TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT
A Component Unit of the State of Alaska
For the Fiscal Year Ended June 30, 2006

Frank H. Murkowski, Governor

Prepared by

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Division of Retirement and Benefits
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December 8, 2006

The Honorable Sarah Palin, Governor
Members of the Alaska State Legislature
Alaska Retirement Management 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) (Plan) for the fiscal year ended June 30, 2006.

This report is intended to provide comprehensive information on the financial operations of the Plan for the year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the Plan. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Plan for the year ended June 30, 2006. All disclosures necessary to enable the reader to gain an understanding of the Plan's activities have been included.

For financial reporting purposes, the Plan utilizes Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* GASB Statement No. 40, *Deposits and Investment Risk Disclosures, and GASB Statement No. 44, Economic Condition Reporting: The Statistical Section*. Assets of the Plan are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the required supplementary information following the notes to the financial statements.

The CAFR is divided into five sections:

- **Introductory Section**, which contains this letter of transmittal, the administrative organization of the Plan, and a list of the members serving on the Alaska Retirement Management Board;
- **Financial Section**, which contains the Independent Auditors' Report, management's discussion and analysis (MD&A), basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a report prepared by the investment consultant, a report on investment activity, investment results, and various investment schedules;
- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current annual actuarial valuation; and
- **Statistical Section**, which includes additional information related to financial trends, demographic and economic information, and operating information.

The MD&A provides an analytical overview of the basic financial statements. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A is located in the Financial Section of this report immediately following the Independent Auditors' Report.

The TRS was established in 1955 to provide pension and postemployment healthcare benefits to teachers and other eligible participants. Normal service, survivor, and disability benefits are available to all members who attain the Plan's age and service requirements. During the fiscal year 2005 legislative session, a law was enacted that closes the Plan. Senate Bill 141, signed into law on July 27, 2005, closes the Plan effective July 1, 2006, to new members and creates a defined contribution retirement plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the TRS will consist of two plans, the defined benefit plan and the defined contribution plan.

	Years Ended June 30		
	2006	**2005**	**2004**
Net Assets (millions)	$4,300.0	4,027.0	3,911.5
Participating Employers	58	58	58

Reporting Entity

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

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

The Alaska Retirement Management Board (ARMB) constituted effective October 1, 2005, replaced the Teachers' Retirement Board (effective July 1, 2005) and the Alaska State Pension Investment Board (ASPIB) (effective October 1, 2005). Prior to October 1, 2005, the ASPIB had statutory oversight of the Plan's investments and the authority to invest the Plan's financial resources.

The ARMB is responsible for:

- adopting investment policies and developing investment objectives;
- providing a range of investment options and establishing the rules by which participants can direct their investments among those options, when applicable;
- establishing crediting rates for members' individual contribution accounts, when applicable;
- assisting in prescribing policies for the proper operation of the TRS;
- coordinating with the TRS Administrator to have actuarial valuations performed;
- reviewing actuarial assumptions and conducting experience analyses;
- contracting for an independent audit of actuarial valuations and external performance calculations; and
- reporting to the governor, legislature and individual employers participating in the TRS on its financial condition.

Major Initiatives

The Teachers' Retirement Board (governing board prior to July 1, 2005) looked at ways to reduce costs to the employers and address the unfunded status of the TRS while also balancing the need to provide adequate benefits in order to effectively recruit and retain new members. Senate Bill 141 passed during the 2005 legislative session created Tier III in the TRS. This new tier, a hybrid plan referred to as the defined contribution retirement plan becomes effective for members entering the TRS on or after July 1, 2006. The TRS administrator is working with legal counsel to obtain plan qualification and various private ruling letters related to the new tier.

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

Independent Audit

The TRS annual audit was conducted by the independent accounting firm of KPMG LLP. The auditors' report on the basic financial statements is included in the Financial Section of this report.

Investments

At June 30, 2006, the Plan's investment portfolio was valued at $4.3 billion and earned an 11.78% return for the fiscal year ended June 30, 2006. Over the past five years ending June 30, 2006, the Plan's investments earned a 6.56% return. The ARMB has statutory oversight of the Plan's investments and the Department of Revenue, Treasury Division, provides staff for the ARMB. Actual investing is performed by investment officers in the Treasury Division or by contracted external investment managers. The ARMB reviews and updates investment policies and strategies and is responsible for safeguarding invested assets.

Internal Controls

Plan internal accounting controls are designed to reasonably assure the safekeeping of assets and the reliability of financial reporting. Control procedures are the responsibility of the Plan's management. The independent auditors do not express an opinion on the effectiveness of the internal controls.

Actuarial Valuation

The actuarial firm, Buck Consultants, completed the actuarial review and valuation as of June 30, 2005, and served as technical advisor to the TRS. An actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the TRS. 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.

December 8, 2006

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 TRS for its CAFR for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We are confident our current CAFR continues to meet the Certificate of Achievement Program's requirements. Therefore, we are submitting it to the GFOA for consideration.

Future Employer Contribution Rates

The TRS consulting actuary presented the results of the June 30, 2005, actuarial valuation report to the Plan Administrator and the ARMB. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report, the TRS has a funding ratio (actuarial value of Plan assets divided by actuarial liabilities for pension and postemployment healthcare benefits) of 60.9%. The unfunded portion of the Plan's liabilities totals approximately $2.5 billion. The unfunded liability is amortized over a 25-year fixed period, as established by the ARMB. In order to bridge the gap between assets and liabilities, the employer contribution rate is projected to increase over the same 25-year period, if the Plan's actual experience agrees with the assumptions underlying the valuation. The current asset allocation that the ARMB set for the Plan's investments is expected to provide a five-year median return of 7.83%.

There are three primary factors that have contributed to the Plan's current funding ratio: (1) loss of investment income in fiscal years 2001 and 2002; (2) rising healthcare costs; and (3) change in assumptions. These factors have negatively impacted the funding ratio for TRS and resulted in increasing employer contribution rates.

Currently, the TRS is among the few retirement systems that pre-fund and account for healthcare costs. The TRS is fortunate in that the creators and administrators had foresight to fund the healthcare costs in advance. Most other major governmental retirement systems account for their healthcare costs on a pay-as-you-go basis. Implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans,* will be phased in beginning with the largest systems (including the TRS) implementing in fiscal year 2007. This Statement requires disclosures related to healthcare costs similar to those currently required for pension costs. Once implemented, all systems will account for their future healthcare costs making comparisons between systems more meaningful.

Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the Department of Administration, Division of Retirement and Benefits and the Department of Revenue, Treasury Division. 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 TRS financial resources.

December 8, 2006

The report is available on the web at www.state.ak.us/drb/trs/trscafr.shtml and mailed to those who submit a formal request. This report forms the link between the TRS and the membership. The cooperation of the membership contributes significantly to the success of the TRS. We hope the employers and plan members find this report informative.

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

Respectfully submitted,

Kevin Brooks
Kevin Brooks
Acting Commissioner

Traci Carpenter
Director

Melanie Millhorn
Deputy Commissioner

Charlene Morrison
Charlene Morrision, CPA
Chief Financial Officer

Christina Maiquis
Christina Maiquis
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, 2005

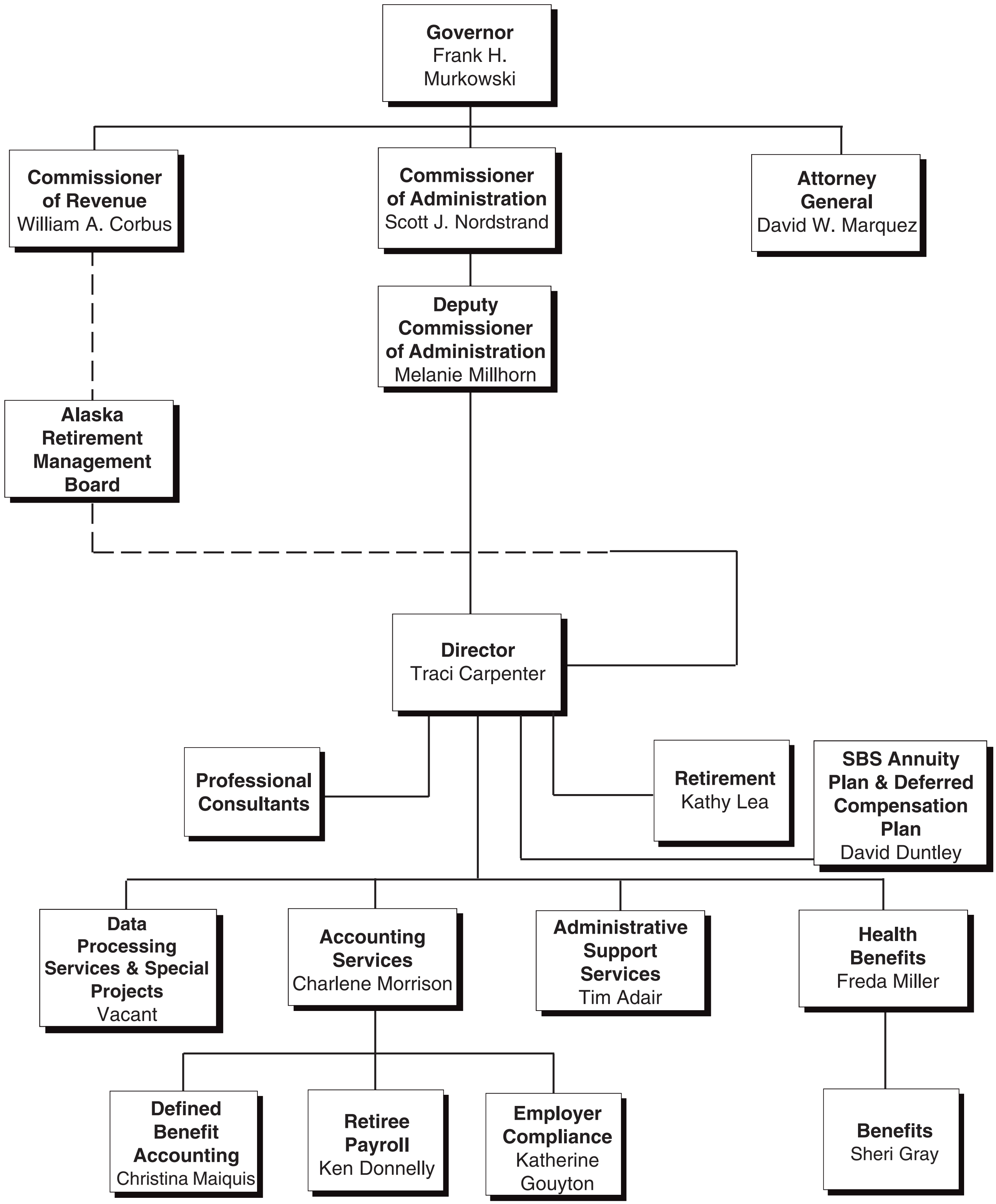
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards 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. This section appoints members to retirement benefits and maintains benefit payment information.

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

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

The **SBS Annuity Plan and Deferred Compensation Plan Section** is responsible for accounting, plan operations, and financial activities related to the SBS Annuity and Deferred Compensation Plan administered by the Division.

The **Data Processing Services Section** supports the information systems the System uses. 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 member's physical records and performs other administrative functions such as legislative tracking and personnel management.

PROFESSIONAL CONSULTANTS

Consulting Actuary
Buck Consultants
Denver, Colorado

Independent Auditors
KPMG LLP
Anchorage, Alaska

Benefits Consultant
Buck Consultants
Denver, Colorado

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

Legal Counsel
Virginia Ragle
Toby Steinberger
Assistant Attorney Generals
Juneau, Alaska
Ice Miller LLP
Indianapolis, Indiana

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

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

A list of investment consultants can be found on pages 57-58 and on the Schedule of External Management Fees on pages 66-67.

ALASKA RETIREMENT MANAGEMENT BOARD

The Alaska Retirement Management Board (ARMB) replaced the Teachers' Retirement Board (effective July 1, 2005) and the Alaska State Pension Investment Board (effective October 1, 2005). At June 30, 2006, the ARMB was made up of nine members appointed by the Governor.

Gail (Anagick) Schubert, Chair, is the Executive Vice President and General Counsel for the Bering Straits Native Corporation, and President/CEO of several of its subsidiary entities. She is an attorney licensed to practice law in the states of Alaska and New York. Ms. Schubert serves as Chair of the Alaska Native Heritage Center, Chair of Akeela Treatment Services, Vice Chair of the Alaska Native Justice Center, Vice Chair of Khoanic Broadcast Corporation, Treasurer of the Bering Straits Native Corporation, and as a board member of the Alaska Federation of Natives, and the Alaska Native Arts Foundation. She is also a member of the Alaska Rural Justice and Law Enforcement Commission. Ms. Schubert received her undergraduate degree from Stanford University, and holds a Law Degree and Masters Degree in Business Administration from Cornell University.

Sam Trivette, Vice-Chair, is currently President of the Retired Public Employees of Alaska, and is on the national executive board of the American Federation of Teachers retirees. Mr. Trivette retired from public service after more than 32 years serving as Chief Probation Officer, Director of Community Corrections, Executive Director of the Parole Board, and as a probation and correctional officer. He is President of Quality Corrections Services, and on the board of directors of the Alaska Public Employees Association. Mr. Trivette has also served as an officer in a number of national and statewide professional organizations as well a many not-for-profit organizations around Alaska. He has a B.A. in Psychology from the University of Alaska, Anchorage and has completed postgraduate work in public administration, law and psychological counseling.

Gayle W. Harbo, Secretary, retired after teaching mathematics in Fairbanks for 25 years. She also served as math department chair, as advanced placement coordinator, on the district curriculum, evaluation and budget committees, and twice as chair of the Lathrop Self-Evaluation for Accreditation Committee. Ms. Harbo is a member of Alpha Delta Kappa, AARP, National Retired Teachers of Alaska, Fairbanks Retired Teachers Association, National Council of Teacher Retirement Systems, NCTR Education Committee, and the Alaska Teachers' Retirement Board. She is also a co-manager of a family trust. Ms. Harbo was named Alaska Teacher of the Year in 1989. She holds a B.S. in Mathematics from North Carolina State University, and a Masters in Teaching from the University of Alaska, Fairbanks, and has completed an additional 40 hours in mathematics, counseling, law and finance.

William Corbus was appointed Commissioner of the Department of Revenue in December 2002. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. Bill Corbus is the retired president of Alaska Electric Light and Power, the electric company that serves the Juneau area, where he has lived since 1970. He served as a Lt. J.G. in the U.S. Naval Reserve, including one year as an advisor to the Vietnamese Navy in 1962-63. Mr. Corbus then worked for Stone & Webster in New York City providing public utility security analysis, financial planning, and accounting. The Commissioner sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation. Mr. Corbus holds a B.S. in Industrial Engineering from Stanford University and an MBA from the Amos Tuck Graduate School of Business Administration at Dartmouth College.

Scott Nordstrand, Commissioner of Department of Administration was appointed commissioner in 2005. He is an attorney and previously served as deputy attorney general for the civil division in the state Department of Law. Prior to his state service, Commissioner Nordstrand served for 15 years as an attorney in private practice in Anchorage primarily focusing on employment and commercial litigation. He received his Bachelor's Degree in Political Science from the University of Wisconsin and a Law Degree from the University of North Dakota School of Law.

Martin Pihl came to Alaska in 1962 to work for Ketchikan Pulp Company, becoming President and General Manager in 1987 until his retirement in 1994. He then served as Acting Executive Director for the Alaska Permanent Fund Corporation in 1994-1995. Mr. Pihl serves as a director of National Bank of Alaska and on Wells Fargo Bank's Alaska Statewide Advisory Board, as Chairman of the Board of Governors of the Alaska Timber Insurance Exchange, and as a regent for Pacific Lutheran University. He is also a member of several advisory boards including Holland America-Westmark-Ketchikan Advisory Board, Ketchikan Ports and Harbors Advisory Board, and Alaska Airlines Southeast Alaska Community Advisory Board. Mr. Pihl holds a B.A. in Accounting from the University of Washington and has been a CPA since 1958.

Larry Semmens is currently the Finance Director of the City of Kenai where he has been employed since 1996. Mr. Semmens started his career with Price Waterhouse and Co. in Anchorage in 1980, then worked in the Kenai Peninsula Borough finance department for 15 years in various positions, including finance director, prior to moving to Kenai. He is a past president of the Alaska Government Finance Officers Association, Vice-Chair of the Alaska Public Entities Insurance Pool Board, and Chair of the Aurora Borealis Charter School Board. Mr. Semmens is a certified public accountant and a U.S. Air Force Veteran. He holds a B.B.A. in Accounting from Boise State University.

Michael R. Williams is currently a Revenue Auditor for the Alaska Department of Revenue, performing audits of large, multi-state and multi-national corporations since 1998. He is also a partner and principal owner of Williams & Payne, LLC, a tax preparation and consultation business in Anchorage. Mr. Williams has also worked as a tax consultant for Deloitte & Touche and as a tax auditor for the State of Utah. He has served as Secretary for ASEA/AFSCME Local 52, as trustee for the ASEA Health Benefits Trust, and is a member of the National Association of Enrolled Agents. Mr. Williams holds a B.A. in Accounting & German and a Master of Professional Accountancy from Weber State University.

KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska Teachers' Retirement System:

We have audited the accompanying 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, 2006 and 2005, and the related 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2006 and 2005, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

As explained in note 2, the financial statements include investments valued at approximately $830,593,000 (19% of net assets held in trust), whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

The accompanying required supplementary information of management's discussion and analysis on pages 13 to 19 and schedules of funding progress and employer contributions on pages 46 to 51 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 52 and 53 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of 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 introductory section on pages 1 through 10 and investment, actuarial and statistical data on pages 54 through 104 are presented for the purpose of additional analysis and are not a required part of the basic financial statements to 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.

KPMG LLP

October 27, 2006

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

Management's Discussion and Analysis

June 30, 2006 and 2005

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (Plan) financial position and performance for the years ended June 30, 2006 and 2005. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary and additional information to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2006 and 2005. Information for fiscal year 2004 is presented for comparative purposes.

Financial Highlights

The Plan's total assets exceeded its total liabilities by $4,299,971,000 and $4,026,995,000 at the close of fiscal years 2006 and 2005, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2006 and 2005 increased by $272,976,000 or 6.8% and $115,480,000 or 3.0% over the closing balances of those assets in fiscal years 2005 and 2004, respectively.

Contributions received totaled $185,769,000 and $149,533,000 during fiscal years 2006 and 2005; an increase of $36,263,000 and $23,476,000 or 24.2% and 18.6% from fiscal years 2005 and 2004, respectively.

Net investment income increased from $327,426,000 in 2005 to $451,689,000 in 2006 and decreased from $513,964,000 in 2004 to $327,426,000 in 2005; reflecting an increase of 38.0% and a decrease of 36.3% from fiscal years 2005 and 2004, respectively.

Pension benefit and postemployment healthcare payments totaled $373,667,000 and $355,084,000 during fiscal years 2006 and 2005; reflecting an increase of $18,583,000 and $24,074,000 or 5.2% and 7.3% from fiscal years 2005 and 2004, respectively.

Overview of the Financial Statements

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

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

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

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

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

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

Management's Discussion and Analysis

June 30, 2006 and 2005

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

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

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

Management's Discussion and Analysis

June 30, 2006 and 2005

Condensed Financial Information

NET ASSETS
(Dollars in thousands)

Description	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percentage	2004
Assets:					
Cash, cash equivalents and receivables	$ 9,955	4,695	5,260	112.0%	6,475
Securities lending collateral	423,385	308,847	114,538	37.1	464,744
Investments, at fair value	4,293,000	4,025,669	267,331	6.6	3,908,306
Other assets	33	48	(15)	(31.3)	61
Total assets	4,726,373	4,339,259	387,114	8.9	4,379,586
Liabilities:					
Accrued expenses	3,017	2,870	147	5.1	3,288
Securities lending collateral payable	423,385	308,847	114,538	37.1	464,744
Other liabilities	-	547	(547)	(100.0)	39
Total liabilities	426,402	312,264	114,138	36.6	468,071
Net assets	**$4,299,971**	**4,026,995**	**272,976**	**6.8%**	**3,911,515**

CHANGES IN NET ASSETS
(Dollars in thousands)

Description	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percentage	2004
Net assets, beginning of year	$4,026,995	3,911,515	115,480	3.0%	3,602,619
Additions:					
Contributions	185,769	149,533	36,236	24.2	126,057
Net investment income	451,689	327,426	124,263	38.0	513,964
Other additions	15	10	5	50.0	77
Transfer from Retiree Health Fund	15,175	-	15,175	100.0	6,200
Total additions	652,648	476,969	175,679	36.8	646,298
Deductions:					
Benefits	373,667	355,084	18,583	5.2	331,010
Refunds	3,832	4,376	(544)	(12.4)	4,189
Administrative	2,173	2,029	144	7.1	2,203
Total deductions	379,672	361,489	18,183	5.0	337,402
Increase in net assets	272,976	115,480	157,496	136.4	308,896
Net assets, end of year	**$4,299,971**	**4,026,995**	**272,976**	**6.8%**	**3,911,515**

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

Management's Discussion and Analysis

June 30, 2006 and 2005

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2006 and 2005 showed total assets exceeding total liabilities by $4,299,971,000 and $4,026,995,000. These amounts represent the Plan "Net assets held in trust for pension and postemployment healthcare benefits". The entire amount is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts represent an increase in "Net assets held in trust for pension and postemployment healthcare benefits" of $272,976,000 or 6.8% and $115,480,000 or 3.0% from fiscal years 2005 and 2004. Over the long-term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska Retirement Management Board (ARMB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plan's constraints and objectives. During fiscal year 2006, the ARMB adopted an asset allocation that includes 36% in domestic equities, 15% in international equities, 24% in domestic fixed-income, 2% in international fixed-income, 9% in real estate, 6% in private equity, 2% in high yield, 3% in absolute return, and 3% in other. This asset allocation is expected to provide a five-year median return of 7.83%.

For fiscal years 2006 and 2005, the Plan's investments generated an 11.78% and a 9.01% rate of return, respectively. The Plan's annualized rate of return was 11.93% over the last three years and 6.56% over the last five years.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in fiscal year 2006 and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the Actuary and adopted by the ARMB. Employer contribution levels are recommended by the Actuary and adopted by the ARMB annually. Increasing healthcare costs and contribution shortfalls continue to impact the Plan's funding ratio. The ratio of assets to liabilities was 60.9%, at June 30, 2005 (the date of the Plan's latest actuarial valuation report). The goal for the Plan is to make progress toward achieving the funding objectives of the Plan.

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

For fiscal year 2007, the employer normal cost rate decreased from 14.28% to 13.76%, the past service rate increased from 24.57% to 28.02%, thus producing a total fiscal year 2007 annual contribution rate of 41.78%. The ARMB adopted an employer contribution rate of 26.0% for fiscal year 2007.

	Valuation Year (Dollars in thousands)	
	2005	2004
Valuation assets	$3,958,939	3,845,370
Actuarial liabilities (total benefits)	6,498,556	6,123,600
Funding ratio	60.9%	62.8%

STATE OF ALASKA
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Contributions, Investment Income and Transfer

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

Additions
(Dollars in thousands)

	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percent	2004
Plan Member Contributions	$ 57,802	55,993	1,809	3.2%	57,365
Employer Contributions	127,967	93,540	34,427	36.8	68,692
Net Investment Income	451,689	327,426	124,263	38.0	513,964
Transfer from Retiree Health Fund	15,175	-	15,175	100.0	6,200
Other additions	15	10	5	50.0	77
Total	**$652,648**	**476,969**	**175,679**	**36.8%**	**646,298**

Employer contributions increased from $93,540,000 in fiscal year 2005 to $127,967,000 in fiscal year 2006, an increase of $34,427,000 or 36.8%. Employer contributions increased from $68,692,000 in fiscal year 2004 to $93,540,000 in fiscal year 2005, an increase of $24,848,000 or 36.2%. The employer contribution rate increased from 16.00% in fiscal year 2005 to 21.00% in fiscal year 2006. Increases experienced in fiscal year 2006 are largely due to the contribution shortfalls related to contributions made in fiscal years 2004 and 2005. Increases experienced in fiscal year 2005 are largely due to changes in actuarial assumptions and methods implemented in the valuation for the period ending June 30, 2002 (the valuation used to set fiscal year 2005 employer contributions rates).

Net investment income in fiscal year 2006 increased by $124,263,000 or 38.0% from amounts recorded in fiscal year 2005. Net investment income in fiscal year 2005 decreased by $186,538,000 or 36.3% from amounts recorded in fiscal year 2004. Changes in both years are due to the performance of the equity markets. The domestic equity pool, international equity pool, real estate pool, private equity pool and the other investments pool each had higher returns in 2006 when compared to 2005. The domestic equity pool realized a return of 9.2% in 2006 compared to 4.5% in 2005. The international equity pool realized a return of 28.7% in 2006 compared to 13.4% in 2005. The real estate pool realized a return of 18.6% in 2006 compared to 17.4% in 2005. The private equity pool realized a return of 25.9% in 2006 compared to 18.1% in 2005. The other investments pool realized a return of 8.6% in 2006 compared to 5.5% in 2005. More than seventy percent of invested assets were invested in these pools.

Over the long-term, investment income has been a major component of additions to plan assets. During fiscal year 2006, the Plan continued to record significant rates of return on investments. The rate of return used in the actuarial valuation report to determine liabilities of the Plan was 8.25%. The actual rate of return exceeded the actuarial rate of return for the third consecutive year.

During 2006 and 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund. The result was excess reserve balances over those deemed necessary for the continued operation of the Retiree Health Fund. The excess amount was allocated to plans participating in the Retiree Health Fund. In fiscal year 2006, the Plan recognized a transfer of $15,175,000 from the Retiree Health Fund. No transfer occurred in 2005 and a $6,200,000 transfer occurred in 2004.

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Benefits and Other Deductions

The primary deduction of the Plan is the payment of pension benefits. These benefit payments, together with postemployment healthcare premiums paid, lump-sum refunds made to former plan members, and the cost of administering the Plan comprise the costs of operation.

Deductions
(Dollars in thousands)

	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percent	2004
Pension benefits	$281,205	269,414	11,791	4.4%	255,409
Healthcare benefits	92,462	85,670	6,792	7.9	75,601
Refunds of Contributions	3,832	4,376	(544)	(12.4)	4,189
Administrative	2,173	2,029	144	7.1	2,203
Total	**$379,672**	**361,489**	**18,183**	**5.0%**	**337,402**

Pension benefit payments in 2006 and 2005 increased $11,791,000 and $14,005,000 or 4.4% and 5.5% from fiscal years 2005 and 2004, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees as well as a continuing increase in average benefits.

Postemployment healthcare benefits in 2006 and 2005 increased $6,792,000 and $10,069,000 or 7.9% and 13.3% from fiscal years 2005 and 2004, respectively. Healthcare costs continue to rise year over year and this increase is directly related to the number of new retirees in the Plan.

Funding

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

- The employer contributions are determined by the Plan's consulting actuaries and approved by the ARMB annually.
- Plan member contributions are established by Alaska Statute 14.25.050.
- The ARMB works with an external consultant to determine the proper asset allocation strategy.

Legislation

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

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

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

The return on Plan investments exceeded its' actuarially assumed return of 8.25% for the third consecutive year. Even with investment returns

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exceeding the actuarial rate of return, the Plan will continue to see an increase in employer contribution rates due to rising medical costs and past contribution shortfalls.

The consulting actuary recommended an increase from the employer contribution rate of 38.85% in fiscal year 2006 to 41.78% in fiscal year 2007. The ARMB adopted an average employer contribution rate of 26.00% for fiscal year 2007, up 5 points from the fiscal year 2006 employer contribution rate of 21.00%.

The June 30, 2005, actuarial valuation for the Plan reported a funding ratio of 60.9% and an unfunded liability of $2.5 billion.

Requests for Information

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

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Statements of Plan Net Assets

June 30, 2006 and 2005
(In thousands)

	2006			2005		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Assets:						
Cash and Cash Equivalents (notes 3 and 5):						
Short-Term Fixed Income Pool	$ 371	146	517	428	157	585
Securities Lending Collateral	304,063	119,322	423,385	225,998	82,849	308,847
Total Cash and Cash Equivalents	304,434	119,468	423,902	226,426	83,006	309,432
Receivables:						
Contributions	6,675	2,619	9,294	3,008	1,102	4,110
Due from State of Alaska General Fund	102	40	142	-	-	-
Other Account Receivable	1	1	2	-	-	-
Total Receivables	6,778	2,660	9,438	3,008	1,102	4,110
Investments (notes 3, 4, 5, and 7):						
Domestic Equity Pool	1,510,424	126,536	1,636,960	1,420,291	120,279	1,540,570
Domestic Fixed Income Pool	670,088	262,959	933,047	662,788	242,972	905,760
International Equity Pool	458,689	180,001	638,690	450,569	165,174	615,743
Real Estate Pool	309,002	121,260	430,262	282,974	103,735	386,709
International Fixed Income Pool	64,427	25,283	89,710	109,180	40,025	149,205
Private Equity Pool	185,654	72,855	258,509	129,882	47,613	177,495
Emerging Markets Equity Pool	69,738	27,367	97,105	52,832	19,368	72,200
Other Investments Pool	23,327	9,154	32,481	10,862	3,982	14,844
High Yield Pool	48,042	18,853	66,895	47,363	17,363	64,726
Absolute Return Pool	78,526	30,815	109,341	72,016	26,401	98,417
Total Investments	3,417,917	875,083	4,293,000	3,238,757	786,912	4,025,669
Loans and Mortgages, Net of Allowance for Loan Losses of $28 in 2006 and $29 in 2005	24	9	33	35	13	48
Total Assets	3,729,153	997,220	4,726,373	3,468,226	871,033	4,339,259
Liabilities:						
Accrued Expenses	2,167	850	3,017	2,100	770	2,870
Securities Lending Collateral Payable (note 5)	304,063	119,322	423,385	225,998	82,849	308,847
Due to State of Alaska General Fund	-	-	-	401	146	547
Total Liabilities	306,230	120,172	426,402	228,499	83,765	312,264
Commitment and Contingencies (note 7)						
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits	**$3,422,923**	**877,048**	**4,299,971**	**3,239,727**	**787,268**	**4,026,995**

(Schedules of funding progress are presented on pages 46 and 47.)

See accompanying notes to financial statements.

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Statements of Changes in Plan Net Assets

Years ended June 30, 2006 and 2005
(In thousands)

	2006			2005		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 91,902	36,065	127,967	68,448	25,092	93,540
Plan Members	41,512	16,290	57,802	40,973	15,020	55,993
Total Contributions	133,414	52,355	185,769	109,421	40,112	149,533
Investment Income:						
Net Appreciation in Fair Value (note 3)	235,464	92,402	327,866	159,596	58,507	218,103
Interest	39,941	15,675	55,616	37,817	13,864	51,681
Dividends	55,989	21,971	77,960	48,484	17,774	66,258
Net Recognized Loan Recovery	1	-	1	1	-	1
Total Investment Income	331,395	130,048	461,443	245,898	90,145	336,043
Less Investment Expense	7,659	3,006	10,665	6,833	2,505	9,338
Net Investment Income Before Securities Lending	323,736	127,042	450,778	239,065	87,640	326,705
Securities Lending Income (note 5)	11,023	4,326	15,349	5,075	1,860	6,935
Less Securities Lending Expenses (note 5)	10,369	4,069	14,438	4,547	1,667	6,214
Net Income from Securities Lending Activities	654	257	911	528	193	721
Net Investment Income	324,390	127,299	451,689	239,593	87,833	327,426
Other:						
Transfer from Retiree Health Fund (note 6)	10,898	4,277	15,175	-	-	-
Other	11	4	15	7	3	10
Total Additions	468,713	183,935	652,648	349,021	127,948	476,969
Deductions:						
Pension Benefits	281,205	92,462	373,667	269,414	85,670	355,084
Refunds of Contributions	2,752	1,080	3,832	3,202	1,174	4,376
Administrative	1,560	613	2,173	1,485	544	2,029
Total Deductions	285,517	94,155	379,672	274,101	87,388	361,489
Net Increase	183,196	89,780	272,976	74,920	40,560	115,480
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits:						
Balance, Beginning of Year	3,239,727	787,268	4,026,995	3,164,807	746,708	3,911,515
Balance, End of Year	**$3,422,923**	**877,048**	**4,299,971**	**3,239,727**	**787,268**	**4,026,995**

See accompanying notes to financial statements.

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(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. Members should refer to the Plan agreement for more complete information.

General

The Plan is a defined benefit, costsharing, 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 members. 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 Comprehensive Annual Financial Report as a pension trust fund.

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

	2006	2005
State of Alaska	1	1
School districts	53	53
Other	4	4
Total employers	**58**	**58**

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. At June 30, Plan membership consisted of:

	2006	2005
Retirees and beneficiaries currently receiving benefits	9,349	9,020
Terminated plan members entitled to future benefits	734	826
	10,083	9,846
Current plan members:		
Vested	5,524	5,254
Nonvested	4,311	4,402
	9,835	9,656
	19,918	**19,502**

Pension Benefits

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

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

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

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

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

The Plan has two types of postretirement 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.

Postemployment Healthcare Benefits

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

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), a pension trust 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 administered retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. The RHF issues a publicly available financial report which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the 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 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

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spouse, the Plan member's dependent child(ren) may receive a monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump-sum death benefit is payable to the named beneficiary(ies). The amount of the occupational death pension is 40% of the member's base salary at the time of death. The amount of the occupational death pension changes on the date the 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 50% joint and survivor option benefit based on the member's credited service and average base salary at the time of death. If the Plan member is not married or vested, a lump-sum death benefit is payable to the named beneficiary(ies).

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.

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. 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 a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are determined using the projected unit credit actuarial funding method. The Plan uses the level percentage of pay method to amortize the unfunded liability over a twenty-five year fixed period.

Refunds

Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency sixty days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within fifty years of the member's last termination date.

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Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they reestablish an employee relationship with a participating Plan employer before July 1, 2010. Members who have not reestablished an employee relationship with a participating Plan employer by June 30, 2010, will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

Administrative Costs

Administrative costs are financed through investment earnings.

Due From (To) State of Alaska General Fund

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

GASB Statements No. 25 and No. 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, additions and deductions not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

Investments

Investments are recorded at fair value in accordance with GASB Statement No. 31. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on equity securities is

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accrued on the exdividend date. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment deductions consist of those administrative deductions directly related to the Plan's investment operations.

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

Valuation

Investments with Readily Determinable Fair Values

Fixed-income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers. Money market funds are valued at amortized cost, which approximates fair value.

Equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers.

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

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2006 and 2005, the allowance for loan loss totaled $28,022 and $28,904, respectively and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

Investments with Estimated Fair Values

Private equity securities are valued periodically by the general partners. Underlying private equity investments that are listed on a national exchange are valued using quoted market prices. Securities for which there are no market quotations available are initially carried at original cost and subsequently valued at fair value as determined by the general partners. In determining fair value, the financial condition, operating results and projected operating cash flow of the underlying portfolio companies, prices paid in private sales of such securities, the nature and duration of restrictions on disposition of the securities, the expenses and delay that would be involved in registration, the price and extent of public trading in similar securities, the existence of merger proposals or tender offers affecting securities, and reports prepared by analysts are considered as appropriate. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and these differences could be material.

Absolute return investments are carried at fair value as determined by the pro-rata interest in the net assets of the underlying investment

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funds. These investment funds are valued periodically by the general partners and the managers of the underlying investments. The net asset value represents the amount that would be expected to be received if it were to liquidate its interests subject to liquidity or redemption restrictions. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and these differences could be material.

The energy related investments in the Other Investments Pool consist primarily of loans and preferred stock that are valued at the lower of cost or fair value. The agricultural investments in the Other Investments Pool consist primarily of farmland investments that are stated at fair value based upon independent appraisals performed periodically. In years when an independent appraisal is not performed, the valuation is reviewed by an independent advisor. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and these differences could be material.

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

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

Income in the short-term fixed income pool is calculated daily and credited monthly to each member on a pro rata basis.

Income in the domestic fixed income pool, equity pools, international fixed income pool, and the high yield pool is credited daily to each member on a pro rata basis.

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

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.

Federal Income Tax Status

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

Reclassifications

Certain reclassifications not affecting changes in net assets held in trust for pension and postemployment healthcare benefits have been made to 2005 amounts in order to conform to the 2006 presentation.

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(3) Investments

The Alaska Retirement Management Board (ARMB) has statutory oversight of the Plan's investments. As the fiduciary, the ARMB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Treasury Division (Treasury) provides staff for the ARMB. Treasury has created a pooled environment by which it manages the investments the ARMB has fiduciary responsibility for. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The ARMB has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Short-Term Fixed Income Pool

The Plan participates in the State's internally managed short-term fixed income pool which was established March 15, 1993, with a start up and maintained share price of $1. Treasury staff determines the allocation between permissible securities. Each member owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Member shares also change at the beginning of each month when income is paid. At June 30, 2006 and 2005, the Plan had a 0.02% and 0.03% direct ownership in the short-term fixed income pool which included interest receivable of $15,402 and $7,098, respectively. The Plan had a 4.29% and 1.58% indirect ownership in the short-term fixed income pool at June 30, 2006 and 2005, respectively.

Domestic Fixed Income Pool

The domestic fixed income pool is comprised of an internally managed and an externally managed pool.

Retirement Fixed Income Pool

The Plan participates in the ARMB's internally managed retirement fixed income pool which was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2006, was $1,843. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 31.38% and 32.08% ownership in the retirement fixed income pool, respectively.

External Domestic Fixed Income Pool

The Plan participates in the ARMB's externally managed domestic fixed income pool which

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was established June 25, 1999, with a start up share price of $1,000. The share price at June 30, 2006, was $1,548. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 30.92% and 31.33% ownership in the external domestic fixed income pool, respectively.

International Fixed Income Pool

The Plan participates in the ARMB's externally managed international fixed income pool which was established March 3, 1997, with a start up share price of $1,000. The share price at June 30, 2006, was $1,791. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 31.20% and 31.68% ownership in the international fixed income pool, respectively.

High Yield Pool

The Plan participates in the ARMB's externally managed high yield fixed income pool which was established April 15, 2005, with a start up share price of $1,000. The share price at June 30, 2006, was $1,072. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 31.20% and 31.86% ownership in the high yield pool, respectively.

Domestic Equity Pool

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

Large Cap Domestic Equity Pool

The Plan participates in the ARMB's externally managed large cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,132. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net

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assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 31.16% and 31.61% ownership in the large cap domestic equity pool, respectively.

Small Cap Domestic Equity Pool

The Plan participates in the ARMB's externally managed small cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,173. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 31.15% and 31.64% ownership in the small cap domestic equity pool, respectively.

International Equity Pool

The Plan participates in the ARMB's externally managed international equity pool which was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2006, was $3,364. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 30.66% and 31.30% ownership in the international equity pool, respectively.

Emerging Markets Equity Pool

The Plan participates in the ARMB's externally managed emerging markets equity pool which was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2005, was $2,615. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 35.00% ownership in the emerging markets equity pool.

Private Equity Pool

The Plan participates in the ARMB's externally managed private equity pool which was established April 24, 1998, with a start up share price of $1,000. The share price at June 30, 2006, was $1,719. Underlying assets in the pool are

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comprised of venture capital, buy-outs, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 31.38% and 31.85% ownership in the private equity pool, respectively.

Absolute Return Pool

The Plan participates in the ARMB's externally managed absolute return pool which was established October 31, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,135. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 31.19% and 31.85% ownership in the absolute return pool, respectively.

Other Investments Pool

The Plan participates in the ARMB's externally managed other investments pool which was established March 18, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,156. Underlying assets in the pool are comprised of limited partnership interests in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 31.38% and 31.85% ownership in the other investments pool, respectively.

Real Estate Pool

The Plan participates in the ARMB's externally managed real estate pool which was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2006, was $2,483. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determines the permissible real estate investment trusts to invest in. Ownership in the

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pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 31.17% and 31.64% ownership in the real estate pool, respectively.

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

	Fair Value (In thousands)					
	Fixed Income Pools					
	Short-term	Domestic	International	High yield	Other	Total
Deposits	$ -	-	-	-	1,533	1,533
Overnight Sweep Account	196	337	-	5,684	-	6,217
Money Market Fund	-	-	-	-	423,385	423,385
Short-term Investment Fund	4,836	-	543	-	9,679	15,058
Commercial Paper	9,698	3,118	-	-	-	12,816
U. S. Treasury Notes	-	51,257	-	-	-	51,257
U. S. Treasury Bonds	-	54,944	-	-	-	54,944
U. S. Treasury Strips	-	5,268	-	-	-	5,268
U.S. Government Agency Discount Notes	-	44,097	-	-	-	44,097
U.S. Government Agency	-	81,000	-	-	-	81,000
Municipal Bonds	-	649	-	-	-	649
Foreign Government Bonds	-	-	51,060	-	-	51,060
Mortgage-backed	8,349	442,660	-	-	-	451,009
Other Asset-backed	58,054	54,315	-	114	-	112,483
Corporate Bonds	30,036	193,195	34,840	57,165	-	315,236
Convertible Bonds	-	-	-	1,244	-	1,244
Yankees:						
Government	-	7,180	-	-	-	7,180
Corporate	1,233	624	-	2,132	-	3,989
Fixed Income Pools:						
Equity	-	-	-	17	-	17
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	91,729	91,729
Equity	-	-	-	-	1,526,971	1,526,971
International Equity Pool:						
Equity	-	-	-	-	628,800	628,800
Emerging Markets Equity Pool	-	-	-	-	97,105	97,105
Private Equity Pool:						
Limited Partnerships	-	-	-	-	258,509	258,509
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	109,341	109,341
Other Investments Pool:						
Limited Partnerships	-	-	-	-	12,620	12,620
Agricultural Holdings	-	-	-	-	19,861	19,861
Real Estate Pool:						
Real Estate	-	-	-	-	243,968	243,968
Commingled Funds	-	-	-	-	87,312	87,312
Limited Partnerships	-	-	-	-	67,306	67,306
Real estate investment trusts	-	-	-	-	31,247	31,247
Mortgages	-	-	-	-	33	33
Net Other Assets (Liabilities)	(58)	(102,489)	3,267	539	2,432	(96,309)
Ownership by Other Pools	(111,827)	96,892	-	-	14,935	-
Total	**$ 517**	**933,047**	**89,710**	**66,895**	**3,626,766**	**4,716,935**

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At June 30, 2005, the Plan's investments included the following:

	Fair Value (In thousands)					
	Fixed Income Pools					
	Short-term	Domestic	International	High yield	Other	Total
Deposits	$ -	-	3,078	-	1,405	4,483
Overnight Sweep Account	42	438	-	17,461	-	17,941
Money Market Fund	-	-	-	-	308,847	308,847
Short-term Investment Fund	-	-	1,038	-	10,356	11,394
Commercial Paper	2,336	4,319	-	-	-	6,655
U. S. Treasury Bills	1,831	-	-	-	-	1,831
U. S. Treasury Notes	1,590	48,100	-	-	-	49,690
U. S. Treasury Bonds	-	58,628	-	-	-	58,628
U. S. Treasury Strips	-	11,949	-	-	-	11,949
U.S. Government Agency						
Discount Notes	404	3,422	-	-	-	3,826
U.S. Government Agency	-	59,322	-	-	-	59,322
Municipal Bonds	-	454	-	-	-	454
Foreign Government Bonds	-	-	99,521	-	-	99,521
Mortgage-backed	4,621	435,195	-	-	-	439,816
Other Asset-backed	12,960	52,868	-	127	-	65,955
Corporate Bonds	5,878	203,649	46,334	44,284	-	300,145
Convertible Bonds	-	-	-	676	-	676
Yankees:						
Government	-	4,501	-	-	-	4,501
Corporate	225	3,259	-	1,364	-	4,848
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	83,089	83,089
Equity	-	-	-	-	1,436,975	1,436,975
International Equity Pool:						
Convertible Bonds	-	-	-	-	144	144
Equity	-	-	-	-	603,648	603,648
Emerging Markets Equity Pool	-	-	-	-	72,200	72,200
Private Equity Pool:						
Limited Partnerships	-	-	-	-	177,452	177,452
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	98,417	98,417
Other Investments Pool:						
Limited Partnerships	-	-	-	-	7,056	7,056
Agricultural Holdings	-	-	-	-	7,788	7,788
Real Estate Pool:						
Real Estate	-	-	-	-	221,307	221,307
Commingled Funds	-	-	-	-	80,431	80,431
Limited Partnerships	-	-	-	-	48,734	48,734
Real estate investment trusts	-	-	-	-	35,631	35,631
Mortgages	-	-	-	-	48	48
Net Other Assets (Liabilities)	308	7,684	(766)	814	3,707	11,747
Ownership by Other Pools	(29,610)	11,972	-	-	17,638	-
Total	**$ 585**	**905,760**	**149,205**	**64,726**	**3,214,873**	**4,335,149**

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Interest Rate Risk

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

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2006, the expected average life of individual fixed rate securities ranged from three days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed-income portfolio to ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2006, was 4.80 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed-income portfolio to ± 25% of the Citigroup Non-U.S. World Government Bond Index. The effective duration for the Citigroup Non-U.S. World Government Bond Index at June 30, 2006, was 6.08 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to ± 20% of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2006, was 4.59 years. The High Yield pool was funded April 15, 2005. Investment managers were in the transition period at year end working towards fully investing allocated funds. Funds not invested at year end have no duration causing the pool's duration to be lower than the policy limit.

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

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

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At June 30, 2006, the effective duration of the fixed income pools, by investment type, was as follows:

	Effective duration (In years)		
	Domestic	**International**	**High yield**
U.S. Treasury Notes	2.65	-	-
U.S. Treasury Bonds	9.73	-	-
U.S. Treasury Strips	20.17	-	-
U.S. Government Agency	3.61	-	-
Municipal Bonds	11.98	-	-
Foreign Government Bonds	-	6.41	-
Mortgage-backed	3.57	-	-
Other Asset-backed	1.78	-	4.73
Corporate Bonds	5.21	4.12	3.76
Convertible Bonds	-	-	2.40
Yankees:			
Government	9.67	-	-
Corporate	2.18	-	4.43
Portfolio Effective Duration	3.83	5.45	3.43

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Credit Risk

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

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

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

The Plan is subject to limited credit risk associated with securities lending transactions since the ARMB is indemnified by State Street Corporation (the Bank) against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the ARMB against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitations relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

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

Domestic fixed-income:

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

Corporate debt securities must be investment grade;

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

International fixed-income:

Corporate debt and asset-backed securities must be investment grade.

Domestic and international equity:

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

High yield:

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

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No more than 5% of the portfolio's assets may be invested in unrated securities.

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

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

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At June 30, 2006, the Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed Income Pool			
	Rating[1]	Short-term	Domestic	International	High Yield
Overnight Sweep Account	Not Rated	-%	-%	-%	8%
Short-term Investment Account	Not Rated	5	-	-	-
Commercial Paper	A-1	9	-	-	-
U. S. Government Agency Discount Notes	Not Rated	-	5	-	-
U. S. Government Agency	Not Rated	-	10	-	-
Foreign Government	AAA	-	-	51	-
Foreign Government	AA	-	-	3	-
Foreign Government	A	-	-	3	-
Mortgage-backed	AAA	-	42	-	-
Mortgage-backed (Agency)	Not Rated	8	11	-	-
Other Asset-backed	AAA	48	6	-	-
Other Asset-backed	AA	-	1	-	-
Corporate Bonds	AAA	2	1	26	-
Corporate Bonds	AA	16	4	13	-
Corporate Bonds	A	9	10	-	1
Corporate Bonds	BBB	-	8	-	1
Corporate Bonds	BB	-	-	-	18
Corporate Bonds	B	-	-	-	53
Corporate Bonds	CCC	-	-	-	12
Corporate Bonds	D	-	-	-	1
Convertible Bonds	B	-	-	-	2
Yankees:					
Government	AAA-BBB	-	1	-	-
Corporate	AA	1	-	-	-
Corporate	B	-	-	-	3
No credit exposure		2	1	4	1
		100%	100%	100%	100%

[1] Rating modifiers are not disclosed.

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

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Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The ARMB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2006, the Plan had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International equity pool	**$ 1,503**

Foreign Currency Risk

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

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

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

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

At June 30, 2006, the Plan had exposure to foreign currency risk with the following deposits:

Currency	Amounts (in thousands)
Canadian Dollar	$ 2
Euro Currency	565
Hong Kong Dollar	20
Japanese Yen	750
New Zealand Dollar	2
Norwegian Krone	62
Pound Sterling	154
Singapore Dollar	7
Swedish Krona	54
Swiss Franc	16
	$1,632

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At June 30, 2006, the Plan had exposure to foreign currency risk with the following investments:

Amount
(In thousands)

	International fixed income pool		International equity pool	Private equity pool
Currency	**Foreign government**	**Corporate**	**Equity**	**Limited partnerships**
Australian Dollar	$ 5,376	-	11,440	-
Canadian Dollar	-	-	12,708	-
Danish Krone	-	-	465	-
Euro Currency	40,528	-	230,253	16,818
Hong Kong Dollar	-	-	6,553	-
Hungarian Forint	-	-	1,210	-
Japanese Yen	2,732	34,840	129,548	-
New Taiwan Dollar	-	-	1,403	-
New Zealand Dollar	-	-	973	-
Norwegian Krone	-	-	7,389	-
Polish Zloty	2,424	-	-	-
Pound Sterling	-	-	106,828	2,940
Singapore Dollar	-	-	5,406	-
South African Rand	-	-	3,242	-
South Korean Won	-	-	6,700	-
Swedish Krona	78,525	-	9,347	-
Swiss Franc	-	-	42,403	-
	$129,585	**34,840**	**575,868**	**19,758**

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At June 30, 2006, the Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool represents an investment in commingled investment funds; therefore no disclosure of specific currencies is made.

Concentration of Credit Risk

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

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

At June 30, 2006, the Plan's investments included $348 million in Federal National Mortgage Association securities which represented 8% of the Plan's total investments. Federal National Mortgage Association securities are not classified as corporate bonds.

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

	2006	2005
Domestic equity pool	$ 118,022	43,980
Domestic fixed income pool	(45,360)	21,870
International equity pool	145,413	65,507
Real estate pool	47,846	35,828
International fixed income pool	(5,738)	8,244
Private equity pool	45,762	20,769
Emerging markets equity pool	10,931	18,289
Other investments pool	791	270
Absolute return pool	11,895	3,066
High yield	(1,696)	280
	$ 327,866	**218,103**

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

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

	2006	2005
Net realized gain on foreign foreign currency	$13,922,461	57,329,781
Net unrealized loss on foreign currency	(13,005)	(12,800)
Net realized gain (loss) on foreign exchange contracts	117,351	(106,656)

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

	2006	2005
Net contract sales	$1,405,109	3,047,799
Less fair value	1,408,914	2,915,950
Net unrealized gains (losses)	**$ (3,805)**	**131,849**

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

(5) Securities Lending

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

At June 30, 2006 and 2005, the fair value of securities on loan allocable to the Plan totaled $417,202,476 and $300,770,734, respectively. There is no limit to the amount that can be loaned and the ARMB is able to sell securities on loan. International equity security loans are collateralized at not less than 105% of their fair value. All other security loans are collateralized at not less than 102% of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral in the amount of $423,385,155 is invested in a registered 2(a)7 money market fund which is valued at amortized cost, approximating fair value. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Securities collateral in the amount of $1,778,140 may be pledged or sold upon borrower default. Since the ARMB does not have the ability to pledge or sell securities collateral unless the borrower defaults, they are not recorded on the financial statements. Securities on loan, cash collateral and cash collateral payable are recorded on the financial statements. The Bank, the Plan and the borrower receive a fee from earnings on invested collateral. The bank and the Plan share a fee paid by the borrower for loans not collateralized with cash.

For the year ended June 30, 2006 and 2005, 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.

(6) Transfer from Retirement Systems

During fiscal year 2006, a review was conducted of all medical reserve amounts in the Retiree Health Fund. An analysis was conducted which considered: (1) the medical portion of net assets held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. The result was excess reserve balances over those deemed necessary for the continued operation of the Retiree Health Fund. The excess amount was allocated to plans

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June 30, 2006 and 2005

participating in the Retiree Health Fund. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive.

Based on this review, the Plan received $15,175,000 in fiscal year 2006 from the Retiree Health Fund.

(7) Commitments and Contingencies

Commitments

The ARMB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2006, the Plan's member share of the unfunded commitment totaled $31,886,112. This commitment can be withdrawn annually in December with ninety days notice.

The ARMB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2006, the Plan's member share of these unfunded commitments totaled $232,081,930. These commitments are estimated to be paid within ten years from agreement date.

The ARMB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2006, the Plan's member share of this unfunded commitment totaled $10,543,148 to be paid through the year 2007.

The ARMB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2006, the Plan's member share of these unfunded commitments totaled $104,579,278 to be paid through the year 2010.

Contingencies

The State was a defendant in a lawsuit filed by the Alaska Civil Liberties Union (ACLU) and a number of same-sex couples with regards to the statutes limiting employee and retiree healthcare coverage and certain survivor benefits to members and retirees and their spouses and dependents, thus excluding coverage for domestic partners of members and retirees. An adverse ruling against the State was issued by the Alaska Supreme Court on October 28, 2005, holding that "the spousal limitations are unconstitutional as applied to public members with same-sex domestic partners." Briefing on the remedy was completed in January 2006 with both the State and ACLU suggesting giving the legislature time to act to amend statutes relevant to the case. The legislature did not enact legislation to implement benefits for affected members and retirees. On June 1, 2006, the Alaska Supreme Court issued its remedy order requiring the state to provide benefits complying with the court's opinion by no later than January 1, 2007. The case has been remanded to the superior court, with directions that the court issue whatever orders it deems necessary to ensure compliance with the January 2007 deadline. The Alaska Supreme Court order states that the Plan's current benefit program

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will remain in effect until the Plan begins providing benefits. The potential effect of this ruling cannot be reasonably estimated until the Plan begins providing benefits. As such, the Plan has not recorded the financial impact of this ruling. The costs associated with this ruling will be passed through to employers through the normal contribution development process.

The State is a defendant in a class action lawsuit involving a constitutional challenge to Plan statutes that provide a 10% cost of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claim that these statutes violate the right to travel of nonresident benefit recipients, and therefore, the 10% COLA should be paid to all benefit recipients, regardless of residence. On summary judgment motions, the superior court first ruled in favor of the plaintiffs on the issue of whether, if the residency requirements are unconstitutional, the residency requirements are severable from the COLA statutes. On summary judgment motions addressing the constitutionality of the statutes, the superior court ruled against the state, holding that the COLA statutes violate the constitutional right to travel. The court ordered payment of COLA to retirees and survivors in high-cost areas of other states. The State has appealed to the Alaska Supreme Court. The superior court ruled against the plaintiffs on the issue of past damages, and has cross-appealed to the Alaska Supreme Court. Briefing and oral arguments have been completed. The State is vigorously litigating the appeals but realize that an unfavorable outcome is reasonably possible. The Plan has not recorded an accrual related to this class action lawsuit because the potential loss cannot be reasonably estimated at this time. Costs associated with the loss of this class action lawsuit will be passed through to employers through the normal contribution development process.

(8) Subsequent Event

During the fiscal year 2005 legislative session, a law was enacted that closes the Plan. Senate Bill 141, signed into law on July 27, 2005, and effective July 1, 2006, closes the Plan to new members and creates a defined contribution plan for members first hired on or after July 1, 2006.

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Required Supplementary Information

Schedule of Funding Progress
Pension Benefits

June 30, 2006
(Dollars in thousands)

Actuarial Valuation Date as of June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Funded Excess (FE) (Unfunded actuarial accrued liabilities) (UAAL)	Funded Ratio	Covered Payroll	FE/(UAAL) as a Percentage of Covered Payroll
2000	$ 3,338,700	3,350,552	(11,852)	99.6%	482,571	(2.5)%
2001	3,468,310	3,651,488	(183,178)	95.0	496,188	(36.9)
2002	2,699,445	3,959,958	(1,260,513)	68.2	509,437	(247.4)
2003	2,694,785	4,190,970	(1,496,185)	64.3	532,630	(280.9)
2004	2,647,777	4,216,480	(1,568,703)	62.8	522,421	(300.3)
2005	2,640,642	4,334,585	(1,693,943)	60.9	561,038	(301.9)

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

STATE OF ALASKA
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Required Supplementary Information

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2006
(Dollars in thousands)

Actuarial valuation Date as of 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
2000	$ 845,315	848,316	(3,001)	99.6%	482,571	(0.6)%
2001	903,919	951,659	(47,740)	95.0	496,188	(9.6)
2002	989,591	1,451,684	(462,093)	68.2	509,437	(90.7)
2003	1,057,500	1,644,639	(587,139)	64.3	532,630	(110.2)
2004	1,197,593	1,907,120	(709,527)	62.8	522,421	(135.8)
2005	1,318,297	2,163,971	(845,674)	60.9	561,038	(150.7)

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

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Required Supplementary Information

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

June 30, 2006
(Dollars in thousands)

Year Ended June 30	Actuarial Valuation Date as of June 30[1]	Pension Annual Required Contribution	Post-employment Healthcare Annual Required Contribution	Total Annual Required Contribution	Pension Percentage Contributed	Post-employment Healthcare Percentage Contributed	Total Percentage Contributed
2001	1998	$ 46,067	10,324	56,391	114.0%	114.0%	114.0%
2002	1999	32,331	7,245	39,576	155.0	155.0	155.0
2003	2000	37,800	9,570	47,370	133.0	133.0	133.0
2004	2001	65,571	17,089	82,660	83.0	83.0	83.0
2005	2002	152,168	55,783	207,951	45.0	45.0	45.0
2006	2003	170,019	66,719	236,738	54.0	54.0	54.0

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

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

STATE OF ALASKA
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Notes to Required Supplementary Information

June 30, 2006

(1) Description of Schedule of Funding Progress

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

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

(2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the valuation as of June 30, 2005 are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability is amortized over a twenty-five year fixed period level percentage of pay.

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

(c) Retirement – 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	Medical	Prescription
2006	9.5%	14.0%
2007	9.0	13.0
2008	8.5	12.0
2009	8.0	11.0
2010	7.5	10.0
2011	7.0	9.0
2012	6.5	8.0
2013	6.0	7.0
2014	5.5	6.0
2015	5.0	5.0
2016 and later	5.0	5.0

(f) Salary scale – inflation 3.5% per year, productivity 0.5% per year, merit (first five years of employment) 1.5% per year.

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

(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.

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Notes to Required Supplementary Information

June 30, 2006

(j) Total turnover – select and ultimate rates based upon the 19971999 actual withdrawal experience.

(k) Disability – incidence rates based upon the 19911995 actual experience. 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.

(l) Asset valuation method – recognize 20% of the investment gains and losses in each of the current and preceding four years and phased in over the next five years. All assets are valued at fair value based upon actual asset data furnished by the Division of Retirement and Benefits. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

(m) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower postage 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. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

(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) 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.

(q) 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.

(r) Part-time status – part-time members are assumed to earn 0.550 years of credited service per year.

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

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.

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, 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.

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Notes to Required Supplementary Information

June 30, 2006

- 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 members 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	
2001	7.5%
2002	6.5
2003	5.5
2004-08	5.0
2009-13	4.5
Thereafter	4.0

Effective June 30, 2002, the following changes were made:

- The actuarial cost method was changed from a rolling twenty-five year period to a twenty-five year fixed period level percentage of pay.

- Part-time members are assumed to earn 0.550 years of credited service per year.

- The health cost trend assumptions were changed for fiscal years 2003 and later from an ultimate rate of 12.0% for fiscal years 2003-2005 decreasing in yearly 0.5% increments to 5.0% beginning in 2017 and all subsequent fiscal years.

The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and proceeding four years and will be phased in over the next five years.

Effective June 30, 2003, the following changes were made:

- Members currently under age 50 who have already attained 21 years of service are assumed to retire one year following the valuation date.

Schedule 1

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

Schedule of Administrative and Investment Deductions

Year ended June 30, 2006
with Summarized Financial Information for 2005
(In thousands)

	Administrative	Investment	Totals 2006	Totals 2005
Personal Services:				
Wages	$ 833	407	1,240	1,322
Benefits	445	164	609	539
Total Personal Services	1,278	571	1,849	1,861
Travel:				
Transportation	11	44	55	75
Per Diem	2	5	7	13
Moving	-	-	-	11
Honorarium	-	7	7	22
Total Travel	13	56	69	121
Contractual Services:				
Management and Consulting	279	9,365	9,644	8,270
Accounting and Auditing	25	428	453	426
Other Professional Services	70	17	87	59
Advertising and Printing	34	7	41	34
Data Processing	189	134	323	294
Communications	35	17	52	53
Rentals/Leases	70	13	83	82
Legal	68	27	95	85
Medical Specialists	3	-	3	6
Repairs and Maintenance	16	14	30	7
Transportation	1	2	3	2
Securities Lending	-	14,438	14,438	6,214
Total Contractual Services	790	24,462	25,252	15,532
Other:				
Equipment	60	3	63	26
Supplies	32	11	43	41
Total Other	92	14	106	67
Total Administrative and Investment Deductions	**$ 2,173**	**25,103**	**27,276**	**17,581**

See accompanying independent auditors' report.

Schedule 2

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, 2006 and 2005 (In thousands)

Firm	Services	2006	2005
State Street Corporation	Custodian Banking Services	$ 617	476
Buck Consultants	Actuarial Services	126	-
Mercer Human Resource Consulting	Actuarial Services	79	211
Systems Central Services Inc.	Data Processing Consultants	92	137
Wostmann & Associates, Inc.	Data Processing Consultants	58	-
KPMG LLP	Auditing Services	21	34
State of Alaska, Department of Law	Legal Services	25	39
		$ 1,018	**897**

See accompanying independent auditors' report.

CALLAN ASSOCIATES INC

CAI

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

October 12, 2006

Alaska Retirement Management Board
State of Alaska, Department of Revenue
Treasury Division
333 Willoughby Avenue, 11th Floor
Juneau, AK 99801

Dear Board Members:

This letter reviews the investment performance of the Alaska Retirement Management Board (ARMB) for the fiscal year ended June 30, 2006.

Callan Associates Inc. (Callan) independently calculates time-weighted performance statistics based on underlying custodial data provided by the Board's custodian, State Street Bank and Trust Company. The performance calculations were made using a time-weighted return methodology based upon market values. Callan Associates Inc. serves as ARMB's independent general investment consultant and evaluates the Board's performance in relation to market benchmarks, appropriate manager peer groups and other public pension systems. The performance calculations were made in compliance with Global Investment Performance Standards.

ARMB's primary investment objective is to prudently and expertly invest assets, in accordance with governing law and industry practices, in a manner that will help ensure assets under supervision are sufficient to pay promised benefits to its members and their beneficiaries. In pursuit of this objective, the ARMB periodically evaluates liabilities, expected contributions, and potential earnings. This analysis is used to consider a wide range of potentially viable investment strategies. The Board selects a strategic investment policy that balances long-term growth potential and acceptable risk. A policy benchmark is constructed that mirrors the Board's strategic asset allocation policy. This policy benchmark is a custom index comprised of equity, fixed income, real estate and other market indices weighted in the same proportions as ARMB's investment policy.

Fiscal year 2006 was a year of good progress for domestic equity and strong performance by international stocks. The Russell 3000 Index, a measure of the broad U.S. equity market achieved a solid return of 9.56%. International stocks, as measured by the MSCI EAFE Index, posted an exceptional overall return of 26.56%. Interest rate increases hurt bond prices and performance. The Lehman Aggregate Bond Index, a widely used measure of the investment grade domestic bond market, suffered a small negative return of 0.81%. Equity real estate enjoyed another strong year with returns of more than 18%.

For the fiscal year, the Public Employees' Retirement System (PERS) had a time-weighted total return of 11.74% and the Teachers' Retirement System (TRS) had a time-weighted total return of 11.78%. Both Systems exceeded their strategic policy benchmark target return of 10.38% and ranked in the 22nd and 21st percentile respectively of Callan's Public Fund database. The policy benchmark was largely unchanged during the year. Over the trailing 3-year period, a span that includes three years of recovering equity market returns, PERS and TRS have achieved annualized returns of 11.90% and 11.93% respectively. These results were slightly better than the policy target index return of 11.63% and also above the Callan Public Fund database median. These results have largely offset the weak returns experienced during the fiscal 2001-2003 period. Over the longest period for which Callan has detailed data (14 3/4 years), PERS and TRS have achieved annualized total returns of 8.89% and 8.96% respectively while the policy benchmark return for the same span was 8.83%.

Both systems are well diversified and currently have asset allocation policies that, in our opinion, are slightly more conservative than that of the average public fund.

In summary, fiscal 2006 was another strong year that helps demonstrate the wisdom of broad diversification across multiple asset classes.

Sincerely,

Michael J. O'Leary, Jr., CFA
Executive Vice President

Department of Revenue
Treasury Division
Staff

Commissioner
William Corbus

Deputy Commissioner
Tomas Boutin

Chief Investment Officer
Gary Bader

Comptroller
Susan Taylor, CPA

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

Investment Officers
Bob G. Mitchell
Stephen R. Sikes
Philip Bartlett
Zachary Hanna
Victor Djajalie
James McKnight
Casey Colton
Clay Cummins
Nicholas Orr
Ryan Bigelow
Bree Simpson

ARMB Liaison Officer
Judy Hall

External Money Managers and Consultants

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

Investment Advisory Council
William Jennings
Colorado Springs, CO
Jerrold Mitchell
Wayland, MA
George Wilson
Boston, MA

Absolute Return
Cadogan Management, LLC
New York, NY
Crestline Investors, Inc.
Fort Worth, TX
Mariner Investment Group, Inc.
Harrison, NY

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
McKinley Capital Management, Inc.
Anchorage, AK
Relational Investors LLC
San Diego, CA
Tukman Capital Management, Inc.
San Francisco, CA

Domestic Equity Small Capitalization
Jennison Associates LLC
New York, NY
Lord Abbett & Co.
Jersey City, NJ
Luther King Capital Management
Fort Worth, TX
Trust Company of the West
New York, NY
Turner Investment Partners, Inc.
Berwyn, PA

Domestic Equity Index Fund
State Street Global Advisors
Boston, MA

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

Global Equity
Lazard Freres Asset Management
New York, NY

External Money Managers and Consultants (con't)

High Yield
ING Investment Management
Hartford, CT
MacKay Shields LLC
New York, NY

International Equity – EAFE
Brandes Investment Partners, L.P.
San Diego, CA
Capital Guardian Trust Co.
Los Angeles, CA

International Fixed-Income
Mondrian Investment Partners
London, England

Private Equity
Abbott Capital Management, L.P.
New York, NY
Blum Capital Partners
San Francisco, CA
Pathway Capital Management, LLC
Irvine, CA

Real Estate – Agriculture
Hancock Agricultural Investment Group
Boston, MA
UBS AgriVest, LLC
Hartford, CT

Real Estate – Commingled Funds
Cornerstone Real Estate Advisers, LLC
Hartford, CT
Coventry Real Estate Fund II, LLC
New York, NY
Heitman Capital Management
Chicago, IL
ING Clarion Partners
New York, NY
J.P. Morgan Investment Management Inc.
New York, NY
Lehman Brothers Real Estate Partners
New York, NY
Lowe Hospitality Investment Partners, LLC
Los Angeles, CA
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
Hartford, CT

Real Estate – Core Separate Accounts
Cornerstone Real Estate Advisers, Inc.
Hartford, CT
LaSalle Investment Management
Chicago, IL
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

Independent Auditors
KPMG LLP
Anchorage, AK

Legal Counsel
Wohlforth, Johnson, Brecht,
Cartledge & Brooking
Anchorage, AK

Teachers' Retirement System
Investment Report

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

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.

INVESTMENTS

The State of Alaska Teachers' Retirement System's (TRS) investment goals are the long-term return and sustainability of the pension funds under management. Near-term market fluctuations are integrated into the overall outlook of the fund guidelines. Annually, the Alaska Retirement Management Board (ARMB) sets its asset allocation strategy in order to reflect changes in the marketplace while still retaining an optimal risk/return level within the set constraints and objectives of the ARMB.

During the 2006 fiscal year[1], ARMB's asset allocation was 36% domestic equities, 15% international equities, 24% domestic fixed-income, 2% international fixed-income, 9% real estate, 6% private equity, 3% absolute return, 2% high yield fixed-income, and 3% other (farmland and energy).

For the 2006 fiscal year, TRS investments generated a 11.78% rate of return. The TRS annualized rate of return was 6.56% over the last five years. The annualized rate of return over the last fourteen and three-quarter years has been 8.96%.

INVESTMENT OVERVIEW

The diversification of the TRS investment portfolio continued to protect overall returns. For the 2006 fiscal year, the real estate portfolio gained 18.58% and the international equity portfolio gained 28.80%. The U.S equity portfolio generated a 9.23% return up from 4.48% the previous year.

EQUITIES

The Total Domestic Equity Pool is diversified across large cap value, large cap growth, core, small cap value and small cap growth equity styles so as to gain broad market exposure. For the 2006 fiscal year, the fund posted a return of 9.23%. This was less than the target return of 9.67%. The annualized domestic equity return for the five-year period was 2.44% from a negative 1.93% in the 2005 fiscal year. Investment guidelines for all asset classes are approved by ARMB and govern investment objectives, program risk management and implementation, procedures for investment, and other operational requirements. Equity investment guidelines include policies with regard to the types of permissible equity investments, limitations on holding and investment of cash, proxy voting, and restrictions/prohibitions on the use of leverage and derivatives.

Within the International Equity pool the non-U.S. equity style managers invest their assets only in non-U.S. equity securities. This style group excludes regional and index funds. The International Equity pool return was 28.80% which was greater than the target return of 26.56%. The international equity return for the five-year period was 11.21% from 1.87% in fiscal year 2005.

FIXED-INCOME

The domestic fixed-income portfolio represented 21.7% of the total assets of TRS as of June 30, 2006. 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-backed securities. The benchmark for the TRS bond portfolio is the Lehman Brothers Aggregate Bond Index. Fixed-income investment guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, and company concentration.

[1] July 1, 2005 – June 30, 2006

Teachers' Retirement System
Investment Report

Over the 2006 Fiscal Year, the TRS domestic bond portfolio gained 0.06%, down from 7.10% the year before. The Lehman Brothers Aggregate Bond Index returned a negative 0.81%, versus 6.80% during 2005 fiscal year. The annualized domestic fixed-income return for the five-year period was 5.24% from 7.63% in the 2005 fiscal year.

The international fixed-income portfolio, which represented about 2.1% of the total assets of TRS, returned a negative 0.26% over the 2006 fiscal year, compared with a negative 0.01% posted by the Salomon Brothers Non U.S. Government Index. The annualized international fixed-income return for the five-year period was 12.43% from 11.19% in the 2005 fiscal year. International fixed-income guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, company concentration, country restrictions, and currency hedging.

During the 2005 fiscal year TRS began investing in the High Yield Sector of the U.S. Fixed-ncome Market. High yield fixed-income guidelines include policies with regard to duration, credit quality, geographic concentration, sector concentration, issuer concentration, and restrictions/prohibitions on the use of leverage and derivatives. The High Yield portfolio, which represented 1.6% of the total assets of TRS, returned 5.55% over the 2006 fiscal year. This was more than the target return of 4.65%.

REAL ESTATE

At the end of the 2006 fiscal year, TRS had 10.3% of its portfolio invested in real estate. The portfolio is primarily invested in specific institutional properties geographically diversified across the U.S. Property types include apartments, office, industrial, and retail. The portfolio is also invested in value-added real estate funds and real estate investment trust (REIT) equity securities. Investing in real estate helps diversify the overall portfolio due to its low correlation to stocks and bonds. Real estate adds a stable source of income and provides a degree of inflation hedge. Real estate guidelines include policies with regard to property quality, geographic concentration, property size, property type, leverage, insurance coverage, and environmental evaluations.

The total return for real estate, net of fees, was 18.58% in fiscal year 2006 compared to 17.43% for the 2005 fiscal year. The five-year annualized net total return was 12.28% from 10.65% in the 2005 fiscal year.

PRIVATE EQUITY

Six percent of the TRS portfolio is invested in Private Equity for long-term return enhancement and diversification. Investments are made through three investment managers. These investment managers have invested in over 100 private equity partnerships focused on venture capital, buyouts, or special situations. The private equity portfolio is well diversified by strategy, industry, geography, manager, and time. Private equity policies and procedures include guidelines with regard to investment quality, diversification, investment structure, and operation of the program.

During the 2006 fiscal year, the Private Equity component of the TRS portfolio had a net return of 25.89% with a five-year annualized return of 5.01%.

ABSOLUTE RETURN

During the 2005 fiscal year the TRS portfolio began investing in absolute return strategies for additional diversification. Absolute return investments are made through three fund-of-fund managers and are 2.5% of the total portfolio. Each fund is well diversified by strategy and manager and targets a 5% real return with low correlation to equity and fixed-income markets. Absolute return policies and procedures include guidelines with regard to investment objectives, investment structure, investment quality, leverage, liquidity, strategy, manager

Teachers' Retirement System
Investment Report

concentration, risk management, and operation of the program. Absolute Return returned 10.56% over the 2006 fiscal year. This was more than the target return of 8.39%.

OTHER

The TRS portfolio is also invested in farmland and energy investments. These investments are relatively new and are focused on providing the portfolio with additional diversification. The farmland investments are made through two separate account managers responsible for assembling a well diversified portfolio. The energy investment manager is focused on creating a balanced and diversified portfolio of oil, gas, and electric investments. Collectively, farmland and energy investments represent 0.8% of the overall portfolio and had a net return of 8.54% for the 2006 fiscal year.

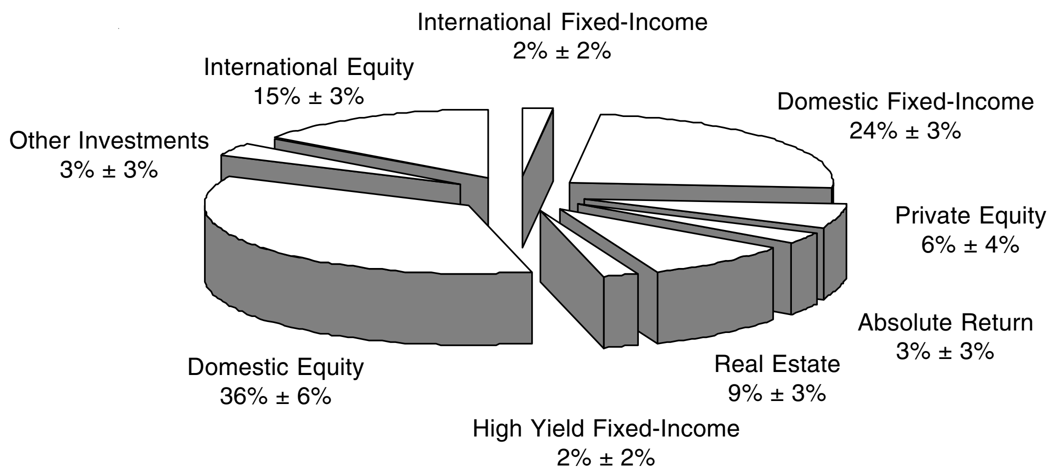
Teachers' Retirement System
Schedule of Investment Results
Fiscal Years Ended June 30

	2002	2003	2004	2005	2006	Annualized 3 Year	Annualized 5 Year
Total Fund							
TRS	(5.49%)	3.68%	15.09%	9.01%	11.78%	11.93%	6.56%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
TRS Domestic Equities	(16.85%)	(0.97%)	20.06%	4.48%	9.23%	11.07%	2.44%
S&P 500/Russell 2000 Composite	(17.99%)	0.25%	19.11%	6.87%	9.67%	12.48%	3.63%
International Stock Returns							
TRS International Equities	(8.24%)	(5.11%)	31.70%	15.17%	28.80%	25.01%	11.21%
Morgan Stanley Capital International EAFE	(9.49%)	(6.46%)	32.37%	13.65%	26.56%	23.94%	10.02%
Domestic Fixed-Income							
TRS	8.16%	10.70%	0.61%	7.10%	0.06%	2.54%	5.24%
Lehman Brothers Aggregate Index	8.63%	10.40%	0.32%	6.80%	(0.81%)	2.29%	4.97%
International Fixed-Income							
TRS	22.56%	24.48%	7.52%	9.84%	(0.26%)	5.61%	12.43%
Salomon Non-U.S. Government	15.73%	17.90%	7.60%	7.75%	(0.01%)	5.05%	9.61%
Real Estate Equity							
TRS	5.24%	8.97%	11.55%	17.43%	18.58%	15.81%	12.28%
NCREIF	5.60%	7.64%	10.83%	18.02%	18.79%	16.19%	13.31%

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

Teachers' Retirement System Trust Fund
Asset Allocation
June 30, 2006

Policy



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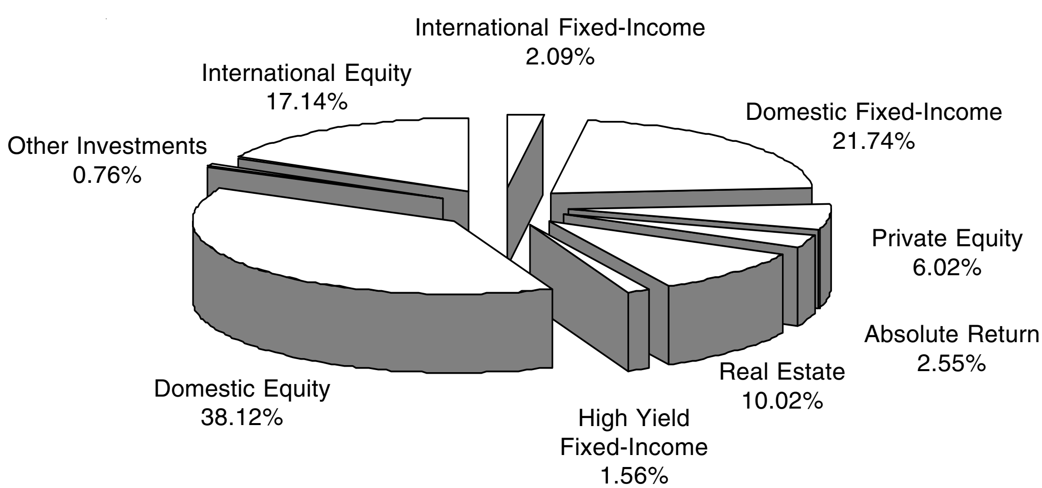
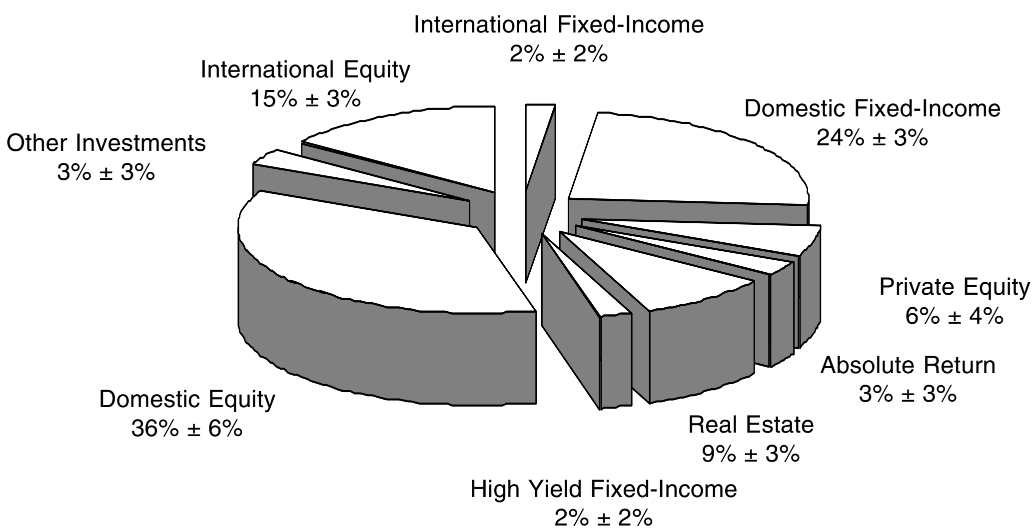


Teachers' Retirement System
Asset Allocation
June 30, 2005

Policy



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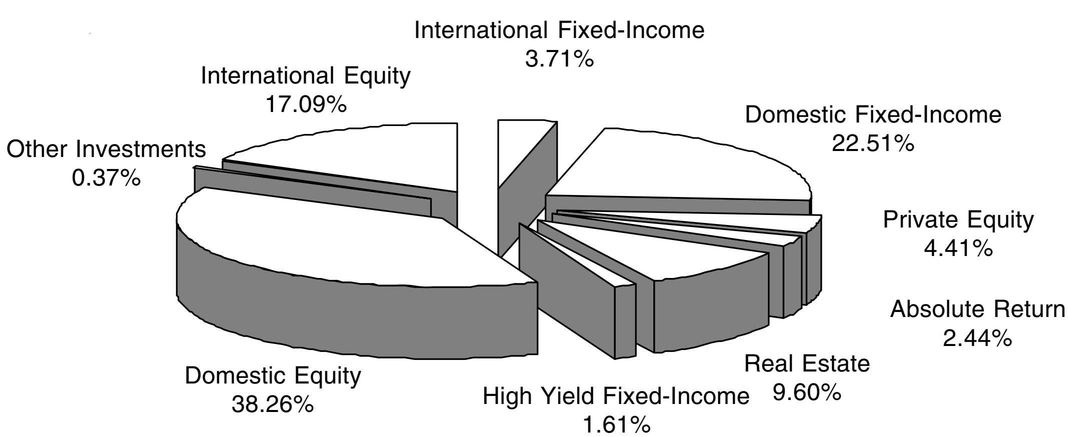

Alaska Retirement Management Board
Top Ten Holdings by Asset Type
June 30, 2006

Invested assets under the fiduciary responsibility of the ARMB have been commingled in various investment pools to minimize costs and maximize returns. The Treasury Division has created twelve different mutual fund-like pools to accomplish the investment asset allocation policies of the ARMB. 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. Second, pooling investments significantly reduces accounting, budgeting, and administrative costs. Finally, the ARMB 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 as of June 30, 2006.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Maturity	Credit Rating
Fixed-Income	1	$138,460,389	$138,500,000	FNMA Discount Notes	0.00%	7/5/2006	AAA
	2	$78,596,681	$60,105,000	U.S. Treasury Bond	8.50%	2/15/2020	Not Rated
	3	$68,606,481	$71,500,000	Federal National Mtg. Assn.	5.50%	8/1/2036	Not Rated
	4	$61,082,019	$62,128,000	Federal National Mtg. Assn.	6.00%	8/1/2036	Not Rated
	5	$59,425,080	$62,450,000	U.S. Treasury Notes	4.50%	2/15/2016	Not Rated
	6	$55,410,756	$59,300,000	Federal National Mtg. Assn.	5.00%	8/1/2036	Not Rated
	7	$30,994,196	$68,000,000	Federal National Mtg. Assn.	0.00%	10/9/2019	Not Rated
	8	$30,242,087	$30,261,000	U.S. Treasury Notes	5.13%	6/30/2008	Not Rated
	9	$28,196,688	$28,700,000	Federal Home Loan Banks	4.43%	4/7/2008	AAA
	10	$23,993,778	$25,544,280	Federal National Mtg. Assn.	5.00%	11/1/2033	Not Rated
Equities	1	$124,351,488	3,772,800	General Electric			
	2	$84,623,736	3,631,920	Microsoft			
	3	$82,114,398	1,338,458	Exxon Mobil			
	4	$66,661,646	1,385,897	Bank America			
	5	$65,437,596	1,089,900	PepsiCo			
	6	$64,607,253	1,339,288	Citigroup			
	7	$63,669,434	1,062,574	Johnson & Johnson			
	8	$59,815,229	1,012,959	American Int'l Group			
	9	$54,467,928	979,639	Procter & Gamble			
	10	$52,860,990	1,258,595	JP Morgan Chase			

Note: As of June 30, 2006, the TRS owned 31.26% of the fixed-income securities listed above and 31.16% of the equity securities listed above.

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

Teachers' Retirement System
Schedule of External Management Fees
Year Ended June 30, 2006

	Fair Value	Fees
Investment Management Fees		
Domestic Fixed-Income		
Blackrock Financial Management, Inc.	$ 257,124,802	300,428
International Fixed-Income		
Mondrian Investment Partners	89,709,413	203,667
High Yield Pool		
ING Investment Management	33,581,942	167,186
MacKay Shields, LLC	33,312,991	149,721
Total High Yield	66,894,933	316,907
Domestic Equity Pool		
Cap Guardian Trust Co.	120,652,370	261,241
TCW Asset Management Company	92,538,767	699,275
SSgA S&P 500 Index Fund	620,204,423	93,754
Jennison Associates, LLC	58,390,892	469,067
Lord Abbett & Co	55,729,663	379,162
Luther King Capital Management	40,734,226	240,678
Lazard Freres	120,104,748	426,886
McKinley Capital Management	105,975,471	360,517
RCM	143,531,878	394,227
Relational Investors, LLC	91,728,996	1,059,303
Russell 2000	3,928,278	370
Tukman, Value	91,998,416	512,034
Turner Investment Partners	91,442,092	541,066
Total Domestic Equity Pool	1,636,960,220	5,437,580
Private Equity Pool		
Blum Capital Partners-Strategic	10,553,552	205,511
Blum Capital Partners-Public	15,245,369	141,835
Pathway Capital Management LLC	73,769,233	243,784
Abbott Capital	158,940,227	360,998
Total Private Equity	258,508,381	952,128
International Equity Pool		
Brandes Investment Partners	159,864,914	772,473
Cap Guardian Trust Co	149,240,332	525,296
Lazard Freres	146,110,096	338,435
McKinley Capital Management	93,740,886	434,798
State Street Global Advisors	89,733,668	421,415
Total International Equities	638,689,896	2,492,417
Absolute Return Pool		
Mariner Investment Group	35,694,455	459,549
Cadogan Management LLC	36,008,378	435,093
Crestline Investors, Inc.	37,638,983	486,012
Total Absolute Return	109,341,816	1,380,654

Teachers' Retirement System
Schedule of External Management Fees (con't)
Year Ended June 30, 2006

	Fair Value	Fees
Other Investment Pool		
TCW Energy Fund	$ 12,619,823	131,592
UBS Agrivest, LLC	14,572,806	66,860
Hancock Agricultural Investment Group	5,288,679	19,298
Total Other Investment	32,481,308	217,750
Emerging Markets Equity Pool		
JP Morgan Investment Management	44,937,216	267,065
The Capital Group Inc.	52,168,030	303,408
Total Emerging Market	97,105,246	570,473
Real Estate Pool		
J.P. Morgan Liquidity Fund	396	-
Cornerstone Real Estate Advisors	55,932,583	328,267
Lasalle Investment Management	68,167,490	394,700
Coventry Real Estate Advisors	4,989,788	145,841
Lowe Hospitality Investment Partners	9,105,267	77,930
Lowe Enterprises	-	109,048
Tishman Speyer Real Estate Venture VI	13,467,035	76,331
Rothschild Five Arrows	5,717,056	194,825
Cornerstone Rotational Fund	18,233,451	21,858
ING Clarion Partners	5,953,546	-
Lehman Brothers Real Estate Partners	9,840,185	688,194
J.P. Morgan Strategic Property	62,502,134	453,660
UBS Brinson Consolidated Account	24,809,727	248,741
UBS Brinson Separate Account	97,106,357	506,932
Sentinel Real Estate Corporation	22,917,244	121,109
Invesco Realty Advisors	-	999,658
Total Real Estate	398,742,259	4,367,093
Total	$3,585,558,274	16,239,098
Custodian		
State Street Corporation		411,393
Investment Advisory		
Callan Associates		18,166
The Townsend Group		74,224
Total Investment Advisory		92,390
Investment Performance Measurement		
Callan Associates		76,579
Total External Management Fees		$ 16,819,460

Teachers' Retirement System
Investment Summary Schedule
June 30, 2006

	Asset Allocation Policy	Asset Allocation Range	Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed-Income Securities					
Domestic					
Short-Term			$ 516,688	0.06%	0.01%
Retirement			675,922,659	72.40%	15.74%
External Domestic			257,124,802	27.54%	5.99%
Total Domestic Fixed-Income	24%	21-27%	933,564,149	**100.00%**	21.74%
International					
International Fixed Income Pool	2%	0-4%	89,709,413	100.00%	2.09%
High Yield					
High Yield Fixed Income Pool	2%	0-4%	66,894,932	**100.00%**	1.56%
Total Fixed-Income	**28%**	**21-35%**	**1,090,168,494**		**25.39%**
Participation in Pools Owning Domestic Equities					
Small cap[1]	6%	3-9%	342,763,919	20.94%	7.98%
Large cap	30%	27-33%	1,294,196,303	79.06%	30.14%
Total Domestic Equities	**36%**	**30-42%**	**1,636,960,222**	**100.00%**	**38.12%**
Participation in Pools Owning International Equities					
International			638,689,896	86.80%	14.88%
Emerging Markets			97,105,245	13.20%	2.26%
Total International Equities	**15%**	**12-18%**	**735,795,141**	**100.00%**	**17.14%**
Participation in Pools owning Alternative Investments					
Private Equity	**6%**	**2-10%**	**258,508,381**	**100.00%**	**6.02%**
Other Investments	**3%**	**0-6%**	**32,481,308**	**100.00%**	**0.76%**
Absolute Return	**3%**	**0-6%**	**109,341,816**	**100.00%**	**2.55%**
Participation in Real Estate					
Mortgages, net of allowances			32,672	0.01%	0.00%
Real Estate Pool			430,261,807	99.99%	10.02%
Total Real Estate	**9%**	**6-12%**	**430,294,479**	**100.00%**	**10.02%**
Total Invested Assets	**100%**		**$ 4,293,549,841**		**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.

Alaska Teachers' Retirement System
Recaptured Commission Fees
Year Ended June 30, 2006

Domestic Equity	International Equity	Total
$ 221,469	76,714	298,183

The ARMB's Commission Recapture program has been in place since 1995, first working with various brokers then switching to the State Street program in 2005. Under a commission recapture program a portion of the commissions and mark-ups on trades (placed through the State Street broker network) flow directly back to the fund.

The program allows managers to place trades for commission recapture purposes. The ARMB has established direction percentages for the managers to strive for, but is only requiring best efforts to meet them given their fiduciary obligation to achieve best execution of transactions.

The current rebate arrangement with State Street Global Markets is: 80% of the brokerage commissions earned in executing domestic equity transactions; 72% of the brokerage commissions earned in executing domestic equity transactions via correspondent brokers; and, 60% of the brokerage commissions earned in executing international equity transactions.

Net Securities Lending Income
Year Ended June 30, 2006

Securities lending income	$ 15,350,057
Less securities lending expense	14,438,459
Net income from securities lending activities	$ 911,598

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

Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost approximating fair value. The ARMB does not have the ability to pledge or sell securities collateral unless the borrower defaults, therefore securities collateral is not recorded on the financial statements.

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November 10, 2006

State of Alaska
Alaska Retirement Management Board
Department of Administration
Division of Retirement and 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, 2005 by Buck Consultants. The purposes of the report include:

(1) a presentation of the valuation results of the Plan as of June 30, 2005;

(2) a review of experience under the Plan for the year ended June 30, 2005;

(3) a determination of the appropriate contribution rate for all employers in the System which will be applied for the fiscal year ending June 30, 2008; and

(4) 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 the Actuarial Section:

(1) Summary of actuarial assumptions and methods

(2) Schedule of active member valuation data

(3) Schedule of benefit recipients added to and removed from rolls

(4) Solvency test

(5) Analysis of financial experience

Tabor Center, 1200 17th Street, Suite 1200 • Denver, CO 80202
720.359.7700 • 720.359.7701 (fax)

Alaska Retirement Management Board
November 10, 2006
Page 2

In preparing the 2005 actuarial valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by 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. Actuarial methods, medical cost trend, and assumed blended medical premiums were reviewed and revised in 2003 and 2004. For the 2005 actuarial valuation, additional changes to the assumptions used to value medical benefit liabilities and corrections to differences between plan provisions and certain calculations included in the prior valuation while incorporated.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY06 and a fixed 25-year level percentage of payroll amortization of the initial unfunded accrued liability and subsequent gains/losses. 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 relatively constant as a percentage of payroll. The ratio of valuation assets to liabilities decreased from 62.8% to 60.9% during the year. The 2005 actuarial valuation provides an analysis of the factors that led to the decrease. The Actuarial Section and the 2005 actuarial valuation report also provide a history of the funding ratio of the System.

The actuarial assumptions, when applied in combination, fairly represent past and anticipated future experience in 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, are fully qualified to provide actuarial services to the State of Alaska. We believe that the assumptions and methods used for funding purposes and for the disclosures presented satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

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Alaska Retirement Management Board
November 10, 2006
Page 3

We believe that the 2005 actuarial valuation 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,

David H. Slishinsky, A.S.A., E.A.
Principal, Consulting Actuary

Michelle Reding DeLange, F.S.A., E.A.
Director, Consulting Actuary

The undersigned actuary is responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms his qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.

Leonard C. "Trey" Sarsfield, A.S.A., M.A.A.A.
Senior Consultant, Health & Welfare

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Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

The demographic and non-health economic assumptions used in the June 30, 2005 valuation are described below. Unless noted otherwise, these assumptions were recommended by Mercer Human Resource Consulting 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. For this valuation, Buck is recommending changes to the assumptions and methods used to value medical benefit liabilities. The funding method used in this valuation was adopted June 30, 1985 and last reviewed by the Board in January 2003. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

Benefits valued are those delineated in Alaska State statutes as of the valuation date. Changes in State statutes effective after the valuation date are not taken into consideration in setting the assumptions and methods.

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. The initial unfunded accrued liability and future gains/losses are amortized over a 25 year fixed period as a level percentage of pay based on a 4.25% payroll growth assumption. The payroll growth assumption will be reviewed next year to reflect plan changes that become effective after the valuation date. However, in keeping with GASB requirements, the net amortization period for all gains and losses will not exceed 30 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 the 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 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.

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

B. Actuarial Assumptions

1.	Investment Return/ Discount Rate	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.
4.	Mortality	1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year. All deaths are assumed to result from non-occupational causes.
5.	Total Turnover	Select and ultimate rates based upon the 1997-99 actual withdrawal experience. (See Table 1).
6.	Disability	Incidence rates based upon the 1991-95 actual experience, in accordance with Table 2. Post-disability mortality in accordance with the 1979 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. All disabilities are assumed to result from non-occupational causes.
7.	Retirement	Retirement rates based upon the 1997-99 actual experience in accordance with Table 3. Deferred vested members are assumed to retire at their earliest retirement date.
8.	Spouse's Age	Wives are assumed to be four years younger than husbands.
9.	Dependent Children	Benefits to dependent children have been valued assuming members who are married have one dependent child.
10.	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.
11.	COLA	Of those benefit recipients who are eligible for the COLA, 65% are assumed to remain in Alaska and receive the COLA.
12.	Sick Leave	4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired.

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

13. Post-Retirement Pension Adjustment — 50% and 75% of assumed inflation, or 1.75% and 2.625% respectively, is valued for the annual automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.

14. Expenses — Expenses are covered in the investment return assumption.

15. Part-Time Status — Part-time employees are assumed to earn 0.550 years of credited service per year.

16. Per Capita Claims Cost — Sample claims cost rates for FY06 medical benefits are shown below:

	Medical		Rx	
	Total	Medicare	Total	Medicare
Age 65	$8,328	$6,821	$1,936	$414*

*Represents FY06 value of Medicare Part D subsidy. Rate is not applied until January 1, FY06 as subsidy is not available until then.

17. Health Cost Trend

	Medical	Rx
FY06	9.5%	14%
FY07	9.0%	13%
FY08	8.5%	12%
FY09	8.0%	11%
FY10	7.5%	10%
FY11	7.0%	9%
FY12	6.5%	8%
FY13	6.0%	7%
FY14	5.5%	6%
FY15	5.0%	5%
FY16 and later	5.0%	5%

Note, graded Health Cost Trend Rates were reinitialized for the June 30, 2005 valuation such that FY05 trend used in the June 30, 2004 valuation (9.5% for Medical and 14% for Rx) is assumed for FY06 in the current valuation. FY06 trend used in the prior valuation (9.0% for Medical and 13% for Rx) is assumed for FY07 in the current valuation, and so on. This conservative adjustment addresses concerns regarding claim costs and past trend rates derived from analysis of aggregate claim data versus potential results obtained if data disaggregated into pre-Medicare, Medicare A & B and Medicare B only categories were available.

18. Aging Factors

Age	Medical	Rx
00-44	2.0%	4.5%
45-54	2.5%	3.5%
55-64	3.5%	3.0%
65-74	4.0%	1.5%
75-84	1.5%	0.5%
85+	0.5%	0.0%

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

19. Retired Member Contributions for Medical Benefits	Currently contributions are required for TRS members who are under age 60 and have less than 30 years of service. Eligible Tier 1 members are exempt from contribution requirements. An annual contribution of $10,356 for FY06 is assumed to be paid for those required, equal to the annualized average of $850 and $876 per month for calendar 2005 and 2006, respectively.	
20. Trend Rate for Retired Member Contribution	FY06	6.9%
	FY07	10.2%
	FY08	9.6%
	FY09	8.9%
	FY10	8.3%
	FY11	7.6%
	FY12	7.0%
	FY13	6.3%
	FY14	5.7%
	FY15	5.0%
	FY16 and later	5.0%

Note, graded Trend Rates for Retired Member Medical Contributions were reinitialized for the June 30, 2005 valuation such that FY05 trend of 6.9% used in the June 30, 2004 valuation is assumed for FY06 in the current valuation. FY06 trend of 10.2% used in the prior valuation is assumed for FY07 in the current valuation, and so on. This conservative adjustment addresses concerns described above regarding aggregated claims data and also better reflects recent Retired Member Medical Contribution increases.

C. Valuation of Assets

Effective June 30, 2002, the asset valuation method recognizes 20% of the investment gain (loss) in each of the current and preceding four years. This method will be phased in over the next five years. All assets are valued at market value. Assets are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

D. Valuation of Medical Benefits

This section outlines the detailed methodology used to develop the initial per capita claims cost for the State of Alaska Teachers' Retirement System postemployment healthcare benefits.

The analysis is separated into two phases:

- Development of total projected claims cost; and
- Development of the distribution of per capita claims cost by age.

To determine total projected costs for the valuation period, an analysis of claims experience for the State of

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

Alaska PERS and TRS was completed based on information provided by its administrators. This analysis is presented on the following page, "Detailed Development of Claims Cost."

Paid claims for the period from June 2002 through May 2005 were tabulated and an average annual amount determined. Next, three adjustments were applied:

- A participation adjustment to account for differences in exposures between the experience period and the current census.
- A factor to trend historical claims from the midpoint of the experience period to the midpoint of the valuation period.
- An adjustment to restate paid claims on an incurred basis, assuming that claims are paid on average three months after the date incurred for medical and vision benefits.

To this, estimated administrative costs were added. The result is total projected costs for the period July 1, 2005 to June 30, 2006

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

Detailed Development of Claims Cost
For the Period July 1, 2005 through June 30, 2006

	Medical	Rx
Paid Claims (6/02 – 5/03)	$133,794,131	$49,761,201
Paid Claims (6/03 – 5/04)	143,042,729	61,583,420
Paid Claims (6/04 – 5/05)	163,039,365	73,932,659
Estimated Annual Paid Claims	$146,625,408	$61,759,093
Population Adjustment[11]	1.0935	1.0803
Trend Adjustment (25 months)[12]	1.2081	1.3139
Incurred Adjustment[12]	1.0229	1.0000
Projected incurred claims	$198,146,866	$87,657,508
Administrative costs[13]	9,685,363	0
Projected Plan Costs	**$207,832,229**	**$87,657,508**

[11] *Adjusts for exposure differences between the current census and the experience period from which the claims were derived. To calculate an appropriate per capita claims cost, the number of employees used below includes all actives, not just those eligible for retiree healthcare benefits*

Current census; retirees:	*28,310*	*28,310*
Average enrollment during experience period:	*25,890*	*26,206*

[12] *Trend:*	*9.5%*	*14.0%*
Months of Trend:	*25.0*	*25.0*
Incurred Adjustment:	*3.0*	*0.0*

[13] *Administrative Fees:*	*$28.51*	*$0.00*

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

Following the development of total projected costs, a distribution of per capita claims cost was developed. This was accomplished by allocating total projected costs to the population census used in the valuation. The allocation was done separately for each of prescription drugs and medical costs for the Medicare eligible and pre-Medicare populations. The allocation weights were developed using participant counts by age and assumed morbidity and aging factors. Results were tested for reasonableness based on historical trend and external benchmarks for costs paid by Medicare.

Below are the results of this analysis:

Distribution of Per Capita Claims Cost by Age
for the Period July 1, 2005 through June 30, 2006

Age	Medical	Prescription Drug
45	$4,612	$ 1,021
50	5,218	1,213
55	5,904	1,441
60	7,012	1,670
65	1,507	1,936
70	1,833	2,086
75	2,231	2,247
80	2,403	2,304

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

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, Methods and Procedures

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, Methods and Procedures

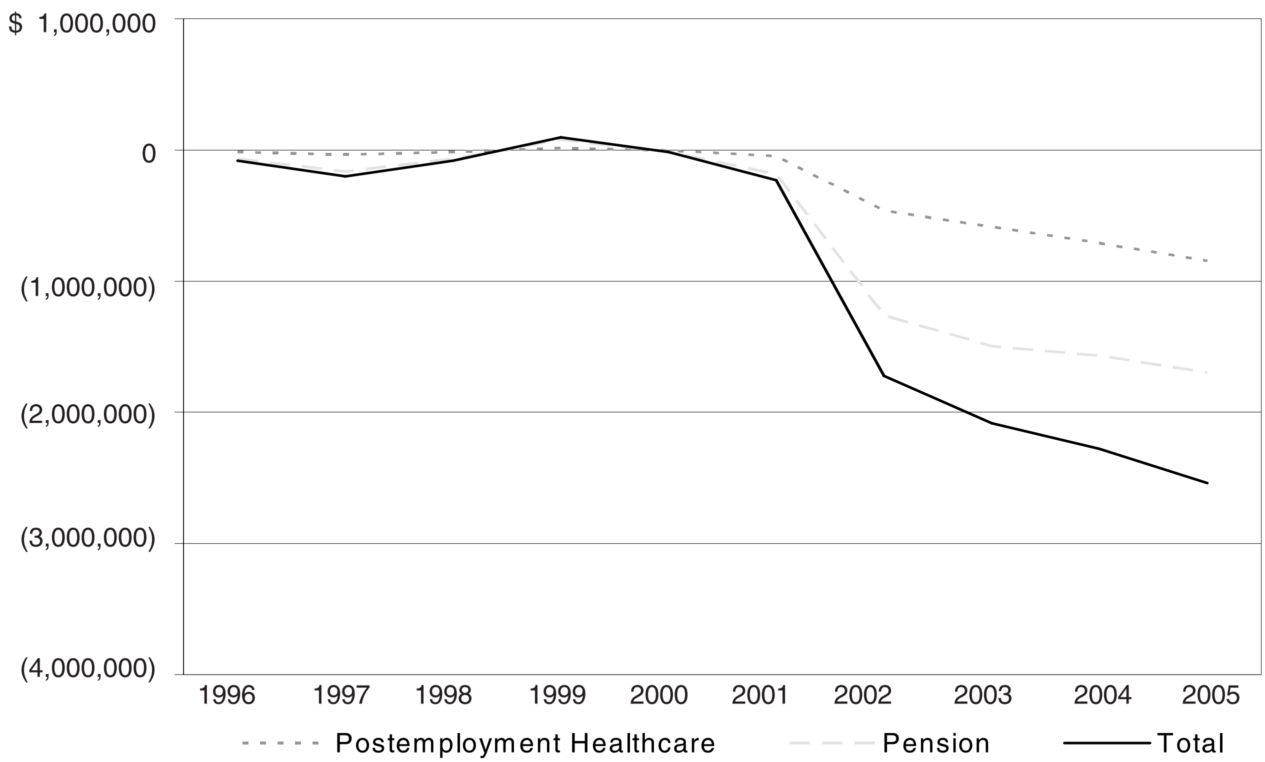
Table 3
Retirement Rates

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

Teachers retiring at ages under 50 are assumed to retire immediately upon attaining 21 years of service.

Teachers' Retirement System Unfunded Liability (In thousands)				
Actuarial Valuation Year Ended June 30	Postemployment Healthcare	Pension	Total	Funded Ratio
1996	$ (14,956)	$ (66,725)	$ (81,681)	97.2
1997	(35,668)	(164,357)	(200,025)	94.0
1998	(14,890)	(67,797)	(82,687)	97.7
1999	17,237	77,442	94,679	102.5
2000	(3,001)	(11,852)	(14,853)	99.6
2001	(47,740)	(183,178)	(230,918)	95.0
2002	(462,093)	(1,260,513)	(1,722,606)	68.2
2003	(587,139)	(1,496,185)	(2,083,324)	64.3
2004	(709,527)	(1,568,703)	(2,278,230)	62.8
2005	(845,674)	(1,693,934)	(2,539,608)	60.9

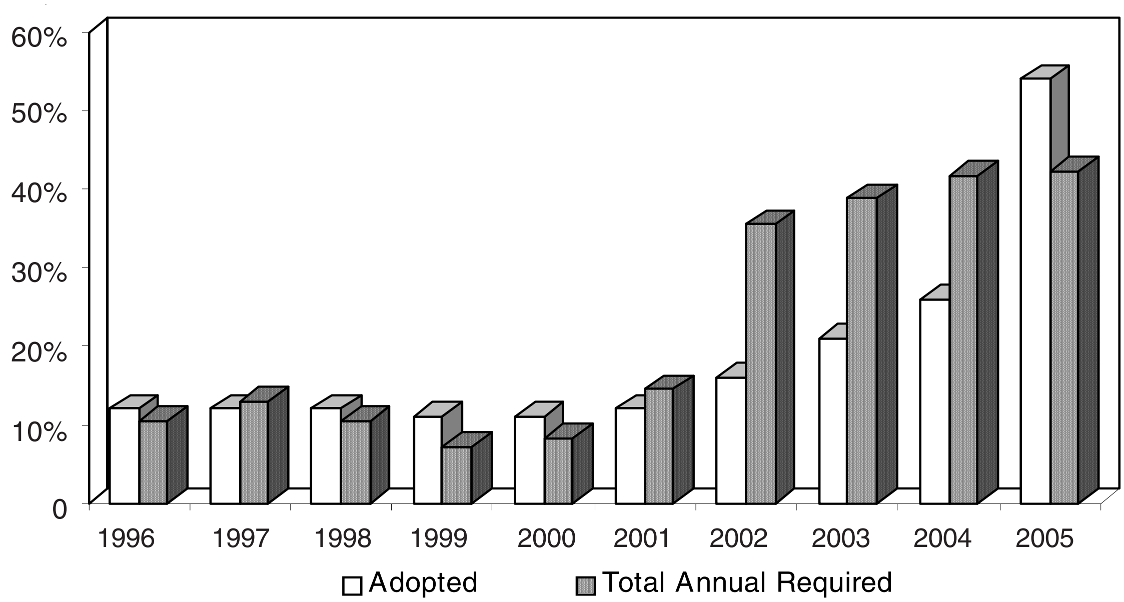
10-YEAR TREND OF UNFUNDED LIABILITY



Teachers' Retirement System Employer Contribution Rates					
	Actuarially Determined				
Year Ended June 30	**Actuarial Valuation Year Ended June 30**	**Normal Cost[1]**	**Past Service**	**Total Annual Required**	**Adopted**
1999	1996	8.97%	1.55%	10.52%	12.00%
2000	1997	9.21	3.79	13.00	12.00
2001	1998	8.99	1.56	10.55	12.00
2002	1999	8.88	(1.79)	7.09	11.00
2003	2000	8.02	0.27	8.29	11.00
2004	2001	10.33	4.11	14.44	12.00
2005	2002	14.76	20.81	35.57	16.00
2006	2003	14.28	24.57	38.85	21.00
2007	2004	13.76	28.02	41.78	26.00
2008	2005	12.56	29.70	42.26	54.03[2]

[1]Also referred to as the consolidated rate.
Valuations are used to set contribution rates in future years.
[2]The ARMB recognized the fact that the Plan becomes a closed Plan on July 1, 2006, and set a rate reflecting no payroll growth.

10-YEAR COMPARISON OF EMPLOYER CONTRIBUTION RATES



Teachers' Retirement System
Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll (In thousands)	Annual Average Earnings	Percent Increase/ (Decrease) In Average Earnings	Number of Participating Employers
June 30, 2005	9,656	$535,837	$55,493	2.9%	58
June 30, 2004	9,688	522,421	53,925	0.0	58
June 30, 2003	9,873	532,630	53,948	2.7	57
June 30, 2002	9,690	509,437	52,535	3.9	57
June 30, 2001	9,815	496,188	50,544	1.8	60
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

Teachers' Retirement System
Schedule of Benefit Recipients Added to and Removed From Rolls

Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase in Annual Benefits	Average Annual Benefits
	No.*	Annual Benefits*	No.*	Annual Benefits*	No.	Annual Benefits		
June 30, 2005	446	$11,243,448	121	$13,053,612	9,020	$265,746,150	(0.68)%	$29,462
June 30, 2004	491	17,867,366	96	5,503,666	8,707	267,556,314	4.84	30,729
June 30, 2003	599	21,475,421	91	3,377,352	8,312	255,192,614	7.63	30,702
June 30, 2002	589	24,789,896	118	4,966,397	7,804	237,094,545	9.12	30,381
June 30, 2001	1,057	39,213,327	210	7,790,727	7,333	217,271,046	16.91	29,629
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

* 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 Adjustment.

Teachers' Retirement System
Solvency Test

Valuation Date	Aggregate Accrued Liability For: (1) Active Member Contributions (In thousands)	(2) Inactive Members (In thousands)	(3) Active Members (Employer-Financed Portion (In thousands)	Valuation Assets (In thousands)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
June 30, 2005	$589,169	$4,694,176	$1,215,211	$3,958,939	100%	71.8%	0.0%
June 30, 2004[2]	569,435	4,423,036	1,131,129	3,845,370	100	74.1	0.0
June 30, 2003	548,947	4,105,445	1,181,217	3,752,285	100	78.0	0.0
June 30, 2002[1][2][3]	523,142	3,755,882	1,132,618	3,689,036	100	84.3	0.0
June 30, 2001	533,752	3,213,431	855,964	4,372,229	100	100	73.0
June 30, 2000[1][2][3]	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

[1] Change in Asset Valuation Method. [2] Change of Assumptions [3] Change in Methods.

Teachers' Retirement System
Analysis of Financial Experience

Change in 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				
	2005	2004	2003	2002	2001
Health Experience	1.47%	- %	- %	3.85%	- %
Salary Experience	(0.26)	0.54	0.10	(0.11)	(1.68)
Investment Experience	(0.02)	0.06	0.43	15.03	1.35
Demographic Experience	(2.10)	(0.85)	1.35	4.21	2.66
Contribution Shortfall	1.42	1.24	1.40	-	-
(Gain) or Loss During Year from Experience	(0.51)	0.99	3.28	22.98	2.33
Non-recurring changes					
Asset Valuation Method	-	-	-	0.03	-
Past Service Amortization Change	-	-	-	(9.08)	-
Assumption Changes	-	1.94	-	6.84	-
System Benefit Changes	-	-	-	-	0.17
Administrative System Changes	-	-	-	-	3.49
Ad hoc PRPA	-	-	-	0.36	0.16
Change Due to Revaluation of Plan Liability as of June 30, 2004	(0.03)	-	-	-	-
Composite (Gain) Loss During Year	0.48	2.93	3.28	21.13	6.15
Beginning Total Employer Contribution Rate	41.78	38.85	35.57	14.44	8.29
Ending Total Employer Contribution Rate	42.26%	41.78%	38.85%	35.57%	14.44%
Board Adopted Employer Contribution Rate	54.03%	26.00%	21.00%	16.00%	12.00%
Fiscal Year above rate is applied	FY08	FY07	FY06	FY05	FY04

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

July 1, 1955, with amendments through July 1, 2005. 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 Attorney General represents the system in legal proceedings.

For the Fiscal Year ending June 30, 2005, the Teachers' Retirement Board prescribes policies and adopted 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.

Subsequent to the date of this valuation, Senate Bill 141, enacted as Chapter 9, 2005 Session laws of Alaska, replaced the Teachers' Retirement Board and the Alaska State Pension Investment Board with the Alaska Retirement Management Board.

(3) Employers Included

Currently, there are 58 employers participating in the TRS, including the State of Alaska and 53 school districts and other eligible organizations.

(4) 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;
- positions requiring a teaching certificate as a condition of employment in the Department of Education and Early Development and the Department of Labor and Workforce Development;
- 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;
- certain State legislators who have elected to be covered under the TRS; and
- a teacher who has filed for workers' compensation benefits due to an on the job assault and who, as a result of the physical injury, is placed on leave without pay.

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 PERS simultaneously are eligible for half-time TRS and PERS credit.

(5) 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. Part-time members who work at least 50% of full time receive membership credit for each day in proportion to full-time service.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

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;
- 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.

Members whose survivors are receiving occupational death benefits continue to earn TRS credit while occupational survivor benefits are being paid.

(6) Employer Contributions

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

The consolidated rate is a uniform rate for all participating employers (less the value of members' contributions).

The past service rate is a uniform rate for all participating employers to amortize the unfunded past service liability with payments that are level as a percentage of pay over fixed 25-year periods.

Employer rates cannot be less than the consolidated normal cost rate.

(7) 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. Supplemental contributions are deducted from gross salaries before federal income taxes are withheld. 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 (12) 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.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

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 prior to July 1, 2010. 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.

(8) 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;
- (iv) 12 years of combined part-time and full-time paid-up membership service;
- (v) two years of paid-up membership service if they are vested in the PERS; or
- (vi) one year of paid-up membership service if they are retired from the 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 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.

[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

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 refund 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.

(9) Reemployment of Retired Members

Retirees who return to work in a permanent full-time or part-time TRS position after a Normal Retirement have two options available, the Standard Option or the Waiver Option.

Under the Standard Option, retirement and retiree healthcare 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.

If an Alaska school district has established that there is a shortage of teachers in a particular discipline or specialty and has passed a resolution to that effect, a retiree returning to work in a permanent full-time or part-time TRS position with that school district may exercise the Waiver Option. The Waiver Option allows a retiree who retired under a Normal Retirement to reemploy with a TRS employer and continue to receive a retirement benefit by signing a waiver of participation in the TRS. The Waiver Option became effective July 1, 2005 and applies to reemployment periods after that date. The Waiver Option is no longer available after June 30, 2009.

The Waiver Option is not available to members who retired early or under the Retirement Incentive Program (RIP).

Members retired under the RIP who return to employment under the TRS, PERS, Judicial Retirement System (JRS) 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

(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.

Employers make contributions to the unfunded liability of the plan on behalf of rehired retired members at the rate the employer is making contributions to the unfunded liability of the plan for other members.

(10) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided by the TRS to (1) all employees first hired before July 1, 1990, and (2) members who have twenty-five years of membership service, are disabled or age sixty or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(11) 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.

(12) 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 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) <u>Survivor's Allowance</u>: 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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

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 and the member's last benefit check.

(13) 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 funding ratio is at least 105%.

In a year where an Ad Hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

(14) 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:

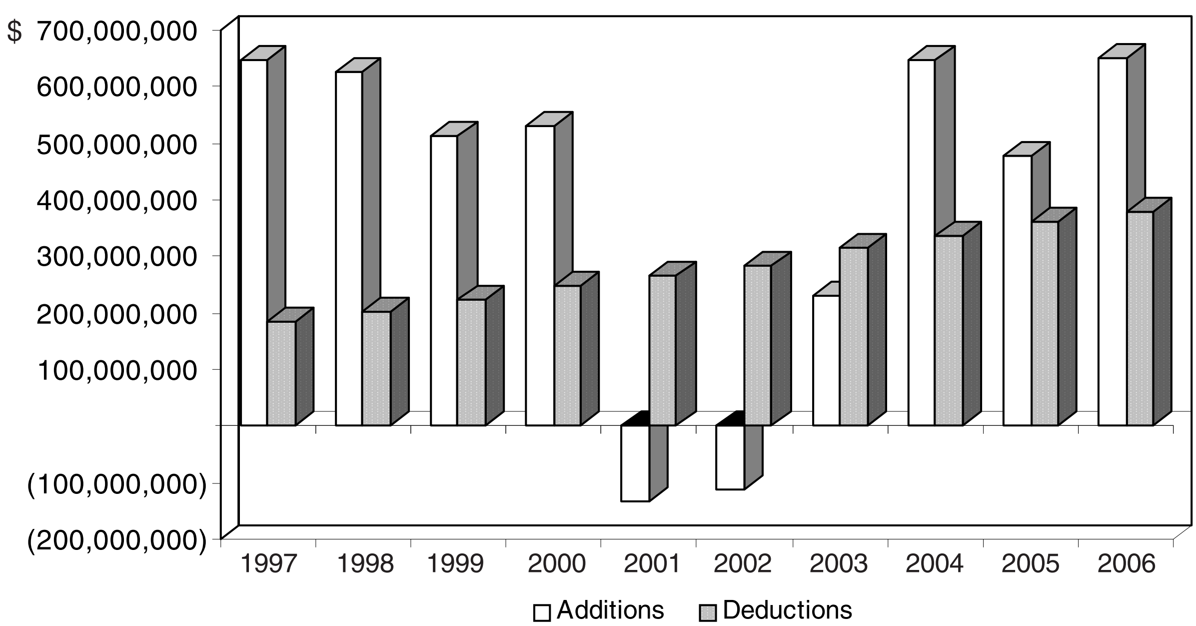
(a) members who were first hired under the TRS before July 1, 1990, and their survivors;

(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.

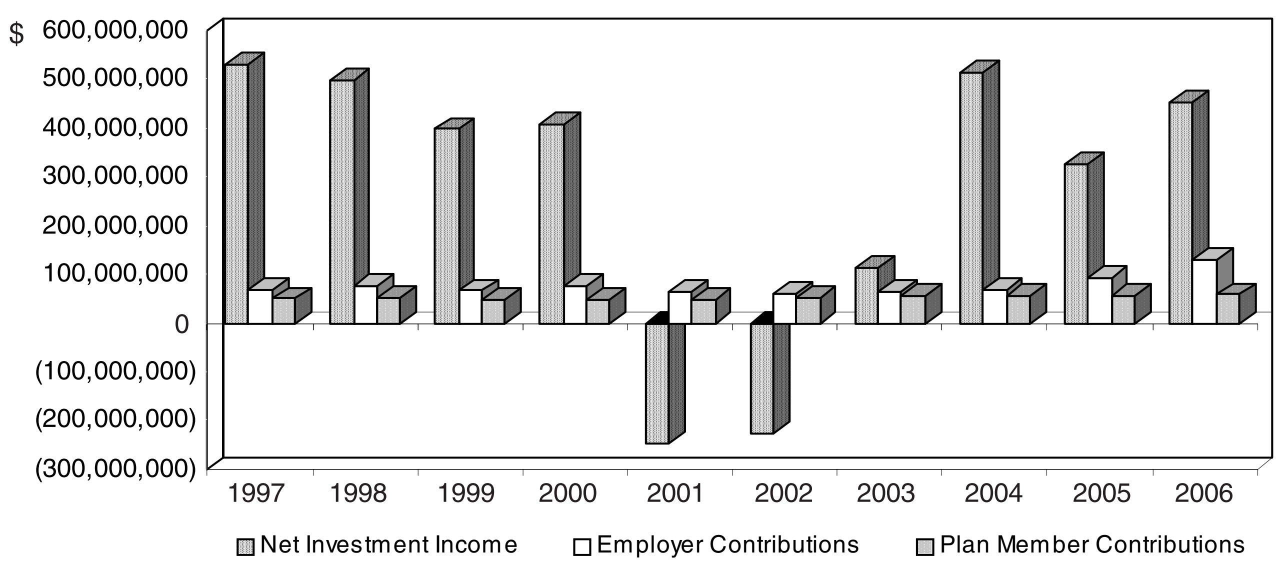
Teachers' Retirement System Changes in Net Assets (In thousands)					
Year Ended June 30	**Net Assets, Beginning of Year**	**Additions**	**Deductions**	**Increase (Decrease) in Net Assets**	**Net Assets, End of Year**
1997	3,030,644	646,496	185,069	461,427	3,492,071
1998	3,492,071	624,838	201,674	423,164	3,915,235
1999	3,915,235	512,068	223,284	288,784	4,204,019
2000	4,204,019	529,828	248,945	280,883	4,484,902
2001	4,484,902	(132,501)	265,553	(398,054)	4,086,848
2002	4,086,848	(112,754)	285,058	(397,812)	3,689,036
2003	3,689,036	230,234	316,651	(86,417)	3,602,619
2004	3,602,619	646,298	337,402	308,896	3,911,515
2005	3,911,515	476,969	361,489	115,480	4,026,995
2006	4,026,995	652,648	379,672	272,976	4,299,971

10-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS



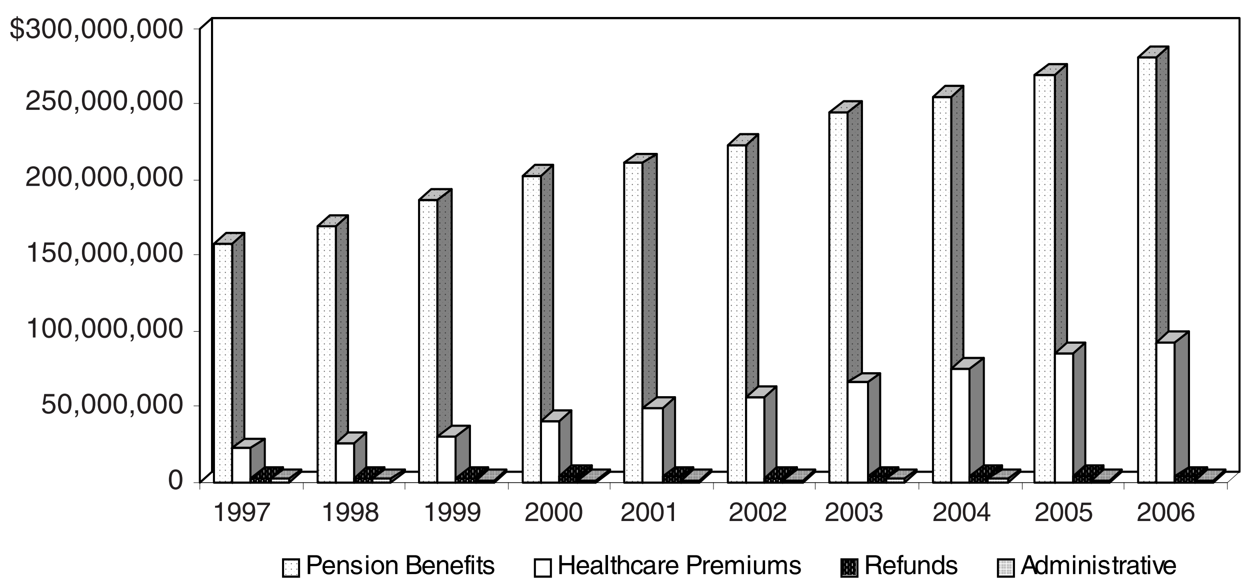
Teachers' Retirement System Additions by Source (In thousands)					
Year Ended June 30	**Plan Member Contributions**	**Employer Contributions**	**Net Investment Income (Loss)**	**Other**	**Total**
1997	$ 49,581	$ 66,347	$ 530,568	$ -	$ 646,496
1998	50,056	77,782	496,990	10	624,838
1999	48,302	66,266	397,499	1	512,068
2000	48,505	74,714	406,609	-	529,828
2001	48,725	64,141	(245,363)	(4)	(132,501)
2002	51,074	61,402	(225,234)	4	(112,754)
2003	55,789	62,856	111,575	14	230,234
2004	57,365	68,692	513,964	6,277	646,298
2005	55,993	93,540	327,425	10	476,968
2006	57,802	127,967	451,689	15,190	652,648

10-YEAR COMPARISON OF ADDITIONS BY SOURCE



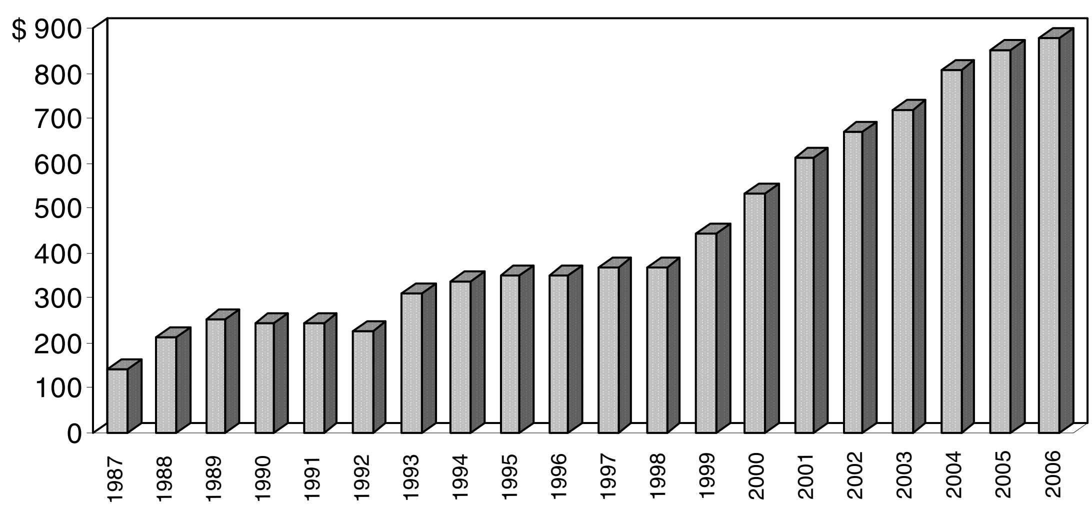
Teachers' Retirement System Deductions by Type (In thousands)					
Year Ended June 30	Pension Benefits	Healthcare Premiums	Refunds of Contributions	Administrative Deductions	Total
1997	$157,567	$22,653	$ 2,626	$ 2,223	$ 185,069
1998	169,831	26,123	3,489	2,231	201,674
1999	187,085	30,987	3,490	1,722	223,284
2000	202,927	40,183	4,118	1,717	248,945
2001	210,945	48,928	3,742	1,938	265,553
2002	222,897	56,946	3,120	2,095	285,058
2003	244,518	65,898	3,840	2,395	316,651
2004	255,409	75,601	4,189	2,203	337,402
2005	269,414	85,670	4,376	2,029	361,489
2006	281,205	92,462	3,832	2,173	379,672

10-YEAR COMPARISON OF DEDUCTIONS BY TYPE



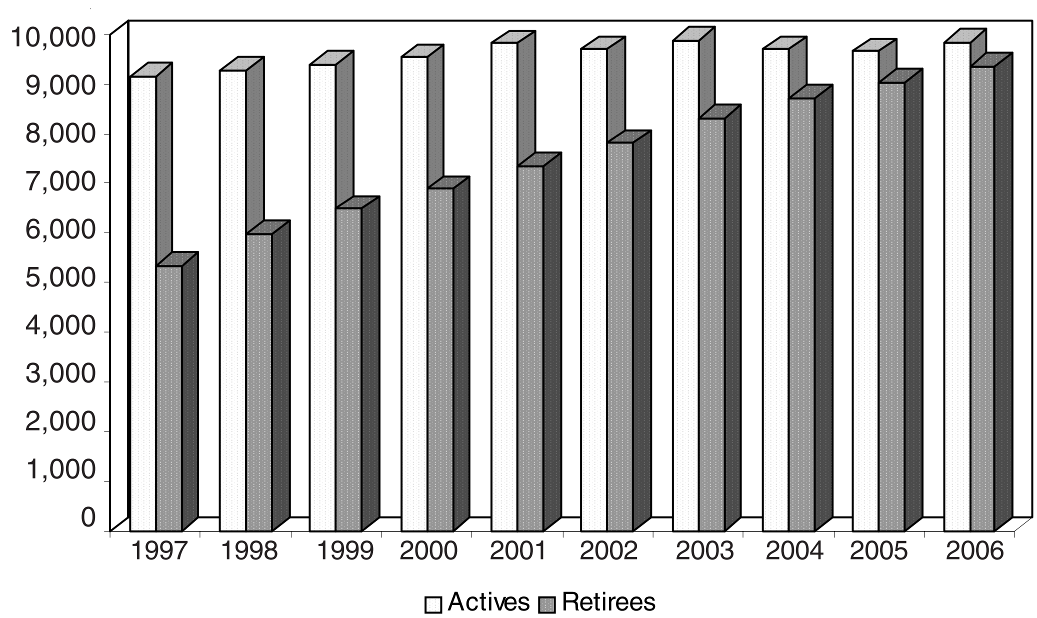
Teachers' Retirement System Schedule of Benefit Deductions by Type (In thousands)						
Year Ended June 30	Service	Disability	Survivor	Dependent	Heathcare	Total
1997	$147,259	$3,943	$6,322	$ 43	$22,653	$180,220
1998	160,409	3,693	5,691	38	26,123	195,954
1999	176,830	3,775	6,384	96	30,987	218,072
2000	191,138	4,601	7,059	129	40,183	243,110
2001	201,338	3,410	5,784	413	48,928	259,873
2002	213,106	2,979	6,320	492	56,946	279,843
2003	234,253	2,872	6,901	492	65,898	310,416
2004	245,122	2,483	7,345	459	75,601	331,010
2005	258,998	2,400	7,695	321	85,670	355,084
2006	270,504	2,342	8,353	6	92,462	373,667

20-YEAR COMPARISON OF RETIREE MONTHLY HEALTHCARE PREMIUMS



Teachers' Retirement System System Membership by Status					
Year Ended June 30	**Active**	**Retirees & Beneficiaries**	**Vested Terminations**	**Nonvested Terminations w/Balance**	**Total**
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
2000	9,529	6,887	610	2,353	19,379
2001	9,815	7,333	767	2,207	20,122
2002	9,690	7,804	783	2,447	20,724
2003	9,873	8,312	708	2,327	21,220
2004	9,688	8,707	724	2,746	21,865
2005	9,656	9,020	826	2,874	22,376
2006	9,835	9,349	734	3,027	22,945

10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



Teachers' Retirement System
Schedule of Benefit Recipients by Type
June 30, 2006

Amount of Monthly Benefit	Number of Recipients	Type of Benefit: Service	Survivor/QDRO	Disability
$ 0 - 300	149	118	31	-
301 - 600	314	252	62	-
601 - 900	572	454	118	-
901 - 1,200	558	459	99	-
1,201 - 1,500	551	456	95	-
1,501 - 1,800	579	494	85	-
1,801 - 2,100	692	623	63	6
2,101 - 2,400	895	852	36	7
2,401 - 2,700	962	925	24	13
2,701 - 3,000	838	815	12	11
3,001 - 3,300	833	813	14	6
3,301 - 3,600	650	640	3	7
3,601 - 3,900	495	490	4	1
3,901 - 4,200	381	376	1	4
over 4,200	880	872	1	7
Totals	9,349	8,639	648	62

Schedule of Benefit Recipients by Option Selected
June 30, 2006

Amount of Monthly Benefit	Number of Recipients	Option Selected: 1	2	3	4	5	6	7	8
$ 0 - 300	149	50	4	32	23	9	12	19	-
301 - 600	314	100	20	64	52	16	40	22	-
601 - 900	572	191	29	125	85	24	89	29	-
901 - 1,200	558	221	23	128	65	22	79	20	-
1,201 - 1,500	551	217	37	107	77	18	80	15	-
1,501 - 1,800	579	224	36	118	97	19	76	9	-
1,801 - 2,100	692	301	63	146	92	21	54	9	6
2,101 - 2,400	895	414	88	183	141	28	32	4	7
2,401 - 2,700	962	483	113	181	123	25	19	5	13
2,701 - 3,000	838	434	105	139	119	18	11	1	11
3,001 - 3,300	833	460	121	102	115	15	12	2	6
3,301 - 3,600	650	368	83	99	79	11	3	-	7
3,601 - 3,900	495	283	101	56	45	5	3	1	1
3,901 - 4,200	381	219	67	44	40	6	1	-	4
over 4,200	880	498	194	89	68	23	1	-	7
Totals	9,349	4,463	1,084	1,613	1,221	258	512	136	62

<u>Options</u>
1 - Whole Life Annuity
2 - Whole Life Annuity with Survivors Allowance
3 - 75% Joint and Survivor Annuity
4 - 50% Joint and Survivor Annuity
5 - 66 2/3% Joint and Survivor Annuity
6 - Survivors Annuity
7 - QDRO Annuity
8 - Disability Benefits

Teachers' Retirement System
Schedule of Benefit Recipients by Healthcare Coverage
June 30, 2006

Amount of Monthly Benefit	Number of Recipients	Medical			Other Member Paid		
		1	2	3	DVA	LTC	Life
$ 0 - 300	149	28	-	121	31	20	-
301 - 600	314	38	-	276	126	85	1
601 - 900	572	40	2	530	294	207	-
901 - 1,200	558	26	-	532	343	240	-
1,201 - 1,500	551	16	2	533	359	246	-
1,501 - 1,800	579	8	2	569	413	304	1
1,801 - 2,100	692	10	1	681	519	383	5
2,101 - 2,400	895	9	-	886	718	517	4
2,401 - 2,700	962	6	-	956	779	586	6
2,701 - 3,000	838	1	1	836	685	548	6
3,001 - 3,300	833	2	-	831	699	576	2
3,301 - 3,600	650	-	-	650	574	453	6
3,601 - 3,900	495	1	1	493	426	354	1
3,901 - 4,200	381	1	-	380	345	270	5
over 4,200	880	1	-	879	782	646	9
Totals	9,349	187	9	9,153	7,093	5,435	46

Type of Medical Coverage
1 - None
2 - Member paid
3 - Plan paid

Type of Other Coverage
DVA = Dental, Vision, and Audio
LTC = Long-term Care
Life = Life Insurance

Teachers' Retirement System
Schedule of Average Benefit Payments
New Benefit Recipients

	Years of Credited Service						
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
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 Recipients	23	43	67	81	176	153	55
Period 7/1/99 - 6/30/01:							
Average Monthly Benefit	$1,514	$1,021	$1,488	$1,935	$2,435	$2,551	$2,864
Number of Recipients	2	33	101	237	374	201	109
Period 7/1/01 - 6/30/02:							
Average Monthly Benefit	$ 532	$ 795	$1,168	$1,706	$2,455	$3,126	$3,915
Number of Recipients	4	36	62	78	180	137	92
Period 7/1/02 - 6/30/03:							
Average Monthly Benefit	$ 236	$ 899	$1,153	$2,350	$2,835	$3,969	$5,133
Number of Recipients	16	40	69	91	264	87	32
Period 7/1/03 - 6/30/04:							
Average Monthly Benefit	$ 251	$ 896	$1,243	$2,044	$2,782	$3,640	$4,860
Number of Recipients	21	51	75	85	178	64	17
Period 7/1/04 - 6/30/05:							
Average Monthly Benefit	$ 239	$ 823	$1,166	$1,1761	$2,539	$3,053	$4,370
Number of Recipients	12	42	65	53	126	95	51
Period 7/1/05 - 6/30/06:							
Average Monthly Benefit	$ 326	$1,164	$1,152	$2,122	$2,918	$3,640	$5,021
Number of Recipients	13	54	58	61	139	62	19

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

Teachers' Retirement System
Principal Participating Employers
June 30, 2006

Employer	Non-retired Members	Rank	Percentage of Total Non-retired Members
Anchorage School District	4,396	1	32.2%
Matanuska-Susitna Borough School District	1,253	2	9.2
Fairbanks North Star Borough School District	1,230	3	9.0
Total	**6,879**		**50.4%**

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