets were invested in these pools.

Over the long term, investment income has been a major component of additions to plan assets. During fiscal year 2007, the DB Plan continued to record significant rates of return on investments. The rate of return used in the actuarial valuation report to determine liabilities of the DB Plan was 8.25%. The actual rate of return exceeded the actuarial rate of return for the fourth consecutive year.

During 2006, a review was conducted of all DB Plan's medical reserve amounts in the Retiree Health Fund. No transfer occurred in 2007. However, in 2006 there was an excess reserve balance over those deemed necessary for the continued operation of the Retiree Health Fund. The excess amount was allocated to plans participating in the Retiree Health Fund. In fiscal year 2006, the Plan transferred $15,175,000 from the Retiree Health Fund.

DCR Pension Trust Fund

The DCR Pension Trust Fund's employer contributions in fiscal year 2007 totaled $2,465,000. The DCR employer contribution rate for fiscal year 2007 was established by Alaska Statute 14.25.350 and adopted by the ARMB at 7.0%.

The DCR Pension Trust Fund's net investment income in fiscal year 2007 totaled $251,000. For fiscal year 2007, the DCR Pension Trust Fund was invested in cash and cash equivalents from July 1st through October 2006; therefore no rate of return was calculated by the Division of Revenue.

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Benefits and Other Deductions

The primary deduction of the DB Plan and DCR Pension Trust Fund is the payment of pension benefits. These benefit payments, together with post employment healthcare premiums paid, lump sum refunds made to former plan members, and the cost of administering the Plans comprise the costs of operation. The DCR Pension Trust Fund started July 1, 2006.

Deductions (in thousands)

	Defined Benefit Plan					Defined Contribution Pension Trust Fund
			Increase/(Decrease)			
	2007	2006	Amount	Percentage	2005	2007
Pension benefits	$ 293,224	281,205	12,019	4.3%	269,414	$ -
Healthcare benefits	96,544	92,462	4,082	4.4	85,670	-
Refunds of contributions	4,535	3,832	703	18.3	4,376	20
Administrative	2,394	2,173	221	10.2	2,029	16
Total	$ 396,697	379,672	17,025	4.5%	361,489	$ 36

The DB Plan's pension benefit payments in 2007 and 2006 increased $12,019,000 and $11,791,000 or 4.3% and 4.4% from fiscal years 2006 and 2005, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees as well as a continuing increase in average benefits.

The DB Plan's post employment healthcare benefits in 2007 and 2006 increased $4,082,000 and $6,792,000 or 4.4% and 7.9% from fiscal years 2006 and 2005, respectively. Healthcare costs continue to rise year over year and this increase is directly related to the number of new retirees in the DB Plan.

The DCR Pension Trust Fund reflected $11,000 in administrative expenses, which are management services paid out in fiscal year 2007 for managed account fees.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on Plans investments.

- The employer contributions are determined by the DB Plan's consulting actuaries and approved by the ARMB annually. For fiscal year 2007 and 2008, the DCR Pension Trust Fund's employer contribution rate was established by Alaska Statute 14.25.350 and adopted by the ARMB.

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- Plan member contributions are established by Alaska Statute 14.25.050 for the DB Plan and Alaska Statute 14.25.340 for the DCR Pension Trust Fund.

- The ARMB works with an external consultant to determine the proper asset allocation strategy.

Legislation

During the fiscal year 2007 legislative session, two laws enacted that affects the DB Plan and DCR Pension Trust Funds are:

Senate Bill 123, passed by the twenty-fifth Alaska State Legislature, created the Alaska Retiree Healthcare Trust and conformed amendments between the DB Plan and DCR Pension Trust Fund.

House Bill 95, passed by the twenty-fifth Alaska State Legislature, appropriating $265.9 million from the general fund to the Department of Administration for deposit in the DB Plan's accounts in the teacher's retirement plan as partial payment of the participating teachers' retirement plan employers' contributions for the fiscal year ending June 30, 2008. This appropriation is intended to be the amount required to reduce the employer contribution rate of teachers' retirement plan employers to 12.56% for fiscal year 2008.

During the fiscal year 2005 legislative session, a law was enacted that closes the TRS defined benefit plan. Senate Bill 141, effective July 1, 2006, closed the TRS defined benefit plan to new members and creates a TRS defined contribution plan for members first hired on or after July 1, 2006.

Economic Conditions, Future Contribution Rates, and Status of Unfunded Liability

The financial market environment continues to challenge investors. With the threat of inflation, interest rate increases by the Federal Reserve Bank, and continued turmoil in the Middle East, many forces once again pose challenges to Plan investments. The ARMB continues to diversify the portfolio of the DB Plan to maintain an optimal risk/return ratio.

The return on the DB Plan's investments exceeded its' actuarially assumed return of 8.25% for the third consecutive year. Even with investment returns exceeding the actuarial rate of return, the DB Plan will continue to see an increase in employer contribution rates due to rising medical costs and past contribution shortfalls. Effective with the 2004 valuation, the assumption used to value liabilities for retiree medical benefits were changed. The revised methods and assumption more accurately measured retiree medical liability and incorporated the expected impact on the TRS liabilities of changes in the medical program.

The consulting actuary recommended an increase from the DB Plan's employer contribution rate of 41.78% in fiscal year 2007 to 42.26% in fiscal year 2008. The ARMB adopted an average employer contribution rate of 54.03% for fiscal year 2008, up 28.03 points from the fiscal year 2007 employer contribution rate of 26.00%.

The June 30, 2006, actuarial valuation for the DB Plan reported a funding ratio of 57.3% and an unfunded liability of $3.1 billion for fiscal year 2006.

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For fiscal year 2007, the DCR Pension Trust Fund's employer contribution rate was set at 7.00%. The DCR Pension Trust Fund fiscal year 2008 employer contribution rate has remained at 7.00%

Requests for Information

This financial report is designed to provide a general overview of the finances for all those with interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alaska Teachers' Retirement System, Division of Retirement & Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811–0203.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
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Statements of Plan Net Assets

June 30, 2007 and 2006 (in thousands)

	Defined Benefit Plan					
	2007			2006		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Assets:						
Cash and Cash Equivalents (notes 3 and 5):						
Short-Term Fixed Income Pool	$ 8,224	3,720	11,944	371	146	517
Securities Lending Collateral	366,184	165,626	531,810	304,063	119,322	423,385
Great-West Account	-	-	-	-	-	-
Total Cash and Cash Equivalents	374,408	169,346	543,754	304,434	119,468	423,902
Receivables:						
Contributions	6,252	2,828	9,080	6,675	2,619	9,294
Due from State of Alaska General Fund	3,096	1,401	4,497	102	40	142
Other Accounts Receivable	4	2	6	1	1	2
Total Receivables	9,352	4,231	13,583	6,778	2,660	9,438
Investments (notes 3, 4, 5 and 8):						
Collective investment funds, as fair value:						
Participant directed	-	-	-	-	-	-
Domestic Equity Pool	1,651,292	111,819	1,763,111	1,510,424	126,536	1,636,960
Domestic Fixed Income Pool	600,204	271,473	871,677	670,088	262,959	933,047
International Equity Pool	568,060	256,934	824,994	458,689	180,001	638,690
Real Estate Pool	368,349	166,604	534,953	309,002	121,260	430,262
International Fixed Income Pool	61,959	28,024	89,983	64,427	25,283	89,710
Private Equity Pool	225,259	101,885	327,144	185,654	72,855	258,509
Emerging Markets Equity Pool	87,248	39,463	126,711	69,738	27,367	97,105
Other Investments Pool	39,260	17,758	57,018	23,327	9,154	32,481
High Yield Pool	59,386	26,860	86,246	48,042	18,853	66,895
Absolute Return Pool	129,977	58,789	188,766	78,526	30,815	109,341
Total Investments	3,790,994	1,079,609	4,870,603	3,417,917	875,083	4,293,000
Other:						
Loans and Mortgages, Net of Allowance for Loan Losses of $28 for both 2007 and 2006	18	7	25	24	9	33
Other Assets	1	1	2	-	-	-
Total Assets	4,174,773	1,253,194	5,427,967	3,729,153	997,220	4,726,373
Liabilities:						
Accrued Expenses	2,095	948	3,043	2,167	850	3,017
Securities Lending Collateral Payable (note 5)	366,184	165,626	531,810	304,063	119,322	423,385
Due to State of Alaska General Fund	-	-	-	-	-	-
Total Liabilities	368,279	166,574	534,853	306,230	120,172	426,402
Commitments and Contingencies (note 8)						
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits	**$3,806,494**	**1,086,620**	**4,893,114**	**3,422,923**	**877,048**	**4,299,971**

(Schedules of funding progress are presented on pages 61 and 62.)

See accompanying notes to financial statements.

(continued)

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June 30, 2007 and 2006 (in thousands)

Defined Contribution Pension Trust Fund

	2007 Participant Directed
Assets:	
Cash and Cash Equivalents (notes 3 and 5):	
Short-Term Fixed Income Pool	51
Securities Lending Collateral	-
Great-West Account	7
Total Cash and Cash Equivalents	58
Receivables:	
Contributions	214
Due from State of Alaska General Fund	246
Other Accounts Receivable	-
Total Receivables	460
Investments (notes 3, 4, 5 and 8):	
Collective investment funds, as fair value:	
Participant directed	5,124
Domestic Equity Pool	-
Domestic Fixed Income Pool	-
International Equity Pool	-
Real Estate Pool	-
International Fixed Income Pool	-
Private Equity Pool	-
Emerging Markets Equity Pool	-
Other Investments Pool	-
High Yield Pool	-
Absolute Return Pool	-
Total Investments	5,124
Other:	
Loans and Mortgages, Net of Allowance for Loan Losses of $28 for both 2007 and 2006	-
Other Assets	-
Total Assets	5,642
Liabilities:	
Accrued Expenses	135
Securities Lending Collateral Payable (note 5)	-
Due to State of Alaska General Fund	-
Total Liabilities	135
Commitments and Contingencies (note 8)	
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits	**5,507**

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Statements of Changes in Plan Net Assets

June 30, 2007 and 2006 (in thousands)

	Defined Benefit Plan					
	2007			2006		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 105,775	47,843	153,618	91,902	36,065	127,967
Plan Members	38,346	17,343	55,689	41,512	16,290	57,802
Total contributions	144,121	65,186	209,307	133,414	52,355	185,769
Investment Income:						
Net Appreciation in Fair Value (note 3)	431,298	195,077	626,375	235,464	92,402	327,866
Interest	39,239	17,748	56,987	39,941	15,675	55,616
Dividends	73,327	33,166	106,493	55,989	21,971	77,960
Net Recognized Loan Recovery	-	-	-	1	-	1
Total Investment Income	543,864	245,991	789,855	331,395	130,048	461,443
Less Investment Expense	7,250	3,279	10,529	7,659	3,006	10,665
Net Investment Income Before Security Lending Activities	536,614	242,712	779,326	323,736	127,042	450,778
Securities Lending Income (note 5)	16,259	7,354	23,613	11,023	4,326	15,349
Less Securities Lending Expenses (note 5)	15,442	6,985	22,427	10,369	4,069	14,438
Net Income from Securities Lending Activities	817	369	1,186	654	257	911
Net Investment Income	537,431	243,081	780,512	324,390	127,299	451,689
Other:						
Transfer from Retiree Health Fund (note 6)	-	-	-	10,898	4,277	15,175
Other	15	6	21	11	4	15
Total Additions	681,567	308,273	989,840	468,713	183,935	652,648
Deductions:						
Pension and postemployment Benefits	293,224	96,544	389,768	281,205	92,462	373,667
Refunds of Contributions	3,123	1,412	4,535	2,752	1,080	3,832
Administrative	1,649	745	2,394	1,560	613	2,173
Total Deductions	297,996	98,701	396,697	285,517	94,155	379,672
Net Increase	383,571	209,572	593,143	183,196	89,780	272,976
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits:						
Balance, Beginning of Year	3,422,923	877,048	4,299,971	3,239,727	787,268	4,026,995
Balance, End of Year	**$3,806,494**	**1,086,620**	**4,893,114**	**3,422,923**	**877,048**	**4,299,971**

See accompanying notes to financial statements.

(continued)

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Defined Contribution Pension Trust Fund

	2007 Participant Directed
Additions:	
Contributions:	
Employers	2,465
Plan Members	2,827
Total contributions	5,292
Investment Income:	
Net Appreciation in Fair Value (note 3)	-
Interest	251
Dividends	-
Net Recognized Loan Recovery	-
Total Investment Income	251
Less Investment Expense	-
Net Investment Income Before Security Lending Activities	251
Securities Lending Income (note 5)	-
Less Securities Lending Expenses (note 5)	-
Net Income from Securities Lending Activities	-
Net Investment Income	251
Other:	
Transfer from Retiree Health Fund (note 6)	-
Other	-
Total Additions	5,543
Deductions:	
Pension and postemployment Benefits	-
Refunds of Contributions	20
Administrative	16
Total Deductions	36
Net Increase	5,507
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits:	
Balance, Beginning of Year	-
Balance, End of Year	5,507

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1) Description

The following brief description of the State of Alaska Teachers' Defined Benefit Retirement System (TRS) Defined Benefit Retirement Pension and Post Employment Healthcare Plan (DB) and Defined Contribution Retirement Trust Fund (DCR). TRS is a Component Unit of the State of Alaska. The DB Plan and DCR Pension Trust Fund do not purport and do not present the net assets of the TRS as of June 30, 2007 and 2006 and the changes in net assets for the years ended. The DCR Plan also consists of a Retiree Medical Fund and Health Reimbursement Arrangement Fund, both of which are reported in separate financial statements. Members should refer to the Plan agreement for more complete information then that noted in the notes to the financial statements.

At June 30, the number of participating local government employers and public organizations including the State was:

	2007	2006
State of Alaska	1	1
School districts	53	53
Other	4	4
	58	**58**

Inclusion in the DB Plan and DCR Pension Trust Fund is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation.

Defined Benefit Retirement Plan

General

The DB Plan is a defined benefit, cost–sharing, multiple employer plan within the public employee retirement system established and administered by the State of Alaska (State) to provide pension and post employment healthcare benefits for teachers and other eligible members. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DB Plan is a plan within TRS, which includes the DB Retirement Pension Trust Fund, a Health Reimbursement Arrangement Fund and Retiree Medical Fund. TRS is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report pension trust fund. With the passage of SB141, the TRS DB Plan is closed to all new members effective July 1, 2006.

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At June 30, DB Plan's membership consisted of:

	2007	2006
Retirees and beneficiaries currently receiving benefits	9,669	9,349
Terminated plan members entitled to future benefits	814	734
	10,483	10,083
Active plan members:		
Vested	5,632	5,524
Nonvested	3,624	4,311
	9,256	9,835
	19,739	**19,918**

Pension Benefits

Vested members hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, fifty–five, or early retirement age, fifty. For members hired after June 30, 1990, the normal and early retirement ages are sixty and fifty–five, respectively. Members may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and average base salary. The average base salary is based upon the members' three highest contract years' salaries.

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990, is equal to 2–1/2% of the employee's base salary.

Minimum benefits for members eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouse consents to another form of benefit or benefits are payable under the 1% supplemental contributions provision.

The DB Plan has two types of post–retirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the DB Plan's administrator, if the cost of living in the previous calendar year rises and the financial condition of the DB Plan's permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

Post Employment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all members first hired before July 1, 1990, (2) members hired after July 1, 1990 with 25 years of membership service, and (3) members who are disabled or age sixty or older, regardless of their initial hire dates. Members first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

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Prior to July 1, 1997, post employment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self–funded and provides major medical coverage to retirees of the DB Plan. Retirees of three other State administered retirement plans also participate in the RHF. The DB Plan, along with the other participating plans, retains the risk of loss of allowable claims. The RHF issues a publicly available financial report which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the DB Plan member's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the DB Plan member's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the DB Plan member's base salary. DB Plan members first hired after June 30, 1982, are not eligible to participate in this provision.

If an active DB Plan member dies from occupational causes, the spouse may receive a monthly pension from the DB Plan. When death is due to occupational causes and there is no surviving spouse, the DB Plan member's dependent child(ren) may receive a monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump sum death benefit is payable to the named beneficiary(ies). The amount of the occupational death pension is 40% of the member's base salary at the time of death. The amount of the occupational death pension changes on the date the DB Plan member's normal retirement would have occurred if the DB Plan member had lived. The new benefit is based on the DB Plan member's average base salary at the time of death and the credited service that would have accrued had the DB Plan member lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the DB Plan member was vested, the spouse may receive a monthly 50% joint and survivor option benefit based on the member's credited service and average base salary at the time of death. If the DB Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

Disability Benefits

If a DB Plan member has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the DB Plan member is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled Plan member receives normal retirement benefits.

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Contributions

DB Plan Member Contributions

The DB Plan members contribute 8.65% of their base salary as required by statute. The DB Plan's member contributions are deducted before federal tax is withheld. Eligible DB Plan members contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the DB Plan. DB Plan member contributions earn interest at the rate of 4.5% per annum, compounded annually.

Employer Contributions

The DB Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and post employment healthcare benefits when due. Employer contribution rates are determined using the entry age normal actuarial funding method. The DB Plan uses the level percentage of pay method to amortize the unfunded liability over a twenty–five year fixed period.

Contributions from the State of Alaska

House Bill 95, passed by the twenty-fifty Alaska State Legislature, appropriating $265.9 million from the general fund to the Department of Administration for deposit in the DB Plan's accounts in the teacher's retirement plan as partial payment of the participating teachers' retirement plan employers' contributions for the fiscal year ending June 30, 2008. This appropriation is intended to be the amount required to reduce the employer contribution rate of teachers' retirement plan employers to 12.56% for fiscal year 2008.

Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within fifty years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including post employment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they re–establish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not re-established an employee relationship with a participating DB Plan employer by June 30, 2010, will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

Administrative Costs

Administrative costs are financed through investment earnings.

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Due From (To) State of Alaska General Fund

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

DCR Pension Trust Fund

General

The DCR Pension Trust Fund is a defined contribution, cost-sharing, multiple employer public employee retirement plan within TRS established and administrated by the State of Alaska (State) to provide pension and post employment healthcare benefits for eligible employees. Benefits and contribution provisions are established by State law and may be amended only by the State Legislature. The DCR Pension Trust Fund was created by State of Alaska Statutes effective July 1, 2006. A defined contribution plan is a plan in which savings are accumulated in an individual retirement account for the exclusive benefit of the member or beneficiaries.

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At June 30, DCR Pension Trust Fund membership consisted of:

	2007
Retirees and beneficiaries currently receiving benefits	-
Terminated plan members entitled to future benefits:	
25% Vested	1
50% Vested	-
75% Vested	1
100% Vested	3
Total terminated plan members entitled to future benefits	5
Total current and future benefits	5
Active plan members:	
25% Vested	2
50% Vested	-
75% Vested	-
100% Vested	4
Nonvested	635
Total active plan members	641
Total	**646**

Pension Benefits

A participating member is immediately and fully vested in that member's contributions and related earnings. A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings, after five years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of a) 25% with two years of service, b) 50% with three years of service; c) 75% with four years of service; and d) 100% with five years of service.

Post Employment Healthcare Benefits

Major medical benefits available to eligible persons are access to the retiree major medical insurance plan and to the health reimbursement arrangement plan. Access to the retiree major medical insurance plan means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.

Death Benefits

If (1) the death of an employee occurs before the employee's retirement and before the employee's normal retirement date, (2) the proximate cause

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of death is a bodily injury sustained or a hazard undergone while in the performance and within the scope of the employee's duties, and (3) the injury or hazard is not the proximate result of willful negligence of the employee, a monthly survivor's pension shall be paid to the surviving spouse. If there is no surviving spouse or if the spouse later dies, the monthly survivor's pension shall be paid in equal parts to the dependent children of the employee.

The monthly survivor's pension section for survivors of employees who were not peace officers or fire fighters is 40% of the employee's monthly compensation in the month in which the employee dies. The monthly survivor's pension for survivors of employees who were peace officers or fire fighters is 50% of the monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the employer shall make contributions on behalf of the employee's beneficiaries based on the deceased employee's gross monthly compensation at the time of occupational death.

Disability Benefits

An employee is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the employee's normal retirement date. The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment.

Contributions

Defined Contribution Retirement Pension Trust Fund Member Contributions

Contribution rates are 8.0% for DCR Pension Trust Fund members, as required by statute. The employer shall deduct the contribution from the member's compensation at the end of each payroll period, and the contribution shall be credited by the plan to the member's individual account. The contributions shall be deducted from the member's compensation before the computation of applicable federal taxes.

Employer Contributions

An employer shall contribute to each member's individual account an amount equal to 7.0% of the member's compensation.

Participant Accounts

Participant accounts under the DCR Pension Trust Fund are self-directed with respect to investment options. Investment options are disclosed in note 3.

Each participant designates how contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

Recordkeeping/administrative fees consisting of a fixed amount, applied in a lump-sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's

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account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the record keeper and by the State. The investment management fees are netted out of the funds' performance.

Refunds

A member is eligible to elect distribution of the member's account in accordance with this section 60 days after termination of employment. Distributions that are being paid to a member may not be affected by the member's subsequent reemployment with the employer. Upon reemployment, a new individual account shall be established for the member to whom any future contributions shall be allocated.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

GASB Statements No. 25 and No. 43

The DB Plan and DCR Pension Trust Fund follow the provisions of Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). GASB 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two separate categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

During the fiscal year, the DB Plan adopted GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* (GASB 43). GASB 43 establishes uniform financial reporting standards for Other Post-Employment Benefit Plans (OPEB) and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Post Employment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed by GASB 43 is generally consistent with the approach adopted in GASB 25, with modifications to reflect differences between pension and OPEB plans.

Investments

Investments are recorded at fair value in accordance with GASB Statement No. 31. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that

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is, other than in a forced or liquidation sale." Security transactions are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on equity securities is accrued on the ex-dividend date. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment deductions consist of those administrative deductions directly related to the Plan's investment operations.

In fiscal year 2005, GASB Statement No. 40, *Deposits and Investment Risk Disclosures* (GASB 40) was implemented. GASB 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, foreign currency risk and concentration of credit risk.

Basis of Accounting

The schedules are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net withdrawals represent contributions from employers and members, net of benefits paid to DB Plan and DCR Pension Trust Fund members as well as administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

Valuation

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers.

Domestic and international equity securities are valued each business day using prices obtained from pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued on the last business day of each month by the investment managers.

Private equity securities are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

The energy related investments in the other investments pool are valued quarterly by the general partner. The agricultural investments are valued quarterly by investment managers. Valuations are based on market conditions and knowledge of industry trends. Agricultural holdings are appraised once every three years, in conjunction with the purchase anniversary date, by independent appraisers.

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With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions and their knowledge of industry trends. Separate account real estate investments are appraised at least once every three years, in conjunction with the properties purchase anniversary date, by independent appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid point of representative quoted bid and asked prices.

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2007 and 2006, the allowance for loan loss totaled $5,221 and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

Collective investment funds are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plans. The unit value is determined by the Trustees based on fair value do the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Pooled investment funds, held in trust, are stated at fair valued based on the unit value as reported by the Trustees multiplied by the number of units held by the Plans. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Income Allocation

Income in the fixed income and domestic and international equity pools is allocated to pool participants daily on a pro rate basis.

Income, in the emerging markets, private equity, absolute return, other investments, and real estate pools is allocated to pool participants monthly on a pro rata basis.

Income for the pooled investment and collective investment funds is credited to the fund's net asset value on a daily basis and allocated to pool participants on a pro rata basis.

Contributions Receivable

Contributions from the DB Plan and DCR Pension Trust Fund members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Federal Income Tax Status

The DB Plan and DCR Pension Trust Funds are qualified plans under Section 401(a) and 414(d) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a).

(3) Investments

The Alaska Retirement Management Board (ARMB) has statutory oversight of the DB Plan and DCR Pension Trust Fund's investments. As the fiduciary, the ARMB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional pru-

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dence, discretion and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Treasury Division (Treasury) provides staff for the ARMB. Treasury has created a pooled environment by which it manages the investments the ARMB has fiduciary responsibility for. Additionally, Treasury manages mix of pooled investments, collective investments, and mutual funds for the Defined Contributions plan, which includes Occupational Death and Disability Benefits. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The ARMB has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the Securities Lending Collateral, Collective Investment Pools, Defined Contribution Pooled Investment Funds, External Domestic Fixed Income Pool, International Fixed Income Pool, High Yield Pool, Domestic Equity Pool, International Equity Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Other Investments Pool and, with the exception of real estate investment trust holdings the Real Estate Pool are manage by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, Short-term Fixed Income Pool, real estate investment trust holding and cash holding of certain external managers in addition to acting as oversight manage for all externally managed investments.

Defined Benefit Retirement Plan Pools

Short–Term Fixed Income Pool

The DB Plan participates in the State's internally managed short–term fixed income pool which was established March 15, 1993, with a start up and maintained share price of $1. Treasury staff determines the allocation between permissible securities. Each member owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Member shares also change at the beginning of each month when income is paid. At June 30, 2007 and 2006, the DB Plan had a 0.03% and 0.02% direct ownership in the short–term fixed income pool which included interest receivable of $14,559 and $15,402, respectively. The DB Plan had a 4.21% and 4.29% indirect ownership in the short–term fixed income pool at June 30, 2007 and 2006, respectively.

Enhanced Cash Fixed Income Pool

The DB Plan participated in the State's internally managed enhanced cash fixed income pool which was established in June 2007 with a startup and maintained share price of $1,000. The share price at June 30, 2007 was $1,000. Treasury staff determines the allocation between permissible securities. Each member owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Member shares also change at the beginning of each month when income is paid. At year end only one pool, the domestic fixed income pool was invested in the enhanced cash fixed income pool. At June 30, 2007 the DB Plan's invested assets included a 30.69% direct ownership in the enhanced cash fixed income pool.

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Domestic Fixed Income Pool

The DB Plan participated in the ARMB's internally managed retirement fixed income pool which was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2007, was $1,958. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan's invested assets included a 31.70% and 31.38% ownership in the retirement fixed income pool, respectively.

International Fixed Income Pool

The DB Plan participates in the ARMB's externally managed international fixed income pool which was established March 3, 1997, with a start up share price of $1,000. The share price at June 30, 2007, was $1,826. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan had a 30.70% and 31.20% ownership in the international fixed income pool, respectively.

High Yield Pool

The DB Plan participates in the ARMB's externally managed high yield fixed income pool which was established April 15, 2005, with a start up share price of $1,000. The share price at June 30, 2007, was $1,189. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan had a 31.67% and 31.20% ownership in the high yield pool, respectively.

Domestic Equity Pool

The domestic equity pool is comprised of an external large cap domestic equity pool and an external small cap domestic equity pool.

Large Cap Domestic Equity Pool

The DB Plan participates in the ARMB's externally managed large cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2007, was $1,368. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the

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pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan had a 30.63% and 31.16% ownership in the large cap domestic equity pool, respectively.

Small Cap Domestic Equity Pool

The DB Plan participates in the ARMB's externally managed small cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2007, was $1,375. Each manager independently determines the allocation between permissible securities. Ownership

in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan had a 31.15% and 31.64% ownership in the small cap domestic equity pool, respectively.

International Equity Pool

The DB Plan participates in the ARMB's externally managed international equity pool which was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2007, was $4,302. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the Plan had a 30.63% and 30.64% ownership in the international equity pool, respectively.

Emerging Markets Equity Pool

The DB Plan participates in the ARMB's externally managed emerging markets equity pool which was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2007, was $3,870. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan had a 30.69% and 35.00% ownership in the emerging markets equity pool, respectively.

Private Equity Pool

The DB Plan participates in the ARMB's externally managed private equity pool which was established April 24, 1998, with a start up share

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price of $1,000. The share price at June 30, 2007, was $2,214. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan had a 30.96% and 31.85% ownership in the private equity pool, respectively.

Absolute Return Pool

The DB Plan participates in the ARMB's externally managed absolute return pool which was established October 31, 2004, with a start up share price of $1,000. The share price at June 30, 2007, was $1,248. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan had a 30.67% and 31.19% ownership in the absolute return pool, respectively.

Other Investments Pool

The DB Plan participates in the ARMB's externally managed other investments pool which was established March 18, 2004, with a start up share price of $1,000. The share price at June 30, 2007, was $1,286. Underlying assets in the pool are comprised of limited partnership interests in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan had a 30.85% and 31.38% ownership in the other investments pool, respectively.

Real Estate Pool

The DB Plan participates in the ARMB's externally managed real estate pool which was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2007, was $3,006. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determines the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is

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determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, the DB Plan had a 30.87% and 31.17% ownership in the real estate pool, respectively.

Participant-directed DCR Pension Trust Fund Investments

Pooled Investment Funds

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly-owned pooled environment to accommodate four participant-directed funds. At June 30, 2007 no participant-directed funds were invested in the T. Row Price Target 2025 Fund.

T. Rowe Alaska Balanced Trust

On July 1, 2006 the DCR Pension Trust Fund began participation in the Alaska balanced trust. The purpose of this fund is to provide a balanced and diversified mix of U.S. and international stocks, investment-grade bonds, federally guaranteed mortgages and money market instruments for investors with a low to average risk tolerance. At June 30, 2007 the DCR Pension Trust Fund's invested assets included a 0.01% ownership in the Alaska balanced trust.

T. Rowe Long-Term Balanced Trust

On July 1, 2006 the DCR Pension Trust Fund began participation in the long-term balanced trust. The purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages and money market instruments for investors with an average risk tolerance. At June 30, 2007 the DCR Pension Trust Fund's invested assets included a 0.001% ownership in the long-term balanced trust.

T. Rowe Alaska Money Market Trust

On July 1, 2006 the DCR Pension Trust Fund began participation in the Alaska money market trust. Underlying assets are comprised of cash equivalent instruments with maturities of less than one year which include commercial paper, banker acceptances, and certificates of deposit with ratings of A1/P1 or better; as well as, obligations of the US Government and its agencies, and repurchase agreements collateralized by US Treasury Instruments with the goal of maintaining a $1.00 unit price. At June 30, 2007 the DCR Pension Trust Fund's invested assets included a 16.42% ownership in the Alaska money market trust

Collective Investment Funds

The ARMB contracts with external investment managers who maintain collective investment funds. Managers selected are subject to the provision of the collective investment funds the ARMB has selected.

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SSGA Government/Corporate

The purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index

SSGA S&P 500 Stock Index Fund

The purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's Composite Stock Price Index

Global Balanced Fund

This fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

Brandes Institutional International Equity Fund

The purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

Citizens Core Growth Fund

This fund invests primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner

T. Rowe Small Cap Stock Fund

The purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

Money Market Fund

Consists of nonparticipant directed funds used to pay administrative costs of the plan.

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At June 30, 2007, the DB Plan and DCR Pension Trust Fund's investments included the following:

	Fair value (In thousands)							
	Defined Benefit Plan Fixed Income Pools					Defined Contribution Pension Trust Fund		
	Short-term	Enhanced cash	Domestic	Intern'l	High yield	Pooled Investment Funds	Other	Total
Deposits	$ -	-	-	375	-	-	21,660	$ 22,035
Overnight sweep account (Imcs)	1,054	-	-	-	5,264	-	-	6,318
Money market fund (SL)	-	-	-	-	-	-	531,823	531,823
Short-term investment fund	6,856	-	-	319	-	1	-	7,176
Commercial paper	15,187	-	1,003	-	1,525	9	-	17,724
Domestic equity	-	-	-	-	-	24	-	24
International equity	-	-	-	-	-	1	-	1
Collective investment funds	-	-	-	-	-	-	4,918	4,918
U. S. Treasury bills	-	-	-	-	-	-	1,677	1,677
U. S. Treasury notes	-	-	94,850	-	-	11	-	94,861
U. S. Treasury strips	-	-	76	-	-	-	-	76
U. S. Treasury bonds	-	-	42,506	-	-	-	-	42,506
U.S. Government agency discount notes	-	-	59,432	-	-	-	-	59,432
U.S. Government agency	-	-	379	-	-	1	-	380
Municipal bonds	-	-	569	-	-	-	-	569
Foreign government bonds	-	-	-	54,125	-	-	-	54,125
Mortgage-backed	11,733	-	489,749	-	-	17	-	501,499
Other asset-backed	84,309	560	55,839	-	205	-	-	140,913
Corporate bonds	43,714	784	157,227	33,723	66,108	12	-	301,568
Convertible bonds	-	-	-	-	4,391	-	-	4,391
Yankees:								
Government	-	-	4,895	-	-	1	-	4,896
Corporate	9,221	-	17,485	-	6,751	1	-	33,458
Fixed income pools:								
Equity	-	-	-	-	724	-	-	724
Domestic equity pool:								
Limited partnership	-	-	-	-	-	-	145,052	145,052
Equity	-	-	-	-	-	-	1,589,433	1,589,433
International equity pool:								
Convertible bonds	-	-	-	-	-	-	801,616	801,616
Emerging markets equity pool	-	-	-	-	-	-	126,711	126,711
Private equity pool:								
Limited partnerships	-	-	-	-	-	-	326,946	326,946
Absolute return pool:								
Limited partnerships	-	-	-	-	-	-	188,766	188,766
Other investments pool:								
Limited partnerships	-	-	-	-	-	-	23,331	23,331
Agricultural holdings	-	-	-	-	-	-	33,687	33,687
Real estate pool:								
Real estate	-	-	-	-	-	-	172,480	172,480
Commingled funds	-	-	-	-	-	-	99,706	99,706
Limited partnerships	-	-	-	-	-	-	234,269	234,269
Real estate investment trusts	-	-	-	-	-	-	28,139	28,139
Mortgages	-	-	-	-	-	-	25	25
Net other assets (liabilities)	(767)	(237)	(187,118)	1,441	1,278	-	3,592	(181,811)
Other pool ownership	(159,363)	(1,107)	134,785	-	-	-	25,685	-
Unallocated deposits in transit	-	-	-	-	-	-	122	122
Total invested assets	$ 11,944	-	871,677	89,983	86,246	78	4,359,638	5,419,566

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At June 30, 2006, the DB Plan's investments included the following:

	Fair value (In thousands)					
	Fixed Income Pools					
	Short-term	Domestic	International	High yield	Other	Total
Deposits	$ -	-	-	-	1,533	1,533
Overnight sweep account	196	337	-	5,684	-	6,217
Money market fund	-	-	-	-	423,385	423,385
Short-term investment fund	4,836	-	543	-	9,679	15,058
Commercial paper	9,698	3,118	-	-	-	12,816
U. S. Treasury notes	-	51,257	-	-	-	51,257
U. S. Treasury bonds	-	54,944	-	-	-	54,944
U. S. Treasury strips	-	5,268	-	-	-	5,268
U.S. Government agency discount notes	-	44,097	-	-	-	44,097
U.S. Government agency	-	81,000	-	-	-	81,00
Municipal bonds	-	649	-	-	-	649
Foreign government bonds	-	-	51,060	-	-	51,060
Mortgage-backed	8,349	442,660	-	-	-	451,009
Other asset-backed	58,054	54,315	-	114	-	112,483
Corporate bonds	30,036	193,195	34,840	57,165	-	315,236
Convertible bonds	-	-	-	1,244	-	1,244
Yankees:						
Government	-	7,180	-	-	-	7,180
Corporate	1,233	624	-	2,132	-	3,989
Fixed income pools:						
Equity	-	-	-	17	-	17
Domestic equity pool:						
Limited partnership	-	-	-	-	91,729	91,729
Equity	-	-	-	-	1,526,971	1,526,971
International equity pool:						
Convertible bonds	-	-	-	-	628,800	628,800
Emerging markets equity pool	-	-	-	-	97,105	97,105
Private equity pool:						
Limited partnerships	-	-	-	-	258,509	258,509
Absolute return pool:						
Limited partnerships	-	-	-	-	109,341	109,341
Other investments pool:						
Limited partnerships	-	-	-	-	12,620	12,620
Agricultural holdings	-	-	-	-	19,861	19,861
Real estate pool:						
Real estate	-	-	-	-	243,968	243,968
Commingled funds	-	-	-	-	87,312	87,312
Limited partnerships	-	-	-	-	67,306	67,306
Real estate investment trusts	-	-	-	-	31,247	31,247
Mortgages	-	-	-	-	33	33
Net other assets (liabilities)	(58)	(102,489)	3,267	539	2,432	(96,309)
Other pool ownership	(111,827)	96,892	-	-	14,935	-
Total invested assets	$ 517	933,047	89,710	66,895	3,626,766	4,716,935

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Interest Rate Risk

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

Short–Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve–month prepay speeds for other securities. At June 30, 2007, the expected average life of individual fixed rate securities ranged from four days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed income portfolio to ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2007, was 4.70 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed income portfolio to ± 25% of the Citigroup Non–U.S. World Government Bond Index. The effective duration for the Citigroup Non–U.S. World Government Bond Index at June 30, 2007, was 6.00 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to ± 20% of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2007, was 4.59 years. The High Yield pool was funded April 15, 2005.

Defined Contribution Pooled Investment Funds

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate four participate-directed funds. Through the ARMB's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

> For government and corporate debt securities, duration is limited to ± 0.25 years of the Lehman Brothers Government/Credit Index. At June 30, 2007, the duration of the government and corporate debt securities was 5.12 years and the duration of the Lehman Brothers Government Credit Index was 5.01 years.
>
> For mortgage-backed securities, duration is limited to ± 0.25 years of the Lehman GNMA Index. At June 30, 2007, the duration of the mortgage-backed securities was 4.29 years and the duration of the Lehman GNMA Index 4.31 years.

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The ARMB does not have a policy to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund or commercial paper.

Collective Investment Funds

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the Collective investment fund that consisted solely of debt securities, the Government/Corporate Bond Fund, was 5.33 years at June 30, 2007.

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

Treasury uses industry–standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options and other variable cash flows for purposes of the effective duration calculation.

At June 30, 2007, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows:

	Effective duration (In years)			
	Enhanced Cash	**Domestic**	**International**	**High Yield**
U.S. Treasury notes	-	4.07	-	-
U.S. Government agency	-	4.52	-	-
Municipal bonds	-	12.33	-	-
Mortgage-backed	-	4.26	-	-
Other asset-backed	1.84	4.82	-	4.39
Corporate bonds	0.22	5.36	3.80	4.21
Convertible bonds	-	-	-	2.20
Yankees:				
Government	-	6.46	-	-
Corporate	-	11.03	8.86	3.88
Portfolio effective duration	0.08	3.99	4.81	3.82

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Credit Risk

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

The ARMB does not have a policy to limit the concentration of credit risk for the Collective Investment, ERISA Commingled, and Mutual Funds.

The DCR Pension Trust Fund invested assets in externally managed pools may lend assets or transfer securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agree to return the collateral for the same securities in the future. There is credit risk associated with the lending transactions. The risk exists that an issuer or other counter party to an investment will not fulfill its obligations and a loss results from counterparty failure or default on a loaned security.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, short–term fixed income pool investments are limited to instruments with a long–term credit rating of at least A3 or equivalent and instruments with a short–term credit rating of at least A1 or equivalent. For securities with long–term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset–backed and nonagency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The ARMB's investment policy has the following limitations with regard to credit risk:

Domestic fixed income:

Commercial paper must carry a rating of at least A1 or equivalent.

Corporate debt securities must be investment grade.

Corporate, asset–backed and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's Corporation, Moody's and Fitch. Asset–backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

Enhanced Cash Fixed Income:

Commercial paper must carry a rating of at least A1 or equivalent.

No more than five percent of the portfolio's assets may be invested in securities rated below investment grade as determined by the Lehman Brothers rating methodology.

No more than two percent of the portfolio's assets may be invested in the bonds of any non-U.S. government agency or instrumentality rated below investment grade.

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International fixed income:

Corporate and asset–backed obligations must be investment grade.

Domestic and international equity:

Corporate debt obligations must carry a rating of at least A or equivalent.

High yield:

No more than ten percent of the portfolio's assets may be invested in securities rated A3 or higher.

No more than twenty–five percent of the portfolio's assets may be invested in securities rated below B3.

No more than five percent of the portfolio's assets may be invested in unrated securities.

The lower of any Standard & Poor's Corporation, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, the ARMB does not consider this investment subject to the credit risk limitations above.

Defined Contribution Pooled Investment Funds:

All government and corporate fixed income securities must be rated BBB or better at the time of purchase.

All mortgage-backed securities must be issued by the Government National Mortgage Association and Commercial paper and other short-term debt obligations must be rated A1 or equivalent.

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At June 30, 2007, the DB Plan and DCR Pension Trust Fund's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Defined Benefit				
		Internally managed fixed income pools				
	Rating[1]	Short-term	Enhanced cash	Domestic	International	High yield
Overnight sweep account	Not Rated	0.61%	-%	-%	-%	6.10%
Money market fund	Not Rated	-	-	-	-	-
Short-term investment account	Not Rated	3.96	-	-	0.36	-
Commercial paper	AA	1.88	-	-	-	-
Commercial paper	A	3.09	-	-	-	1.77
Commercial paper	Not Rated	3.86	-	0.14	-	-
U. S. government agency discount notes	Not Rated	-	-	8.07	-	-
U. S. government agency	AAA	-	-	-	-	-
U. S. government agency	Not Rated	-	-	0.05	-	-
Mortgage-backed	AAA	6.50	-	51.10	-	-
Mortgage-backed	A	0.32	-	-	-	-
Mortgage-backed (agency)	Not Rated	-	-	15.36	-	-
Other asset-backed	AAA	40.98	2.65	5.14	-	-
Other asset-backed	AA	0.91	-	0.27	-	-
Other asset-backed	A	6.34	-	0.09	-	-
Other asset-backed	BBB	-	1.00	0.74	-	-
Other asset-backed	BB	-	-	-	-	0.24
Other asset-backed	Not Rated	0.78	-	1.34	-	-
Municipal bonds	AA	-	-	0.08	-	-
Corporate bonds	AAA	1.97	-	1.89	25.92	-
Corporate bonds	AA	15.13	0.60	4.28	11.43	-
Corporate bonds	A	8.31	3.46	6.98	-	-
Corporate bonds	BBB	-	1.04	7.15	-	1.56
Corporate bonds	BB	-	-	-	-	21.55
Corporate bonds	B	-	-	-	-	41.49
Corporate bonds	CCC	-	-	-	-	11.57
Corporate bonds	D	-	-	-	-	0.48
Corporate bonds	Not Rated	-	-	1.03	0.28	3.59
Convertible bonds	BBB	-	-	-	-	0.20
Convertible bonds	BB	-	-	-	-	0.06
Convertible bonds	B	-	-	-	-	1.19
Convertible bonds	D	-	-	-	-	0.05
Yankees:						
Government	AAA-BBB	-	-	0.66	56.57	-
Government	Not Rated	-	-	-	3.83	-
Corporate	AAA	3.09	-	-	-	-
Corporate	AA	1.75	-	-	-	-
Corporate	A	-	-	1.47	-	-
Corporate	BBB	-	-	0.61	-	0.35
Corporate	BB	-	-	-	-	1.06
Corporate	B	-	-	-	-	5.88
Corporate	CCC	-	-	-	-	0.21
Corporate	Not Rated	0.52	-	0.30	-	0.32
No credit exposure		-	91.25	(6.75)	1.61	2.33
		100.00%	**100.00%**	**100.00%**	**100.00%**	**100.00%**

[1]Rating modifiers are not disclosed

(continued)

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	Defined Contribution Pooled investment funds			
	GNMA	**Govt/Corp**	**Money market**	**Collective Investment funds**
Overnight sweep account	-%	-%	-%	-%
Money market fund	-	-	-	0.26
Short-term investment account	7.40	0.84	-	-
Commercial paper	-	-	-	-
Commercial paper	-	-	-	-
Commercial paper	-	-	6.22	-
U. S. government agency discount notes	-	-	83.66	-
U. S. government agency	-	2.42	-	-
U. S. government agency	-	-	-	-
Mortgage-backed	88.91	17.08	-	-
Mortgage-backed	-	-	-	-
Mortgage-backed (agency)	3.69	-	-	-
Other asset-backed	-	-	-	-
Other asset-backed	-	-	-	-
Other asset-backed	-	-	-	-
Other asset-backed	-	-	-	-
Other asset-backed	-	-	-	-
Other asset-backed	-	-	-	-
Municipal bonds	-	-	-	-
Corporate bonds	-	1.67	3.13	-
Corporate bonds	-	6.70	3.13	-
Corporate bonds	-	15.45	6.25	-
Corporate bonds	-	11.42	-	-
Corporate bonds	-	-	-	-
Corporate bonds	-	-	-	-
Corporate bonds	-	-	-	-
Corporate bonds	-	-	-	-
Corporate bonds	-	-	-	-
Convertible bonds	-	-	-	-
Convertible bonds	-	-	-	-
Convertible bonds	-	-	-	-
Convertible bonds	-	-	-	-
Yankees:				
Government	-	2.85	-	-
Government	-	-	-	-
Corporate	-	0.27	-	-
Corporate	-	0.96	-	-
Corporate	-	0.91	-	-
Corporate	-	0.71	-	-
Corporate	-	-	-	-
Corporate	-	-	-	-
Corporate	-	-	-	-
Corporate	-	-	-	-
No credit exposure	-	38.72	(2.39)	99.74
	100.00%	**100.00%**	**100.0%**	**100.0%**

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Securities lending collateral was invested in a registered 2(a)–7 money market fund that was not rated.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The ARMB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2007, the DB Plan had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International equity pool	$ 1,641

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The ARMB's policy with regard to foreign currency risk in the international fixed income pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non–U.S. World Government Bond Index. In addition, the ARMB's asset allocation policy permits the Plan to hold up to four percent of total investments in international fixed income.

The ARMB's policy with regard to foreign currency risk in the international equity pool and the emerging markets pool is to permit the DB Plan and DCR Pension Trust Fund to hold up to eighteen percent of total investments in these two pools combined.

The ARMB's policy with regard to foreign currency risk in the private equity pool is to permit the DB Plans' to hold up to ten percent of total investments in private equity.

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At June 30, 2007, the DB Plan had exposure to foreign currency risk with the following investment pools:

	Amount (In thousands) Defined Benefit	
Currency	**International fixed income pool**	**International equity pool**
Australian Dollar	$ -	158
Canadian Dollar	-	1
Euro Currency	-	(432)
Hong Kong Dollar	-	201
Japanese Yen	115	1,074
Mexican Peso	261	-
New Zealand Dollar	-	3
Norwegian Krone	-	52
Pound Sterling	-	553
Swedish Krona	-	30
Swiss Franc	-	1
	$ 376	**1,641**

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At June 30, 2007, the DB Plan and DCR Pension Trust Fund had exposure to foreign currency risk with the following investments:

	Amount (In thousands)				
	Defined Benefit			Defined Contribution	
	Fixed income				
	International fixed income pool		International equity pool	Private equity pool	International trust pool
Currency	Foreign government	Corporate	Equity	partnerships	Limited Equity
Australian Dollar	$ 1,820	861	17,944	-	-
Canadian Dollar	-	-	16,092	-	-
Danish Krone	-	-	915	-	-
Euro Currency	42,613	-	300,071	12,216	1
Hong Kong Dollar	-	-	11,494	-	-
Japanese Yen	7,952	32,863	162,203	-	-
Mexican Peso	1,739	-	-	-	-
New Taiwan Dollar	-	-	2,894	-	-
New Zealand Dollar	-	-	3,262	-	-
Norwegian Krone	-	-	6,235	-	-
Pound Sterling	-	-	149,113	1,428	-
Singapore Dollar	-	-	8,018	-	-
South African Rand	-	-	617	-	-
South Korean Won	-	-	12,079	-	-
Swedish Krona	-	-	13,988	-	-
Swiss Franc	-	-	50,334	-	-
	$ 54,124	**33,724**	**755,259**	**13,644**	**1**

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At June 30, 2007, the DB Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool represents an investment in commingled investment funds; therefore, no disclosure of specific currencies is made.

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk for the short–term fixed income pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

The ARMB's policy with regard to concentration of credit risk for the domestic fixed income, international fixed income and high yield pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2007, the DB Plan's investments included $250 million in Federal National Mortgage Association securities which represented 5% of the DB Plan's total investments. Federal National Mortgage Association securities are not classified as corporate bonds.

The DB Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (in thousands) for the years ending June 30:

	2007	2006
Domestic equity pool	$279,378	118,022
Retirement fixed income pool	7,579	(45,360)
International equity pool	160,612	145,413
Real estate pool	73,078	47,846
International fixed income pool	(1,492)	(5,738)
Private equity pool	59,618	45,762
Emerging markets equity pool	26,244	10,931
Other investment pool	2,736	791
Absolute return pool	17,594	11,895
High yield	1,028	(1,696)
	$ 626,375	**327,866**

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Collective Investment Funds

The DCR Pension Trust Fund's investments include the following collective investment funds at June 30:

	2007		
	Units owned	**Unit value**	**Balance** (In thousands)
Global balanced fund	$ 3,081	35.090	$ 108
Alaska balanced trust	2,015	33.828	68
Brandes INST international equity fund	52,411	26.700	1,400
Citizens core growth fund	53,198	19.150	1,019
S&P 500 stock index fund	43,815	28.223	1,237
Alaska long-term balanced trust	127	14.285	2
Daily government/corporate bond fund	108	21.757	2
T. Rowe Price small cap stock trust	25,011	46.090	1,153
Money market fund	8,282	1.000	8
Unallocated Deposits in Transit	-	-	127
Total collective investment funds			**$ 5,124**

(4) Foreign Exchange, Foreign Exchange Contracts and Off-Balance Sheet Risk

The international fixed income and international equity pool's investment income includes the following at June 30:

	2007	**2006**
Net realized gain on foreign currency	$19,348,152	13,922,461
Net unrealized loss on foreign currency	(4,545)	(13,005)
Net realized gain (loss) on foreign exchange contracts	95,812	117,351

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The international equity pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from eight to one hundred and twenty-four days. The Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	2007	2006
Net contract sales	$ 699,849	1,405,109
Less fair value	695,676	1,408,914
Net unrealized gains (losses)	**$ 4,173**	**(3,805)**

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(5) Securities Lending

Alaska Statute 37.10.071 authorizes the ARMB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The ARMB has entered into an agreement with State Street Corporation (Bank) to lend equity and domestic fixed income securities. The Bank, acting as the ARMB's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2007 and 2006, the fair value of securities on loan allocable to the DB Plan's invested assets totaled $547,635,829 and $417,202,476, respectively. There is no limit to the amount that can be loaned and the ARMB is able to sell securities on loan. International equity security loans are collateralized at not less than 105% of their fair value. All other security loans are collateralized at not less than 102% of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral in the amount of $531,810,023 is invested in a registered 2(a)–7 money market fund which is valued at amortized cost, approximating fair value. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Securities collateral in the amount of $32,449,425 may be pledged or sold upon borrower default. Since the ARMB does not have the ability to pledge or sell securities collateral unless the borrower defaults, they are not recorded on the financial statements. Securities on loan, cash collateral and cash collateral payable are recorded on the financial statements at fair value. The Bank, the DB Plan and the borrower receive a fee from earnings on invested collateral. The bank and the DB Plan share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the ARMB is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the ARMB against loss due to borrower rebates in excess of earnings on cash

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collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2007 and 2006, there were no losses incurred as a result of securities lending transactions and there were neither significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(6) Transfer to Retirement Systems

During fiscal year 2006, a review was conducted of all medical reserve amounts in the Retiree Health Fund. An analysis was conducted which considered: (1) the medical portion of net assets held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive. The result was no excess reserve balances over those deemed necessary for the continued operation of the Retiree Health Fund. No review or transfer occurred in 2007.

(7) Funded Status and Funding Progress - DB Plan

The funded status of the defined benefit retirement post employment healthcare benfeit plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered Payroll
June 30, 2006	$844,766	4,288,707	3,443,941	19.7%	$574,409	599.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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The accompanying schedule of employer contributions presents trend information about the amounts contributed to the plan by employers in comparison to the actuarially required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial report purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	**June 30, 2006**
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	22 years
Asset valuation method	5 year smoothed market

Actuarial Assumptions

Investment rate of return 4.50%

Health cost trend –

	Medical	Prescription Drugs
FY07	9.0%	13.0%
FY08	8.5%	12.0%
FY09	8.0%	11.0%
FY10	7.5%	10.0%
FY11	7.0%	9.0%
FY12	6.5%	8.0%
FY13	6.0%	7.0%
FY14	5.5%	6.0%
FY15	5.0%	5.0%
FY16 and later	5.0%	5.0%

GASB 43 requires that the discount rate used in the actuarial valuation be the estimated long-term yield on investments that are expected to finance post employment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets, or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

TRS' retiree healthcare benefits are partially funded. GASB 43 outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of annual required contribution actually being contributed to the plan. The State of

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Alaska has utilized the second methodology to develop a discount rate of 4.50% as of June 30, 2006 to be used for 2007's disclosure.

(8) Commitments and Contingencies

Commitments

The ARMB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2007, the DB Plan's member share of the unfunded commitment totaled $3,968,095. This commitment can be withdrawn annually in December with ninety days notice.

The ARMB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2007 the DB Plan's member share of these unfunded commitments totaled $226,378,224. These commitments are estimated to be paid through 2014.

The ARMB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2007, the DB Plan's member share of this unfunded commitment totaled $28,075,210 to be paid through 2017.

The ARMB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2007, the DB Plan's member share of these unfunded commitments totaled $143,549,368 to be paid through the year 2011.

Contingencies

The Department of Administration determined that statutory changes were needed to ensure that the Defined Benefit Retiree Health Program is funded in compliance with the Internal Revenue Code. Consequently, during the fiscal year 2007 legislative session, a law was enacted that created the Alaska Retiree Health Care Trusts (ARHCT), two separate irrevocable trusts. Senate Bill 123 (SB 123), effective June 7, 2007, directs all separately calculated employer contributions for the retiree health benefits, and appropriations, earning and reserves for payment of retiree medical obligations, to be credited to the ARHCT. Pursuant to SB 123, Treasury and the Department of Administration established and implemented the ARHCT effective as of July 1, 2007. The ARHCT will be funded through contributions from employers and premiums paid by retirees.

The Department of Administration intends to seek a tax determination letter from the Internal Revenue Service during the filing cycle beginning on February 1, 2008, and ending on January 31, 2009, concerning the status of the pension plans it administers as qualified governmental plans under Internal Revenue Code Sections 401(a) and 414(d). The Department of Administration also intends to seek private letter rulings regarding the status of the ARHCT. Finally, The Department of Administration intends to seek rulings and/or guidance from the Internal Revenue Service with respect to the prior structure of the Defined Benefit Retiree Health Program. As a result, invested assets may need to be reallocated between net assets available for pension benefits and net assets available for retiree health benefits, which could require a transfer of assets

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included in the accompanying schedule of invested assets into the ARHCT. At this time, The Department of Administration is unable to predict the exact timing of the making of its intended filing with the Internal Revenue Service, the timing of any guidance that may be obtained from the Internal Revenue Service, the results or impact of such guidance on the statements of invested assets and changes therein, or the amount of a transfer, if any to the ARHCT.

Approximately 50 Plan members have filed administrative challenges to the DB Plan administrator's refusal to include leave cashin payments in the compensation used to calculate the members' retirement benefits. The members were all first hired by DB Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the DB Plan statutes in effect before that date, to have leave cashin payments included. The DB Plan's prior board, which heard appeals from decisions of the Plan administrator, had ruled on two of the appeals, and those rulings had in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the DB Plan's board. In addition, a class action lawsuit, raising the same issues, had been filed in the superior court, but has been put on hold until final resolution of the members' claim. On January 27, 2006, the Alaska Supreme Court decided one such member's case in the State's favor. The administrator intends to vigorously contest all of the remaining claims and believes that the State's success to date will result in dismissal of the remaining cases and pending claims. The Plan has not recorded an accrual related to any of these cases or pending claims, because an unfavorable outcome in these matters is, in management's opinion, not considered probable but rather only possible, and the potential loss, if any, cannot be reasonably estimated at this time. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

The State was a defendant in a class action lawsuit involving a constitutional challenge to DB Plan statutes that provide a 10% cost of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claimed that these statutes violate the right to travel of nonresident benefit recipients, and therefore, the 10% COLA should be paid to all benefit recipients, regardless of residence. On summary judgment motions, the superior court first ruled in favor of the plaintiffs on the issue of whether, if the residency requirements are unconstitutional, the residency requirements are severable from the COLA statutes. On summary judgment motions addressing the constitutionality of the statutes, the superior court ruled against the state, holding that the COLA statutes violate the constitutional right to travel. The court ordered payment of COLA to retirees and survivors in high-cost areas of other states. The State appealed to the Alaska Supreme Court. The Superior Court ruled against the plaintiffs on the issue of past damages, and has cross-appealed to the Alaska Supreme Court. On December 29, 2006, the State received a favorable ruling from the Alaska Supreme Court that reversed the Superior Court's ruling against the plaintiffs on the issue.

An IRS assessment may eventually result from the statutory provision and the Plan's practice under which retiree medical benefits were paid to some survivors' spouses and dependents who were not eligible dependents under the IRC, or

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from the manner in which retiree health benefits were funded before June 6, 2007. However, management believes that any such assessment would be paid from the State's general fund, not from the Plan's assets. Furthermore, the Plan's statutes under which payment of medical benefits was made for ineligible dependents was corrected by SB 141, effective January 1, 2006, and the funding of retiree medical benefits was clarified and corrected by SB 123, which was effective June 6, 2007. Finally, although there were press reports of possible legal action regarding amendments to the PERS and TRS statutes by HB 161 (rehired retiree legislation), no litigation has been served on the Plan challenging provisions of that legislation. Management is not aware of any other specific unasserted claims or assessments against the Plan.

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Schedule of Funding Progress
Pension Benefits

June 30, 2007
(Dollars in thousands)

Actuarial Valuation Date as of June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2001	$ 3,468,310	3,651,488	183,178	95.0%	496,188	36.9%
2002	2,699,445	3,959,958	1,260,513	68.2	509,437	247.4
2003	2,694,785	4,190,970	1,496,185	64.3	532,630	280.9
2004	2,647,777	4,216,480	1,568,703	62.8	522,421	300.3
2005	2,640,642	4,334,585	1,693,943	60.9	561,038	301.9
2006	3,296,934	4,859,336	1,562,402	67.8	574,409	272.0

See accompanying notes to required supplementary information and independent auditors' report.

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Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2007
(Dollars in thousands)

Actuarial valuation Date as of June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2001	$ 903,919	951,659	47,740	95.0%	496,188	9.6%
2002	989,591	1,451,684	462,093	68.2	509,437	90.7
2003	1,057,500	1,644,639	587,139	64.3	532,630	110.2
2004	1,197,593	1,907,120	709,527	62.8	522,421	135.8
2005	1,318,297	2,163,971	845,674	60.9	561,038	150.7
2006	844,766	4,288,707	3,443,941	19.7	574,409	599.6

See accompanying notes to required supplementary information and independent auditors' report.

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Schedule of Contributions from Employers and the State of Alaska Pension and Postemployment Healthcare Benefits

June 30, 2007
(Dollars in thousands)

Year Ended June 30	Actuarial Valuation Date as of June 30[1]	Pension Annual Required Contribution	Post-employment Healthcare Annual Required Contribution	Total Annual Required Contribution	Pension Percentage Contributed	Post-employment Healthcare Percentage Contributed	Total Percentage Contributed
2002	1999	$ 32,331	7,245	39,576	155.0%	155.0%	155.0%
2003	2000	37,800	9,570	47,370	133.0	133.0	133.0
2004	2001	65,571	17,089	82,660	83.0	83.0	83.0
2005	2002	152,168	55,783	207,951	45.0	45.0	45.0
2006	2003	170,019	66,719	236,738	54.0	54.0	54.0
2007	2004	169,974	76,879	246,853	62.0	62.0	62.0

[1] Actuarial valuation related to annual required contribution for fiscal year.

See accompanying notes to required supplementary information and independent auditors' report.

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(1) Description of Schedule of Funding Progress

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

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the valuation as of June 30, 2006 are as follows:

(a) Actuarial cost method – entry age, unfunded actuarial accrued liability or funding excess amortized over a fixed 25-year period as a level percentage of pay amount.

(b) Valuation of assets – recognizes 20% of the investment gain or loss in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

(c) Valuation of medical and prescription drug benefits – base claims cost rates are incurred healthcare cost expressed as a rate per member per year. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects non-prescription claims separated by Medicare status, including eligibility of free part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. Analysis to date on Medicare Part A coverage is limited since Part A coverage is not available by individual, nor is this status incorporated into historical claim data. Valuation assumes 7.5% of the current retiree population does not receive part A coverage.

(d) Investment return/Discount Rate – 8.25% per year, compounded annually, net of expenses.

(e) Salary scale – inflation 3.5% per year, merit 2.0% per year for the first 5 years of employment grading down to 0% after 15 years, and productivity 0.5% per year.

(f) Payroll growth – 4.0% per year.

(g) Total inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

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(h) Mortality (Pre-retirement) – Based upon the 2001-2005 actual experience. 60% of 1994 Group Annuity Table 1994 Base Year for females and 55% for males. All deaths are assumed to result from non-occupational causes.

(i) Mortality (Post-retirement) – Based upon the 2001-2005 actual experience. 1-year setback of the 1994 Group Annuity Table Base Year for females and 3-year setback for males.

(j) Turnover – select and ultimate rates based upon the 2001–2005 actual withdrawal experience.

(k) Disability – incidence rates based upon the 2001–2005 actual experience. Post–disability mortality in accordance with the 1979 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. All disabilities are assumed to result from non-occupational causes.

(l) Retirement – retirement rates based on the 2001–2005 actual experience.

(m) Marriage and age difference – wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.

(n) Dependent children – benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.

(o) Contribution refunds – 10% of those terminating are assumed to have their contributions refunded.

(p) Cost of Living Allowance (COLA) – of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.

(q) Sick leave – 4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired.

(r) Post–retirement pension adjustment (PRPA) – 50% and 75% of assumed inflation, or 1.75% and 2.625% respectively, is valued for the annual automatic PRPA as specified in the statute.

(s) Expenses – all expenses are included in the investment return assumption.

(t) Part–time status – part–time members are assumed to earn 0.55 years of credited service per year.

(u) Service – total credited service is provided by the State. The actuary assumes that this service is the only service that should be used to calculate benefits. Additionally, the State provided claimed serviced (including Bureau of Indian Affairs Service). Claimed service is used for vesting and eligibility purposes.

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(v) Per capita claim cost - sample claims cost rates for FY07 medical benefits are show below:

	Medical	Prescription Drugs
Total	$9,095	$2,414
Medicare Part A & B	$8,133	N/A
Medicare Part B Only	$7,171	N/A
Medicarel Part D	N/A	$ 516

(w) Trend Rate for Retired Member Contributions –

FY08	8.0%
FY09	7.7%
FY10	7.3%
FY11	7.0%
FY12	6.7%
FY13	6.3%
FY14	6.0%
FY15	5.7%
FY16	5.3%
FY17 and later	5.0%

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. A study of the required contribution history along with assumptions related to the impact of recent accounting regulations leads us to recommend the new assumptions above for the contribution trends. Note that actual FY07 retired member medical contributions are reflected in the valuation so trend on such contribution during FY07 is not applicable.

(x) Health cost trend –

Fiscal year	Medical	Prescription
2007	9.0%	13.0%
2008	8.5	12.0
2009	8.0	11.0
2010	7.5	10.0
2011	7.0	9.0
2012	6.5	8.0
2013	6.0	7.0
2014	5.5	6.0
2015	5.0	5.0
2016 and later	5.0	5.0

For the June 30, 2005 valuation, graded Healthcare Cost Trend Rates (HCCTR) were reinitialized. A survey of healthcare trends in the past year has revealed a general lowering of HCCTR. No reinitialization is required this year, so the trend rates will follow the same pattern as of the 2005 valuation.

(y) Aging Factors –

Age	Medical	Prescription Drugs
0-44	2.0%	4.5%
45-54	2.5%	3.5%
55-64	3.5%	3.0%
65-74	4.0%	1.5%
75-84	1.5%	0.5%
85+	0.5%	0.0%

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(z) Retired member contributions for medical Benefits – currently contributions are required for PERS members who are under age 60 and have less than 30 years of service (25 for Peace Officer/ Firefighter). Eligible Tier 1 members are exempt from contribution requirements. Annual FY07 contributions based on monthly rates shown below for calendar 2006 and 2007 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members assumed to retire prior to age 60 with less than 30 years of service:

Coverage Category	FY07 Annual Contribution	Calendar 2007 Monthly Contribution	Calendar 2006 Monthly Contribution
Retiree Only	$ 7,080	$ 590	$ 590
Retiree and Spouse	$14,148	$1,179	$1,179
Retiree and Child(ren)	$ 9,996	$ 883	$ 883
Retiree and Family	$17,076	$1,423	$1,423
Composite	$10,512	$ 876	$ 876

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

Effective June 30, 2006, there was a change in the actuarial cost methods. The cost method was changed from Projected Unit Credit to Entry Age Normal. The ARMB adopted the changes to the demographic and economic assumptions recommended by the actuary based on the results of an experience analysis performed of the population experience from June 30, 2001 through June 30, 2005. The changes in assumptions were adopted by the ARMB during the October 2006 ARMB meeting. Additionally, the trend rate table for the retiree medical contributions was updated and the assumed lag between t he medical claims incurred and paid dates was changed from 3 months to 2 months.

Changes in Assumptions since the Last Valuation

(a) Salary scale – based on actual experience from 2001 to 2005.

(b) Payroll Growth – 4.0%

(c) Pre-retirement mortality – 55% of the 1994 Group Annuity Table, 1994 base year for males and 60% for females.

(d) Post-retirement mortality – 1-year setback fo the 1994 Group Annuity Table, 1994 base year for females and 3-year setback for males.

(e) Turnover – rates adjusted based on actual experience form 2001 to 2005.

(f) Disability – Female rates increased by 10% and male rates are unchanged based on actual experience form 2001 to 2005.

(g) Retirement – rates adjusted based on actual experience from 2001 to 2005.

(h) Marriage and age difference – male 85% married, female 75% married, and males 3 years older.

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(i) Dependent children – married members have two dependent children from age 25 through 45.

(j) Contribution refunds – 10% for all ages and vested status.

(k) COLA – of all benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive COLA.

(l) Healthcare – included effect of Medicare Part A & B vs. Medicare Part B only. Active employees hired after April 1, 1986 are assumed to be covered by Medicare Parts A& B. 7.5% of current retirees are assumed to be covered by Part B only. Changed the assumed lag between medical claims incurred and paid dates form 3 months to 2 lag months. Changed trend rate table for retiree medical contributions to start at 8.0% and grade down to 5.0%.

Schedule 1

STATE OF ALASKA
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Schedule of Administrative and Investment Deductions

Years ended June 30, 2007
with Summarized Financial Information for 2006
(In thousands)

			Totals	
	Administrative	**Investment**	**2007**	**2006**
Personal Services:				
Wages	$ 850	554	1,404	1,240
Benefits	520	250	770	609
Total Personal Services	1,370	804	2,174	1,849
Travel:				
Transportation	14	38	52	55
Per Diem	3	3	6	7
Moving	-	-	-	-
Honorarium	-	-	-	7
Total Travel	17	41	58	69
Contractual Services:				
Management and Consulting	268	8,975	9,243	9,644
Accounting and Auditing	24	418	442	453
Other Professional Services	40	1	41	87
Advertising and Printing	145	138	283	41
Data Processing	56	20	76	323
Communications	66	20	86	52
Rentals/Leases	248	40	288	83
Legal	2	8	10	95
Medical Specialists	2	5	7	3
Repairs and Maintenance	20	1	21	30
Transportation	83	16	99	3
Securities Lending	-	22,427	22,427	14,438
Total Contractual Services	954	32,069	33,023	25,252
Other:				
Equipment	18	7	25	63
Supplies	35	35	70	43
Total Other	53	42	95	106
Total Administrative and Investment Deductions	**$ 2,394**	**32,956**	**35,350**	**27,276**

See accompanying independent auditors' report.

Schedule 2

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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2007 and 2006
(In thousands)

Firm	Services	2007	2006
State Street Corporation	Custodian Banking Services	$ 411	617
Buck Consultants	Actuarial Services	314	126
Mercer Human Resource Consulting	Actuarial Services	-	79
Systems Central Services Inc.	Data Processing Consultants	82	92
Wostmann & Associates, Inc.	Data Processing Consultants	-	58
KPMG LLP	Auditing Services	21	21
State of Alaska, Department of Law	Legal Services	41	25
First National Bank	Banking Services	10	-
		$ 879	**1,018**

See accompanying independent auditors' report.