TEACHERS' RETIREMENT SYSTEM
TABLE OF CONTENTS

December 20, 2001

The Honorable Tony Knowles, Governor
Members of the Alaska State Legislature
Teachers' Retirement Board
Alaska State Pension Investment Board
Employers and Plan Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 2001. This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation rests with the management of the System.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The FY 2001 CAFR is divided into five sections:

- an **Introductory** Section, which contains this letter of transmittal, the administrative organization of the System, and a list of the members serving on the Teachers' Retirement Board;
- a **Financial** Section, which contains the Independent Auditors' Report, Combining Financial Statements, Notes to Combining Financial Statements, Required Supplementary Information, and Notes to Required Supplementary Information;
- an **Investment** Section, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of the members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- an **Actuarial** Section, which contains the Actuarial Certification letter and the results of the most current (June 30, 2000) annual actuarial valuation; and
- a **Statistical** Section, which includes graphs and tables of significant data.

The Alaska TRS was established in 1955 to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the System.

	TRS		
	FY01	**FY00**	**FY99**
Net Assets (millions)	$4,086.9	4,484.9	4,204.0
Participating Employers	60	60	60

December 20, 2001

Reporting Entity

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Teachers' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The ASPIB has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division, listed in the Investment Section on pages 42 and 43. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

Major Initiatives

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

During FY 2001, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

Legislation

During the FY 2001 legislative session, there were two laws that affected the TRS:

Reemployed Retiree Legislation — Legislation just enacted allows certain retirees who return to Teachers' Retirement Service (TRS) employment after July 1, 2001, to continue receiving a retirement check while they are employed in a TRS covered position. Senate Bill 149/House Bill 242 adds an incentive for a retired teacher to return to permanent employment for a TRS employer.

The new option only takes effect if a school district declares that it has or anticipates having a shortage of teachers qualified to teach in a particular discipline or specialty.

Subject to this declaration, a retired teacher who took *normal* retirement and has been terminated for at least 30 days may elect a new option when reemployed. The new option:

- must be selected within 30 days of reemployment;
- allows the employee to elect continuation of retirement benefit payments during reemployment;
- would stop additional retirement benefit accrual;
- is not available to those who have chosen Early Retirement;
- is not available to Retirement Incentive Program participants; and
- expires on July 1, 2005.

If the reemployed retired teacher does not make the election within 30 days of rehire, the current method would apply. Under the current method, the teacher would:

- stop receiving a retirement benefit during reemployment;
- begin making contributions to the TRS; and
- accrue an additional retirement benefit during the period of reemployment.

Medical Benefits Enhancement — Senate Bill 149/House Bill 242 adds an incentive for teachers to stay in TRS employment. Currently, retirees who first entered TRS on or after July 1, 1990, are not eligible for full system-paid medical coverage until age 65 regardless of how many years the teacher taught in TRS.

With this change a teacher who stays an additional five years beyond the normal retirement service requirement of twenty years will be eligible for full system-paid medical insurance. In addition, all retired teachers will be provided full system-paid medical insurance at age 60.

These incentives were implemented as a method of retaining teachers and attracting second and third career individuals to teaching.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Alaska Teachers' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2000. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Additions to Plan Net Assets

The revenues required to finance retirement benefits are accumulated through a combination of employer and employee contributions and investment income.

	Revenues			
	Millions		Inc/(Dec)	
	FY01	**FY00**	**Amt**	**%**
Plan Member Contributions	$ 48.7	48.5	0.2	0.4%
Employer Contributions	64.1	74.7	(10.6)	(14.2%)
Net Investment Income (Loss)	(245.4)	406.6	(652.0)	(160.4%)
Total	**$ (132.6)**	**529.8**	**(662.4)**	**(125.0%)**

The decrease in employer contributions was primarily due to no new RIP contributions in FY01. The decrease in investment income is discussed in the Investment Report beginning on page 44.

Deductions From Plan Net Assets

The primary expense of the System is the payment of pension benefits, the principal reason the System exists. These benefit payments, together with postemployment healthcare premiums, lump sum refunds made to former members, and the cost of administering the System comprise the costs of operation.

	Expenses			
	Millions		Inc/(Dec)	
	FY01	FY00	Amt	%
Pension Benefits	$ 211.0	202.9	8.1	4.0%
Healthcare Benefits	48.9	40.2	8.7	21.6%
Refunds of Contributions	3.8	4.1	(0.3)	(7.3%)
Administrative Expenses	1.9	1.7	0.2	11.7%
Total	**$ 265.6**	**248.9**	**16.7**	**6.7%**

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the System granted a discretionary cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year. The increase in health care benefits is due to the increase in retirees and rising costs of providing such benefits.

Investments

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the System's constraints and objectives. During FY 2001, ASPIB adopted an asset allocation that includes 41% in Domestic Equities, 17% in International Equities, 30% in Domestic Fixed Income, 5% in International Fixed Income, and 7% in Real Estate.

For FY 2001, TRS investments generated a -5.35% rate of return. The TRS annualized rate of return was 4.89% over the last three years and 9.37% over the last five years.

Funding

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY 2001 and a rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities decreased from 102.5% to 99.6% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

December 20, 2001

There were significant changes in the actuarial assumptions and actuarial methods used in the determination of System liabilities this year. The member data used to determine system liabilities is as of June 30, 1999, projected using standard actuarial techniques to June 30, 2000. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the System.

	Millions	
Valuation Year	**2000**	**1999**
Valuation Assets	4,184.0	3,815.6
Accrued Liabilities	4,198.9	3,721.0
Funding ratio	99.6%	102.5%

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. Opinions of the independent certified public accountant and the consulting actuary are included in this report. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express our gratitude to the Teachers' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

Respectfully submitted,

Jim Duncan
Commissioner

Guy Bell
Director

Janet L. Parker
Deputy Director

Anselm Staack, CPA, JD
Chief Financial Officer

Kevin T. Worley, CPA
Defined Benefits Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Teachers' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

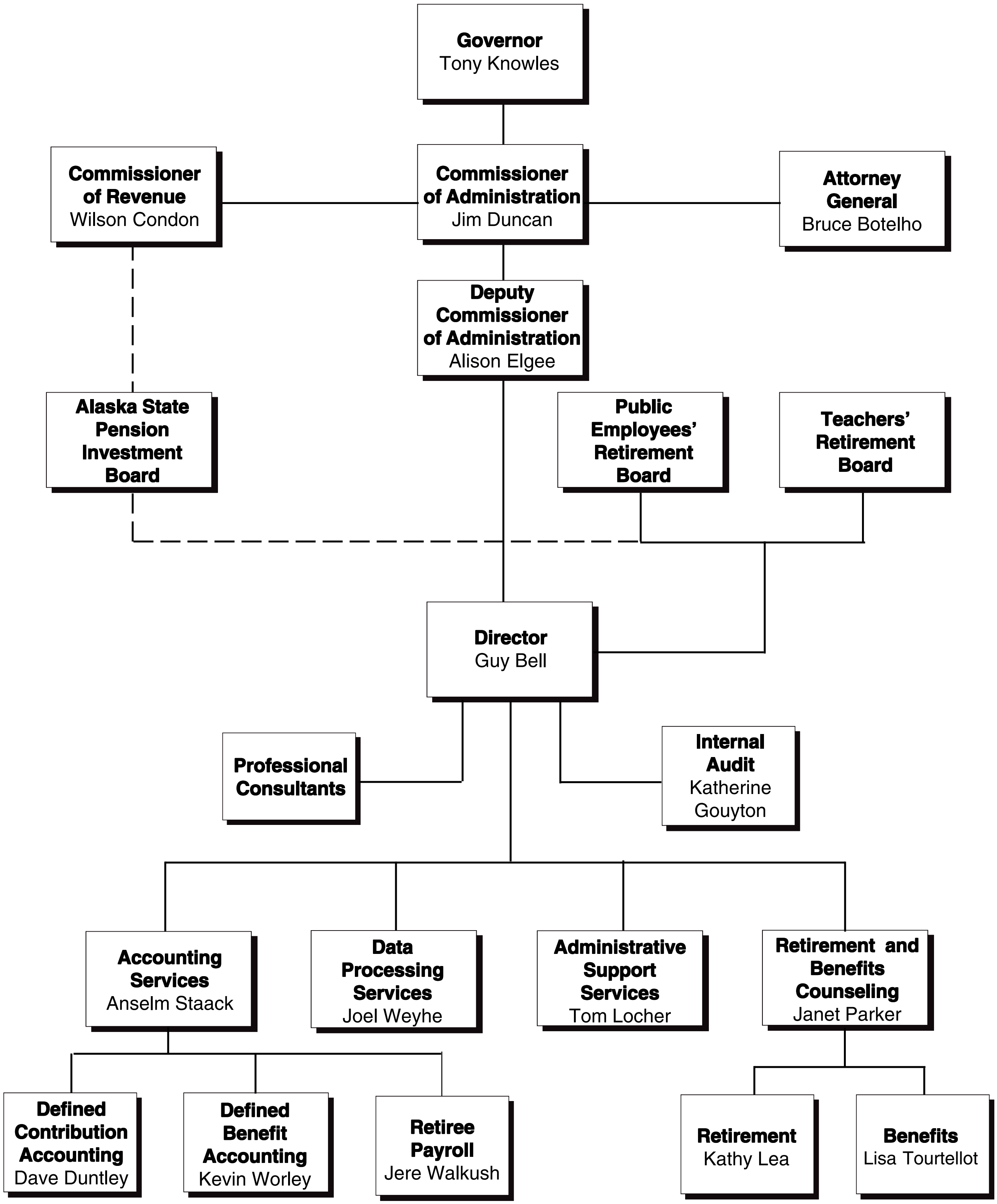
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

ORGANIZATION CHART



Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division of Retirement and Benefits, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the Systems' record center containing the members' physical records and performs other administrative functions, such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

PROFESSIONAL CONSULTANTS

Consulting Actuary
William M. Mercer, Incorporated
Seattle, Washington

Independent Auditors
KPMG LLP
Anchorage, Alaska

Benefits Consultant
Deloitte & Touche, LLP
Minneapolis, Minnesota

Third Party Health Claim Administrator
Aetna Life Insurance Company
Walnut Creek, California

Legal Counsel
John Gaguine
Kathleen Strasbaugh
Assistant Attorney General
Juneau, Alaska

Legal Counsel - Retirement Boards
Wohlforth, Vassar, Johnson & Brecht
Anchorage, Alaska

Consulting Physicians
Kim Smith, M.D.
William Cole, M.D.
Juneau, Alaska

A list of external money managers and consultants for the System can be found on pages 42-43, and the Schedule of Investment Management Fees on pages 51-52.

TEACHERS' RETIREMENT BOARD

Elizabeth Briggs Hertz, Chair
Term Expires: January 31, 2003

Elizabeth "Betty" Briggs Hertz arrived in Alaska in 1967. Ms. Hertz taught for 23 years in the Anchorage School District and retired in 1990. During her teaching career, she taught at West Anchorage High School and Steller Secondary School. Ms. Hertz has also held a variety of positions in the Anchorage Education Association. Since retirement, Ms. Hertz has taught English classes at the University of Alaska-Anchorage and management courses at the Alaska Pacific University. She and her husband own Windemere Consultants, a management consulting business specializing in interpersonal communications and career development planning.

Robert Salo, Vice Chair
Term Expires: January 31, 2004

Robert Salo first began teaching in Alaska in 1965. Before Mr. Salo retired in 1990 he spent 22 years teaching Physical Education and 3 years as Kenai Central High School's assistant principal. Mr. Salo's wife, Judith, and his daughter, Holly, are also teachers. He resides in Kenai.

Mr. Salo has a long involvement with teaching and has served, in a leadership capacity, on many committees and boards including NEA, American Alliance of Health, National Interscholastic Association of Athletic Directors and Kenai Peninsula School Administrators Association.

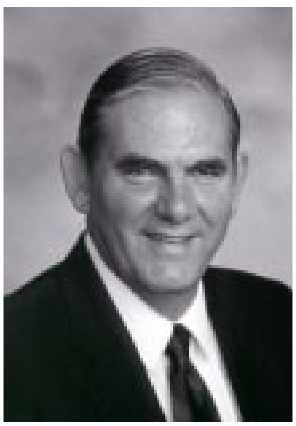
Charlie Arteaga
Term Expires: January 31, 2002

Charlie Arteaga has been an Alaskan resident for 33 years. He resides in Ketchikan. He received his Bachelor's in Education at Arizona State University and his Masters in Counseling at the University of Oregon. He was an educator with the Ketchikan Gateway Borough School District until 1996.

Mr. Arteaga was appointed to the Teachers' Retirement Board by Governor Tony Knowles. He is now employed in other sectors of public service and tourism. He intends to remain an active Alaskan citizen.

Gayle W. Harbo
Term Expires: June 30, 2002

Gayle Harbo arrived in Alaska in 1957, married Sam Harbo in 1958, and lived in Cold Bay, Juneau and Nome before settling in Fairbanks in 1962. She graduated from North Carolina State University in Raleigh with a BS in Mathematics and earned a Master of Arts in Teaching at the University of Alaska-Fairbanks. She taught at Lathrop High School for most of her twenty-five years in the Fairbanks District and served as coordinator of the school's Advanced Placement Program and on the District's Curriculum Committee. She worked on committees which wrote the evaluation documents used by the district and served on several budget committees. Since retiring in 1993, she has enjoyed traveling with her husband and assisting him with several building projects for each of their four children. She loves her home and garden and the opportunity to take care of any or all of their seven grandchildren.



Gerald Patterson
Term Expires: June 30, 2002

Gerald "Jerry" Patterson began his Alaskan teaching career in Juneau in 1971 as a reading specialist but spent most of his time teaching fifth grade. He remained in the same school, Auke Bay Elementary, until his retirement in 1990 and currently resides in Juneau with his wife Carol, also a retired teacher. Mr. Patterson is a graduate of Western Washington State College where he received both his bachelors and masters degrees. During his teaching career, he was active with the Juneau Education Association, holding a variety of positions, and remains active with two retired teacher groups. In his spare time, Mr. Patterson enjoys traveling and taking advantage of the many outdoor opportunities available in Juneau.

KPMG

701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits
Members of the Alaska Teachers' Retirement Board
State of Alaska Teachers' Retirement System:

We have audited the accompanying combining statements of plan net assets of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2001 and 2000, and the related combining statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Teachers' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2001 and 2000, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information on pages 29 to 35 and additional information on pages 36 and 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Plan's 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 investment, actuarial and statistical data on pages 39 through 79 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

September 25, 2001

KPMG LLP

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Combining Statements of Plan Net Assets

June 30, 2001 and 2000
(000's omitted)

	2001			2000		
	Pension	Postemployment Healthcare	Total	Pension	Postemployment Healthcare	Total
Assets:						
Cash and cash equivalents (notes 3 and 4):						
Short-term fixed income pool	$ 453	102	555	500	112	612
Receivables:						
Contributions	6,023	1,350	7,373	6,994	1,567	8,561
Retirement incentive program employer contributions (note 7)	6,107	1,368	7,475	13,549	3,036	16,585
Total receivables	12,130	2,718	14,848	20,543	4,603	25,146
Investments, at fair value (notes 3 and 4):						
Domestic equity pool	1,336,430	343,674	1,680,104	1,541,916	391,379	1,933,295
Retirement fixed income pool	856,062	191,842	1,047,904	874,540	195,983	1,070,523
International equity pool	543,586	121,816	665,402	667,801	149,653	817,454
Real estate pool	241,255	54,065	295,320	200,656	44,967	245,623
International fixed income pool	158,335	35,482	193,817	172,328	38,618	210,946
Private equity pool (note 8)	85,191	19,091	104,282	70,902	15,889	86,791
Emerging markets equity pool	31,920	7,153	39,073	42,955	9,626	52,581
External domestic fixed income pool	40,188	9,006	49,194	36,514	8,183	44,697
Total investments	3,292,967	782,129	4,075,096	3,607,612	854,298	4,461,910
Loans and mortgages, at fair value, net of allowance for loan losses of $216 in 2001 and 2000	362	81	443	433	97	530
Total assets	3,305,912	785,030	4,090,942	3,629,088	859,110	4,488,198
Liabilities:						
Accrued expenses	3,286	736	4,022	2,508	562	3,070
Due to State of Alaska General Fund	59	13	72	180	41	221
Alaska Department of Commerce settlement liability	-	-	-	4	1	5
Total liabilities	3,345	749	4,094	2,692	604	3,296
Commitments and contingencies (note 8)						
Net assets held in trust for pension and postemployment healthcare benefits	**$3,302,567**	**784,281**	**4,086,848**	**3,626,396**	**858,506**	**4,484,902**

(Schedules of funding progress are presented on pages 29 and 30)

See accompanying notes to combining financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Combining Statements of Changes in Plan Net Assets

Years ended June 30, 2001 and 2000
(000's omitted)

	2001			2000		
	Pension	Postemployment Healthcare	Total	Pension	Postemployment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 52,399	11,742	64,141	51,183	11,470	62,653
Plan members	39,805	8,920	48,725	38,728	8,679	47,407
Retirement Incentive Program - Employers (note 7)	-	-	-	9,853	2,208	12,061
Retirement Incentive Program - Plan members (note 7)	-	-	-	897	201	1,098
Total contributions	92,204	20,662	112,866	100,661	22,558	123,219
Investment income:						
Net appreciation (depreciation) in fair value of investments (note 3)	(327,201)	(73,325)	(400,526)	217,207	48,675	265,882
Interest	72,603	16,270	88,873	78,298	17,546	95,844
Dividends	62,514	14,010	76,524	44,831	10,047	54,878
Net recognized mortgage loan recovery	6	1	7	113	26	139
	(192,078)	(43,044)	(235,122)	340,449	76,294	416,743
Less investment expense	8,366	1,875	10,241	8,279	1,855	10,134
Net investment income (loss)	(200,444)	(44,919)	(245,363)	332,170	74,439	406,609
Other	(3)	(1)	(4)	-	-	-
Total additions	(108,243)	(24,258)	(132,501)	432,831	96,997	529,828
Deductions:						
Benefits	210,945	48,928	259,873	202,927	40,183	243,110
Refunds of contributions	3,058	684	3,742	3,364	754	4,118
Administrative expenses	1,583	355	1,938	1,402	315	1,717
Total deductions	215,586	49,967	265,553	207,693	41,252	248,945
Net increase (decrease)	(323,829)	(74,225)	(398,054)	225,138	55,745	280,883
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	3,626,396	858,506	4,484,902	3,401,258	802,761	4,204,019
Balance, end of year	**$3,302,567**	**784,281**	**4,086,848**	**3,626,396**	**858,506**	**4,484,902**

See accompanying notes to combining financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

(1) DESCRIPTION

The following brief description of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

(a) General

The Plan is a defined benefit, cost-sharing, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 2001 and 2000, the number of participating local government employers was:

School districts	53
Other	7
	60

Inclusion in the Plan 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 in the Plan. At June 30, 1999 and 1998, the dates of the most recent actuarial valuations, Plan membership consisted of:

	1999	1998
Retirees and beneficiaries currently receiving benefits	6,486	5,979
Terminated Plan members entitled to future benefits	1,150	1,064
	7,636	7,043
Current Plan members:		
Vested	5,256	5,285
Nonvested	4,140	3,977
	9,396	9,262
	17,032	**16,305**

The most recent actuarial valuation as of June 30, 2000, did not include participant census information subsequent to June 30, 1999.

(b) Pension Benefits

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest 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 employees 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 spouses consent to another form of benefit, another person is eligible for benefits under a qualified domestic relations order or benefits are payable under the 1% supplemental contributions provision.

The 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 Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan 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.

(c) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty-five by paying premiums.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), an internal service fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, 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.

(d) Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the 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 Plan member's spouse, or guardian of the dependent child(ren). The

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

amount of the pension or allowance is determined by the Plan member's base salary. Plan members first hired after June 30, 1982, are not eligible to participate in this provision.

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

(e) Disability Benefits

If a 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 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.

(f) Contributions

Plan Member Contributions

Plan members contribute 8.65% of their base salary as required by statute. The Plan member contributions are deducted before federal tax is withheld. Eligible Plan members contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the Plan member or a garnishing agency sixty days after termination of employment. Plan member contributions earn interest at the rate of 4.5% per annum, compounded annually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level dollar method to amortize the unfunded liability or funding surplus over a rolling twenty-five year period.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

(g) Administrative Costs

Administrative costs are financed through investment earnings.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Plan's financial statements are prepared using 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.

(b) 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.

(c) GASB Statements No. 25 and No. 26

Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that Plan net assets be split between pension and postemployment healthcare. To meet these requirements, Plan assets, liabilities, revenues and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

(d) Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on domestic and international equity securities is accrued on the ex-dividend date. Interest in the international fixed income pool is accrued daily.

Investments are recorded at fair value. 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 is, other than in a forced or liquidation sale."

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant. Total income, which includes interest and realized and unrealized gains and losses on securities, is calculated daily and distributed monthly to each participant on a pro rata basis.

Income in the retirement fixed income pool and the external domestic fixed income pool is calculated daily and is reinvested. Total income, which includes interest and realized and unrealized gains and losses on securities, is allocated daily to each participant on a pro rata basis but is not distributed.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

As the emerging markets equity pool recognizes income, the per share value changes, resulting in the recognition of unrealized gains/losses at the pool and participant level. When participants' shares in the pool are sold, previously unrealized income is realized at the participant level.

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 expense consists of those administrative expenses directly related to the Plan's investment operations.

Real estate investments include commingled real estate equities, separate account limited partnerships, mortgage loans and other real estate acquired by foreclosure and judgments. Commingled real estate equities and separate account limited partnerships are valued quarterly by public market quotations, where a quoted market exists, or by independent appraisers, and are periodically adjusted by trustees of the investments when market conditions change. The cost of commingled real estate equities and separate account limited partnerships securities is determined on the average cost basis. Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. The allowance for loan loss is considered by management to be sufficient to cover any losses to the mortgage loan portfolio. Real estate acquired by foreclosure and judgments is carried at estimated net realizable value.

Venture capital investments in the private equity pool are comprised of limited partnerships in privately held companies of which equity ownership is not traded on a national or international exchange. Investments in the private equity pool 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 general partners' valuations reasonably reflect the underlying value of the investments. The cost of investments in the private equity pool is determined on the average cost basis.

The Plan holds shares, rather than specific securities, in the emerging markets equity pool, a closed-end mutual fund-like commingled equity investment pool. Underlying securities within the pool are priced on the last business day of each week and each month. Equity securities are valued using the last reported sale price on the exchange on which the securities are traded as of the close of business on the day the securities are being valued, or, in the absence of any sales price, at the last reported bid price. Fixed income securities are valued at prices obtained from a bond pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type. Short-term securities with 60 days or less to maturity are amortized to maturity based on cost. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

market rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices. Securities and assets for which representative market quotations are not readily available are valued at fair value as determined in good faith under policies approved by the commingled equity fund's board of directors.

The fair value of all other debt and equity securities is determined by the custodial agent each business day. The custodian determines fair value using pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, if applicable, defaulting to current bid price if a particular security was not traded that day. Fair value of debt securities has been established as the midpoint between the bid and asked prices. The cost of debt and equity investments is determined on the average cost basis.

(e) Contributions Receivable

Contributions from Plan 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.

(f) Federal Income Tax Status

The Plan purports to be a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

(g) GASB Statement No. 34

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), its revolutionary new reporting model. The new model dramatically changes the presentation of governments' external financial statements. In the GASB's view the objective of the new model is to enhance the clarity and usefulness of governmental financial statements to the citizenry, oversight bodies, investors and creditors. As a component unit of the State of Alaska (State), the Plan is required to implement the standard concurrent with the State during the year ended June 30, 2002. The new reporting model fundamentally changes the format, content and basis of accounting used by state and local governments. For example, management's discussion and analysis (MD&A) will be a required part of the financial statements under GASB 34. The full impact of GASB 34 has not yet been determined.

(3) INVESTMENTS

GASB Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Plan's deposits or securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 – Insured or registered, or securities held by the State or its custodian in the State's name; Cat-

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

egory 2 – Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping security as defined by GASB.

At June 30, 2001 and 2000, the Plan's cash and cash equivalents and investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Plan's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Plan participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like emerging markets equity pool which are considered to be Category 2, and (B) shares in the private equity pool and the real estate pool which, like the Plan's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

The cost and fair value of the Plan's investments at June 30, 2001 and 2000 are as follows:

	Cost	Fair Value
2001:		
Domestic equity pool	$ 1,441,085	1,680,104
Retirement fixed income pool	1,045,994	1,047,904
International equity pool	743,015	665,402
Real estate pool	270,175	295,320
International fixed income pool	211,774	193,817
Private equity pool	99,945	104,282
Emerging markets equity pool	48,775	39,073
External domestic fixed income pool	48,691	49,194
	$ 3,909,454	**4,075,096**
2000:		
Domestic equity pool	$ 1,421,609	1,933,295
Retirement fixed income pool	1,106,222	1,070,523
International equity pool	728,583	817,454
Real estate pool	232,875	245,623
International fixed income pool	233,522	210,946
Private equity pool	73,015	86,790
Emerging markets equity pool	48,569	52,581
External domestic fixed income pool	44,821	44,697
	$ 3,889,216	**4,461,909**

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

During 2001 and 2000, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	2001	2000
Investments measured by quoted fair value in an active market:		
Domestic equity pool	$(253,377)	161,050
Retirement fixed income pool	45,172	(32,897)
International equity pool	(163,167)	125,337
Real estate pool	5,847	2,010
International fixed income pool	(22,888)	(19,143)
Private equity pool	(530)	22,162
Emerging markets equity pool	(13,715)	7,713
External domestic fixed income pool	2,132	(350)
	$(400,526)	**265,882**

Based on the Plan's percentage of ownership in each investment pool as of June 30, 2001 and 2000, the Plan held no individual investments which exceeded 5% of net assets held in trust for pension and postemployment healthcare benefits.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. As the fiduciary, ASPIB 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 prudence, discretion and intelligence exercises in managing large investment portfolios. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue or by contracted external investment managers.

(4) POOLED INVESTMENTS

(a) Short-Term Fixed Income Pool

The Plan, along with other State funds, participates in an internally managed short-term fixed income pool, which was established March 15, 1993, with a start up unit price of $1 per share. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. A share price of $1 is maintained, giving each participant one share for every dollar invested in the short-term fixed income pool. The assets of the short-term fixed income pool are comprised of money market instruments, U.S. Treasuries, U.S. Government agency debt, corporate debt and other U.S. dollar denominated bonds. At June 30, 2001 and 2000, the Plan has a .05% and .03% direct ownership in the short-term fixed income pool totaling $555 and $612, respectively. These amounts include interest receivable of $24 and $39, respectively.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

(b) Domestic Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic equity pool. The pool was established July 1, 1991, with a start up unit price of $1,000 per share. Each manager may independently determine the allocation between equities and other permissible securities. All income, including interest, dividends and realized and unrealized gains and losses, is allocated daily to each participant on a pro rata ownership basis and is reinvested. At June 30, 2001 and 2000, the Plan's investment in the domestic equity pool totaled 33.32% and 33.82%, respectively, and consisted of the following:

	2001	2000
Domestic equity securities	$1,634,758	1,886,731
Convertible bonds	2,151	453
Available cash held in the short-term fixed income pool, other short-term debt instruments and currency	21,128	46,721
Net receivables (payables)	22,067	(610)
	$1,680,104	**1,933,295**

(c) Retirement Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed retirement fixed income pool. The pool was established March 1, 1996, with a start up unit price of $1,000 per share. 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 units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2001 and 2000, the Plan's investment in the retirement fixed income pool totaled 33.19% and 32.56%, respectively, and consisted of the following:

	2001	2000
Mortgage related	$ 392,601	320,816
Corporate	332,307	254,801
U.S. Treasury	194,959	218,042
Yankees	35,357	131,180
Asset backed	34,574	12,175
U.S. government agency	33,990	104,087
Available cash held in the short-term fixed income pool	40,350	185,069
Net payables	(16,234)	(155,647)
	$1,047,904	**1,070,523**

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

(d) International Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed international equity pool. The pool was established January 1, 1992, with a start up unit price of $1,000 per share. Each manager may independently determine the allocation between equities and other permissible securities. All income, including interest, dividends and realized and unrealized gains and losses, is allocated daily to each participant on a pro rata ownership basis and is reinvested. At June 30, 2001 and 2000, the Plan's investment in the international equity pool totaled 33.19% and 33.79%, respectively, and consisted of the following:

	2001	2000
International equity securities	$ 652,888	789,763
Available cash held in short-term debt instruments and foreign currency	11,473	25,821
Net receivables	1,041	1,870
	$ 665,402	**817,454**

(e) Real Estate Pool

The Plan, along with one other State retirement system, participates in an externally managed real estate pool. The pool was established June 27, 1997, with a start up unit price of $1 per share. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. All income, including interest, income from operations, and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis. All income is reinvested except for cash distributions which are transferred to the retirement fixed income pool based on a pro rata ownership in the originating pool. At June 30, 2001 and 2000, the Plan has a 33.41% and 34.43% direct ownership in the real estate pool totaling $295,320 and $245,623 respectively.

(f) International Fixed Income Pool

The Plan, along with one other State retirement system, participates in an externally managed international fixed income pool. The pool was established March 3, 1997, with a start up unit price of $1,000 per share. 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 units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2001 and

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

2000, the Plan's investment in the international fixed income pool totaled 33.50% and 34.38% respectively, and consisted of the following:

	2001	2000
International fixed income securities	$ 99,143	202,700
Available cash held in short-term debt instruments and foreign currency	2,017	1,543
Net receivables	92,657	6,703
	$ 193,817	**210,946**

(g) Private Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed private equity pool. The pool was established April 24, 1998, with a start up unit price of $1,000 per share. Ownership in the pool is based on the number of shares held by each participant. Underlying assets in the pool are composed of venture capital, buyouts and special situation investments through limited partnership agreements. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. All income, including interest and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis and is reinvested. At June 30, 2001 and 2000, the Plan has a 33.56% and 34.50% direct ownership in the private equity pool totaling $104,282 and $86,790, respectively.

(h) Emerging Markets Equity Pool

The Plan, along with one other State retirement system, participates in an emerging markets equity pool. The pool was established May 2, 1994, with a start up unit price of $1,000 per share. 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 equity markets of developing countries. At June 30, 2001 and 2000, the Plan has a 35.00% ownership in the emerging markets equity pool totaling $39,073 and $52,581, respectively.

(i) External Domestic Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic fixed income pool. The pool was established June 25, 1999 with a start up unit price of $1,000 per share. 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 units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

pool are based on the net asset value per share on the day of the transaction. At June 30, 2001 and 2000, the Plan's investment in the external domestic fixed income pool totaled 33.20% and 33.59%, respectively, and consisted of the following:

	2001	2000
Mortgage related	$ 24,948	22,668
Corporate	9,428	8,706
U.S. Treasury	8,755	5,964
U.S. government agency	1,985	2,187
Asset backed	1,828	3,507
Yankees	838	334
Municipal	281	502
Available cash held in short-term debt instruments	2,047	8
Net receivables (payables)	(916)	821
	$ 49,194	44,697

(5) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The Plan, through its investment in the international equity pool, entered into 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 in these currencies. The maturity periods for these contracts range from one to two months. The Plan had net unrealized gains with respect to such contracts, calculated using forward rates at June 30, as follows:

	2001	2000
Net contract sales	$ 2,639	6,362
Less: fair value	2,569	6,353
Net unrealized gains on contracts	$ 70	9

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. The Plan is exposed to credit risk to the extent of non-performance by these counterparties; however, the Plan considers the risk of default to be remote. The Plan's market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(6) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Board to lend assets, under an agreement and for a fee, against deposited collateral of equivalent market value. In January 2001 the Board entered into an agreement with State Street Bank and Trust Co. (the Bank) to lend marketable debt and equity securities. The Bank, acting as the Board'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.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

At June 30, 2001, the fair value of securities on loan attributable to the Plan totals $340,403. The Board is able to sell any securities out on loan. There is no limit to the amount that can be loaned. U.S. dollar denominated securities loans are fully collateralized at not less than 102 percent of their fair value. Non-U.S. dollar denominated securities loans are fully collateralized at not less than 105 percent of their fair value. The Bank invests the cash collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements were terminable at will. The Bank may pledge or sell collateral upon borrower default. There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counter party failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the year ended June 30, 2001, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(7) RETIREMENT INCENTIVE PROGRAM

House Bill 354 (Chapter 65, SLA 96) was passed on June 18, 1996, and provides for a retirement incentive program (RIP or program) for members of school district employers and employees of Mt. Edgecumbe and the Alaska Vocational Technical Center. The RIP encourages eligible employees to retire up to three years earlier than they had planned as a cost savings for school districts. The incentive program may be implemented if the program will produce an overall cost savings to the employer. The application and retirement deadlines are determined by the employer when they establish a program. The original application period for school district employees under House Bill 354 was June 30, 1996 through December 31, 1996. During fiscal year 1997, Senate Bill 130 (Chapter 92, SLA 97) was passed which amended the original program. Senate Bill 130 allowed for additional application periods of 30-60 days, ending no later than June 30, 1999.

Employers who participate in the RIP are required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Reimbursements from employers are due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which each employee retires.

Employers are also required to reimburse the Plan for the estimated costs of administering the program. The Plan establishes a receivable for employer reimbursements and administrative costs as employees retire. During fiscal year 2000, the Plan recognized $12,061 of additions

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements

June 30, 2001 and 2000
(000's omitted)

to plan net assets for contributions from employers for required reimbursements related to the RIP. There were no additions to plan net assets during fiscal year 2001.

When employees terminate employment to participate in the program, they are indebted to the Plan for 25.95% of their annual compensation for the calendar year in which they terminate. Any outstanding indebtedness at the time an employee is appointed to retirement results in an actuarial adjustment of his/her benefit amount. During fiscal year 2000, the Plan recognized $1,098 of additions to plan net assets for contributions from employees related to the RIP. There were no additions to plan net assets during fiscal year 2001.

(8) COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Plan, through its investment in the private equity pool, entered into agreements through an external investment manager to provide capital funding for limited and general partnerships as it continues to build a private equity portfolio. At June 30, 2001, the Plan's share of these unfunded commitments totaled $106,918 to be paid through the year 2006.

(b) Contingencies

The State is a defendant in a lawsuit filed by the Alaska Civil Liberties Union and six same-sex couples with regards to the statutes limiting retiree health insurance coverage to retirees and their spouses and dependents, thus excluding coverage for domestic partners of retirees. An adverse ruling against the State would increase the number of persons that would be covered by insurance paid by the Plan.

Although the ultimate outcome of the litigation discussed above is uncertain at this point in time, the Plan believes that an unfavorable outcome, if rendered, would not have a material adverse effect on its financial position or funding status. The Plan has not recorded an accrual related to the above lawsuit, because an unfavorable outcome in this matter 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.

The Plan is a defendant in four similar lawsuits, three of which are class action suits. The lawsuits pertain to whether recent changes to the retiree health insurance program under the Plan resulted in violations of members' constitutional rights to retirement benefits. Subsequent to June 30, 2001, the Superior Court of the State of Alaska issued an order granting the plaintiffs' motion for partial summary judgment. The Plan has not recorded an accrual based on this unfavorable outcome as the potential loss cannot be reasonably estimated at this time and management intends to vigorously contest this decision.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information

Schedule of Funding Progress
Pension Benefits
June 30, 2001 and 2000
(000's omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1996	$2,335,295	2,402,020	(66,725)	97.2%	$465,182	(14.3%)
1997	2,563,693	2,728,050	(164,357)	94.0%	466,455	(35.2%)
1998	2,825,528	2,893,325	(67,797)	97.7%	469,433	(14.4%)
1999	3,120,951	3,043,509	77,442	102.5%	466,414	16.6%
2000	3,338,700	3,350,552	(11,852)	99.6%	482,571	(2.5%)

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information

Schedule of Funding Progress
Postemployment Healthcare Benefits
June 30, 2001 and 2000
(000's omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1996	$ 523,461	538,417	(14,956)	97.2%	$465,182	(3.2%)
1997	556,351	592,019	(35,668)	94.0%	466,455	(7.6%)
1998	620,542	635,432	(14,890)	97.7%	469,433	(3.2%)
1999	694,682	677,445	17,237	102.5%	466,414	3.7%
2000	845,315	848,316	(3,001)	99.6%	482,571	(0.6%)

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits
June 30, 2001 and 2000
(000's omitted)

Year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed (note 3)	Postemployment healthcare percentage contributed (note 3)	Total percentage contributed (note 3)
1996	$52,262	11,346	63,608	96%	96%	96%
1997	62,831	14,170	77,001	80%	80%	80%
1998	62,787	13,717	76,504	80%	80%	80%
1999	44,142	9,759	53,901	114%	114%	114%
2000	55,448	12,426	67,874	92%	92%	92%
2001	46,067	10,324	56,391	114%	114%	114%

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information

June 30, 2001 and 2000
(000's omitted)

(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 is prepared by William M. Mercer, Incorporated. The significant actuarial assumptions used in the valuation as of June 30, 2000 are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability or funding excess amortized over a rolling twenty-five year period, which is an open amortization period.

(b) Mortality basis – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. All deaths are assumed to result from nonoccupational causes.

(c) Retirement age – retirement rates based on the 1997-1999 actual experience.

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

(e) Health cost trend –

Fiscal Year	
00	8.5%
01	7.5%
02	6.5%
03	5.5%
04-08	5.0%
09-13	4.5%
Thereafter	4.0%

(f) Salary scale – inflation 3.5%, productivity 0.5%, merit (first five years) 1.5%, for a total of 5.5% per annum.

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

(h) Cost of living allowance (domicile in Alaska) – 65% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

(i) Contribution refunds – 100% of those terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Schedules

June 30, 2001 and 2000
(000's omitted)

(j) Total turnover – assumptions are based upon the 1997-1999 actual withdrawal experience of the Plan.

(k) Disability – assumptions are based upon the 1991-1995 actual experience of the Plan. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability under Social Security.

(l) Asset valuation method – recognized 20% of the investment gain or loss in each of the current and preceding four years. All assets are valued at fair value. Valuation assets cannot be outside a range of 80% to 120% of the fair value of assets.

(m) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption.

(n) Spouse's age – wives are assumed to be four years younger than husbands.

(o) Dependent children – benefits to dependent children have been valued assuming members who are not single have one dependent child.

(p) New entrants – growth projections are made for active TRS population under three scenarios:

Pessimistic:	0% per year
Median:	1% per year
Optimistic:	2% per year

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

(r) Post-retirement pension – 50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.

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

(t) Participant data – for the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.81% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Schedules

June 30, 2001 and 2000
(000's omitted)

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

- Effective June 30, 1994, there was a change in the asset valuation method. The revised asset valuation method smoothes the difference between expected investment return and actual return during a given year by spreading the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years.

- Effective June 30, 1996, the investment return was increased from 8% to 8.25% per year. Disability assumptions were revised based on actual experience in 1991-1995. In addition, the amortization period for funding surpluses was changed from five years to a rolling twenty-five year period.

- Effective June 30, 2000, the following changes were made:

  - ➢ There was a change in the economic actuarial assumption. The total inflation assumption was changed from 4% to 3.5% annually. This affected the economic assumptions, including salary scale and health cost trend.

  - ➢ The retirement assumptions were revised based on actual experience in 1997-1999.

  - ➢ The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.

  - ➢ The cost of living allowance was increased from 62% to 65% participation.

  - ➢ For the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.81% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

  - ➢ The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year.

  - ➢ The health cost trend assumptions were changed from an ultimate rate of 5.5% per annum to the following:

Fiscal Year	
00	8.5%
01	7.5%
02	6.5%
03	5.5%
04-08	5.0%
09-13	4.5%
Thereafter	4.0%

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Schedules

June 30, 2001 and 2000
(000's omitted)

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

The Plan's actuary, at the request of the Teachers' Retirement Board, uses an enhanced actuarial projection system to determine annual employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1996-1998 and 2000 employer contributions being less than the annual required contribution and 1999 and 2001 employer contributions being more than the annual required contribution.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Administrative and Investment Expenses

Year ended June 30, 2001
with comparative totals for 2000
(000's omitted)

	Administrative expenses	Investment expenses	Totals 2001	Totals 2000
Personal services:				
Wages	$ 824	374	1,198	1,164
Benefits	296	112	408	380
Other	3	-	3	2
Total personal services	1,123	486	1,609	1,546
Travel:				
Transportation	35	22	57	58
Per diem	33	21	54	52
Moving	-	3	3	2
Honorarium	14	10	24	8
Total travel	82	56	138	120
Contractual services:				
Management and consulting	140	9,092	9,232	9,011
Accounting and auditing	10	357	367	404
Other professional services	200	7	207	132
Advertising and printing	22	95	117	113
Data processing	92	13	105	186
Communications	78	17	95	98
Rentals/leases	42	33	75	42
Legal	20	12	32	26
Medical specialists	13	-	13	5
Repairs and maintenance	3	-	3	7
Transportation	-	2	2	3
Other services	11	39	50	50
Total contractual services	631	9,667	10,298	10,077
Other:				
Equipment	77	23	100	82
Supplies	25	9	34	26
Total other	102	32	134	108
Total administrative and investment expenses	**$ 1,938**	**10,241**	**12,179**	**11,851**

See accompanying independent auditors' report.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2001 and 2000
(000's omitted)

Firm	Services	2001	2000
State Street Bank and Trust Company	Custodian banking services	$ 430	579
The Retirement Concepts Group, Ltd.	Data processing consultants	151	101
Powertech Toolworks, Inc.	Data processing consultants	6	78
William M. Mercer, Inc.	Actuarial services	136	75
KPMG LLP	Auditing services	38	32
State of Alaska, Department of Law	Legal services	25	29
Wohlforth, Vassar, Johnson and Brecht	TRS Board legal services	22	11
		$ 808	**905**

See accompanying independent auditors' report.

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WILLIAM M.
MERCER

March 15, 2001

State of Alaska
Teachers' Retirement Board
Department of Administration
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

Actuarial Certification

The annual actuarial valuation required for the State of Alaska Teachers' Retirement System has been prepared as of June 30, 2000 by William M. Mercer, Incorporated. The purposes of the report include:

(1) a review of experience under the Plan for the year ended June 30, 2000;

(2) a determination of the appropriate contribution rate for all employers in the System;

(3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The following schedules that we have prepared are included in this report:

(1) Summary of actuarial assumptions and methods

(2) Schedule of active member valuation data

(3) Schedule of retirants and beneficiaries added to and removed from rolls

(4) Solvency test

(5) Analysis of financial experience

William M. Mercer, Incorporated
One Union Square, Suite 3200
600 University Street
Seattle WA 98101-3137

Phone 206 808 8800
Fax 206 382 0627

A Marsh & McLennan Company

WILLIAM M.
MERCER

Teachers' Retirement Board
March 15, 2001
Page 2

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to the Board in October 2000 and adopted in December 2000.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY01 and a rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities decreased from 102.5% to 99.7% during the year, primarily due to assumption changes. Over the years, progress has been made toward achieving the funding objectives of the System.

There were significant changes in the actuarial assumptions and actuarial methods used in the determination of system liabilities this year. The member data used to determine system liabilities is as of June 30, 1999, projected using standard actuarial techniques to June 30, 2000. A summary of the actuarial assumptions and methods is presented in Section 2.3 of this report. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

(1) differences between actual experience and anticipated experience based on the assumptions;

(2) changes in actuarial assumptions or methods;

(3) changes in statutory provisions; or

(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

WILLIAM M.
MERCER

Teachers' Retirement Board
March 15, 2001
Page 3

We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,

Brian R. McGee, FSA, MAAA

James W. Jacobson, ASA, MAAA

CMB/JWJ/kmm(jls)

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

The demographic and economic assumptions used in this valuation were recommended by William M. Mercer, Incorporated at the Fall 2000 TRS Board Meeting and adopted by the Board in December 2000. These assumptions were the result of an experience study performed in the Fall of 2000. The funding method used in this valuation was adopted June 30, 1985. The asset smoothing method used to determine valuation assets was changed effective June 30, 2000.

Valuation of Liabilities

A. Actuarial Method — Projected Unit Credit. Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. Any funding surpluses or unfunded accrued liability is amortized over a rolling 25 years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the Past Service Cost.

The Normal Cost is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

B. Actuarial Assumptions

1.	Investment Return	8.25% per year, compounded annually, net of expenses.
2.	Salary Scale	Inflation - 3.5% per year Merit (first 5 years of employment) - 1.5% per year Productivity - 0.5% per year
3.	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.

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

4.	Health Cost Trend	FY00 - 8.5% FY01 - 7.5% FY02 - 6.5% FY03 - 5.5%	FY04 - FY08 - 5.0% FY09 & FY13 - 4.5% FY14 & later - 4.0%

5. Mortality — 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. All deaths are assumed to result from non-occupational causes.

6. Total Turnover — Based upon the 1997-99 actual withdrawal experience. (See Table 1.)

7. Disability — Incidence rates based upon the 1991-95 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.

8. Retirement — Retirement rates based upon the 1997-99 actual experience in accordance with Table 3.

9. Spouse's Age — Wives are assumed to be four years younger than husbands.

10. Dependent Children — Benefits to dependent children have been valued assuming members who are not single have one dependent child.

11. Contribution Refunds — 100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

12. C.O.L.A. — Of those benefit recipients who are eligible for the C.O.L.A., 65% are assumed to remain in Alaska and receive the C.O.L.A.

13. New Entrants — Growth projections are made for the active TRS population under three scenarios:

Pessimistic:	0% per year
Median:	1% per year
Optimistic:	2% per year

14. Sick Leave — 4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired.

15. Post-Retirement Pension Adjustment — 50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

16. Expenses	Expenses are covered in the investment return assumption.
17. Participant Data	For this valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.81% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

Valuation of Assets

Effective June 30, 1994, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG, LLP.

Prospectively, in the development of valuation assets, we use an expected investment return equal to the investment return assumption of 8.25%. The valuation assets, plus (minus) the outstanding balance of previously amortized amounts, are then compared to a 5% corridor around the market value of assets. Any amount outside the corridor is amortized and applied to the employer contribution rates as a level percentage of the present value of pay over 20 years under the 1% population projection scenario. Valuation assets cannot be outside the range of 80% to 120% of the market value of assets.

Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY01, the pre-65 monthly premium is $689.31 and the post-65 premium is $262.59, based on an assumed total blended premium of $527.31. For the time period January 1, 2001 - December 31, 2001, the actual blended premium as provided by the State of Alaska Division of Retirement and Benefits is $610.00.

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

Table 1
Total Turnover Assumptions

Select Rates of Turnover During the First 8 Years of Employment

Year of Employment	Rate
1	.10
2	.10
3	.09
4	.09
5	.08
6	.07
7	.06
8	.05

Ultimate Rates of Turnover After the First 8 Years of Employment

Ages	Rate
20+	.04

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

Table 2
Disability Rates
Annual Rates Per 1,000 Employees

Age	Rate
20	.28
21	.28
22	.29
23	.29
24	.30
25	.30
26	.30
27	.31
28	.32
29	.33
30	.34
31	.34
32	.35
33	.36
34	.37
35	.38
36	.40
37	.41
38	.43
39	.44
40	.46
41	.48
42	.51
43	.54
44	.59
45	.65
46	.70
47	.76
48	.83
49	.89
50	.96
51	1.04
52	1.14
53	1.27
54	1.42
55	1.60
56	1.84
57	2.14
58	2.44
59	2.88
60	3.37
61	3.90
62	4.52
63	5.22
64	5.96

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

Table 3
Retirement Rates

Age at Retirement	Retirement Rate
50	.05
51	.05
52	.05
53	.05
54	.05
55	.15
56	.13
57	.10
58	.10
59	.10
60	.10
61	.10
62	.10
63	.17
64	.17
65	.50
66 & up	1.00

For ages less than 50, teachers are assumed to retire immediately upon attaining 21 years of service.

Teachers' Retirement System
Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll (000s)	Annual Average Pay	Average Increase/ (Decrease) In Average Pay	Number of Participating Employers
June 30, 1999	9,396	$466,414	$49,640	(2.1)%	61
June 30, 1998	9,262	469,433	50,684	(0.4)%	61
June 30, 1997	9,164	466,455	50,901	1.3%	61
June 30, 1996	9,259	465,182	50,241	(0.5)%	61
June 30, 1995	9,452	477,205	50,487	0.6%	61
June 30, 1994	9,489	476,098	50,174	3.2%	61
June 30, 1993	9,459	459,746	48,604	0.2%	61
June 30, 1992	9,238	448,186	48,515	2.2%	62
June 30, 1991	8,903	422,655	47,473	4.6%	62
June 30, 1990	8,586	389,702	45,388	1.8%	60

Teachers' Retirement System
Schedule of Retirants and Beneficiaries Added to and Removed from Rolls

Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase in Annual Allowances	Average Annual Allowance
	No.*	Annual Allowances*	No.*	Annual Allowances*	No.	Annual Allowances		
June 30, 1999	598	$19,014,567	91	$ 2,893,521	6,486	$185,848,446	9.50%	$28,654
June 30, 1998	674	24,479,595	38	1,380,155	5,979	169,727,400	15.75%	28,387
June 30, 1997	583	29,988,351[1]	43	2,211,834[1]	5,343	146,627,960	23.37%	27,443
June 30, 1996	376	8,410,895	32	441,353	4,803	118,851,443	7.19%	24,745
June 30, 1995	368	10,386,432	43	94,443	4,459	110,881,901	10.23%	24,867
June 30, 1994	280	8,923,551	37	616,360	4,134	100,589,912	9.00%	24,332
June 30, 1993	344	6,874,777	55	1,044,709	3,891	92,282,721	6.74%	23,717
June 30, 1992	120	5,799,044	62	1,436,106	3,602	86,452,653	5.31%	24,001
June 30, 1991	519	14,827,829	159	3,535,365	3,544	82,089,715	15.95%	23,163
June 30, 1990	208	6,181,779	122	2,648,864	3,184	70,797,251	5.25%	22,235

* Numbers are estimated, and include other internal transfers.

[1]Includes additional benefits to current retirees from a one time retroactive ad hoc Post-Retirement Pension Adjustments.

Teachers' Retirement System Solvency Test

Valuation Date	Aggregate Accrued Liability For: (1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)	Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
June 30, 2000[1][2]	$490,176	$2,872,250	$836,442	$4,184,015	100%	100%	98.2%
June 30, 1999	469,068	2,571,345	680,541	3,815,633	100%	100%	100.0%
June 30, 1998	449,383	2,344,263	735,111	3,446,070	100%	100%	88.8%
June 30, 1997	483,735	2,095,843	780,491	3,120,044	100%	100%	69.2%
June 30, 1996[2]	451,249	1,689,636	799,552	2,858,756	100%	100%	89.8%
June 30, 1995	437,089	1,531,406	944,972	2,647,392	100%	100%	71.8%
June 30, 1994[1][2]	398,990	1,419,506	942,913	2,472,957	100%	100%	69.4%
June 30, 1993	370,667	1,223,220	835,569	2,261,082	100%	100%	79.8%
June 30, 1992[1]	341,204	1,110,981	779,561	2,001,864	100%	100%	70.5%
June 30, 1991[2]	293,136	1,056,453	725,816	1,779,579	100%	100%	59.2%

(1) Change in Asset Valuation Method.
(2) Change of Assumptions.

Teachers' Retirement System
Analysis of Financial Experience

Change in Average Employer Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience

Type of Gain or Loss	Change in Employer Contribution Rate During Fiscal Year 00	99	98	97	96
Health Experience	-	-	-	-	-
Salary Experience	-	(0.64)%	(0.84)%	(0.05)%	(0.62)%
Investment Experience	(3.35)%	(3.73)%	(2.70)%	(1.80)%	(0.69)%
Demographic Experience	(0.91)%	0.80%	0.54%	1.56%	0.68%
(Gain) or Loss During Year from Experience	(4.26)%	(3.57)%	(3.00)%	(0.29)%	(0.63)%
Non-recurring changes					
Asset Valuation Method	(1.38)%	-	-	-	-
Assumption Changes	6.68%	-	-	-	(3.79)%
Ad hoc PRPA	0.16%	0.11%	0.55%	2.77%	-
Composite (Gain) or Loss During Year	1.20%	(3.46)%	(2.45)%	2.48%	(4.42)%
Beginning Total Employer Contribution Rate	7.09%	10.55%	13.00%	10.52%	14.94%
Ending Total Employer Contribution Rate	8.29%	7.09%	10.55%	13.00%	10.52%
Board Adopted Employer Contribution Rate	11.00%	11.00%	12.00%	12.00%	12.00%

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

July 1, 1955, with amendments through June 30, 2000. Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the TRS before July 1, 1990, are eligible for different benefits than members hired after June 30, 1990.

(2) Administration of Plan

The Commissioner of Administration is responsible for administering the system. The Teachers' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division is responsible for investing TRS funds. The Attorney General represents the system in legal proceedings.

(3) Membership

Membership in the Alaska TRS is mandatory for the following employees:

- certificated full-time and part-time elementary and secondary teachers, certificated school nurses, and certificated employees in positions requiring teaching certificates;
- the Commissioner of the Alaska Department of Education and certificated supervisors employed by the Department of Education in permanent positions requiring teaching certificates;
- University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing if approved by the TRS administrator;
- certain full-time or part-time teachers of Alaska Native language or culture who have elected to be covered under the TRS;
- members on approved sabbatical leave under AS 14.20.310; and
- certain State legislators who have elected to be covered under the TRS.

Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the TRS.

Employees who work half-time in the TRS and Public Employees' Retirement System (PERS) simultaneously are eligible for half-time TRS and PERS credit.

(4) Credited Service

TRS members receive a year of membership credit if they work a minimum of 172 days during the school year (July 1 through June 30 of the following year). Fractional credit is determined based on the number of days worked. Members receive one-half membership credit for each day of part-time service. Credit is granted for all Alaskan public school service.

Members may claim other types of service, including:

- Outside teaching service in out-of-state schools or Alaska private schools (not more than ten years may be claimed);
- Military service (not more than five years of military service or ten years of combined outside and military service may be claimed);
- Alaska Bureau of Indian Affairs (BIA) service;

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

- Retroactive Alaskan service that was not creditable at the time it occurred, but later became creditable because of legislative change;
- Unused sick leave credit after members retire; and
- Leave of absence without pay.

Except for retroactive Alaska service that occurred before July 1, 1955, and unused sick leave, contributions are required for all claimed service.

Members receiving TRS disability benefits continue to earn TRS credit while disabled.

(5) Employer Contributions

TRS employers contribute the amounts required, in addition to employees' contributions, to fund the benefits of the system.

(6) Member Contributions

Mandatory Contributions: Members are required to contribute 8.65% of their base salaries. Members' contributions are deducted from gross salaries before federal income taxes are withheld.

Contributions for Claimed Service: Member contributions are also required for most of the claimed service described in (4) above.

1% Supplemental Contributions: Members who joined the system before July 1, 1982, and elected to participate in the supplemental contributions provision, are required to contribute an additional 1% of their salaries. Under the supplemental provision, an eligible spouse or dependent child will receive a survivor's allowance or spouse's pension if the member dies (see (11) below).

Interest: Members' contributions earn 4.5% interest, compounded annually on June 30.

Refund of Contributions: Terminated members may receive refunds of their member contribution accounts, which includes their mandatory contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies, and valid qualified domestic relations orders.

Reinstatement of Contributions: Refunded accounts and the corresponding TRS service may be reinstated upon reemployment in the TRS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until paid in full or members retire.

(7) Retirement Benefits

Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 60[1], or early retirement at age 55, if they have at least:

(i) eight years of paid-up membership service;

(ii) 15 years of paid-up creditable service, the last five years of which are membership service, and they were first hired under the TRS before July 1, 1975;

(iii) five years of paid-up membership service and three years of paid-up Alaska Bureau of Indian Affairs service;

[1] Members participating before July 1, 1990 are eligible for normal retirement at age 55 or early retirement at age 50.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(iv) 12 years of combined part-time and full-time paid-up membership service; or

(v) two years of paid-up membership service if they are vested in the Public Employees' Retirement System (PERS).

(b) Members may retire at any age when they have:

(i) 25 years of paid-up creditable service, the last five years of which are membership service;

(ii) 20 years of paid-up membership service;

(iii) 20 years of combined paid-up membership and Alaska Bureau of Indian Affairs service, the last five years of which are membership service; or

(iv) 20 years of combined paid-up part-time and full-time membership service.

Benefit Type: Lifetime benefits are paid to members. Eligible members may receive normal, unreduced benefits when they (1) reach normal retirement age and complete the service required; or (2) satisfy the minimum service requirements to retire at any age under (b) above. Members may receive early, actuarially reduced benefits when they reach early retirement age and complete the service required.

Members may also select joint and survivor options. Under those options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

Benefit Calculation: Retirement benefits are calculated by multiplying the average base salary (ABS) times the total TRS service times the percentage multiplier. The ABS is determined by averaging the salaries earned during the three highest school years. Members must earn at least 115 days of credit in a school year to include it in the ABS calculation. The TRS pays a minimum benefit of $25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers are 2% for the first 20 years and 2.5% for all remaining service. Service before July 1, 1990, is calculated at 2%.

Indebtedness: Members who terminate and are refunded their TRS contributions are not eligible to retire, unless they return to TRS employment and pay back their refunds, plus interest, or accrue additional service which qualifies them for retirement. TRS refunds must be paid in full if the corresponding service is to count toward the minimum service requirements for retirement. Refunded TRS service is included in total service for the purpose of calculating retirement benefits. However, when refunds are not completely paid before retirement, benefits are actuarially reduced for life.

(8) Reemployment of Retired Members

Retirement benefits are suspended while retired members are reemployed under the TRS. During reemployment, members earn additional TRS service and contributions are withheld from their wages.

Members retired under the Retirement Incentive Programs (RIPs) who return to employment under the TRS, Public Employees' Retirement System (PERS), or the University of Alaska's Optional Retirement Plan will:

(a) forfeit the three years of incentive credits that they received;

(b) owe the TRS 110% of the benefits that they received under the RIP, which may include costs for health insurance, excluding amounts that they paid to participate; and

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(c) be charged 7% interest from the date that they are reemployed until their indebtedness is paid in full or they retire again. If the indebtedness is not completely paid, future benefits will be actuarially reduced for life.

(9) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty-five by paying premiums.

(10) Disability Benefits

Monthly disability benefits are paid to permanently disabled members until they die, recover or become eligible for normal retirement. To be eligible, members must have at least five years of paid-up membership service.

Disability benefits are equal to 50% of the member's base salary at the time of disability. The benefit is increased by 10% of the base salary for each minor child, up to a maximum of 40%. Members continue to earn TRS service until eligible for normal retirement.

Members are appointed to normal retirement on the first of the month after they become eligible.

(11) Death Benefits

Monthly death benefits may be paid to a spouse or dependent children upon the death of a member. If monthly benefits are not payable under the supplemental contributions provision or occupational and nonoccupational death provisions, the designated beneficiary receives the lump sum benefit described below.

<u>Occupational Death</u>: When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse, unless benefits are payable under the supplemental contributions provision (below). The pension equals 40% of the member's base salary on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit. The normal benefit is based on the member's average base salary on the date of death and service, including service accumulated from the date of the member's death to the normal retirement date.

<u>Nonoccupational Death</u>: When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum benefit, unless benefits are payable under the supplemental contributions provision (below). The monthly benefit is calculated on the member's average base salary and TRS service accrued at the time of death.

<u>Lump Sum Benefit</u>: Upon the death of an active member who has less than one year of service or an inactive member who is not vested, the designated beneficiary receives the member's contribution account, which includes mandatory contributions, indebtedness payments, and interest earned. Any supplemental contributions will also be refunded. If the member has more than one year of TRS service, the beneficiary also receives $1,000 and $100 for each year of TRS service, up to a maximum of $3,000. An additional $500 may be payable if the member is survived by dependent children.

<u>Supplemental Contributions Provision</u>: Members are eligible for supplemental coverage if they joined the TRS before July 1, 1982, elected to participate in the supplemental provision, and made the required contributions. A survivor's allowance or spouse's pension (below) may be payable if the

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

member made supplemental contributions for at least one year and dies while in membership service or while disabled under the TRS. In addition, the allowance and pension may be payable if the member dies while retired or in deferred vested status if supplemental contributions were made for at least five years.

(a) Survivor's Allowance: If the member is survived by dependent children, the surviving spouse and dependent children are entitled to a survivor's allowance. The allowance for the spouse is equal to 35% of the member's base salary at the time of death or disability, plus 10% for each dependent child up to a maximum of 40%. The allowance terminates and a spouse's pension becomes payable when there is no longer an eligible dependent child.

(b) Spouse's Pension: The spouse's pension is equal to 50% of the retirement benefit that the deceased member was receiving or would have received if retired at the time of death. The spouse's pension begins on the first of the month after the member's death or termination of the survivor's allowance.

Death After Retirement: If a joint and survivor option was selected at retirement, the eligible spouse receives continuing, lifetime monthly benefits after the member dies. A survivor's allowance or spouse's pension may be payable if the member participated in the supplemental contributions provision. If a joint and survivor option was not selected and benefits are not payable under the supplemental contributions provision, the designated beneficiary receives the member's contribution account, less any benefits already paid.

(12) Post Retirement Pension Adjustments

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

(a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on TRS disability; or

(b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least eight years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who were first hired before July 1, 1990, if the CPI increases and the financial condition of the fund will permit an increase.

(13) Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive an Alaska cost of living allowance (COLA) equal to 10% of their base benefits. The following benefit recipients are eligible:

(a) members who were first hired under the TRS before July 1, 1990, and their survivors;

(b) members who were first hired under the TRS after June 30, 1990, and their survivors if they are at least age 65; and

(c) all disabled members.

Message from the Chair

I am pleased to present the 2001 Annual Report of Investments for the period ending June 30, 2001 to you, the participants and beneficiaries of this retirement trust fund.

The 12 months ending June 30, 2001 were very difficult for investors. Stock markets both domestically and internationally suffered substantial declines. Growth oriented stocks, that had fueled the extraordinary market returns of the last several years, suffered sharp declines. U.S. stocks registered a loss of 14.83% as measured by the Standard & Poor 500 Stock Index, while the Russell 2000 Stock Index (comprised of the smallest 2000 of the top 3000 companies ranked by market capitalization) achieved a modest positive return of 0.57%. International stocks, as measured by the MSCI-EAFE Index, fell 23.83%. The only bright spots were real estate and fixed income markets. Both achieved very attractive positive returns.

TRS weathered this challenging environment in reasonably good form. The System's well-diversified investment approach limited TRS' decline to -5.35%. This negative return almost matched the System's policy target index return of -5.13%. With the exception of domestic equity, ASPIB's managers exceeded their benchmark targets. On balance, TRS was slightly overallocated to equities relative to the long-term target. This detracted from performance in the 2001 fiscal year while it contributed positively to returns in prior years.

Despite the disappointing year, over the longer term, fund performance exceeds the returns of the policy benchmark, and the System's actuarial earnings target. For example, TRS has achieved a trailing five-year return of 9.37% annually. This exceeds the System's policy target index return of 9.21% and the actuarial earnings assumption.

The trustees work hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. The asset allocation plan adopted by the trustees called for an investment distribution as follows: 41% in domestic equities, 17% in international equities, 30% in domestic fixed income, 5% in international fixed income, and 7% in real estate. This asset allocation is reviewed annually and has been slightly modified for the new fiscal year. It, however, is designed to provide competitive returns at a reasonable level of risk. Fiscal 2001 results were well within the range of shorter-term returns envisioned as possible.

ASPIB represents over 60,000 participants and beneficiaries. The trustees strongly believe that you should be kept well informed about the performance of your retirement funds, and about what we as fiduciaries are doing on your behalf. To this end, we are proud of the ASPIB web site, which can be accessed at www.revenue.state.ak.us/treasury/aspib/index.htm. We continue to encourage member participation at our meetings, and welcome your letters and comments.

On behalf of all the trustees, thank you for giving us the opportunity to serve as your fiduciaries.

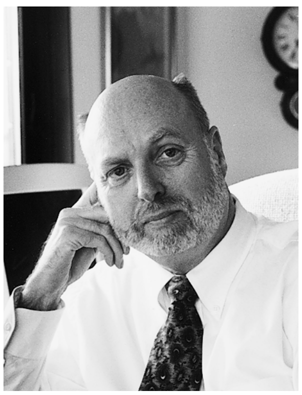
Jeffrey E. Sinz, Chair

ALASKA STATE PENSION INVESTMENT BOARD

Jeffrey E. Sinz, Chair

Appointed by the Governor

Jeffrey E. Sinz, Chair, was appointed to the board by Governor Knowles. Mr. Sinz is currently employed as Director of Finance for the Kenai Peninsula Borough. He has over twenty years experience in public sector finance including thirteen years with the Municipality of Anchorage where he was Municipal Accounting Officer, Director of Finance for the Anchorage Telephone Utility, Finance Manager for the Solid Waste Services Utility, and a Senior Budget Analyst for the municipal general government. He also worked for two years as a financial planner and supervisor with the Alaska Railroad Corporation, and for five years as a financial administrator with a Wisconsin public school district. Jeff also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. Mr. Sinz's term expires December 31, 2004.



William "Riley" Snell, Vice Chair

Appointed by the Governor

William (Riley) Snell, Vice Chair, was appointed to the board by Governor Knowles. Mr. Snell has held numerous positions in State government. He served as the Executive Director of the Alaska Industrial Development and Expert Authority (AIDEA) from July 1992 until November of 1996 overseeing banking and development programs. Four years prior to the Executive Director position, Riley served as Deputy Director-Development at AIDEA. From 1985 until July 1989 he served as Deputy Commissioner for the Central Region of the Department of Transportation and Public Facilities. Riley possesses over 27 years of experience in State Transportation and Public Facilities Development and Public Financing. Currently Riley is Vice President and General Manager of Cable and Entertainment for General Communications Inc. (GCI). His responsibilities at GCI include CATV product management as well as construction and maintenance of all outside plant facilities for the company. Mr. Snell's term expires December 31, 2002.

Gail R. Schubert, Secretary

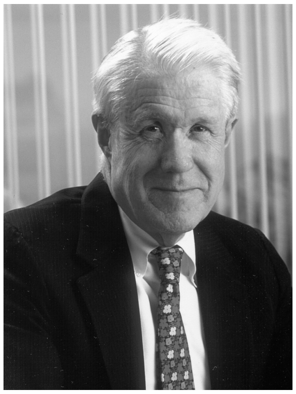
Appointed by the Governor

Gail R. Schubert, Board Secretary, was appointed to the board by Governor Knowles. She is currently a member of the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. Her practice includes health care and fisheries issues, tax, estate planning, and corporation law. From 1992 to 1995, Ms. Schubert practiced law at Birch, Horton, Bittner & Cherot, and prior to that, from 1982 to 1992, Ms. Schubert practiced law in New York City at the firms of Rogers & Wells; Fried and Frank, Harris, Shriver & Jacobson; and at the Federal Reserve Bank of New York. Ms. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She served on Governor Knowles' Fiscal Policy Transition Team, and serves as Chair of the Alaska Native Heritage Center, and on the boards of the Bering Straits Native Corporation, Khoanic Broadcast Corporation, Alaska Native Justice Center, and Akeela Treatment Services. Ms. Schubert's term expires December 31, 2003.

Gary M. Bader

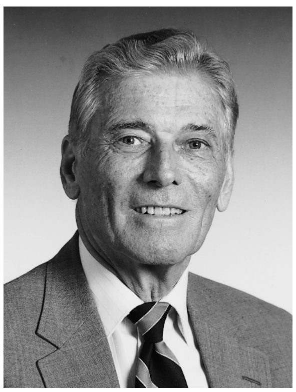
PERS Representative

Gary M. Bader was elected by the Public Employees' Retirement System. Mr. Bader has held numerous positions in State government including three years in the Office of Management and Budget and seven years in the Department of Administration, where he was Deputy Commissioner and Director of Retirement and Benefits. He is currently Superintendent of Schools for the Juneau School District. Mr. Bader has a B.S. in Business Administration and a master's degree in Education Administration. He was previously employed with a major Wall Street investment firm where he was licensed with the New York Stock Exchange. Mr. Bader's term expires December 31, 2002.



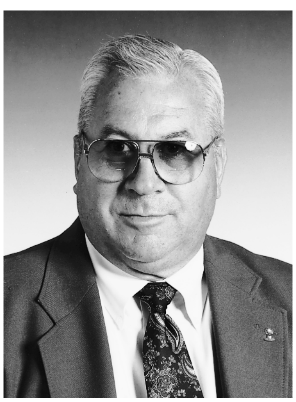
Wilson L. Condon
Statutory Representative

Wilson L. Condon was appointed Revenue Commissioner in February 1995. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. He was a partner in a private law firm from 1983-1995. Wilson was lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980-1982 and as Deputy Attorney General from 1975-1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. As Revenue Commissioner, he also sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation.



Merritt C. Olson
TRS Representative

Merritt C. Olson served as a member of the Teachers' Retirement System Board for 14 years, a portion of that time as Chair. He has been an Alaska resident since 1953 and resides in Anchorage. Appointed by Governor Egan to serve on the committee that organized the Student Loan Fund, he also served as a member of AARP's State Legislative Committee. Now a retired secondary mathematics teacher from the Anchorage schools and adjunct instructor of psychology at Alaska Methodist University and the University of Alaska, Anchorage, Mr. Olson earned his Ph.D. from Rutgers University and was a Fulbright Scholar in 1957-58. He is Past President of NEA-Alaska/Retired and served on the NEA-Retired (national) Advisory Council for six years. Mr. Olson's term expires December 31, 2003.



James "Pat" Wellington
PERS Representative

James "Pat" Wellington was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2004.

Dorothy Wells
TRS Representative

Dorothy Wells was elected by the Teachers' Retirement System. A resident of Alaska for 38 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her B.S. degree from the University of Minnesota of Minneapolis and did graduate work both there and at the University of Alaska, Fairbanks. Mrs. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Mrs. Wells' term expires December 31, 2005.

Department of Revenue
Treasury Division
Staff

Commissioner
Wilson L. Condon

Deputy Commissioner
Neil Slotnick

Chief Investment Officer
John R. Jenks, CFA

Comptroller
Betty Martin, CPA

ASPIB Liaison Officer
Judy Hall

Investment Officers
Lee Livermore, CFA, Marketable Debt
Bob Mitchell
Steve Sikes
Christine Vea

Cash Management
Michelle M. Prebula, MBA, CPA, CCM

External Money Managers and Consultants

Investment Consultants
Callan Associates Inc.
San Francisco, CA
The Townsend Group
Denver, CO

Domestic Fixed Income
BlackRock Financial Management, Inc.
New York, NY

Domestic Equity Large Capitalization
Capital Guardian Trust Co.
Los Angeles, CA
Dresdner RCM Global Investors
San Francisco, CA
Invesco Capital Management, Inc.
Atlanta, GA
McKinley Capital Management, Inc.
Anchorage, AK
Tukman Capital Management, Inc.
San Francisco, CA

Domestic Equity Small Capitalization
Capital Guardian Trust Co.
San Francisco, CA
Dresdner RCM Global Investors
San Francisco, CA
John McStay Investment Counsel
Dallas, TX

Domestic Equity Index Fund
State Street Global Advisors
Boston, MA

Domestic Enhanced Index
Invesco Capital Management, Inc.
New York, NY

Emerging Markets
Capital Guardian Trust Co.
Los Angeles, CA
J.P. Morgan Investment Management, Inc.
New York, NY

Global Equity
Lazard Freres Asset Management
New York, NY

International Equity—EAFE
Bank of Ireland Asset Management (US) Ltd
Santa Monica, CA
Brandes Investment Partners, L.P.
San Diego, CA

International Equity—European
Citibank Global Asset Management
London, England

External Money Managers and Consultants (con't)

International Equity—Pacific Basin excluding Japan
Invesco Asia Limited
Hong Kong
Wellington Management Co. LLP
Boston, MA

International Fixed Income
Delaware International Advisers Ltd.
London, England

Private Equity
Abbott Capital Management, L.P.
New York, NY

Performance Measurement
Callan Associates Inc.
Denver, CO

Real Estate Management—Commingled Funds
Heitman Capital Management
Chicago, IL
J.P. Morgan Investment Management Inc.
New York, NY
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
Hartfort, CT

Real Estate—Core Separate Accounts
PM Realty Advisors
Newport Beach, CA
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
San Francisco, CA

Real Estate—Value Added Separate Accounts
Invesco Realty Advisors
Dallas, TX
Lowe Enterprises Investment Management Inc.
Los Angeles, CA

Investment Advisory Council
Shlomo Benartzi
Los Angeles, CA
Jerrold Mitchell
Wayland, MA
Timothy O'Brien
Denver, CO

Independent Auditors
KPMG LLP
Anchorage, AK

Global Master Custodian
State Street Bank & Trust Co.
Boston, MA

Legal Counsel
Wohlforth, Vassar, Johnson & Brecht
Anchorage, AK

Supplemental Benefits System
Barclays Global Investors, N.A.
San Francisco, CA
Capital Guardian Trust Company
Los Angeles, CA
Citizens Funds
Portsmouth, NH
State Street Global Advisors
Boston, MA
T. Rowe Price Investment Services
Baltimore, MD

Deferred Compensation
Barclays Global Investors, N.A.
San Francisco, CA
Capital Guardian Trust Company
Los Angeles, CA
T. Rowe Price Investment Services
Baltimore, MD & Glen Allen, VA

Teachers' Retirement System
Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

INVESTMENTS

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the System's constraints and objectives. ASPIB adopted an asset allocation that includes 41% in domestic equities, 17% in international equities, 30% in domestic fixed income, 5% in international fixed income, and 7% in real estate for FY01.

For FY01, TRS investments generated a –5.35% rate of return. The TRS annualized rate of return was 4.89% over the last three years and 9.37% over the last five years.

The basis of presentation for the data reported in the investment section is in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

INVESTMENT OVERVIEW

The Teachers' Retirement System (TRS) investments matched the returns of the average large retirement system. For FY01, TRS suffered a decline in value of –5.35%, a significant reversal from the 10.15% return earned in FY00. The annualized return for the last five years was 9.37%, well ahead of the 8.25% actuarial assumption rate.

For FY01, the well diversified TRS investment portfolio muted the impact of the bear market in equities that began in the spring of 2000. For the fiscal year, the U.S. equity portfolio fell –12.20% and the international equity portfolio dropped –16.9% (versus 10.4% and 20.6%, respectively in FY00). Positive performance was provided in the U.S fixed-income market, which generated an 11.93% return, up from last year's more modest return of 4.56%. The system's real estate investments also continued to provide strong positive returns.

ASPIB continued the systematic increase in TRS' investments in real estate and private equity. The real estate portfolio earned 11.4% for FY01 versus 8.4% in FY00. The private equity market weakened in FY01 in sync with the public equity markets. TRS' investments in this sector did earn a positive return of 1.03%, down from the generous 49.2% results earned in FY00.

DOMESTIC ECONOMY

The U.S. Economy stumbled during FY01, with the nation's GDP rising a mere 1.2%. This was a substantial decline from the robust 5.2% growth experienced during FY00. The year closed on a weak note with GDP growth in the quarter ending June 30, 2001 a weak 0.3%.

Employment statistics demonstrated a downward shift in the job market's momentum during FY01. In FY01 the economy created an average of only 38,500 new jobs a month compared to 269,000 new jobs per month in FY00. Even though the pace of job growth slowed sharply this year, the overall unemployment rate only rose from 4.0% to 4.5%. Most of this rise took place in the final months of FY01. Confidence created by this relatively low unemployment rate helped maintain consumer spending and make it one of the few bright spots for the U.S. economy.

Purchases of big-ticket items held up better than expected even as the economy slowed. The housing sector prospered as the relatively low jobless rate and low interest rates gave people the confidence to buy homes. Sales of new homes totaled 912,000 in FY01 up from 864,000 the year before. Sales of existing homes also remained strong and finished the year at 5.18 million units, virtually tied with the 5.16 million units pace of FY00. The record pace for housing sales was 5.5 million units in

Teachers' Retirement System
Investment Report

FY99. Auto sales also exceeded expectations, averaging just under 17 million units in FY01 compared to a pace of 17.5 million units in the more robust climate of FY00. Overall retail sales growth slowed to a more modest 3.5% pace from the robust 8.1% increase seen during FY00.

Worries about inflation also subsided in FY01. The Consumer Price Index (CPI) rose 3.2% in FY01 compared to 3.7% in FY00. The Producer Price Index (PPI) increased just 2.5% versus a 4.3% rise last year. Both indices were trending lower as the fiscal year drew to a close. On average, energy prices were higher in FY01 than in FY00, but similar to the CPI & PPI benchmarks, levels were trending down during the spring. West Texas Intermediate crude averaged $29.82 in FY01 compared to $25.75 in FY00. More interesting was the trip these prices took over the last twelve months. The high price for FY00 was $32.47 on June 30, 2000. Prices continued to rise before peaking at $35.81 on September 20, 2001 and declining thereafter and closing FY01 at $26.08 per barrel. Taking out the volatility of energy prices, the core-CPI rose a more moderate 2.8% and the core-PPI was up only 1.6%.

The weakening economy forced the Federal Reserve to aggressively reverse its tight monetary policy of FY00. In FY00, the Fed had raised the overnight funds rate six times to 6.50% to slow the very robust economy and reduce stock market euphoria. The medicine worked a bit too well and the Fed moved quickly to add liquidity to the financial markets. On January 3, 2001 the Fed cut the discount rate 50 bps to 6.00%. By the end of FY01, the Fed had cut the rate 5 more times to close the year at 3.75%.

EQUITIES

The bear market in equity prices hit the TRS portfolio hard during FY01. The domestic stock portfolios declined in value by –12.2% in FY01 compared to a positive 10.4% rate of return for FY00. This decline pulled the annualized return for the last five years down to 12.3% from the unsustainable 20.6% pace at the close of FY00.

There was also a seismic shift in the relative performance of the major sectors within the equity markets. After a long undisputed reign, large-company growth-oriented stocks ceded the lead to value stocks last year. Small-capitalization value stocks also returned to favor, outdoing their growth stock cousins by a significant margin. For the year, the median large-company growth manager experienced a decline of –27.9% (vs. 22.7% in FY00) and the average large-company value manager gained 10.03% (vs. -7.5% in FY00). The same story was true in smaller capitalization companies with median returns of –19.28% for growth-oriented managers (54.1% in FY00) and positive results of 27.59% median results for those invested in value-oriented companies (vs. 1.00% in FY00).

Returns for international managers were poor worldwide. Pacific Basin median manager returns dropped to –28.6% (vs. 21% last year) and European managers fell –22.8% (compared to 22% in FY00). Those invested in Japanese stocks gave back their excellent 36% returns of a year ago with a fall of –30.5% in FY01. For the year, the median core-international equity manager lost –22.5%, a bit less than the –23.8% drop in the Morgan Stanley EAFE Index.

As for TRS, its international equity portfolio fared better than the median manager with a decline of –16.9%. The annualized return for the past five years was 6.5%, much better than the 2.8% result for the Morgan Stanley EAFE Index.

FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 27% of the total assets of TRS as of June 30, 2001. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury securities, U.S. government agency securities, investment-grade corporate bonds, and mortgage-

Teachers' Retirement System Investment Report

backed securities. The benchmark for the TRS bond portfolio is the Lehman Brothers Aggregate Bond Index.

All the turmoil in the equity markets eventually translated into good news for bond investors. However, during the first half of FY01, the perceived risk for corporate bonds rose significantly. A series of credit problems pushed the yield spreads for corporate securities to near record levels compared to Treasuries. Asbestos litigation in particular precipitated a number of ratings downgrades and forced several firms into bankruptcy. The financial market had little tolerance for credit problems and spreads could significantly widen on the mere hint of financial difficulty. This exemplified the economic problems previously discussed. The TRS fixed income portfolios were relatively unscathed by these credit events and did not hold the bonds most impacted by these credit events.

To combat those financial problems, the Federal Reserve lowered interest rates six times during the second half of FY01. Confident that Mr. Greenspan's group could rescue the economy once again, fixed income investors jumped back into the corporate bond market and pushed spreads tighter. The rate cuts by the Fed also gave support to the general bond market and rates declined, particularly in shorter maturity securities.

Lower rates and tighter spreads generated strong bond portfolio results. For all of FY01, the TRS domestic bond portfolio gained 11.8%, compared to 4.6% the year before. This compares favorably to the Lehman Brothers Aggregate Bond Index return of 11.2% during FY01.

The international fixed-income portfolio represented just under 5% of the total assets of TRS. During FY01, the international bond portfolio had a loss of –5.7%, which was less than the –7.4% drop in the Salomon Brothers Non U.S. Government Index. This compares to results for FY00 of –3.3% and 2.4%, respectively. The relative strength of the U.S. economy and the strong dollar made it hard going for international fixed-income markets in FY01.

The Euro, in particular, continued to struggle in FY01. Introduced at the end of calendar year 1998, the Euro slid 13% against the U.S. dollar in its first six months of existence. During FY00 the Euro fell another 8% to $0.9525 and by June 30, 2001 it closed at $0.849, a drop of 11% for FY01. The low point was reached in October 2000 at $0.8272. The European Central Bank has not cut rates like the Federal Reserve as it continues to combat inflation.

PRIVATE MARKETS (REAL ESTATE AND PRIVATE EQUITY)

Private market investments, often referred to as "Alternative Investments", are placed in an investment portfolio to diversify risk and to improve overall portfolio returns in the long term; the volatility and return characteristics of these investments do not correlate directly with the returns of the stock and bond portfolios.

At the end of FY01, TRS had 9.8% of its portfolio in private markets, compared to a target of 12%. The total market value of the private market portfolio increased by 20.2% to $399.6 million. This increase was a result of new invested capital and modest appreciation.

Real Estate

At the end of FY01, TRS had 7.2% of its portfolio invested in real estate, well within its target of 7.0% (+/- 3.0%). At fiscal year end, the real estate portfolio amounted to $295.3 million. The total return for real estate, net of fees, was 11.37% compared to 8.4% in FY00. Importantly, over 75% of the total return was in the form of cash distributions to the Fund. The three and five year returns were 10.1% and 12.1%, respectively.

Teachers' Retirement System
Investment Report

During the year, the pace of new commitments by the Fund's advisors moderated as competition from other sources of capital intensified and anticipated total returns on new projects were driven down. With the decline in the stock market and funding of real estate commitments made over the past 18 months, many institutions are now at or above their real estate allocations. In addition, the slowing economy has resulted in modest increases in vacancies and slight declines in some rents, resulting in a slight decline in the valuations of some real estate properties. However, the current real estate markets are not substantially over built, as was the case in the early 1990's, and, in fact, most real estate markets are generally in equilibrium in terms of supply and demand. Thus, a slowing economy may result in 1) lower pricing for real estate assets, but 2) a decline in the percentage appreciation on an annual basis in the intermediate term. The favorable supply/demand balance should result in improved performance as the economy recovers.

Real estate has proven its ability to provide a stable return component in other-wise volatile markets. As a result, the Trustees modestly increased the allocation to real estate subsequent to fiscal year-end.

Private Equity

At year-end FY01, TRS' investment in private equity amounted to 2.6% of its portfolio. The estimated market value was $104.3 million and the total return for the year was 1.0%. The decline in the total return compared to FY00, reflects the cyclical nature of this type of investment, the collapse of the "dot coms" and a sharp decline in the NASDAQ market. Nevertheless, the net compounded internal rate of return since inception (3 ½ years) was 15.1%.

The initial public offering ('IPO") and the merger and acquisition ("M&A") markets for venture capital-backed companies slowed down considerably during FY01. While the private equity market has been negatively impacted by the burst in the "technology bubble," the pricing and terms for new investments have returned to more normal levels.

TRS' private equity investments are made through commitments to partnerships, which, in turn, make investments in privately-held companies, ranging from new businesses seeking venture capital to established businesses seeking capital to undertake a buyout or a special situation transaction. Commitments made in one year are typically funded over a three to five year period as the partnerships make investments. Investments currently made by partnerships are the result of commitments made over the past three years. As companies complete a public offering of stock or are acquired by another company, the partnerships realize their investment proceeds. Thus, the results of these private equity investments are evaluated over the long term. Historically, private equity investments have generated superior long-term returns.

Due to the success of the existing private equity program and the attractive long-term outlook, the Trustees increased the target allocation to private equity from 3% to 7%. The target allocation increases in increments through FY05.

Teachers' Retirement System
Schedule of Investment Results
Fiscal Years Ended June 30

	1997	1998	1999	2000	2001	Annualized 3 Year	Annualized 5 Year
Total Fund							
TRS	18.12%	14.83%	10.67%	10.15%	(5.35%)	4.89%	9.37%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	N/A	N/A
U.S. Common Stock Returns							
TRS Domestic Equities	27.43%	24.21%	16.56%	10.41%	(12.20%)	4.16%	12.33%
S&P 500	34.66%	30.27%	22.76%	7.24%	(14.83%)	3.89%	14.48%
International Stock Returns							
TRS International Equities	18.47%	0.66%	14.75%	20.59%	(16.92%)	4.76%	6.51%
Morgan Stanley Capital International EAFE	12.84%	6.10%	7.62%	18.11%	(23.83%)	(1.34%)	2.83%
Domestic Fixed Income							
TRS	7.96%	11.52%	2.28%	4.56%	11.93%	6.18%	7.58%
*Lehman Brothers Aggregate Index**	7.76%	11.28%	2.69%	1.69%	11.22%	6.11%	7.46%
International Fixed Income							
TRS	-	0.36%	5.27%	(3.27%)	(5.68%)	(1.34%)	-
Salomon Non-U.S. Government	-	0.89%	4.87%	2.42%	(7.43%)	(0.19%)	-
Real Estate Equity							
TRS	13.37%	16.99%	10.56%	8.43%	11.37%	10.12%	12.11%
NCREIF	11.29%	17.21%	11.24%	11.61%	11.15%	11.85%	12.74%

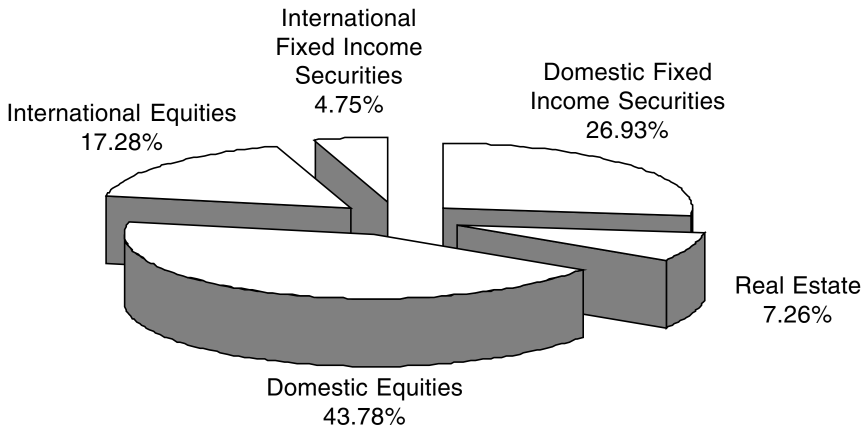
S&P 500 = Standard & Poor's Domestic Equity Stock Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index

The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

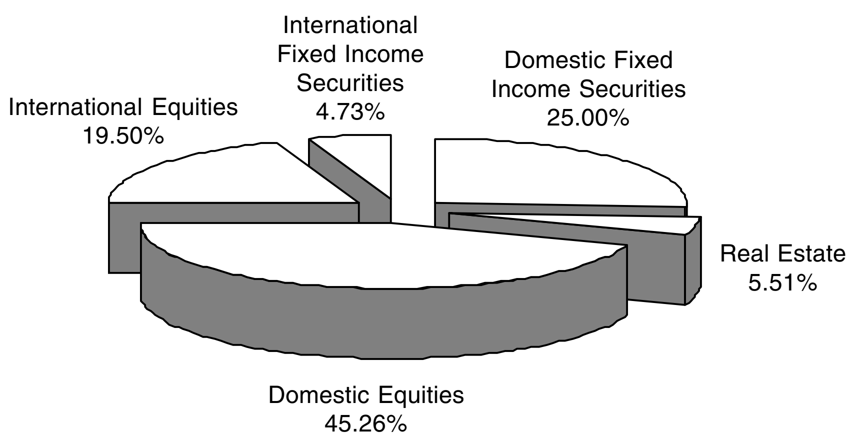
**Lehman Brothers Government/Corporate Index prior to 3/31/2000.*

Teachers' Retirement System Trust Fund
Actual Asset Allocation

June 30, 2001



June 30, 2000



Alaska State Pension Investment Board
Top Ten Holdings by Asset Type
June 30, 2001

Invested assets under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created nine different mutual fund-like pools to accomplish the investment asset allocation policies of the ASPIB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces accounting, budgeting and administrative costs. Finally, the ASPIB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the ten largest bond holdings and the ten largest equity holdings by market value.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Due	Credit Rating
Bonds	1	81,006,380	76,375,000	U.S. Treasury Bond	6.250%	5/15/30	AAA
	2	61,201,290	59,000,000	U.S. Treasury Bond	6.125%	8/15/29	AAA
	3	60,052,653	56,770,200	U.S. Treasury Note	4.250%	1/15/10	AAA
	4	58,917,656	59,833,710	Fed Home Loan Mtg Corp.	6.500%	5/1/31	AAA
	5	57,111,540	58,092,135	Gov Nat Mortgage Assn.	6.500%	6/20/30	AAA
	6	56,632,050	45,000,000	U.S. Treasury Bond	8.125%	8/15/21	AAA
	7	53,677,855	55,878,344	Fed Home Loan Mtg Corp.	6.000%	3/1/31	AAA
	8	53,377,101	52,250,579	Federal National Mtg Assn.	7.500%	2/1/31	AAA
	9	52,460,000	53,750,000	Federal National Mtg Assn. Disc Note	0.000%	2/22/02	AAA
	10	51,176,436	50,921,827	Federal National Mtg Assn.	7.000%	11/1/30	AAA
Equities	1	141,935,625	2,911,500	General Electric Co.			
	2	103,608,900	1,419,300	Microsoft Corp.			
	3	103,179,704	1,199,764	American Intl Group Inc.			
	4	82,065,454	2,049,075	Pfizer, Inc.			
	5	81,910,453	937,727	Exxon Mobil Corp.			
	6	78,196,489	1,479,873	Citigroup Inc.			
	7	74,310,405	872,700	Federal National Mortgage Assn.			
	8	68,734,800	1,408,500	Wal Mart Stores Inc.			
	9	67,887,700	1,280,900	AOL Time Warner Inc.			
	10	65,121,900	576,300	International Business Machines			

Additional investment information on the various pools and investments may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

Teachers' Retirement System
Schedule of Investment Management Fees
Year Ended June 30, 2001

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2001	Fees
External Management Fees		
Domestic Fixed Income		
BlackRock	$ 148,179,796	$ 112,647
International Fixed Income		
Delaware International Advisers, LTD.	578,643,617	262,816
Domestic Equity		
Capital Guardian Trust Co.	1,005,090,696	735,487
John McStay	384,812,997	815,589
RCM Capital Management	810,595,948	1,088,158
SSgA S&P 500 Index Fund	1,082,605,405	85,711
Invesco, Enhanced Index	582,178,705	182,698
Invesco, Large Cap Active	66,296,835	438,490
Lazard Freres	471,082,201	513,420
McKinley Capital	239,567,742	332,592
Tukman, Value	399,889,616	699,596
Total	5,042,120,145	4,891,741
Private Equity		
Abbott Capital Management	310,747,989	340,423
International Equity		
Bank of Ireland Asset Management	454,861,627	536,782
Brandes Investment Partners	632,255,202	861,717
Lazard Freres	481,858,617	618,465
Citibank Global Asset Mgmt.	247,005,550	480,191
Invesco Global Asset Mgmt	81,141,724	159,772
Wellington Management Co.	107,656,034	193,568
Total	2,004,778,754	2,850,495
Emerging Markets Equity		
J.P. Morgan Investment Management	49,387,482	181,679
The Capital Group Inc.	62,242,396	145,179
Total	111,629,878	326,858
Total External Management Fees	$8,196,100,179	8,784,980

Teachers' Retirement System
Schedule of Investment Management Fees (con't)
Year Ended June 30, 2001

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2001 (con't)	Fees (con't)
External Management Fees (con't)		
Other Management Fees		
Custodian		
State Street Corp.		342,207
Investment Advisory		
Callan Associates		14,125
Investment Advisory Council		36,471
The Townsend Group		43,215
Total		93,811
Investment Performance Measurement		
Callan Associates		53,612
Total Other Management Fees		489,630
Total Management Fees		$ 9,274,610

Teachers' Retirement System
Investment Summary Schedule
June 30, 2001

	Teachers' Asset Allocation Policy	Teachers' Asset Allocation Range	Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed Income Securities					
Domestic					
Short-Term Fixed Income Pool			$ 554,765	0.05%	0.01%
Retirement Fixed Income Pool			1,047,904,251	95.47%	25.71%
External Domestic Fixed Income Pool			49,194,149	4.48%	1.21%
Total Domestic Fixed Income	30%	20-40%	1,097,653,165	**100.00%**	26.93%
International					
International Fixed Income Pool	5%	2-8%	193,816,660	**100.00%**	4.75%
Total Fixed Income Securities	35%	22-48%	**1,291,469,825**		**31.68%**
Participation in Pools Owning Domestic Equities					
Small cap[1] and Alternative Investments					
In Domestic Equity Pool			420,813,078	23.58%	10.32%
In Private Equity Pool			104,282,278	5.85%	2.56%
Total Small Cap Domestic Equities and Alternative Investment	12%	9-15%	525,095,356	29.43%	12.88%
Large cap					
In Domestic Equity Pool-active			704,562,095	39.48%	17.29%
In Domestic Equity Pool-passive			554,729,137	31.09%	13.61%
Total Large Cap Domestic Equities	29%	24-34%	1,259,291,232	70.57%	30.90%
Total Domestic Equities	**41%**	**33-49%**	**1,784,386,588**	**100.00%**	**43.78%**
Participation in Pools Owning International Equities					
International Equity Pool			665,402,239	94.45%	16.32%
Emerging Markets Equity Pool			39,072,418	5.55%	0.96%
Total International Equities	**17%**	**13-21%**	**704,474,657**	**100.00%**	**17.28%**
Participation in Real Estate					
Mortgages, net of allowances			442,773	0.15%	0.01%
Real Estate Pool			295,319,860	99.85%	7.25%
Total Real Estate	**7%**	**4-10%**	**295,762,633**	**100.00%**	**7.26%**
Total Invested Assets	**100%**		**$ 4,076,093,703**		**100.00%**

[1] Includes only securities held by those managers with small cap mandates. Does not include small cap holdings which may be held in other managers' portfolios.

Teachers' Retirement System
Credit Risk of Investments
Pension Trust Funds
(Expressed in Thousands)
June 30, 2001

	Category 1	Category 2	Category 3	Fair Value
Marketable debt securities				
Domestic fixed income	$ 1,097,098			1,097,098
International fixed income	193,817			193,817
Equity securities				
Domestic equities	1,680,104			1,680,104
International equities	665,402			665,402
Emerging market equities	-	39,073	-	39,073
	$ 3,636,421	**39,073**	**-**	3,675,494
Not Categorized				
Venture capital limited partnerships				104,282
Real estate equities				295,320
Total investments not categorized				399,602
Total investments				**4,075,096**

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Fund's deposits or securities fails. Deposits and those investments represented by specific, indentifiable securities are classified into three categories of credit risk: Category 1 — Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 — Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 — Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The Fund's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Fund's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Fund participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like Emerging Markets Equity Pool which are considered to be Category 2, and (B) shares in the Venture capital limited partnerships and the Real estate equity pool which, like the Fund's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

Alaska State Pension Investment Board
Recaptured Commission Fees Received in FY 2001

	Domestic Equity	International Equity	Total
PERS	$ 567,336	351,307	918,643
TRS	287,764	177,829	465,593
Judicial	3,665	3,224	6,889
Military	768	393	1,161
Total	**$ 859,533**	**532,753**	**1,392,286**

The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to "recapture" a portion of commission dollars paid to broker-dealer firms for executing trades. In June 1995, the large capitalization domestic equity managers were asked to participate in the program targeting 20% of their trading value. The equity managers were asked to consider best execution first and foremost, but encouraged to participate in the commission recapture program when possible. In July 1996, ASPIB raised the level of elective participation for the large capitalization domestic equity managers from 20% to 30% of total trading activity. At that time ASPIB also requested that small capitalization managers participate in the commission recapture program when the opportunity was available to them.

In January 1998, the Alaska State Pension Investment Board (ASPIB) augmented its commission recapture program to include external managers that conduct international equity trades. As a result, a portion of the commission recapture payments received since January have resulted from international equity trades.

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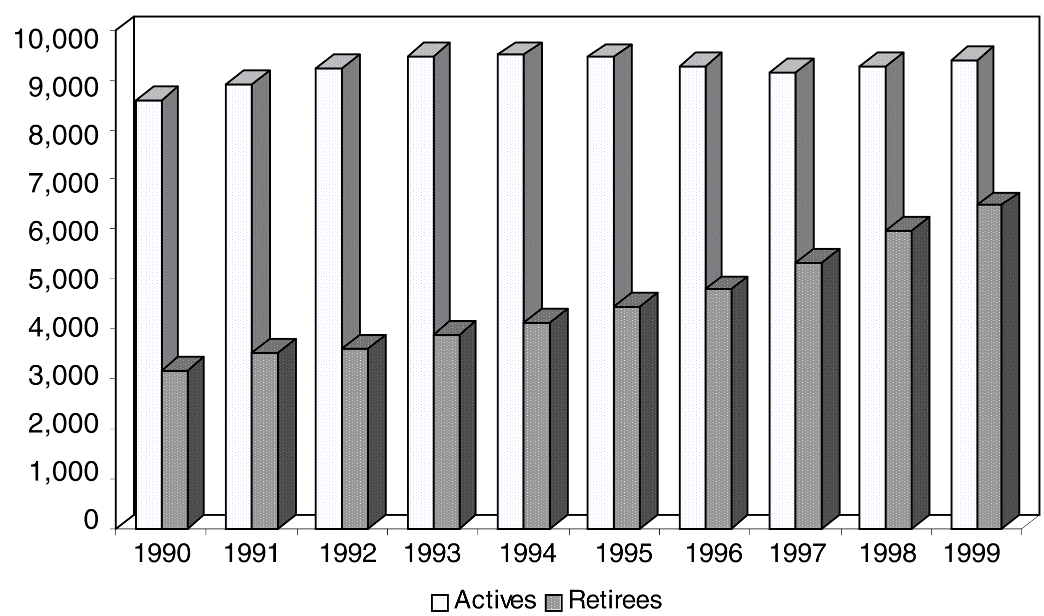
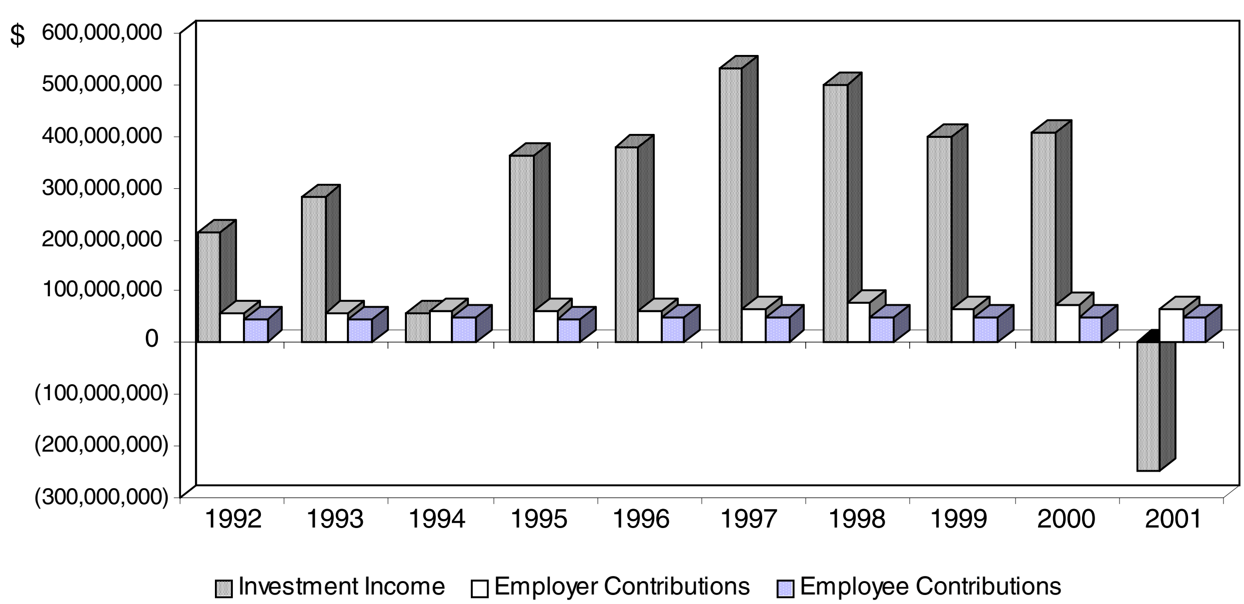
Teachers' Retirement System System Membership by Status					
Year	**Active**	**Retirees & Beneficiaries**	**Vested Terminations**	**Nonvested Terminations w/Balance**	**Total**
1990	8,586	3,184	816	985	13,571
1991	8,903	3,544	645	1,003	14,095
1992	9,238	3,602	710	1,057	14,607
1993	9,459	3,891	823	1,013	15,186
1994	9,489	4,134	930	1,090	15,643
1995	9,452	4,459	859	1,140	15,910
1996	9,259	4,803	1,116	1,195	16,373
1997	9,164	5,343	1,279	1,310	17,096
1998	9,262	5,979	1,064	1,285	17,590
1999	9,396	6,486	1,150	1,297	18,329

TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



Teachers' Retirement System Revenues by Source (000's omitted)						
Year ended June 30	Plan Member Contributions	Employer Contributions	Investment Income (Loss)	Other	Total	Employer contribution as a % of annual covered payroll
1992	$ 44,338	$ 57,071	$212,752	$ -	314,161	12.40
1993	46,497	58,130	283,576	26	388,229	12.20
1994	47,904	60,490	57,683	(30)	166,047	11.70
1995	47,477	60,018	363,645	(6)	471,134	12.08
1996	47,980	61,162	379,312	27	488,481	13.29
1997	49,581	66,347	530,568	-	646,496	13.23
1998	50,056	77,782	496,990	10	624,838	15.28
1999	48,302	66,266	397,499	1	512,068	14.25
2000	48,505	74,714	406,609	-	529,828	16.02
2001	48,725	64,141	(245,363)	(4)	(132,501)	13.66

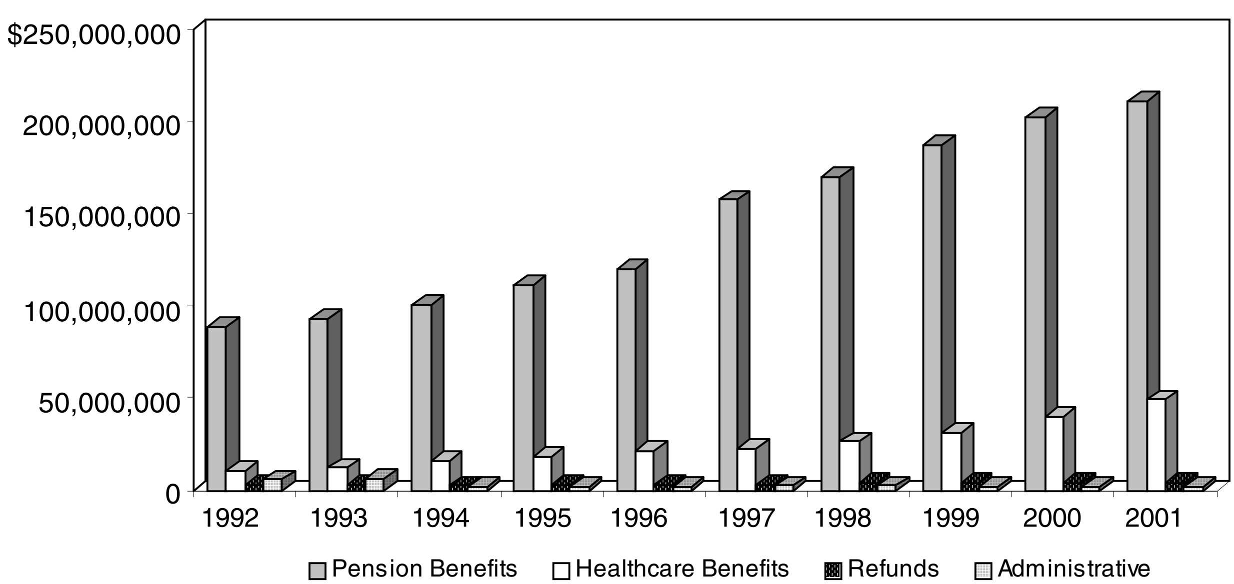
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES BY SOURCE



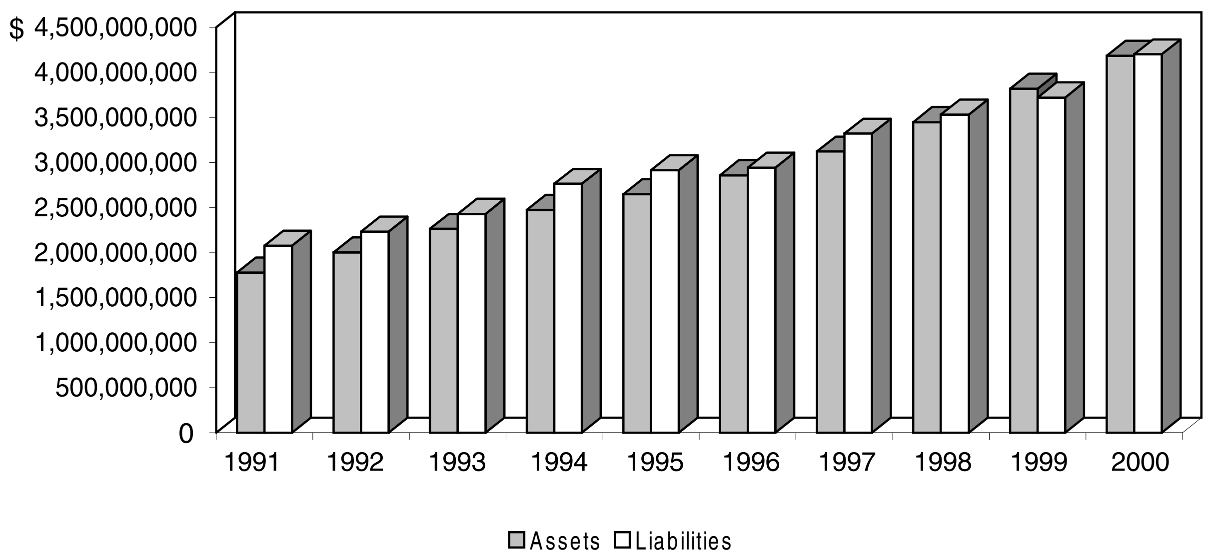
Teachers' Retirement System Expenses by Type (000's omitted)					
Year ended June 30	**Pension Benefits**	**Healthcare Benefits**	**Refunds of Contributions**	**Administrative Expenses***	**Total**
1992	$ 88,648	$10,111	$ 2,641	$ 5,612	$107,012
1993	92,703	12,089	2,448	6,424	113,664
1994	100,767	15,725	2,258	2,081	120,831
1995	111,498	18,264	2,819	1,821	134,402
1996	119,949	21,655	2,629	2,055	146,288
1997	157,567	22,653	2,626	2,223	185,069
1998	169,831	26,123	3,489	2,231	201,674
1999	187,085	30,987	3,490	1,722	223,284
2000	202,927	40,183	4,118	1,717	248,945
2001	210,945	48,928	3,742	1,938	265,553

*For all years prior to FY94, administrative expenses include investment expenses. Separate accounting of investment expenses since FY94 is due to a new accounting system.

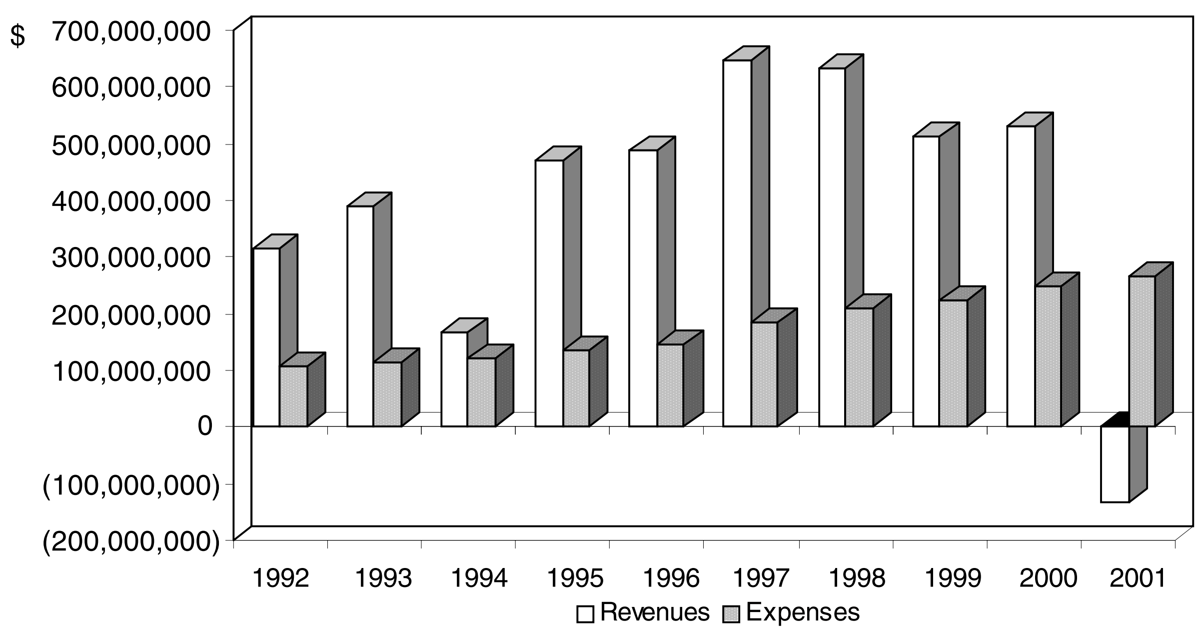
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF EXPENSES BY TYPE



TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES



TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES AND EXPENSES

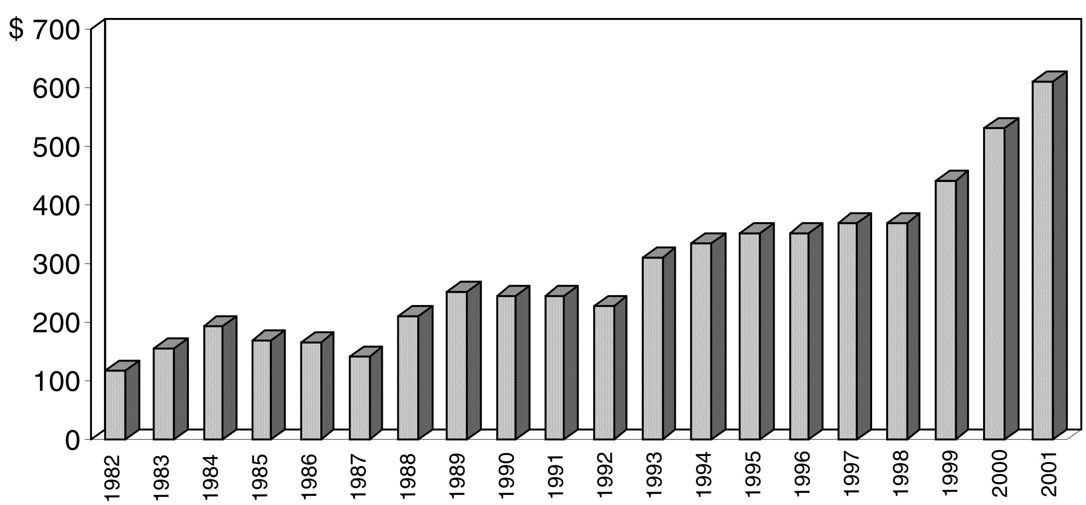


Teachers' Retirement System
Schedule of Benefit Expenses by Type
(000's omitted)

Fiscal Year	Service	Disability	Survivor	Dependent[1]	COLA[2]	PRPA[3]	Healthcare	Total
1992	$67,502	$2,451	$1,668	-	$4,584	$12,443	$10,111	$ 98,759
1993	70,478	2,500	1,929	-	4,638	13,158	12,089	104,792
1994	76,735	2,579	2,260	-	4,991	14,202	15,725	116,492
1995	85,933	2,546	2,513	-	5,642	14,864	18,264	129,762
1996	93,089	2,798	2,618	-	6,082	15,362	21,655	141,604
1997[1]	147,259	3,943	6,322	43	-	-	22,653	180,220
1998	160,409	3,693	5,691	38	-	-	26,123	195,954
1999	176,830	3,775	6,384	96	-	-	30,987	218,072
2000	191,138	4,601	7,059	129	-	-	40,183	243,110
2001	201,338	3,410	5,784	413	-	-	48,928	259,873

(1) Due to the implementation of a new computer system, COLA and PRPAs can now be combined with the appropriate base benefit and dependent benefits can be separated from survivor and disability benefits.
(2) Cost-of-Living in Alaska (COLA)
(3) Post-Retirement Pension Adjustment (PRPA)

TEACHERS' RETIREMENT SYSTEM
20-YEAR COMPARISON OF RETIREE MONTHLY HEALTH INSURANCE PREMIUMS



Teachers' Retirement System
Schedule of Retired Members by Type of Retirant and Option Selected
June 30, 2000

Amount of Monthly Benefit	Number of Retirees	Type of Retirement 1	Type of Retirement 2	Type of Retirement 3	Option Selected # Opt. 1	Opt. 2	Opt. 3	Opt. 4
$ 1 - $ 300	74	58	16	0	49	12	12	1
301 - 600	235	154	81	0	174	26	25	10
601 - 900	398	308	90	0	287	56	39	16
901 - 1200	414	322	90	2	300	72	33	9
1201 - 1500	432	371	60	1	317	62	43	10
1501 - 1800	428	376	51	1	340	48	35	5
1801 - 2100	590	552	25	13	464	56	60	10
2101 - 2400	723	682	18	23	561	90	56	16
2401 - 2700	723	692	10	21	554	83	76	10
2701 - 3000	696	672	4	20	566	66	54	10
3001 - 3300	534	516	2	16	441	40	46	7
3301 - 3600	403	395	2	6	337	29	28	9
3601 - 3900	268	260	2	6	216	25	23	4
over 3900	568	566	0	2	485	40	30	13
Total	**6,486**	**5,924**	**451**	**111**	**5,091**	**705**	**560**	**130**

Type of Retirement

1 - Normal retirement
2 - Survivor payment
3 - Disability retirement

Option 1 - Whole Life Annuity
Option 2 - 75% Joint and Contingent Annuity
Option 3 - 50% Joint and Contingent Annuity
Option 4 - 66-2/3% Joint and Survivor Annuity

Teachers' Retirement System
Schedule of Average Benefit Payments
New Retirees

	Years of Credited Service 0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
Period 7/1/93 - 6/30/94:							
Average Monthly Benefit	$ 1,161	$ 576	$1,151	$1,605	$2,354	$3,176	$3,685
Number of Active Retirants	7	11	35	24	107	72	24
Period 7/1/94 - 6/30/95:							
Average Monthly Benefit	$ 1,204	$ 748	$1,033	$1,716	$2,398	$3,041	$3,958
Number of Active Retirants	7	22	47	36	129	89	38
Period 7/1/95 - 6/30/96:							
Average Monthly Benefit	$ 952	$ 836	$1,145	$1,731	$2,389	$3,138	$3,317
Number of Active Retirants	15	24	40	31	115	86	30
Period 7/1/96 - 6/30/97:							
Average Monthly Benefit	$ 996	$ 828	$1,042	$1,692	$2,493	$3,353	$3,812
Number of Active Retirants	19	42	71	77	151	153	52
Period 7/1/97 - 6/30/98:							
Average Monthly Benefit	$ 1,051	$ 850	$1,095	$1,842	$2,590	$3,443	$4,280
Number of Active Retirants	26	51	80	105	240	154	57
Period 7/1/98 - 6/30/99:							
Average Monthly Benefit	$ 1,230	$ 820	$1,152	$1,691	$2,510	$3,285	$3,756
Number of Active Retirants	23	43	67	81	176	153	55

Average Monthly Benefit includes post-retirement pension adjustments and cost-of-living increases.

Teachers' Retirement System
Participating Employers

Alaska Department of Education
Alaska Gateway School District
Alaska, University of
Alaska Geophysical Institute, University of
Alaska State Legislature
Aleutian Region School District
Aleutians East Borough School District
Anchorage School District
Annette Island School District

Bering Strait School District
Bristol Bay Borough School District

Chatham School District
Chugach School District
Copper River School District
Cordova Public Schools
Craig City School District

Delta-Greely School District
Denali Borough School District
Dillingham City School District

Fairbanks North Star Borough School District

Galena City School District

Haines Borough School District
Hoonah City School District
Hydaburg School District

Iditarod Area School District

Juneau School District, City and Borough of

Kake City School District
Kashunamuit School District
Kenai Peninsula Borough School District
Ketchikan Gateway Borough School District
Klawock City School District
Kodiak Island Borough School District
Kuspuk School District

Lake and Peninsula School District
Lower Kuskokwim School District
Lower Yukon School District

Matanuska-Susitna Borough School District

National Education Association - Alaska
Nenana Public Schools
Nome Public School
North Slope Borough School District
Northwest Arctic Borough School District

Pelican School District
Petersburg Public Schools
Pribilof School District

Saint Mary's School District
Sitka School District
Skagway City School District
Southeast Island School District
Southeast Regional Resource Center
Southwest Region Schools
Special Education Service Agency

Tanana City School District

Unalaska School District

Valdez City Schools

Wrangell Public Schools

Yakutat City School District
Yukon Flats School District
Yukon-Koyukuk School District
Yupiit School District

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